

What about fair trade in a high prices' context?

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WHAT ABOUT FAIR TRADE IN A HIGH PRICES' CONTEXT?

Stéphane FOURNIER (1)

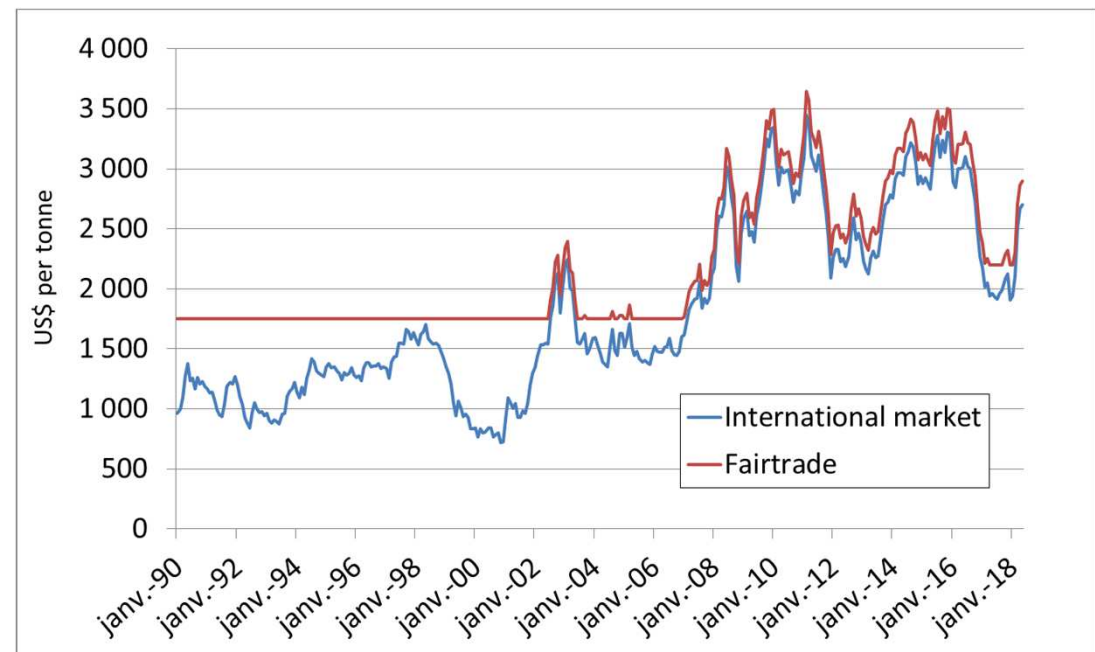
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An impact study

- 3 case studies commissioned and funded by Ethiquable to understand the effects of fair trade on cocoa supply chain in 3 countries : Côte d'Ivoire, Madagascar and Nicaragua
 - Master theses of West African and French students (of Montpellier SupAgro)
- Studies carried out in 2016, in a **specific context**
=> What about fair trade in such a context?



Clear incentives for fair trade whatever the prices context?

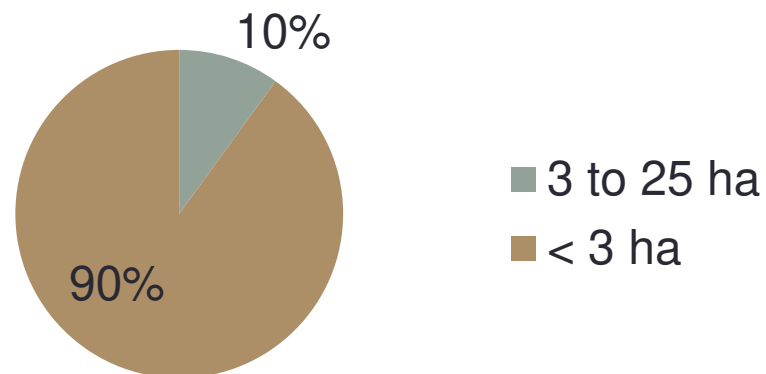
- High prices (quasi-equal to FT ones) in conventional supply chains can annihilate FT “income effect”.
- But this price context shouldn't jeopardize FT, which offers many advantages and services to producers
 - Remuneration for agro-ecological practices and no price negotiation
 - Technical support from cooperatives
 - Guaranteed selling price
 - Access to social services.
- At cooperatives' level, strong advantages too
 - Advance payments
 - Premium
 - Mid-term commitment of the buyers
- Can this theoretical reasoning stand the test of field studies?

