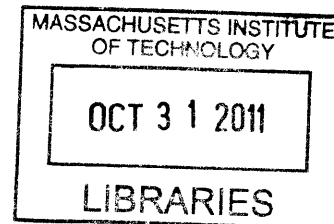


Global Niche Markets and Local Development: Clientelism and Fairtrade Farmer  
Organizations in Paraguay's Sugar Industry

by  
Gustavo Setrini

B.A. Government  
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**ARCHIVES**



SUBMITTED TO THE DEPARTMENT OF POLITICAL SCIENCE IN PARTIAL  
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Submitted to the Department of Political Science on  
September 7, 2011 in Partial Fulfillment of the  
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***Abstract***

Globalization has transformed the markets in which agricultural goods are traded, placing new demands on farmers around the world. In developing countries, smallholder and peasant farmers lack many of the resources needed to upgrade their production capacities and meet new global quality standards, making them vulnerable to marginalization and exploitation.

This dissertation seeks to discover the conditions that permit smallholders to upgrade in global value chains while also enhancing the voice and autonomy they exercise within their communities. To do so, it examines global niche markets for environmentally and socially responsible products. Organic agriculture favors smallholders' labor-intensive production, and Fairtrade certification explicitly attempts to leverage globalization for smallholder development.

Paraguay's smallholder sugarcane farmers have been the unlikely beneficiaries of these new global market niches, as the world's largest exporters of Fairtrade and organic sugar. Two Paraguayan cane farmer organizations share similar socio-economic characteristics but have had varied success in taking advantage of Fairtrade's upgrading resources.

To explain the variation between these two cases and to describe the conditions that favor smallholders' success in global niche markets, this dissertation puts forward the concept of a *clientelist production network*: the set of unequal social and political relationships that structure economic exchanges between farmers organizations, their leaders, and the buyers or processors that serve as their patrons. I also point out the role brokers play as "switches" for collective action and upgrading within clientelist networks.

Under *pluralistic clientelism* multiple brokers compete with one another and are more likely to mobilize farmers collectively. This permits farmers to build new commercial and institutional relationships and to improve the accountability of their organizations, creating a basis for *autonomous upgrading* in global value chains. Under *monopolistic clientelism* farmer groups depend on a single broker. This makes brokers more likely to support a process of *dependent upgrading*, in which farmers confront new production costs but are less likely to enhance their share value added, to elicit greater accountability

from their leaders, or to increase their autonomy from the buyers or processors that serve as their patrons.

Thesis Supervisor: Michael Piore

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## Chapter 1. Introduction

How have globalization and the associated changes in demand for agricultural goods altered the prospects of smallholder farmers in developing countries? The rapid growth of global agricultural trade and of international agribusiness investment has fundamentally transformed the context in which agricultural development is pursued. These changes have coincided also with the advent of diverse and increasingly demanding global product quality standards. Between 1998 and 2008, the value of agricultural exports from Asia, Africa, and Latin America and the Caribbean more than doubled from a figure of US\$140 to US\$367 million.<sup>1</sup> Meanwhile, between 1980 and 2000, supermarkets' share of food retail increased from 10%-20% to 50-60% in Latin America, where multinational retail corporations acquired three or more of the five top supermarket chains in most countries (Reardon et al. 2003).

Prior research has highlighted the risks of exclusion and marginalization posed by such market transformations for smallholders and peasants in developing countries (Farina and Reardon 2000; Gibbon and Ponte 2005; Reardon and Farina 2002; McMichael 2006, 2008; Veltmeyer 2006), and suggested a large role for targeted public policies and strong farmer organizations in supporting inclusive development outcomes under globalization (Damiani 2003, 2010; Gomes 2006; Reynolds 2008).

Fairtrade represents an explicit effort to counteract the dynamic of exclusion created by globalization by creating a market for "fairly traded" commodities produced by organized smallholders in developing countries. The initiative targets material support

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<sup>1</sup> FOASTAT

toward smallholder peasant farmers and agricultural workers, seeking to leverage globalization toward the benefit of this group.

My dissertation asks, under what conditions has the development of new global niche markets for environmentally and socially responsible agricultural products supported the formation of effective and representative farmer organizations? Using case studies of two farmer organizations in the Paraguayan sugar industry, I examine how integration into global value chains in the organic and Fairtrade food industries alters production structures and rural power relations within producer communities. Other authors have conceived of the organizational and local institutional structures in which smallholders are embedded in path-dependent and historical terms, showing how the success of Fairtrade and organic agriculture in developing countries depends on “previously accumulated social capital” (Bray et al. 2002; Lutchford 2008).

In contrast, my research shows how integration into global value chains can provide new resources and incentives for farmers and their leaders to reconfigure local organizations and institutions in their favor through collective action—even where pre-existing power relations subordinate smallholders through patron-client ties. This chapter introduces the dissertation by briefly providing its motivation, presenting its methodology and theoretical framework, and by providing an overview of the subsequent chapters.

### ***Relevance and Motivation***

A large number of development scholars have identified the small-farm sector’s role in providing a foundation for fast and equitable economic growth, providing one of the few areas of broad consensus in the development literature. Empirical studies have consistently revealed an inverse relationship between farm size and land productivity (Berry and Cline 1979; Lipton 2009; Barrett et al. 2010), even in countries like Paraguay,

where large-scale, mechanized, and export-oriented grain farming is highly efficient and the small-farm sector has received weak public investment (Masterson 2007; Toledo 2009). Historically, land reform and agricultural growth led by small family farmers preceded the industrialization of countries such as Taiwan and South Korea (Amsden 1989, 37; Ban et al. 1980; Kay 2002). Thus, the development literature suggests the importance of supporting small farms, not simply as a matter of economic justice, but as a matter of economic efficiency. Policies that target the small-farm sector's development have the rare virtue of enhancing economic efficiency and equity at the same time.

However, a newer and growing body of literature suggests that, in developing countries, most smallholders confront the challenges of globalization without the resources they need to meet the increasingly demanding food safety, product quality, and environmental and social standards that have accompanied the internationalization of food retail and trade (McMichael 2006, 2008; Veltmeyer 2006). Reardon and Farina (2000, 2002) report that “standards imply very substantial outlays for reporting, new equipment, and training” and have led to a “boom with exclusion” in the Brazilian dairy industry, characterized by the “rapid concentration in key product chains (and thus exit of many small firms upstream and downstream) and rapid growth in the domestic and export food economies” (414).

Conversely, Gomes (2006) and Damiani (2003, 2010) study cases in northeast and southeast Brazil where smallholders, women, and landless labor shared in the benefits of trade. The authors conclude that this “upgrading without exclusion” was a function of multiple variables: public-sector support, strong producer organizations and

rural workers' unions, and the promotion of crops like grapes and mangos, which generated demand for specialized labor in order to meet export quality standards.

Where effective smallholder organizations exist, research has described them as the product of distinctive democratic historical traditions (Luetchford 2008; Mutersbaugh 2002). In contrast, the politically subordinate position of smallholders in many or most developing countries complicates this group's efforts to extract from public organizations or private firms the types of benefits that would aid their collective competitiveness and development.

These studies identify the conditions that aid smallholders' competitiveness. Yet, they leave important questions unanswered. Can new organizations come into existence in response to evolving economic threats and opportunities? How do old producer organizations gain new capacities over time? And does the growth of niche markets for environmentally and socially responsible agricultural products provide a stimulus for their formation?

Specifically, my thesis examines two niche markets that have grown to global importance over the last decades. Organic certification has supported the development of a global market for agricultural goods and foodstuffs produced without the aid of chemical inputs. Labor-saving synthetic fertilizers and pesticides have been integral to the development of modern industrial agriculture and central to the growth of the large farming, trading, processing, and retail enterprises that overwhelmingly comprise the contemporary agri-food system. Even as large mainstream actors have increasingly entered the organic niche, researchers have hypothesized that the labor-intensiveness of

organic production creates special competitive opportunities for smallholder production (Damiani and Silveri 2003).

At the same time, Fairtrade organizations have attempted to harness the economic power of advanced-country consumers to improve the conditions under which tropical commodities are produced in poor countries. This initiative has grown rapidly in recent years, reaching sales of approximately \$4.4 billion in 2009 and incorporating 1.2 million workers and farmers in 827 organizations in 60 countries across Asia, Africa, and Latin America (FLO 2010).

My research treats integration into organic and Fairtrade markets as an external shock to power and productive relations in producer communities. Fairtrade provides new incentives for collective organization among smallholders and targets new material resources to this group. Organic certification creates new demands and asks farmers to mobilize their economic and productive resources in novel ways to meet new production quality standards and generate new kinds of value. Though each type of initiative functions somewhat differently, government policy, NGO projects, or a private company's sustainable sourcing guidelines could provide similar shocks.

As they endeavor to aid small farmers' development within the global economy, these initiatives must confront a local environment characterized by material, social, and political inequalities among poor farmers, their leaders, and the other economic actors with whom they interact. In most developing countries, farmers do not confront the challenges of globalization with the aid of organizations that are already effective and accountable. Instead, they are more often enmeshed in patron-client relationships that subordinate their interests to more powerful actors and create barriers to smallholders'

participation in globalization's benefits. In addition to pursuing the economic investments necessary to remain competitive, small farmers in developing countries often must also embark on new processes of institution building and organization in order to achieve greater security under rapidly changing conditions. To better understand the prospects of this group in an age of globalization, my thesis examines a set of comparative case studies in which small farmers' insertion into Fairtrade and organic-certified value chains generated divergent outcomes. I use these cases and the variation they provide as a basis for building a theory of autonomous upgrading in clientelistic production networks.

### ***Methodology and Case Studies***

The empirical focus of this thesis is a set of comparative case studies drawn from Paraguay's sugar industry. The sugar industry's historical association with plantation production, inequality, and underdevelopment, as well as Paraguay's deeply ingrained legacy of authoritarianism and clientelism, make this a highly unlikely case for the export-led development of smallholder agriculture. Yet, the Paraguayan sugar industry has captured the global niche market for organic sugar, and Fairtrade organizations have achieved varying degrees of success in promoting smallholders' participation and upgrading in this industry.

I compare two cases in which sugarcane farmers are organized into formal associations. *Asociación Cañeros Orgánicos de Iturbe* and *Cooperativa Manduvirá* organize the majority of cane growers in two of Paraguay's traditional sugarcane-farming regions. These two organizations have origins in Paraguay's extended dictatorship (1954-89) and exhibit a history of elite-control and top-down accountability associated with clientelism.

In both regions, the members of these organizations and the sugar mills they

supplied received organic certification in 1994 and Fairtrade certification in 1999, as they turned from an exclusive focus on the internal market to a new focus on new export niches. At the time I conducted my research, each association was composed of approximately 600 members, who shared similar economic characteristics (Tables 1.1 and 1.2).

**Table 1.1.** Distribution of Total Land Holdings in Two Sugarcane Growers Organizations

Size (Ha.)	Iturbe		Manduvirá*	
	Number of members	Percent of Association	Number of members	Percent of Association
Small (<10)	277	45.86%	342	78.62%
Medium (10-50)	314	51.99%	82	18.85%
Large (50-100)	9	1.49%	7	1.61%
Very Large (>100)	4	0.66%	4	0.92%
Total	604	100.00%	435	100.00%
Mean (Ha.)	15.35		10.48	
Stand. Dev.	15.52		19.06	

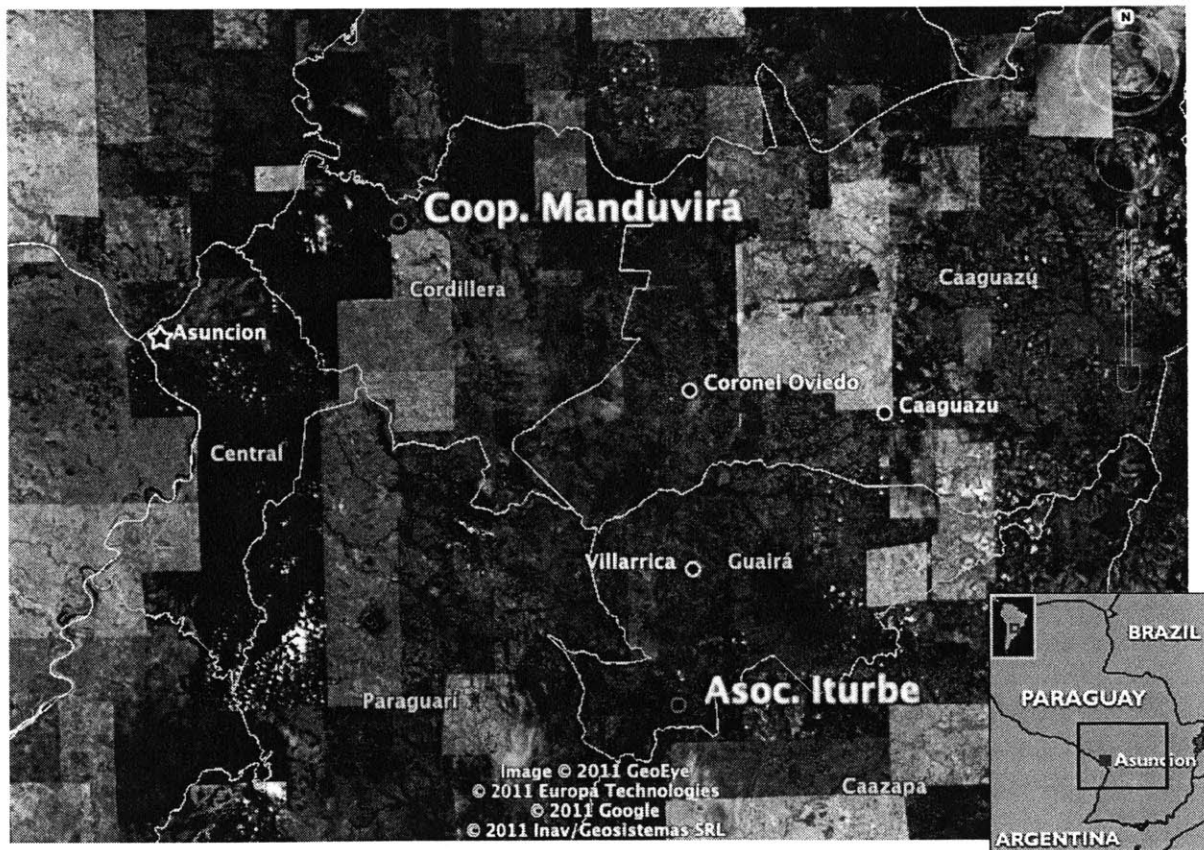
**Table 1.2.** Distribution of Sugarcane plantings in Two Sugarcane Growers Associations

Hectares	Iturbe		Manduvirá*	
	Number of members	Percent of Association	Number of members	Percent of Association
Small (<10)	487	80.63%	400	91.95%
Medium (10-50)	115	19.04%	31	7.13%
Large (50-100)	2	0.33%	3	0.69%
Very Large (>100)	0	0.00%	1	0.23%
Total	604	100.00%	435	100.00%
Mean (Ha.)	7.15		4.98	
Stand. Dev.	7.03		8.97	

\*Data excludes 200 organic-certified members that exhibit similar variation in landholdings, but for whom the cooperative lacked data. This would bring the coop's membership up to 635.

In both regions, sugarcane farmers sold their produce to a single mill that held monopsony control over the local sugarcane market. In each case, the nearest competing mill was about 75 km away. This is about three times the distance beyond which transport costs make sugarcane uneconomical to sell. For individual farmers, exiting from the local supply chain was not rational, and escaping the monopsony power of the local mill required cooperation among smallholders to coordinate transport activities and to deliver in larger volumes to the competing mills.

*Map 1.1.* Detail of Traditional Paraguayan Smallholder Farming Region.



Despite the similarities running across the two cases, the growers of *Cooperativa Manduvirá* were successful in coordinating their harvest and transport activity in order to

break the monopsony of the local mill, setting their organization on a trajectory to move up the value chain and achieve greater autonomy. Though growers in Iturbe and their leaders made a similar effort, the result was a split in the organization. A small group of medium-sized farmers broke with the local mill to supply the competing mill. However, the majority of Iturbe’s growers remained dependent on the local mill and in a weak bargaining position as the mill expands its international business.

*Table 1.3.* Interviews Conducted 2007-2009

	Cooperativa Manduvirá	Asociación Iturbe	Total*
Sugarcane Farmers	35	43	78
Leaders	11	4	24
Mill Representatives	2	5	22
Government	-	2	7
NGOs/Donors	-	-	7
Buyers/Certifiers	-	-	5
	48	54	143

\*Includes additional interviews.

The data for these case studies were collected between 2007 and 2009, during a period of two years of fieldwork in Paraguay. During this time, I conducted interviews with sugarcane farmers, their leaders, representatives of sugar mills, Paraguayan NGOs and international donors, and buyers and certifiers of organic and Fairtrade sugar (Table 1.3). I also observed the preparations of the 2008 harvest, including meetings and demonstrations held by the two associations to negotiate prices and conditions.

In order to ensure that the information that I collected during my interviews represented the attitudes and experiences of the two farmer organizations’ members, I constructed a random sample of each group. For *Asociación Cañeros Orgánicos de Iturbe*, I had access to a complete list of the association’s 604 members, who resided in 34 different localities in five different districts. Within each of the five districts, I

randomly selected between one and five localities (depending on how many members resided within each district) and, within each locality, I randomly selected four farmers to interview.

No sampling frame was available from *Cooperativa Manduvirá*. I constructed a random sample using a list of the 37 winches to which the cooperative's members deliver their sugarcane in four different geographical zones. I selected between one and three winches in each of the four zones (depending on the total number of winches located in each zone) and a total of eleven winches. To complete the sample, I relied on the operators of the selected winches (*guincheros*), who were all sugarcane farmers and typically served as the presidents of the committees that organize the cooperative's farmers at the local level. The eleven winch operators were automatically included in the sample. In addition, I asked the operators for the full list of the cooperative's members that delivered to their winches and randomly selected from among these farmers three additional interviewees.

I conducted these interviews in Guaraní, Paraguay's most widely spoken indigenous language, with the aid of a research assistant and translator. Rural Paraguayans generally speak and understand some degree of Spanish but prefer to express themselves in Guaraní in most circumstances. Spanish is used more often by urban Paraguayans and for official purposes in ways that have traditionally marked educational, class, and status hierarchies between Spanish and Guaraní speakers. Working with a translator who was fully fluent in both languages helped me to establish rapport and trust with my informants and allowed them to express themselves more naturally.

While a comparative case study method provides limited scope for generalizing, this approach permitted me to collect detailed data about the histories of two sugarcane farmer organizations and observe first-hand how they responded to the economic changes brought on by the formation of global value chains. Through participant observation and extensive interviewing in two sugarcane farmer organizations, I was able to assess how the internal relationships among leaders and members evolved in the context of new international relationships in the niche markets for Fairtrade and organic foods.

These cases illustrate that different patterns of upgrading within global value chains are possible, even in communities that share similar clientelistic patterns of socio-economic organization. To explain these divergent outcomes and provide a framework for studying the effects of globalization on small farmers, I draw distinctions between patterns of *pluralistic* and *monopolistic* clientelism and propose a set of hypotheses about how each pattern effects collective action among small farmers.

### ***Theory***

Clientelism comprises a set of vertical or unequal relationships between groups of “patrons” and “clients,” in which the latter grant loyalty to their patrons in exchange for individual material benefits and security. Political scientists have identified clientelism’s role in preventing collective action, limiting the provision of public goods, and decreasing the quality of governance in developing countries (Fox 1994; O’Donnell 1992; Putnam et al. 1993). Most of this research focuses on the origin of clientelism in national electoral systems. In contrast, I introduce the concept of a *clientelist production network* to examine how clientelist relations shape behavior within global value chains.

Furthermore, the literature generally depicts clientelism as a dyadic relationship between patrons and clients. In the cases I examine, however, clientelism is better understood as a *triadic* relationship between patrons, clients, and brokers, in which the latter occupy an intermediate position. Their ties to both patrons and clients permit them to favor the interests of either group, and brokers act as “switches” for collective action and upgrading among clients in clientelistic production networks.

I hypothesize that the degree of competition among brokers within a given clientelist production network determines whether brokers ally more closely with patrons or with clients. Specifically, I draw distinctions between *monopolistic clientelism*, where many clients dependent on the resources of a single broker and a single patron, and *pluralistic clientelism*, where clients may access multiple patrons through the intermediation of multiple brokers.

I hypothesize that, under monopolistic clientelism, the complete dependence of brokers and clients upon their patrons serves as a mechanism of control, which I name *client fragmentation*. Patrons use their monopoly of resources to reward brokers that remain passive and loyal and to punish brokers that threaten to organize and mobilize clients collectively against them. This mechanism keeps clients’ demands fragmented and individual. Where small farmers are organized in this way, they may pursue product and process upgrading in response to their leaders’ demands. However, they will have difficulties cooperating to enhance their share of value added, to make their leaders more accountable, or to increase their autonomy from the buyers or processors that serve as their patrons. I describe this outcome as *dependent upgrading*.

Under pluralistic clientelism, brokers may instead more often ally with clients, mobilizing them collectively as a way of wielding influence or pursuing their material interests vis-à-vis their patrons. I label this process *client aggregation*. Where small farmers are organized in this way, they are more likely to cooperate in ways that enhance their share of the value added in global value chains, e.g. by collectively integrating into processing or export activities. Their leaders are also more likely to adopt new mechanisms of procedural accountability and to forge new institutional relationships with outside actors, such as government extension agencies and NGOs. These actions enrich farmers' informational base and production knowledge, providing a basis for local development in a process I label *autonomous upgrading*. It follows that outside interventions such as Fairtrade, which aim to support small farmer development through international trade, will meet with greater success in communities characterized by pluralistic clientelism.

### ***Chapter Overview***

The dissertation proceeds in three parts. Part I provides the literature review and theoretical framework for the study. It consists of Chapter Two, which reviews the literature on agricultural globalization and on small farmer upgrading, and Chapter Three, which reviews the literature on clientelism and proposes hypotheses about upgrading within clientelist production networks.

Part II of the dissertation provides the historical and international context for Paraguay's capture of the market niche for organic and Fairtrade sugar. Chapter Four examines the role that smallholders have historically played in the development of the conventional sugar industry. It provides a cross-national comparative analysis of the

sugar industry's post-colonial modernization which suggests that smallholders' ability to derive benefits from their participation in the sugar industry has been a function of the political power they can exercise vis-à-vis processors and the state. Chapter Five describes the contemporary fragmentation of conventional sugar markets and the development of global niches for organic and Fairtrade sugar. This chapter also explains how the backwardness of Paraguay's sugar industry gave its sugar mills unique advantages to exploit these niches. However, the organizational legacy left by authoritarian rural development policies simultaneously placed the small farmers that supplied Paraguayan sugar mills in a weak position to benefit from these new export markets.

Part III of the dissertation examines the local consequences of the new demands emanating from the global sugar industry. Chapter 6 examines how a legacy of *monopolistic clientelism* in the district of Iturbe frustrated sugarcane farmers' ability to respond to the new opportunities provided by Fairtrade and organic markets, and Chapter 7 describes how a legacy of *pluralistic clientelism* in the community of Arroyos y Esteros permitted a more collective response to these same opportunities among the members of *Cooperativa Manduvirá*. Chapter 8 concludes the dissertation by stating the implications of the case comparison for upgrading under clientelism and by drawing lessons for Fairtrade and other initiatives that seek to aid smallholders' success in the global economy.

## **Part I: Literature Review and Theory**

### **Chapter 2. Smallholder Agriculture, Global Value Chains, and Fairtrade**

Much of the research on agriculture and globalization predicts negative effects of globalization on small farmers in developing countries. This research focuses primarily on changes at the global level that generate new competitive pressures and create new economic demands on small farmers to which they are poorly equipped to respond. What does it take for small farmers to adjust to new demands and improve their productive capabilities? What kinds of assets, relationships, and incentives aid their success in global markets?

This chapter reviews the literature on agriculture and globalization and argues that, while it clearly identifies the constraints facing small farmers, it fails to recognize the full extent of variation in upgrading of which they are capable. The literature paints too pessimistic a view, because it lacks an account of how farmers can draw on non-economic sources of power and mobilization and construct new institutional relationships at the local level that allow them to confront globalization with greater autonomy. The chapter proceeds in three sections. The first section discusses the main components of agricultural globalization and the new demands it creates on farmers. The second section reviews the literature on upgrading that discusses how developing country suppliers meet new demands in the global economy and overwhelmingly predicts that small and peasant

farmers will be excluded from global trade. Finally the third section provides background on niche markets for environmentally and socially responsible products that offer new resources for small farmers' upgrading and autonomy.

### *Agriculture and Globalization*

Agricultural globalization's manifestations are multiple and varied. However, the literature highlights three trends that are particularly relevant for the purposes of this dissertation. First, agricultural trade, processing, and retail have become increasingly concentrated under multinational companies. Second, as food and agriculture trade have globalized, markets in advanced countries have fragmented into multiple narrower niches for products with specific qualities. Third, participating in agricultural trade increasingly requires farmers in developing countries to meet the private product quality and additional standards that constitute new barriers to participation in "global value chains."

Foreign Direct Investment (FDI) in agriculture remains small in comparison to the industrial sector but has trended upwards and has had transformative consequences, especially for developing countries. Inward global agricultural FDI flows increased from US\$600 million in 1989-91 to US\$3.3 billion in 2005-2007 and inward stocks increased from US\$8.0 to US\$32.0 billion between 1990 and 2007 (UNCTAD 2009, 112). Nearly all the increase in flows (88.9%) and more than half (55.8%) the increase in stocks went to developing countries. Multinational investment in the food and beverage industries has increased even more dramatically, with global FDI inflows growing from US\$7.2 billion in 1989-91 to US\$40.5 billion in 2005-2007 and the global inward investment stock growing more than five-fold, from US\$80.3 to US\$450 in the same period. Developing countries received more than 80% of these increases.

Through these investments, multinational companies (MNC) from northern developed countries have gained increasing ownership over the agriculture and food industries of developing countries, purchasing local food and beverage manufacturers, supermarkets and retail outlets; acquiring agricultural processing, input (e.g. seed, chemical, and machinery) companies; constructing transport and logistics facilities; and increasingly buying agricultural land for primary production (Reardon et al. 2003; Reardon and Timmer 2007; UNCTAD 2009; Wilkinson 2004, 2009). In particular, the literature has documented how a process of mergers and acquisitions has led to concentrated ownership of food retail outlets around the world among large northern retailers like Wal-Mart (U.S.), Carrefour (France), Royal Ahold (Netherlands) and Tesco (U.K.). Of the world's twenty largest retail groups in 2001-2002, thirteen were supermarket chains from advanced countries with investments in developing and transition countries (Gibbon and Ponte 2005, 8-10). This pattern has extended farthest in Latin America, where the share of supermarkets in food retail rose from less than 20% in the 1980s to between 50 and 60% by 2000—nearly converging with the figure of 70 to 80% in advanced countries (Reardon et al. 2003). In Latin America, multinational companies now own 70 to 80% of the top five chains in most countries (1142-3). A similar process of multinational acquisition and concentration of ownership has occurred in the processing industry of developing countries, especially in Mexico, Brazil, and Argentina (Wilkinson 2004).

