

Fair Trade for Whom?

The Contribution of Fair Trade to Combatting Trade
Inequities Faced by East Timorese Coffee Producers

By

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ABSTRACT

Fair trade aims to empower smallholder agricultural producers in the global South to gain more power over their industries by the formation of transparent and democratically representative cooperatives. However, critiques of the fair trade system have emerged in ethical consumption literature, and pockets suggest that individual producer contexts have more of a role to play in determining the benefits of fair trade than had been previously understood or addressed. This work constitutes a case study designed to examine implementation and practice anomalies within the Timorese fair trade certified coffee industry, and the ways in which they impact on producers' livelihoods and development. A mixed methods approach is deployed to analyse the coffee cooperative *Cooperativa Café Timor*, and the producers who sell to it. It finds the cooperative to be subject to a number of external pressures that prevent it from passing on the benefits of fair trade certification to farmers. Governance practices in terms of transparency and grassroots representation are found to be significantly hindered by reliance on outside organisations for market access. Also, producers are found to remain superficially represented within commodity chains; having little or no access to value-added income. The involvement of American private enterprise within the East Timorese fair trade system has served to distance the fair trade cooperative from its grassroots, and acts as somewhat of a barrier to democratic management, participatory decision-making, and the realisation of the objectives of fair trade.

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LIST OF ACRONYMS

CCT.....	<i>Cooperativa Café Timor</i>
CIA.....	Central Intelligence Agency
COCAR.....	Consolidating Cooperative Agribusiness Recovery
EFTA.....	European Fair Trade Association
FINE.....	FLO, IFAT, NEWS, EFTA
FLO.....	Fairtrade Labelling Organisations International
FLO-CERT	Fairtrade Labelling Organisations Certification Body
FT.....	Fair Trade
GDP	Gross Domestic Product
HDI.....	Human Development Index
IFAT	International Federation of Alternative Traders (Now WFTO)
LDC.....	Least Developed Country
MAF.....	Ministry of Agriculture and Fisheries ¹
MCE-A.....	<i>Movimento Cooperativa Economica – Agricola</i>
MFAT	Ministry of Foreign Affairs and Trade
NCBA	National Cooperative Business Association
NCBA CLUSA	NCBA Cooperative League of the United States of America
NEWS	Network of European World Shops
NZAP	New Zealand Aid Programme
SIDS.....	Small Island Developing States
TERADP.....	Timor Economic Rehabilitation and Development Project
UN.....	United Nations
USAID.....	United States Agency for International Development
WB.....	World Bank

¹ For the purposes of this thesis, this term refers to the Timorese Ministry of Agriculture and Fisheries.

WFTO World Fair Trade Organisation

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1. INTRODUCTION

Gleno, the capital of Timor-Leste's mountainous Ermera district, is the hub of a coffee industry that involves the majority of Timor-Leste's rural population. Most households in and around Gleno are dependent on the coffee trade. However, a visitor to Gleno would be forgiven for failing to realise that the town is the centre of the country's second-largest industry, because what is really striking about Gleno is its poverty. It is a type of poverty that cannot be interpreted as simply a traditional way of life; or a lack of development. This is a modern poverty, the sort that denies people choices, security and basic human rights. The people who live in Gleno; who work, who are engaged in industry, whose products are enjoyed throughout the Global North, worry about food security on a day to day basis. Less than 50% have access to running water, and in the 'hungry months', out of coffee season, 50% of children eat less than one meal per day, on average (Inder, 2013, p. 24). Malaria, dengue fever, tuberculosis, leprosy, and HIV/AIDs are real threats. Houses are primarily constructed from bamboo, corrugated iron, or tin, around half of the population is illiterate and children are routinely denied access to crucial education. In 2012, two thirds of coffee-farming households in Ermera earned US\$250 or less. This translates to US\$70c per day, for an entire household (Inder, 2013). This thesis is academic: It is about commodity chains and global trade, it is about regulations, standards, and institutional practices, and little space can be devoted to evocative descriptions of the struggle of extreme poverty. However, this thesis is primarily about poverty. Underpinning the research is the abject injustice of the conditions suffered by communities who are integral parts of profitable global commodity chains. It is hoped that the reader will remember the humans of Ermera throughout this necessarily academically distanced thesis, as the writer cannot forget them.

Timorese coffee producers are not alone in their struggle. Small-lot producers of tropical commodities in developing countries suffer from a

universal disadvantage: Because they are often dependant on an agricultural crop for their livelihood, the system is weighted against them. As agricultural commodity chains such as cacao, sugar, fruit, textiles, and of course coffee, become more and more buyer-driven, smallholders are very rarely represented both in terms of industry governance and value chain share. This continually decreases farmers' options regarding how they can participate, what price they can sell at, and who they can sell to. At the turn of the century, it was noted that "[t]wo features have dominated world agricultural primary commodity markets over the last two decades: relatively high price volatility and a generally declining trend of real prices" (FAO, 2001). Though prices continuously fluctuate, this trend endures. Coffee is perhaps the most widely recognised example of North-South inequity in commodity chains. Its prominence at the heart of the fair trade movement is testament to its perceived economic 'un-fairness'.² Since the collapse of the International Coffee Agreement in 1989 (which regulated supply and kept prices relatively stable) smallholder coffee producers are universally subject to prices that sharply fluctuate, and regularly drop below the cost of production. Individual owner-farmers have no bargaining power within this trade paradigm.

The fair trade movement embodies a morally situated response to trade inequities; harnessing the collective power of concerned consumers in the North to influence value chains in a way that empowers vulnerable Southern producers. Fair trade does this through diversified channels targeting different sections of the commodity chain. Firstly and most visibly;

² It is important to clarify the difference between the diverse terms that can be used to describe the movement. As is commonly accepted practice, this thesis will use the term 'fair trade' when referring to the movement or system as a whole. The name 'Fairtrade' is reserved to refer to the officially trademarked institutions, particularly the organisation Fairtrade International.

fair trade branding and labelling programmes provide an assurance certification to consumers; this also serves to carve a market niche for fair trade products, as their desirability to ethically-motivated consumers creates and strengthens demand. As well as mobilising consumers, fair trade seeks to collectivise and empower farmers, by offering them economic incentives, notably a guaranteed minimum price, and a premium - earmarked for community development projects or capacity building within the cooperative itself. To carry the certification label, and benefit from the pricing structure, farmers are required to form a producing cooperative, and fulfil other fair trade standards including transparent governance, and environmental management. As of September 2013, over 1.3 million producers in 70 countries were represented in 1,149 fair trade certified producing cooperatives (Fairtrade International, 2013).

While fair trade coffee sales reached 88,000 tonnes in 2010 (Fairtrade International, 2012), and fair trade certification marks become more and more recognisable, the increasing corporatisation and mainstreaming of the system has attracted criticism from academics and stakeholders. Critics are concerned both that the fair trade movement is becoming distanced from its foundational principles, and that its benefits to smallholders in developing countries are being eroded in the pursuit of increased market share, and courtship of the world's largest coffee companies. The bulk of the literature critiquing the fair trade movement and system focuses on broad trends and theories, and there is a marked lack of contextualised enquiry actually examining fair trade in practice in developing countries. It has been suggested that individual producer contexts have more of a role to play in determining the impact of fair trade on producer empowerment and poverty alleviation than is generally acknowledged. Hutchens (2011), argues that, in the context of Small Island Developing States (SIDS) in the Asia Pacific region, "the obstacles that producers face are unlikely to be overcome by FLO resorting to any institutional or policy 'precedent', 'framework' or new 'standard' implemented at a global level. Rather, localised and nuanced responses to supporting Pacific enterprises to operate on 'fair trade' terms in

culturally appropriate ways with producers and trading partners will be needed.” (p. 311). Applied research into fair trade in practice is called for, to apply and test high-level theories on fair trade’s effectiveness. Hutchens’ work on SIDS and fair trade is one contribution, and partly inspired the geographical focus of this thesis.

The primary objective of this thesis is to constitute a case study demonstrating the extent to which fair trade certification has proved a viable solution to market inequities faced by East Timorese coffee producers. It identifies two interconnected but distinct objectives of fair trade – firstly, that of empowering producers to have control over industry, through collectivisation and democratic representation. The other ambition of fair trade is that of improving producers’ incomes, by facilitating more condensed commodity chains, paying higher prices, and importantly, encouraging vertical integration in order for producers to profit from aspects of the export process such as processing and marketing.

My thesis poses a number of primary and secondary questions which are informed by the above objectives. Centrally, it seeks to answer the following:

1. To what extent has fair trade allowed East Timorese producers to participate more actively in decision-making, governance, and ownership of their industry?
2. To what extent has fair trade improved those producers’ livelihoods, by allowing them to extend control over the export process, occupy higher value chain nodes and increase their incomes?

Secondary to these main questions are a number of sub-questions, which provide context, and enable the primary questions to be answered:

- a. How does the existing literature on fair trade help to explain features of the Timorese experience, and how can the Timorese experience inform academic and theoretical discussions of fair trade?

- b. How does Timor-Leste's history (with particular reference to the role of coffee) underpin and influence the impact of fair trade certification?
- c. What influence have secondary organisations (particularly foreign development organisations) had on the implementation of fair trade certification in Timor-Leste?
- d. What influence have stakeholders' attitudes towards fair trade had on the implementation of fair trade certification in Timor-Leste?
- e. What are the current governance structures of Timor-Leste's fair trade certified coffee cooperative?
- f. How does the current structure of coffee commodity chains in Timor-Leste benefit or disadvantage primary producers?

These questions are inter-related, and will be dispersed and re-visited throughout the following chapters. They generally dictate the structure of my thesis, which will be outlined later in this chapter.

Timor-Leste is Asia's newest and poorest country.³ The country's historical and social context is unique, and provides a new environment in which to examine the impact of fair trade. Though coffee accounts for over 90% of Timor-Leste's non-oil exports (World Bank, 2013), and a large percentage of Timorese coffee is fair trade certified, reliable data on Timor-Leste's coffee industry, and in particular fair trade exports, remains rare. Little research or analysis has been undertaken since independence in 2002, however the little that has suggests a history of disharmonious relationships

³ Also known as East Timor, or Timor Timur. This thesis will use the designation 'Timor-Leste' in recognition of its post-independence adoption of the name 'The Democratic Republic of Timor-Leste'. However, the country's citizens will generally be referred to as either East Timorese, or Timorese. The former is the official denonym, and the latter a widely used shortening.

between farmers, cooperatives and buyers, ongoing environmental degradation due to a lack of training in agricultural practices, and a lack of democratic ownership of the industry by growers. Timor-Leste provides a snapshot of practice anomalies in fair trade implementation (Laughton, 2007, Oxfam, 2003).

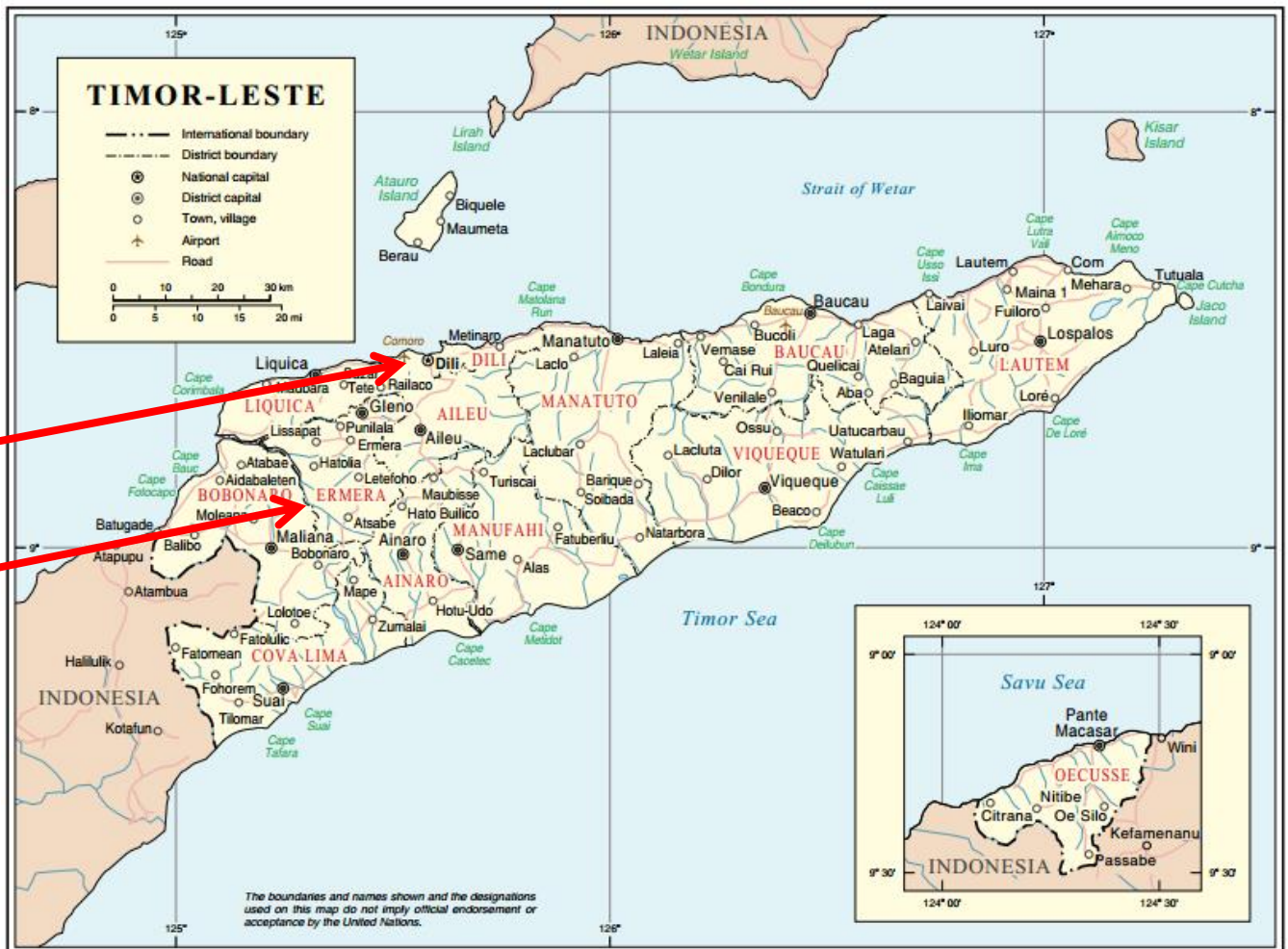


Fig 1.1. Map of Timor-Leste, including the Oecusse enclave, with key research sites marked (United Nations Dept. of Field Support: Cartographic Section, 2011).

The country of Timor-Leste occupies the Eastern half of the island of Timor. It borders the Indonesian province of East Nusa Tenggara to the West. The island is separated from Northern Australia by the narrow Timor Sea. Timor has a long history of colonisation and subjugation. The Portuguese controlled the territory since the beginning of the 16th Century. Their 400

year rule was preoccupied with protecting the area from Dutch and British powers, and failed to advance the country economically, leaving behind little more than neglected coffee plantations, effectively farmed by indigenous slave labour. The Portuguese also purged the land of sandalwood, which had been its primary export for centuries. Faced with growing international pressure, the administration belatedly followed the trend of de-colonisation in 1975, and Timor-Leste was declared independent. Indonesian forces invaded 9 days later - on the 7th of December, 1975. The rationale at the time was generally considered to be fear of a communist state in the region, and the mission was granted Western backing (Clifton, 2005). Previously withheld files released in 2000 by the Australian Department of Foreign Affairs and Trade suggest that three consecutive Australian administrations were complicit in concealing details of the situation in East Timor from international attention in order to preserve Indonesian control (Fernandes, 2004). The situation that Australia and Indonesia conspired to conceal was dire. The East Timorese fought a bloody war with the Indonesian occupation for almost three decades; characterised by human rights violations, mass starvation, and events such as the Dili Massacre of 1991, in which Indonesian troops opened fire on a peaceful pro-independence demonstration in Dili's Santa Cruz cemetery; killing at least 250 people. When Timor-Leste once again voted for independence in 1999, Indonesian forces undertook a final violent campaign of burning villages and killing civilians in retaliation. Between 1975 and 1999, it is estimated that 102,800 Timorese lost their lives as a result of the occupation; around a quarter of the total population (de Acolhimento, 2005). Of that number, 18,600 were either killed by Indonesian forces, or disappeared, and a further 84,000 died of starvation directly related to the conflict. Timor-Leste's Truth and Reconciliation Commission found that "Indonesian security forces consciously decided to use starvation of East Timorese civilians as a weapon of war, as part of its strategy for destroying resistance to the military occupation" (de Acolhimento, 2005, p. 147). It was into this environment that fair trade was first introduced; *Cooperativa Café Timor* (CCT), Timor-Leste's emerging

coffee cooperative, achieved fair trade certification in 2001, having been formed at the end of the Indonesian conflict.

The story of coffee in Timor-Leste is inextricable from the narrative of foreign control and conflict. It was introduced by the Portuguese as a means of funding their military presence in the country. The Portuguese coffee plantations were farmed by rural communities mostly serving as slave labour, under indigenous leaders or *Liurai*, who were motivated to preserve the system, often violently, by the disproportionate profits they were making off the crop at the expense of their communities (Nixon, 2013; Roque, 2010; Shepherd et al., 2013). The Indonesians changed little about this system, and during their occupation, the exploitation of the rural population, using *Liurai* as agents, continued to contribute revenue to the military regime. In the later part of Indonesia's rule, coffee production was formalised under an umbrella institution dubbed *Puskud Timor Timur*,⁴ which the administration called a cooperative, but which was really the traditional coffee procurement system that had existed first under the Portuguese, and was still characterised by exploitative labour practices.

In the early Nineties, the United States Agency for international Development (hereafter USAID) chose to partner with *Puskud*, to develop Timor-Leste's coffee sector, and to strengthen economic ties with the United States, where there was a rapidly growing demand for organic coffee at the time. USAID involved another partner organisation in the relationship – The National Cooperative Business Association of America (NCBA). The role of the NCBA was reasonably mysterious to outside observers, and remains so today – though it ostensibly functions as a managing agent for coffee

⁴ Often shortened to *Puskud*.

rehabilitation projects, it appears to have a secondary function in securing relationships with large buyers in the US, and maintaining CCT's market access. In this capacity, the NCBA is indispensable to CCT. However, while USAID and the NCBA have helped to develop the capacity of the cooperative, some sources suggest that the involvement of the American organisations may have served to distance the cooperative from its grassroots, acting as somewhat of a barrier to democratic management and participatory decision making.

I have structured my thesis along the following lines: In chapter two I undertake a literature review of international discourse surrounding fair trade principles and practices. This has served to underpin the design and implementation of my research, which is explained and defended in chapter three; my methodology. The fourth chapter explains the history and development of the Timorese coffee sector, and shows how its past – characterised by conflict and military control, has impacted on present attitudes, structures and relationships. In the fifth chapter I embark on interpretation and analysis of my main research findings, with respect to industry governance and producer participation; a key tenet of fair trade philosophy and codes. The sixth chapter goes into detail concerning institutional practices, value chain share, and farmer livelihoods, to gain an understanding of both the extent to which fair trade certification has increased farmers' incomes, and their capacity to have further control over those incomes, by taking part in value adding activities and extending their representation in the export process. In my conclusion, implications of my findings will be discussed in terms of both theory and policy; their application to how we understand fair trade in general, and what they mean for the future of Timor-Leste's smallholder coffee producers.

2. BACKGROUND TO FAIR TRADE: GROWTH OF A MOVEMENT, AND CURRENT CRITIQUES

Participants within the international fair trade movement hold a range of different perspectives regarding fair trade's role and the nature of the challenge it poses to conventional trade: a mechanism to access markets for disadvantaged producers, a tool to leverage corporate reform, or a vehicle for a more fundamental transformation of global trade. (Jaffee, 2012, p. 104)

In order to understand the impacts of fair trade certification in Timor-Leste, it is important to be familiar with existing literature on the fair trade movement and system, both in terms of broad critiques, and applied impact studies. The Timorese experience aligns with many academic criticisms of fair trade, but also has much to offer in discussions of fair trade implementation in the field. This chapter will explore the theoretical underpinnings of the fair trade movement in order to enrich later findings on fair trade in Timor-Leste.

Fair trade is at once a highly regulated system of trade, and a set of radical alternative values, a profit opportunity for large corporations, and a tool for empowerment of grassroots producers. It is an education and awareness-raising initiative, and a massive, institutionalised monitoring and certification operation. There is an identifiable division in the very definition of Fair Trade, between the ideological and the commercial mainstream aspects of the movement. Both are necessary to its success, but this tension is indicative of the issues faced by New Social Movements, which aim to introduce values of justice and corporate responsibility to a competitive profit-based system. These tensions have implications for fair trade implementation, and underpin some of the challenges faced by producer networks in the field – including in Timor. This chapter will outline, with special reference to the coffee industry, the beginnings of Fair Trade and the factors that led to its emergence; it will trace the evolution of Fair Trade, and it will analyse current criticism of the network.

2.1 THE SCOPE OF FAIR TRADE

The wider fair trade movement arrived at its contemporary form via a number of historical incarnations. It embodies an ongoing development-oriented discourse that denounces the exploitative nature of traditional global trade relationships and seeks to establish more equitable commercial relations based on ethical principles. Within the fair trade network are still represented contradictory and conflicting visions, however, generalised definitions are important to understanding the evolution and future of fair trade.

The most widely used definition of fair trade comes from 'FINE'; which outlined fair trade's goals as follows:⁵ "Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South" (FINE, 2001). The Fair Trade Labelling Organisation develops this vision in a 2009 document, focusing on five 'core principles' or objectives for fair trade: Market access for marginalised producers, sustainable and equitable trading relationships, capacity building and empowerment, consumer awareness raising and advocacy, and fair trade as a 'social contract' between buyers and producers (WFTO, 2009).

The Fairtrade Labelling Organisation (FLO), listed in February 2014, 12 different types of certified commodity, they are: Bananas, cocoa, coffee,

⁵ FINE was an amalgamation of the four main coordinating bodies of fair trade as they existed in 1998. These consist of: Fairtrade Labelling Organisations (FLO), International Federation of Alternative Traders (IFAT, now World Fair Trade Organisation (WFTO)), Network of European World Shops (NEWS) and European Fair Trade Association (EFTA).

cotton, flowers, fresh fruit, honey, gold, juices, rice, spice and herbs, sports balls, sugar, tea, wine and composite products (made from two or more ingredients – i.e. chocolate) (Fairtrade International, 2014a). Coffee has traditionally accounted for the majority of the fair trade market, but, while it continues to grow, in the UK it appears to have been overtaken by sugar products, cocoa (which make up the composite chocolate) and bananas.

