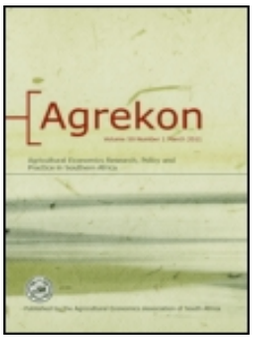

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# Is Fairtrade in commercial farms justifiable? Its impact on commercial and small-scale producers in South Africa

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# IS FAIRTRADE IN COMMERCIAL FARMS JUSTIFIABLE? ITS IMPACT ON COMMERCIAL AND SMALL-SCALE PRODUCERS IN SOUTH AFRICA

Bridget Jari[1], Jeanette D. Snowball[2], Gavin C.G. Fraser[3]

## ABSTRACT

Fairtrade initially was limited to improving the lives of small-scale and peasant farmers, but later on it embraced commercial farmers, which attracted criticism. While there are a number of justifications for the Fairtrade organization's decision, there are authors who feel that meaningful "fair trade" cannot be achieved with the inclusion of commercial farms. This paper investigates the impact of Fairtrade on commercial farms and small-scale farmer cooperatives in South Africa. Fairtrade on South African commercial farms embraces a number of policy concerns related to land reform, BEE and sustainable development. The results of the study show that when commercial farms are included in the Fairtrade model, communities in which these farmers live benefit from developmental projects. In addition, in some instances, farm workers gain shares in the commercial farms, and benefit from the farm owners' knowledge and capital.

Key words: Fairtrade, plantation, small-scale farmer cooperative, farm workers, BEE

JEL classification: Q13, Q15

## 1 INTRODUCTION

The grass-roots movement for Fairtrade emerged as an alternative trade to free trade[4] in the 1950s (Redfern and Snedker, 2002). European and American non-governmental organizations (NGOs), and religious and political groups working in developing countries initiated this type of trade. These groups of people had witnessed poverty in developing countries and decided to improve the conditions

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4 Fairtrade is not a critique of free trade *per se*, but of the structures governing market relationships, which may exclude some producers, and increase poverty

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through trade. Therefore, they collected commodities made by people in developing countries and sold them directly in European and American markets (Nicholls and Opal, 2005; Renard, 2003). When Fairtrade emerged in the 1950s, handicraft formed the basis of trade, but later on expanded to agricultural produce (Raynolds *et al.*, 2007). As a result of including agricultural commodities, the demand and sales of Fairtrade products have grown exponentially (Nicholls and Opal, 2005).

When the Fairtrade movement integrated agricultural commodities, it was initially limited to improving the lives of small-scale and peasant farmers, through certification of their goods. Only the small-scale farmers who were organised in cooperatives or associations qualified for Fairtrade certification (FLO International, 2007). Partly due to the growing demand for Fairtrade commodities and the recognition of poverty among farm workers, produce from commercial farmers is now being accepted for sale under the Fairtrade label. In such instances, the Fairtrade system requires that the benefits are channelled to the farm workers and their families, rather than the farm owners (Redfern and Snedker, 2002; Law, 2005).

The Fairtrade literature presents debates around the inclusion of commercial farmers in the Fairtrade model (Redfern and Snedker, 2002; Raynolds *et al.*, 2007; Besky, 2008; Ruben and Van Schendel, 2008; Jaffee and Howard, 2010). Those in favour of commercial farmers in Fairtrade point to farm worker empowerment and benefits of developmental projects that accrue to farm workers because of Fairtrade (Raynolds *et al.*, 2007; Ruben and Van Schendel, 2008). The opponents are concerned that the inclusion of commercial farmers in Fairtrade may adversely affect small-scale farmers who typically do not have the same level of financial resources and market capacity as commercial farmers. As a result, they are worried that small-scale farmers may be excluded from Fairtrade (Redfern and Snedker, 2002; Besky, 2008). The present research contributes to the debate by adopting a qualitative case study approach to investigate the impact of Fairtrade in both small-scale farmer cooperatives and commercial farms in South Africa. It makes use of an impact assessment framework to compare the impact of Fairtrade between the two groups of farmers within the same country, and over a range of commodities. The research discusses how policies, such as apartheid, land reform and black economic empowerment (BEE), shaped the impacts of Fairtrade in the agricultural sector.

Commercial farms in South Africa dominate Fairtrade, which potentially raises questions with regard to motivations for joining, and benefits accrued from Fairtrade in a commercial farm setup. A study by Raynolds and Ngcwangu (2009) on Fairtrade *rooibos* tea found that Fairtrade certification of large producers in South Africa does not significantly improve black worker ownership of farms. Similarly, a number of studies carried out in the wine industry of South Africa

(McEwan and Bek, 2009; Du Toit *et al.*, 2008; Moseley, 2008) concluded that Fairtrade has limited positive impact on the lives and livelihoods of farm workers. However, these studies looked at direct and physical benefits that accrued to farm workers without considering other forms of impact. The research addressed the gap and investigated the impact of Fairtrade as a whole (economic development, human capital, natural assets, physical changes, financial position and social capital). The paper first outlines the broader context in which Fairtrade operates before discussing Fairtrade in South Africa.