The increased investment of multinational agribusiness and food retail companies in developing countries responded in part to the stagnation of food retail markets in advanced countries. As incomes rose over the twentieth century in the U.S. and Europe,

consumer purchase of food represented ever-decreasing proportions of household expenditures, and consumer demand for basic food staples became saturated by the mid-1970s (Gibbon and Ponte 2005; Wilkinson 2004). This fact first drove oligopolistic concentration within the food retail sectors of advanced countries and subsequently encouraged food retailers to diversify their investments to include developing countries, where population growth and rapid urbanization created more dynamic conditions for food retail. For example, Reardon et al. (2003) cite the fact that, during the 1990s, Carrefour's Argentine operations earned margins that were three times larger than those the company earned in France (1141).

The stagnation of food markets in advanced countries has also provoked the second of the three trends cited above. As food manufacturers have sought new sources of profit, they have increasingly replaced uniform and standardized commodities with products that are tailored closely to specific consumer demands and narrower markets. In this process, brand competition based primarily on price, reliability, and consistency has progressively given way to brand competition based on a combination of price considerations, generic product quality, and specific product qualities or characteristics. Supermarkets' development of lower-priced, private-label versions of premium branded products has intensified this trend, and encouraged food manufacturers to compete with new products that they market on the basis of "ever-more intangible psychographic qualities (above all, personal identity)" (Gibbon and Ponte 2005, 29-30).

Parallel to food manufacturers' pursuit of product innovation and the proliferation of branded products has been supermarket retailers' diversification of their fresh and perishable produce offerings. Together with innovations in international transport

logistics, retailers' investments abroad have permitted new sourcing relationships that allow them to take advantage of lower production costs and counter-seasonal climate conditions abroad. This trend has driven the rapid growth of "non-traditional agricultural exports" from developing countries, and supermarkets' access to seafood, counter-seasonal produce, and exotic fruits and vegetables has steadily increased the variety of products available to the average consumer at food retail outlets. For example, Wilkinson (2004) cites data indicating that processed fish increased its value share in developing countries' processed exports from 8.8 % in 1970 to 30.7% in 1994 (188).

Finally, changes in the regulation and coordination of international food and agriculture trade have accompanied the development of increasingly diverse niche markets and the concentration and internationalization of food retail. Scholars have associated globalization in general with the de-verticalization of large industrial enterprises and the rise of new organizational forms that manage and coordinate economic activity through durable inter-firm "networks," rather than through short-term market transactions or ownership and hierarchical control (Powell 1990).

Specifically the literature on global value chains (GVC) defines "value chain governance" as the "inter-firm relationships and institutional mechanisms through which non-market coordination of activities" takes place (Humphrey and Schmitz 2001). This literature has identified global buyers as playing an increasingly important role in value-chain governance by determining "what is to be produced; how it is to be produced; when it is to be produced; and how much of it is to be produced." By establishing and enforcing the production and product standards that other firms must meet, global buyers shape local firms' participation in international trade and increasingly domestic commerce.

For producers in the agriculture and food industries, this has meant adhering to the growing list of standards stipulated by food manufacturers and retailers for product quality, food safety, processing and packaging, transport and logistics, and environmental and social practices. In order to manage their global supply chains retailers have relied on private certifications such as Hazard Analysis Critical Control Point (HACCP) certification for food safety, and safety and quality standards administered by the International Standards Organization (ISO).

These standards form part of new private certification systems, in which private governing bodies, industry associations, and multi-stakeholder initiatives (which include representatives from supplier and buyer companies and civil society groups) establish standards and accredit private for-profit, as well as non-profit third-party certifying organizations to audit, inspect, and certify supplier companies' compliance with sourcing standards.

For example, the Euro-Retailer Produce Working Group's Good Agricultural Practices (EurepGap) certification incorporates HACCP and ISO standards into a set of norms that apply to pre-farm, on-farm, and post-harvest activities. Led by UK supermarket retailers, the industry group developed EurepGap in the late 1990s as a common standard to guide its members' sourcing practices. EurepGap standards responded especially to consumer concerns that arose from a series of food safety scares in the 1990s and to increasing consumer awareness of the potential environmental damage and labor exploitation associated with the growth of imports from developing countries. This certification and similar individual initiatives by food retailers and manufacturers emphasize the need for "traceability" mechanisms which allow buyers to

collect and manage information about individual pieces of merchandise from individual fields in exporting countries up to the point of sale in consuming countries.

Reflecting the increasingly global scope of retailers' operations, the group renamed the certification GLOBALGAP in 2007, and the body now accredits over 100 certification bodies to carry out annual inspections of farming and processing operations in more than 100 countries worldwide.<sup>2</sup> In addition to certifications, such as GLOBALGAP, designed to help global buyers manage supply risks, food marketers have also adopted a variety of certifications aimed at targeting specific consumer groups, such as organic and Fairtrade certification (see below).

Meeting certification requirements, along with buyers' demands for low costs, high quality, and reliable and speedy delivery typically requires substantial investments in new technology, infrastructure, and management and logistics systems. The literature on globalization has used the term "upgrading" to describe supplier firms' acquisition of new productive capabilities such as these. Local firms' capacity for upgrading and their ability to meet new global standards increasingly determines patterns of inclusion and exclusion in global trade. The next section will briefly review the literature that views upgrading as an important metric for local development and competitiveness in the global economy.

***Upgrading: Definition and Three Alternative Sources***

Students of globalization have defined upgrading as a firm-level innovation that increases value-added in a product or service (Giuliani et al. 2005; Humphrey and

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<sup>2</sup> "About Us" GLOBALG.A.P. [http://www.globalgap.org/cms/front\\_content.php?idcat=2](http://www.globalgap.org/cms/front_content.php?idcat=2) 7/29/11

Schmitz 2000; Porter 1998). The literature suggests that upgrading among developing-country firms to meet the standards of global buyers has become an important driver of local development in the global economy—hypothesizing that upgrading drives positive development outcomes such as economic growth, employment generation, increased wages, and improved working conditions.

Despite still limited empirical support for these hypotheses, development practitioners and policy makers also increasingly see upgrading through export relationships as a desirable development goal. For example the US Agency for International Development (USAID) has made GLOBALGAP certification a focal point for a six-year development project in Kenya that will engage a small number of exporting companies as well as more than 5,500 passionfruit and avocado farmers in approximately 200 producer organizations (USAID 2007).<sup>3</sup>

The literature has defined four types of upgrading (Humphrey and Schmitz 2002):

**Functional upgrading-** “acquiring new functions (or abandoning existing functions) to increase the overall skill content of activities.” This might include a move from primary production to processing, or from manufacturing to product design or marketing.

**Product upgrading-** “moving into more sophisticated product lines (which can be defined in terms of increased unit value).” In agriculture, for example, this might involve diversification to a new crop variety with a higher market value or adopting organic certification to capture a market premium.

**Process upgrading-** “reorganizing the production system or adopting superior technology” that enhances efficiency, such as the adoption of new farming practices that raise yields or reduce post-harvest losses.

**Inter-sectoral upgrading-** where firms diversify into new higher-value sectors. For farmers this could include crop diversification.

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<sup>3</sup> For a discussion of upgrading in global value chains and donor policy see also Humphrey and Navas Alemán (2010) and Mitchell et al. (2009).

To upgrade their productive capabilities along these lines, suppliers require information about what kinds of investments and innovations are likely to increase their economic returns, knowledge about how to implement and carry out improvements in production, and material resources with which to make investments. To explain successful upgrading, the literature focuses on three sets of relationships that give producers access to these upgrading resources: the inter-firm relationships among producers within clusters, the relationship between producers and the State, and the relationship between producers and their buyers in global supply chains.

*Industrial Clusters, Social Capital, and Collective Action*

The literature on industrial clusters suggests that upgrading can take place on the basis of “joint action,” or cooperation and coordination among multiple small firms. This literature has focused especially on how inter-firm cooperation within industrial clusters can support upgrading by generating and disseminating public goods—such as a pool of specialized workers, widely held technological and production knowledge, a supply of specialized inputs, or lobbying for political and regulatory benefits. By drawing on these public goods and dense supply networks, small firms can upgrade and specialize their productive activities while also remaining flexible and responsive to market changes. Researchers have drawn this view from case studies of high-technology clusters in advanced countries (Saxenian 2002, 1996), as well as traditional manufacturing clusters in developing countries (Nadvi 1999; Schmitz 1999), and especially the industrial districts of northern Italy and Germany (Piore and Sabel 1984; Pyke et al. 1990).

On the whole, this literature suggests that “joint action,” collective upgrading,

learning, and innovation are most likely in regions that have specific social characteristics that provide a basis for trust and cooperation among small and medium firms. In these types of communities, “social capital” curbs opportunistic behavior and constrains “low-road” wage and price competition in favor of “high-road” competition through innovation. For example, ethnic ties in Silicon Valley among Indian and Taiwanese information technology entrepreneurs have driven the creation and upgrading of clusters in their home countries (Saxenian 2002, 1996). Familial and community ties have driven technological and product innovation in Italian apparel manufacturing districts (Piore and Sabel 1984) and promoted “extensive local knowledge-sharing” among ceramics manufacturers in Mexico (Storper et al. 2007).

Moreover, research also emphasizes the upgrading benefits of multiple or overlapping institutional ties among producers and between producers, industry associations, local government, and a variety of support agencies. This type of institutional complexity gives producers access to a range of resources necessary for innovation, investment, and upgrading, such as training, market information, and credit services that individual firms cannot economically generate on their own (Scott 1994). Locke’s (1997) study of the Italian auto manufacturing industry describes how this type of organizational structure also diffuses information, aggregates diverse interests, and mediates industrial conflicts in ways that permit successful industrial restructuring.

Finally, studies of high-tech and low-tech clusters alike point to the role played in innovation by intermediaries and intermediary organizations that blur organizational boundaries (Baxter and Tyler 2007), nurture a process of “interpretation” crucial for the creation of new products (Lester and Piore 2004), and bring “information about markets

and products to local producers and take information from local producers to wider markets” (Storper et al. 2007).

Contributions to the otherwise unrelated literature on agricultural upgrading in developing countries also point out the role of horizontal cooperation and of producer organizations in support of farmer upgrading by disseminating public goods, such as technical assistance, increased economies of scale, or collective regulatory benefits such as the Denomination of Controlled Origin (DOC) status granted to artisanal food products in the European Union. In their study of organic coffee marketing in Mexico, Bray et al. (2002) write, “the emergence of organized organic coffee producers in Mexico depended upon the substantial amount of pre-existing “social capital accumulation” in the Mexican countryside.”

While the literature on industrial clusters draws necessary attention to the role of cooperation among small firms to achieve collective efficiency and collective upgrading, it offers little guidance about how it might occur under less than ideal social conditions. Institutional complexity, trust, and reciprocity do not characterize the vast majority of developing regions, and are especially absent in rural areas, where material and social inequalities by far exceed those in the advanced-country industrial clusters from which this literature draws its empirical inspiration. For example, Storper et al (2007) argue that the institutional environment in a Northeast Brazilian manufacturing cluster produces “insufficient public goods; low confidence and high transaction costs; and a distribution of wealth that reduces motivation for entrepreneurship” (313). Instead of cooperation to overcome collective obstacles, the Brazilian cluster is characterized by

Conflict, unstable and shifting coalitions, and hence a lack of capacity for long-term upgrading of industrial performance . . . . The vicious cycle of low skills, low wages, high mobility, low trust of workers, and a huge skills gap between management and workers is

not just injurious to the social mobility of the less-skilled; it has the wider effect of discouraging firms from training their workers or trying to involve them in a medium-term strategy of quality improvement (322-23).

To serve as an effective guide for understanding upgrading among small farmers in developing countries, the cluster literature lacks a sufficiently developed account of how power asymmetries among the different actors within production clusters and between them and outside actors shapes upgrading outcomes.

Producers in many developing regions are not embedded in complex, horizontal, or relatively egalitarian inter-firm and social networks that constrain opportunism and encourage risk taking and innovation. Instead, they more often hold only a minimal number of social and productive ties. These relationships bind them to vertical and highly asymmetrical economic and social networks, where powerful actors monopolize the knowledge, information, and financial resources as a source of individual rents rather than disseminate them broadly to support collective upgrading. This is especially true of poor farmers in rural areas of developing countries, who often depend on a narrow set of local actors that monopolize market access, information, and financial resources. Chapter three of this dissertation describes these networks using terminology drawn from the political science literature on clientelism, and presents a theory of upgrading in clientelist networks. However, the remainder of this chapter will first briefly review alternative approaches to studying upgrading in the global economy.

### *State-Led Upgrading*

A second approach to the study of upgrading emphasizes the role of the State and points toward the role of industrial policies and public agencies in supporting producer upgrading through incentives (i.e. targeted credit and subsidies), by directly providing the

public goods necessary for upgrading (i.e. public research and development, infrastructure, and training), or by creating institutions from above to govern cooperation, coordination, and knowledge generation among economic actors that lack the social characteristics to spontaneously generate them (Amsden 1989; Wade 2004).

For example, scholars have explained Chilean producers' export successes in natural-resource and agricultural industries on the basis of the sequence of government policies that began to upgrade producer capacities as early as the 1960s. Beginning in that decade, fruit producers benefited from a redistributive land reform, the "Fruit Plan" of Chilean government's planning agency, the Production Development Corporation (Corfo), and a technology transfer agreement signed by the governments of Chile and California. Through these initiatives, the Chilean state introduced new plant varieties; established new plant suppliers; made infrastructure investments for fruit processing, phytosanitary inspection, and exports; and provided training for unskilled farm labor. These programs also created a durable source of competitive advantage by training a critical mass of agronomists and establishing a self-sustaining higher education system geared toward technological upgrading in the fruit industry. Corfo was also active in the forestry, pulp and paper, and fisheries sectors that today comprise Chile's most successful export sectors (Casaburi 1999, 152).

More recently, ProChile, a public-sector export promotion agency formed in 1975, has currently teamed up with the Chilean Exporters Association (ASOEX) to promote fruit producers under a single "Chilean brand" in the United States, the European Union, and East Asia. The partners will also implement the "ChileGAP" certification program, harmonizing its members production standards with the standards

that global food retailers have established as part of the GLOBALGAP program (ASOEX 2004). Moreover, both ASOEX and the Association of Fruit Growers (FEDEFruta), have recently pursued projects to develop and disseminate new technologies with State research agencies like the Fund for Scientific and Technological Development (Fondef).<sup>4</sup>

The Chilean case shows how the dense institutional ties, associationalism, and interactive learning that the cluster literature describes can arise in response to initial State action that actively provides public goods, creates new organizations, and builds new institutional relationships. Gomes's (2006) study of successful Brazilian fruit-exporting clusters and Damiani's (2003; 2000) studies of non-traditional agricultural exports in Latin America reveal a similar history of early state intervention that aided the inclusion of small and medium farmers and farm labor in the benefits of agricultural exports.

However, much of the literature on the State and development presumes a high degree of both power and autonomy on the part of state agencies. This type of development strategy is actionable only where the State is interested in transforming local production and power relations to promote upgrading and where it is autonomous and powerful enough to do so. In many places, governments draw significant support from the rural elites and elite-dominated organizations who are wary of economic and institutional developments that might threaten their position.

For example, Brass (2007) describes how, following land reform in Peru, State agencies favored full cooperativization of former agricultural Haciendas, a policy that would have benefited the poorest farmers with little access to land. Brass argues, however, that at the local level, the wealthier stratum of peasant farmers blocked

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<sup>4</sup> List of FONDEF-ASOEX Projects. <http://www.fondef.cl/bases/fondef/INST/5010019.HTML> 7/29/11

these reforms to protect their access to the labor of poorer peasants in order to pursue a “regressive” economic strategy “based on individualistic tenure relations, rudimentary technology, and a low-paid workforce deprived of the [publicly mandated] social wage and composed for the most part of unfree labour” (246).

Moreover, in recent decades, many governments have increasingly abandoned direct intervention in the process of economic development, dismantling public sector institutions in favor of growth led by private-sector organizations and multinational business. External isomorphic institutional pressures, such as the structural adjustment packages of the International Monetary Fund (Stiglitz 2002), have contributed to this change, as have conservative shifts in domestic politics and policy (Evans 1997). As a result, this type of strategy has lost prominence in recent decades and, in countries where state capacity remains primitive, development policy has increasingly focused on attracting external investment and forging ties with global buyers, with the hope of inducing upgrading among local producers.

#### *Buyer-Driven Upgrading*

Rather than horizontal cooperation among producers or producer-State relations, the literature on global value chains (GVC) focuses on vertical coordination between supplier firms and their buyers. As mentioned above, this view envisions a particularly important role for multinational buyers in driving upgrading, as they seek to take advantage of input and labor savings from around the globe and invest in the capacities of developing-country suppliers (Gereffi and Korzeniewicz 1994; Gereffi et al. 2005; Dolan and Humphrey 2000).

The literature's diverse origins include studies in organizational sociology and business economics (cf. Bair 2005), but the contribution of world systems theory has given the literature an explicit focus on the way that power is exercised within global trade networks and how it shapes the location of economic activities and the distribution of economic benefits within a globalizing economy. The value chain literature suggests that, as barriers to trade have decreased, so have its benefits, because buyers use their market power to devolve 'unprofitable' production activities to their developing country suppliers, while monopolizing the 'rent-rich' service for themselves.

The literature argues that falling transaction costs have allowed advanced country firms to outsource a large number of activities to low cost producers in developing countries. Self-interested firms in advanced countries are thought to facilitate entry upstream, intensifying competition among developing country suppliers by helping them 'upgrade' their production technology and product quality, while simultaneously erecting barriers to entry into higher-value downstream activities such as retail, branding, product definition, and marketing. As described above, in the food industry, these downstream activities have come to generate ever-greater profits, relative to primary production, processing, and manufacturing. For this reason, buyers discourage their suppliers from 'functionally' upgrading and competing with them in their core activities (Humphrey and Schmitz 2002).

Gibbon and Ponte cite data from the UK supermarket retail to argue that

buyer power was used to extract concessions on price, to enforce nonstandard (and in certain cases predatory) contractual terms, and to leverage significant changes in the traditional division of labor between retailers and suppliers . . . . Taking the average prices paid to leading suppliers for a range of items by the largest 24 UK grocery retailers as 100, the five largest retailers paid on average 97.8 percent of this amount. Retailers and wholesalers who were not part of the 24 paid 105.9 percent (20).

With insights from business and transaction cost economics, Gereffi et al. (2005) propose a ‘theory of value-chain governance’ that accounts for greater variation in the distribution of power between suppliers and buyers in global value chains. They provide a typology of five kinds of value-chain governance to explain upgrading outcomes. The first three, “market-driven governance,” “modular governance,” and “relational governance,” are theorized to demonstrate lower degrees of power asymmetry and permit greater functional upgrading. The authors predict that the less unequal forms of governance will occur in industries where *supplier capacity* is high, such as the ‘relational’ East Asian apparel chain or the U.S. electronics industry ‘modular’ chain.

However, where *supplier capacity* is low, such as African fresh vegetable exports, commodity chains are more likely to exhibit ‘captive’ or ‘hierarchical’ governance, characterized by the capture or ownership of production by a single lead firm and high levels of dependence and low levels of functional upgrading among suppliers. Similarly, Kaplinsky (2001) predicts that, in a context where suppliers’ resources and capacities are both limited and highly unequal, increasing buyer-drivenness will augment economic inequality as large buyers invest in large, privileged suppliers and push out vulnerable smaller enterprises.

Empirical studies of the Brazilian dairy industry verify these predictions; Reardon and Farina (2002) write, “thousands of small dairy producers were forced to exit in the past decade because of low prices, and logistical and equipment requirements related to the [quality and safety standards] imposed by the downstream actors” (1174). Research on the Chilean fruit industry (Carter et al. 1996; Gwynne 1999, 2003) and the Kenyan vegetable export industry (Dolan and Humphrey 2000) also identify a trade off between

upgrading and inclusiveness. Moreover, studies of Central American export agriculture have found that where upgrading occurs, it is restricted to the suppliers of ‘quasi-hierarchical’ chains and consists of product and process upgrades, such as adopting new quality standards, rather than more valuable functional upgrades, such as moving into new activities like processing, transport, logistics, or branding (Giuliani et al. 2005; Fromm 2007).

Even where smallholders are not crowded out and are able to meet escalating quality standards, research has cast doubt on their potential to derive benefits from international trade. Coffee has been a particular focus of such studies because of its historic importance in terms of commodity trade and developing-country employment, but also because of the rise of the ‘gourmet’ coffee market and the resulting shift toward ‘quality-based’ competition and geographical distinctions. Fitter and Kaplinsky (2001) argue that increasing differentiation in the final retail price of coffee has not always translated into differentiation in prices paid to primary producers, and institutional changes in the global coffee trade have transferred “a substantial portion of total income generated in the coffee chain . . . from farms to consuming country operators,” along with control of processing, domestic trade and export functions (Ponte 2002). Freidberg (2003) convincingly critiques the notion that upgrading among smallholders to succeed through quality-based competition necessarily creates value chains that are somehow more egalitarian. Her study of horticultural trade networks linking African suppliers to the markets of their former colonizers argues:

Relationships that appear to operate on trust . . . are often just situations where one or all parties has no choice but to hope for luck or mercy. This is perhaps especially true when major retailers seek “quality” in countries and regions where producers have few alternative sources of income, and no realistic possibility of legal recourse. Economies of quality, in this sense are not necessarily less exploitative than others.

These predictions coincide to a substantial extent with those of the most pessimistic scholars studying agricultural globalization, who view it as little more than the continuation of a process of peasant dispossession and exploitation that began in the colonial period, and was only briefly interrupted in the postwar period (Araghi 2003). McMichael (2009) describes these changes as the rise of a “corporate food regime” that has facilitated “an unprecedented conversion of agriculture across the world to supply a relatively affluent global consumer class” (151).

These theories explain how trade may widen inequalities, but they provide little guidance about how developing-country suppliers may actually move from a low-value to a high-value set of export activities or from more captive and dependent trading relationships to more autonomous ones. This ‘development straightjacket’ arises the value-chain literature from empirical observations, but also because the literature draws upon a theory of power that is too narrowly economic. It assigns too much causal determinism to the market power that buyers gain from monopolizing the rent-rich nodes in the value chain.

To be sure, multinational corporations exercise tremendous power at the global level through their control of the capital, knowledge, and information assets necessary to access rich country markets—shaping and constraining the development path of poor countries. However, an exclusive focus on this type of power prevents researchers from understanding how developing country suppliers can draw on non-economic sources of power at the local level—particularly the power derived from collective action and political mobilization at the bottom of the supply chain—to engage with and take advantage of global value chains in a variety of ways. Moreover, this view does not

identify the conditions under which small farmers or other marginal actors respond to globalization by strengthening their organizations and constructing new institutional ties with private, non-profit, and public-sector organizations, making possible the outcomes identified by the cluster and state-led development literatures.

In a ‘contextualized’ commodity-chain analysis of the organic agro-export boom in the Dominican Republic, Reynolds suggests a need for this kind of analysis, writing,

Current market trends are increasing the power of buyers and are working to displace or disempower small organic producers. Yet if we look beyond the realm of economic firms, we find that strong producer associations and transnational movement ties have countered these trends with some success in the Dominican Republic . . . the marginalization of small-scale organic growers is not inevitable, but their future well-being across Latin America depends on the creation of social networks that support alternative organic values, exchange relationships, and enterprises.

To develop a theory of how small farmers in developing countries can gain in both capacity and autonomy from participation in global value chains, this dissertation examines Fairtrade—a trading system that evolved from advanced-country consumer movements that were explicitly concerned with the organizational and political dimensions of development and underdevelopment in the global market. Before turning to the theory of autonomous upgrading presented in Chapter Three, the remainder of this chapter will provide a background on Fairtrade and other efforts to ‘decommodify’ agriculture in ways that generates new avenues for small farmers’ participation in the global economy.

### ***The Politics of Sustainable Consumption: Fairtrade and Organics***

As economic factors have driven the fragmentation of mass markets in advanced countries in general, political changes have contributed to the formation of specific niche markets for environmentally and socially responsible products, also putting new

pressures on mainstream markets controlled by agribusiness. Critiques of industrial agriculture and the food industry range from its effects on public health, to problems of food safety, environmental sustainability, and social justice. These critiques have provoked a series of responses both outside and within mainstream agribusiness, transforming the way food is produced and marketed as companies innovate to retain consumer loyalty.

Corporate social responsibility and sustainability initiatives form part of the response, and corporate interest in sustainable agriculture is an increasingly important and debated dimension of how agricultural globalization affects the prospects of smallholders in poor countries. Consumer demands and the risks of brand damage from “poor corporate citizenship,” has made global buyers increasingly interested in integrating small farmers into their supply chains and willing to consider how their activities in poor countries can support processes of local development and avoid imposing negative environmental and social externalities (Barrientos 2000).

While the role of social responsibility and sustainability initiatives in business strategy ranges from ‘green washing’ to brand protection to enlightened self interest, the growth of demand for ethically traded and sustainable food products has opened up new possibilities for small farmers. Moreover, initiatives like the organic and the Fairtrade movements provide self-conscious attempts to use market exchanges in politicized ways that reaffirm the importance of environmental and social values. However, they are part of a broader set of changes in agricultural trade and development initiatives aimed at the smallholder sector that involve a diverse set of actors from business, government, international donor agencies, and intergovernmental organizations. The focus of this

dissertation is the potential for Fairtrade and organic markets to generate incentives for the inclusion of small farmers in global trade networks and the strengthening of their organizations, rather than on their validity as social and environmental certifications, *per se*.

### *Fairtrade*

The Fairtrade movement originated in the 1960s and 70s with “alternative trade organizations” set up by religious and non-governmental organizations to connect poor-country artisans with consumers in advanced countries through “solidarity trade.”<sup>5</sup> Over time, these movements evolved into a series of national labeling organizations that marketed Fairtrade products by granting private companies licenses to use the “Fairtrade Seal.” These organizations included groups like Transfair (USA, Canada), Max Havelaar (France, Holland, Switzerland), and the Fairtrade Foundation (UK).

In 1997, the Fairtrade movement shifted decisively toward a global standards, auditing, and certification model, as the consuming-country labeling initiatives created Fairtrade Labeling Organizations International (FLO) in 1997 to serve as their international umbrella organization. In 2004, the FLO spun off FLO-CERT GmbH as a separate certification company. Headquartered in Bonn, Germany and accredited by the International Standards Organization (ISO), FLO-CERT performs Fairtrade audits and inspections to “guarantee to consumers of Certified Fairtrade products that they are contributing to the Social-Economic Development of people through their purchases.”<sup>6</sup>

FLO-CERT establishes and enforces international Fairtrade standards for producing countries. Different Fairtrade standards exist for specific products, but the

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<sup>5</sup> For a history of Fairtrade movements in northern countries see Barrientos et al (2007).