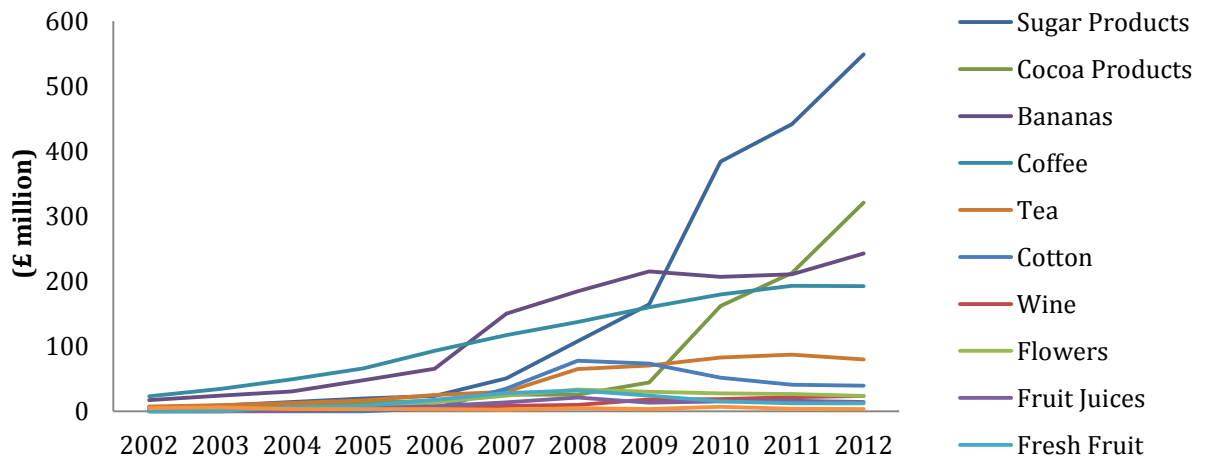


Fig 2.1. Estimated UK Fairtrade sales by value 2002-2012 (Fairtrade Foundation, 2013)

As of September 2013, fair trade producer organisations globally numbered 1,149, and represented over 1.3 million farmers in 70 countries (Fairtrade International, 2013). The number of producer organisations has increased 16% since 2011. The implications of this rapid rise in participant producers are profound, and will be addressed later in this chapter. Fairtrade International's 2012-13 annual report entitled 'Unlocking the Power' recorded annual sales at €4,802,374,746 (approximately NZ\$7.7 billion). As Fair Trade USA withdrew from Fairtrade International in 2011, (wishing to extend their definition of fair trade to include plantations and factories) those figures are not included. However, due to strong growth in European and other markets, the overall sales figure is down only 4% from the previous year, despite the withdrawal. As fair trade increasingly focuses on issues around environmental sustainability, figures indicate a growing market for products certified as fair trade organic. In 2012 44% of all fair trade coffee

sold was also organically grown (Fairtrade International, 2013). The increasing Northern demand for organic coffee had implications for the development of Timor-Leste's current coffee sector landscape: this will be discussed in chapter 4, section 4.3 (p. 56).

A number of identifying features of fair trade are discussed in the literature, as commentators have explored what makes fair trade unique as a social movement, and as a system of trade. Possibly the most basic or foundational feature is that it identifies not the state, but stateless actors as the agents for change. This reflects a broader trend in international social movements, as states are increasingly seen as having less influence over global commodity chains. This is a result of both neoliberal trends of deregulation, and increasingly powerful international corporations (Jaffee, 2012). Fair trade employs the model of voluntary product certification in an attempt to create an alternative to inequitable capitalist relations from within the free market itself, a mission some find inherently contradictory (Brown, 1993; Jaffee, 2012; Renard, 2003).

Essential to this mission is an emphasis on agricultural smallholder producer empowerment. Fair trade organisations have traditionally focused on small-scale production in an attempt to mitigate the influence of large-scale waged labour over industries. "The implicit goal is to maintain the viability of smallholdings, which mitigates against both concentration of land ownership and inflating the reserve supply of landless laborers" (M. Fridell et al., 2008, p. 12). Obtaining fair trade certification requires the presence of a cooperative amongst smallholder producers, and fair trade standards stipulate that producer organisations must have "voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, cooperation among cooperatives and concern for the community" (FLO, 2011). Further to this, as Levi and Linton point out, supporting cooperative association encourages and enables farmers to manage their own marketing and processing (Levi et al., 2003).

2.2 THE EVOLUTION OF FAIR TRADE

2.2A RELIGIOUS ROOTS

The first initiative resembling contemporary fair trade was a post-World War II effort by the Mennonite Central Committee (MCC) of North America to assist Palestinian refugees and marginalised people in Haiti and Puerto Rico (Low et al., 2005). The MCC designed a programme by which people sold local handicrafts to generate income for community development projects, rebuilding, and disaster relief. Within a decade this had evolved to be a dominant development paradigm employed mainly by religious charities. (Gendron et al., 2009).

2.2B POLITICAL ROOTS

Also with roots in the post-World War II period are a number of political movements, similar to religious trade-funded development campaigns, which sought to influence the way international trade was done. These came together around “politics of opposition to capitalism, decolonization and alternative lifestyles” (Low & Davenport, 2005, p. 145). While fair trade’s first antecedents were in faith-based organisations, many notable predecessors of fair trade have political roots. The Worldshop movement, which originated in the Netherlands in the 1950s, sold handicrafts sourced largely from Asia and Africa, to allow European consumers to contribute to development (Wilkinson, 2007). The ‘Trade not Aid’ philosophy came to prominence in the United Nations Conference on Trade and Development (UNCTAD) in 1968, and was the first multilateral discussion of the place of ethical trade initiatives. Components of the movement began to become institutionalised and nationalised in the 1980’s, with the establishment of importer networks in many countries, originally called Alternative Trade Organisations (ATO’s) (Wilkinson, 2007). A prominent example of this was the US ATO Equal Exchange, which formed in 1986 in solidarity with producers in Nicaragua affected by widespread trade embargoes. Late in the decade, these national organisations became more mainstreamed and institutionalised as they were incorporated into

international associations including the European Fair Trade Association in 1987, and the International Fair Trade Association in 1989.

2.2C THE ROLE OF COFFEE

Coffee has always played a central role in the fair trade market. As of 2012, 583,000 coffee farmers benefitted from inclusion in the fair trade system (Fairtrade Foundation, 2012). Coffee's adoption as a key symbol of fair trade was a result of pressing and substantial issues in the coffee industry, and changes at the end of the 20th Century that significantly disadvantaged growers worldwide.

Coffee production and export has deeply colonial roots. It was one of the first and most important products to be mass-produced in the colonies to supply and fuel an industrialising Europe. Talbot outlines the significance of coffee as a tropical commodity. Applying a dependency theory model, he demonstrates that geographical and ecological specifications mean that coffee will almost always be produced in peripheral countries. Also, its consumers are predominately located in core countries. "These facts determine the distinctive South-to-North trading pattern of these commodities and explain its persistence over time" (Talbot, 2002, p. 705).



Fig 2.2: The Coffee Futures 'C' Price 1995 – 2012 (Reuters EcoWin, 2013)

Though trade relations in the coffee industry have traditionally been unequal, the situation came to a head with the coffee crisis of 2001. A report by Nestor Osorio, the Executive Director of the International Coffee Organisation to the World Summit on Sustainable Development in Johannesburg in 2002 highlighted a number of alarming statistics. Osorio noted that world coffee prices were at a 100-year low:

In the early 1990s earnings by coffee producing countries were some US\$10-12 billion and the value of retail sales of coffee, largely in industrialised countries, about US\$30 billion. Now the value of retail sales exceeds US\$70 billion but coffee producing countries only receive US\$5.5 billion [...] There is little doubt that the exodus from rural areas and increased poverty in coffee producing areas caused by the current price crisis poses a very real and wide-ranging threat to sustainable development (Osorio, 2002, pp. 1-2).

The coffee crisis was brought about by a number of intersecting factors, including oversupply caused by the rapid rise in coffee production in Brazil and Vietnam, but its roots are in the abandonment of the International Coffee Agreement in 1989 (which regulated markets and kept prices stable). The resulting deregulation of the international coffee price made way for the wildly fluctuating Wall Street 'C' price which today determines the value of beans globally. In 1989 the price of green beans fell from approximately US\$1.30 per pound, to less than US\$0.60, while the cost of production remained at around US\$1.10. This downward trend, exacerbated by foreign pressure on producing countries to liberalise their markets (Ponte, 2001), and increasing production, led to the crisis of 2001. Falling prices at this time led to a shift in power within the international coffee trade. Power now lay with speculators, foreign buyers, and middlemen, where it had once belonged to producers themselves (Bacon, 2005; Ponte, 2001).

Other factors contribute to coffee producers being paid unliveable returns, often falling below the cost of production. The small number of coffee roasters in Northern markets results in a tight oligopoly. Speculation is limited to a number of powerful companies, and "the 'big four,' combined with Germany's Tchibo, together buy half of the world's harvest" (M. Fridell et al., 2008, p. 10). Further alienating producers from control of the export

process is dependence on middlemen; transporters and local buyers, who have long held power, especially in rural production areas (Raynolds, 2002, p. 404). It was within this long-standing climate of unequal trade relations and growing poverty amongst producers, that fair trade was able to increase its profile in providing an alternate system of trade and campaigning for market reform.

The coffee crisis and growing inequality in the market which had been brewing since the late 1980's, led to increased consumer awareness of ethical trade issues in the coffee industry and allowed fair trade to further establish a market for certified coffee, thus cementing the role of fair trade within the coffee industry. With reference to the 2001 crisis, Bacon highlights that "Increasing consumer awareness regarding issues of quality, taste, health, and environment have created a growing demand for specialty and eco-labeled (i.e., organic, bird-friendly, and Fair Trade) coffees" (Bacon, 2005, p. 497). Low and Davenport note that it was "around the same time [that coffee prices were falling] that the first fair trade label for coffee, Max Havelaar, was developed in the Netherlands (1988), followed by Fairtrade Mark in the UK (1994) and Transfair in the USA (1998)" (Low & Davenport, 2005, p. 147).

The fair trade certification mark emerged in response to issues in the international coffee market. Through its role in combatting rising inequality and crisis in the coffee, it became the most recognisable symbol of ethical trade globally, and remains so today.

2.2D THE RISE OF THE ETHICAL CONSUMER

Literary discussions of the umbrella term 'ethical consumption' began to emerge in the late 1990s, however the phenomenon had existed in various forms since as early as the late 1800's (Irving et al., 2002). While fair trade is encompassed within the ethical consumption literature (Carrier, 2007); the term has broader applications, and is used to describe such diverse practices as purchasing environmentally-friendly, animal-cruelty-free, organic, and non-sweatshop products (Howland, 2013, p. 20). An early study found that "[t]he value of ethical consumer purchases in selected sectors grew 18.2% between 1999 and 2000" (Doane, 2001, p. 2). Today, 'ethical consumption' is

becoming increasingly a feature of our common vernacular in the global North, and fair trade is foremost amongst its associations.

Fair trade depends for its growth on the existence of the self-identified ethical consumer. Underlying the success of fair trade and other ethical alternative trade movements and certification schemes is the assumption that non-tangible ethical associations of certain products add value, and make them desirable to consumers (Becchetti et al., 2008; Raynolds, 2000; Renard, 2005). Economic motivations for purchasing ethical products have been extensively documented and theorised. “Fairness and inequity aversion play an important role in consumer preferences. Consumers with such preferences buy [fair trade] products not for pure altruism but to satisfy their specific preferences” (Becchetti & Huybrechts, 2008, p. 735). Fair trade, via ethical consumption models, seeks to connect Northern consumers to the idea of Southern producers, and the origins of the product. This negates the effect of the “process of capitalist exchange [by which] commodities become abstracted from their human and natural roots, so that price becomes their dominant characteristic” (Raynolds, 2000). By reinforcing the human aspect of production in the imagination of the consumer, the value of the product is increased, as is, theoretically, the return to the farmer. Thus, an ‘ethical’ product which might be physically indistinguishable from its free market equivalent, takes on invisible characteristics of ‘fairness’ which make it attractive to consumers and, by extension, retailers.

2.3 LABELS AND CERTIFICATIONS

The first mainstream fair trade labelling initiative emerged in the Netherlands in 1988. Coffee companies were invited to, for a certification fee, display the Max Havelaar label on “an amount of their roasted coffee equivalent to the amount of Fair Trade coffee they purchased” (Margaret Levi, 2003). This represented a departure from the previous model of ethical trade initiatives, characterised by ATO’s, Worldshops, and small-scale handicraft retail, towards an ethical trade campaign that engaged with mainstream markets. Thus, the fair trade system became diversified; between its traditional shops, dedicated to ethical trade and selling 100%

ethically traded products, and larger brands that had attained the fair trade label, sold in conventional stores (Gendron et al., 2009). This was the beginning of the establishment of a number of internationally recognised fair trade seals, and the creation of widespread and comprehensive certification infrastructure.

Today there exist 19 national fair trade labelling organisations covering 23 countries (Fairtrade International, 2013). These monitor and certify compliance with fair trade standards, support and represent producer organisations, and market fair trade globally. Labelling and certification is a powerful tool for shaping and reforming markets. As Marie Christie Renard (2003) notes, labels do not only endorse the trade of certain products, they also by extension exclude other products, and make them less marketable. Product labels, writes Renard, “constitute, in effect, mechanisms of market entry and exclusion, converting them into a source of power for those who control them” (p.425). Labelling ensures accountability, and much of fair trade’s power is in its external and objective guarantee that consumers are purchasing products grown and traded with a minimum level of social responsibility and justice. Exactly where that level is set will be discussed later in this chapter.

2.4 CRITIQUES OF FAIR TRADE

Fair trade has enjoyed astronomical growth in its Northern markets, and ever increasing interest from Southern producers hoping to become part of the system. The movement as a whole has run into difficulties in continuing to grow those markets to allow more producers to benefit from its networks, while simultaneously retaining the fundamental values, still adhered to by many proponents, which originally defined fair trade.

Academic investigation of the Fair Trade movement has been hindered by a lack of accurate and consistent quantitative data in the regions it focuses on (Stoddart, 2011). This is very true in the Timorese context. This reality reinforces the importance of specific, qualitative-based case studies in charting the human impact of fair trade initiatives.

Wider critique of the fair trade system has identified areas of contention, including the reinforcement of existing geo-political power structures through relationships with transnational corporations and top-down monitoring. Jaffee (2012) argues that the movement has been co-opted by corporations like Nestle and Starbucks, resulting in a dilution of Fair Trade's standards. This builds on earlier work by Renard (2005) which explores the desirability of Fair Trade's market niche to dominant market actors: "As quality definitions increasingly shape market access, the 'quality economy' likewise becomes a site of negotiation and power" (p. 420).

Other work explores the institutionalisation of Fair Trade organisations, resulting in a disconnect from individual producer contexts, and a loss of original vision to systemization and bureaucracy. Gendron et al (2009) discusses the tension in Fair Trade between its radical social roots, and its current commercial, centralized operation.

Further discussion highlights barriers to producer participation in the Fair Trade market, including "coordinating the certification process, obtaining an export contract, and accessing financing for exports as well as to pay for the FLO certification" (Weber, 2006, p. 4). The growing trend of oversupply in the Fair Trade market and resulting buyer demand for high quality organic beans increasingly mean that "it is the coffee market that determines who sells to the FT market" (Weber, 2006, p. 4).

Many of these themes can be identified within the Timorese experience, and chapter 7 will draw explicit connections between broad theories, and challenges for fair trade implementation in Timor-Leste.

2.4A BARRIERS TO PARTICIPATION

Fair trade is unfair. It offers only a very small number of farmers a higher, fixed price for their goods. These higher prices come at the expense of the great majority of farmers, who – unable to qualify for Fairtrade certification – are left even worse off (Sidwell, 2008, p. 3).

Fair trade's stringent certification system is central to the movement and extremely important to ensuring trade remains accountable and benefits

producing communities. However, many commentators have pointed out that the FLO's certification requirements can often be a barrier for the most disadvantaged producers. In addition to this, the fair trade market has been confronted with issues of oversupply, which in turn creates increasing demand for high-quality, organic products. Economic arguments against the feasibility of fair trade focus on limits to growth and producer participation.

Entry into the fair trade market requires a producing cooperative to have a certain amount of capital to fund the certification process, which as some point out, disadvantages producers in the poorest communities (Sidwell, 2008; Stoddart, 2011; Weber, 2006). Currently, a small producer organisation with 50-100 members wishing to become certified would pay an application fee of NZ\$1,047, and an initial certification fee (for the first 12 months) of NZ\$4,068 (FLO-CERT, 2013). Collectives are also required to coordinate the certification process and obtain an export contract. The cost of the certification process leads to the risk of only producers already possessing capital being able to participate in the fair trade system. As Weber argues, successful inclusion of a producer in the fair trade market also depends on the expertise and experience of their cooperative: "While FT eliminates market intermediaries in some cases, FT does not eliminate the functions that intermediaries perform. Producers will not earn more if their association or cooperative performs these functions less efficiently than other market actors." (Weber, 2006, p. 30). Weber points out that a number of pre-conditions required to enter the fair trade market rule out the participation of certain individuals and producer organisations.

Commentators continue to discuss not only barriers to entry into fair trade, but less tangible barriers to full and rewarding participation. The issue of oversupply is widely debated. Predicted limits to the expansion of the fair trade market indicate that the number of producers able to participate in fair trade may also be limited (G. Fridell, 2006). Others point out that limits to expansion mean that participating collectives may be forced to sell more and more of their product at market price, and less as fair trade. In 2003 Linton and Levi noted "existing cooperatives are only able to sell about half of their

crops at the established Fair Trade price. The movement has necessarily shifted its focus from organizing farmers to expanding the market for their product by increasing consumer demand” (Levi & Linton, 2003, p. 417). Thus, the concern of fair trade internationally has become one of increasing sales and brand recognition (M. Fridell et al., 2008). The debate continues as to whether it is possible to sustain the necessary rate of market expansion. Fair trade organisations rely on the notion of the ethical consumer, willing to pay above market price for the added value of social responsibility. “But betting on the consumer has implications that are strictly commercial, beginning with the need to take measures to ensure that this kind of buying grows by convincing more buyers.” (Renard, 2003, p. 92). Many see the idea of a floor price higher than the market clearing price to be an unsustainable distortion of market mechanisms, creating oversupply. However, others point out that the fair trade product is a distinct product in itself, and therefore establishes its own market price, separate from its non-fair trade equivalent (Becchetti & Huybrechts, 2008).

As producer numbers and product supply increase, buyers are increasingly demanding higher quality and/or organically grown products. The FLO also certifies products as Organic Fair Trade, and Moore addresses a number of issues associated with this:

Organic certification, however, is extremely risky. It may take 3 years to convert to organic status, during which time there may be reduced yields and no additional revenue. Certification costs are high, with producers often having to pay as much as 5% of their sales value, and since these products are then sold in highly volatile world markets and in competition with conventional products, the guarantee of a return from the investment is limited. (Moore, 2004, p. 72)

Weber (2006) points out that the growing demand from buyers for high quality and organic coffee is a result of market forces – oversupply in the fair trade coffee market enables buyers to make such demands, a phenomenon that means that free market realities dictate producers’ ability to sell to the fair trade market.

Though demand for fair trade products continues to grow globally, the questions are being asked: Is fair trade about to reach its limit? Has it already? How can it continue to sustain itself, remain competitive, and protect the interests of producers within global free market realities?

2.4B MAINSTREAMING/INSTITUTIONALISATION

Observers also critique the fair trade system from a values-based perspective. Some critics are concerned that as fair trade organisations become more centralised, they become decontextualized - more focused on regulations and standards than on communities. In order to mitigate barriers to producer inclusion and benefit, many argue that fair trade has been forced to focus more and more on growing its market share and economic profile. (M. Fridell et al., 2008). Some fair trade observers question whether the ideological cost of this economic mainstreaming is too high. Fair Trade's development from an alternative social movement to an integrated, standardised system has highlighted tensions and contradictions that have been widely debated in academic discourse, and are beginning to have repercussions in retail. Idealist commentators and adherents to fair trade's core values find it difficult to accept compromises made in pursuit of expansion and mainstreaming, but fair trade organisers and institutions need to respond to data that indicates increasing barriers to producer participation and a stagnation of the fair trade system. The centralisation of the fair trade network has led to a documented disconnect between standards and local producer contexts.

The fair trade movement has been going through a period of institutionalisation almost since it was first conceived. The establishment of the Worldshop brand, the creation of international regulatory bodies, the creation of international certification standards, and the establishment of official labels have all been steps in the institutionalising process. This process is extremely important for fair trade organisations, allowing them to grow their Northern consumer bases, benefit more Southern producers, negotiate with corporations, and make the certification process more efficient. This means a shift away from fair trade as a critique of the status

quo and towards fair trade as a more acceptable version of the status quo. As Renard notes; “To broaden the spectrum of the public interested in buying these products, it was necessary to appeal more to humanitarian sentiments than to political convictions” (Renard, 2003, p. 90).

However, some stakeholders remain unhappy with ongoing centralisation and institutionalisation. Within fair trade networks, internal ideological conflicts have appeared between the idea of fair trade as a radical, unconventional pursuit of ideals, and the reality of it as a commercial, systematised market operation. Fair trade is referred to in discourse and literature interchangeably as a movement, and a system. Increasingly, commentators claim that fair trade, in order to grow, remain relevant, and gain influence, has moved from being the former, to being the latter (G. Fridell, 2006; Gendron et al., 2009; Stenzel, 2013). Fair trade’s roots are in the alternative; it was established as an alternative to the unfettered and exploitative free market. The increasing adoption of free market principles and mechanisms alienates many of fair trade’s more fundamentalist adherents: “For those who participate in alternative distribution networks, collaborating with large distribution channels is contrary to the principles and the alternative ideology of fair trade” (Gendron et al., 2009, p. 70).

Though the general assumption is that the search for larger markets and mainstream distribution channels for fair trade products benefits more producers, Anna Hutchens argued in 2011 that the mainstreaming of fair trade was not in the interests of small scale producers, especially in the Pacific context.

One universally applicable set of standards is problematic – if not impossible – not only because of its inflexibility towards complex and unique social and environmental issues faced by producers but also because it constrains the ability of producers to implement whichever production, labour or environmental practices they might choose in response to personal goals, local knowledge, farm agro-ecologies, family needs, or cultural obligations (Hutchens, 2011, p. 300).