## 2 FAIRTRADE PRODUCTION

Two groups constitute the Fairtrade producers, namely, plantations relying on hired labour, and small-scale farmer cooperatives (FLO International, 2007). Producers willing to supply Fairtrade commodities take the initiative by applying for Fairtrade certification. The applicants are evaluated to ascertain whether they meet minimum entry requirements, and producers who qualify are certified and given a set of generic and product standards with which to comply. Generic standards include social, economic and environmental development (NEWS, 2007; Raynolds *et al.*, 2007), while product standards provide the conditions under which Fairtrade goods should be produced, including production of high quality produce and prohibition of the use of certain chemicals (NEWS, 2007). After initial certification, producers are monitored continuously for Fairtrade progress. Requirements include improving product quality and working conditions, environmental awareness and investment in community development projects (Matthews, 2009). Producers showing positive progress are granted a renewal certification. In the case of non-compliance, the producers are warned to take remedial action; but if they still cannot correct the situation, they are decertified from Fairtrade (Becchetti and Huybrechts, 2008).

Certified producers attach a Fairtrade label to their produce, which meets Fairtrade quality standards, before consignment. Then, Fairtrade certified importers and traders take responsibility for making Fairtrade produce available to consumers mainly located in developed countries (Raynolds, 2000; Pierre, 2007). The price of Fairtrade commodities is composed of a minimum price and a social premium. The minimum price should be as high as, but usually exceeds, the market price, and directed towards Fairtrade producers. The social premium is an amount of money earmarked for improving production conditions among small-scale farmers, and for community welfare development, and not for distribution among the farmers or workers in cash or kind (Renard, 2003). Consumers purchase Fairtrade commodities as a way of helping producers by voluntarily paying higher prices for Fairtrade commodities (Poret and Chambolle, 2007).

## 2.1 Small-scale farmer cooperatives in Fairtrade

The Fairtrade organization does not work with individual small-scale farmers, therefore, small-scale farmers need to be organized in cooperatives in order to qualify for Fairtrade certification (Murray and Raynolds, 2000; Renard, 2003). In most cases, the cooperatives are owned and democratically run by self-selected individual farmers who see an opportunity for integration in production and marketing (Valkila and Nygren, 2009). After certification, all members of the cooperative benefit from Fairtrade minimum prices and premiums, with premiums managed by a Premium Committee selected from cooperative members. Fairtrade principles, which guide small-scale producers, include democratic organization, transparency in managing funds and long-term relationships in the marketing chain (FLO International, 2009).

## 2.2 Plantations in Fairtrade

Plantations refer to commercial farms or estates relying on employed labour in production (FLO International, 2007). Fairtrade requires all plantations to form a Joint Body (JB) committee[5] on their farms, which receives and manages premiums. The JB committee is required to comprise more workers than management, but each farming unit determines the total number of committee members (Dillenseger, 2005). Management representatives in a JB committee have a duty to mentor (not enforcing decisions on) the worker representatives, and to help the workers to develop good management skills (FLO International, 2007; Pierre, 2007). On a plantation, premium funds are directed to projects that benefit farm workers, and farm owners only benefit from Fairtrade minimum prices (Poret and Chambolle, 2007). Fairtrade principles, which guide plantations, include long-term relationships in the marketing chain, decent working conditions for farm workers, freedom to join workers' trade unions and transparency in managing premium funds (FLO International, 2009).

## 2.3 Fairtrade in South Africa

In South Africa, colonialism and apartheid policies racially skewed the distribution of land resources in favour of white commercial farmers (Meyer *et al*, 2002; Schweitzer, 2008). As a result, the South African agricultural sector has a marked duality, comprised of a well-developed commercial sector and a subsistence-oriented small-scale sector. Fairtrade in the agricultural sector of South Africa

5 A Joint Body committee is a legal and independent entity comprised of representatives of management and all farm worker categories, for example, women workers, permanent workers and seasonal workers

mirrors land ownership inequalities, where there are more commercial farmers certified for Fairtrade than small-scale farmers (Raynolds and Ngcwangu, 2009).