<sup>6</sup> “Fairtrade Labeling Organizations International” <http://www.flo-cert.net/flo-cert/main.php?lv=2&p=1> 6/20/11

general principles of Fairtrade labeling require that producers be “democratically organized” in cooperatives or associations; that they receive a minimum price or price premium above conventional commodity prices; that they have access in some cases to pre-harvest financing from their buyers; that no child labor be utilized in the production process; and that farmers receive a “social premium” paid directly to the association for collective investments. The social premium is meant to invest in production infrastructure and social projects that aid farmers’ economic upgrading or improve education, health, or social services in their communities. As part of the Fairtrade certification process, organizations also receive training on organizational development from representatives of FLO-CERT, which is aimed at improving the management and representativeness of their organizations.

FLO-CERT’s audits play a central role in the certification process and are meant to take place every three years. The audit process consists of meetings with the leadership of farmers organizations, a review of documents—including financial and accounting statements, individual interviews and focus groups with members of the organization, and site visits to the organizations’ offices, processing facilities and individual farms. Audits are also meant to open and close with full meetings of the farmer associations’ members, to give them a chance to discuss the purposes and the findings of the audit and discuss any actions that the organization should take.

Since adopting a certification model, Fairtrade has experienced rapid growth in market share of traditional products like coffee and chocolate and expanded into products such as sugar, fresh fruit and fruit juice, wine, and even manufactures, like sports balls. The sales of Fairtrade-certified products have grown steadily at a rate of 40% per year

from 2003-2008—growing at 15% from 2008-2009 despite the global recession, and reaching global sales of €3.4 billion (approximately \$4.4 billion) in 2009 (FLO 2010). In that year, FLO reported the participation in Fairtrade of 1.2 farmers and workers in 827 certified organizations in 60 countries worldwide (FLO 2009).

**Table 2.1.** Sales Volumes for Selected Fairtrade Commodities 1998-2009 (Metric Tons)

Commodity	1998	2005	2006	2007	2008	2009
Coffee	11,664	33,992	52,064	62,209	65,808	73,781
Tea	665	2,614	3,883	5,421	11,467	11,524
Cocoa	806	5,657	7,913	7,306	10,299	13,898
Sugar	282	3,613	7,159	15,074	56,990	89,628
Bananas	14,656	103,887	135,763	233,791	299,205	311,465

**Table 2.1.** Sales Volumes for Selected Fairtrade Commodities 1998-2009 (Continued)

Commodity	Total World Commodity Trade, 2008	Annual Growth, 2005-2008 (Total Commodity Trade)	Annual Growth, 2005-2008 (FT)
Coffee	1.66%	2.71%	23.40%
Tea	0.38%	-2.11%	84.67%
Cocoa	1.04%	3.48%	20.51%
Sugar	0.23%	-0.16%	369.34%
Bananas	0.60%	2.58%	47.00%

Sources: Reynolds and Long (2007), FLO (2006; 2007; 2008; 2009; 2010)

Table 2.1 shows that Fairtrade represents only a small portion of total commodity trade for major agricultural commodities. However, Fairtrade has grown much more rapidly over the last decade than total trade in these commodities, and it represents a particularly dynamic niche within food markets. These figures also include only the Fairtrade products that participate in FLO’s labeling scheme. They do not include the

products traded under similar initiatives that are not part of FLO, and they are only one of the niches for high-quality, exotic, and other kinds of specialty niche produce that may provide growing market opportunities for smallholders in the coming years. The next section discusses the niche for organic produce.

### *Organics*

Organic food products differ from conventional ones in the process and inputs that are used for their production. Organic farming methods limit the use of synthetic inputs—specifically synthetic fertilizers, herbicides, fungicides, and pesticides—instead utilizing organic inputs such as manure and compost to enhance soil fertility and alternative (biological, manual) methods of pest- and weed-control. Similarly, organic food production limits the use of synthetic food additives that are used to preserve and stabilize conventional processed foods.

**Table 2.2.** Principal Organic Certification Criteria for Agricultural Products

Conversion	At least a 1-year conversion period before start of annual production cycle, 2 years for perennials
Certification and monitoring	Initial inspection followed by annual visits to each farm unit by monitors from accredited certifying organization
Documentation	Map and list of registered fields. Complete records of farm input use and yields
Planting material	Must be chemically untreated; no genetically modified organisms (GMOs)
Fertilizers	Organic soil enhancing processes must be used. No synthetic fertilizers or sewage sludge
Plant and disease control	Use of synthetic herbicides, fungicides, and pesticides prohibited except those on approved list
Livestock	Feed must be 100% organic; use of antibiotics prohibited. Some restrictions on animal concentrations
Transport and handling	Chain of custody must be maintained; no co-mingling with non-organic products
Processing	No irradiation. Synthetic additives can be used from approved list
Labeling	Products labeled organic must have >95% organic inputs

Source: Raynolds (2004)

The International Federation of Organic Agriculture Movements (IFOAM) proposes and maintains organic production standards at the global level. Formed in 1972, IFOAM is an umbrella organization for national organizations of organic farmers and food companies that consists of 750 members in 108 countries. The Federation accredits private organizations to certify that farms and private companies are in compliance with organic standards. More recently, countries such as the U.S., EU members, and Japan, have established national standards for organic production based on IFOAM's principles. In the U.S. the USDA maintains the National Organic Program label (NOP), Japan's Agriculture Ministry maintains Japanese Agricultural Standard (JAS), and the European council maintains the EU-Eco-Regulation, which in turn regulates member countries labeling initiatives.

To receive organic certification, a farm must refrain from the use of prohibited agro-chemicals for a period of up to three years, present documentation of land use for a five-year period, and pay for and submit to inspection by an accredited certification service (Raynolds 2004). Table 2.2 summarizes the main standards for organic certification.

#### *Smallholders and Certification*

The study of Fairtrade and organic certification has spawned a rapidly growing literature that recounts its origins, evolution, and effects. Because of the 'ethical' nature of demand for these products, researchers have sought to explore their potential to "defetishize" or "re-embed" trade in social and ecological values, making "visible links between southern producers and northern consumers that conventional markets render

invisible, and [establishing] trade relations based on alternative moral values such as fairness, trust and equality” (Taylor et al. 2005). Many studies describe benefits of Fairtrade to participating producers groups, such as higher price, more stable contracts, access to financing and technical assistance, and the general reduction of livelihood vulnerability (Bacon 2005; Gresser and Tickell 2002; Murray et al. 2003; Taylor 2005; Walsh 2004).

**Table 2. 3.** Participation of Small Farmers in Organic Agriculture in Latin American Countries, All Crops

	Mexico	Costa Rica	Guatemala	El Salvador	Argentina	Dominican Republic	Paraguay*
Area under organic Farming (Ha.)	102,800	7,000	14,700	4,900	3,000,000	44,800	59,600
Organic area/total agricultural area (%)	0.1	0.2	0.3	0.3	1.8	1.0	0.4
Organic producers, total	33,600	1,700	5,000	5,000	1,632	16,200	12,000
Small organic producers, total	33,130	1,600	4,950	n/a	1,050	16,068	n/a
Small organic producers/organic producers	98.6	94.1	99.0	n/a	64.3	99.2	n/a
Organic area of small producers/total organic area	84.2	53.3	59.7	n/a	5.0	80	n/a

Source: Damiani and Silveri (2003)

\*Source: González et al. (2008)

Regarding organic certification, a study by the International Fund for Agricultural Development (IFAD) found that small farmers overwhelmingly dominate organic agriculture in Latin America (Table 2.3), and suggests that the affinity between traditional production methods and organic production methods reduces organic

transition costs for small farmers in developing countries compared to larger, more capitalized commercial farmers (Damiani and Silveri 2003). Coffee is by far the most common organic crop in the region, but small farmers are also the main producers of organic cacao, tropical fruits (bananas, pineapple, mango, melons, coconut), temperate fruit (especially berries), and vegetables.

However, the labor-intensiveness of organic production is not, by itself, sufficient to explain smallholders' success in this industry. This is because the certification and transaction costs of organic production represent a major barrier for participation by small farmers in developing countries. First, certification fees are typically prohibitive for a single farmer operating a small amount of land. Second, limited formal education and low literacy rates typical of many small farmers in developing countries create difficulties for them to maintain the careful documentation of land-use history necessary for organic certification. These additional costs are generally met in cooperation with other small farmers, through farmer associations and cooperatives. These organizations are constructed through political and historical processes, which fall outside the scope of organic certification. As mentioned above, the studies of smallholder success in specialty-coffee marketing generally emphasize the preexisting "accumulation of social capital" upon which the construction of Fairtrade and organic niche markets relied.<sup>7</sup>

However these same and additional studies offer pessimistic assessments of both Fairtrade and organics as a development vehicle, and their authors describe how the ethical and environmental values behind these movements gets crowded out by commercial priorities that generate exclusionary pressures in conventional value chains

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<sup>7</sup> in addition to the authors cited above see Various contributions in Bacon ( see also various contributions in Bacon et al. 2008)

(Raynolds 2004). Fridell (2006) explains this contradiction as a result of the Fairtrade movement's abandonment of earlier goals aimed at restoring state-led regulation and transforming the monopolistic structure of commodity markets. He argues that FLO and its US member Transfair have embraced the neoliberal logic of 'private regulation,' curbing Fairtrade's transformative potential, as the organizations increasingly engage with the multinationals whose monopolies early "fair traders" hoped to dismantle.

Studies of certification also critique the notion that Fairtrade and organic networks are somehow more egalitarian or provide greater autonomy for producer groups. Mutersbaugh (2002) writes, "certification as presently practiced vests systematic rule-making authority at certain points outside of producer villages, and even beyond alternative-trade networks" (1177), placing the full burden of its cost upon "immiserated producers, to the point at which farmers see little economic advantage to certified-organic and fair-trade production" (Mutersbaugh 2005, 2033).

This lack of 'rule-making authority' in turn prevents producer organizations from defending their members' interests or protecting them from the exclusionary pressures of rigid market and certification demands. A number of recent studies on the Fairtrade banana industry in the Dominican Republic identify such exclusionary pressures emanating from rigid certification demands and reliance on the conventional value chains of multinational corporations for transport, commercialization, and marketing (Shreck 2005; Moberg 2005). Shreck (2005) writes, "Quality standards institutionalize unequal power relationships between different actors within a commodity chain . . . and remind producers that even in the Fairtrade system, they are still the least powerful actors in the chain." The strongest critiques of Fairtrade suggest that it may actually intensify

‘fetishization’ of trade, by making it possible to ‘purchase ethics’ in the supermarket aisle (Fridell 2004, 2006), and by instilling the ‘illusory’ belief, “that consumers not only exercise real choice in the market, but in doing so can transform the world” (Moberg 2005).

These studies present a mix of positive and negative effects from Fairtrade and organic certification and identify the potential, as well as the limits of its political project. They suggest a need to examine variation across different cases to determine the conditions under which they are most effective in supporting smallholder upgrading and permitting small farmers to engage with trade under more autonomous and beneficial terms. The rest of this dissertation will take up this task.

### ***Conclusion***

This chapter has argued that the fragmentation of mass markets and the rise of multiple private standards in agricultural and food trade has been among economic globalization’s multiple consequences. These shifts have generated new constraints and challenges for smallholders, but also new opportunities and resources as globalization establishes new market niches for environmentally and socially responsible products.

Fairtrade, organics, and a variety of other private, government, and donor-led initiatives seek to take advantage of these changes and bring the benefits of trade to the poorest and most marginalized economic actors. In their efforts, these initiatives must all contend with the reality that small and peasant farmers in poor countries are often enmeshed in highly unequal relationships and rarely have autonomous access to resources for upgrading or to representative organizations.

To understand variation in the outcomes of these kinds of initiatives, Chapter Three will borrow from the political science literature on clientelism, which describes a set of hierarchical relationships with social, political, and economic dimensions and that are widespread in developing areas. After reviewing the literature on clientelism, Chapter Three will introduce the concept of a *clientelist production network* and provide a theory of how clientelism shapes producers' responses to new opportunities like Fairtrade in ways that generate varying patterns of upgrading.

### **Chapter 3. Upgrading in Clientelist Production Networks**

As a review of the literature on agricultural globalization reveals, peasants and small farmers in developing countries often confront this set of economic changes with tremendous material and social disadvantages. Peasant farmers lack the financial, information, and knowledge resources needed to meet increasingly demanding product standards, and they gain access to them only through highly unequal social and economic networks that expose them to exploitation from more powerful actors. However, these networks are not uniform, static or unchanging structures. Farmers are active agents in shaping their own organizational and institutional environment and in exercising whatever margin of choice or freedom they have to improve their livelihoods.

How do farmers' organizational structures affect their ability to take advantage of new upgrading resources? How might the social and economic networks farmers' inhabit in relatively isolated communities evolve, once they integrate into global value chains? And what effect do development initiatives like Fairtrade have on farmers' patterns of political and economic organization at the local level?

This chapter borrows from the political science literature on clientelism and clientelist networks to offer a theory of how unequal local networks evolve in response to initiatives like Fairtrade and how variation in the structure of clientelist networks shapes farmers' upgrading trajectories. It proceeds in four sections. The first introduces and defines political clientelism as a starting point for studying upgrading in unequal production networks. The second reviews the literature on clientelism with a particular focus on the relationship between clientelism and collective action and learning. The

third section offers hypotheses about the role of brokers and brokerage in creating collective action within clientelist networks. The fourth and final section puts forward the building blocks for studying clientelism within global value chains by introducing the concept of a *clientelist production network* and providing a theory of upgrading within clientelist production networks. This section also hypothesizes the conditions under which initiatives like Fairtrade enhance small farmers' autonomy.

### ***Political Clientelism as a Starting Point***

Clientelism entails a set of non-democratic authority or political and social relationships between leaders and followers, premised at the most basic level on the exchange of loyalty by clients for the security provided patrons. This implies a power dynamic closer to the reality of the rural economy in many poor countries than the multiple, horizontal linkages described by the literature on social capital and upgrading within industrial clusters. It also suggests a more multi-faceted power dynamic than the literature on global value chains, which focuses primarily on commercial relationships and market power.

For this reason, I have chosen the clientelism literature as a starting point to study upgrading among weak actors, such as small farmers and peasants, in the global economy. However, the clientelism literature is primarily concerned with national electoral politics. It links politics organized around clientelist exchanges among unequal groups for a variety of negative outcomes in developing countries, ranging from persistent inequality, weak public bureaucracies, the failures of social and development policy, and especially ineffective representation of poor and vulnerable groups. In particular, the literature links clientelism with the inadequate generation and unequal

allocation of publicly provided goods and services that support human development or generate economic growth (e.g. education and health services, business and agricultural extension services, or housing and infrastructure investments).

The recent literature on clientelism has focused overwhelmingly on vote buying in electoral politics, showing that this type of exchange operates according to rational economic principles. While I agree that, in electoral politics and elsewhere in society, clientelist patterns result from rational calculations rather than cultural orientations, recent work often defines and analyzes clientelist exchanges divorced from the often highly constraining economic structures and social networks in which their participants are embedded. This research conceives of patrons and clients as individuals in a political marketplace exchanging their respective resources (typically votes and divisible material benefits) according to optimizing principles—assumptions that make clientelism amenable to analysis using the tools of microeconomics (Brusco et al. 2004; Medina and Stokes 2002; Stokes 2005; Rivera et al. 2009).

Clientelism obviously remains an electoral strategy in many or perhaps most societies that shapes the incentives of voters, politicians, and government in ways that affect redistributive outcomes. However, I wish to analyze clientelism's effects beyond the context of electoral politics and in the context of producer organizations and global value chains. As Chapter Two asserted, governments in developing countries have granted substantial responsibility for economic development to the private sector and to international investment and trade. Rather than directly providing and distributing goods and services in support of upgrading and development, many governments seek to support the integration of their producers into global value chains that they hope will

more effectively channel such benefits to producers. I suggest that, in this context, the relevance of clientelism to economic development lies also in the way that it shapes patterns of inclusion and exclusion and cooperation and conflict within producer organizations as they integrate into global value chains.

This chapter aims to build a bridge between the literature on political clientelism and the literature on global value chains, providing a framework better suited to studying power relations and upgrading within unequal economic supply chains and producer organizations. To do so, I take a more structural view that starts from a definition of clientelism as a particular kind of social and political network in which clients are linked to patrons through vertical ties that are relatively stable. This distinguishes it clearly from other forms of political exchange, such as one-shot vote buying, pork barrel politics, and constituency services, where personal relationships do not necessarily play any role.<sup>8</sup>

#### *Clientelism as a Social and Political Exchange Network*

Providing a useful definition of clientelism presents a challenge, because the concept has been used to refer to a wide variety of relationships among unequal individuals or groups. To focus greater attention on how patron-client networks are embedded in economic and production systems, I draw my definition from the literature that examined clientelism in peasant village society and viewed the phenomenon as a set of relatively stable relationships where vertical reciprocity between unequal groups sustains the exchange of material goods by patrons for the loyalty of clients. In the 1960s and '70s, this literature examined changes such as the shift from closed to open peasant

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<sup>8</sup> For a full discussion of this point see Carroll and Lyne (2007) and Hilgers (2008).

villages, the commercialization of agriculture, and the consolidation of national states in developing regions. Students of economic and political development asked how these changes disrupted patron-client relations, how they affected peasants' welfare, and how peasants' responses to these changes affected national political stability (Scott 1976; Popkin 1979).

As described in Chapter Two, a similar set of transformations is occurring today, as smallholders and peasant producers in poor countries become integrated into the global economy through new forms of export agriculture and contract farming. While the peasant village no longer has much coherence as a unit of analysis, questions about the role and function of patron-client ties in contemporary processes of economic development and globalization remain.

James Scott (1972) describes the "clientelist pattern" as an "informal cluster consisting of a power figure who is in a position to give security, inducements, or both, and his personal followers who, in return for such benefits, contribute their loyalty and personal assistance to the patron's designs" (92). This pattern has been closely associated with the conditions of economic scarcity and inequality that characterize historically agrarian societies like those of southern Italy and contemporary underdeveloped regions in South and Southeast Asia, Africa, and Latin America. The environment of extreme scarcity in peasant communities, where land and productive factors other than labor are in short supply, represents the archetypal economic conditions from which clientelism arises. Students of peasant societies have described the cultural attitudes of dependence

and isolation arising from these conditions of poverty and vulnerability in such terms as the “image of the limited good” and “amoral familism.”<sup>9</sup>

The inverse of the poverty and vulnerability of the rural poor is the monopoly that rural elites hold on important productive or subsistence resources, such as land, capital, credit, social and political connections, and marketing opportunities. Where control of these resources is highly concentrated, normative inducements for the elite to ‘take care of the less fortunate’ may take various guises, such as *noblesse oblige* and paternalism.<sup>10</sup> Under these material and normative conditions, exchange relationships develop between the two groups in which ‘patrons’ provide subsistence security for the poor, and ‘clients’ uphold the privileged social and economic position of the elite through tangible services like casual labor and intangible benefits like loyalty, deference, or votes, depending on the specific case (Scott 1972).

Drawing on this view, I define clientelism as a social and political network with a particular structure, characterized by

- **Verticality and dyadism**, meaning that these networks are constructed from personal ties between individuals with different social and/or economic statuses: high-status-patrons and lower-status clients.

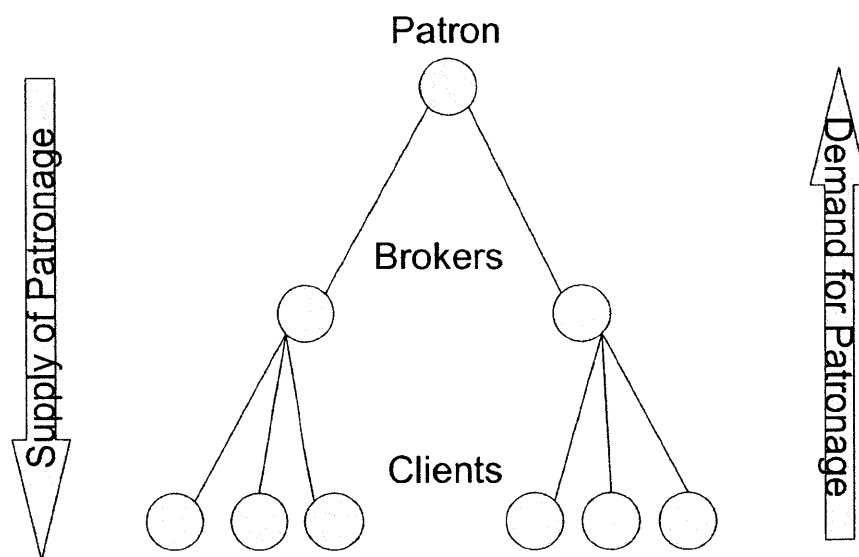
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<sup>9</sup> Foster (1967) described the former as a ‘cognitive orientation’ according to which, “peasants view their social, economic, and natural universes—their total environment—as one in which all of the desired things in life, such as land, wealth, health, friendship and love, manliness and honor, respect and status, power and influence, security and safety not only exist in finite and limited quantities, but [as an environment in which] *there is no way directly within peasant power to increase the available quantities.* (Foster 1967, 304). See also Banfield (1958) and Powell (1970).

<sup>10</sup> Describing the social mechanisms that distribute risk in South East Asian peasant villages, Scott (1976) writes, “The position of the better-off appears to be legitimized only to the extent that their resources are employed in ways that meet the broadly defined welfare needs of villagers . . . well-to-do villagers avoid malicious gossip only at the price of an exaggerated generosity. They are expected to sponsor more conspicuously lavish celebrations at weddings, to show greater charity to kin and neighbors, to sponsor local religious activity, and to take on more dependents and employees than the average household . . . It should also be recalled that, where strong outside guarantees for wealth and position did not exist, the standing of local elites depended ultimately on the following they could muster in a showdown. There are thus very good reasons for local power holders to build sizable clienteles in such circumstances (41-42).

- **Exchange**, meaning that these ties are reinforced by the exchange of material benefits provided by patrons in return for the deference, loyalty, and personal services provided by clients. *Figure 3.1* depicts the classic “clientelist pyramid” that structures these exchanges. The supply of material benefits flows down from patrons, individual demands flow upward from clients, and brokers serve as intermediaries that channel resources from patrons to clients and mobilize support from clients for patrons.
- **Asymmetry**, meaning that clients receive benefits that tend to be of crucial importance (such as land where it is scarce, or work and income at times of high unemployment) but only offer services that are of marginal value to their patrons, placing them in a weak position.
- **Stability**, meaning that the exchanges take place in repeated interactions that imply a degree of reciprocity and loyalty relative to one-shot dealings.
- **Insurance**, meaning that, despite their subordination, clients tend to maintain these relationships because they serve an insurance purpose that insulates them from risks.

*Figure 3.1.* Structure of Patron-Client Networks



Authors have typically pointed out patrons’ greater bargaining power in clientelist networks, describing the relationship as characterized by ‘lopsided’ reciprocity (Powell 1970; Pitt-Rivers 1971). Within clientelist networks the potential and reality of mutually

beneficial exchange coexists with the potential and reality of coercion and exploitation of vulnerable groups by their patrons. Different authors at different moments have emphasized one aspect of clientelism over the other.

***The Consequences of Clientelism: Rent-seeking or Reciprocity?***

The literature has enumerated the negative consequences of patron-client structures at length, specifically in terms of exclusion and deficient representation of the poor, weak collective action among clients, and the inadequate provision of public goods. Especially with regard to electoral politics, clientelism has been described as breeding “perverse accountability,” because leaders hold their followers accountable to their interests in an inversion of democratic principles. Stokes (2007) claims this arrangement “reduces the pressure on governments [or organizational leaders more broadly] to perform well and to provide public goods, keeps voters from using elections to express their policy preferences, and undermines voter autonomy.” Similarly, Szwarcberg (2009) asserts that clientelism promotes political participation by the poor without effective articulation of their policy preferences and aids the construction and maintenance of political monopolies that limit voters’ choices.

Second, because clientelism encourages the formation of vertical, dyadic ties (i.e. personal ties that join two individuals from different socio-economic strata) at the expense of horizontal, corporate ties (i.e. ties that join members of the same socio-economic class in multiple or interlocking ways) it is viewed as a barrier to collective action (Putnam et al. 1993). As Auyero et al. (Auyero et al. 2009) point out, research has often characterized the networks built from clientelist exchange as ‘bonds of dependence and control’ that ‘demobilize society’ and constitute the “exact opposite of the horizontal

networks of civic engagement that . . . make democracy work . . . and social movement activity possible” (3-4).<sup>11</sup> The prevailing view has been that clients may benefit immediately and individually from clientelistic exchanges, but they do so at the expense of reinforcing long-term inequality and forgoing the sorts of political action that would aid redistribution to the poor as a group. Flynn explicitly posits clientelism as a strategy of social control deployed by dominant classes to neutralize the threat of collective action among subaltern classes and maintain narrow control over national political and economic systems (Flynn 1974).

A final consequence of clientelism is commonly thought to be low investment in public or collective goods. The lack of horizontal ties, absence of corporate groups, and weak collective action in clientelist systems encourages actors to build their economic and political interests at low levels of aggregation, and patrons to provide goods and services at correspondingly low levels of aggregation or high levels of excludability. For example, a universal interest for improved education can lead to a number of different kinds of demands, ranging from a client’s demand on a patron for a loan, recommendation, or scholarship to get a child into a school, to a community’s demand for public funds to build a local school house or pay local school teachers’ salaries, to interest groups’ demands for educational reform. By definition, in a clientelist system, individuals are more likely to make claims and demands on a personal level and basis rather than a collective one.

Consequently, clientelist political systems are likely to undersupply a variety of public goods that support development, such as infrastructure, research, education, and

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<sup>11</sup>Clientelism appears as a ‘demobilizing structure’ in a wide variety of work (O’Donnell 1992; Escobar 2002; Rock 1972; Holzner 2007). On the importance of social ties in collective action see various contributions in Diani and McAdam (2003).

training, on the one hand, and unequal distribution of private divisible goods, on the other. For example, under clientelism, industrial policies meant to stimulate sectoral or regional development are more likely to be directed toward the benefit of privileged individuals or individual rent-seeking firms, welfare resources are likely to go to political supporters rather than those who best meet technical criteria, public employment goes to party members rather than the most qualified applicants.<sup>12</sup>

In contrast to these common views of clientelism as political pathology are older views of clientelism, which stress its functionality in the context of poverty, incomplete or absent markets, and weak legal institutions. The literature of the 1960s and '70s claimed that patron-client networks formed in peasant villages to remedy the absence of insurance and land rental markets and to generally protect poor peasants from different sources of risk (Landé 1977). Authors debated how effectively patron-client ties served these purposes and whether such exchanges were characterized to a greater extent by norms of reciprocity that promoted redistribution and material 'leveling' within peasant communities or by economic principles that tended to reinforce and deepen inequalities (Scott 1976; Popkin 1979).