Hutchens contends that the standardisation of fair trade networks and operations, while enabling producers to be more quickly and more

measurably engaged in the fair trade system, overlooks their individual needs and contexts, thus less efficiently serving them. Hutchens highlights the rural, subsistence nature of many Pacific Islander's lifestyles. This often leads to barriers such as isolation from international markets and the non-existence of local markets – meaning producers have little knowledge of how to navigate a cash economy (Hutchens, 2011). These findings recall the less contextualised research of people like Weber; who notes (using the example of coffee) “For a producer's organization to promote the interests of its members it must have the capacity to compete in the coffee industry, fair trade or not. Included in this capacity are commercial contacts, knowledge of markets, ability to access capital, and experience in coffee processing, exporting, and quality control” (Weber, 2006, p. 32). The standardisation of fair trade systems makes it difficult for many producers in a Pacific context to gain entry, and to enjoy the full benefits of certification.

2.4C Co-OPTATION/APPROPRIATION

As fair trade's market niche grows, and the language of fair trade is increasingly recognisable, large corporations are under growing pressure to incorporate the notion of social responsibility into their practices. This can be viewed simply as a neoliberal response to new consumer demands, and as such, many commentators assert that corporations will only do the minimum required to appear socially responsible, while not truly adopting these principles, known as 'fairwashing' (Renard, 2005). Mara Fridell goes so far as to suggest that the adoption of strategic social responsibility by corporations “can be understood not merely as rational economic actions based on the strategic imperatives of maintaining brand value and expanding market share, but as a corporate countermovement” (M. Fridell et al., 2008). While fair trade aims to expand its market and extend benefits to more Southern producers, cooperation with large corporations, especially in the coffee industry, is seen by some as dangerous for the fair trade brand. The compromises necessary for such partnerships leads to a weakening of fair trade principles, and companies have begun to appropriate aspects of fair trade to appeal to the large and growing market of ethical consumers.

The fair trade movement has shifted focus. It needs to expand, to continue to be viable in global markets, and to continue to serve the interests of Southern producers (G. Fridell, 2006; Low et al., 2006; Stenzel, 2013; Stoddart, 2011). This imperative has led it to target the largest market players, especially within the coffee industry, who also stand to gain from being associated with fair trade principles. The issue is, while both parties can benefit from a partnership, both have vastly different motivations for cooperating. The largest roasters in the coffee industry are generally considered to be Procter and Gamble, Nestle, Kraft, Sara Lee and Starbucks. Each of these now features social responsibility and sustainability prominently on their website, and incorporates some components of fair trade into their practices. Alongside the big five, many other large companies now have fair trade lines, including Walmart, Dunkin Donuts, and Ben and Jerry's ice cream.

Fair trade has already made compromises in order to increase its visibility through big-brand participation. Corporations are conscious of the fact that any association with the fair trade label is beneficial for their entire image, no matter how small that fair trade contribution may be. "Whether .1% or 100% of a company's sales were fair trade, the company could still promote themselves as a fair trade company. Thus, a whole product line could benefit from the halo effect of having one or two fair trade products, and consumers had no way to tell how dedicated a company was to fair trade" (Stenzel, 2013, p. 644). This reality means corporations need not make any commitment to growing the volume of fair trade products they sell, and fair trade labelling organisations have accepted this, simply in order to get corporations on board (Jaffee, 2012). Nick Dearden cites the example of Nestle, which was the most boycotted company in the world in 2005, when it was awarded fair trade certification for one of its "many thousands" of products (Dearden, 2014). This enabled it to market itself as a fair trade company – even though it made no commitment to changing its business model, "the very model Fairtrade was established to combat." The main opponents of this reality are small, ethical-focused retailers, often 100

percent fair trade, who point out the fact that “large firms can utilize the fair trade seal to burnish their corporate images and mislead consumers about their overall business practices, without meaningfully altering those practices” (Jaffee, 2012, p. 95). At the month of writing, Fairtrade International introduced a new label, which allows composite products to be certified if they include only one fair trade ingredient. This represents a win for corporations like Cadbury UK, which in 2009 was forced to begin sourcing fair trade sugar for its Dairy Milk line, to attain the certification mark. That would no longer be necessary under new regulations. This is the latest example of fair trade electing to compromise with big brands. Some see this compromise as pragmatic, some, including The Guardian’s Nick Dearden see it as a concession of fair trade’s very identity and integrity, to corporate interests. “In a world of ever more powerful corporations, however, it is also time to reassess how successfully Fairtrade has challenged corporate power – one of its founding goals that has become all but lost over time” (Dearden, 2014).

The motivations for corporations to participate in fair trade are many, including a “need to rationalize far-flung production networks, protect their brands, and compete in the arena of corporate social responsibility” (Jaffee, 2012, p. 98). Consumers are increasingly demanding evidence of social responsibility, and to remain competitive, companies must deliver. However, this is still a wholly neoliberal impetus, driven solely by a profit motive. Alternative trade movements and capitalist companies make awkward bedfellows, and it appears that their distinct motivations might limit the scope of their cooperation. Brown asked “how ought we to understand the ways in which capital responds to such initiatives that aim to tame the excesses of unregulated markets through the workings of the market?” (Brown, 1993). Jaffee adds, “...responses that may instead have the effect of taming the social movement itself?” (Jaffee, 2012, p. 95).

2.4D IDEOLOGICAL DILUTION AND ECONOMIC REABSORPTION

Isolation from the mainstream risks irrelevance, and will not deliver the extent of change that is necessary to meaningfully assist

producers. Uncritical engagement with mainstream business risks absorption and dilution of the movement (Low & Davenport, 2005).

This chapter has addressed efforts made by the fair trade movement to increase market access for producers through mainstreaming and cooperation with large corporations. It has shown divisions in thinking amongst fair trade proponents and stakeholders with regards to the commercialization of the movement. The sum of this commercialization and divergence in thinking is an inevitable ideological shift, or as many argue – dilution (Gendron et al., 2009; Jaffee, 2012; Stenzel, 2013). As fair trade falls prey to external pressures and opens itself up to exploitation by diverse agendas, the result is often “compromising ethical principles and juggling them with mercantile considerations” (Renard, 2003, p. 92). The culprits of this ideological dilution are both the fair trade labelling organisations that make concessions to powerful corporate agendas in the name of increased market access, and the corporations that seek to undermine fair trade and simultaneously subvert it into a profit maximising opportunity “as they try to bolster their legitimacy by adopting the rhetoric of environmental and/or social responsibility” (Raynolds, 2000, p. 99). However, motivations for corporations to participate in the ethical trade market go beyond a desire to be competitive in the lucrative arena of social responsibility however, and can sometimes demonstrate an effort to weaken the fair trade movement itself.

In January 2014, FLO introduced a new fair trade standard for hired labour, applying to organisations producing flowers and plants, fresh fruit and vegetables, tea, and herbs (FTNZ, 2014). Essentially this means the hired labour standards target large plantations. Fairtrade International claims that the new standard “offers greater support for freedom of association, important steps toward living wages, greater autonomy in decision-making and more” (Fairtrade International, 2014b). Not all observers agree. Stenzel (2013) warns that “This ceding of power to plantations is the antithesis of the origins of Fair Trade certification programs, which were developed to support and empower small-scale, marginalized farmers, most of who were organized through democratically governed cooperatives” (p. 646). While the

move appears to extend the benefits of fair trade participation to even more disadvantaged workers and communities, some argue that it represents movement dilution, as it is allowing corporations easier access to fair trade certification. Mara Fridell noted in 2008 that one of the base purposes of fair trade was to “maintain the viability of smallholdings, which mitigates against both concentration of land ownership and inflating the reserve supply of landless laborers” (M. Fridell et al., 2008, p. 11). Many within the fair trade movement still adhere to this principle, and see recent deviation from it as a sign of the fair trade movement weakening under increased corporate pressure. Plantation certification could result in the marginalisation of smaller producers; the traditional beneficiaries of the fair trade system (Stenzel, 2013). Jaffee (2012) suggests that this marginalisation occurs in pursuit of compromise with powerful interests, as it “could permit large roasters such as Starbucks to become 100 percent fair trade certified without altering their supply chains” (p.98)

Critics are concerned at what is perceived to be a stagnation in fair trade floor prices. While the fair trade minimum prices established in 1988 took into account costs of living and production for farmers at the time, their subsequent adjustment has not kept pace with inflation, and thus has fallen in real terms. “By 2008 — even after FLO acceded to strong producer pressure and raised coffee prices marginally — the base price had fallen by 41 percent in real terms” (Jaffee, 2012, p. 107). This amounts to further dilution of the fair trade system, albeit seemingly passive. As is generally the case, rationale comes back to growing the fair trade market, and focusing on cooperation with corporate interests.

The fair trade system faces the real threat of dilution to the point of reabsorption in the market. While it aims to move from the marginal to the central; gaining ground in consumer awareness, market share, and producer participation, it risks losing its unique principles and vision, thus rendering its economic success redundant in terms of its original goals. The more fair trade aligns itself with conventional markets, the less it is able to distinguish itself from those markets, and the less it is able to act as a force for reform.

“Reabsorption (of Fair Trade) by the market is not idle speculation but rather is sustained by the growing interest of certain sectors of food production and distribution in fair trade” (Renard, 2003, p. 93). This is a direct result of mainstreaming efforts by fair trade organisations, and co-optation efforts by large corporations. Fair trade organisations must navigate carefully as, simply put, they are faced with two extremes: “remaining ‘pure’ but probably marginal, or aligning with the mainstream and ‘losing their soul’” (Moore, 2004, p. 83).

2.5 DISCUSSION: THE NEED FOR IMPACT STUDIES

Fair trade provides an objective labelling system which guarantees consumers a minimum set of socially desirable outcomes, including liveable returns to producers, democratic organisation amongst farming communities, and premiums for social development projects. It continues to expand its list of products certified, and countries included in fair trade networks. The rise of the ethical consumer is an economic phenomenon with consequences for both alternative and mainstream markets. Social responsibility has become profitable, and has thus been adopted into the rhetoric of mainstream market actors. Fair trade certification now represents a profitable opportunity for powerful market actors, and as such, runs the risk of falling prey to market interests and corporate agendas. Extensive evidence of this already exists within the fair trade system.

Two distinct sets of motives threaten the integrity of the fair trade system. One comes from within, and divides opinion within the movement itself. This is caused by the increasingly pressing phenomenon of oversupply within fair trade markets. To continue to serve the growing numbers of disadvantaged producers who want to benefit from certification, fair trade must reach even more buyers. It must continue to raise its profile among consumers, it must make its products even more accessible by penetrating new markets and making prices as competitive as possible, and it must partner with dominant market players. The consequences of these pursuits have the potential to be serious: Mainstreaming efforts in conventional markets threaten to erode fair trade’s identity as an alternative system

oriented towards criticism of traditional unequal trade relations and market reform. This in turn weakens pursuit of fair trade's foundational principles, and is a compromise some within fair trade networks find unacceptable. The fair trade system is becoming increasingly polarised, and risks fragmentation of vision and allegiances.

Another threat to fair trade is external. Corporations are increasingly motivated to compete within the arena of ethical trade and social responsibility. This competition takes two forms: 1. Seeking fair trade certification while simultaneously attempting to exact compromise from fair trade organisations that allows for minimal change to existing business models. 2. Establish competing systems of ethical trade that provide an alternative to fair trade but which often are not externally certified, and therefore provide less of a challenge to the status quo. This allows corporations to market themselves as socially responsible without having to comply with externally defined standards of responsibility.

While much academic energy has focused on wider critique of the fair trade movement and the challenges it faces, less work has been done on case studies that apply those critiques on a local level to evaluate the impacts of fair trade on specific farming communities. Pockets of the literature suggest that individual producer contexts play much more of a role in determining the benefits of fair trade than has been previously understood or addressed. This particular work attempts to take a step towards addressing this gap in our understanding of fair trade's impacts. In the Timorese context, many of the critiques I have discussed are visible. Timorese producers struggle with tensions arising from control by transnational corporations; in particular Starbucks. The mainstreamed system often overlooks certain intricacies of the Timorese context, and fails to address issues arising from them. The critiques of fair trade outlined here will be referred to throughout this thesis to illuminate features of the Timorese experience, and offer deeper understandings of the issues in Timor-Leste, from an international perspective.

3. METHODOLOGY AND METHODS

REFLECTIONS ON THE RESEARCH PROCESS

To briefly restate the central aim of this research: With reference to academic critiques of the fair trade movement, this thesis was designed as an applied case study examining the impact fair trade certification has had on Timorese coffee farming communities, with respect to industry governance, value chain share, and overall income. This chapter will outline the philosophical and logistical justifications of my research design. It will explain my choice of site, and choice of research participants. It will also detail the (fortunately few) difficulties I encountered in carrying out the study, and possible limitations to my findings. The chapter begins with a reflection on my positionality, and the ways in which my identity and background may have intersected my research approach, experience, and findings.

3.1 PHILOSOPHICAL UNDERPINNINGS AND POSITIONALITY

3.1A CRITICAL REALISM

This research has the central aim of uncovering non-explicit relationships and structures which characterise the fair trade system in Timor-Leste and point to social and economic injustices. This is with a view to influencing policy in a positive direction, and one which benefits marginalised coffee producers. To this end, I have employed a critical realist approach to the research design, in assuming that there exist objective truths about the subjects I discuss. The critical realist world view assumes that it is possible to make true statements about a subject (Archer et al., 2013; Bhaskar, 1991; Collier, 1990; Niiniluoto, 1999). Critical realism falls between empiricism, which rejects the influence of subjectivity in research, and postmodernism, which claims that all research findings are subject to the value judgements of the researcher (Murray et al., 2003). While critical realists assert that there is a ‘real world’, or an absolute reality, they generally accept that our perceptions of it are socially conditioned and subject to individual interpretation (Della Porta et al., 2008). Murray and

Overton (2003), list as essential elements to critical realist social science research: “The uncovering of non-explicit processes and relations; the communication of these findings to promote progressive social change; [and] the explicit incorporation of moral questions” (p. 7). They go on to note that “mixed methods are often appropriate for such studies” (p.8); and mixed methods have indeed been appropriate for this critical realist social science research.

3.1B POSITIONALITY: A ‘MALAE’ IN TIMOR

“I use frames of positionality to understand the impact of explicit and implied power structures on the research process, the relationships between the researcher and those researched, and the transfer of knowledge” (Chacko, 2004, p. 51). Like Elizabeth Chacko; self-reflection was important to me during this research. I endeavoured to always remain aware of the ways in which my identity and background might influence my interactions with participants, and my interpretations of research findings. As an outsider (or to use the *Tetun* phrase:⁶ *Malae*, meaning ‘white person’) sometimes in areas where *Malae* are few, an unavoidable cultural barrier existed between myself and my research participants. I mitigated the impact of that on my findings; by being familiar with and respectful of cultural expectations, by travelling with a well-known local person, and by consulting with local advisers on cross-cutting matters of culture. However, it is still probable that my positionality has had some impact on my research course and success. Therefore, I will attempt to provide an explanation of my positionality here, to be considered in accompaniment to my findings chapters.

⁶ The most widely used language amongst East Timorese – *Tetun* is a pidgin drawing mostly from Portuguese, with some English and Indonesian elements.

I am a 24-year-old New Zealand European woman, from a middle class background. Though I have done a reasonable amount of travelling in developing countries, I had not visited Timor-Leste before the period of field research. I do not speak Portuguese or *Tetun*. I was struck by contradictory consequences of my status as a Western woman during my fieldwork. I perceived that, because I was *Malae* (especially in Ermera, where foreigners are rare), local people, though usually quite willing to participate, interacted with me with a certain amount of caution and hesitation. Because of this, it was difficult to extract fully candid perspectives from some interviewees. However, I also perceived that my Western middle-class positionality gave me an advantage in fieldwork; which was access to contacts that a local person might find it more difficult to arrange a meeting with. These included senior-level representatives of buying companies, and foreign aid and diplomatic staff. I was also connected with government officials by a university acquaintance who is a Timorese expat, who seemed to be quite well respected within government circles.

For the purposes of this study it is worth mentioning that I am a coffee drinker; ethical considerations are important to me when buying coffee, and I have bought predominantly fair trade certified in the past. While it could be argued that my predisposition to seek out fair trade would cause me to view fair trade and fair trade products favourably, I would assert that my engagement with and investment in fair trade brands made me more motivated to seek out knowledge of the impacts of fair trade from a critical perspective.

3.2 LOCATION RATIONALE

My interest in fair trade in practice, particularly in the coffee industry, led me quite naturally to Timor-Leste as a subject. I was surprised to discover a lack of prior investigation regarding fair trade's role in Timor, considering a large portion of the coffee industry had been fair trade certified since 2001. The one article that mentioned it was from 2007. Kerry Laughton's early documentation of troubling practice anomalies in fair trade implementation in the area, including barriers to grassroots participation, piqued my interest

(Laughton, 2007). While it provided a general framework by which to understand fair trade and coffee in Timor, for me it raised more questions than it answered, not least of which was whether any progress had been made on the issues raised in the article since it was published. Here was an obvious research gap. One which, if filled, could not only contribute to understandings of issues within Timor-Leste's coffee sector, but knowledge of the process of fair trade implementation in the field internationally. The further I delved into the research, the more confident I became that the Timorese experience could provide a valuable case study to contribute to the international discussion on implementation issues within the wider fair trade movement.

Many features of Timor-Leste's society, economy, and history make it an ideal location for this research. Unfortunately this is due predominantly to the fact that Timor faces deeply complex development challenges, which manifest in and influence the process of fair trade implementation. Timor was chosen as the research location not because it is an example of the transformative powers of fair trade, but because background investigation suggested it to be seemingly struggling with barriers to efficient fair trade implementation. During my research design process, I outlined a number of reasons for the choice of location:

- "1. Its geographic and political proximity to New Zealand and its consequential status as a focus of the New Zealand Aid Programme, particularly in the area of economic development.
2. Its Human Development Index rating of 0.576, placing it at 134 out of 187 countries, and qualifying it as a Least Developed Country (LDC) (UNDP, 2013). Timor-Leste is in need of accurate, up-to-date research to inform the identification and implementation of effective development programmes.
3. The lack of current research that has been done in Timor-Leste, and the wider Asia-Pacific region, on the development impacts and potential of Fair Trade initiatives.
4. The volume of coffee produced in Timor-Leste, and its potential to significantly contribute to economic development efforts" (Research Proposal, 2014).

In retrospect, I feel I can add a fifth: That the story of fair trade in Timor-Leste is unique; it has particular points of difference compared to the experiences of Latin America, Africa, and other parts of Asia. Timor's singularity within the fair trade system is a product of its post-conflict status, its special relationship with United States development organisations, and the institutional practices of its one fair trade certified cooperative: *Cooperativa Café Timor*. Because the Timorese context is so unique, it is a perfect environment to measure the ability of the fair trade system to apply its increasingly mainstreamed standards in practice.

3.2A ERMERA DISTRICT



Fig. 3.1. A street in Ermera

While my thesis focuses on the Timorese coffee industry as a whole, and most non-farmer interviews took place in Dili; farmer interviews and some personal observation of practices were carried out in the inland, rural district of Ermera. This area encompasses “close to half” of the country’s total coffee production (Oxfam, 2003); and it is where most large buyers are headquartered. Ermera is also where much of the existing data on yields, sales volume, training effectiveness and producer livelihoods is concentrated. As such, Ermera district provides a snapshot of the landscape and health of the whole coffee sector.



Fig 3.2. A street in Ermera showing the prominent Catholic chapel

3.3 WHY COFFEE?

Aside from the obvious reason that coffee is the major fair trade export product of Timor-Leste, and that my primary interest is the impact of fair trade certification in the country; there are other important justifications for undertaking a study of the Timorese *coffee* sector in particular. Coffee accounts for over 90% of Timor-Leste's non-oil exports, but only 30% of GDP (World Bank, 2013; Inder, 2013). The sector "is the principal source of cash income for approximately one quarter of the nation's households" (Inder, 2013, p. 4). It is important to note that those who rely on coffee for their

primary income are amongst the most vulnerable sectors of the population to poverty (Inder, 2013; World Bank 2010). This demonstrates a connection between coffee farming and underdevelopment in Timor-Leste, but also means that the development of the coffee sector has the potential to deliver targeted development outcomes in terms of increased income for those most susceptible to extreme poverty. "In Timor-Leste, agriculture is a strategically important sector where near-term opportunities for export growth and diversification intersect most clearly with opportunities for poverty alleviation" (World Bank, 2010) . Strengthening the coffee industry would also strengthen Timor-Leste's economy and provide security against the projected decline in oil returns over the next two decades (World Bank, 2010).

Inequities in coffee commodity chains are a major contributor to rural poverty and underdevelopment in Timor-Leste. Conversely, coffee represents an avenue for delivering social and economic development outcomes. For these two reasons, I identified the coffee sector as being deserving of extensive academic analysis; to identify methods for and barriers to achieving development outcomes.

3.4 RESEARCH DESIGN

Due to time constraints and other limitations, this research has not involved the collection of numerical data. Instead, it has paved the way for further statistical analysis of the subject area, by deploying a mixed method approach to provide insights into underlying and non-explicit trends, explanations, and motivations associated with the central questions. This is achieved in three main ways: Through semi-structured and informal interviews with stakeholders and involved parties, through observation of coffee industry participants and practices, and through incorporating data and analysis from other research and reports in intersecting areas. This research is predominately of a qualitative design, but employs quantitative methods through detailed analysis of already available data, to support qualitative findings.

3.4A SECONDARY SOURCES: LITERATURE AND DATA

A comprehensive review of secondary sources was undertaken prior to the commencement of field research. As well as engaging with literature discussing and critiquing the fair trade movement, my research involved collecting any sources or data relevant to the state of the coffee industry in Timor-Leste, and intersecting topics. Much of the available data is old, owing to a rash of analysis and data-collection from the period immediately after Timor-Leste gained independence, and little since. This has been helpful in exploring the history and development of Timor's coffee sector, but less helpful in understanding its present state. To cover the latter, my research has drawn heavily from two sources: The first is a household survey undertaken in 2013 by Brett Inder and colleagues, looking at coffee producing households' incomes and development indicators. The second is a report from Mendez et al. on the effectiveness of CCT and NCBA intervention programmes and training, also from 2013. These two secondary sources, along with a smattering of other references, contribute the bulk of my statistical information on the current state of the Timorese coffee industry, and producer roles and livelihoods.

3.4B SEMI-STRUCTURED INTERVIEWS

In March and April of 2014, I spent a total of four weeks in Timor-Leste undertaking interviews with coffee industry participants and stakeholders. In line with my ethical requirements and the wishes of interviewees I am unable to identify these individual subjects, or give information that may inadvertently identify them – such as their job title, or in some cases the organisation they are affiliated with.