Small-scale farmers in South Africa farm on relatively small areas[6] of land, have limited access to production machinery, are mostly located in areas where there is limited water and electricity, and served by poorly developed roads (Sebopetji and Belete, 2009; Ortmann and King, 2010). Limiting factors in marketing include poor infrastructure, lack of market transport, dearth of market information, insufficient expertise on grades and standards, inability to have contractual agreements and poor organisational support (Jari and Fraser, 2009). Many older small-scale farmers have low levels of education partly due to inadequate educational facilities during the apartheid era. This low level of education negatively influences the way they run their farms as efficient businesses (Hall and Aliber, 2010). On the other hand, farm workers on commercial farms are among the poorest and most vulnerable employees in South Africa (Schweitzer, 2008). Farm workers receive low incomes in the formal economy, and signs of poverty and hunger are evident among them (Hartwig, 2004). In addition, some farm workers work under unsafe conditions, have poor housing conditions, and sometimes lack job security and employment benefits (Schweitzer, 2008; Swart and Orsmond, 2010). As with small-scale producers, farm workers have low levels of education, which potentially limits their opportunities for career development (Hall and Aliber, 2010). In order to address disparities in the agricultural sector of South Africa the post-apartheid government has implemented land reform programmes and Agricultural Black Economic Empowerment (AgriBEE) policies (NDA, 2009), but the implementation of such policies has been slow (IMF, 2010).

Fairtrade is an initiative aimed at complementing the government's effort to improve the welfare of small-scale farmers and farm workers (Fairtrade South Africa, 2010). Fairtrade gives small-scale farmers an opportunity to participate in international trade and gives them access to "higher" prices, producer training courses and social development premiums (Fridell, 2007; FLO International, 2009). In addition, Fairtrade standards in South Africa are designed to complement national land ownership and empowerment policies, particularly BEE (Fairtrade South Africa, 2010). Fairtrade-certified commercial farmers are required to transfer 25% ownership of their farms gradually to the workers (Fararik and Law, 2006). In addition, Fairtrade encourages skills training through incorporating BEE policy. Actually, the Fairtrade certification policy for South Africa adopted the codes of the BEE strategy into the Fairtrade standards. The standards include representation of farm workers in management, and worker participation in skills development and capacity building programmes (Fairtrade South Africa, 2008). Using the BEE

6 About 60% of small-scale farmers in South Africa farm on less than 5ha each.

scorecard, Fairtrade-certified enterprises are expected to contribute towards human resources development and direct empowerment through ownership, management control, skills development, employment equity and socio-economic development initiatives (FLO-cert, 2009).

## 2.4 Fairtrade producers in South African agriculture

The number of Fairtrade certified producers in South Africa increased from 30 in 2005 to 67 in 2009 (distribution shown on Table 1). There are currently three Fairtrade-certified small-scale farmer organisations in the country and the rest are plantations that depend on hired labour. In total, Fairtrade works with about 15 000 commercial farm workers and 327 small-scale famers in South Africa (Fairtrade Foundation, 2010).

Table 1: Fairtrade producers in South Africa

| Produce category | Commercial farmers | Small-scale cooperatives |
|---|---|---|
| Rooibos tea | 5 | 2 |
| Fruit | 23 | 1 |
| Wine/Wine grapes | 36 | - |
| Total | 64 | 3 |

Source: FLO-cert (2009)

In order to investigate the difference in Fairtrade impact between commercial farmers and small-scale farmer cooperatives in South Africa, data was collected from a sample of 10 Fairtrade-certified commercial farmers and two[7] Fairtrade-certified small-scale farmer cooperatives located in the Eastern Cape and Western Cape provinces. From the cooperatives, most of the data were obtained from the management committee because they are the persons involved with day-to-day farm activities as well as keeping records of production and marketing performance of the farm. The management committee could consult other cooperative members whenever it deemed necessary. On commercial farms, data comes from two sources: the farm manager; and the Joint Body[8] committee members. The manager

7 Only two cooperatives were evaluated because the third cooperative is located in the Northern Cape province, whereas the study focussed on the Eastern Cape and Western Cape provinces.

8 The Joint Body committee members interviewed were workers' representatives. They were chosen to give the views of the workers.

provided data related to farm production and marketing, where other members in the management team could be consulted. In some cases (where a number of them were available), Joint Body members were convened and interviewed as a group. In cases where respondents mentioned physical development projects, interviewers requested tangible evidence. Fairtrade records were requested from farm managers, which were then used as an additional source of data.

The research adopted a quota sampling approach in selecting study respondents from those producers located in the two selected provinces. Sampling began with dividing Fairtrade producers into three broad categories according to the commodities they supplied in Fairtrade markets, into fruit, *rooibos* tea and wine grape/wine producers. Then, respondents were selected randomly from those categories, in order to ensure a cross-section of Fairtrade commodities. To analyse the data, this study designed an impact assessment framework (Figure 1).