While contemporary studies of clientelism more often take the latter view, a variety of research on non-electoral politics shows how the lines between the vertical reciprocity of clientelism and the horizontal reciprocity of social capital can be blurry. For example, Auyero, Lapegna, and Page argue that clientelism makes possible certain

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<sup>12</sup> Chubb describes how the massive influx of state development funds into Southern Italy as part of the Cassa per il Mezzogiorno permitted the Christian Democratic Party's construction of a new clientela system, "combining the paternalistic management of the new welfare state with direct party control over an unprecedented outpouring of public rouses for public works and economic development projects. *What has taken place in southern Italy since 1945 is a 'statelization of society' together with a 'privatization of state power for personal political aims'*" (Chubb 1982, p 74, emphasis added).

types of contentious collective action and social protest by providing “relational support” through two crucial processes: “brokerage” in which patrons create connections between unacquainted actors, and “certification” by which patrons justify collective action among their clients (Auyero et al. 2009). Similarly, asking how a smallholder development project aided the construction of social capital in the post-authoritarian and clientelistic contexts of Guatemalan peasant communities, Durston argues “that leadership-based vertical reciprocity can be the basis for cooperation and scaling-up.” Existing clientelistic factions formed the basis for the project’s organization of ‘nuclear groups.’ Outside intervention limited competition among these groups and allowed factional leaders to serve as “the entrepreneurs of social capital,” eventually building horizontal ties.

Research has also revealed that clientelism can play beneficial functions in economic contexts. The literature on the role of social networks, or *guanxi*, in the Chinese private sector has described patron-client exchange as “institutional networks linking entrepreneurs to the bureaucracy that not only stimulate private business but also drive marketization by enhancing resource allocation, creating stable expectations and forging information channels” (Wank 2009).

Similarly, examining cooperative farmer enterprise in Brazil, Bianchi finds similar benefits to the strength of vertical ties, arguing that typically maligned middlemen played a key role in explaining cooperatives’ commercial successes, as did the autonomy of cooperatives’ managers to establish these relationships with limited participation from members (Bianchi 1999). Studying cooperatives in Bolivia, Tandler similarly reveals that, even in organizations where management skills were lacking, leadership was entrenched among the better-off members, and democratic accountability was weak,

cooperative organizations in Bolivia were still able to provide important development benefits to their poorest members through higher crop prices, cheaper inputs, and access to agro-processing.<sup>13</sup>

Even regarding politics tied explicitly to parties, voting, and elections, Hilgers (2008) writes, “clientelism may be the best available mechanism for holding politicians and officials accountable, and in some cases it may even result in community building” (142). Her case studies of patron-client exchanges between public housing beneficiaries and the Partido de la Revolución Democrática (PRD) in Mexico transmit the mix of attitudes and ambivalence with which clients themselves regard these exchanges. One informant described the monetary and time resources extracted by the leaders of a local housing organization and its party allies, saying, “The Frente enslaves people. It exploits them as much as it can.” In the end, “she felt so manipulated that she came to regard the organization, the party, and the entire political left as corrupt. From the moment she got her apartment, she stopped participating in anything political” (143). In contrast, members of other housing organizations described the same individual obligations as “a kind of schooling” rather than manipulation and became “more and more involved in politics because [they] wondered why people mobilize, and then realized that demonstrations are a type of pressure that forces the government to work and to respond to citizens’ demands” (146). Hilgers suggests that, in these cases, clientelism serves as a “springboard” from personal interests to community building.

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<sup>13</sup> Two key factors supported the poor members’ inclusion, despite the absence of democratic accountability: first, interest alignment between the better-off leaders and poorer members (e.g. when both came from farming groups), and second, the sorts of spillovers or externalities inherent in certain kinds of activities and the incentive to dilute the fixed costs of investments in processing equipment by granting access to as many farmers as possible (1983; 1984). On externalities and the dilution of fixed costs see also Coslovsky (2006).

Likewise, in their study of the livestock sector in developing countries, Leonard et al. (2010) argue that patronage networks represent peasants' only avenue of political representation and "the absence of a patronage link [from peasant producers] to the centre generally was not a sign of an opening to interest group politics but instead of political weakness, for it meant no effective presence in higher level polities at all" (484). They also point out that, "although informed by generous motives, 'linking social capital' [provided by NGOs intent on liberating the peasantry from political patronage] *amounts to patronage* and will be regarded as such by the recipients if it flows from an unequal social exchange" (490, emphasis added).

This review of the literature on clientelism reveals important controversies about its consequences for poor or vulnerable groups. While clientelism provides a common mechanism of control and exploitation by elites, it also provides one of the only avenues of participation and representation through which the poor and marginalized can pursue their interests. Moreover, it appears that under some circumstances clientelistic relationships provide a starting point for collective action, the construction of social capital, and the acquisition of new political skills and relationships among marginalized groups.

The literature cited above also suggests that outcomes for clients depend especially on the interests of brokers and the process of brokerage. However, the role of brokers is under-theorized in the literature on clientelism, which focuses primarily on the relationship between patrons and clients and especially on the relationship between party and voter. Moreover, understanding the circumstances under which brokers may support collective action among their clients is a key step in linking the literature on clientelism

with the literature on global value chains in order to build a theory of upgrading within clientelist production networks. In the next section, I put forward a set of hypotheses regarding the behavior of brokers as a step toward building a framework for studying the effects of clientelism on upgrading within global value chains.

***Hypotheses about Brokers and Collective Action in Two Types of Clientelist Networks***

The literature generally construes clientelism as a dyadic relationship that exists between patrons and clients. The term “broker” was coined in the early literature about political clientelism to describe the new position that traditional elites came to occupy as they evolved from local patrons in closed peasant villages into intermediaries, connecting villagers to the national political system and mobilizing their votes in support of national political parties. In this context, connections to outside groups, rather than land, became the primary resource that gave patrons (now brokers) their power (Powell 1970, 414). Students of political development argued that, empirically, brokers acted as clients themselves to new patrons in the State or in national political parties--replicating the village clientela system at the national level. This permitted using the concept of clientelism, developed to study micro-politics at the village level, to analyze macro-politics at the national level<sup>14</sup>

However, the image of brokers as clients or agents of an outside patron is incomplete. First, it misses the ambiguous position brokers occupy as representatives and leaders of their followers, on the one hand, and enforcers of their patrons’ will, on the other. Second, it fails to acknowledge the potential independence of brokers’ interests and

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<sup>14</sup> For a review and a critique of attempts to use the patron-client concept to study macro-politics see Kaufman (1974).

the role that brokers' may play in shaping the behavior of clients. In contrast, I propose examining clientelism as a more fully triadic relationship between patrons, brokers, and clients—focusing greater attention on how brokers strategically use the margin of choice provided by their two roles. Furthermore, I hypothesize below that brokers' strategies can account for the prevalence or weakness of collective action within clientelist networks.

To understand why this is the case, it is necessary to consider the intermediate position brokers occupied. Brokers hold ties to both patrons and clients, and can draw on the resources of either group to further their own interests. At any particular moment or in any particular situation, brokers' interests can align more closely with their patron or with their clients, depending on the resources each group holds and the best use a broker can make of it. In general, brokers can choose to draw on the economic power of their patrons, gaining access to material benefits in exchange for loyalty to their patron and for mobilizing the loyalty of their clients on their patron's behalf. Alternatively, brokers can draw on the political or numerical power of their clients by mobilizing them collectively into groups and attempting to extract greater economic resources from their patrons.

Brokers thus serve as “switches” for potentially destabilizing and transformative mobilization or collective action among clients. Drawing on the case studies presented in subsequent chapters of this dissertation, I hypothesize that the degree of competition among patrons and among brokers shapes the strategy that brokers choose. Specifically, I propose drawing a distinction between monopolistic and pluralistic forms of clientelism.

### *Monopolistic Clientelism*

I define *monopolistic clientelism* as a network in which a single patron monopolizes the material resources distributed in exchange for the support and loyalty of clients. This monopoly puts patrons in a strong position to impose their interests down the vertical chain of brokers and clients and allows them to perpetuate their power within their communities.

I hypothesize that, under monopolistic clientelism, the complete dependence of brokers and clients on patrons serves as a mechanism of control, which I name *client fragmentation*. When they face no competition, patrons are able to use their monopoly of resources to punish brokers that threaten to organize and mobilize clients collectively against them, and reward brokers that remain passive and loyal.<sup>15</sup> Under monopolistic clientelism, brokers are generally chosen and supported by their patrons' and maintain clients on the basis of their patron's resources. This makes brokers more accountable to patrons and less likely to ally with clients. Thus, monopolistic clientelism is more likely to support an alliance of interests between brokers and patrons to keep clients' demands fragmented and individual and prevent them from evolving into collective demands.

### *Pluralistic Clientelism*

I define *pluralistic clientelism* as a network where multiple patrons hold resources for distribution and multiple brokers mediate patrons' relationships to clients. Power relations are still unequal and hierarchical in these types of communities, but power is less concentrated in a single figure, and brokers and clients enjoy marginally greater autonomy. In contrast to monopolistic clientelism, under pluralistic clientelism a broker

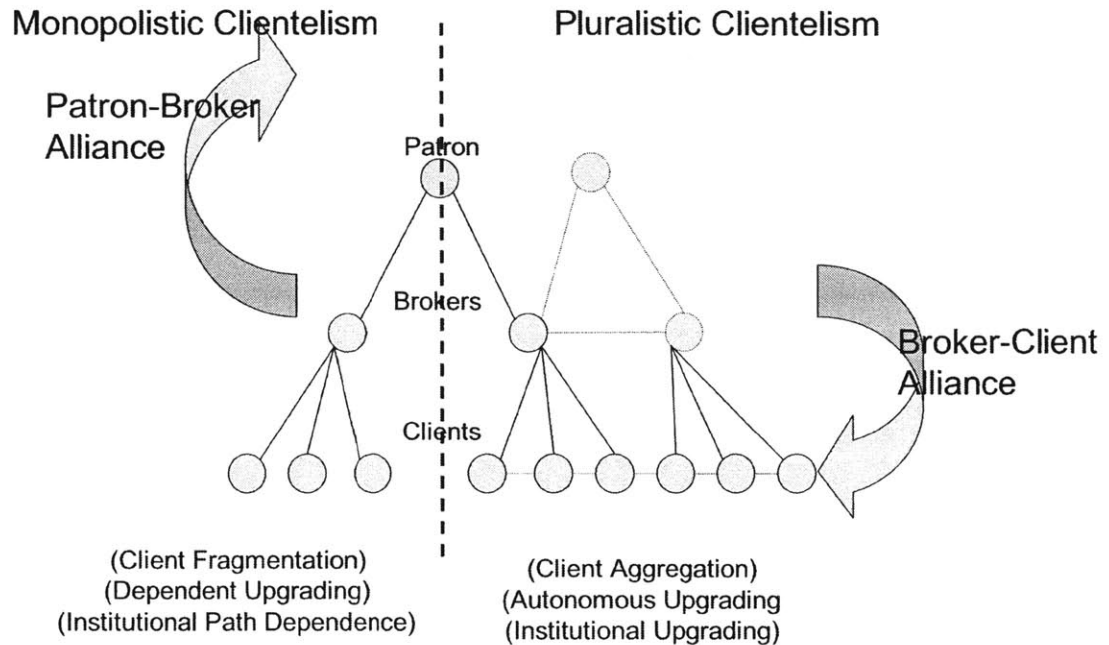
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<sup>15</sup> For a formal model of clientelism as political monopoly in which patrons occupy a dual role as a leaders "interested in maximizing his electoral fortunes, and as the owner[s] of a monopoly interested in extracting the most surplus possible" see Medina and Stokes (2002, 3).

may reach his or her position by challenging and replacing an existing broker. However, this type of challenge requires new brokers to mobilize an alternative set of resources to those that patrons provide from above to incumbent brokers. I suggest that, under these circumstances, brokers ally more often with clients, drawing on their numbers as a way of wielding political influence and pursuing their material interests vis-à-vis their patrons.

Thus, while under monopolistic clientelism, a broker has an incentive to foster passiveness among clients, under pluralistic clientelism at least some potential brokers have the incentive to foster collective action and mobilization. Moreover, under pluralistic clientelism, a single broker may not have sufficient mobilization capacity to challenge his patron. This creates incentives for cooperation among brokers to mobilize in greater numbers, extending the scope of collective action. In this way, as multiple brokers mobilize their clients collectively on the basis of vertical ties, they create opportunities for clients to strengthen their horizontal ties in a process I label *client aggregation*. *Figure 3.2* depicts the distinct broker alliances promoted by the two forms of clientelism.

**Figure 3.2.** Broker Alliances and Resulting Mechanisms



***From Political Clientelism to a Theory of Upgrading in Clientelist Production Networks***

A fuller theoretical account of the role that brokers play in clientelism provides a key step toward linking the literature on clientelism with the literature on upgrading. This is because, as Chapter Two discussed, intermediaries or brokers play a key role in facilitating the process of upgrading in economic production networks. As smallholders shift from economic strategies based on subsistence production and production for local or national markets, they lack the capital, information, knowledge resources necessary for upgrading. To gain access to these resources, they must rely on brokers who possess ties to external actors.

Unequal production networks share many of the properties of the clientelistic political networks described above. In production networks, brokers link producers to

outside markets and firms, as well as potentially to non-commercial national institutions in the State and civil society and to international institutions such as donor agencies and international NGOs. Conversely, they link buyers and processors to available suppliers.

Thus, just as political brokers occupy an intermediate position between clients and patrons, economic brokers are caught between the competing interests of buyers and processors on the one hand, and producers, on the other. Each group demands that brokers use their power in different ways. Buyers and processors expect brokers to organize and discipline the production of suppliers, reducing transactions costs and making supply predictable. They also enlist the aid of brokers to keep supplier costs low. In relatively egalitarian production networks, brokers can accomplish this by serving as conduits for information about the investments buyers should make in their supply base. By directing the flow of resources to enhance the productive capacity of suppliers, brokers support positive sum gains. However, in unequal supply networks, brokers are also able to keep prices low by extracting value from suppliers.

Conversely suppliers expect brokers to provide them with secure market access and with services that reduce their economic risks. In relatively egalitarian supply networks, suppliers may seek out brokers who can connect them to new buyers and new product markets or who grant them access to new technologies and new learning opportunities. But in unequal supply networks, suppliers are less likely to feel secure in their ability to reap the rewards of investments that they make. As a result, they are more likely to prioritize secure markets, higher and more stable prices for their products, and individual and tangible material benefits and services.

For example, in unequal agricultural production networks, small farmers' demands particularly focus on access to credit to cover production costs and smooth household consumption over the planting and harvest cycle. Farmers also seek out brokers who can connect them to a stream of individual material benefits, such as inputs (e.g. seed, soil treatments, fertilizer), equipment, and services (e.g. tractor and soil treatment services).

As in political clientelism, brokers hold relationships that connect different groups and that serve as their source of power and influence. Also as I've suggested above, broker's can use their power to further the interests of either group. Below, I hypothesize that the way that brokers strategically use these relational assets shapes producers' possible upgrading trajectories in different ways depending on the degree of competition among brokers and whether they activate mechanisms of fragmentation or aggregation (collective action) among suppliers. However, before presenting these hypotheses, the next section more formally introduces the concept of a clientelist production network—highlighting the advantages it offers over analyzing the relationships between suppliers, brokers, and buyers as market relationships that function according to economic principles.

#### *Defining Clientelist Production Networks*

I define *Clientelist Production Networks* as supply chains that are organized with a structure similar to clientelist political networks and which operate according to the principles of clientelism listed above. Rather than impersonal, one-time market exchanges, these networks structure exchanges among relatively stable but unequal

partners. In clientelist production networks, the buyers and processors that control market opportunities serve as patrons to suppliers, and they use their power to extract value and prevent collective demand making from suppliers. As clients, suppliers prioritize insulation from risk in their exchanges with buyers. Brokers serve as intermediaries in these exchanges, organizing suppliers to meet the demands of buyers.

Following from the previous section, the degree of competition among brokers and among patrons provides a key variable in determining how power functions within clientelist production networks. In part, this point refers to economic competition. Monopsony control over suppliers' product or crop markets provides patrons with their principle source of power. As the global value chain literature suggests, this permits patrons to set prices, enforce standards, and push costs upstream. The fact that suppliers (clients) lack this type of power limits their ability to craft economic strategies independently of their patrons and externally conditions their upgrading trajectory.

However, the relationships within clientelist production networks are not just economic, and I suggest that market power is insufficient for a patron to maintain his position and the subordination of his clients. This requires patrons to prevent clients from organizing politically to collectively enhance their power within a production network. Thus, as follows from the discussion above, I hypothesize that the interests and strategies of brokers provide a second key variable in determining suppliers' upgrading strategies and their potential to widen their scope for autonomous action.

The advantage of studying production networks as clientelist networks is that it permits analysis of the social and political sources of power within production networks. Doing so is especially important in order to study the role of producer organizations and

farmer associations within unequal production networks. This is because, unlike firms, producer organizations have explicit representative and political functions. They are meant to represent the collective economic interests of their members, negotiating with other economic and non-economic actors on their behalf. In general, producer organizations also often have electoral procedures for choosing leadership. Moreover, the economic functions served by producer organizations, such as the provision of goods and services to enhance their members' economic productivity, have political features. These activities require organizations to make decisions about what goods best serve the group's interest and how they should be distributed among its members. Finally, producer organizations may serve social functions as well, such as educating and socializing producers into a particular kind of group identity.

In general, none of these factors are amenable to study using exclusively economic concepts. Specifically, the market power exercised by buyers certainly constrains the autonomy of producer organizations; however, producer organizations within clientelistic production networks are still likely to vary widely in how effectively they serve their political purposes. Moreover, because the leaders of producer organizations serve as economic and institutional brokers, the unique relationships they hold serve as an autonomous source of power. This fact raises the question of when they will use their power as leaders to further the interests of buyers and processors (patrons) or to further the interests of their followers (clients).

In the next two sections, I hypothesize that variation between *monopolistic* forms and *pluralistic* forms of clientelism is sufficient to explain substantial variation in how

well organizations reflect the interests of their members and types of goods they generate and distribute, while still accounting for the elements of hierarchy they exhibit.

*Monopolistic Clientelism and Dependent Upgrading*

When supplier-buyer networks are organized as monopolistic clientelist networks, I hypothesize that small farmers will have difficulties cooperating in ways that permit them to enhance their share of the rents generated by exports or in ways grant them greater autonomy from other powerful actors in the supply chains in which they participate. As producers with this type of structure integrate into global value chains, they are more likely to exhibit a pattern of *dependent upgrading*.

I define *dependent upgrading* as investments in new production processes, technologies and products in the absence of investments or institutional changes that enhance producer groups' autonomy from more powerful actors in their supply chains. This pattern includes the "immiserizing growth" described by the value-chain literature (Kaplinsky 2001), in which increasing investments in product and process upgrading bring decreasing economic returns and fail to raise living standards.

However, by *dependent upgrading* I particularly mean investments in product and process upgrades that do not widen the scope of economic strategies open to producers, by granting them greater and more secure or autonomous access to market information, tacit production knowledge, and financial or other material resources. Instead, dependent upgrading reinforces producers' reliance on a single set of relationships for upgrading resources and locks them into a narrow set of economic activities.

In a value chain with a structure that is analogous to monopolistic clientelism, producers act as clients and depend on brokers for market access, as well as for access to upgrading resources. In turn, brokers depend for these resources on buyers or processors that derive their power by monopolizing higher-value activities in the value chain. In such a scenario, my prediction is similar to the value chain literature. Brokers are unlikely to mobilize suppliers to pursue functional upgrading or to collectively compete with their buyers by moving up the value chain. Instead, they are likely aid their buyer (i.e. patron) in imposing new upgrading costs upon suppliers and in preventing suppliers from gaining access to information and knowledge that would allow them to diversify their production and broaden their markets so as to enhance their autonomy. For example, small farmers may adopt new labor-intensive harvest methods to meet quality standards, but not receive increased prices for their crops. Furthermore, these same farmers may receive sufficient information and production knowledge from their buyers to produce exportable quality, but not enough to make investment decisions independently of their buyers.

In addition to a lack of functional or inter-sectoral upgrading, the term dependent upgrading also entails a mechanism of positive feedback or *institutional path dependence*, by which product and process upgrading reinforce monopolistic clientelism. As farmers come under pressure to upgrade to the standards prevalent in the global economy, it increases the value of market information, production knowledge, and financial resources. This enhances the economic rents, power, and influence of brokers that have access to these resources through their buyer (patron), and it increases the dependence of producers that do not possess these resources.

In turn, the ability of brokers to access and monopolize these upgrading resources

bolsters their power and discourages them from disseminating these resources broadly as public goods and in support of the type of collective functional or inter-sectoral upgrading that would create greater material equality and erode their privileged positions. The risk of losing access to a secure source of patronage (i.e. upgrading resources), also discourages brokers from using these resources to build new institutional ties or relationships that would create multiple flows of upgrading resources and lessen their and their followers' dependence on single patron. This type of upgrading reinforces institutional simplicity rather than encouraging the thickening of suppliers' institutional and social ties.

When this type of upgrading takes place within the context of a farmer organization, it reinforces the dominance of elite members. Entrenched leadership is a very common attribute of farmer organizations in clientelist regions because the social, economic, and especially educational attributes that make for effective leadership are concentrated among elites. Moreover, dependent farmers have limited leverage vis-à-vis organizational leaders that enjoy secure access to patronage resources from above—e.g. from a monopsonistic buyer. This creates external and top-down accountability within their organizations.

Under these conditions, as leaders gain access to new resources from groups such as Fairtrade, they are likely to use them for personal benefit and in ways that entrench their personal power and influence within their organizations. This pattern of personal and individual exchange between leaders and their followers weakens the effect of the accountability measures encouraged by Fairtrade, such as such as auditing, financial reporting, elections, and participatory decision-making. Furthermore, rather than invest in

strengthening internal, bottom-up, or collective accountability, followers themselves invest in maintaining their vertical ties as their best option for accessing material resources.

### *Pluralistic Clientelism and Autonomous Upgrading*

In production networks that are organized under pluralistic clientelism, the greater scope for broker-led collective action increases the probability that small farmers will succeed in cooperating to enhance their share of the value generated by trade through a process I describe as *autonomous upgrading*. First, I propose that the greater degree of economic competition in these networks provides supplier groups a wider scope for functional and inter-sectoral upgrading. For example, as elites who occupy positions as brokers seek to enhance their profits, they may upgrade into processing or invest in crop diversification. In turn, they may support upgrading among poorer or smaller farmers in order to generate sufficient volume to collectively compete with existing processors or buyers. Although farmers may still depend on elites as brokers to make this type of upgrading possible, these developments enhance small farmers' autonomy, as they gain access to nodes of the value chain that are more rent- and information-rich.

However, in addition to functional and inter-sectoral upgrading, *autonomous upgrading* also entails a process of *institutional upgrading* that enhances growers' autonomy by generating upgrading resources that do come directly or exclusively from buyers. For a farmer organization, this includes investments in organizational assets like human capital, administrative and planning capacity, and technical skills that are specific to the markets in which they operate or wish to operate.

Autonomous upgrading also implies the construction of new relationships that create multiple sources of capital, increased information flows, and diverse sources of learning. For example, a farmer organization entirely dependent on a single buyer may forge new economic relationships with multiple buyers, as well as non-commercial relationships with public-sector organizations, with non-governmental organizations, with other producer organizations and industry associations, and with international civil society groups. This type of upgrading aids farmer organizations in constructing of a unique set of local assets and allows them to better anticipate, respond to, and serve buyers' demands, ultimately permitting them to relate on a more equal footing with other actors.

Finally, in the context in which farmer organizations play brokering roles, autonomous upgrading supports increased leadership accountability. Under pluralistic clientelism, brokers may pursue their own material interests by mobilizing large numbers of clients (e.g. small farmers) to challenge the power of patrons (e.g. buyers or processors). When brokers' power and material interests depend on mobilizing collective economic cooperation and political support from many individually less powerful actors, it creates new incentives for bottom-up accountability. In the most pluralistic forms of clientelism, patrons and brokers may compete for clients' support. In this context, the benefits generated by an organization's acquisition of new knowledge, information, and material resources are more likely to flow from its elite or leadership level to its poorest members.

Autonomous upgrading does not easily eliminate elite-domination in farmer organizations. Leadership turnover may remain limited and leaders may continue to

assign some resources in a personalistic manner as private goods targeted to privileged members. However, they face new pressures from below to demonstrate that organizational resources are used in ways that generate broadly distributable and public benefits as well. For example, hiring for managerial positions may still be restricted to a leader's personal networks (family members and trusted friends) and employment assigned with personal criteria. However, technical qualifications specific to the position also provide a criterion in addition to a personal relationship with the leader.

As peasant farmers gain leverage vis-à-vis their leaders and utilize it to further their interests, they practice the skills necessary for effective and active political participation and engage in strategies of contestation and deliberation rather than the deference and passivity traditionally ascribed to this group. Under these circumstances, intervention by outside groups such as NGOs, religious groups, portions of the state, and Fairtrade organizations is better able to support the meaningful adoption of accountability procedures such as auditing, financial reporting, public meetings, debate, and participation, that provide members with an alternative to personal accountability.

### ***Conclusion***

This chapter has reviewed the literature on clientelism, arguing that it does not sufficiently examine variation and change within clientelist systems or account for the positive and negative development outcomes that clientelist arrangements can support. It then presented a theory of upgrading in clientelist production networks that draws distinctions between monopolistic and pluralistic clientelism. The theory predicts that the latter is more compatible with collective action and the provision of public goods within farmer organizations. Economic upgrading under these conditions will also support

greater autonomy among small farmers as they engage with more powerful actors in global value chains. Finally, the theory hypothesized that external interventions, such as Fairtrade, are more effective in improving leadership accountability within farmer organizations in the context of pluralistic rather than of monopolistic clientelism.

The remainder of the dissertation will provide the empirical material from which this theory has been constructed. Part II describes the history and contemporary globalization of the sugar industry, including the development of niche markets for Fairtrade and organic sugar centered in Paraguay. Part III presents a set of comparative case studies of Paraguayan sugarcane farmers that have joined global supply chains for organic and Fairtrade sugar.

## **Part II: From Fordism to Fairtrade in the Global Sugar Industry**

### **Chapter 4. Mass Markets and Smallholders: the Sugar Industry in the Nineteenth and Twentieth Centuries**

*Sugar has never enriched anyone but slave traders, local landlords, industrial farmers, sugar barons, speculators, food corporations, PR consultants and professional politicians. No one has ever traded their way out of poverty with sugar, and there's no reason to suppose they ever will.*

–David Ransom (2003). “The Sugar Trap,” *New Internationalist*.