These interviews varied in duration and formality. All interviews were between 45 minutes and 1 hour 30 minutes, except for farmer interviews which ranged from approximately 10 to 20 minutes in duration. This was due to limitations with our capacity to translate more complex discussions – meaning interviews were generally restrained to practical information to do with prices, buyers, and livelihoods. All other interviews were structured for the purpose of gaining both useful insider information,

and the opinions and perspectives of interviewees. This design was necessitated by the lack of available written information concerning current coffee industry practices and value chains – interviews were used both as a method of gathering basic facts and information, and of understanding peoples’ responses to that information.

All participants were provided with an information sheet, outlining the goals of the research, and covering ethical considerations such as anonymity. They were also given a consent form to sign, which signified their willingness to participate in the research. The information sheet and consent form can be found in appendix one and two (pages 110-112).

During my research design I formulated two lists of questions; one for farmers, and one for other stakeholders. These were designed with the assumption that the interviews might take slightly varying courses based on reaction to answers given and viewpoints offered. Semi-structured interviews commonly are designed to refer to a pre-determined list of questions; deviating when the researcher deems necessary (Drever, 1995; Longhurst, 2003). I chose the format of semi-structured interviews to offer participants a “degree of freedom in choosing what to talk about” (Drever, 1995); while maintaining control of the general direction of the interviews. Sample, or guideline questions can be found in the appendices (pages 114, 115).

3.4C PARTICIPANT SELECTION

Interviews were undertaken with; eleven coffee farmers, an intermediary coffee trader/transporter, two development community representatives – one from an NGO and one a foreign aid official, the Director

of a large, non-fair trade Timorese coffee exporter, an expatriate Senior Adviser involved in direct management of the Timorese fair trade coffee cooperative, two representatives from international 'direct' coffee trading companies,⁷ one international fair trade 'certifier' and one representative from a small, non-fair trade certified Timorese agricultural cooperative, which was seeking fair trade certification.

Interviewees	Number
Farmers	11
NGO community	2
Diplomatic community	1
'Direct Trader' representatives	2
Cooperative representatives	2
Local coffee transporters	1
Non-Fair Trade Coffee Company representatives	1
Total	20

Fig. 3.3. Number of Interview Participants

Participants were identified and contacted through a process that took place both prior to, and during the period of field research. A range of participants were approached with the objective of obtaining diverse and varying viewpoints from stakeholders in coffee industry development with multiple roles, motivations, world views and backgrounds. I identified the

⁷ 'Direct' trade is an alternative form of ethical trading whereby (usually small) roasting/manufacturing companies form close relationships with producing communities, and import directly from them.

diversity of interviewees to be an important factor in obtaining a broad picture of issues associated with fair trade coffee in Timor. Gathering both contrasting and complementary perspectives enabled me to understand the issues from as objective a position as possible. While I had identified broadly the range of perspectives I wanted to gather prior to field research, accessing interviewees in the field generally was achieved through a 'friends of friends' framework - whereby I was able to build upon my existing network of contacts to access broader networks.

Initially, I reached out to Timorese academic and personal contacts of people in my department. Correspondence with those early contacts led me to staff in the Ministry of Agriculture, and foreign aid officials. The former, in particular, was a helpful avenue for identifying local interviewees. I was referred through this channel to an English student at the university in Dili, who was from a large coffee-farming in Ermera District. This individual became my translator, and to a certain extent my 'fixer'; guiding me in rural areas, and introducing me to relatives and contacts who were involved with coffee farming.

3.5 LIMITATIONS

The main limitations in this research are typical of such Development Studies projects. Murray and Overton (2003) identify a particularity of Development Studies field research, in that the subject and the research area are often unfamiliar to the researcher: "It is often the case that both the territorial geographies and cultural traits of the researcher 'site' are relatively unknown to the development researcher" (p.3). There was a significant language and cultural barrier in undertaking this research. None of the farmers surveyed were able to speak English, and many other stakeholders had rudimentary English skills. The services of a volunteer translator were engaged, but it is acknowledged that the language barrier will inevitably have an effect on findings to some extent. Also, I was slightly hindered by the reluctance of certain crucial participants to reveal details relevant to my study.

3.5A ACCESSING CCT

Many coffee industry stakeholders in Timor-Leste are extremely secretive. Large companies especially are exceedingly reluctant to share information about their business practices, or to talk to researchers in general. This is also true of CCT, who have been criticised for their practices in the past and are wary of participating in research. It was very difficult to gain access to CCT for this study, and it is likely that interviewees were very careful of what was revealed during conversations - this naturally limits findings. The perspectives and practices of the large coffee companies are important to an ongoing conversation around how to best benefit from fair trade certification and support farming communities, and future research in this area should aim to take them into account as much as possible.

My first attempt to reach a CCT representative was through a senior aid official based in Dili. At this time I had not provided information on the focus of the research, or possible questions, but I received the following response:

I think they were a bit concerned about the slant of the research and about possible negative consequences. They tend to be a little reluctant to talk as they're a bit tired of getting slammed for giving farmers prices that some consider too low.⁸

This was one of two aid agencies that declined to provide me with contact details or an introduction at this time. I had so far been unaware of any controversy surrounding CCT's prices, but the more time I spent in Dili the more evident it became that the coffee industry was particularly, as one interviewee put it, "*cloak and dagger*". Stakeholders were reluctant to share

⁸ For the purposes of distinguishing primary quotes, they have been italicised throughout this thesis. Where they are longer than two lines, they have been separated from the text and indented.

basic information, and it was difficult to find public records of pricing and practices. In contacting the four main non-certified exporters, and most of my efforts received no response. From this reception, a few things seemed clear to me. Firstly, questions had apparently been raised in the past (though I struggled to find record of them) concerning the fairness of the cooperative's pricing. And secondly, the competitive nature of the coffee industry was such that companies were reluctant to provide any information on their business practices. Another thing that struck me in initial observations was the relationship I observed between the cooperative and international development partners; I took the reluctance of the aid agencies to provide me access to CCT as a clue to the extent of their respective countries' investment in the CCT/NCBA operation. After numerous attempts to organise an interview with a CCT or NCBA spokesperson, I was contacted on my final day in the field by a representative who agreed to an interview. Thus, I was able to complete my research as envisaged, though the aforementioned reluctance to share details featured strongly in the conversation.

3.5B ACCESSING FARMERS, AND LANGUAGE

Interviews with farmers were conducted in *Tetun*, through an interpreter.⁹ I would have preferred to have more extended interviews with farmers, in more comfortable settings, in which they could express their perspectives, and the issues underlying those perspectives. This would have enhanced my thesis by adding a further epistemological element: The ability to measure coffee sector development and the role of fair trade by understanding farmers' development desires, and how farmers conceived of the operation and goals of fair trade in their context. However, conducting

⁹ All primary quotes from translated interviews are in the translator's words.

extended and in-depth interviews with farmers was not possible in this research setting. A translator with the professional experience necessary to interpret and convey complex terms or viewpoints was not available. However, if it was not for the hard work of Pedro, my extremely obliging local grad-student-cum-translator, I would not have been able to carry out farmer interviews at all. Interviews were conducted at the beginning of the harvest season, on the side of the road, or on small-lot farms. This method of interviewing was necessitated by the time of year – farmers had little time to conduct formal sit-down interviews at the beginning of the busy harvest. It is restricted by location – though we were in the centre of Timor-Leste’s most productive farming district, farmers responses are only representative of farmers from Ermera, where possible – I have attempted to compare this with available data and analysis of other regions. The findings of this thesis are limited by a lack of capacity to carry out, and translate in-depth interviews of farmers, and a lack of capacity to undertake broad-scale quantitative analysis relating to factors such as pricing, livelihoods, or cooperative participation.

3.6 REFLECTION ON FIELDWORK AND METHODS

3.6A ASKING FOR HELP BUT RETAINING CONTROL

Being an outsider, and having no prior contacts in my research location, I faced an unfamiliar challenge in requesting the assistance of relative strangers. I was struck with the extent to which I was dependant on others to point me in the right direction, or perhaps even to suggest possible avenues for enquiry. In particular, I was reliant on new acquaintances - with whom I had had little time to build up a rapport – to assist me in identifying and seeking out a number of interviewees, usually farmers, but also other industry stakeholders, and in gaining access to various research sites. While I was fortunate in being able to establish obliging, well-connected contacts who were more than willing to help, reflection led me to wonder whether I was relinquishing a small amount of autonomy in terms of the research ‘design’ and direction. Not only was I reliant on my contacts for access to potential subjects, sites and interviewees, but I perceived that, to a small

degree, the course of my research might have been influenced by my contacts' visions for the research – who and what they felt *should* be included. One particular case serves well as an example: While my questions to farmers were more focused on their interactions with buyers, and their incomes from coffee, my translator was very eager for me to enquire as to what farmers were spending those incomes *on*. This was not a key research aim. I undertook consultation with my translator as to why he felt this was an important aspect, and though it features little in my thesis, my findings were ultimately enriched by understanding issues associated with farmers' income expenditure. This experience taught me the importance of listening to suggestions and perspectives I had not considered, but I also learned quickly the importance of clear communication around expectations and needs, in retaining control of research direction.

3.6B HAVING A VISION BUT BEING FLEXIBLE

“Ultimately, it is the balance between rigidity and flexibility which is likely to determine the success or otherwise of the project. Those who live in earthquake zones know well that architecture which is too rigid can be disastrous” (Murray & Overton, 2003, p. 3). While carrying out fieldwork, I endeavoured to have as much flexibility in the ‘architecture’ of my research design as possible. I was aware that a number of variables in the field would impact significantly on the research experience. The variables that did turn out to have an impact included: Access to interviewees (or lack thereof); access to the internet – which was slow and patchy in most places; and language and cross-cultural communication – in particular the capacity of available translation services. However, the need for flexibility in my research went beyond logistical considerations, to philosophical ones. I endeavoured to limit my preconceptions about the responses and results I would collect. However, as I’m sure is typical in most field research, the statements of interviewees and my personal observations would often challenge the way I conceived of certain issues. I found that it was preferable, where possible, to refrain from forming any opinions, or being confident of findings, until the research was complete. Here, I learned to manage my preconceptions and expectations of the realities I would encounter in the

field, and to be true to the data and my research findings – without projecting on to them ideas of what they *should* illustrate.

3.6C CONFRONTATIONAL SUBJECTS

I was aware during various stages of the field research of the need to separate my emotional reactions to sometimes confrontational subjects, from my academic analysis of research findings. At times this entailed knowing when not to work. Regardless of the causal factors, it is a fact that Timorese coffee farmers' incomes often put them well below the extreme poverty line. Grenfell (2005) put it rather well when he remarked: "yet the sale of 20 kilograms of cherry at this rate would still not earn a grower enough to buy one cup of coffee in any of the restaurants in Dili" (p.83). In coffee-growing districts (and throughout Timor-Leste), the evidence of this poverty is striking. I was not immune to the emotions evoked by witnessing rural poverty brought about by unequal and unjust global trading systems. Also confronting were the accounts of interviewees, and other friends, of their experiences of the recent Indonesian war; be in in terms of military control of the coffee industry, or in general. I was conscious of the importance of preventing my personal responses to these subjects from dictating my intellectual responses; and of not letting my research course or results be effected by personal feelings. However, the sometimes confronting nature of my research area and topic at times prompted me to feel a certain level of impotence or to question the effectiveness of the work I was doing. At one stage I wrote in my notes:

"I hope my research can contribute in some way, but I suspect that high-level academic inquiry, in a foreign language, means little to these farmers and their families. Some asked me 'why have you come here? Will you set up a New Zealand company?' They seemed confused when I said I was here to learn and observe" (Field Research Notes, 2014).

Through this experience I came to better understand the challenges and realities of undertaking fieldwork of this nature, and I learned the importance of gathering broad data and diverse perspectives to mitigate the possibility of my opinions being influenced by my emotions.

3.6D ETHICAL REQUIREMENTS AND CONSIDERATIONS

I become frustrated on occasion with the parameters of my institution's ethical requirements. My ethics approval required me to have all participants sign a consent form (appendix 1, p. 106). The requirement, though simple enough in my sit-down interviews with industry stakeholders who were generally competent English speakers, was difficult to enforce in my interviews with farmers. As outlined in this chapter; farmer interviews often took place in the outdoors, on small-lot farms, or even on the side of the road. As illiteracy is extremely high in the research location, honouring the consent form requirement involved verbally translating the contents of the form, and having farmers mark or sign to indicate their understanding and consent. This was generally met by confusion from farmers; who had little frame of reference through which to understand the need to sign a piece of paper just to have a conversation. The process of explaining the requirements of *Malae* research to busy farmers who were lending us their precious harvest-season time, was often rather prolonged. A colleague in the Development Studies department, Catherine Jones, concluded after her research with rural communities in Fiji that: "If I engaged with the same or similar communities again, instead of written consent I would opt for verbal consent. This would involve reading out the information sheets with a translator then verbally recording their consent rather than signing 'bits of paper'" (Jones, 2012, p. 35). I would agree, and would look for more fitting options for documenting consent than the model I used in this fieldwork.

4. COLONIALISM, CONFLICT, AND COFFEE: THE TIMORESE COFFEE SECTOR PAST AND PRESENT

Academic discourse around the benefits of, and (increasingly) the problems with the fair trade system is comprehensive, but limited. It must be acknowledged that each producer context is unique; informed by a particular geography, history, and culture, and that these individualities affect the way that fair trade is viewed and practiced in that area. There is a growing need for contextualised studies to chart the impact of fair trade in various locations, and none more so than Asia. Fair trade poverty intervention efforts were developed in the context of, and been historically focused on Latin America. The majority of scholarship examining their impacts has focused on Latin America and Africa. Asia has its own challenges, be they political, post-colonial, or cultural, in effectively implementing fair trade.

Timor-Leste is new country. It gained independence only in 2002, and its population have had to contend with the challenge of building a cohesive economy and society on a recent history of war, colonialism, and subjugation. Coffee is interwoven into this story, and it is viewed by some in Timor as a relic of foreign economic control, and by others as an avenue for development and poverty reduction. This thesis will go on to evaluate the latter viewpoint in detail, but this particular chapter will focus on the former. How has the coffee industry in Timor been shaped by the nation's history? How does the evolution of power structures in Timorese coffee inform the way business is done today? This chapter will argue that coffee has long been used as a weapon in Timor-Leste, a profitable method of physically and economically oppressing the population. This was first established under the Portuguese, and then adapted under the Indonesians. The impacts of fair trade certification in Timorese coffee can only be understood in the context of the Timorese historical experience, and the knowledge that there coffee is subject to unique, ongoing politics and sensitivities, which are wholly valid, which impact the way it is grown and traded, and which are difficult for the outsider to fully grasp.

4.1 THE PORTUGUESE

The history of plantation agriculture in Timor-Leste is characterised by the politics of colonialism. It was used not only as an economic driver, but as a tool of control during the Portuguese era. Though coffee was first introduced to Timor in 1815, its emergence as a vital export coincided with the decline of available sandalwood in the mid-Nineteenth Century. Roque (2010) asserts that at this time it became the Portuguese attitude that the “modernization” of Timor-Leste depended wholly on coffee sector development (p. 315). The envisioned coffee-fuelled modernization was not to eventuate, but the introduction of coffee in Timor had a profound and lasting legacy. The commercialisation of coffee in was designed and coordinated by successive Portuguese governors beginning with Alfonso de Castro, who oversaw an increase in exports from 22 tonnes in 1860, to 145 tonnes in 1865 (Shepherd & McWilliam, 2013, p. 330). From 1879 to 1892, coffee exports were regularly above 1000 tonnes (Clarence-Smith, 1992, p. 15).

Castro’s agricultural system was informed by a similar scheme that had been adopted in the Dutch East Indies thirty years prior. The Culture System, or *cultuurstelsel* was a colonial means of organising the local land and workforce around monocultural production. In the Dutch case this involved a forced labour regime that monopolized land for production of sugar and coffee, implemented by local indigenous authorities, who were rewarded with tax breaks on their own production. This was an effective method of increasing GDP, whilst extending “an unprecedented level of colonial surveillance and control” (Li, 2007, p. 36). Scholars have argued that such systems of early economic colonialism as in the Dutch East Indies and the Timorese case reflected prevalent racial prejudices of the era. Shepard et al (2013) credit it to the “idea of lazy and indolent native peoples, where improvement of the flawed native character could be rectified through the civilising benefits of labour” (p. 330).

Governance structures regulating coffee planting and farming in the late Nineteenth Century remain somewhat mysterious. This is due

substantially to the complexity of relationships of enforcement and taxation. Nixon outlines Castro's original initiative in a recent thesis thusly: "In the early 1860s [the Governor] required that every family plant 600 coffee trees and that a proportion of the harvest be collected via the *finta* system in each *reino* [(traditional kingdom)] and forwarded to the colonial administration, minus a proportion to be kept by each *liurai* for facilitating the process" (Nixon, 2013, p. 30). The colonial government relied on rural indigenous rulers (*liurai*) to enforce the agricultural regime, and colonial accounts note that regulations were often difficult to enforce due to "unstable and opportunistic alliance patterns" (Nixon, 2013, p. 24). Historians suggest that Portuguese opinion cast *Liurai* as ruthless tyrants, motivated by the coffee wealth and its associated pleasures, ready to exploit their people to these ends (Roque, 2010; Shepherd & McWilliam, 2013). Though this is surely a biased picture, it is true that the *liurai* were the architects of a system of indigenous agricultural slavery, supported by chiefs of subsidiary groups known as *suco*, and enabled by widespread pillaging and head-hunting (Shepherd & McWilliam, 2013).

In the late Nineteenth and early Twentieth centuries, coffee production in Timor shifted to large-scale plantations, and away from smallholders. This was due in part to increasing difficulties in relationships with the *liurai*. As the Portuguese attempted to solidify their authority and control over production through military excursions in the indigenous kingdoms, rulers engaged in widespread rebellion, selling large amounts of coffee on the black market to Chinese buyers or corrupt officials (Shepherd & McWilliam, 2013). The colonial administration began to lose significant amounts of revenue. This gave rise to a number of military 'pacification campaigns' beginning under the notorious Governor Celestino da Silva, which aimed to subdue the population and maximise production and profit (Weatherbee, 1966). These campaigns often secured agricultural slaves for the coffee industry. *Liurai* were also obliged to provide waged workers for Portuguese-owned plantations. Shepherd and McWilliam (2013) point out that wages were "only enough to afford bare survival". The most notable of

the commercial plantations established at this time was the Sociedade Agrícola Patria e Trabalho (SAPT) in Ermera district, which covered almost 2000 hectares of previously smallholder-owned land by the end of Silva's tenure in 1908 (Shepherd & McWilliam, 2013, p. 333).

Agricultural programmes, especially around coffee, were a vital tool of the Portuguese subjugation of the Timorese population in the latter half of the Nineteenth Century. Shepherd and McWilliam, the most recent and comprehensive commentators on the subject, align the Timorese case with Michael Foucault's theories of power knowledge being operationalised and institutionalised through the "...routine surveillance, control, and discipline of [individual's] human bodies" (Shepherd & McWilliam, 2013, p. 328). Coffee not only represented economic control, but physical control. The use of military force, forced labour, and the co-optation of indigenous political systems enabled the Portuguese governors to establish coffee cultivation as an oppressive force of poverty and slavery upon the Timorese people. This history is echoed in present day Timor, to a disturbing extent.

4.2 THE INDONESIANS

Thus, a significant result of the "Indonesianization" of East Timor's coffee sector was the "decapitalizing" of the rural economy and the stymieing of the long-term potential of coffee production and overall economic development in the former Portuguese colony (Nevins, 2003, p. 690).

Timor-Leste declared independence from its historical colonial power on the 28th of November, 1975, only to be invaded in December by Indonesia. The invasion was brutal and bloody, and Timor's population were once again subjected to domination by a foreign power. The Indonesian occupation evoked characteristics of its predecessor, in employing simultaneous programmes of military and economic subjugation to consolidate control, and profit from local forced labour. There was a further advantage to the Indonesians, in enforcing programmes of export growth: "Sponsored by international aid agencies and banks [...] Cash cropping proliferated during the 1980s [...] The initiatives enabled Jakarta to promote its developmentalist

agenda and, to a degree, appease international concerns about the prevailing social conditions and well-being of East Timorese” (Shepherd & McWilliam, 2013, p. 344). Shepherd et al. explain that the occupiers were able to placate the international community with the rhetoric of development, despite the fact that in the decade following the invasion, an estimated 100,000 East Timorese died – the majority from starvation (Shepherd & McWilliam, 2013, p. 343). Commercial agricultural practices continued to exploit the Timorese people, and farmers were paid a fraction of the value of their product. The coffee crop was used to financially benefit the regime, but little investment was put into quality or cultivation. During this time, Timorese coffee trees fell into an acute state of neglect.

The Indonesian military were quick to capitalise on what was left of Portuguese commercial agriculture in Timor-Leste. This echoed the strategies of their predecessors in that economic domination continued to be used as a tool of pacification. Four years after the invasion, the Indonesian military’s coffee monopsony¹⁰ was consolidated when SAPT was formally transferred to a company called PT Denok Hernandes Indonesia by decree from the Indonesian Governor. Grenfell (2005), in tracing the impact and history of colonialism in Timor, claims that PT Denok was a vehicle for “senior Indonesian army officers to raise money for the armed forces and for corrupt self-interest” (p. 83). PT Denok was a subsidiary company of the broader PT Batara Indra, which, an Oxfam sector report points out, was the only company at the time with a licence to export Timorese coffee (Oxfam, 2003, p. 3). The Indonesians continued to make use of networks of rural

¹⁰ A monopsony is defined by Merriam-Webster online as a “market situation in which there is only one buyer (Merriam-Webster, Accessed 08/10/2014). This is not to be confused with a monopoly, which refers to a market situation in which there is only one *seller*.”

indigenous coffee collectors, and Chinese buyers. The administration installed a “well-controlled and government supervised” collection mechanism “disguised as a cooperative” at this time (Oxfam, 2003, p. 3). The organisation, called *Puskud Timor Timur*, coordinated procurement for remuneration well below market averages. Nevins (2003) notes that during the period of occupation, farmers in neighbouring West Timor received on average two to three times the price that East Timorese producers were paid for their coffee (p. 690). After Timor-Leste gained independence from Indonesia, *Puskud* was to change its name, and become *Cooperativa Café Timor*. During the years of occupation, the coffee industry was governed by a policy of low-grade production for export to the Indonesian instant coffee market, and this emphasis on quantity over quality had long lasting practical implications for the sector.