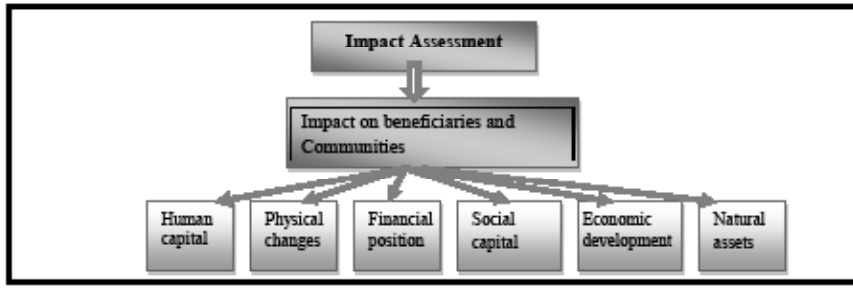


Figure 1: Impact assessment framework for Fairtrade Source: Derived from the Sustainable Livelihoods framework (DFID, 1999)

The impact assessment framework illustrates the different categories through which field data is compared in order to assess the progress of an existing development activity. The framework shows different impact categories that address core developmental issues, and which are used as a checklist of what is actually happening. In this study, the framework links development and sustainability by investigating how they are influenced by complying with Fairtrade standards. In order to apply the framework, data was divided according to the type of producers, *viz.* small-scale farmer cooperatives and commercial farms, and analysed within and between these categories. Within the two groups of producers, factors that are directly influenced by Fairtrade, for example projects funded by Fairtrade, were identified and grouped into six categories (defined in Table 2), where both negative and positive impacts were noted. Comparisons were made between the

impact of Fairtrade on small-scale farmer cooperatives and that on commercial farms based on six development indicator categories.

Table 2: Description of impact indicators for primary stakeholders and their communities

| Indicator | Description and examples |
|---|---|
| Human capital | Development of work abilities through Fairtrade, such as capacity building, skills and knowledge. Measured using attendance and regularity of training workshops |
| Physical changes | Changes in physical goods, services and infrastructure; buildings, roads, security |
| Financial position | Represents Fairtrade financial resources used to support livelihood, for example wages and incomes |
| Social capital | Network[9] development, ability to participate in groups, trust in decision-making |
| Economic development | Local economic development issues such as job creation, growth in health and educational facilities |
| Natural assets | Environmental resources |

## 3 RESEARCH FINDINGS

As part of confidentiality agreements, plantations in the study were referred to as Farm 1, Farm 2 up to Farm 10, and the cooperatives as Coop 1 and Coop 2. General characteristics of the producer groups and the projects in which they have invested using Fairtrade premiums are given in Table 3. Projects vary widely between farms, from constructing crèches to supporting sport tournaments, local clinics and offering food hampers to workers, which makes it difficult to compare projects. For the purpose of analysis and assess the impact of Fairtrade, projects invested in by respondents are classified into the six development indicator categories of the impact assessment framework and a summary of these results are presented in Appendix1.

9 Networks within and between Fairtrade producer groups and with other stakeholders

Table 3: Characteristics of case study FT producers and Fairtrade projects

| Producer (Location, Province) | Type of produce | Amount of land (ha) | Fairtrade certification year | % volume exported under FT | Projects invested using Fairtrade premiums |
|---|---|---|---|---|---|
| Coop 1 (WC) | Rooibos tea | Average of 3.5 ha per farmer | 2005 | 60% to 70% (before decertification) | Tea court, tractor, training coop members, 8 educational scholarships |
| Coop 2 (WC) | Rooibos tea | Average of 3.5 ha per farmer | 2001 | 90% | Tea chopping equipment, tea court, value-adding packaging, 11 educational scholarships, photo-voltaic solar power system, training coop members |
| Farm 1 (EC) | Citrus | 300 ha | 2004 | 10% to 20% | Sewing and computer training centres, day care centre, uniforms and equipment for the community-policing forum, funding sporting tournaments, worker training programmes, 2% shares |
| Farm 2 (WC) | Wine and table grapes | 27 ha table grapes 1.2 ha wine grapes | 2003 table grapes 2004 wine grapes | 58% | Fencing workers' yards and gardens, computers, adult education, community training centre, crèche, soccer kit for a community football team, 13 college bursaries, on-farm canteen and locker security services to workers, commercial community organic vegetable garden, organic vineyard project used for educational purposes, 20% shares |
| Farm 3 (WC) | Apples, pears and table grapes | 318 ha | 2004 | 14% | Crèche, clinic, 10 educational bursaries, vouchers to all employees with school age children, employee training and adult education, funding sporting tournaments, women's crafts club, children's outings and Christmas parties, 5% shares, satellite television and pool table in the community hall, community vegetable garden, |
| Farm 4 (EC) | Citrus | 245 ha | 2003 | 15% | 2 crèches, school uniforms for all workers' children, adult education and employee training, community training centre and satellite television in the training hall, , 17 educational bursaries, 1% shares |