How do global markets affect smallholder agriculture in developing countries?

What possibilities do private initiatives like Fairtrade and organic certification offer small farmers? In particular, can smallholders benefit from inclusion in sugar export supply chains, and can they do so in a country where, historically, they have been poorly organized, dependent on local milling elites, and enmeshed in clientelistic relationships that do not permit them to hold their leaders accountable?

The current chapter uses historical evidence to bear on these questions by bringing a series of national sugar industry studies into comparative perspective to examine the relationship between global markets and smallholder agriculture during previous periods of globalization and economic nationalism in the nineteenth and twentieth centuries. Because sugar is a commodity intimately tied to the rise of the world economy and the development of capitalist agriculture, it provides a lens through which to examine current processes of twenty-first century globalization.

The manufacture of white refined sugar and the cultivation of sugarcane, from which it is produced, exemplify how the industrial revolution, the spread of mass-

production technology, and the consolidation of international trade networks linking northern and southern economies transformed the relationship between food markets, agricultural production, and labor in the nineteenth and twentieth centuries. Likewise, as Chapter Five will discuss, the growth of market niches for Fairtrade and organic sugar exemplifies how even the most commodified of markets have fragmented under current conditions of globalization—creating opportunities both for large multinational enterprises to consolidate their economic and political power, as well as for small entrepreneurial and social entrepreneurial ventures to reshape how food is produced, traded, and consumed.

The current chapter provides the historical context for the development of global niche markets for organic and Fairtrade sugar and shows how, in the past, the domestic politics of national development have created economic opportunities for smallholders that were absent in sugar export markets. It proceeds by describing the economic and political features of sugar production. It then reviews the development of different national sugar industries in the twentieth century, contrasting the production structures, social relations, and distributional outcomes that resulted from the sugar industry's modernization in two different sets of countries in two different periods: the neo-colonial sugar producers of the Caribbean (Cuba, Jamaica, and Puerto Rico) during the nineteenth century and a set of large independent developing countries (Brazil, Mexico, and India) in the twentieth century.

In both sets of countries and during both periods, sugar production was closely linked to the expansion of mass markets and mass-production technology. The economic and technological changes of the nineteenth and twentieth centuries propelled the global

sugar industry down a trajectory toward vertical integration and scale economies, earning sugarcane a reputation as a quintessential plantation crop that has rarely brought benefits to smallholders or supported egalitarian or democratic patterns of development (Billig 2003; Hirschman 1977; McGrath 2011; Richardson et al. 2009; Shlomowitz 1984; Taylor 1978).

However, comparing the experiences of these two sets of countries reveals countervailing pressures. The varying political institutions that structured the development and technological modernization of diverse national sugar industries in these two periods generated outcomes that favored smallholders and rural labor to different degrees. In the Caribbean countries, the technological modernization of sugar production took place through foreign investment geared toward neo-colonial export markets. It was accompanied by the expansion of large-scale plantations, authoritarian labor relations, and the deepening of economic inequality (Ayala 1999; Feuer 1984). In contrast, in the latter set of countries, sugar modernized within protected national markets and with the aid of publicly owned and regulated sugar enterprises. This permitted rural labor and smallholders to claim greater benefits through political mobilization and the construction of clientelist political relations with the State (Attwood 1992; Pereira 1997; Singelmann and Otero 1995).

The comparison demonstrates that smallholders' prospects depend not only on the economic constraints and opportunities they face, but also on their ability to mobilize political power in response to economic challenges. Historically, sugar's association with colonial and exploitative international economic relations explains the underdevelopment

of sugar-producing regions, rather than the economic characteristics of the crop and its processing technology *per se*.

### ***Sugar in the Global Economy***

Sugar was one of the first products to be produced in southern agrarian countries, consumed in northern industrial countries, and traded in massive volumes between the two. The tropical origin of the sugarcane crop means that it cannot be grown in northern latitudes, where, starting in the eighteenth century, the industrial revolution began to draw rural labor out of food production and promote the development of a class of proletarian consumers, in turn creating demand for cheap calories that required little preparation.

A social and economic pattern dominated by large plantation structures arose in former tropical colonies that depended largely on sugarcane farming and sugar exports, such as Northeast Brazil and the island nations of the Caribbean. Landowning and processing elites controlled sugar plantations and operated them with the labor of landless workers. This structure of production, ownership, and trade drove economic, social, and political inequalities within colonial regions and between them and their metropolises—features that many authors have linked to these regions' persistent political and economic underdevelopment (Billig 2003; Coote 1987; Furtado 1968; Geertz 1963; Hirschman 1977; Mintz 1986; Taylor 1978). As the next two subsections explain, the economic characteristics of sugar production, coupled with the sociopolitical factors linked to sugar's role in the rise of the international economic system, have contributed to material and political inequality in the industry.

*Mass Production Technology and the Economics of Sugar*

From the early origins of the sugar trade until present day, the sugar industry has overwhelmingly followed a trend toward ever-greater capital intensity, scale, enterprise consolidation, and vertical integration among farming, processing, refining, and marketing activities. The nature of the sugarcane crop, the technologies of sugar production, and consumer demand for white refined sugar have overwhelmingly favored the organization of sugarcane production into large plantations rather than small, independent farmer plots.

Students of the sugar industry have most often employed transaction costs theory to explain why sugar production takes place in vertically integrated enterprises in which a single firm owns and controls both milling and farming operations (Shlomowitz 1984). In essence, because sugarcane is bulky and perishable and because sugar milling generally exhibits large economies of scale, potential transactions between independent farmers and mills are very costly. First, maximizing sugar production requires harvesting sugar cane as it reaches its peak of ripeness and transporting it to sugar mills for processing as quickly as possible before its sugar content begins to decline. Second, optimizing sugar profits depends on keeping expensive processing equipment as fully employed as possible, which requires a large and predictable flow of sugar cane. As a result, profitable sugar milling requires that the planting, harvest, transport, delivery, and processing of cane be coordinated in ways that simultaneously avoid leaving ripe cane unharvested in the fields, harvested cane spoiling outside the factory gates, and processing equipment standing idle in the factory. Thus, for a sugar mill owner, purchasing sugarcane from independent external suppliers typically implies risking the disruption of his factory's throughput (Shlomowitz 1984).

Where mills did not control their own supply of sugarcane, they exposed themselves to conflicts over price or other conditions of exchange with their suppliers, to competition for raw materials from other buyers, and to problems with the orderly and timely coordination of deliveries from a large number of small suppliers. Rather than risk losing their large plant investments, sugar millers throughout the industry have generally broadened their investments to include internal plantations and secure consistently large volumes of sugarcane. Scholars have also argued that the capital intensity of sugar milling also drives further “capital indivisibilities” in sugarcane farming that encourage large-scale plantations.<sup>16</sup>

Finally, technological progress in the sugar industry has consistently encouraged a high-volume and low-cost strategy for profit seeking among sugar processors and marketers and promoted homogeneity of tastes among consumers. The industry’s early development occasioned the diversification of sugarcane-derived products, such as molasses, rum, various grades of crystal sugar and sugar syrups (Mintz 1986, 44). However, after its initial growth, and for most of its history, the sugar industry has generated economic surplus by lowering production costs through the use of specialized processing machinery and expanding the size of the market for sugar of ever more *uniform* quality—rather than through quality differentiation and specialization.

To the extent that sugar marketers historically courted consumers with quality claims, they stressed the purity and whiteness of their sugar. These aspects of the product rely most on mass-production refining technology and on the refining industry located in

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<sup>16</sup>These include, for example: a) large trucks that must be filled with more cane than can efficiently be harvested by individual harvest workers, and b) farming equipment and infrastructure systems, such as drainage and irrigation networks that become economical only for large-scale production and that encourage plantation production and vertical integration. See Shlomowitz’s (1984) assessment of these arguments (10).

consuming countries, whose profits required large markets at home and low agricultural and processing (milling) costs abroad in producing countries. Throughout much of sugar's history, these interests of refining companies largely drove the evolution of the industry's production and trading structures (see below).

With regard to the agricultural phase of sugar production, the most or only relevant quality parameter by which the crop is judged has traditionally been the sucrose content of the sugarcane as it arrives in the factory from the field. Though largely a function of varietal improvement, weather conditions that are largely beyond farmers' control, and the harvest- and transport-coordination issues described above—sucrose content is also affected by the application of field labor. Planting and weeding must be carried out at specific times and in particular ways in order to permit sugarcane to ripen optimally. Harvest labor must be monitored to ensure that workers prevent low industrial yields by removing all foreign material (leaves, roots, shoots) from the cane that is delivered to the factory. They also must avoid compromising subsequent sugarcane regrowth ("ratoon harvests") by damaging cane stumps with improper cutting technique.

However, the degree to which sugarcane quality (i.e. sucrose content) is a function of labor differs substantially from the labor-quality relationship for less commodified crops like coffee, high-value fruits and vegetables, or even cotton. For these products, the quality of labor applied in the production and harvesting process (e.g. care applied in establishing proper growth conditions, in choosing which produce to harvest, and in handling and transported harvested produce) is a much larger component of ultimate product quality (e.g. visual appeal and taste for fruits and vegetables, taste and chemical composition for coffee cherries, or the cleanliness and length of cotton fibers).

Labor-intensive crops that exhibit strong quality differentiation, such as these, have been shown to provide the greatest opportunities for smallholders to compete with plantation farming, because 1) smallholders' labor, as opposed to their access to land or capital, constitutes their main productive asset and 2) monitoring labor for the production of high-quality produce is more costly on large plantations than on small farms (Berry 2001; Carter et al. 1996; Damiani 2003; Gomes 2004; Shlomowitz 1984). Conversely, the lack of strong quality-labor interaction in sugar, by contrast, gives advantages to large plantations and capital- and land-intensive production.

Thus, as the sugar industry grew, it did so by tying greater and greater amounts of capital into fixed production costs. This was especially true as multinational owners of large sugar mills and refineries integrated further into land ownership, the management of permanent sugar plantation, and the maintenance of a permanent plantation workforce (see below). The particular way in which the global sugar industry developed technologically and commercially—and the causal loop linking mass-production technology to the expansion of consumer demand for cheap homogeneous commodities in this industry—effectively deterred smallholders in most places from competing on the basis of labor-intensive processing and flexible responses to market changes. As Chapter 5 will make clear, it is in this regard the development of niche demand for organic sugar provides new opportunities for smallholder sugar.

Historically, the high-fixed costs of sugar production and the sugar industry's need to secure adequate and stable supplies of land and labor generated rigidities in the composition of production and in the factor markets of sugar-producing areas, subjecting their growth and development to the volatility of the international sugar market and to

disruptions in labor supply. Throughout the various periods that comprise the sugar industry's history, different political and institutional arrangements have arisen to provide the technical conditions for its sustained development. The following subsection describes how, beginning in the colonial period, the institutional arrangements forged by European colonial powers and colonial sugar elites to meet the industry's economic requirements also precluded the development of smallholder agriculture and engendered deep and lasting economic and social inequalities in sugar-producing regions.

#### *Colonialism and Sugar's Socio-Political Order*

The colonial origin of the sugar industry generated a second set of forces toward the consolidation of large estates rather than promoting smallholder farming. Much has been written about the sugar industry's colonial history and its consequences for the political and economic development of former colonies. For purposes of this chapter, I highlight two points in particular that will be familiar to most students of economic development. First, the rise of sugarcane planting and the global sugar trade played a central role in European powers' colonial expansion, subordinating producing countries to the interests of their metropolises. Second, at the local level, colonial policies in sugar-producing areas institutionalized material and political inequalities (typically along racial lines) between a wealthy planting and milling class and a landless, coerced labor force.

Notwithstanding the differences in the colonial projects pursued by various European colonial powers, their control over the production of raw sugar in tropical countries and of its import, refining, and commercialization within Europe became a key concern within the broader colonial geo-strategic setting of the seventeenth century. The

Spanish, Portuguese, Dutch, and especially the English empires erected plantation structures in their Atlantic, African, and eventually Asian colonies to serve economic and political interests at home, rather than to support the autonomous development of their colonies. In particular, control over sugar production and trade permitted European powers to generate and extract profits for reinvestment at home, to establish protected external markets that could absorb new mass-produced manufactured goods, and to secure a source of cheap calories for the new industrial proletariat (Mintz 1986, 148).

While the colonial sugar trade provoked tremendous flows of capital, consumer goods, and labor across the globe, its contributions to the development of sugar-exporting colonies were sharply limited by the trading regimes established and enforced by European empires. Initially, mercantilism established stable conditions for investment and expansion in colonial export industries by granting colonies and their economic elites secured access to rapidly expanding markets for their products abroad. However, over time, these arrangements would better serve the interests of metropolitan industrial capitalists than those of colonial sugarcane planters.

In particular, mercantilist regulation permitted European powers to constitute their colonies as suppliers of agricultural raw materials in the new international economic order, instituting a pattern of center-periphery exchange that restricted trade within specific empires. As a result, colonies developed as monocrop, enclave economies that were entirely dependent on sugar exports. Colonial economic actors had few incentives for diversification and limited ability to optimize even their static comparative advantage by purchasing the cheapest industrial consumer goods from abroad or seeking the most advantageous markets for their sugar.

Ultimately, sugar, along with other tropical products, “surrendered its place as a luxury and rarity and became the first mass-produced exotic necessity of a proletarian working class” (Mintz 1986, 46). As industrializing countries like Britain experienced these changes, securing the cheapest supply of sugar from the most efficient producers became an economic and political imperative—one that would be achieved at the expense of colonial sugar producers’ protection:

Sucrose was a source of bureaucratic as well as mercantile and industrial, wealth . . . Sugar led all else in dramatizing the tremendous power concealed in mass consumption. Control over it, and responsibility for the eventual outcome, led to a sweeping revision of the philosophy that determined the connections between metropolis and colony. It might not be too much to say the fate of the British West Indies was sealed, once it became cheaper for the British masses to have their sugar from elsewhere, and more profitable for the British bourgeoisie to sell more sugar at lower prices (Mintz 1986, 185).

Thus, having rendered their colonies entirely dependent on sugar planting and exports, European powers subsequently embraced free market ideas, denied their colonies protected access to their markets. In the absence of efforts to diversify their economies, this condemned the colonies to declining economic fortunes.

Just as metropolitan interests in cheap sugar promoted the construction of European empires and the persistence of unequal economic relations between international center and periphery, the colonial sugar trade also endorsed the maintenance of unequal local power relations within sugar-producing colonies. Specifically, the growth of a global sugar industry entrenched the power of landowning elites in sugar colonies through land regulation that supported the formation of large-scale plantations and the colonial endorsement of slavery and other forms of coerced labor.

Colonial powers designed their settlement and land policies so as to quickly bring new areas of conquest under their control. This generally meant establishing strong lines of hierarchical and centralized authority, rather than decentralized, self-rule. For example,

in 1534, the Portuguese crown divided the Brazilian coast into 15 'captaincies,' awarding their grantees the overwhelming share of benefits derived from the use of this land: "personal use of 20 percent of the land, 50 percent of the value of extracted products, and civil and commercial jurisdiction within specified limits" (Taylor 1978, 17). The *donatários*, to whom the crown entrusted the Brazilian captaincies, also held exclusive rights to extend hereditary land grants to colonists, as well as to award licenses for the establishment of sugar mills.

The Portuguese crown forged this structure partly in response to the problem of bringing its far off colonies under its control and did so by drawing on its experiences with its Atlantic island colonies. Only by granting substantial economic and political power to potential colonists was Portugal able to motivate sufficient migration to win control over the large South American territories to which it had laid claim:

The *donatários* . . . were not feudal barons, but were drawn from the top of the middle and servant classes . . . . The colonists who left Portugal for Brazil generally did not do so for religious or political reasons; they migrated with the hope of becoming wealthy. Prado describes the type of colonist attracted to Brazil: "Of his own accord, the European settler came to the tropics only when he had the means or aptitude to become a master, when he could count on others to work on his behalf." (Taylor 1978, 18).

Given the motivations and social position held by potential and actual colonists, supplying the labor-intensive sugar industry with a sufficiently large and disciplined workforce posed a major problem.

Thus, the expansion of the sugar industry in Brazil and other Atlantic colonies also relied on the massive importation of slave labor and on European colonial states' willingness to endorse the Atlantic slave trade. Brazil's was among the earliest large-scale sugar-exporting industries that relied on slave labor, importing an estimated 350,000 Africans during the peak of its growth in the seventeenth century (Taylor 1978, 24). As Dutch, French, and English Caribbean territories supplanted Brazil as Europe's

main supplier of sugar in the eighteenth century, they too experienced a massive influx of slaves. Barbados imported 252,500 slaves over the course of the nineteenth century, while Jamaica imported 662,400 (Mintz 1986, 53). These slaves formed the bottom rung of the colonial social and economic order, linking the industry to radical inequality and exploitation from its origin in this region.

To summarize this section's discussion, the combination of sugarcane's economic features with the social and political forces specific to the historical period in which the industry originated strongly militated against the development of an autonomous smallholder economy in the Atlantic sugar colonies. Albert Hirschman describes sugarcane as providing a 'multidimensional conspiracy' against the development of the various regions that specialized in its production and export. The affinity between sugarcane planting and slavery, as well as the prevalence of "outside" (foreign-controlled) linkages in sugar processing and trade, prohibited sugarcane from serving as a developmental staple (Hirschman 1977, 91-94).

Hirschman (1977) contrasts sugarcane with coffee, which exhibits multiple characteristics that have permitted and elicited developmental behavior on the part of smallholders and the state (93). Historically, coffee has served as a major driver of growth and development in Colombia (Arteta 1958; McGreevey 1971), a precursor to industrialization in the State of São Paulo (Dean 1969), and a stimulus to the formation of a democratic welfare state in Costa Rica (Luetchford 2008). The divergent development patterns produced by these two export staples are striking. Yet, in pointing out the characteristics of sugar and coffee that have sustained such different production relations, Hirschman argues against a deterministic reading of their effect: "an identical set of

productive forces could not only be compatible, but could entertain a collusive, mutually reinforcing relationship with more than one set of relations of production” (Hirschman 1977, 96).

Indeed, over time and across space, the sugar industry has exhibited substantial variation in its industrial structure and the property and labor relations that sustained its growth. The next section will review this variation and discuss the transformation of sugar production, trade, and consumption over the twentieth century.

***Sugar’s Modernization in the Nineteenth and Twentieth Centuries: Neo-Colonialism in the Caribbean vs. Nationalist Development in Brazil, Mexico, and India.***

From its colonial origins, the global sugar industry experienced far-reaching technological and political transformations and tremendous shifts in its productive and geographical organization. The nineteenth and early twentieth centuries brought to sugar-producing countries the emancipation of slave labor, new types of labor migration, and new modes of labor extraction, as well as national independence, enormous flows of foreign investment and the widespread adoption of mass-production technology. For the industry as a whole, these changes unleashed unprecedented productive potential. For regions specializing in sugar exports, these changes implied dedicating increasing proportions labor, land, and capital investment into sugar production and making their internal economic growth dependent on the growth in consumer demand for their sugar abroad. However, these changes had distinct effects in sugar-producing countries. As former colonies and their sugar industries built upon the legacy of their colonial experience, they constructed diverse institutional arrangements to govern sugar production and trade. In turn, these institutional arrangements privileged the various

internal and external interests tied to sugar production differently and supported different distributional outcomes from the growth of the sugar industry in different countries.

In the sugar-exporting economies of the Caribbean in the early twentieth century, the sugar industry grew within the framework of neo-colonial relationships with consuming countries. These conditions favored foreign investors, suppressed the development of smallholder agriculture, and reinforced the marginalization of landless labor. In contrast, Brazil, Mexico, and India oriented their sugar industries toward their sizeable internal markets and the satisfaction of domestic economic and political demands—including those of rural labor, in Brazil, and smallholder farmers, in the case of Mexico and India.

This section proceeds in three parts. The first portion will describe the basic economic and technological developments that shaped the sugar industry in the nineteenth and twentieth centuries and pushed the industry everywhere further down the trajectory of mass-production technology. The second two will place these changes into comparative perspective, contrasting the modernization of different national sugar industries. The literature on the sugar economies of this period largely debates the degree of continuity that existed between the early colonial plantation economies of the seventeenth and eighteenth centuries and the industrial plantation economies that arose in the late-nineteenth and early twentieth centuries—asking essentially whether underdevelopment in sugar regions resulted from too much or too little capitalism.<sup>17</sup> The following discussion instead highlights the degree of variation that existed across major

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<sup>17</sup> See Ayala's (1999) discussion of the Caribbean plantation system for a review of this debate, which hinges especially on whether labor and property relations in the industrial plantation economies were fully capitalist or instead preserved the feudal residue of earlier periods. The author argues that, rather than continuity in feudal relations, the industrialization of the Caribbean plantation economies marked the start of a new capitalist form of exploitation and underdevelopment (5-22).

sugar producers in the latter period, especially in the institutional arrangements that arose to regulate the development of the sugar industry and in the consequence of these arrangements for smallholders.

*Economic Transformations in the Sugar Industry of the Nineteenth and Twentieth Centuries*

Beginning in the nineteenth century, the sugar industry underwent rapid and accelerating technological and organizational change, particularly following the growth of the refining industry and its increasing economic and political power in northern industrial countries. In this period, reductions in the costs of sugar refining drove a mutually reinforcing expansion between the volume of production and the volume of demand for refined sugar in consuming countries. This expansion, in turn, drove changes in the technology and in the financial and productive organization of sugarcane farming and milling industries in countries of the south.

Until the nineteenth century, the large price differential between raw sugar and refined white sugar was a consequence of sugar production technology. Traditionally, in American sugar colonies, sugarcane was crushed in small human- or animal-powered mills (Spanish: *trapiches*). The extracted juice was boiled in open pans to produce a variety of raw sugars and syrups through the skill and tacit knowledge of “sugar masters.” With *trapiche* cane crushing equipment and batch sugar-production technology, producing white sugar required the addition of multiple and complicated refining steps beyond raw sugar production and was much more expensive as a result (Maloney 1984).

While nutritionally equivalent (or marginally less nutritious), white sugar’s higher price and its social meaning as a signifier of purity made it a product typically consumed

only by wealthy classes. The mass of consumers and the poor used brown sugar, mirroring the also formerly prominent social class distinction regarding the consumption of brown and white wheat bread. In setting tariff rates, the U.S. historically taxed white sugar imports (as a luxury item) more heavily than raw sugar. This tariff differential provided incentives for the growth of a domestic refining industry and an international division of labor between milling and refining operations that might otherwise be integrated in sugarcane producing countries.

However, by the late nineteenth century, the development of continuous-process technology in the sugar refining industry greatly reduced the cost of white sugar, transforming it from a luxury good restricted to the rich into a mass-consumption commodity that all consumers could afford:

Steam power was introduced to the sugar refineries in 1833 and was in widespread use by 1838. The vacuum pan, a device that permitted the boiling of molasses at low temperatures, was introduced in 1855. Animal charcoal (bone black through which liquid sugar is passed to remove impurities) began to be used at around the same date as the vacuum pan. The centrifugal machine was introduced around 1860 . . . . *[these technologies] reduced the time of refining raw into white sugar from three weeks to sixteen hours* (Ayala 1999, 27).

The social meaning of white sugar as a signifier of class provided a basis for the rapid expansion of consumer demand in response to lower prices, as upwardly mobile consumers imitated the consumption patterns of the upper classes.<sup>18</sup> This dynamic initially created a self-reinforcing expansion in the scale of sugar production and the size of the sugar market. However, as U.S. sugar refineries grew, they began to operate at scales that accounted for a large portion of total consumer demand for refined sugar and of total refiner imports of raw sugar. Under these circumstances, competition among

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<sup>18</sup> See Mintz (1986) description of this process in England, and Baru's (1997) discussion of the same phenomenon in India.

them made investment increasingly risky by creating uncertainty about refiner's ability to cover the growing fixed costs of production.

The economic dilemma of overproduction provided the impetus for organizational changes in the sugar industry that greatly expanded the political power of refiners. As was the case with other mass-production industries (Piore and Sabel 1984; Chandler 1977), sugar refiners in the U.S. and elsewhere sought to prevent destabilizing competition by organizing trusts that could fix prices for raw and refined sugar and that aimed to consolidate production and regulate investment to avoid overproduction.

The U.S. Sugar Trust formed in 1887 among fifteen refiners, and the sugar industry became among the first to corporatize when the trust became the American Sugar Refining Company—a New Jersey holding company—in 1891 (Ayala 1999, 38). By 1907, American Sugar Refining was the sixth largest industrial corporation in the US. Along with two other companies—National Sugar Refining, with which American coordinated decisions informally, and Arbuckle Brothers, which followed American's price leadership—the company controlled 90 percent of the cane-sugar market, and 70 percent of beet-processing capacity in the U.S (Ayala 1999, 44). Thus organized, the refining industry was poised to wield enormous influence over policies governing the internal functioning of the U.S. sugar market, as well as those foreign policies that impinged upon their provision of raw materials from tropical countries.

Just as destabilizing competition for market share provoked sugar refiners into horizontal integration in the U.S., competition for raw materials promoted their vertical integration into raw sugar production abroad, particularly in the formerly European colonies of the Caribbean. The introduction to sugar-producing countries of the industrial

technologies developed by refiners in consuming countries transformed the productive and social structure of sugar milling and planting in regions like Cuba, Jamaica, and Puerto Rico. The investment of refining companies would absorb and displace the slave-based *haciendas* and relatively small-scale, family-owned mills (*ingenios*) that had developed in sugar producing regions in the nineteenth century.<sup>19</sup> By the early twentieth century, foreign investment in new regions had created a highly integrated structure of modern industrial plantation production and a new set of colonial economic relations.

*Foreign Investment and Export-Oriented Modernization in the Caribbean Sugar Economies of the Nineteenth and Twentieth Centuries*

In the early twentieth century, refining companies from sugar-consuming countries invested enormous sums of capital in sugar processing and sugarcane planting in developing countries.<sup>20</sup> Companies such as the United Porto Rico Sugar Corporation (U.S.) in Puerto Rico, American Sugar Refining (U.S.) in Cuba, and Tate and Lyle (UK) in Jamaica constructed large mills (*ingenios centrales*, or simply *centrales*) that centralized sugarcane crushing for much larger regions than earlier nationally owned, family-run milling operations. As oligopolistic refining companies from the north exerted greater ownership and control of milling and farming operations in tropical countries,

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<sup>19</sup> As mass markets for white refined sugar expanded, larger continuous process mills (*ingenios*) replaced *trapiches* in the sugar-producing countries of the Caribbean. These larger units of production possessed greater cane-crushing capacity and incorporated industrial technologies developed in the refining and other new industries in northern countries to produce raw crystal sugar for further refining abroad. *Ingenios* were typically located on family-owned *haciendas* where, just as in earlier periods, cane farming, and milling, along with subsistence production for the maintenance and reproduction of slave labor, were integrated in a single productive unit. Sidney Mintz (1974) describes *haciendas* as possessing autonomous social structures “marked by sharp divisions between owners and managerial staffs on the one hand and workers on the other. Relationships were paternalistic and arbitrary from the top down, submissive and deferential from the bottom upward” (24).