Coffee trees were allowed to grow wild during the Indonesian rule – under forest canopies and along roadsides. Little to no capital was put into cultivation or capacity building, and quality and yields fell dramatically. “[The Indonesian Government] were interested only in extracting income through the quantity of cheap coffee they could accrue for forward sale, [...] as a result, interest in coffee cultivation amongst the East Timorese generally decreased. Farmers acting as caretakers simply began to harvest beans annually from the previous large plantations as well as from their own small holdings” (Oxfam, 2003, p. 4) Farmers ceased to prune, or to clear land, and trees were allowed to grow too old. The Oxfam report that has been referred to often in this chapter (being one of few reports on the subject) speculates that agricultural knowledge among farmers declined at this time, and memories of cultivation techniques were lost. Shepherd et al. expand on this theory, arguing that under the Indonesian model, coffee of varying quality was blended together, meaning that knowledge of bean selection, efficient transporting and exact processing was unnecessary (Shepherd & McWilliam, 2013). They claim that during the Indonesian Era, and (as this thesis will go on to suggest in Chapter 5,) to the present day, farmers in Timor-Leste pick coffee to service their immediate financial needs, rather than to maximise

quality and accrue profit. By 1994, annual exports had dropped to just 6,000 tonnes (p. 4), yields still remain significantly lower than comparable markets. One inadvertent consequence of the lack of investment in agricultural management however, was the absence of pesticides, herbicides, and chemical fertilisers in production. The fact that all of Timor's coffee remained, by default, organic, was to have significant influence on the direction of the sector.

4.3 THE AMERICANS

In 1992, under pressure from the evangelically neoliberal United States to open up markets and allow for competition in the coffee industry, the Indonesian occupiers deregulated the sector and relinquished *Puskud*. This allowed USAID and the National Cooperative Business Association (NCBA) of America to enter, and take a central role, in the coffee industry – with CIA backing (Grenfell, 2005). The NCBA had timely incentives for working in Timor-Leste. Demand for organic products in the United States had been shown to have grown 126% between 1992 and 1993 (Piedade, 2003, p. 28). A 1998 study published in International Trade Forum noted that “For the foreseeable future, insufficient supply of organic products will be the main problem, rather than lack of demand” (Kortbech-Olesen, 1998). At this time, NCBA and USAID were able to form a mutually beneficial partnership. USAID was integral in allowing the NCBA access to coffee in Timor-Leste. The outward development goals of introducing more competition to the industry were “to improve the level of welfare of the coffee growers; introduce marketing chains to the population; and contribute to the planning and policy development for a commodity which supports the economy of the people of East Timor” (Piedade, 2003, p. 28). The fact that this had corresponding positive benefits for American business was likely a consideration of decision makers within the aid programme. The mutually beneficial nature of the arrangement is reflected in Hillary Clinton's visit as US Secretary of State in 2012 to the NCBA's export unit in Dili, during which she was quoted: “Projects like these reflect the model of partnership that the United States is

pursuing across the Asia Pacific. These are partnerships rooted in our shared values” (NCBA).



Fig 4.1. Then US Secretary of State Hillary Clinton signing a symbolic CCT coffee sack, decorated with the Timor-Leste and United States flags, during an official visit to Timor-Leste in September 2012 (Source: ‘Clinton in East Timor on Democracy Push’, The Jakarta Post, September 6th, 2012.)

In 1995, an organic coffee division was established within *Puskud* to accommodate and partner with the NCBA project. As the NCBA established itself as competition to *PT Batara Indra* (previously the only body with an export licence), the role of *Puskud Timor Timur* changed, becoming more focused on supporting and supplying the NCBA. Production of *Puskud* organic coffee rose from 30 tonnes at the entry of the NCBA in 1995, to 1476 tonnes in 1999 (Piedade, 2003, p. 28). Following the popular referendum for independence in 1999, *Puskud* officially changed its name to *Cooperativa Café Timor* (Cooperative Coffee Timor), thus shedding its association with the Indonesian military, and rebranding itself as a locally owned, independent cooperative. In 2001, CCT obtained fair trade certification from Fair Trade Labelling Organisations International (FLO), and NCBA began to broker deals with US buyers for fair trade organic certified Timorese coffee.

4.4 DISCUSSION: HISTORIC RELATIONSHIPS; CURRENT ISSUES

It is difficult to come across data on Timorese coffee exports at this time in the nation's history. This was a period of rapid change for Timor-Leste, but it is evident that the NCBA was instrumental in bringing about a number of changes in the sector. Firstly, in attempting to secure a sustainable supply of organic coffee for markets in the Global North, the NCBA was successful in opening up the Timorese market for competition. They were able to secure the partnership of what was previously a procurement tool of Indonesian military, and establish an ongoing commitment to producing organic coffee. Following independence, they were able to assist *Puskud* in establishing itself as a locally-owned cooperative, fully dependent on the NCBA's networks and market access. Close scrutiny reveals that *Puskud* represented the culmination of two historical methods of subjugation: First, the Portuguese collection networks overseen by indigenous leaders which forced the population to grow coffee for miniscule returns, and second, Indonesian military-owned agricultural programmes which imposed a monopsony, negatively impacted grower welfare, and silenced questions around the administration's commitment to development outcomes. Observational evidence suggests a lack of trust amongst Timorese farmers for all coffee buying companies, including CCT. The next chapter will go on to discuss the current CCT structure, and the nature of the cooperative's ongoing relationship with its members, and with the NCBA. This research lacked the capacity to exhaustively examine the relationship between the history of Portuguese plantations, *Puskud Timor Timur*, and farmer's attitudes towards local coffee buyers, but a tentative hypothesis will be proposed here, hopefully to be substantiated by future research: It is a possibility that because both Portuguese and Indonesian coffee procurement were carried out by local leaders or *liurai*, and that the nature of that procurement was often oppressive or violent, there may be an ongoing inclination amongst coffee growers to distrust even locally-owned coffee buyers, especially the one which evolved out of systems of colonialism. This may be an important avenue for research aiming to strengthen cooperative

business in Timor-Leste, and to ensure continued participation and democratic benefit from fair trade.

5. TRANSLATING PRINCIPLE TO PRACTICE: POWER AND GOVERNANCE IN THE EAST TIMORESE FAIR TRADE COMMUNITY

The organization must be an instrument for the social and economical development of the members, and in particular the benefits of Fairtrade must come to the members. The organization must therefore have a democratic structure and transparent administration, which enables an effective control by the members and its Board over the management, including the decisions about how the benefits are shared. Furthermore, there must be no discrimination regarding membership and participation. (FLO, 2007)

In the fair trade philosophy, a successful cooperative not only improves the income of its producers, but encourages all of its members to take a central role in its management and direction. A cooperative, to merit the name, must be democratically governed and thoroughly representative. This is necessary in order to achieve the fair trade movement's objectives of farmer participation and equitable trade. This not only contributes to locally driven, grassroots development outcomes, but capacity building in administration, marketing, and trade negotiations. While these principles are fundamental to the fair trade movement; not all of them can be captured, enforced and monitored by standards and regulation. The realisation of truly equitable fair trade partnerships depends on the commitment of all parties to fair trade's *principles*, not just its standards. "Fair Trade therefore aims to be consistent at the level of principles and values but flexible at the level of implementation and this presents challenges in defining the concept in practical and concrete processes that can be applied universally... In Fair Trade, it is unquestionable that effectiveness is enhanced not just through what an organisation does, but also why and how they do it." (WFTO, 2009). This means there is a grey area in fair trade implementation – its success depends not only on management and implementation, but local identity, values, and solidarity amongst producers.

This chapter analyses Cooperativa Café Timor's performance against both fair trade standards, and foundational principles, to gain an understanding of the extent to which its members are represented and engaged in its operations and vision. It takes into account the roles of other prominent actors, which influence the CCT structure, and shows that United States and New Zealand development organisations have assisted in enabling CCT to become a large competitive coffee exporter. However, the involvement of such organisations has simultaneously served to compromise the cooperative's independence and connection with its grassroots. This chapter will show that fair trade certification in Timor-Leste is considered by stakeholders to be less a vehicle for producer empowerment, and more a leveraging tool for access to large corporate buyers – mainly Starbucks in the United States. This is consistent with much of the current academic literature on the mainstreaming of fair trade, and the dangers of large corporate involvement, which has been shown to weaken the role of alternative market values within the fair trade system, as outlined in Chapter One.

5.1 PERCEPTIONS OF FAIR TRADE

Understanding of the underlying principles of Fair Trade is crucial, as adoption of processes in isolation from those principles, risks losing an important element of the overall philosophy that has been developed through experience and dialogue by Fair Trade Organizations over many years...Where there is increasing acceptance that effective compliance requires genuine commitment. In Fair Trade, it is unquestionable that effectiveness is enhanced not just through what an organisation does, but also why and how they do it (WFTO, 2009, p.3).

I have found it necessary to include an establishing section in this chapter which outlines my observations and findings regarding the attitudes of various stakeholders towards fair trade certification. This is in acknowledgement of the fact that, in Timor-Leste in particular, the commitment (or lack thereof) of producers and buyers to fair trade standards and principles has had an extensive effect on the way fair trade networks are arranged; the implicit power structures within them; and the ability of producers to influence governance and decision-making.

Very few articles or reports that I was able to source mentioned the existence of fair trade certification in the coffee industry in Timor-Leste. Also, few interview subjects had any knowledge of the workings or contribution of fair trade to the sector. It was a matter of weeks before I was even able to confirm that CCT was currently fair trade certified. This provides a clue as to the lack of importance placed on fair trade by stakeholders within the industry, and the fact that it is considered to have little relevance to most actors in this context. It is difficult to fully identify the reasons behind the development of an industrial culture that is largely ignorant of the presence, or benefits of fair trade certification, and possible explanations offered in this thesis rely largely on observational evidence and speculation. One possible theory is that fair trade and its underlying principles and theories are a very foreign import to Timor-Leste, as opposed to Latin America where they originated/were inspired in a tradition of solidarity and cooperative culture. Another explanation could be that fair trade so far has had little visible impact on livelihoods and business practices in this context, and as such has not become a feature of the local consciousness, or of outside inquiry. Whatever the reason, I found cooperative management to be dismissive of the development potential of fair trade certification, and I found that producers were seldom aware of their right under fair trade certification to assert democratic control over their cooperative.

5.1A THE COOPERATIVE

Cooperativa Café Timor has been fair trade certified since 2001; practically since it was established in its current form. In 2003, CCT's then General Manager, Sisto Moniz Piedade, wrote an introductory article to the organisation, outlining its vision, structure and practices. Though the article emphasises organic certification standards, no mention is made of fair trade certification (Piedade, 2003). This thesis has already noted that opportunities in the organic market were one of the primary motivations for the establishment of CCT, and that fair trade certification followed later. However, it is interesting that the General Manager did not see fit to include mention of it in an article simply entitled "CCT", that was published reasonably soon after fair trade certification was achieved. I enquired as to

CCT's motives for attaining fair trade certification from a current organisational representative.

Well, it's a niche marketing arrangement, some buyers want fair trade coffee, the principal one being Starbucks – they always buy fair trade now.

Starbucks has always been CCT's largest buyer, the partnership having been facilitated by the special and historic relationship between CCT and United States organisations including USAID and NCBA. CCT's concession that their primary motivation to achieve fair trade certification was to gain the ability to sell to Starbucks seemed shocking to a student of International Development, expecting to hear rationales of poverty reduction and producer empowerment. However, it could be argued that, by motivating Starbucks to buy fair trade, and in turn encouraging CCT to adopt fair trade standards, the fair trade system is fulfilling its mandate, by increasing the number of small-lot producers participating and (theoretically) benefitting.

There are two primary issues associated with the argument that fair trade's goals are achieved when a cooperative is compelled to seek certification through the demands of a large corporate trade partner. Firstly, it has been suggested that the practice of mainstreaming fair trade within large corporations ultimately weakens the efficacy of the system as a whole. Proponents of this theory include Fridell (2006), Renard (2003) and Jaffee (2012), and the theory itself was discussed in greater detail in the first chapter of this thesis. Secondly, the fact of an organisation having to attain fair trade certification as a necessity to trade calls in to question that organisation's commitment to, or belief in fair trade principles, thus potentially undermining the impact of certification on that organisation's members. I found evidence for this in an interview with a senior member of the cooperative's management, who told me that after having been certified for a decade, CCT withdrew from the fair trade system for one year, in 2010.

We got out for one year. December 2010 to December 2011. We felt that the parameters required by fair trade were stupid to be quite honest, unrealistic to small farmer enterprise. I've already said too much but never mind. We got out, we weren't pushed out and we

have a letter signed that says exactly that from fair trade. Because other people thought we were pushed out. The fair trade labelling organisation seemed to have been taken over by a bunch of German lawyers who didn't really understand the problems out here in the field and the growers that they were supposed to be trying to help.

One CCT member farmer spoke of a noticeable decrease in price between 2009 and 2010. He had been happy with the 2009 price, but claimed that the price dropped in 2010 and since then has not been sufficient for his family's subsistence. This is consistent with the timeframe of CCT withdrawing from certification, and could indicate that the withdrawal had a negative effect on prices received by farmers. However, this is in contradiction to the account of the Senior CCT representative, who claimed that prices didn't fall at this time – but failed to elaborate or provide more detail.

CCT's temporary withdrawal from certification is indicative of a difficult relationship historically between fair trade certifiers and CCT. The subject's defensiveness about the fact that the cooperative made the decision to withdraw from certification suggests that observers may have had motive to question which party made the decision. The same respondent described a later situation, after CCT had re-gained certification, in which an FLO inspector had found that there were not enough toilets provided for the workers at CCT's processing plant in Dili.

Well fair trade demands that we have one toilet for every 20 workers, and so the board was suddenly required to put in 40 toilets. We thought, 'what nonsense – we're not going to do that'. So unfortunately we've replaced a number of women workers with machines.

This is in reference to article 3.3.31 of the FLO Standards for Small Producer Organisations: "You and the members of your organization must provide clean drinking water and clean toilets with hand washing facilities close by for workers...These facilities must be separate for women and men and the number of facilities must be in proportion to the number of workers" (FLO, 2011). This standard was seen to be excessive by CCT management, who elected to bypass fair trade regulations by laying off workers. This is arguably in contradiction to fair trade principles; designed to protect workers.

Fairtrade International's mission statement envisions: "A world in which all producers can enjoy secure and sustainable livelihoods." Unfortunately, 'a number' of CCT worker's livelihoods were neither secure, nor sustainable. This threatens the realisation of the stated mission.

The above scenarios illustrate two issues with the relationship between CCT and their fair trade certifiers. The first is a detectable attitude of resentment on the part of CCT management towards fair trade and fair trade standards. The language used by this respondent, who described fair trade standards as "*stupid*", "*silly*", "*nonsense*" "*unrealistic*" and "*demands*" indicates a level of unhappiness with, or arguably resentment towards the fair trade system. As mentioned, this could potentially stem from the possibility that CCT was not motivated to seek fair trade certification by the values and vision of its membership, but because of a market reality, and the requirement of their largest trade partner. Thus it is possible that they hold diminished allegiance towards the requirements of FLO compared to a cooperative seeking certification out of identity or principle. Also, these are both instances in which a lack of belief in, or commitment to fair trade standards adversely affected cooperative workers; undermining the price of their product, or costing their jobs. CCT opted to withdraw from fair trade for a year, rather than meet required standards, and to lay-off workers, rather than install the required number of toilets at their processing facility. The nature of the fair trade system is such that much of its impact depends upon transferring and promoting values of producer ownership and equitable partnership – these are unofficial standards and rely on the cooperative not only adopting certain practices, but certain principles, in order for fair trade certification to be translated into producer empowerment and income improvement. This evidence suggests that commitment on behalf of the producing cooperative is essential to ensuring fair trade certification remains beneficial to small lot producers, and factory labourers.

5.1B THE FARMERS

It was difficult to get a comprehensive picture of the attitudes of coffee growers themselves towards fair trade certification; mainly because of

cultural and linguistic limitations to obtaining detailed perspectives and opinions, as mentioned in my methodology. However, evidence did reinforce the findings of the 2013 Inder study – which revealed that Timorese farmers are extremely isolated from access to information concerning their business. Further to this, a USAID evaluation report on the NCBA project found that “over half of the household members above 45 years of age reported having had no formal education”(Mendez, 2013). It was evident that many coffee producers lacked an understanding of the goals, or even existence of fair trade certification within their industry. One farmer, when asked the question ‘Do you know about fair trade?’ responded: *“There is no Tetun word for this. We don’t know about fair trade.”* It is possible that this could be a translation issue, but only two farmers questioned had heard of fair trade in any language. In fact, a MAF official, when asked the same question, responded *“no, what is the meaning of fair trade?”* Further attempts to explain the meaning of fair trade did not help the individual to recognise the concept. The World Economic Forum’s Network Readiness Index rated Timor-Leste second to last in Asia in terms of telecommunications infrastructure in 2014. Inder calculates that in 2013, 46% of coffee growing households in Timor-Leste had access to a mobile phone, and 32% a radio. Only 30% of households had electricity – obviously crucial to modern communications technology. Also, only 7% of households had a motorbike, and 1% had access to a car. Coupled with the radically underdeveloped road infrastructure, this makes it exceedingly difficult for farmers to access up-to-date information on markets, and to get to Dili - Timor’s capital and economic hub (Inder, 2013). This in turn makes them reliant on visiting collectors from the various coffee companies to provide current price information, and to buy their coffee. One farmer stated: *“It is hard for us to know the price of the coffee. It is just organised by the [coffee companies].”*

Of the 11 farmers spoken to during the course of this research, two claimed to be full CCT members, while three others said they sold some of their coffee to CCT, but were not members. Two had some knowledge of fair trade, and only one was aware that fair trade premiums funded the CCT

health clinics. This is another instance of contradicting accounts from farmers and CCT management. The CCT interviewee insisted that, in order to monitor organic standards, *“the grower has to show his member card before we can buy [the coffee],”* however, three farmers claimed not to have member cards, and to still sell portions of their harvest to the CCT truck. It was apparent that, amongst farmers, the decision of which coffee company to sell their product to was more one of practicalities than principles. Where farms are easily accessible by truck, farmers seem more likely to be CCT members or to sell to CCT. Smaller-scale or more remote farmers often sell at an even lower price to brokers in Gleno (the capital of Ermera district), who on-sell to the large non-certified companies including Timor Global and Timorcorp. Evidence clearly shows that fair trade certification is very seldom a consideration for farmers in deciding which coffee company to sell to. Of course, price is a factor, but as the next chapter will illustrate, fair trade certification has not necessarily led to increased financial return for all CCT members, as there are other variables which may have an impact.

Despite each interviewee having varying viewpoints and buyers, one clear pattern was apparent amongst all growers interviewed: All were dissatisfied to some extent with the price they received for their coffee:

I'm not satisfied with the price of the coffee because the coffee prices are 'up down up down.'

[the price] is not enough [to provide] for our life, because we waste a lot of our time to work for the growth, and we finally get the price and we are not satisfied about that.

“We are not happy with the prices because we always sell the coffee to [CCT] but they never give us a premium, they never support us.

The previous chapter of this study went into detail about average annual incomes for coffee farmers and that quantitative analysis will not be repeated here. However, the opinions of farmers themselves on the prices they get for their coffee are important to understanding the amount of ownership or determination farmers feel they have over their industry. There was no distinguishable difference between feelings of CCT members and non-

members towards the prices they received – all respondents felt they were either inadequate compensation for the amount of labour required, not sufficient to sustain and provide for their families, or both. This leads to two salient conclusions concerning the attitudes of Timorese farmers towards coffee prices: Firstly, that most farmers believe that coffee prices are not fair, and secondly, that fair trade certification has not altered the perception of farmers that the prices they receive are too low.

5.2 THE ROLE OF THE NCBA AND USAID

The link between Starbucks and East Timorese coffee is an obvious starting point as an intersection between development and colonialism. The role of projects, such as that run by NCBA, can be read as an attempt to ensure that 'developing' countries shape their national economic infrastructures in such a way that they base their economies upon commodity export goods for purchase by transnational corporations (Grenfell, 2005, p. 84).



Fig. 5.1: A Cooperativa Café Timor sign displaying the USAID and NCBA logos (Chumley, 2009).

The National Cooperative Business Association of the United States of America is an umbrella organisation, representing the interests of various cooperative organisations around the United States. It also engages in

international 'education, advocacy and development' around cooperative business practices. It states its mission on its website as follows:

NCBA CLUSA's mission is to develop, advance and protect cooperative businesses and to demonstrate the power of the cooperative business model to achieve economic and social impacts. As the apex organization representing the interests of the US cooperative community, NCBA CLUSA provides a strong, unified voice on Capitol Hill. The Association's portfolio includes programs and services that meet the shared advocacy, education and communications needs of a cross-sector, US cooperative community. In addition to its work domestically, NCBA CLUSA's international program has been engaged in cooperative and sustainable business development in over 100 countries for close to 60 years (NCBA, 2014).¹¹

In apparent contrast to its self-identification as a development agency, "NCBA is, as it boasts, the largest private sector enterprise in Timor-Leste" (Grenfell, 2005, p. 83). However, at present, in publications and online content, the NCBA emphasises its role in the Timorese coffee sector as being the managing agent for USAID's coffee development projects, and it is stressed that funding comes predominantly from USAID (with recent targeted contributions from the New Zealand Aid Programme). The first official USAID/NCBA project in Timor-Leste, according to the NCBA's website, began in 2003, however, the NCBA's history in Timor-Leste dates back to the arrival of USAID in 1992. The focus of the two organisations in Timor has always been coffee sector growth. USAID and the NCBA not only assisted the growth of CCT at this time; they are directly responsible for the establishment of the organisation. This does not seem to be widely known, and was first mentioned in the course of this research by an official of New Zealand's aid programme:

¹¹ NCBA CLUSA (Cooperative League of the United States of America) is the international branch of the NCBA, which carries out its external 'development' and advocacy projects, often with USAID funding.

CCT (well, it was called an Indonesian name then) predated 1992 when NCBA arrived. It did exist, and NCBA - which has existed forever in the US - chose that Indonesian coffee cooperative as its partner here. I don't think they predate them by a long time, maybe five years, four or five years? And then, that coffee cooperative became CCT after independence, and by that stage it was already well established as a partnership with NCBA.

Not only was it a well-established partnership – USAID/NCBA collectively were the catalysts and arguably the architects of CCT's formation. The NCBA, in partnership with USAID, was instrumental in establishing CCT in its current form, by negotiating with the Indonesian regime and securing *Puskud* as its partner. A USAID blog post from 2012 refers to CCT as having been “started by USAID in 1994” (Clark, 2012). The previous chapter of this thesis also illustrated the growing demand for organic coffee in the United States at the time USAID and the NCBA entered Timor, and hypothesises this to be one of the main rationales for partnering with *Puskud*.