| | | | | | |
|---|---|---|---|---|---|
| Farm 5 (WC) | Pears, apples, plums, wine and table grapes | 200 ha | 2003 | 8% | Crèche, adult education and employee training, stationery to a community primary school, viticulture studies, educational tours, 9 educational bursaries |
| Farm 6 (WC) | Olives, Wine grapes | 700 ha | 2007 | 10% to 20% | Crèche renovations, food hampers for workers, workers' drivers' and learners' licenses, sports club, HIV/AIDS workshops, family counselling programmes, 8% shares |
| Farm 7 (WC) | Wine, wine grapes | 136 ha | 2009 | 2% | Workers' training, 1 stove and 4 refrigerators for farm workers, 2% shares |
| Farm 8 (WC) | Wine, wine grapes | 800 ha | 2005 | 65% | Community centre, library, sports tournaments, fund pensioner outings, arts and crafts shop, restaurant, coffee shop, a women's club and a youth club, buying spectacles for workers who had eye problems, adult education, furniture for a community primary school, bursaries for 8 tertiary level students, 3 day-care centres, family counselling and health awareness programmes |
| Farm 9 (WC) | Citrus, Rooibos tea | 4 000 ha | 2004 citrus 2007 rooibos tea | 15% | Workers' houses, clinic, day-care centre, community hall, 15 educational bursaries, fund worker training and youth development programmes |
| Farm 10 (EC) | Apple and Apple juice | 250 ha | 2006 | 12% | Gym, crèche, clinic, children's outings, satellite television in the community hall, salaries for crèche teachers and a nurse, adult education and employee training, 4% shares |

**WC** stands for Western Cape Province; **EC** stands for Eastern Cape Province

Source: Interview data (2010, 2011)

## 3.1 Characteristics of interviewed producers

Of the commercial farms studied, the owners of all except three are either second or third generation farmers on the areas of land they are farming. They were all involved in export marketing before becoming certified by Fairtrade (Interview data, 2011). When asked about what motivated them to join Fairtrade, all farm owners in plantations interviewed regarded Fairtrade as one of their marketing strategies. Thus, they joined Fairtrade in order to gain a new consumer group for their produce. Respondents also highlighted other motives such as the need to improve their workers' welfare and bringing development to communities, but gave these as secondary motives. Judging from these responses, certification of plantations by Fairtrade has potential benefits for both the plantation owners and their workers. However, since farm workers do not have control over farm production and marketing activities of the farms, they continue to depend on the farm owner's decisions related to Fairtrade.

In the case of small-scale farmer cooperatives in the study, Fairtrade is responsible for the creation of one cooperative and helped to strengthen the organizational and technical capabilities of the other that was already in existence. Both cooperatives started exporting after they were involved with Fairtrade. Before their engagement with Fairtrade, small-scale farmers forming the cooperatives survived under conditions of poverty, with high unemployment rates. Research carried out by Binns *et al.* (2007) in the Coop 2 community, identified about 80% unemployment in the area and limited sources of income, with households mostly relying on *rooibos* tea farming. These challenges are closely linked to their small scale of operation and a history of denied direct access to markets, which made them reliant on middlemen who paid them lower than market prices for their produce (Binns *et al.*, 2007).

Interviewees from Coop 1 and Coop 2 reported that they continued to depend on these traditional distribution chains, up until they engaged with Fairtrade. Respondents from both cooperatives highlighted the difficult conditions they were experiencing, so they had aimed at improving their wellbeing through Fairtrade. Based on the evidence from the research, the involvement of Coop 1 and Coop 2 members with Fairtrade created an opportunity for cooperative members to access both local and international markets.

Fairtrade-certified plantations in the study represent three land ownership structures in commercial farms of South Africa: 1) total ownership by farm workers, 2) share ownership between farm workers and their employers, and 3) sole farmer ownership. All three ownership structures have related advantages and disadvantages. For example, in the first structure where farm workers owned the land, the owners face problems of managing the farm. However, the esteem built by ownership allows them to learn by doing, as well as exercising control

over Fairtrade decisions. In the second structure, workers have a greater chance of learning from management on the same farm, but are at risk of depending on management in matters concerning the running of the business (Sefoko *et al.*, 2007). The decision-making process has a tendency to take a long time in both structures 1 and 2 because of a decentralized formation. This is opposed to a centralized approach, which is followed in the third structure (du Toit *et al.*, 2008). Here, farm workers can be demotivated to work, especially if they lack a sense of ownership. Nevertheless, this structure is assumed to operate more efficiently compared with the two former structures, when analysed using the common property resources model (Dasgupta, 2005). Farm workers in the third structure can benefit if more of the produce is sold through Fairtrade, implying a greater social premium. Although the third structure is assumed to be more efficient, the first and second structures favour equity, since workers earn a wage and a share of the enterprise's profits (Todaro and Smith, 2003), and have some influence in production and marketing decisions. Ownership structure on the fruit farms studied is of land only, unlike on wine grape farms, where farm workers can have ownership of wine brands. For example, farm workers on Farm 7 have shares in wine brands produced using grapes produced on their farm.