CASE STUDY

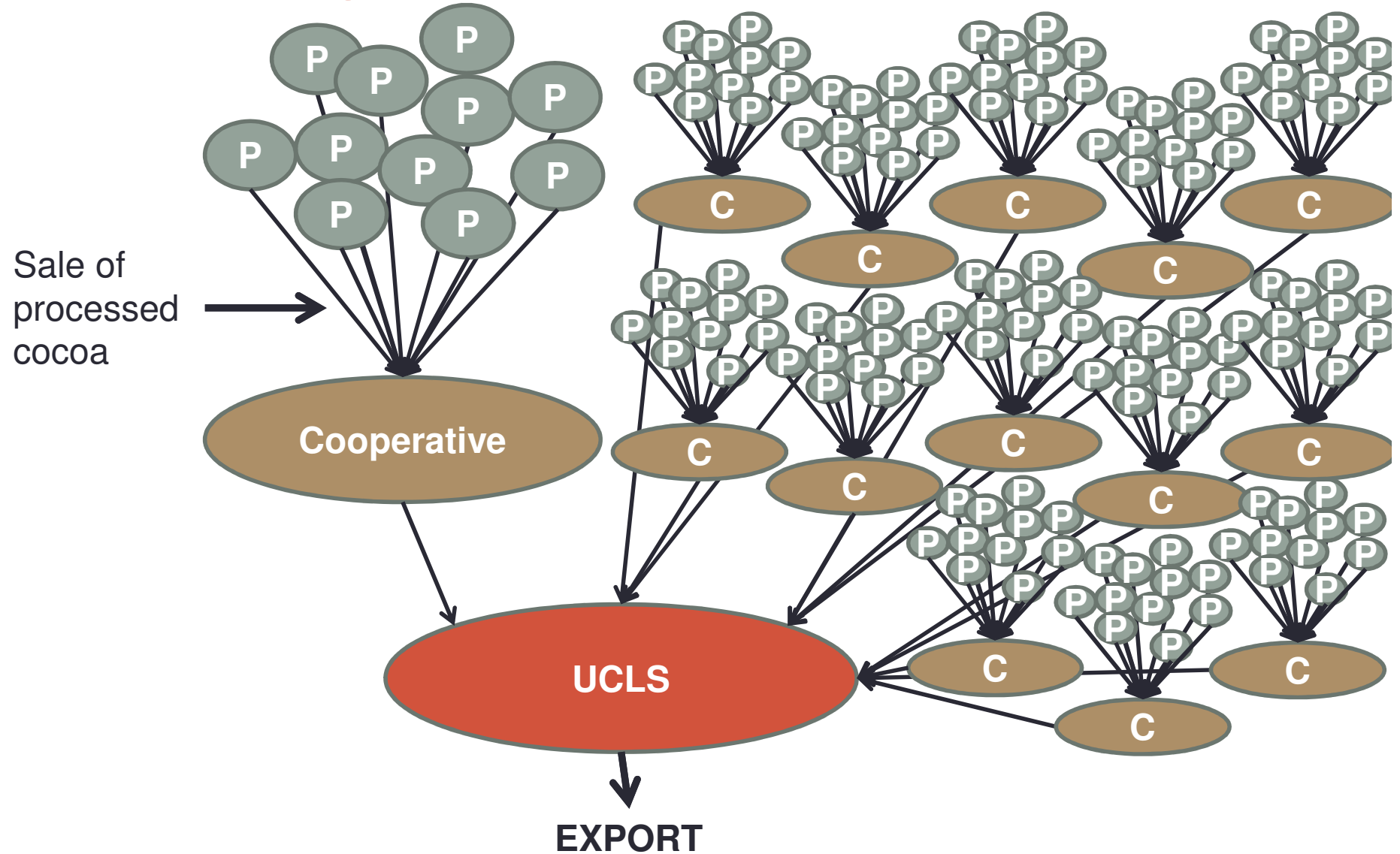
The « Union des Coopératives Lazan'ny Sambirano » (UCLS) in Madagascar

- Cocoa in Madagascar:
 - Madagascan State developed a smallholders-based cocoa supply chain from 1964
 - Difficult public management of the supply chain during 1970's and 1980's; total liberalization in the 1990's.
 - Growing market power of the supply chain downstream actors
 - 2000's : Development of cocoa (among others crops) producers' organizations
 - 2009 : creation of the UCLS, a local union of cocoa cooperatives.

UCLS : 345 members,
gathered in 15 cooperatives

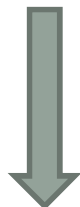
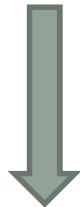


UCLS organization



Cocoa processing at planters' level

- Cocoa pods breaking
- Fermentation : 3 to 6 days
- Drying : 3 to 7 days



⇒ « Dry fermented cocoa »,
a quality requested by FT.

UCLS limits face to a growing demand

- Growing demand for FT cocoa between 2009 and 2016
- First UCLS' strategy facing this growing demand: encouraging members to extend their plantations and dry fermented cocoa production
 - Some successes in plantations expansion, at the expense of rice production
 - Inability of all the members to process all their production
 - 60-70 % of the producers < 2 ha : process and sell to UCLS less than 50% of their production
 - Need for immediate cash
 - In debt with private middlemen
 - No appropriate processing equipment
- Second UCLS' strategy: integrating important local cocoa planters

DISCUSSION

Effects of this high prices' context on FT?

Positive effects

- In many cases, as in UCLS, strengthening of the fair trade supply chains thanks to volumes' increasing.
 - In a context of high prices, conventional buyers increase their demand for FT cocoa.
 - No real « income effect », but investments in social and technical infrastructures thanks to premiums
 - In some cases, maintaining of a « price effect » (and income effect)

Effects of this high prices' context on FT?

Negative effects

- Weakening of the cooperatives
 - Members' sales to private middlemen: a permanent threat for cooperatives
 - A bigger problem in high prices' context
 - Cooperatives could benefit from higher buyers' demand but have uncertain volumes to sell...
- Weakening of the mid-term / long-term development opportunities for the most vulnerable producers
 - In a high prices' context, weaker incentives for smallest and poorest producers to invest in processing equipment and quality improvement

Effects of this high prices' context on FT?

- Weakening of the inter-cooperatives relations
 - Increase of the demand for FT cocoa, and increase of the number of certified cooperatives
 - Côte d'Ivoire : quasi-multiplied by 7 in 5 years (18 FT coops in 2013, 113 in 2017)
 - Increase of the competition between themselves to get FT markets.

Conclusion

- Importance of cooperatives in FT and of support programs aiming at members' cohesion
- Within FT system, discussion and analysis should be carried out about
 - the levels of minimum prices
 - the uses of premium
- How to fight against opportunistic strategies developed by conventional buyers in high prices' context?
 - Push towards mid term commitments
- A need to maintain (or develop) social policies and micro-credit programs alongside fair trade