The major function of the NCBA in Timor-Leste has ostensibly been as the implementing partner for a series of USAID funded projects in training and capacity building to assist in agricultural rehabilitation and development. The programme has been evolving since the beginning of USAID's presence in Timor-Leste in 1992. USAID's website explains; “These activities strengthen market linkages within the country, contribute significantly to the promotion of intra-regional exports, and ultimately result in greater income for the rural poor. Earlier USAID efforts have helped to develop *Cooperativa Cafe Timor* (CCT) into its current status as the country's largest coffee exporter and one of the nation's largest employers” (USAID, 2014). The current project, Consolidating Cooperative Agribusiness Recovery (COCAR), has been running since October 2010, and is coming up for review next year. Its coffee sector component is co-funded with the New Zealand Aid Programme. It is an extension of its predecessor, Timor Economic Rehabilitation and Development Project (TERADP), which aimed to facilitate “(i) the rehabilitation of coffee plantations; (ii) cattle fattening and fodder; (iii) development of an agro-forestry industry; and (iv) community extension health services” (Mendez, 2013). COCAR has expanded on TERADP to

include cocoa and cassava as small farmer 'income-expanding' commodities. NCBA was originally awarded US\$7.2 million in 2010 to implement COCAR. "In April of 2012, the funding was increased by an additional \$3 million in order to accommodate a buy-in by New Zealand Aid Programme (NZ Aid) to support the expansion of COCAR's coffee rehabilitation efforts. This brought the total funding for the project to \$10.2 million" (Mendez, 2013).

A monitoring and evaluation survey of COCAR's effectiveness was carried out in March 2013 by an independent US contractor on behalf of USAID. It assessed the project's success in such areas as; income improvement and poverty reduction, and farmer satisfaction with training programmes. The official report stated that More than 90% of participants, both men and women, indicated that they were either "satisfied" or "very satisfied" with CCT training activities" (Mendez, 2013). However, important to note is that that same report included in its limitations that "[t]he relatively small budget for the survey activity constrained its size and the robustness of some of the survey data analysis. Consequently, the results cannot be interpreted as a statistically valid interpretation of the overall CCT member population or COCAR project participants" (Mendez, 2013). The data on farmer satisfaction with training and capacity building programmes provided by the study contradicts an independent and broader study from the same year, which paints a less positive picture of farmer interest or trust in CCT/COCAR training and coffee rehabilitation programmes. "The evidence from this research project is that relatively few households report receiving training, and more notably, that training has produced little or no appreciable benefits in terms of yield" (Inder, 2013, p. 35). 14% of all households surveyed in the research reported having received some form of training in the last four years. Of that number, 'more than half' had received training from CCT, and a further 35% had accessed training from the Ministry of Agriculture and Fisheries (MAF). Of those who received training, 77% reported implementing some aspect of that training. However, the study finds that "Those who reported taking part in training have yields per hectare which are 6% higher on average. This is a strikingly low figure" (Inder, 2013,

p. 17). The report emphasises the need for engaging farmers with new approaches to improving their yields. COCAR represents the main opportunity for farmers to access assistance and extension services in coffee management. However, as mentioned, MAF has its own limited programmes in coffee rejuvenation and capacity building. A NZAP official remarked:

MAF's agents are not known for being energetic and enthusiastic in getting out there and delivering the service, so I think the project has been pretty hard going because of that. If you look at the government's plans there's big numbers in there around the number of hectares of coffee farms they want to see rehabilitated and the amount of export earnings they plan to generate from coffee, but their contribution to making that happen is limited.

This respondent goes on to emphasise that while government does little towards achieving its own targets – it sees NCBA/CCT as extension agents – whose indicators are captured in government reporting. The aforementioned independent study offers a tentative explanation for low uptake or interest by farmers in training programmes: “Poor, smallholder farmers [...] view any intervention with the perspective of its impact on the whole household and community. Support and training will be better received if it builds on the existing social capital in the community, and considers all the needs of the household and the community, rather than seeing farmers purely as producers of a commodity” (Inder, 2013, p. 36). Of the farmers interviewed in the course of this research, three reported having received either seedlings or training in coffee rejuvenation. Some farmers were asked if they received assistance from the government or coffee buyers, one replied “*They give us the sacks for the coffee*”, one said “*The companies and the government don't support the farmers here*”, and another explained “*The government does not help our community, and the coffee companies do not help our community.*”

The 2013, USAID-funded M&E report on COCAR aimed to, amongst other objectives; assess the ongoing sustainability of CCT without international donor assistance. It reveals another function of the NCBA in its partnership with CCT - that of helping to secure United States buyers; essentially marketing.

Since 2002, all major CCT capital investments have been funded from coffee sales to high quality international niche markets and, in 2008, USAID funds were used to develop a joint venture with CCT and a NCBA-supported international management and marketing company that enables CCT to sell coffee and other farm products into world markets (Mendez, 2013).

The report goes on to speculate: “It can be expected [...] that the relationship developed over the past 20 years between NCBA and CCT will continue into the future, thus providing CCT with international business management, marketing and international product quality certification expertise to ensure its long-run successful operation” (Mendez, 2013). Grenfell (2005) frames the NCBA’s role in Timor-Leste as being an extension of transnational corporate coffee buyers: “Starbucks itself does not have a direct presence in Timor-Leste, nor has it helped directly build any health clinics, for example. Rather, NCBA facilitates the sale of coffee by CCT to international coffee brokers” (p.84). This can be interpreted as an indication that the role of the NCBA in carrying out CCT’s international business and liaising with its trade partners, makes the NCBA crucial to the ongoing stability of CCT’s business. As such, the conclusion can be drawn that the NCBA performs two functions in its involvement in Timor-Leste: Firstly, and most visibly, as the implementing partner of USAID’s argi-business development programme (in close cooperation with CCT), and secondly, as the facilitator of Cooperativa Café Timor’s international marketing and trade operations.

Unsurprisingly, very few stakeholders interviewed were able to accurately describe the distinction between CCT and NCBA. The closeness and complexity of the relationship between the two bodies leads many to believe them to be one and the same. A NZAP spokesperson, involved in co-funding the coffee tree rehabilitation project being implemented by CCT/NCBA, struggled to explain the difference – remarking that

They describe themselves as joined at the hip and it is a bit blurry sometimes, but there are certain parts of the operation that CCT does and certain parts that NCBA does, and NCBA is the funding recipient, but it’s a bit tricky. Everybody will know who they work for – NCBA or CCT, but they work very closely together.

This effectively suggests that the only people who fully grasp the nature of the partnership are employees of the two organisations – at least in the sense that they know which one pays them.

This section has aimed to unpack the complex and dependant relationship between CCT and the NCBA/USAID. The history of their relationship, the respective abilities and expertise of the parties involved, and the diverse motivations of the actors combine to ensure that the two organisations are indispensable to the other's mission. The NCBA plays two roles within the Timorese coffee sector. The first is to implement the USAID-funded programme to increase agricultural yields and diversify export crops, which began in 1992 and has had various official incarnations since then. Questions have been raised as to the effectiveness of this programme in increasing producer's yields, incomes, and development indicators. The second function of the NCBA is to lend its expertise and networks to enabling CCT to secure access to, and loyalty from, large buyers in the United States. In this sense CCT is reliant on the continuance of its relationship with the NCBA. Stakeholders and observers in Timor-Leste are often confused as to the distinction between the two organisations; a testament to the long-standing, close, and often private relationship between them. In light of their relationship of dependency, questions have naturally been raised concerning the extent of the NCBA's involvement in cooperative structure and governance. The next section will analyse producer representation within this organisational structure, and look into the farmer's participation in governance and decision-making.

5.3 GOVERNANCE AND PRODUCER REPRESENTATION

Section 4.2 of the Fairtrade International Standards for Small Producer Organisations deals with the principles of democracy, participation, and transparency. It states:

An organization should have democratic structures in place and a transparent administration that allows members and the board to have effective control over the management of the organization. Members should be able to hold the board accountable for its activities. An organization should strive to

improve structures and practices continuously in order to maximize the member participation and their sense of ownership over the organization (FLO, 2011, p.33).

Fair trade organisations hold at their core the principle of democratic cooperative governance. This is seen as crucial to the success of fair trade initiatives in that participation and collective decision making lead to increased justice for producers – communal ownership and administration of trade, and shortened commodity chains. This is especially important in the area of premium allocation; enabling communities to identify areas for development investment, and thus have ownership over the process of community development. Crucial to the function of a democratic cooperative is the practice of information sharing and transparency. However, a 2005 study of Latin American coffee cooperatives revealed that transparency of governance presents an ongoing challenge to the implementation of successful fair trade initiatives. “Most case studies reported tensions arising from management’s need to respond quickly to changing market conditions. In some cases, members have complained that their leaders have made important decisions without adequate member consultation” (Taylor et al., 2005, p. 13). Such international trends are reflected and entrenched in the Timorese experience and system; in fact my research suggests that a lack of member involvement and consultation is precipitated by CCT’s organisational structures. Grenfell found in 2005 that:

On different publicity materials, CCT is said to be both fully Timorese owned and to run as a cooperative, despite there being no cooperative law in Timor-Leste. The basis of these claims is that CCT is a member run organisation that elects its own representatives. However, it is very difficult to imagine CCT functioning independently of the NCBA advisors who make all major decisions about the running of the company, a point confirmed by NCBA arguments that the East Timorese remain unable to manage CCT alone for the foreseeable future (Grenfell, 2005, pp. 84-85).

This predicament appears to endure today, and was referred to by a number of interviewees. A member of the international NGO community working in coffee sector development stated, “*There’s dissatisfaction with the lack of transparency about how the farmer’s voice is represented in terms of votes and*

deciding how the premium is used". This respondent went so far as to suggest that issues with governance undermined CCT's very status as a cooperative. *"CCT are generally very sensitive about their position here. The fact that you've got one large conglomerate calling itself a cooperative, doesn't necessarily mean good development for the poor farmers"*. Another interview subject, when asked about representativeness in CCT's governance structure, acknowledged:

The mid-term review did raise that issue for consideration. They said that members in general feel distant from decision making, and they recommended that CCT review its governance structure to ensure that members had clarity about how the governing bodies were elected, and their access to them. I think that's a good question to be asking... there is room for improvement there. It is unusual [amongst coffee cooperatives] I think.

The mid-term review in question found that "The current system whereby AGM representatives are elected for five-year terms is not well understood by members, and seems not to have any relationship to the GGs [geographic groups], which in the past provided the formal linkage between farmer members and their national leadership" (Mendez, 2013, p. 5). The aforementioned 2005 study of Latin American cooperative governance structures draws a distinction between formal fair trade guidelines and objectives, and less formal social relations; suggesting that the latter has more impact on representativeness and participation than can often be captured accurately in reporting: "Fair trade coffee governance is shaped both by formal organizational arrangements for coordination and control and, less formally, by the social and political relations embedded in fair trade's commodity chain" (Taylor et al., 2005, p. 205). This is an interesting theory to apply to the Timorese case, where official organisational structures often come second to local social hierarchies and traditional political allegiances.

The 2013 M&E report hailed CCT's 'top-down' organisational structure as a factor in the cooperative's ability to "capture significant marketing economies of size that are essential to minimize marketing costs" (Mendez, 2013). The report notes that CCT is unique amongst developing

country cooperatives in that it has adopted the “US and international top-down organisation model.” Indeed, it is generally expected of fair trade cooperatives to operate based on a bottom up, or grassroots system of governance. This chapter has previously demonstrated that the NCBA and USAID were instrumental in the formation of the cooperative, and it is likely that this was a large factor in the design of the organisation after the US model. In fact, the report shows that “CCT inherited the basic organizational structure developed within the *Puskud* organic coffee unit, formed in 1994 when the NCBA-managed Indonesian Enterprise and Trade Development Project (IETDP) started working in Timor-Leste with USAID grant funding” (Mendez, 2013, p. 23). It follows that CCT’s current membership base has had little input into the organisational structure, which was established with NCBA and USAID’s guidance in 1994, when CCT was still an Indonesian-owned company. The current system of administration makes it difficult for producers to initiate reform. Top-down management structures give decision-making powers to a chain of authority, disseminated down to lower hierarchal levels, as opposed to the bottom-up model, in which organisations use grassroots, collective decision making amongst a wide group of members. In the CCT system, “members participate at regional or national meetings indirectly through elected representatives rather than directly, as is common with cooperatives formed at the local community or village level” (Mendez, 2013, p. 23) Since CCT has been fair trade certified, premiums have been channelled into a rural healthcare project; which has increased access to primary healthcare for coffee growing communities. However, questions remain as to the process by which premium allocation is decided. The CCT spokesperson for this research explained “*That decision is made at the annual general meeting each year, associated with the balance sheet of course, after the financial discussions, and that’s something that has to be ratified each year.*” However, it is unlikely that producers in rural locations, with little to no formal education and extremely limited access to communications technology and up-to-date market information, are truly able to be privy to these financial discussions and ‘balance sheet’ considerations. A senior member of the international NGO community related the feedback he had

received from farmers on this subject: *“There was a lot of dissatisfaction from farmers, including 600 farmers from [a different organisation] who are part of CCT, some of them. They’re just not satisfied with the way the payments are made. With the premium, fair trade farmers usually get a vote saying what they want the money spent on....”* The interviewee trailed off at this – implying that in this case, farmers did not get a vote. The challenge of democratic governance is inextricably connected with access to information and transparency. Where farmers lack knowledge or understanding of the workings of fair trade, or access to collective decision-making processes, their views are not being adequately represented and it is unlikely that they will be able to make informed choices around premium allocation.

5.4 DISCUSSION: A COOPERATIVE IN NAME ONLY?

The outcomes of fair trade certification depend on a number of subtle variables, unique to the local context. Power and governance structures within fair trade cooperatives have been shown to dictate the uptake, dissemination and commitment to fair trade principles amongst members, local social and political relations and cultural hierarchies are difficult to capture in monitoring, and even more difficult to accommodate in universal fair trade standards and regulations.

The key to understanding CCT’s current power structure lies in its evolution. It began as an Indonesian company, and it partnered with USAID and the NCBA very early on in its history – beginning the process of improving organisational capacity and representation in international markets. Once independence was realised, the company became CCT; continuing to model itself after the organisational structures exemplified and encouraged by its development partners. Thus, it became the only ‘top-down’ producing cooperative in a developing country. While USAID reports that CCT’s unique management structure gives it an edge in production scale and market share, others question the representativeness of its model. Farmers and stakeholders have been dissatisfied with CCT’s level of consultation and farmer participation, and more practically, its prices and training programmes. Members are less represented in decision-making than

comparable cooperatives in other regions. This is compounded by the fact that members, due to their isolated locales, and lack of access to communications technology or transportation – face profound difficulty accessing information which would supply them the tools to have greater ownership over their business.

Fair trade certification has had little to no impact on CCT's governance structures or representativeness. CCT management demonstrated ambivalence, and even resentment towards fair trade standards. This attitude on the part of the cooperative translated, in more than one instance, to negative outcomes for the vulnerable members and workers those standards exist to protect. Those members are made more vulnerable by their lack of awareness of the fair trade framework. Wider understanding of the ethical standards that bind CCT would result in collective empowerment for its members. CCT sees fair trade certification as a matter of convenience, and not one of principle. Evidence shows that a lack of commitment to fair trade's values can undermine some of the benefits of certification, and help to weaken and co-opt the system itself. As it stands; fair trade certification is convenient to CCT in some ways, and less in others. It functions as a vehicle to market access. CCT adopted fair trade certification at the (direct or indirect) behest of its largest buyer, Starbucks; which, according to its nature as a multi-national corporation, acts based on market opportunities and profit potential. Starbucks, in response to consumer demand, profits from supplying fair trade certified, and therefore value added product. The impetus for CCT to gain certification was not one of identity or principle, but instead, like Starbucks, it was driven by practicality and profit – and the need to satisfy its largest trade partner.

Where there is a marked lack of belief in or adherence to the foundational principles of fair trade within the managing strata of Cooperativa Café Timor, fair trade has not been implemented in a way that would maximise its benefits to producers. It has not enabled producers to extend their ownership over commodity chains, or to be represented in decision making. It has not transferred power to the production end of the

commodity chain; instead cementing the power of those at the supply end. The issue here lies in the management and implementation of fair trade certification. CCT is influenced by too many powerful interests and agendas, and too disconnected from its grassroots, to allow fair trade certification to extend power to rural farmers – as it is designed to do.

6. BUYERS AND SUPPLIERS: VERTICAL INTEGRATION, COMMODITY CHAINS, AND FAIR TRADE

A contributing factor to the lack of producer power and unliveable farmer incomes typical of the coffee industry is the fact that international coffee commodity chains often incorporate multiple intermediaries; including collectors, transporters and mid-level traders. “Agribusiness profits from maintaining control of the steps between growing and exporting. Elites clearly have an interest in keeping farmers farming, but the dependence of farmers on middlemen maximizes elite profits” (Margaret Levi, 2003, p. 414). Fair trade seeks at its core to both shorten commodity chains, and to encourage more integrated commodity chains. It aims to facilitate a more direct linkage between producers and consumers, by eliminating some of the numerous tiers typical of conventional coffee supply chains. This, theoretically, leads to a larger share of commodity income, or overall profit, finding its way back to producers, without resulting in significantly increased prices for buyers. “Fair Trade ‘humanizes’ the trade process—making the producer-consumer chain as short as possible.” (EFTA 1998) Fair trade also aims to increase producer incomes and alleviate poverty through vertical integration: Encouraging the development of producer driven commodity chains; in which producers extend ownership over more of the export process; including value-adding activities such as processing, packaging and marketing, thereby collecting an increased share of total profits.

While there are programmes in place within CCT/NCBA to encourage horizontal integration – in terms of agricultural diversification and improved yields, Daviron and Ponte (2005) argue that producers must be able to extend control over ‘symbolic’ areas of the export chain – including marketing and branding – as well as more material nodes, in order to truly achieve social and economic development. These aspirations are referred to in multiple areas in the fair trade literature. In pursuit of ‘economic

strengthening of the cooperative', the 2007 Generic Fairtrade Standards for Small Farmer's Organisations, item 2.3.1.1 prescribes: "Members will gradually take on more responsibility over the whole export process" (FLO, 2007, p. 7). Fair trade standards generally hope to achieve shortened commodity chains and vertical integration through the very requirement of collective association – the formation of a cooperative. If the cooperative is governed transparently and democratically, producers will naturally begin to extend control over new components of the export process. However, as we have seen in the case of CCT – ongoing structural and governance issues mean producers have thus far been denied the level of representation advocated by fair trade. Naturally, this has ramifications for commodity chain management, and has minimised farmer's share of the added value accrued during the export process.

Within Timor-Leste's coffee sector, there are two distinct markets for coffee, based wholly on differences of quality. One is fair trade and organic certified, and the other is governed by the fluctuating Wall Street coffee price. The fair trade market is occupied solely by CCT, being the only certified buyer in the sector. Three main companies compete for share of the mainstream coffee market; Timor Global, Timorcorp and Elsa Café. Producers occupy only the lowest nodes on both value chains. While the fair trade chain focusses on quality and feeds into Northern specialty markets, the non-fair trade chain exports predominantly into inferior quality 'instant' blends. While CCT claims it is not in direct competition with other large buyers in Timor, farmers generally have a choice of which companies to sell their product to, and, as Inder (2013) finds, that choice is not always based only on comparative prices.

Laughton (2007) charted a number of practice anomalies in the implementation of fair trade standards in Timor-Leste, with particular reference to commodity chain share, that she believed "diminish fair trade's impact in Timor-Leste's coffee industry" (p. 124). Firstly, she points out a lack of vertical integration of producers within the export process. She contends that CCT's collective association does not inevitably lead to denser

commodity chains, or producer empowerment. “Top-down management occurred independently of farmers. Farmer interviewees asserted that their roles in the commodity chain did not extend beyond the farming and harvesting of coffee. For farmers, the Coops’ primary function was widely understood as a site of coffee exchange between farmers and buyers: it was a place to sell harvested coffee cherry” (Laughton, 2007, p. 127). Laughton also quotes an earlier University of Melbourne Honours thesis (which is no longer available through the University), which argued that (in her words) “the lack of meaningful cooperative structure in Timor-Leste was the key obstacle to realising the benefits of Fair Trade” (Moxham, 2001, in Laughton, 2007). Laughton quotes Moxham as claiming the cooperative to be “little more than a roster of suppliers, albeit, paid a small annual dividend” (p. 127). Laughton’s section on vertical integration concludes: “Producer integration into wet processing or other commodity chain nodes was an unmet aspiration for Coop farmers” (p. 129).

This chapter will build on Laughton and Moxham’s earlier findings. It will provide a comprehensive overview of current commodity chain structures – comparing the two competing markets in Timorese coffee: the fair trade market, and the conventional market. It will go on to examine the motivations of producers within these markets, with reference to comparative prices, processing ability and other factors. Then it will attempt to answer the question of whether fair trade certification is doing its job in this context as, while farmers receive a marginally higher price from the fair trade cooperative, the same organisation seems to actively prevent them from gaining more of a share of the export process by only buying coffee in its raw form. The chapter draws a similar conclusion to that of Laughton and Moxham: That the current practices of CCT do not extend the benefits of collective association to producers as envisioned by fair trade codes, that farmer’s roles in the export chain are limited to planting and harvesting, and that Cooperativa Café Timor’s role in the Timorese coffee industry is that of a large, competitive buyer, rather than a producer-driven collective.

6.1 A BRIEF WORD ON PROCESSING

To understand the findings outlined in this chapter it is necessary to have a basic understanding of the process of preparing coffee for export. Methods of processing have a profound impact on coffee quality, and therefore value. Processing is an important means of adding value to coffee, and how it is processed, and the form it is sold in have an impact on farmer income. Freshly harvested coffee is known as red cherry. This is coffee in its raw form - ripe coffee-fruit. Red cherry must be processed within 24 hours after picking to ensure quality output. Processing cherry involves separating the pulp, or flesh from the bean which it encases, grading it, and evenly drying it to produce green bean – the form in which coffee is exported and internationally traded. This is generally achieved in one of two ways:

- Dry processing: This is the traditional method of processing employed by many smallholder coffee farmers worldwide. It is time-consuming, labour intensive, and results in inconsistent quality. It involves de-pulping beans with hand-operated machinery, and drying the coffee in the sun. During a discussion on dry-processing, a CCT spokesperson remarked,

Unfortunately [the producers] don't process [the coffee] properly, so they lose quality - especially in the washing phase. Water's a bit scarce at the moment, and they will pulp the coffee, but not wash it properly. Or let it sit and ferment for a bit. And the other thing they do is, after washing it they'll put it out on the asphalt road to dry, which half cooks it, and that's another major tasting thing.