## 3.2 Differences between cooperatives and plantations in the study

The motivation for joining Fairtrade is different between small-scale farmer cooperatives and plantations (Appendix 2). Respondents from both cooperatives in the study highlighted the difficult conditions they were experiencing, so they had an aim of improving their wellbeing through Fairtrade. On the other hand, all farm owners in plantations interviewed regarded Fairtrade as one of their marketing strategies, but also highlighted other motives, such as the need to improve their workers' welfare and bringing development to communities. They further explained that they could not join Fairtrade purely based on social responsibility concerns because they were in business; therefore, earnings from Fairtrade minimum prices at least to cover Fairtrade-related costs in order for them to consider joining.

The way small-scale farmer cooperatives included in the study operate is different from that of plantations. Members of the two small-scale farmer cooperatives produce *rooibos* tea on individual farms, which they own customarily, then pool the commodities for marketing. All plantations have legal rights to their farms and all, except for one[10], supply the market with commodities produced

10 Farm 8 is a cooperative for commercial farmers, so individual commercial farmers pool their produce when marketing.

under the same conditions. The fact that produce from Coop 1 and Coop 2 is gathered from different producers can compromise the quality of their produce. These, together with relatively small marketed volumes and a one-commodity focus, are the reasons why members in both cooperatives are threatened by the expansion of plantations into *rooibos* tea marketed under the Fairtrade label.

All interviewees acknowledge that they receive Fairtrade premiums. Considering the differences in the years of Fairtrade certification, producers cited having received total premiums ranging from R76 000 to R6 500 000. Not surprisingly, annual premiums earned by workers at Fairtrade plantations were higher than those earned by cooperatives. Referring to Appendix 1, differences in premium use by farm workers on Fairtrade-certified plantations and small-scale producers in cooperatives are also apparent. Both cooperatives in the study have invested part of their premiums in producer development projects, such as in production and processing equipment, and constructing processing facilities in the form of tea courts. In fact, both cooperatives have invested more than 50% of their premiums in producer development projects. On the other hand, none of the plantations has used social premiums to invest in production capacity. Rather, they have invested mostly in community development projects, which are directed to Fairtrade and non-Fairtrade community members. Plantations have managed to finance potential local public goods, for example, community halls, schools and crèches and no cases of excludibility and free riding on the goods were evident in the study. Therefore, in the case of small-scale producers, Fairtrade premiums are used to address inequity among agricultural producers, where small-scale producers are allowed a chance to accumulate production equipment. In the case of commercial farms, Fairtrade is mainly focussed on welfare improvement for rural households, regardless of whether the beneficiaries are directly involved in Fairtrade.

Apart from the premium, Fairtrade brings about other benefits to Fairtrade producers. Both commercial and small-scale farmers are allowed access to a market that offers stable minimum prices, which are at least as high as and often higher than market prices. Even commercial farmers, although not the primary beneficiaries of Fairtrade, benefit from Fairtrade in this way. A challenge in a commercial farm is that there are no monetary benefits directed to individual farm employees on Fairtrade farms. Even when commercial farm owners receive higher prices, there is not enough evidence to claim a resultant improvement in farm workers' wages. Only in two out of ten cases do farm workers receive wages that are higher than the minimum wages. That is the reason why Besky (2008) is of the opinion that Fairtrade does not address the income paradox in certifying plantations. At least in small-scale farms, higher minimum price benefits are directed to people who labour directly in production.

Fairtrade has allowed small-scale farmers to expand their business opportunities to export markets. Before they were engaged with Fairtrade, they sold their produce locally through middlemen. When they changed from local marketing to international marketing, they reduced the number of middlemen who siphoned off part of the producers' incomes along the supply chain. Thus, Fairtrade has opened up opportunities (among the small-scale farmers) for relatively direct trade. As a result, small-scale farmers enjoy an increase in income due to an increase in the share of export price. Nevertheless, these increased opportunities for small-scale producers came along with more responsibilities in terms of farm and group management. In Coop 1, where members had challenges in cooperation and conflict management, the cooperative is being decertified from Fairtrade. On the other hand, commercial farms in the study were already involved in export markets before they engaged with Fairtrade, and Fairtrade only provided them with an alternative market. This shows that plantations have the capacity to penetrate export markets without outside help.

Differences in indicators between small-scale farmer cooperatives and plantations, particularly looking at access to export markets, minimum prices, and premium use explains the rational contradictory views about the inclusion of plantations in Fairtrade. When plantations participate in Fairtrade, their owners enjoy Fairtrade minimum prices. In a cooperative, minimum price benefits accrue to the intended Fairtrade beneficiaries. By offering minimum prices to cooperative members, the Fairtrade organization achieves one of its aims of offering better trading conditions to formerly marginalized producers. In addition, considering that a cooperative is comprised of a number of small-scale farmers, it means a larger number of households benefit from Fairtrade minimum prices.