<sup>20</sup> This section draws especially from Ayala’s (1999) comparative historical study of the plantation economies of the Spanish Caribbean.

they substantially recast the productive and social structure of sugar economies to serve their interests in large volumes of low-cost raw sugar. The scale of foreign investment in the sugar industries of these Caribbean countries led sugar to dominate their exports, industrial structures, land-tenure patterns, and labor systems in ways that were inimical to the development of an autonomous small-farm sector.

First, sugar's expansion quickly marginalized pre-existing and alternative economic activities. U.S. investment following Puerto Rico's incorporation into the U.S. customs area in 1900 rapidly reoriented the island's economy from coffee exports to sugar. Coffee had accounted for 76.9 percent of the value of exports in 1896, and sugar for 20.7 percent. By 1920, sugar accounted for 71.8 percent of exports and coffee's export share had fallen to only 6.6 percent (Ayala 1999, 197-98).

Second, the construction of new *centrales* greatly increased the average mill size, the total sugar production volumes, and the size of sugar plantations in Caribbean sugar economies of the early twentieth century. In the 1890s, ten Puerto Rican *centrales* and a collection of smaller mills produced 60,775 tons of sugar annually. By 1928, a single mill belonging to the South Porto Rico Sugar Company produced 111,867 tons of sugar, and by 1933 the same mill produced 151,403 tons: "thirty years after the U.S. occupation, a single mill produced more sugar than all the mills of the island combined before 1898" (Ayala 1999, 198).

Third, this tremendous expansion in milling capacity required corresponding expansions in the production of sugarcane. Between the late nineteenth century and the 1930s, the typical amount of land controlled by a *central* in Puerto Rico increased from 10,000 to 50,000 acres and grew to the range of 80,000 to 100,000 in Cuba (Ayala 1999,

198). This expansion in volume required central mills to adopt new methods to retain sufficient control over the flow of sugarcane from much larger areas. The challenge was most easily met in regions of new production, such as eastern Cuba, where foreign-owned mills could ensure adequate supplies of sugarcane through the purchase of land and management of their own plantations. However, even in regions, such as western Cuba, where new *centrales* had to build upon the pre-existing *hacienda* economy, strict contracts and credit arrangements often tied external sugarcane farmers to specific mills and greatly limited planters autonomy, leaving no room for negotiation of delivery terms.

Central mills did not optimize sugarcane plantations as an independently profitable investment or in relation to alternative uses for land with potentially higher domestic returns. As a result, the expansion of sugarcane planting in Caribbean countries often came at the expense of other potentially more efficient and developmentally valuable uses for agricultural land. This pattern of agricultural investment stemmed from the international strategies of capital accumulation employed by the vertically integrated sugar-refining enterprises of this period. Foreign-owned mills optimized their profits based on the prices they received for raw sugar exports from abroad, which were in turn a function of the price of refined white sugar in consuming countries. Accordingly, they invested in sufficient milling capacity in producing countries to meet raw sugar demand in their home countries, and, in turn, expanded sugarcane farming to meet their mills' technical demands for efficient throughput. Regarding Tate and Lyle's planting operations in Jamaica, Feuer (1984) writes:

[W]hat was profitable from the point of view of the multinational sugar producers was not socially or economically advantageous to Jamaica.

By encroaching on the best land and competing with other agricultural enterprises and the peasantry for scarce inputs, the estates restricted peasant opportunity as well as the growth of food production, including livestock and dairy. This not only led

to increasing levels of food imports, but resulted in the foregoing of potential forward and backward linkages, employment and income gains. It also led to a pattern of inefficient land use for Jamaica as a whole.

Fourth, as they increased the scale of their industrial and farming operations, milling and planting interests in these countries employed a variety of strategies to retain and expand a dependent and disciplined workforce. Across different national sugar industries, *centrales* worked to secure control over the potential labor forces available to them from the different legacies of slavery, emancipation, and past colonial economic development.

In Cuba, existing plantations in the west retained former slaves as wages laborers and granted them access to land for subsistence production. As a consequence, plantations in new regions of production in eastern Cuba faced severe labor shortages and turned instead to imported migrant labor. 186,393 Haitians and 114,806 Jamaicans migrated to Cuba between 1920 and 1931 (Ayala 1999, 172). The slave trade was also partially replaced by a flow of indentured labor, with 100,000 Chinese ‘coolie’ laborers entering Cuba in this period, providing a second source of landless and dependent labor to the expanding plantations of foreign-owned *centrales* (Galloway 1989,128).

*Centrales* in Puerto Rico, by contrast, enjoyed large labor surpluses in the twentieth century and could meet their labor needs without importing migrants. Their large labor supply came as a consequence of the processes of rural proletarianization that followed emancipation and the development and subsequent collapse of the coffee industry in the nineteenth century. The Puerto Rican sugar industry expansion followed the islands’ inclusion in the U.S. customs area in 1900 and came just as the highland coffee industry expelled large volumes of landless labor to the sugar-producing coasts.

The lack of alternative employment opportunities faced by Puerto Rico's landless labor in the early twentieth century ensured U.S.-owned *centrales* ample control of a dependent labor force. Even as worker solidarity and political consciousness increased, mills easily dismantled labor organizations and strikes by recruiting labor from highlands. Under these conditions of labor surplus, sugar mill's labor market monopsony permitted them to suppress workers' political activity by "coercion, blacklisting, and economic control of workers through company stores and company housing" (Mintz 1974, 25).

As a result, Puerto Rican laborers received the lowest wages in the Caribbean, while Puerto Rican sugar mills enjoyed the region's highest rates of profit as a function of their duty free access to the U.S market. Even in 1913, as sugar shortages during WWI pushed sugar prices up everywhere, Puerto Rican sugar workers earned a reported \$.71-\$1.00 for ten to twelve hours of labor, while Cuban sugar labor earned \$2.00 per nine-hour day (Ayala 1999, 171). Thus, into the twentieth century, sugarcane remained a crop whose production was tied to authoritarian social relations, despite tremendous technological advances in sugar milling and the replacement of slave labor with wage labor.

Fifth, and finally, refining interests worked to secure favorable trade and investment conditions, in order to ensure adequate and predictable flows of raw sugar into consuming countries. In doing so, they pushed to retain or establish new colonial relationships between Caribbean raw cane sugar producers and the major centers of refined sugar consumption in the U.S. and Great Britain. U.S. refining interests provided a major source of support for the U.S. control of Cuba, the Dominican Republic, and

Puerto Rico, as well as Hawaii and the Philippines, into the U.S. territory—also greatly influencing terms of their incorporation into the U.S. economy.

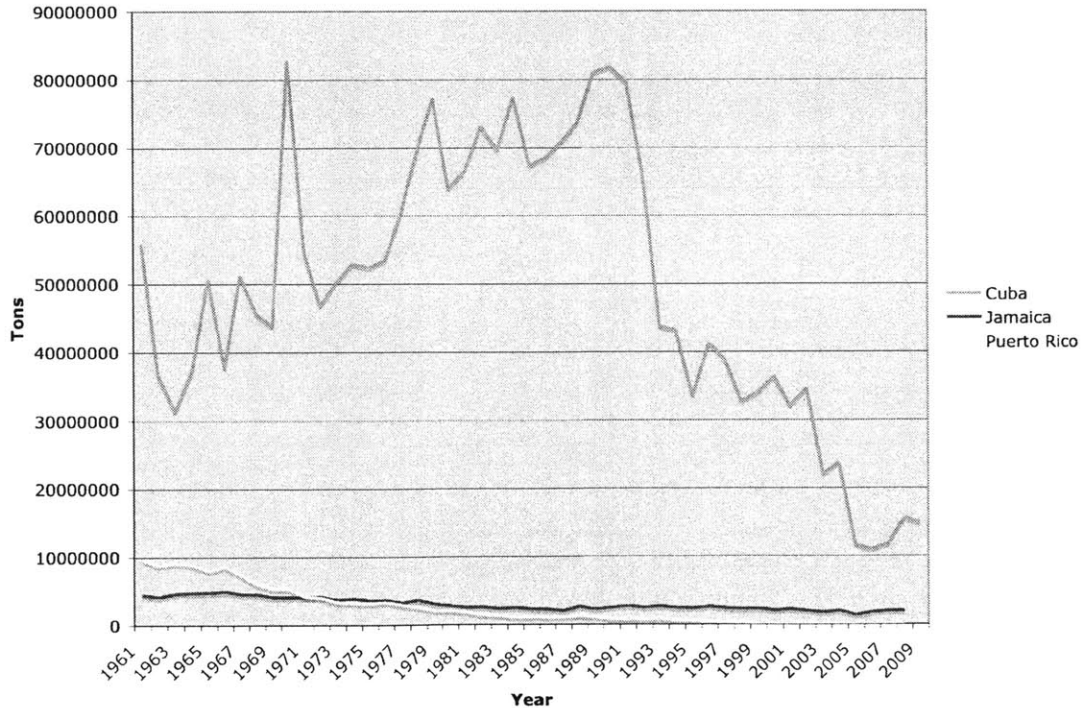
The preferential access of these territories to the U.S. market (and Puerto Rico's full inclusion in the U.S. custom area) granted refiners access to cheaper raw sugar. At the same time, U.S. refiners received protection from refined sugar imports through tariffs and other legal barriers, ensuring that they, and not producers in colonial territories, would monopolize the industries value-added. Even in Puerto Rico, where refined sugar tariffs did not apply, litigation by U.S. companies successfully restricted Puerto Rican producers of refined sugar from exporting their products to the mainland (Ayala 1999, 64). Thus, Caribbean countries came to newly occupy subordinate positions as producers of raw material in the international division of labor, even as the consolidation of multinational industrial capitalism in the sugar industry drove profound technological, organizational, and social changes in relation to the traditional *hacienda*-based production of earlier periods.

During the twentieth century, foreign investment booms reoriented the Cuban and Puerto Rican economies toward sugar exports and sustained Jamaica's colonial sugar orientation. In each of the three cases, the boom was followed by bust as world sugar markets became increasingly saturated, first, by the expansion of subsidized beet sugar production and, later, by the development an expansion of corn-based and synthetic sweeteners in northern countries. The economic rigidities of these sugar economies prevented them from easily adjusting to new market conditions, and low profits discouraged further private investment and productivity growth in their sugar industries. In all three countries, total sugarcane production declined over the second half of the

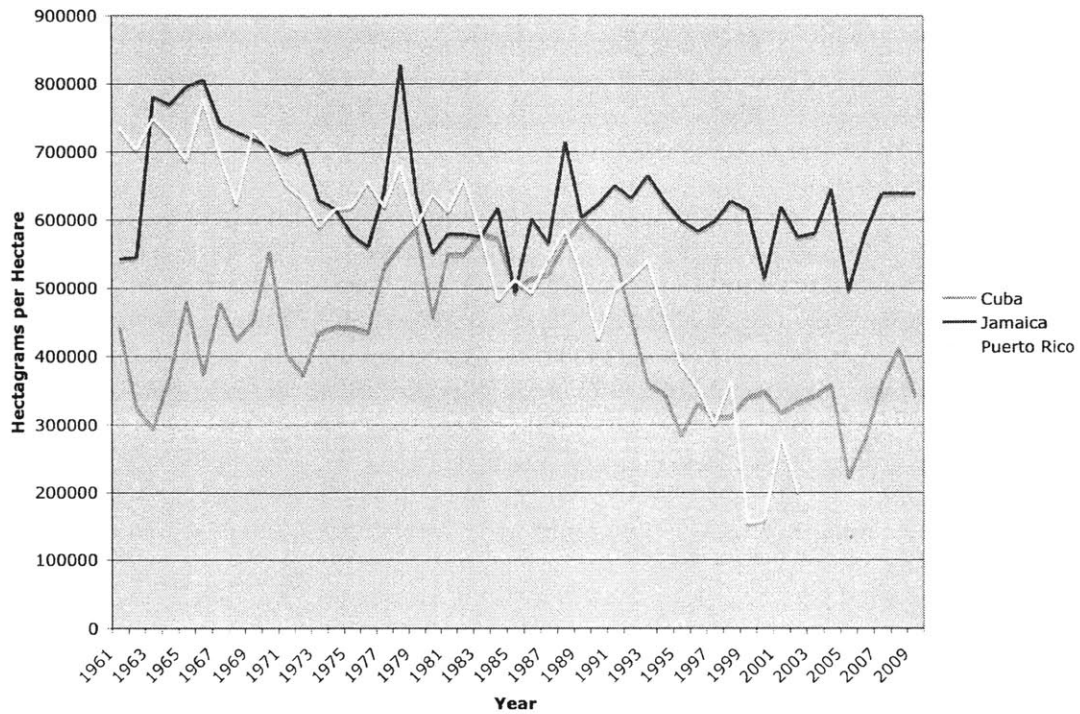
twentieth century, as a result of decreased area planted and decreasing yields (Graphs 4.1, 4.2, 4.3).

Ensuing crisis in these economies provoked public intervention through varying attempts at reform and restructuring. However, these attempts at reform ultimately ended in the eclipse of their national sugar industries. In Cuba, deep social inequalities, foreign control of the sugar economy, and reduction in sugar exports to the U.S. contributed to socialist revolution in 1959 (Pollitt 1997). Following the nationalization of foreign-owned sugar mills and plantations, the Cuban government renewed large-scale investment and further expanded the scale of the sugar industry. Specializing in sugar under the soviet trading system, Cuba increased its dependence upon the export of this single commodity and retained the title of the world's largest sugar producer until the

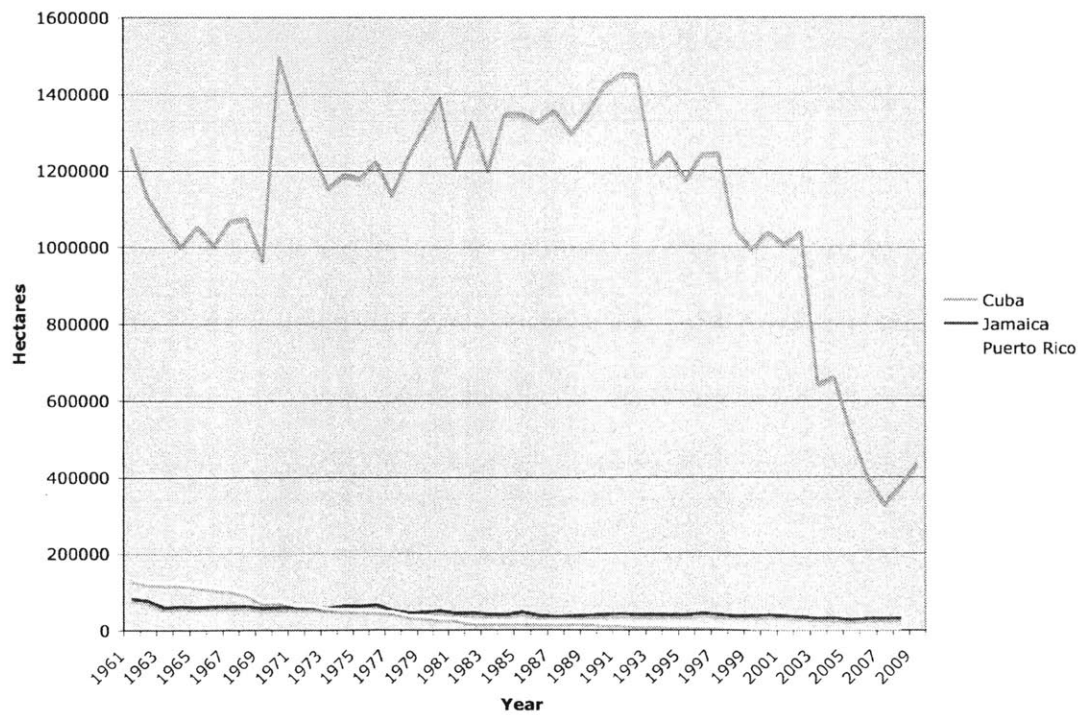
**Graph 4.1.** Sugarcane Production Volumes in Selected Caribbean Producers



**Graph 4.2.** Sugarcane Yields in Selected Caribbean Producers



**Graph 4.3.** Sugarcane Area Harvested Selected Caribbean Producers



1990s. However, after the fall of the Soviet Union denied Cuba its primary export markets and the subsidized energy and inputs that had sustained the industry, production rapidly and irrevocably declined. The Cuban economy has struggled to recover ever since (Pérez-López and Alvarez 2005).

A decade after Jamaican independence, the 1972 election brought the People's National Party to power. The government's democratic socialist reforms specifically targeted the faltering sugar industry, nationalizing the plantations belonging to Tate and Lyle in order to create a new class of smallholders through land distribution and cooperativization of sugar planting. The effort to revive the sugar industry on a more socially just basis failed, as did the PNPs broader attempts to construct a socialist state in Jamaica. Feuer argues that the reforms faltered especially on the contradictory imperatives of mobilizing sufficient mass support for radical reform and securing the conditions for capital accumulation and economic growth (Feuer 1984, 196).

Puerto Rico offers the most positive story of post-sugar transition. Its status as a U.S. commonwealth provided an initially successful development path through labor-intensive export manufacturing, which largely eliminated the economic role of the sugar industry and agriculture in the island. However, it provided at best a temporary and partial reversal of the island's underdevelopment, and Puerto Rico now faces renewed challenges of high unemployment, inequality, and poverty.

Thus, in the nineteenth and twentieth centuries, sugar exporting remained linked to colonial exploitation, coercive labor regimes, and a pattern of agrarian development that precluded the formation of an autonomous smallholder sector that might serve as a basis for economic diversification and equitable economic growth. Over a period of three

centuries, the Caribbean experience suggests that sugar production is inextricably linked to plantation production and incompatible with independent smallholder development. Yet, the development experiences of the twentieth century's Caribbean sugar exporters contrasts greatly with those of a second set of countries that followed a path of inward growth in the post-colonial period and directed their sugar industries toward their large internal markets.

***Sugar, National Developmentalism, and Clientelism: Brazil, Mexico, and India***

In contrast to the export-oriented sugar industries and the neo-colonial external relations of the Caribbean, the sugar industries of Brazil, Mexico, and India modernized within the framework of these country's projects of inward-oriented national development. These countries used sugar policy and regulation as an instrument to respond to the competing internal political and economic demands arising from millers, farmers, rural labor, and consumers. As a result, labor and smallholders were able to reap greater benefits as the sugar industry modernized than in the neo-colonies of the Caribbean. Specifically, as the State sought to consolidate a political basis for internal economic development, it forged clientelist relations with labor and peasant groups that partially displaced the latter groups' subordination to traditional sugar elites, permitting them to claim part of the expanding surplus generated by the sugar industry's modernization. However, the particular nature of clientelist relations and the way they shaped the distribution of the benefits of sugar development policy depended on earlier patterns of development and the class structure it had created.

In northeast Brazil, where the legacy of slavery generated the weakest peasantry and the strongest landholding class, modernization proceeded slowly, and the benefits of

sugar policy extended primarily to landholders (Taylor 1978). Eventually, rural labor groups organized successful demands for public welfare guarantees, but in the absence of large-scale land reform, smallholders' have failed to play any substantial role in Brazil's sugar industry (Pereira 1997; Porter et al. 2001). Smallholders fared better in Mexico, where peasants had played a central role in the country's revolution and formed a key constituent of the ruling party's regime. However, peasant smallholders faced a tradeoff between political autonomy and economic security, as they were incorporated into the clientelistic corporatist structure of the Mexican state through sugar policy (Singelmann 1995). Finally, in the Indian state of Maharashtra, colonial public irrigation projects had promoted the development of an autonomous smallholder sugar economy, which subsequently modernized through the development of strong cooperative institutions that preserved the role of smallholders and mitigate the worst consequences of clientelist politics through competition (Attwood 1992).

In these three countries, the technologies of sugar production were the same as those adopted in the Caribbean exporters. However, rather than through colonial control, stable conditions for investment and capital accumulation in these country's sugar industries were secured through national regulation that attempted to mediate among different sugar industry interests. As discussed above, in the Caribbean economies, world market dynamics influenced the size of the economic surplus available to sugar producers, and the market power of refining oligopolies shaped the distribution of that surplus among industrial capital, agrarian (landowning) capital and labor within the sugar industry. In contrast, in Brazil, Mexico, and India industry prices were subject to the domestic political contestation of organized groups and national regulatory bodies

administratively fixed wages, sugarcane, raw sugar, and refined sugar prices (Attwood 1992; Baru 1997; Pereira 1997; Singelmann and Otero 1995).

The system of price setting functioned through publicly owned or publicly regulated sugar marketing monopolies. These organizations set the prices received by all the private actors within the domestic industry, for domestic consumers, and for exporters. In Brazil, the government of Getulio Vargas created the Instituto do Açúcar e Alcool (IAA) in 1933, to revive the national industry in the wake of the great depression. It set production quotas by state, mill, and individual planter, and mandated the price of sugar and alcohol (Taylor 1978). In Mexico, the post-revolutionary government of Lázaro Cárdenas created the Union of Sugar Producers (UNPASA) in 1938, imposing upon it public regulation of sugar prices, but also granting it sole responsibility for credit provision to sugar mills, sugar warehousing and marketing, and the export of sugar surpluses. In 1943 and 1944, further decrees brought sugarcane prices under public control and regulated the use of private and collectively held agricultural lands in the areas surrounding sugar mills (Singelmann and Otero 1995). In India, the sugar industry formed part of the government's five-year plans, and its development was governed by a complex set of regulations following Indian independence in 1947. Most importantly, licensing restricted the expansion of sugar mills and the construction of new ones. The Indian government controlled sugar prices by obliging sugar mills to sell a specific portion of their produce as "levy sugar" at official prices to be distributed through a public system of ration shops (Baru 1997).

Under the state-led development models of the period, governments justified such control over private industry as a necessary measure to impose a rational process of rapid

modernization. By setting prices that guaranteed adequate economic returns to the financial and physical capital, land assets, and labor power employed in the sugar industry, government aimed to incentivize coordinated investment among the groups that controlled these factors, supporting technological advance and increased productivity in the sugar industry. Such guaranteed returns relied heavily on tariff protection from sugar imports, which reserved a source of dependable surplus to be divided among the various economic groups engaged in sugar production.

The internal consumer markets of these large developing countries expanded rapidly in the mid twentieth century. Population growth favored increased sugar consumption, as did the same changes in consumer behavior that accompanied industrialization, urbanization, and income growth in advanced countries. Combined with favorable access to public credit, this protected access to large and growing domestic markets successfully encouraged investment and the rapid growth of the sugar industry in all three countries. However, the specific arrangements that arose to coordinate sugar investment and production—and the role reserved for smallholders—depended on the composition and relative strengths of the economic groups involved. These factors, in turn, derived primarily from pre-existing, colonial patterns of rural development and land tenure.

In Brazil, where colonial policies had supported the development of plantation-based sugarcane farming and precluded the formation of an independent peasantry, a dualistic sugar industry developed in response to nationalist development policies: a slowly modernizing, landowner-dominated sugar industry in the northeast contrasts with a dynamic sugar industry dominated by industrial capitalists in the south.

The political power of sugar-milling families in the Northeast permitted them to extract substantial benefits from the Brazilian State's national development policies. Beginning in the 1930s, internal sugar consumption grew rapidly in Brazil and the IAA's quota system initially reserved the majority of the domestic market for producers in the Northeast. After the 1950s, when the IAA gradually turned over the domestic market to newer, more efficient producers in the State of Sao Paulo, the institute reserved subsidized export quotas for Northeast producers, encouraging them to increase Brazil's global market share. Notwithstanding the growing markets and financial and political advantages extended by the Brazilian government to the northeast sugar industry, the region's millers showed little interest in expanding their operations beyond what could be managed by individual families and instead used profits to secure familial social and political status through land purchases, conspicuous consumption, and funding political campaigns (Taylor 1978, 8).

In contrast, the political subordination of landless labor to milling interests limited sugar workers' ability to make claims upon the expanding economic and political rents created by sugar policies or resist mills' exploitation. In the 1950s, Northeast sugar mills increased their production volumes largely by increasing their rates of land use and labor extraction, and by extending the length of the milling season—rather than through investment, technological change or improved efficiency. Taylor (1978) shows that between 1950-1960, the number of weekly labor hours per sugar worker doubled in Pernambuco, even as workers' subsistence security decreased (89).

This situation pitted a land-owning, economically static elite against a disciplined, centralized, and increasingly wage-dependent workforce.<sup>21</sup> The decreasing economic security of sugarcane workers incited revolutionary ambitions among them, unleashed a wave of successful rural labor mobilization, and brought the Brazilian Socialist Party to power in Pernambuco. Between 1960-62, rural unions organized sugarcane workers and promoted strikes to demand improved conditions. The following year, sugar workers secured tremendous gains with the passage of the Rural Laborers' Statute in 1963, including an 80% wage hike and formal recognition of their organizing and bargaining rights (Pereira 1997, 33). This wave of social mobilization set the stage for regime change, as threatened landowning and middle-class groups threw their support behind the 1964 coup, reversing many of the sugarcane workers' gains and bringing the union movement and the sugar industry under closer supervision of the new military regime.

Under Brazil's military regime (1964-85) sugar policy aimed to regulate and moderate class conflict in the politically explosive northeast by incorporating sugar workers into state welfare programs. In this period, rural labor groups continued to develop and receive substantial and increasing benefits from the state within the framework of the corporatist Brazilian Agricultural Workers Confederation (CONTAG). Sugarcane workers in the Northeast became incorporated into the public welfare system through the Rural Worker Assistance Fund (FUNRURAL), which financed health and dental services and provided modest retirement benefits. The scheme weakened local patron-client ties that had traditionally subordinated rural labor to local landowners and provided resources for unions to mobilize increasing numbers.

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<sup>21</sup> This dynamic of rural class conflict in 1960s Pernambuco was highly consistent with the conditions hypothesized by Paige (1978) as driving agrarian revolution.

However, CONTAG's ties to the state curtailed its independence, and encouraged unions to act as vehicles for state welfare patronage rather than as agents of collective action and claims making. Pereira (1997) describes union leaders' weak strike performance and passivity as a function of their comfortable working conditions (higher salaries, regular pay, and office rather than field work), their cooptation by millers and landowners, and especially institutional factors such funding and bargaining structures that provided disincentives for local representation (96). Unions have been particularly weak at advancing landless workers' demands for land reform, subordinating these to concerns to those over wage and welfare benefits, "such as medical and dental treatment, transportation, recreational and social events, legal help in individual claims against employers." These actions allowed a union leader to "responded to the immediate 'felt needs' of his constituents" and allowed him to build 'personal, clientelistic ties of obligation and dependence' with his followers (100).