In Timor, farmers usually leave their traditionally-processed coffee on the side of the road to dry, often laying it on canvas or old coffee-sacks. Dry-processing produces a half-stage form of coffee known as parchment – which is unhulled beans, with the husk, or parchment, layer remaining. Buyers then wash it to process it to green bean (export form) by removing the parchment layer.



Fig 6.1. Dry Processing equipment at an Ermera coffee farmer's home



Fig 6.2. parchment coffee drying on the roadside in Ermera

- Wet processing: Wet processing is the modern, large-scale, efficient method used by most large coffee exporting companies. It is much more consistent in its quality output, and its economy of scale makes

it the more cost effective option for processing, after the initial input of capital required to establish a wet processing plant. Smallholder farmers do not have access to wet-processing facilities and the majority of wet-processing in Timor-Leste is carried out by CCT. Wet processing produces washed, dried, and graded green beans, ready for export.

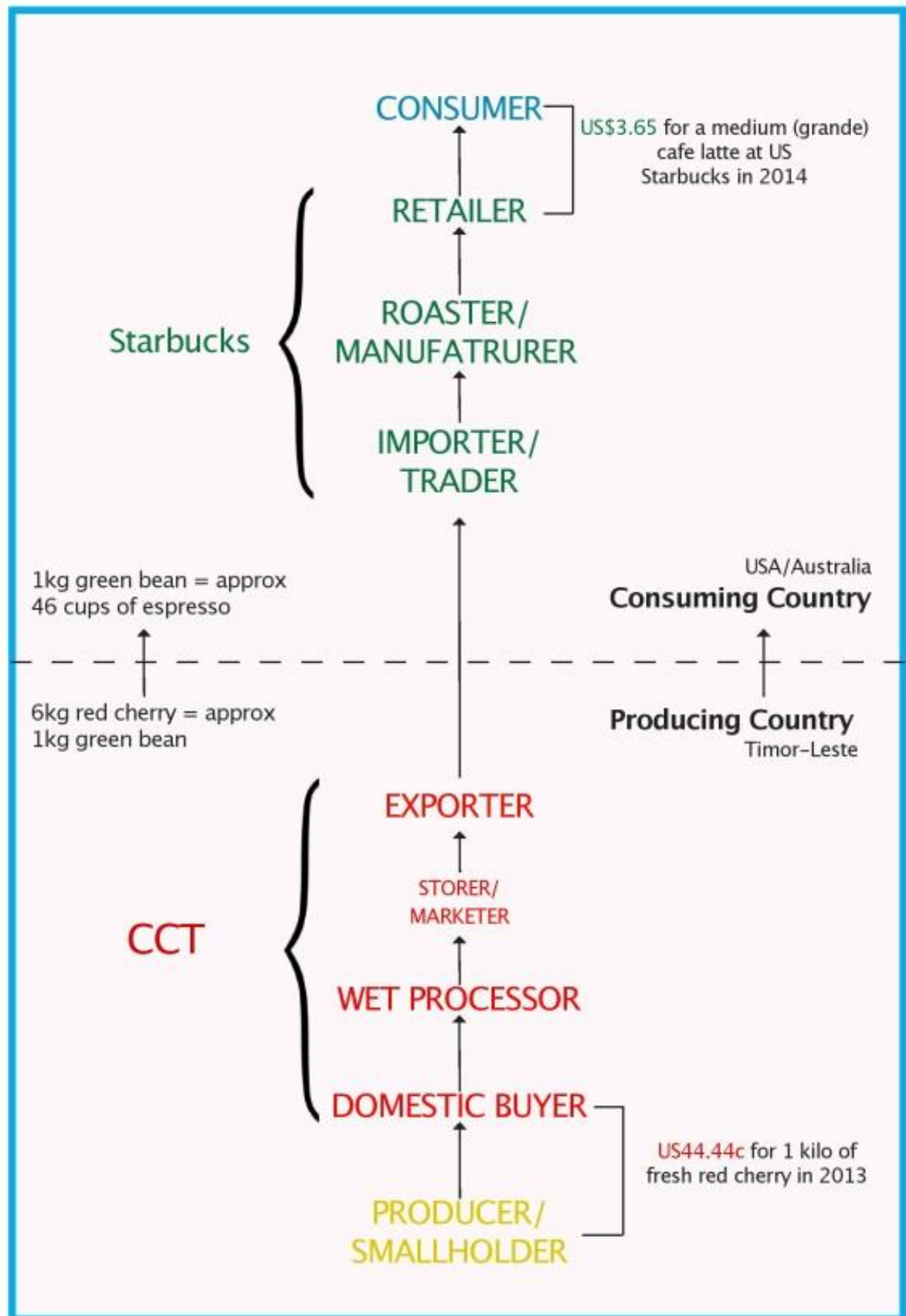


Fig 6.3. The fair trade certified, CCT – Starbucks commodity chain

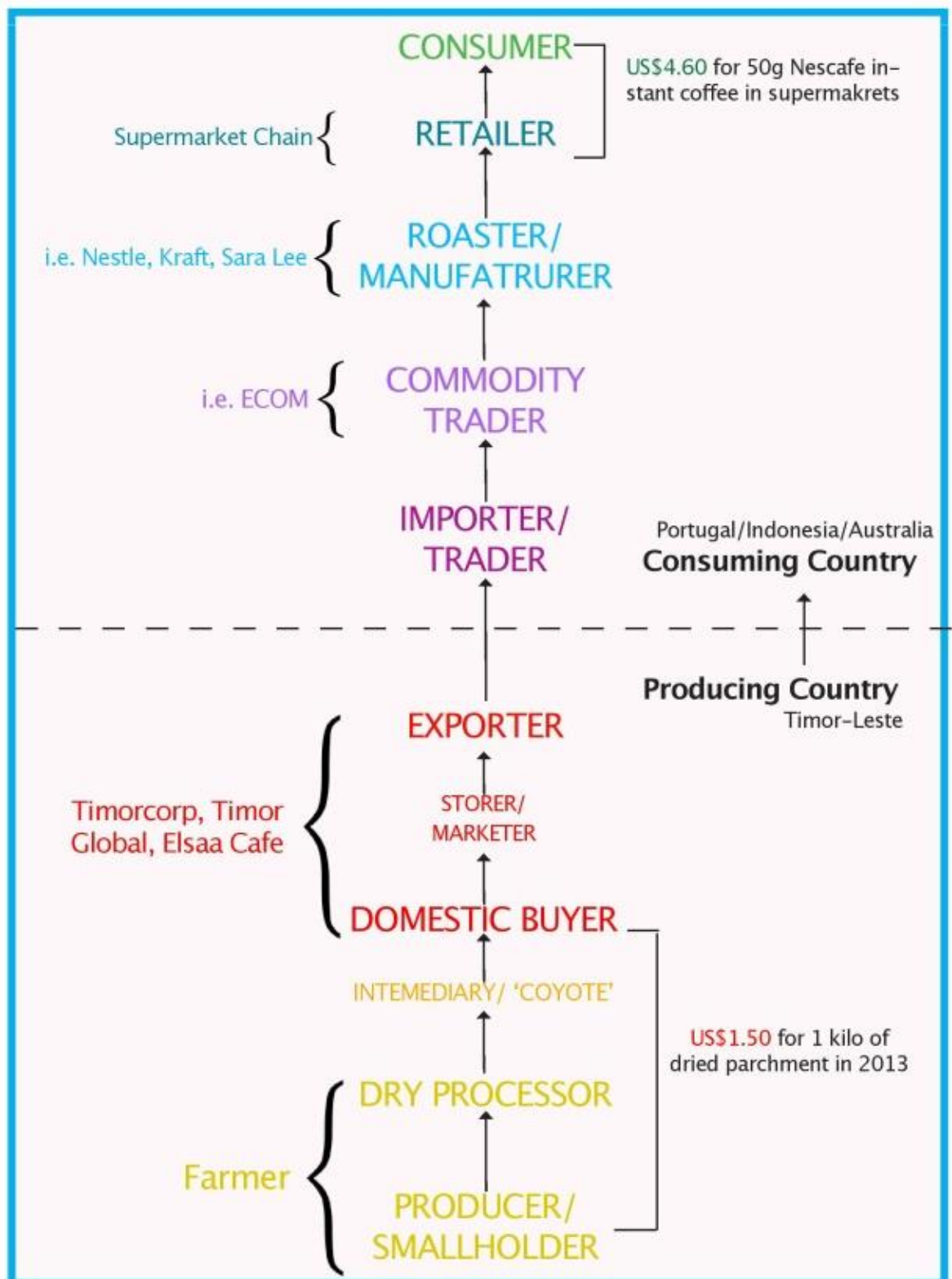


Fig 6.4. An average commodity chain for non-fair trade certified coffee in Timor-Leste

6.2 TWO MARKETS: FAIR TRADE AND FREE TRADE COMMODITY CHAINS

Farmers' access to commodity income can be understood by mapping out a vertical chain illustrating the life of a product from producer to consumer. We can add a list of actors involved in this chain; showing which actor carries out, and profits from which activity. Fair trade aspirations see smallholder producers collectively occupying the majority of the chain, before export. Though it is not always quite so simple in practice, we can work off the basic assumption that the more actors involved in the commodity chain of a particular product; the more the overall value of the product is shared between them, meaning each individual party gets less of a share. Conversely, the shorter the chain; the larger the return of each actor. By understanding which nodes of the Timorese coffee chains producers are able to profit from, we can understand the extent to which collectivisation, specifically fair trade certification, has encouraged vertical integration and increased farmers' access to export income.

Interviews, analysis of articles and reports, and personal observation have allowed me to map out two distinct commodity chains that coffee producers participate in in Timor-Leste (with particular reference to the Ermera district) (see fig. 5.3 and fig. 5.4, pages 87, 88). The first diagram depicts the fair trade model: in this case the trade partnership between CCT and Starbucks. The second illustrates the typical non-fair trade, or free market model. These two depictions are generalised models, they illustrate the norm – and it is acknowledged that in reality there are bound to be some exceptions to them. In the CCT chain, producers sell ripe, unprocessed coffee cherry to the cooperative, who then transports it, processes it, and exports it. The site of transaction for producers is directly after harvest, meaning that once they have picked and sold the raw cherry, at the farm gate, they no longer have access to value added to that product. In the non-fair trade model, the companies usually buy semi-processed coffee from the farmers, meaning farmers access a higher node of the commodity chain; that of processing. In theory, this should give farmers access to value-added profit, because the company is also buying the labour, time, capital and knowledge it takes to process the cherry. However, as I have mentioned, home-processing

in Timor produces a product of substandard quality, as farmers lack the capital to access efficient wet-processing equipment. Therefore, dry-processed coffee fetches a lower price than its cherry equivalent.

6.2A THE CCT (FAIR TRADE) COMMODITY CHAIN

CCT buys at farm gate. They do not go through any intermediaries or rural collectors – as is encouraged in the fair trade system – they have eliminated one set of middle-traders by doing this, thereby removing a link in the commodity chain and shortening the distance between producer and consumer. The crew on board the CCT truck will weigh the coffee, briefly grade it, and, if it meets regulation standards, offer the farmers a price. CCT benefits from a market monopsony in Timor-Leste. As they remain the only company who buys red cherry from producers and processes it fully themselves, they are able to claim that they are not in direct competition with the other companies. This cherry-only policy is a method of quality control. As the farmers lack the tools to efficiently process coffee, CCT does it for them, sparing them the time and labour investment required, but cutting them off from the ongoing export process, and from value-added profit farther up the chain.

Processing coffee from its ripe form at their own plants, thus ensuring the coffee is of a premium quality standard, allows CCT/NCBA to market it at the quality that their biggest trade partners demand. As it is most efficient for CCT's management to buy red cherry and process it at central plants, it is not within CCT's best interest to undertake efforts to improve the quality of farm-processed coffee, or establish communal processing facilities in rural areas to allow farmers to add value to their product before selling it. However – the best interests of CCT and the best interests of farmers are divergent here. Farmers would have markedly increased access to commodity income if they owned efficient means of processing. Laughton (2007) found that “[the cooperative's] subsumption of multi-nodal streams of income — in particular, income from processing — was an anomaly of the FLO Standard that elicited ambivalent responses from farmer interviewees” (p. 128.).

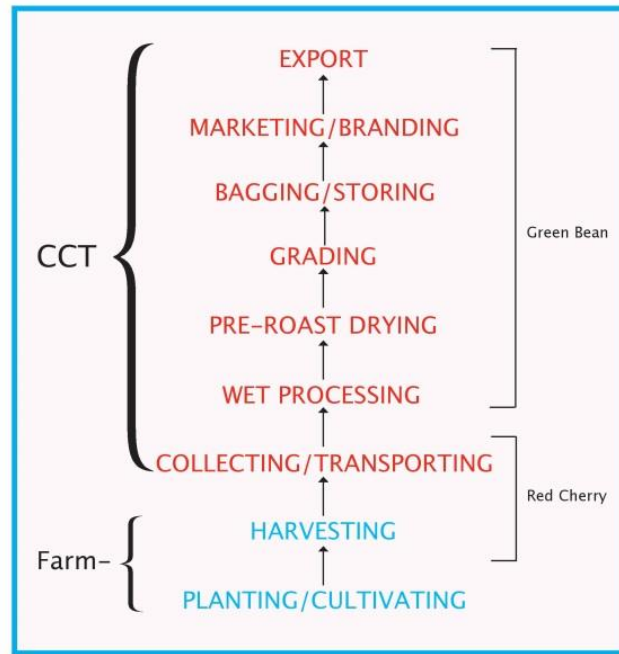


Fig 6.5. Steps in the CCT export chain

As it stands producers' only participation in the CCT-Starbucks export chain is cultivating and harvesting. In this sense, CCT's business model resembles that of a large free market coffee exporter, rather than a fair trade producing cooperative. Laughton's 2007 interview subjects expressed this concern:

While appreciating the minimisation of the intensive labour required of dry processing, other interviewees expressed resentment at farmer exclusion from wet processing income. Several farmers and NGO representatives advocated for producer access to advanced wet-processing technologies for collective benefit. The following quotes were typical: "Farmer options need to be broader than either selling coffee cherry or processing coffee the hard way." – Justino (Farmer) "We need to work with growers to sell directly to roasters. For their condition to improve, at the very least farmers must have control of wet processing. – Pia (NGO Representative)" (Laughton, 2007, p. 129).

As farmers do not have control over wet processing currently, and as such are firmly situated in entry commodity chain nodes. Their next best option, financially, is to sell red cherry. However, currently, as CCT has a monopsony on red cherry, selling to CCT generally offers farmers a better rate of return than selling to any of its competitors, meaning farmers are, to an extent,

dependant on CCT, and the organisation's supply is base is reasonably secure. Despite this, the average farming household income remains well below the poverty line, and continuing to sell only red cherry provides little room for those livelihoods to improve.

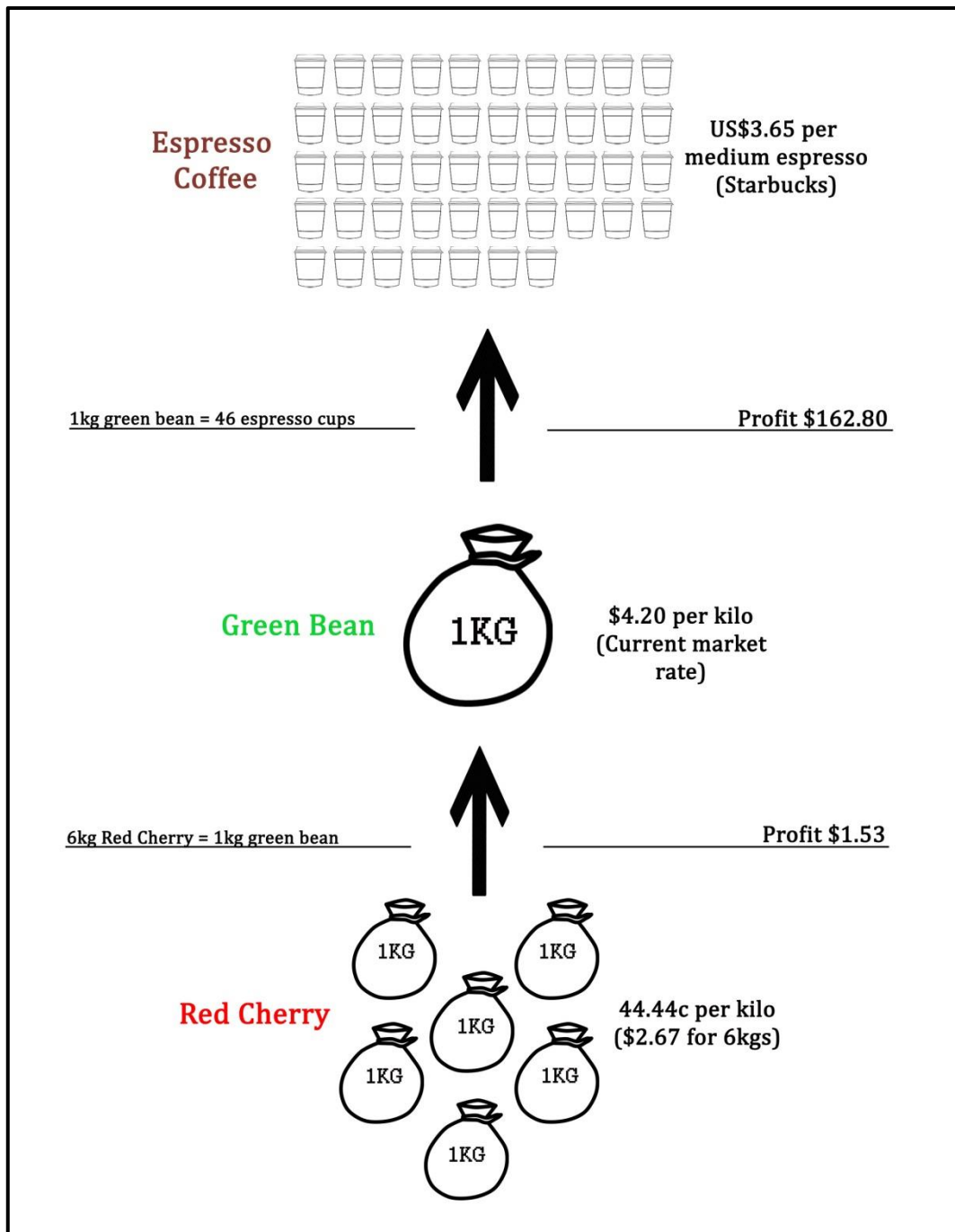


Fig 6.7: Diagram illustrating profit margins within the CCT – Starbucks commodity chain (prices in US Dollars)

It still follows that cherry is the most popular form of coffee for farmers to sell. Inder calculates that 68% of coffee farmers in Ermera district sold their coffee as red cherry in 2012, and that 64% of that number sold exclusively red cherry. As only CCT buys red cherry, Inder takes this as an indicator of “the dominance of CCT in the coffee industry in Ermera District” (Inder, 2013, p. 10). Calculating returns to farmers from the sale of cherry is a complex exercise, and dependent on many variables, but it is possible to trace the average value of a kilogram of Timorese red cherry from production to consumption: CCT pays approximately US20c per pound for cherry (US44.44c per kilogram), in line with the fair trade minimum pricing structure. Six kilograms of red cherry make around one kilogram of green bean (washed/processed coffee, before it is roasted). One kilogram of green bean makes roughly 46 cups of espresso coffee (assuming 13% of the weight is lost through roasting, and an espresso uses 18 grams of coffee). Currently, a medium espresso coffee at Starbucks costs US\$3.65. Based on the above figures, farmers receive approximately US6c per espresso sold at Starbucks, or 1.6% of the final retail price, when they sell red cherry to CCT.

6.2B THE NON-FAIR TRADE CERTIFIED COMMODITY CHAIN

The other option for farmers is to sell home-processed coffee to the non-fair trade certified market. The non-fair trade certified commodity chain has an extended number of nodes, or links in the chain, compared to the fair trade, CCT-Starbucks export/import process. As Timorcorp, Timor Global, and Elsaa Café are less likely to buy at farm gate than CCT, farmers need to find alternate methods of transporting product to buyers. Farmers will often sell to an intermediary, a local trader with a truck, who will then on-sell the product to one of the large companies, taking a share of the profit that would otherwise have been the farmer's. The Director of one of the three large non-fair trade buyers told me:

Individually they're too small, they have to transport the parchment in, and if they don't have the volume they don't have the capacity to hire a truck. You need at least 4-5 tonnes of dry parchment to hire a truck.

In this sense, the conventional market, in which smallholders do not have access to collective capital, forces producers to forfeit a portion of the profit to those who have the means of transporting coffee to the main exporters – intermediary buyers. Farmers often referred to these entrepreneurs as store keepers. Two interviewees spoke of having to go through local intermediaries:

For my coffee, I always sell to the store in Ermera, and the boss in Ermera offers to the company.

The store will sell to the company. We just bring to the store, and the truck comes to the store.

As Timorese farmers do not have access to wet-processing equipment, selling processed coffee means using the traditional, ultimately costly method of dry-processing. As of the 21st of November, 2014, the New York ‘C’ price for washed Arabica (green bean) was \$1.88 per pound, or \$4.20 per kilogram. However, as dry-processing results in inconsistent and inferior quality, Inder estimates that in 2012, sellers received around \$2.00 per kilogram of dried parchment, or home processed coffee (Inder, 2013, p. 10). As farmers generally do not sell directly to the exporter in this chain, but to a trader/transporter, they are likely to receive an even lower price than this. Putting this fact aside for a moment and assuming farmers were selling directly to exporters, I have calculated the relative price they would receive for red cherry, based on parchment prices. Assuming 1kg of parchment is produced from 6kg of red cherry, a farmer selling to Timor Global in 2013 at \$2.00 per kilo of dried parchment made 25c per kilo of red cherry; compared to CCT’s price of 44.44c. However – remember, the majority made even less than this – as they were selling to middlemen. We can extrapolate from this that because of the poor quality of processed coffee (due to farmers’ lack of access to capital) dry-processing coffee actually diminishes its value for Timorese farmers. Processing coffee in Timor-Leste only becomes a value adding activity when economies of scale are involved, and when capital is available for wet-processing.

The current status quo does not allow farmers to add value to their product by processing it themselves. This begs the question of why farmers dry-process their coffee to sell to the non-fair trade certified companies at all.

6.3 WHY DRY-PROCESS COFFEE?

We don't regard them [non-fair trade buyers] as competitors by the way. You can take this with a grain of salt but our product is much superior to what they produce. They're buying at a half stage – parchment, therefore they're paying a higher price than we do, for the parchment. If you work it back, the farmer is actually losing by that. Anyway, they [farmers] don't always see that of course, or care.