Cooperative members have invested the Fairtrade premium mainly in productive projects, which help develop their careers. The Fairtrade premium has allowed them a chance to increase production, as well as to move up the value chain. Therefore, Fairtrade has contributed towards agricultural development in a cooperative setup. Based on these results, the study concluded that a cooperative model in Fairtrade has the potential to open up developmental opportunities for small-scale farmers. However, differences in performance between Coop 1 and Coop 2 show that the success of cooperatives is dependent on its members' strengths, such as the ability to communicate effectively to all cooperative members and to resolve group conflicts.

Including commercial farms in the Fairtrade model has both advantages and disadvantages. The main advantage is that premium investments in commercial farms support community development. Commercial farms in the study invested their Fairtrade premiums mostly in education, training and community infrastructure. As such, Fairtrade has contributed towards local community

development, skills development and improving educational standards in rural areas. However, it is worth noting that there were cases where premiums were invested in non-productive projects on a few commercial farms. This raises concern with regard to the sustainability of these non-productive projects, especially if Fairtrade intervention discontinues. Another advantage is the protection of farm workers on commercial farms by Fairtrade standards. Farm workers belong to trade unions, benefit from a safe working environment and, in a few cases, enjoy an increase in wages.

The main disadvantage related to the inclusion of commercial farms in Fairtrade is that they potentially create competition[11] for small-scale farmers. Coop 1 and Coop 2 members are threatened by the expansion of plantations into *rooibos* tea marketed under the Fairtrade label. Commercial farmers already have trading capacities, which make it relatively easy for them to form links in the Fairtrade supply chain. In addition, when commercial farmers receive minimum prices, they use them to develop their business strategies, and intensify competition for small-scale farmers. However, there are differences in minimum prices received by plantations and small-scale farmer cooperatives supplying the same commodities, where the latter receive higher minimum prices. In that case, Fairtrade small-scale farmer cooperatives have a price advantage over their potential plantation competitors. In addition, considering that Fairtrade in South Africa includes a BEE focus, it implies that farm workers also benefit from minimum prices and an increase in market share, in cases where farm workers have total or share ownership of the commercial farms.

With regard to Fairtrade and BEE, farm workers on 70% of farms managed to buy shares in commercial farms using part of the premiums. As such, Fairtrade has assisted land redistribution, even though, in some cases, the shares owned by farm workers are as low as 1%. In addition, farm workers owning shares of Fairtrade certified farms benefit from the farm owners' knowledge and capital, factors that help improve entrepreneurship skills among farm workers. In this regard, Fairtrade has assisted in addressing the BEE challenge where a number of people who acquired land failed to produce efficiently because they lack capital, experience and expertise (Sefoko *et al.*, 2007). On Farm 7 and Farm 2, farm employees are left to run part of the farm business on their own and they have been able to exercise managerial skills. In conclusion, Fairtrade certification of commercial farms can still be supported, with preference given to certification of those commercial farms, which are totally owned by farm workers or where farm

11 Brinckerhoff (2010) considers competition a good thing in marketing. Nevertheless, in this context, creating competition for small-scale farmers in the Fairtrade market is considered bad. This is because the Fairtrade label was created for this group of farmers; therefore, they should not be outcompeted in a market that was created in their name.

workers own majority shares.

## 4 CONCLUSIONS

Fairtrade certification of both small-scale farmer cooperatives and commercial farms in the study had a positive influence on sustainable development. In small-scale farmer cooperatives, Fairtrade benefits are directed mainly to producers involved in Fairtrade. In commercial farms, the benefits are directed to local communities, including Fairtrade producers. However, when Fairtrade certifies commercial farms, they potentially create competition for small-scale farmers in the market. Even though that is the case, certification of commercial farms is justifiable, considering that commercial farmers themselves will not lose most if excluded from Fairtrade. Rather, the majority of low-income farm workers, who rely on Fairtrade for the development of community services, stand to gain most from Fairtrade. As such, Fairtrade should certify both small-scale farmer cooperatives and commercial farms in South Africa. However, the Fairtrade organization should consider limiting certification to small-scale farmer cooperatives for commodities whose Fairtrade demand can be met by small-scale farmers.

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# APPENDIX 1: IMPACT ASSESSMENT RESULTS