Consequently, the perverse developmental effects of extreme land inequality persist to present day in Pernambuco. Both Pereira (1997) and Porter et al. (2001) argue that the political rationality of class control makes planters' reluctant to diversify their farming activities in ways that enhance economic efficiency but may erode their control of labor. As a result, the best land large numbers of poorly remunerated rural laborers in the Brazil's northeast remain tied to inefficient sugarcane production.

In the south of Brazil, the military government and its sugar policies showed much greater concern with serving the interests of industrial capitalists than regulating labor conflicts and securing the positions of traditional elites. Accordingly, the military regime directed large volumes of subsidized credit toward the consolidation of large-

scale, and capital-intensive, mechanized agriculture in the South—including sugarcane planting and processing. In contrast to the Northeast, São Paulo's sugar industry was historically characterized by a fragmented ownership structure with greater professional managerial control of mill investment (Taylor 1978, 80). Paulista mills were also located in close proximity to growing consumer demand in Brazil's industrial heartland and in flat areas that were amenable to large-scale mechanized farming. Finally, prior to the sugar industry's development, São Paulo faced labor shortages as its coffee industry expanded in the nineteenth century. This encouraged coffee producers to utilize European immigrant wage labor along side slave labor, increasing local demand for manufactured goods and paving the way for the development of a local class of industrial entrepreneurs (Dean 1969).

As a result, sugar mills in São Paulo demonstrated much greater propensity for investment, expansion, and productivity growth, particularly once the IAA removed quota restrictions on their expansion beginning in the 1950s and once subsidized investment credit began to flow to the sector in the 1960s and 70s. In this period, the National Program for the Improvement of Sugarcane (PLANALSUCAR) and National Alcohol program (Proálcool), spurred the Paulista sugar industry's integration with the other poles of agricultural investment and modernization in Brazil's south (including chemical fertilizer and pesticides, machinery and implements) and with the expanding ethanol-fueled automobile sector.

By the end of the twentieth century, this coordinated pattern of investment led São Paulo to eclipse the northeast's sugar industry, with Alagoas and Pernambuco supplying only 16% of Brazil's sugarcane supply, compared to São Paulo's 60% (OECD 2007, 32).

Moreover, the national companies that have arisen in São Paulo have grown into world leaders in sugar and related industries. São Paulo's mills are by far the world's most efficient in terms of its sugarcane yields and sucrose extraction, and the scale of their operations has granted Brazil a place as the world's second largest producer of ethanol (after the U.S.), and the largest exporter of both sugar and ethanol. In 2007, São Paulo's largest sugar producers, Copersucar and Cosan, posted revenues of \$2.3 and \$2.1 billion and have subsequently attracted large capital flows through public stock listings and direct investment by global financial, energy, and agro-industrial companies, including Credit Suisse, BP, Cargill, and Louis Dreyfus (Richardson et al. January 2009). These resources have positioned Brazilian sugar companies to capture increasing shares of both the national and international liquid fuel and the national electricity markets through investments in ethanol production and transport infrastructure and electricity generation that utilizes sugarcane residues.

Yet, the dynamism and industrial efficiency of São Paulo's modern sugar industry recreates some of the basic contradictions of the colonial sugar export industry of the Northeast. Despite progressive labor legislation and unionization efforts, returns to labor have decreased as the fortunes of the sugar industry have expanded. According to a 2008 investigation published by the *Folha de São Paulo*, harvest workers earned daily wages of R\$32.70 for harvesting an average of 5 tons of sugar cane in 1985 (2007 prices). By 2007, a day's labor consisted of cutting 9.3 tons of sugar cane (an 86% increase in productivity using the same technology—a machete), but wages had fallen to R\$28.90 (a 12% decrease). The article compares the working conditions among Paulista plantations' primarily black, migrant labor force to slavery, citing examples of physical exhaustion

and death among workers, and arbitrary treatment and wage fraud by mills (Magalhães and Silva 2008). Between 2007 and 2008, Brazilian labor inspectors reported ‘liberating’ 5,500 sugar cane workers from slave-like conditions and, in some cases, debt bondage, including migrant workers in São Paulo (McGrath 2011).

On the whole, Brazil’s nationalist, inward-oriented development policies have been tremendously successful in modernizing the sugar industry and integrating it into a dynamic, diversified, and autonomous economic structure. However the legacy of the country’s colonial history shaped the distribution of benefits created by the industry’s modernization. Powerful landowners in the northeast formed a major constituency of the military regime and as a result were able to use national sugar policy to extract subsidies while insulating themselves from competition and modernizing pressures. Industrialists in the south formed the main object of the regime’s developmental efforts. They received favorable access to credit to consolidate large capital and land-intensive plantations and have become world leaders in the sugar and ethanol industries. Finally, organized rural workers were able to extract substantial benefits through their corporatist political incorporation during Brazil’s authoritarian regime. However, in the absence of land reform, smallholders have not been able to play any substantial role in the industry or the regions where the sugarcane crop dominates, and landless labor remains highly dependent on powerful agroindustrial firms.

The Brazilian case contrasts greatly with the role of smallholders in Mexico’s sugar industry, where corporatist regulation attempted to balance the interests of a large, organized peasant sector, with those of industrialists holding close ties to the ruling party, and the interests of the mass of urban consumers. The Mexican revolution (1910)

introduced a critical point of departure from Mexico's colonial patterns of agrarian labor and land relations and set in motion a process of agrarian mobilization that began to show its fruits during the government of Lázaro Cárdenas (1934-40). Cárdenas distributed more than 20 million hectares of land to a group of approximately 810,000 individuals, decreasing the ranks of landless laborers by fifty percent and decreasing the landholdings of private enterprises from 5.2 to under 3 million hectares of cultivable land (Thiesenhusen 1996, 36).

Mexican land reform broke up traditional *hacienda* holdings of landlords, expropriating their lands and turning them over to the landless peasant farmers who had provided their labor force. In doing so, the Mexican state endorsed a form of land tenure, the *ejido*, in which communal groups received usufruct rights for individually farmed plots and for common land that were corporatively regulated (by the *ejido* assembly). *Ejido* members could bequeath their land rights, but not rent or sell the land itself, which remained the property of the state and could not be alienated to private actors. By 1991, 103 million hectares in *ejido* land had been distributed to 3.5 million beneficiaries (Randall 1996, 15). Mexican land reform firmly entrenched campesino farmers' loyalty to the post-revolutionary regime of the Mexican Party for the Institutional Revolution (PRI) but also made peasant's access to land and other productive assets dependent on their political loyalty. Sugarcane workers specifically benefited from land reform after the former sugarcane *haciendas* were officially dissolved in 1940 and their lands distributed to *ejido* communities. As a result, Mexico's sugar industry has since been characterized by smallholder, as opposed to plantation, sugarcane production.

Just as the revolution occasioned the decline of traditional sugar *hacendados*, it supported the rise of a new class of state-sponsored sugar milling entrepreneurs. Composed of former revolutionary generals turned politicians, this group used political office to channel investment into industrial milling operations and to form the private sugar milling cartel, Azucar S.A (Singelmann 1995, 8). In 1938, the cartel became the public-private Union Nacional de Productores de Azucar (UNPASA) and secured an officially sanctioned monopoly of sugar sales within Mexico and a monopsony of sugarcane purchase from sugarcane farmers, as well as institutionalized access to state credit through public support for the National Sugar Bank (FINASA). In exchange, the Mexican State subjected UNPASA to legally mandated prices for the sugar it marketed and the cane it bought from external farmers.

The construction of new modern mills greatly increased the industry's demand for sugar cane, even as land reform had broken up the integrated *haciendas* that formerly produced their own cane and coordinated its harvest, delivery, and processing internally. In order to ensure the new industrial sugar mills access to an adequate supply of sugarcane, a 1943 government decree obliged *ejido* members in the supply zones designated by particular mills (*zonas de abastecimiento*) to cultivate and sell sugar cane. A 1944 decree allowed UNPASA to set sugarcane prices within particular supply zones. In this way, Mexican sugar policy restricted farmers' economic freedom in order to secure predictable supplies of raw material for industrial sugar mills. At the same time the corporatist PRI state convened farmers and plant workers into strong, encompassing national organizations, which (as in Brazil) served to distribute state welfare patronage. Cane growers formed part of the National Union of Sugar Cane Producers (UNPCA), an

affiliate of the National Campesino Confederation (CNC)—created in 1938 by the Cárdenas administration to incorporate the beneficiaries of land reform into the official party apparatus of the PRI.

Official state supervision of growers' organizations, along with their official subordination to the economic and managerial interests of their designated sugar mills, sharply limited growers' political autonomy. As the industry developed, dissident growers and leaders faced violent repression or assassination and mills refused to negotiate with non-CNC members (Chollett 1995). At the same time, the organization also permitted cane growers to press for better prices and conditions from mill owners and put them in a relatively strong position to extract patronage and from the PRI-state. PRI-affiliated cane growers enjoyed a monopoly on public-sector jobs in the sugar industry and the "unique security provided by a captive industrial market, government-guaranteed cane prices, and by their inclusion in the national health and social security program of the Instituto Mexicano de Seguro Social (IMSS)" (Singelmann 1995, 13-14). Smallholders also received access to financing through the public *Banco de Crédito Agrícola* and *Banco de Crédito Ejidal*, which encouraged their adoption of capital-intensive farming practices, particularly the use of agro-chemical inputs.

In contrast to Brazil, where unionized field workers became the object of state welfare patronage, Mexican cane workers have not traditionally been organized, and the organizations of propertied campesino and *ejido* sugarcane producers have proven poor representatives of landless interests, prioritizing the improvement of agricultural production over further agrarian reform or worker demands (Powell 1995, 43). Consumers in Mexico, on the other hand, were privileged constituents of sugar policy

from the beginning of the post-revolutionary period. Throughout most of the twentieth century, the Mexican government regulated prices for a variety of basic staples, including sugar, by fixing the price for the basic consumer basket according to social and political criteria.<sup>22</sup>

Thus, throughout the twentieth century, Mexican sugar policy preserved an important role for the smallholder farmers that had come into existence through the post-revolutionary process of land reform. However, the contradictions among consumers' interest in low sugar prices, mills' interests in high sugar prices but low cane prices, and growers' interests in high cane prices progressively destabilized the sector in ways that by the end of the twentieth century ultimately unraveled the national regulatory structure that had privileged smallholders. Beginning in the 1970s, low sugar prices encouraged Mexican sugar millers to shift investment to areas with higher returns. Initially, the Mexican government nationalized failing sugar mills in order to keep them in operation and safeguard the livelihoods of thousands of campesino farmers. After nationalization failed to revive the sugar industry, the Mexican governments of the 1980s and 1990s responded with privatization of the sugar mills, liberalization of the sugar industry (in the framework of the North American Free Trade Agreement), and regulatory changes that replaced state mediation with direct contract negotiations between mills and growers (e.g. the 1991 Decreto Cañero). These changes were accompanied by reforms of *ejido* property that aimed to introduce some elements of free land markets. The 1980 Ley de Fomento Agropecuario and the 1992 constitutional revision of article 27 respectively legalized the rental and sale of *ejido* lands (Singelmann and Otero 1995, 15).

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<sup>22</sup> For a review of Mexican food policy, a list of the large array of state owned enterprises that controlled nearly every aspect of the Mexican food system, and an analysis of peasants' role in their reform in the 1980s, see Jonathan Fox's (1993) *The Politics of Food in Mexico: State Power and Social Mobilization*.

Thus, over the evolution of Mexican sugar policy, sugarcane farmers have faced shifting tradeoffs between their interests in land access, social and economic welfare, and political freedom. Peter Singlemann and Gerard Otero (1995) describe the outcomes for campesinos as shifting from “land and security without liberty,” under corporatist development policy, to “land and liberty without security,” after privatization of the sugar industry eliminated secure markets and social welfare guarantees. Finally, after the recent liberalization of sugar and land markets, campesinos face a possible scenario of “liberty, without land or security,” as neoliberal reform and democratization has granted campesinos new freedoms to pursue their economic and political interests but failed to grant them the resources necessary to meet new competitive demands. In particular, the lack of market opportunities for sugarcane farmers in the face of the continued crisis of the sugar milling sector could provoke land consolidation as struggling farmers sell their *ejido* rights, contributing to the demise of smallholder sugarcane farming in Mexico (18).

The Mexican case differs yet again from the development of the Indian sugar industry, where smallholders have invested in cooperative milling enterprises that obviate the distributional conflict between milling and planting operations and permit them to securely benefit from the industry’s modernization and achievement of international competitiveness. Like Brazil, India’s sugar industry developed along a dualistic path, as the traditional power of landowning elites prevented effective modernization in Northern India, while a dynamic modern industry arose elsewhere, in the western Indian state of Maharashtra. However, unlike in São Paulo’s plantation-based sugar industry, smallholders occupy a large and vital role in Maharashtra’s sugar cooperatives.

This outcome results in part from India's deeply engrained structure of small, fragmented landholdings. In other colonial regions, the sugarcane crop was introduced as part of mercantilist economic strategies by imperial powers that recast land tenure structures to serve their interests. In contrast, sugarcane is native to India, where its cultivation and processing had a long pre-colonial history. According to Attwood (1985), under colonial rule, Indian sugar millers lacked the political power to displace large indigenous populations of small sugarcane farmers in order to establish expansive sugarcane plantations, as they had in the Caribbean and Latin America (62).

Furthermore, in post-independence India a large class of small property owners and tenants has wielded the power of the rural vote, increasing its members' leverage vis-à-vis industrial interests. Partly as a consequence, sugar policy has not obliged smallholders to plant sugar and sell to designated industrial mills, as it did in authoritarian Mexico, but preserved for them the freedom to choose whether to plant sugarcane and where to process it. Concretely, this freedom manifests itself especially in the survival of traditional small-scale household sugarcane processing into non-crystallized raw sugar (*gur*). Small-scale processing has competed with white sugar factories, diverting sugarcane from large industrial mills when their cane prices fell too low.

This fragmented structure of sugarcane production provided a substantial barrier to the sugar industry's modernization in northern India. Lacking their own plantations, industrial sugar mills in northern India were forced to procure and coordinate their supply of sugarcane by relying on contracts with landlords and money lenders, who served as mills' middlemen in securing, scheduling, and coordinating the cane deliveries of

thousands of growers. However, middlemen used their position to extract value from sugarcane growers, holding down the prices they received, and discouraging investment in improved sugarcane farming. Attwood describes the result of competing interests in the north as “deadlock class conflict,” under which no group felt secure enough in the returns to its investments to pursue modernization of their production. As a result, Northern mills have typically been unable to run at full capacity and have failed to maintain and invest in new technology to improve their sugar extraction rate. This in turn has raised their production costs relative to producers in Western India, making their survival dependent on protection and on implicit subsidies provided by cost-plus pricing in the public purchase system of “levy sugar” (Attwood and Baviskar 1987; Baru 1997).

The fragmented structure of production posed less of a problem for the sugar industry’s modernization in the western state of Maharashtra, where horizontal market relations among small farmers, rural labor, and landowners contrasted with the traditional clientelistic domination of smallholders in Northern India. During the British colonial period (1858-1947) the introduction of irrigation canals weakened the power of traditional landlords in Maharashtra by functioning like an expansion in the supply of arable land. As the productive potential of land rapidly expanded, it became available for lease at competitive market rates. These new land resources attracted immigrant entrepreneurs to the canal areas of Maharashtra, who combined *hired* labor and small plots of *rented* land to cultivate sugarcane and process it into *gur*. In this way, small-scale, market-oriented agriculture displaced the previous subsistence cropping system, in which labor and land had been allocated through “familial” and “patron-client” relationships.

The new tenancy and labor relations that arose along the irrigation frontier permitted small cane farmers enough freedom and a sufficiently secure economic surplus to amass working capital and invest it toward technological change (e.g. “new equipment: iron plows and cane crushers to replace wooden ones, engine-driven cane crushers to replace bullock driven ones”) (Attwood 1985, 67-69). Thus, in Maharashtra, capital accumulation and productive innovation among smallholders in the sugar industry preceded the introduction of large-scale white sugar production technology.

When Indian industrialists established Maharashtra’s first white sugar factories in the 1920s, they were unable to secure sugarcane through the clientelistic power of middlemen, as factories did in the north, and initially failed to compete with well capitalized small-scale sugarcane processors. Subsequently, after sugar industrialists began to invest in their own plantations on new canal irrigated lands in the late 1920s, Maharashtra’s smallholder sugar entrepreneurs responded by investing in their own cooperative white sugar factories in order to compete. Around the globe, where sugar was produced, vertical integration between milling and planting reduced coordination costs and permitted operation on larger more efficient scales. Smallholders in Maharashtra, however, turned the strategy on its head: rather than factory shareholders acquiring interests in the centralized production of raw material, cooperative factories allowed a multitude of small landowners and farmers to acquire interests in centralized processing capacity.

After Indian independence (1947), sugar policy encouraged the construction of dozens of new cooperative factories, providing credit on advantageous terms. Imitation among new cooperatives drew more and more small farmers into sugarcane supply

chains, while competition among cooperatives for members drove increasing scale, efficiency, and investment to support higher cane payments and productivity for cooperative members. Just as coffee farming has done in other regions, this dynamic drove the region and its small sugarcane farmers down a multidimensional trajectory of modernization and development:

these factories provide the organizational basis for a complex vertical and horizontal integration of a village-based sugar economy: the co-op factories assist in credit disbursements and repayments through village credit societies; they procure fertilizers and improved seeds; they offer soil testing and extension services; they hire harvest workers and direct all harvest and transport operations; they process the cane and sell the sugar. The cane growers who are shareholders of these factories receive all these services at minimal cost, plus the highest possible cane prices that their elected representatives on the boards of directors can give them. (Attwood and Baviskar 1987, 75)

Moreover, Indian sugar cooperatives have promoted economic diversification and innovation, with investments in industrial paper milling, alcohol distillation, and chemical manufacturing (Attwood 1992, 282). Cooperatives have also aided their members by supporting agricultural diversification projects such as poultry production, irrigation investments, and oilseed processing, as well as by providing social services, such as the founding of new schools and hospitals.

As a result of these investments, sugarcane farmers and cooperative factories in Maharashtra have reached far higher levels of efficiency than cane farmers and private factories in the North.<sup>23</sup> Despite the implicit subsidies granted to inefficient producers in the North, Maharashtra's lower cost structure gave its industry an advantage as the internal sugar market grew. By 1980, 60 cooperatives in Maharashtra produced 32% of

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<sup>23</sup> Attwood and Baviskar (1987) compare cooperative factories with private factories in Maharashtra, as well as with private and cooperative factories in the Northern States of Bihar, Uttar Pradesh, Haryana, and Punjab. They found that the Maharashtra cooperatives outperformed the others in terms of sugar extracted per ton of cane, percentage of available sugar extracted per ton of cane, and capacity utilization (42).

India's sugar, retaining their lead to present day.<sup>24</sup> Today, the sugarcane-producing areas of Maharashtra are among the wealthiest agricultural areas in the country. India is the second largest producer of sugarcane and centrifugal sugar (after Brazil) and a top exporter of both raw and refined centrifugal sugar.

Even as they contributed to the development of a prosperous sugar economy, social and political relations within Maharashtra's sugar cooperatives retain strong clientelist elements. Cooperative leadership has become entrenched among the largest group of landholders belonging to the Maratha caste. Maratha "sugar barons" have been able to consolidate their power by distributing jobs and contracts to their kinsman and fellow villagers, and by using their positions as a stepping-stone to political office. Sukhtankar's (2008) study of political control of Maharashtra's cooperatives reveals how cooperative leaders and members strike an implicit bargain: leaders suppress sugarcane prices during election years in order to fund their electoral campaigns by embezzling cooperative funds worth hundreds of thousands of dollars; meanwhile, the farmer-members accept lower sugarcane payments in election years in return for increased payments later on from politically connected leaders.

However, clientelist relations in India's sugar cooperatives developed along a much more *pluralistic* line than in the corporatist labor unions and peasant organizations that organized the Brazilian and Mexican sugar industries during most of the twentieth century. In Brazil and Mexico, state-sponsored organizations held monopolies of interest-representation and patronage distribution, limiting the autonomy with which their members could pursue their interests vis-à-vis their leaders, local mills, and the State. In

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<sup>24</sup> "Maharashtra State Sugar Statistics" *Vasantdada Sugar Institute*  
[http://www.vsisugar.com/india/statistics/international\\_sugar.htm](http://www.vsisugar.com/india/statistics/international_sugar.htm) Date retrieved: 5/16/11.

contrast, Maharashtra's farmer-organized cooperatives are characterized by both internal competition among large, medium, and smallholders, and external competition among different cooperatives. Leaders from large landowning groups must form coalitions with medium and smallholders to retain their elected positions and in order to secure a sufficient supply of sugarcane, ensuring broader interests representation. Moreover, competition among the cooperatives means that they risk losing members, and sugarcane, if they do not pay the highest cane prices available or if they fail to make investments that support sugarcane farmers' income growth in the long run (Attwood 1992, 275-86).

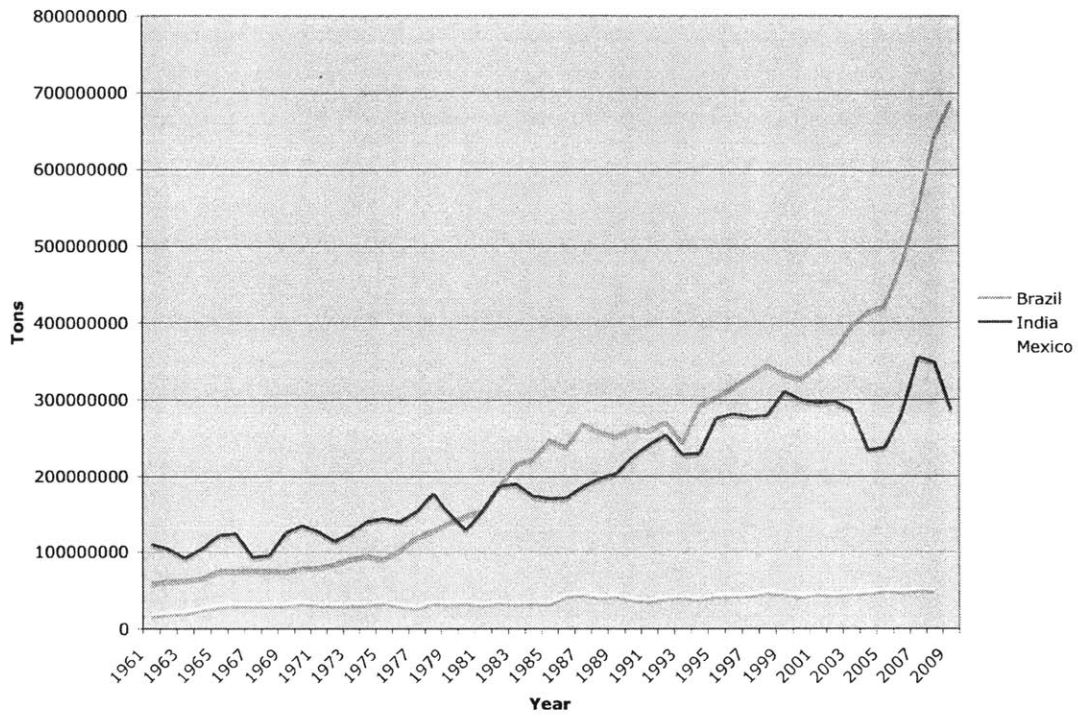
Thus in Maharashtra, where the sugar industry modernized within the framework of inward-oriented national development policies and upon the legacy of structural changes that favored smallholders' autonomy, the introduction of large-scale white sugar mills produced a pattern of distributional and developmental consequences that nearly inverts the experiences of the Caribbean. First, small farmers, form the productive base of the industry. As producers, they exercise autonomy over their choice of crop and crop outlet, and as employers of rural labor, they comprise a highly competitive and decentralized source of labor demand. This contrasts with the monopsony power historically exerted by large Caribbean plantations at the expense of a coerced and dependent labor force. Second, rather than remaining dependent on monocrop production of raw materials, Indian sugarcane farmers have diversified their production and captured increasing shares of added value as they integrated into processing of diverse kinds. Finally, whereas mills elsewhere have typically exercised a wide margin of political and economic control over their sugarcane suppliers and field workers, sugarcane farmers in

Maharashtra hold their cooperative mills accountable to their interests through the election of their leaders and their choice of cooperative.

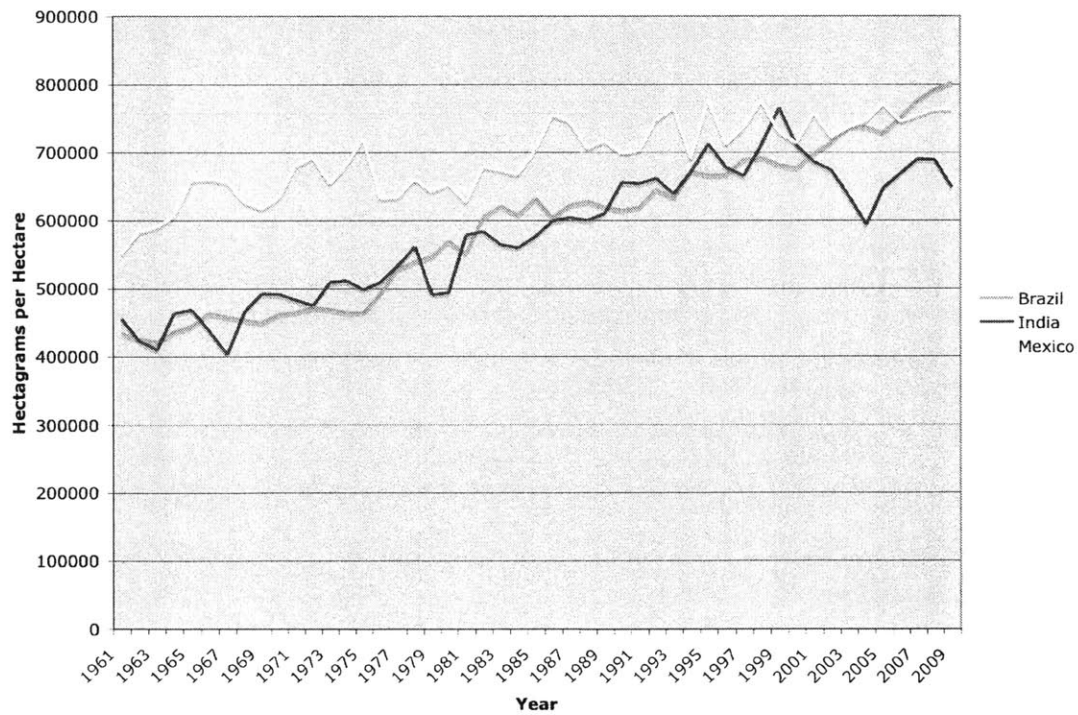
Taken together, the Indian, Mexican, and Brazilian cases show how development policies designed to enhance these countries' economic autonomy shaped the modernization of their sugar industries in ways that favored domestic rather than external groups. In all three cases, sugar policies offered material guarantees to either landless labor or smallholder groups that were absent in the Caribbean countries as their industries modernized. However, two instructive types of variation arise across the three cases. First, the international competitiveness of these national industries at the outset of the twenty-first century depends on whether and how the conflict between labor, planting, and milling interests were resolved as part of the nationalist development programs these countries pursued during the twentieth century. Second, the extent to which smallholders have benefited from sugar's modernization, has depended on the relative strength of the peasantry at the outset of the industry's modernization.