This quote from a CCT spokesperson indicates that while selling to CCT eventually represents a marginally higher rate of return for farmers, farmers often sell to private companies for other reasons. The ability to sell red cherry depends on a couple of important factors: Firstly, red cherry must be processed within 24 hours after it is picked in order to maintain its freshness and quality. As very few smallholders have means of transporting the coffee, they are reliant on the CCT truck to come to their farm soon after the coffee has been harvested. “Lack of access to buyers is often an impediment to selling cherry” (Inder, 2013, p. 10). Where farmers are particularly remote, or for some other reason unable to have their coffee collected, they are generally unable to sell it in cherry-form. Another factor cited in the Brett Inder study (2013) is that if the cherry is of substandard quality; unripe, over ripe, old, or affected by coffee-tree diseases, the buyers will reject it, and farmers will be forced to process to dried parchment (p. 10).

Another important reason for farmers to choose to sell dried parchment rather than red cherry is that it gives them the ability to sell out-of-season, or towards the end of the season thereby drawing out their income for longer. Inder's 2013 data supports this conclusion. The following graph, taken from the study, shows that while more red cherry is sold at the beginning of the coffee harvest (April), more dried parchment is sold toward the end (September).

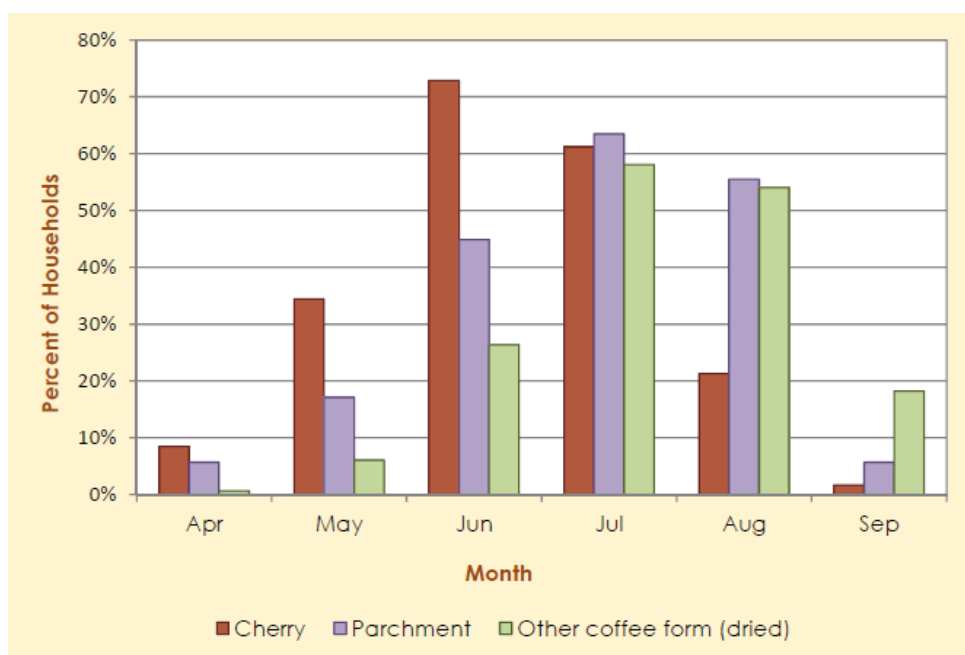


Fig 6.6. 'Monthly Coffee Income Earned by Coffee Form' (Inder, 2013, p. 11)

There are certain to be more varied reasons for processing coffee to sell for an ultimately lower return than have been stated here. However, drawing out coffee income both during and after the months of harvest is an important one. The other reason that has been demonstrated is inability to sell cherry due to lack of access to buyers or inferior quality product.

6.4 DISCUSSION: IS FAIR TRADE DOING ITS JOB?

This chapter has demonstrated that fair trade certification does indeed secure higher returns for Timorese farmers in terms of cash-in-hand annual income, as a result of the minimum pricing structure. But it has demonstrated two more things also: That farmer income is still below the extreme poverty line, and that the fair trade avenue in Timor-Leste does not allow farmers to move beyond farm-gate income, and to profit from higher vertical nodes including processing and marketing.

Addressing the second assertion; it has been demonstrated that producers only occupy the lowest nodes in the value chain, in both the CCT framework and the non-fair trade certified model. In the former, they are limited purely to growing and harvesting the coffee, as they are paid at the point of harvest. This is counter to the ideals of the fair trade system which

would have producers profiting from higher nodes of the value chain – including ‘symbolic’ ones such as marketing and branding (Daviron & Ponte, 2005). In this sense, fair trade certification is failing to extend higher forms of commodity income to producers, simply because the certified cooperative in question only buys coffee in its raw form, as a means of quality control. However, if farmers were able to access communal processing facilities on a smaller scale, through the formation of alternative (and more representative) cooperatives, they would benefit both from economies of scale, and a higher quality output – allowing them to fetch at least the current market price of US\$4.20 per kilo – or US70c per kilo of red cherry. Inder notes that “[t]he best possible returns to growers can be achieved by a network of locally operated processing facilities that are accessible to growers, with shared ownership in a co-operative set-up, and where there is sufficient local expertise to ensure consistency of quality” (Inder, 2013, p. 10). It is crucial to note that it is the practices of the cooperative that are preventing farmers from benefitting from value-adding in the case of CCT, and not the direct result of fair trade direction or regulation. In this sense – this is an example of fair trade failing to appropriately guide, monitor and regulate the practices of the cooperative in line with certification codes.

However, there is another question to answer regarding whether fair trade has done its job concerning coffee farmers’ livelihoods in Timor-Leste – regardless of whether fair trade has extended farmers’ access to vertical integration – and that is the question of whether fair trade has improved producers’ incomes: essentially measuring fair trade’s impact on poverty alleviation. This thesis asserts that fair trade incomes have not advanced producers over the extreme poverty line in Timor-Leste: This is in part due to exceptionally low yields, but even with improved yields poverty will prevail. I will reference the Inder study of 2013 yet again – because it is necessary. Inder reports that households in Ermera sold very low volumes of coffee in comparison to smallholders in other parts of the Asia-Pacific region. 66% of households sold less than 100kg of parchment equivalent coffee in 2012. Oxfam’s sector overview puts this in perspective: “Lack of pruning and re-

planting has resulted in low yields, estimated between 100 to 200kg/ha, compared with estimates of around 600kg/ha during the peak of the Portuguese colonial period, and with yields as high as 2000kg/ha in parts of the world where coffee is grown intensively” (Oxfam, 2003, p. 16). Non CCT members who sold 100kg of parchment equivalent in 2012 earned less than US\$200 that year from coffee. That amounts to US55c per day for an entire household (Inder, 2013, p. 13). Compounding this is the fact that for 50% of households, coffee represents over 50% of their annual income (p.20). Now to measure that against a CCT member household that sold 100kg of parchment equivalent (600kg of cherry): They would have earned approximately US\$260 that year; 70c a day, for an entire household – still well below the extreme poverty line of US\$1.25.¹² Again, low incomes are partly attributable to yield: If coffee were grown so intensely in Timor-Leste as to generate 2000kg/ha, fair trade farmers selling red cherry from half a hectare would earn US\$2640 a year, or \$7.20 per day – for their household (\$1.44 per person for a household of five). However, Timor-Leste does not have the capacity, in terms of infrastructure or financial or human capital to generate yields that would, with the help of the fair trade minimum pricing structure, edge its coffee producers just above the extreme poverty line. Thus; we can answer the question, as laid out in the introduction of this thesis: ‘to what extent has fair trade improved producers’ income from coffee in Timor-Leste?’ by saying, to a small extent – but not enough to bring them over the extreme poverty line, unless they increased their production capacity ten-fold, which is highly unrealistic. This supports two high-level academic critiques of the broader fair trade movement: Firstly, that the fair

¹² This is based on CCT’s 2013 price of 20c per pound (44.44c per kg) for red cherry, as CCT’s 2012 price for red cherry was unknown.

trade minimum pricing structure is being outstripped by inflation and as such, re-absorbed into the market (see chapter 1 of this thesis, page 28). And secondly, that the accelerated mainstreaming of the fair trade system makes it increasingly ill-suited to address variations in individual producer contexts, such as Timor-Leste's low yields (see chapter 1, pages 23-24.)

7. ADDRESSING INJUSTICES

IMPLICATIONS FOR THEORY AND POLICY

This thesis aimed to highlight trade inequities in Timorese coffee commodity chains, and practice anomalies in fair trade implementation. I approached this by posing two primary questions, and a number of supporting sub-questions. Centrally, I aimed to investigate the impact of fair trade certification on, firstly: producers' representation in industry governance, and the extent to which fair trade requirements regarding democratic cooperative management had been implemented. And secondly: the extent of smallholder producers' occupation of higher commodity chain nodes, and access to value-added income. I pursued with these research objectives through a number of sub questions – which are listed in my introduction, and explored issues related to: ways in which the Timorese experience may or may not align with themes in the existing literature; ways in which the history of Timor-Leste's coffee industry might influence the uptake of fair trade principles amongst stakeholders, ways in which secondary organisations have extended power over Timor-Leste's supposedly autonomous coffee cooperative; and the ways in which current organisational and commodity chain structures conform or do not conform to fair trade principles and standards. This concluding chapter will reiterate the findings of this thesis with regard to the research questions. It will go on to draw connections with literary critiques of fair trade internationally, and conclude with a discussion of potential policy reforms that might address some of the inequities and injustices uncovered.

7.1 MAIN RESEARCH FINDINGS

7.1A COOPERATIVE GOVERNANCE

This thesis has found that (in the Timorese case, but with much wider application) it is essential for smallholders to be able to form a representative cooperative to increase their collective bargaining power within the trade paradigm. The cooperative must be governed transparently, and each member must have the information they need to be able to fully

participate. This is a central tenet of fair trade's mission and is viewed as the path to smallholder empowerment. However, certain practice anomalies within the Timorese cooperative structure have limited both farmers' representation in cooperative governance, and perhaps as a result, their more material representation in commodity chain nodes. This is underpinned to a large extent by the apparent lack of belief by CCT management in fair trade principles and philosophy. In the case of CCT, it seems fair trade certification was sought as a means of satisfying the organisation's largest trade partner: Starbucks. As 'ethical consumption' trends continue to rise in popularity in Northern markets, corporations increasingly seek ways to profit from consumer demand for ethically certified products. In this sense, the fair trade movement has become vulnerable to co-optation by large corporate actors, who are inclined to see it as a tool for increased market access. I hypothesise that because CCT was not motivated to gain fair trade certification for primary reasons of principle, identity, or perceived benefits in terms of poverty alleviation and community development, the cooperative is as a result, not inclined to manage and implement fair trade in a way that will facilitate development outcomes for smallholders. This is supported by views expressed in interviews by cooperative management.

Despite its official status as a fair trade cooperative, I have found that *Cooperativa Café Timor*, in the eyes of many stakeholders and observers, does not have a management system in place in which members are able to exert democratic control over the operation and direction of the organisation. Though producers are technically represented at the Annual General Meeting through local agents, this is a superficial form of democratic participation and does not translate to grassroots decision-making. I make this assertion based on three factors: First, the structure of the cooperative is modelled on and informed by its United States designers. This thesis has shown that USAID and the NCBA facilitated the establishment of the cooperative, and as such, its structure is based on Western neoliberal management practices; specifically top-down administration. This makes it an anomaly amongst producing

cooperatives in developing countries in that it does not employ a bottom-up or grassroots system of decision-making. The involvement of the NCBA and USAID has other ramifications for the ability of farmers to participate in the cooperative arrangement. Though the two organisations have enabled CCT to become a large-scale exporter, to benefit from economies of scale, and to access large Northern buyers – in particular Starbucks, those organisations have also prevented CCT from becoming a self-sustaining organisation, viable and vital in its own right. This is due to CCT's reliance on the NCBA for access to US markets, and the maintenance of the relationship with Starbucks. The third factor in CCT's lack of representative-ness is farmers' lack of access to important information on export processes, prices, buyers, and fair trade standards and objectives. As farmers suffer from a marked lack of access to telecommunications technology and transport, and as many remain illiterate, it is difficult for farmers to participate in discussions on pricing, practices, and fair trade, and this represents a significant barrier to producer empowerment within the Timorese fair trade system.

7.1B COMMODITY CHAIN SHARE

The other significant factor I have identified as important to combatting trade inequities is the ability of fair trade to increase farmer's livelihoods by allowing them to undertake further value-adding activities, and extended their representation within the commodity chain. By occupying aspects of the export process such as wet processing and marketing/branding, through collectivisation; farmers can secure a larger share of pre-export commodity income. However, fair trade implementation has not provided an avenue for extended access to commodity income for East Timorese coffee farmers. In fact, as the one certified cooperative only buys raw coffee - or red cherry - as a matter of policy, and processes it using hired labour at central plants, the point of transaction for farmers - or the point at which they are paid - is the very early stage of immediately post-harvest. For farmers who choose to undertake the theoretically 'value-adding' activity of processing coffee themselves, and selling to the non-fair trade certified market, returns are even less – as traditional home-processing techniques result in poor quality output, and diminish the value of the

product significantly. The fair trade minimum pricing structure means that farmers are paid a marginally higher price for red cherry than for its home-processed equivalent. This means farmers are dependent on CCT to provide the highest return available. However, those returns still leave farmers with incomes significantly below the international poverty line in general. The conclusion that can be drawn from this is that, while the Timorese fair trade structure does represent slightly increased incomes for producers, these incomes contribute little to poverty alleviation in coffee farming communities, and farmers are actively prevented from increasing their incomes through higher representation in commodity chains, or access to added-value profit.

7.2 IMPLICATIONS FOR THEORY

These issues are in many respects unique to CCT, and to the Timorese context, however in some respects they mirror and support broader academic critiques of the fair trade movement and system. It is my opinion that Timorese producers have indeed suffered to a certain extent due to the increased mainstreaming and centralization of fair trade organisations and certifiers (M. Fridell et al., 2008). As fair trade codes and objectives become more and more removed from localized producer contexts, the ability of fair trade structures to address and work around contextually rooted issues that threaten successful implementation is compromised.. Such issues in the Timorese case include farmer isolation from information, post-conflict status, extremely low yields, and dependence on external organisations (particularly the NCBA).

The findings outlined in this thesis are a contribution to the argument that the fair trade system will become increasingly impotent through adoption of a one-size-fits-all, decontextualised certification structure. The other literary critique levelled at fair trade that is evidenced in the Timor-Leste experience is that of co-optation, or appropriation of fair trade certification and objectives by large corporations in pursuit of a share of the 'ethical' market (G. Fridell, 2006; Low & Davenport, 2006; Stenzel, 2013; Stoddart, 2011). This thesis has shown how Starbucks prompted CCT to

achieve fair trade certification to enhance Starbucks' potential to profit from ethical consumerism in its Northern markets. However – a resulting lack of commitment to fair trade values within the partnership has served to significantly weaken the impact of fair trade certification on producer empowerment and livelihoods. Though the Timor-Leste coffee industry presents unique conditions and challenges in terms of fair trade implementation, it is also subject to universal issues prevalent in the literature and in academic debate on fair trade effectiveness.

7.3 POLICY RECOMMENDATIONS

7.3A COOPERATIVE LAW

Fair trade's ability to assist farmers to become empowered through a cooperative industry model is only as powerful as the cooperative law and policy in the country in question. In Timor-Leste, it is my assertion that the definition of 'cooperative' has been redefined to suit the interests of the most powerful and influential parties. Fair trade codes and monitoring can only go so far in rectifying this situation, and while fair trade can bar a dysfunctional cooperative from participation, it is through having rights under cooperative law and policy that farmers themselves can begin to become collectively empowered. Timor-Leste's close relationship with international donors with policies of structural adjustment and neoliberal reform potentially makes it difficult for the country to establish regulation around cooperative governance. However, Timorese coffee farmers are in need of government-supplied framework, system, and process by which they can better assert their rights, as cooperative members.

7.3B COOPERATIVE COMPETITION

This thesis has highlighted more than once the fact that CCT/NCBA enjoys a market monopsony in the Timorese coffee industry. As the sole buyers of red cherry, they ensure that many farmers are dependent on them for the marginal (but still usually unliveable) increases in income that selling cherry brings. I believe that fair trade certification would better serve farmers if they had the tools to form alternative cooperatives, gain certification, and gain true grassroots decision making power and higher

commodity chain share. Indeed, this is beginning to happen slowly in Timor-Leste, with the recent formation of the *Movimento Cooperativa Economica – Agricola* (MCE-A), a small agricultural cooperative currently seeking fair trade certification. It is important that state actors and NGOs prioritise the facilitation of these alternative cooperatives, to challenge the current market monopsony, and give farmers more options – not only in terms of who to sell to, but in terms of the ability to take a more active role in industry governance, and determining their own future.

7.3C TARGETED AND CONTEXTUALISED CAPACITY BUILDING INITIATIVES

Chapter 5, section 5.2 (pp. 68-72) of this thesis detailed the current implementation and uptake of initiatives designed to train farmers in production techniques for larger and higher-quality yields. Increased yields remain the most direct avenue for farmers to increase their annual incomes, and, as discussed previously, coffee yields in Timor-Leste are significantly lower than amongst smallholders in comparable regions. Posited reasons for the lack of uptake of training initiatives amongst coffee farmers include a lack of trust or confidence in the (usually private sector) companies carrying out training; the absence of government-sponsored and implemented training programmes; and the implementation of training programmes that have not been designed through consultation with farmers regarding their specific needs and desires, resulting in training programmes that fail to take into account farmers' development wishes. Current capacity building programmes within the Timorese coffee sector require evaluation and reform to better address the needs of farmers, and lead to increased uptake and development outcomes.

7.4 FINAL COMMENT

I believe this thesis highlights – if not the need for reform in fair trade implementation in general – at least the need for more in-depth, quantitative and qualitative analysis of fair trade's impact on farmer situations and livelihoods in Timor-Leste. My findings highlight certain troublesome practice anomalies that suggest Timorese coffee producers are not benefitting from fair trade's full potential for poverty alleviation and

grassroots empowerment. Timorese coffee producers suffer under unjust systems of trade, which, in this context, fair trade certification has been largely unable to address. I view this as a combined result of weakened fair trade regulatory and monitoring frameworks; particular institutional operations and governance structures of the cooperative in question; and negative external influences on the cooperative. My research and analysis has led me to the viewpoint that farmers will only be able to harness the true transformative potential of fair trade through the formation of new, more grassroots driven cooperatives, selling to smaller specialty roasters who are committed to equitable partnerships and fair trade values. This will provide a challenge to CCT's red cherry monopsony and allow farmers to truly participate in their industry, and drive the improvement of their own livelihoods and development.

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APPENDIX 1: PARTICIPANT INFORMATION SHEET



Information Sheet

Participant Information Sheet for Study of the Evolution and Impacts of Fair Trade Certification on Timor-Leste's Coffee Industry

Researcher: Kelle Howson

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I am a Masters student in International Development at Victoria University of Wellington. As part of this degree I am undertaking a research project leading to a thesis. The project I am undertaking is examining the evolution and impacts of fair trade certification on Timor-Leste's coffee industry. I have received approval from the university's Human Ethics Committee to undertake this research.

I am inviting individuals involved in the coffee industry in Timor-Leste, including production, export, import, government, and other stakeholders to participate in this study. Participation will be in the form of informal one-on-one interviews. Themes for questioning will, where possible, be made available to participants prior to the interview.

Responses, experiences and opinions collected will form the basis of my research project and will be put into a written report on a confidential basis.

Participants are fully able to decide what they would like to share, or what they would not like to share. Each opinion and situation will be wholly respected. Participants are able to withdraw from the research at any point before completion.

Participants are able to withdraw from the research any time before the 30th of June, 2014. They will not be asked for a reason, and their contribution will not be included in the report.

The thesis will not use people's names, and care will be taken to ensure that the participant's roles are described with a wide enough scope as to maintain confidentiality. (i.e. "A member of the foreign aid community", "a coffee grower," "a government official"). Respondents will be described as generally as possible, and the report will not identify individuals through association with certain organisations.

If you have any questions or would like to receive further information about the project, please contact me at kelle.howson@vuw.ac.nz or my supervisor, Professor Warwick Murray at warwick.murray@vuw.ac.nz, physical address: The School of

Geography, Environment and Earth Sciences at Victoria University, P O Box 600, Wellington. Alternatively you can phone me on +64 27 320 2476.

Kelle Howson

APPENDIX 2: PARTICIPANT CONSENT FORM



Consent to Participate In Research

The Evolution and Impact of Fair Trade Certification on Timor-Leste's Coffee Industry

Researcher: Kelle Howson
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I have been given and have understood an explanation of this research project. I have had an opportunity to ask questions and have them answered to my satisfaction. I understand that I may withdraw myself (or any information I have provided) from this project before June 2014 without having to give reasons.

I understand that any information I provide will be kept confidential to the researcher and the supervisor. I understand the published results will not use my name, but may identify my job or organisation. I understand that my interview will be recorded, and that I can request for the recording to be wiped at the conclusion of the research.

- ☐ I would like to receive a summary of the results of the research when it is completed. (Conditional on access to email).
- ☐ I agree to take part in this research.

Signed:

Name of participant:

Date:

APPENDIX 3: SAMPLE QUESTIONS FOR COFFEE FARMERS



Interview Questions Guideline: Producers

Study into the impact and evolution of fair trade certification on the coffee industry in Timor-Leste

- For how long have you grown coffee?
- Why did you start growing coffee?
- Describe the coffee commodity chain for your product – where does it go once it's harvested?
- How is your coffee processed?
- What was your experience of the fair trade certification process (if you were involved)?
- What difference has being part of a cooperative made to your work?
- What difference has fair trade certification made to your income/livelihood?
- What is your relationship with your cooperative – how do you participate in decision making/governance?
- What are the main challenges you face as a coffee farmer in Timor-Leste?
- Would you like the consumers who buy your coffee to know anything about you in particular?
- How would you change the fair trade system – if at all – if you could?
- What do you hope the future of the coffee industry in Timor-Leste will look like?

APPENDIX 4: SAMPLE QUESTIONS FOR GENERAL STAKEHOLDERS



- Describe the fair trade coffee commodity chain from harvest in Timor-Leste
- What were the motivations for your organisation for working within the coffee industry in Timor-Leste?
- What are the main objectives of your work here?
- Describe the history of your relationship with fair trade coffee cooperatives in Timor-Leste (if relevant).
- What gains have been made through fair trade certification of coffee in Timor-Leste?
- How has your organisation contributed to those gains?
- What are the main issues facing the coffee industry in Timor-Leste today?
- What issues need to be focused on to continue to benefit coffee farmers going forward?