| Theme | Fairtrade aims | Research Findings | | Conclusion |
|---|---|---|---|---|
| | | Cooperatives | Plantations | |
| Human capital | • encourage training<br>• support capacity building on marketing skills<br>• encourage organisational development | • Investment in training and education has given small-scale farmers a chance to develop their managerial skills<br>• In Coop 2, growth in human capital is evidenced by growth in produced and exported volumes | • Investment in training and education has allowed farm workers to acquire managerial skills<br>• Farm workers' children are allowed a chance to acquire formal education<br>• JB learn to manage finances | • Fairtrade has a significant impact on human capital development for small-scale farmers and farm workers<br>• The impact on human capital development is dependent on how the JB and premium committees choose to spend premium |
| Physical capital | • support for community infrastructure<br>• support land ownership rights to farm workers (Fairtrade in South Africa is in line with BEE) | • Investments mostly include constructing drying facilities<br>• Physical capital is mainly directed to cooperative members, therefore excludes community members who do not form part of the cooperatives<br>• Potentially influences asset disparities among community members | • Investments mostly include constructing or renovating buildings such as training centres, halls, workers' houses and crèches<br>• Physical capital development is mostly directed to farm workers' communities<br>• BEE in Fairtrade has allowed farm workers acquire land<br>• There are potential problems related to physical changes made on the farm owner's land | • Significant investment in community infrastructure (commercial farms) and production and processing infrastructure (cooperatives)<br>• Fairtrade and BEE are compatible, premiums have been used by farm workers to buy shares on commercial farms |

| | | | | |
|---|---|---|---|---|
| Financial position | • encourage more direct trade<br>• increase income through minimum prices<br>• pre-finances | • Small-scale farmers benefit from minimum prices and, this group of farmers regard this change as the main Fairtrade outcome<br>• Small-scale farmers have managed to cut down on the number of middlemen | • Commercial farmers benefit from minimum prices though not regarded as their main Fairtrade benefit, instead they value market access<br>• Complain that Fairtrade administration costs pose a negative impact on their financial position<br>• No change in the financial position of individual farm workers because the money was directed towards community social development projects | • Fairtrade substantially increases small-scale farmers' income<br>• Inconclusive results for the financial impact of Fairtrade on commercial farmers<br>• None of the producers has sought pre-finances<br>• Fairtrade markets, as compared to conventional markets, take relatively longer to pay producers |
| Social capital | • create solidarity between consumers and producers<br>• decent working conditions<br>• encourage long-term relationships | • Relationships were strengthened among cooperative members<br>• Increased connectedness in the supply chain, Coop 1 occasionally receives Fairtrade consumer visitors<br>• Evidence of group conflicts in Coop 1 | • Relationships were strengthened between management and farm workers<br>• Part of Fairtrade premiums was invested in leisure activities, for example, in community sport and Christmas outings for farm workers<br>• Farm workers are free to join workers' unions and are paid at least a minimum wage | • Strong informal networks in cooperatives reinforce Fairtrade activities<br>• Fairtrade creates social capital in cooperatives and commercial farms<br>• Social capital can be destroyed if some members cannot be trusted (as in Coop 1) |

| | | | | |
|---|---|---|---|---|
| Economic development | • direct Fairtrade premiums towards development projects<br>• encourage trade activities | • Small-scale farmers were allowed an access to markets<br>• Access to foreign markets results in increased disposable income for local people, which influence spending and other ripple economic effects<br>• Permanent employment created when both cooperatives started processing tea | • Fairtrade premiums have positively influenced community investment and development, however, the issue of sustainability in project investment is not totally embraced in some farms<br>• Fairtrade has contributed towards creating both temporary and permanent employment | • Fairtrade in both commercial farms and small-scale cooperatives has a positive influence on economic development, but there is room for improvement<br>• Low demand growth and oversupply on the Fairtrade market limits the amount of commodities that is sold on the market |
| Natural asset | • reduce the use of chemicals in production<br>• encourage producers to move towards organic production | • Encouraging organic production has reinforced the low input farming systems already employed by small-scale farmers<br>• Invested part of premium in organic farming training and in waste management | • Fairtrade rewards organic commodities, but none of the producers has been induced by Fairtrade to switch to organic production<br>• Commercial producers feel that organic production is more costly due to its labour intensive nature | • Organic production was not totally embraced<br>• Fairtrade has partially succeeded in influencing environmental concerns<br>• The dual certification system for organic producers imposed additional costs on the producers |

# APPENDIX 2: MAIN DIFFERENCES BETWEEN FAIRTRADE COOPERATIVES AND PLANTATIONS

| Indicator | Cooperatives | Plantations |
|---|---|---|
| Amount of land for production purposes | Individual farmer produces on a relatively small area of land (average 3.5 ha) | Production occurs on a relatively large area of land (ranging between 27 ha and 4 000 ha) |
| Members/Farm owners | Made up of a number of producers from different families | In most cases the farm is a family business |
| Fairtrade market | Represent their main market | Act as an alternative market |
| Motivation for joining Fairtrade | Minimum prices received | Access to a marketing channel and social responsibility |
| Access to export markets | Gained access as a result of participating in Fairtrade | Already marketed in export markets before engaged with Fairtrade |
| Premium use | Invested mainly in producer development projects such as in production and processing equipment | Invested mainly in community development projects such as in education and community infrastructure |
| Minimum prices | Accrue to Fairtrade beneficiaries (small-scale farmers) | Accrue to non-Fairtrade beneficiaries (commercial farmers) |
| Farm workers | Not protected by Fairtrade standards | Protected by Fairtrade standards |