In Mexico, a large but dependent peasant sector emerged from land reform as distinct from a milling industry controlled by national capitalists. Mexican sugar policy provided smallholders subsistence guarantees but, by the end of the twentieth century, stalemate between farming and milling interests ultimately led the industry to crisis and decline. In contrast, Indian and Brazilian development resolved the conflict between milling and planting interests, supporting consistent growth in production and yields (*Tables 10x*). The resulting pattern of investment put the Indian and Brazilian sugar industries on the international technological and productive frontier by the twenty-first century and placed them in a leading position in export markets.

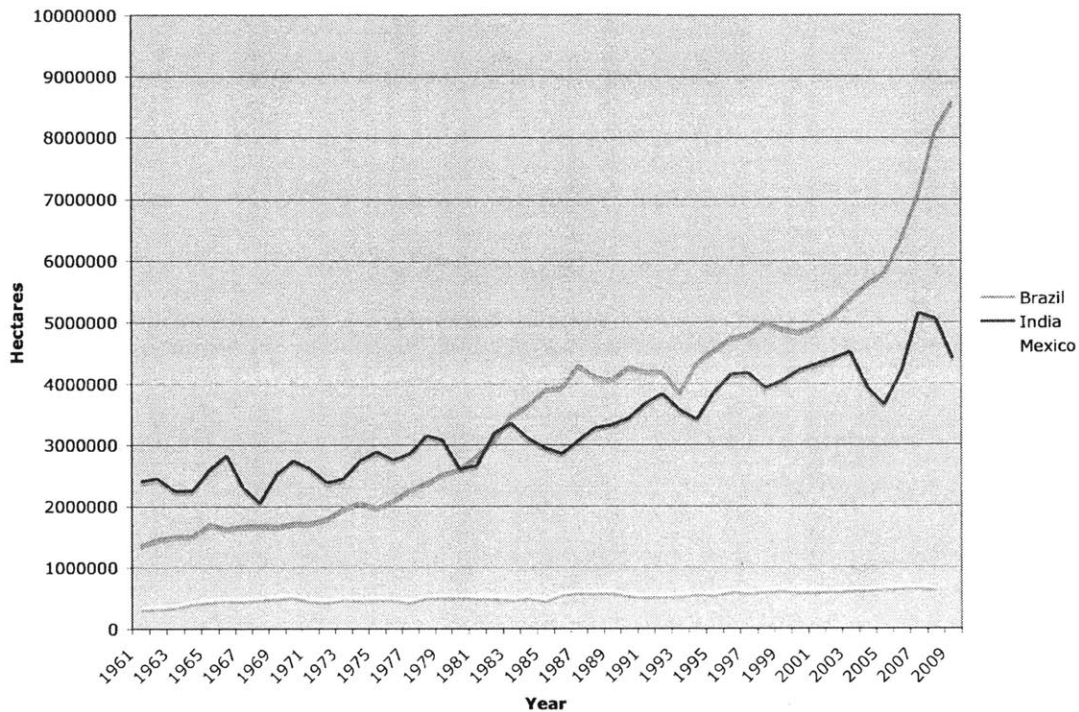
**Graph 4.4. Sugarcane Production Volume (Brazil, India, Mexico)**



**Graph 4.5. Sugarcane Yields (Brazil, India, Mexico)**



**Graph 4.6.** Sugarcane Area Harvested (Brazil, India, Mexico)



However, the two industries followed inverse paths to this outcome, with contrary implications for smallholders and rural labor. In Brazil, where the peasant sector has been the weakest, industrial and landowning interests have dominated the sugar industry. In particular, São Paulo's sugar mills took advantage of development policies to consolidate large, integrated plantations and diversified industries that utilize landless labor and mechanized farming techniques, contributing to technological progress, but exacerbating unemployment and inequality as part of an 'exclusive engine of growth' (Richardson et al. 2009). In India, an autonomous and capitalized smallholder sector predates the sugar industry's modernization. Here, coalitions of small, medium, and larger farmers have invested in cooperative mills that distribute the industries benefits more broadly.

### ***Conclusion***

This chapter provided the historical context for this dissertation's examination of globalization, smallholder agriculture, and the sugar industry. Specifically, it examined the effect of three variables on the development of smallholder agriculture over time and across diverse national sugar industries. It first analyzed how the increasing adoption of mass-production technology created a similar set of coordination problems across diverse national sugar industries as the land, labor, and capital requirements of sugar production became increasingly rigid. These requirements have often been coordinated through vertical integration that has come at the expense of smallholder agriculture and encouraged exploitative labor conditions. However, the comparisons drawn in this chapter showed how the effect of technological change is not deterministic but mediated by two additional variables: the economic regime governing the process of technological change—i.e. economic liberalism versus economic nationalism—and the political power and autonomy of the peasantry at the time it took place.

The broadest conclusions of this chapter refute two economically deterministic views of modernization that are deeply engrained in thinking about agriculture and its role in economic development. First among them is the idea that agricultural development inevitably involves technological change and the pursuit of scale in ways that will marginalize smallholders--suggesting that development requires the death of the peasantry and its replacement by large-scale agro-enterprise. This chapter shows how even a crop universally considered a 'plantation crop' can support the development of smallholder agriculture under the political conditions. The case of Maharashtra suggests that, when granted sufficient autonomy, peasants and small farmers themselves can become entrepreneurial, and, when they do, it can support much more egalitarian

development experiences than in cases, such as southern Brazil, where sugar's modernization was driven by national industrial entrepreneurs and the state, or the Caribbean countries, where it was driven by foreign private oligopolies.

Second, this chapter challenged the idea that scale, technological change, and industrialization in agriculture automatically or necessarily generate increasing wellbeing and material progress. In the modernist development narrative, the industrial modernization of farming releases redundant and inefficient labor from the traditional agricultural sector to be reemployed more efficiently in the modern industrial sector—concurrently releasing them from the bounds of traditional social control. In contrast, the Caribbean and Brazilian cases show how increasing scale and the use of industrial technology in the sugar industry was compatible with labor exploitation, the inefficient use of land and capital resources, and ultimately economic collapse.

Together, the cases show that industrialization is not sufficient and large-scale farming is not necessary for agriculture to contribute to development. They suggest, instead, that the developmental effect of agricultural modernization depends on the distributional outcomes it produces and is thus intimately tied to and mediated by politics. Specifically, distributional outcomes are shaped by the political strength and autonomy of peasants and small farmers as they confront economic and technological changes, by the alliances small farmers can build with other groups, and by the ability of farmers to extract developmental benefits from the state.

In making these points, this chapter has refuted one kind of economic determinism but has put in its place a second: that export markets are generally tied to exploitation of rural labor and that small and peasant farmers can only pursue their

development from within the confines of closed national economies. From this perspective, contemporary globalization appears as a threat to the already precarious development prospects of this group. History certainly suggests this potential, but also ought to caution us against swapping one type of determinism for another. If, in the past, political factors have intervened in the process of national development to favor smallholders, it is also important to ask whether and how they may do so in the process of externally driven development.

The following chapter turns its attention to the contemporary experience of globalization and how it differs from past experiences. Both the nineteenth century globalization and the mid-twentieth century period of economic nationalism were associated with expansion of mass consumer markets and mass-production technology. In contrast, current globalization is also associated with the growth of multiple, fragmented niche markets. This fact has permitted politics to intervene in the process of consumption itself as demand has grown for products marketed as socially and environmentally responsible. The remainder of this dissertation examines the case of the Fairtrade and organic sugar industry in Paraguay, asking whether politicized economic demands of this sort can intervene in the process of internationally-driven agricultural development to favor small farmers in the same or similar ways that national politics have in the closed economies of the past.

“Sugar—which in the nineteenth century became a consistent, fungible and interchangeable commodity, chemically pure and inherently placeless—is now differentiating into a wide variety of products marketed on the basis of colour, taste, production relations, environmental sustainability and place of origin.”

—Hollander (2003)

## **Chapter 5. Global Niche Markets and the Advantages of Backwardness: Organics and Paraguay’s Sugar Industry**

What separates contemporary globalization from past historical experiences? Can it drive the development of egalitarian smallholder agriculture in ways that agro-export booms in the nineteenth century did not? Does the globalization of agricultural production and trade create new opportunities for poor regions to catch up or does it simply give greater advantages to rich areas and exacerbate inequality? More specifically, how might the development of specialized demand niches change the prospects of farmers in developing countries? What constraints and opportunities do these markets offer? And what kinds of producers are able to overcome new constraints and make the best use of new opportunities?

This chapter addresses these questions and explores a range of possible trajectories within agricultural globalization by showing that the formation of export value chains in specific market niches can aid the development of smallholder farming. It examines the development of demand for Fairtrade and organic sugar in advanced countries and shows how the backwardness of Paraguay’s industry permitted its sugar producers to capture these new niches.

The previous chapter showed how historically, in some countries with nationalist policies, small farmers have used their political power and relationships to the State to mitigate the marginalizing effects of industrial sugar's economic and technological characteristics to achieve varying degrees of participation and benefit as the sugar industry modernized. However, the political and institutional factors that permitted small farmers to follow these strategies have in the past been tied to *national* markets and *public* regulation rather than *global* markets and *private* regulation. Specifically, smallholders have benefited most from the growth and modernization of the sugar industry in regions like the Indian state of Maharashtra, where the sugar industry has been regulated by *national* public organizations, as opposed to *foreign* private firms, and where peasant producers enjoyed stable access to land prior to the modernization of the sugar industry.

Historically in the sugar industry, this combination of conditions has been rare. In most places, and especially where its production has been for export, sugar has earned its reputation as a plantation crop. These conditions also differ substantially from the contemporary situation Paraguay's sugarcane farmers have faced as they have rapidly integrated into the new *global* value chains and certified as organic and Fairtrade producers by foreign *private* organizations. The economic backwardness and political weakness of Paraguay's smallholders would seem to provide a poor basis for them to claim the benefits of globalization and the new external ties it has brought.

However, the next three chapters examine how the development of global niche markets for environmentally and socially responsible products have created new possibilities for smallholder development through participation in export markets.

Globalization has renewed pressures toward vertical integration, consolidation, and concentration of economic and political and economic power within the commodity sugar industry. However, these processes have been accompanied by the appearance of demand for sugar that satisfies the social and environmental demands of consumers. This has created less commodified niches within the sugar industry, altering the economic and political factors that have often have made sugar exports a losing proposition for small farmers.

The current chapter proceeds in two parts. The first describes how a number of small companies in advanced countries, facing the consolidation of the refined sugar market and responding to evolving consumer preferences, sought to expand by constructing a market niche for organic and Fairtrade sweeteners. This section explains how the economic and political characteristics of this market niche differ meaningfully from those of the market for refined white (commodity) sugar described in the previous chapter and argues that, as specialty sugar companies sought suppliers in developing countries, these characteristics encouraged them to source from small-scale suppliers.

The second section asks why Paraguay's sugar industry captured the largest share of this new market niche. It argues that the legacy of earlier corporatist and clientelist patterns of rural development in Paraguay yielded a "backward" sugar industry that was nonetheless well suited to the economic demands and political aspirations of the new specialty sugar niches that grew at the end of the twentieth century in developed countries. The two chapters that follow this one ask whether and how the development of Fairtrade has contributed to the transformation of local power relations and enhanced the

power and autonomy exercised by small farmer organizations in Paraguay's sugarcane producer communities.

***Globalization as Decommodification: the Growth of Niche Markets in the Sugar Industry 1990-2010***

This section examines two aspects of the contemporary globalization of the sugar industry. First, it documents the erosion of the national regulatory regimes that governed the sugar trade for most of the twentieth century. Beginning in the 1990s and continuing through the 2000s, this transition has been characterized by sugar companies intensifying strategies tied to commodity production and often to the marginalization of small farmers. The section then contrasts this trend with the simultaneous expansion of market niches for organic and Fairtrade sugar, which provide specific economic and political advantages to smallholder farmers.

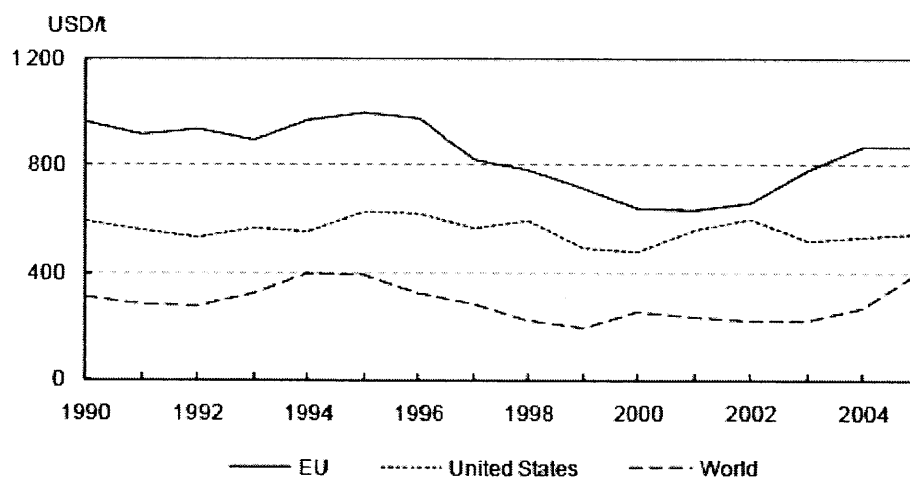
*Disruption and Continuity in the Commodity Sugar Market*

At the end of the twentieth century, the regulatory system governing the global production and trade of sugar underwent substantial changes. Until then, sugar had long been a notable exception to global trends of trade liberalization and economic deregulation. Across different sectors and economies, reform gradually dismantled the protections which both developing and advanced countries utilized to nurture the development of national industries in the post-WWII period. Until the latter half of the 2000s, the system of national-level sugar regulations remained untouched, and individual countries levied high tariffs on raw and refined sugar imports, allocated import quotas to

foreign producers of raw sugar in specific countries, and directly or implicitly subsidized domestic sugarcane and sugar beet farmers, sugar mills, and sugar refineries.

For most of the twentieth and into the twenty-first century, world price signals played only a marginal role in incentivizing and coordinating global sugar production, which responded instead to prices set at the national level through the political and administrative allocation of subsidies and quotas. Sugar prices in the European Union and the U.S. have consistently exceeded those on the world market (Graph 5.1). In 2004, the EU spent nearly 1.5 billion euros on export subsidies to sugar producers (European Commission 2004), and, between 1964 and the 2006 expiration of the European Common Market Organization sugar scheme, world sugar prices exceeded European support prices only twice.

*Graph 5.1. World, U.S., and E.U. Sugar Prices 1990-2004*



Source: OCED (2007)

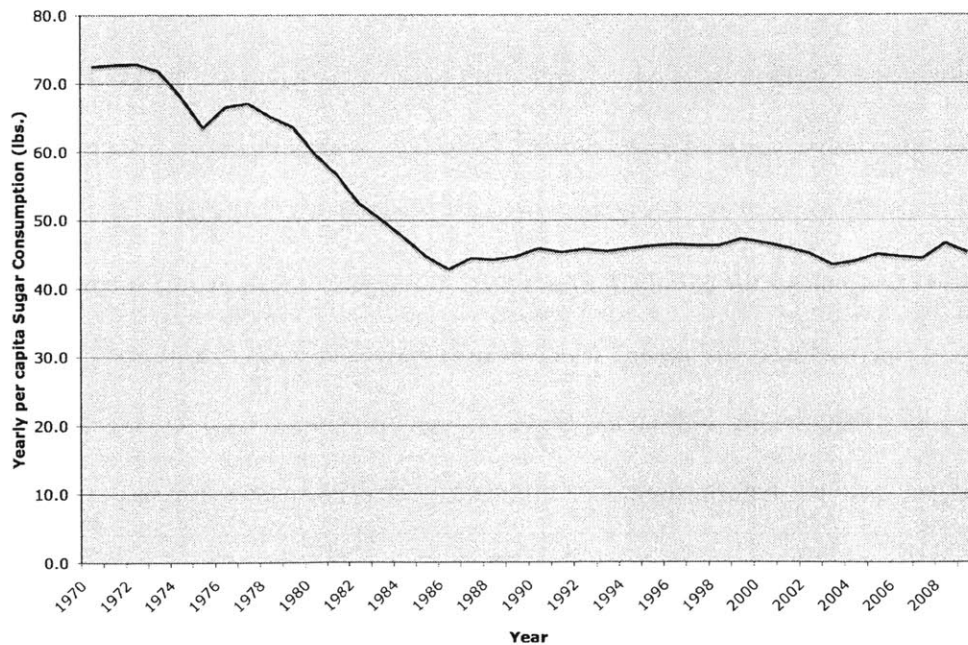
The protection and subsidy provided by wealthy countries, combined with the slow growth of sugar demand in advanced countries, promoted overproduction of sugar and the accumulation of global sugar stocks, in turn depressing world prices as producers in the U.S. and especially Europe unloaded subsidized sugar on the world market. By the end of the twentieth century, national sugar regulation systems began to unravel under the pressure of their rising costs, the demands pressed by efficient sugar producers through the WTO, and the evolving interests of the largest sugar-refining companies in advanced countries.

On the one hand, low-cost cane-sugar exporters stood to gain from the elimination of export subsidies in the EU. Despite its higher cost structure, Europe has ranked second among world sugar exporters (after Brazil), and in 2004, Brazil, Thailand, and Australia, successfully brought a case of discrimination by the EU to the WTO. The body obliged European countries to reduce sugar export subsidies, a task that necessitated reducing national sugar production quotas. Further pressures for reform came from limits imposed to export subsidies in the Doha round of trade negotiations (OECD 2007).

On the other hand, sugar consumption stagnated or declined in advanced countries for the latter part of the twentieth century, as a function of low population growth and the low income elasticity of demand for food in advanced countries. Moreover, health concerns about obesity and the ill effects of sugar, combined with the development of industrial and non-caloric sugar substitutes (high fructose corn syrup, aspartame, sacherine, sucralose, etc.) have further dampened sugar consumption. In the U.S., per capita sugar consumption has been stagnant for two decades (Graph 5.2)

Over the course of the twentieth century, large U.S. and European sugar milling and refining companies grew under domestic protections and came to monopolize domestic production quotas. However, looking toward the future, these companies could not count on future domestic growth or export subsidies to increase their profits. In contrast to stagnating sugar demand in advanced countries, developing countries showed greater dynamism. In the 2000s, non-OECD countries accounted for 70% of sugar consumption and their sugar demand grew at annual rates of 2.6%, driven by population and income growth, especially in Asian countries. In this context, the largest and most powerful sugar companies progressively shifted their attention from opposing reform of nationalist sugar regulation, to crafting strategies to benefit from a more globalized sugar industry.

**Graph 5.2.** U.S. per Capita Sugar Consumption



Source: USDA Economic Research Service

Producers in the U.S. and Europe's stagnant sugar industries have pursued profits through consolidation, vertical integration, and investment abroad, and, conversely, diversification and even divestment from sugar. In Europe, the largest most capitalized beet-sugar producers bought out smaller European sugar manufactures, closed their less efficient operations, and established processing capacity in countries with growing markets. Between 1992 and 2002, thirty percent of EU sugar factories closed down, and the five largest companies gained control of more than fifty percent of the sugar market (Richardson 2009, 96). Germany's Südzucker, the largest sugar producer in the EU, now owns twenty-nine sugar factories and three refineries across Europe, with production in Germany, Belgium, Bosnia, France, Moldova, Poland, Austria, Romania, Slovakia, the Czech Republic and Hungary. In addition to holding a monopoly on beet-sugar production in Britain, Associated British Foods has acquired majority interests in two beet processors in Poland and eleven in Northeast China, as well as four cane sugar factories in Southern China and Illovo Sugar, which operates in South Africa, Swaziland, Tanzania, and Mozambique (IbisWorld 2011).

In the U.S., sugarcane millers have integrated forward by purchasing financially weak sugar refineries, and also made investments abroad to eventually take advantage of regional trade agreements. These include the North American Free trade Agreement (NAFTA), which granted Mexico duty-free access to the U.S. sugar market in 2008—fourteen years after its signing—and the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA), which phases in larger duty-free sugar import quotas for the Dominican Republic and Central American countries over a fifteen year period that began in 2005.

Flo-Sun, a Florida-based company that owns sugar plantations and milling operations in Florida and the Dominican Republic, began its forward integration in 1998, with its purchase of American Refining Incorporated's cane-sugar refinery in Yonkers, New York. The company then purchased Tate and Lyle's North American operations, acquiring the U.S. Domino brand in 2001, and the Radpath brand in Canada in 2007. Subsequently, Flo-Sun added the C&H brand to its portfolio, purchasing the California and Hawaii-based sugar refiner and marketer in 2005. These acquisitions have made its privately owned refining and marketing subsidiary, American Sugar Refining Incorporated, the largest cane-sugar refiner in the country and among the largest in the world. The company has since expanded its international investments, purchasing a cane-sugar mill and refinery in Veracruz, Mexico, in 2007, and acquiring the Tate and Lyle brand along with the purchase of the British company's refining operations in the UK and Portugal in 2010 (Walsh 2008; American Sugar Refining 2007; Finch and Wray 2010).

Flo-Sun's major competitor, the Texas-based Imperial Sugar Company, has also pursued a similar spree of acquisitions. In 1996, Imperial acquired California beet-sugar producer, Spreckels Company, followed by Georgia-based Savanna Foods and the Dixie Crystals sugar brand in 1997, which operated both cane-sugar refineries in the South and beet-sugar mills in Michigan. Then, in 1998, it began to diversify into higher-value non-commodity activities with the acquisition of Diamond Crystal Specialty Foods in Wilmington, MA—a manufacturer of processed foods for food service applications. In 2007, Imperial formed a joint venture with Mexican Ingenios Santos, which owns five sugar mills and produces both raw and refined sugar. This will allow the company to serve both markets, as well as source raw sugar from Mexico for refining in the U.S

(Imperial Sugar 2010). Finally, Imperial has entered into a joint venture with agro-industrial multinational Cargill and the Louisiana Sugar Cane Cooperative, a sugarcane milling cooperative that operates six cane mills, to construct a refinery on the Mexican border that can serve and source from both markets (Cargill 2009).

This pattern of investment has led to substantial concentration among U.S. sugar mills and refineries. Between 1985 and 2007, the number of beet-sugar factories and sugarcane mills declined by half, to twenty-three and eighteen respectively. In the same period, the number of cane-sugar refineries fell from over twenty to nine. Five of these are owned by Flo-Sun, granting the company a thirty-two percent share of the sugar market and an even larger portion of branded sugar retail (Walsh 2008; Richardson 2009, 123). Together with its subsidiaries, the company currently claims to be the largest refiner in the world.<sup>25</sup> In 2010, the four largest U.S. sugar producers controlled an estimated forty-three percent of the domestic sugar market (Panteva 2011). (Panteva 2011)

As certain enterprises concentrated their ownership of the sugar industry, other enterprises divested themselves of their sugar operations. Most notably, after 133 years as Britain's flagship sugar brand, Tate and Lyle completed its exit from the sugar industry in 2011 with the sale of its last sugar factory in Vietnam (Bouckley 2011). The transaction parallels IBM's sale of its personal computer division to Chinese manufacturer Lenovo to focus on higher-value IT services. Tate and Lyle has divested itself of the commodity sugar production and refining activities for which it is best known, but which face declining profits, to shift its resources toward narrower, higher value activities, in particular the development of specialty food products. Chief among them is Splenda, the

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<sup>25</sup> "Our Story" *Florida Crystals* <http://www.floridacrystals.com/content/131/our-story.aspx> 5/16/11

brand under which the company markets the non-caloric sweetener, sucralose, that it developed in collaboration with Johnson and Johnson subsidiary, McNeil Nutritionals. With a marketing campaign that distinguishes it from allegedly less natural competitors (“made from sugar, so it tastes like sugar”), Splenda quickly displaced Equal-brand aspartame as the best-selling artificial sweetener in the U.S., gaining a sixty-two-percent share of the \$1.5 billion market by 2007 (Browning 2007).

Without divesting themselves of their sugar operations, Tate and Lyle’s competitors have diversified into the sugar substitute market as well. Südzucker has developed a sucrose-derived sweetener to compete with Splenda, marketed as Palatinose. Other ventures have directed their efforts toward Stevia, a calorie-free sweetener extracted from a plant that is native to Paraguay and Brazil. These include products from companies like Truvia (owned Coca-Cola and Cargill), Steviacane (Marketed by Natural Sweet Ventures—a joint venture of Imperial Sugar and Stevia Producer PureCircle), Sunwin Stevia (a Chinese Stevia producer with which Domino Sugar has forged a partnership), PureVia (owned by Merissant—the producers of Equal), and Sun Crystals (produced by McNeil Nutritionals—part owner of the Splenda brand).

Lastly, sugar companies have diversified into energy production, in attempt to take advantage of the growing demand for biofuels mandated by the U.S. and European governments, and taking advantage of generous subsidies for the development of domestic biofuels production. In the EU, British Sugar, Nordzucker, Südzucker, and Tereos have invested millions of euros in new ethanol plants using sugar beet and wheat as their primary feedstock (Richardson 2009, 106). In the U.S., Flo-Sun has embarked on

a research and development effort to produce second-generation biofuels made from the cellulose in bagasse (a fibrous byproduct of sugar manufacturing).<sup>26</sup>

Thus, by the start of the twenty-first century, companies that had grown successful through domestic sugar production no longer saw the manufacture of commodity sugar as an enduring source of profit. Stagnation of domestic sugar markets and uncertainty over the future of subsidies and protection, combined with the growth of sugar demand and of highly efficient sugar producers abroad in developing countries, have encouraged them to diversify their investments geographically, along the sugar value chain, and beyond sugar production, or to exit sugar production altogether.

These strategies preceded the ultimate reform of EU and the U.S. sugar policies, which imposed gradual and marginal changes rather than large discontinuities in sugar regulation. Neither free trade nor globally managed trade has arisen to replace the nationally governed production and trade of sugar, but, instead, the U.S. and EU have pursued a managed and gradual decrease in subsidy and quota protection for advanced country producers. This process has allowed the largest and most powerful producers to position themselves to benefit most from freer trade.

By 2006, the WTO ruled that the EU must remove four tons of sugar from export market, a change that required reducing the size of its internal production quotas and reducing internal sugar prices by thirty-six per cent. These changes led to further consolidation of the refining industry that benefited the largest refiners, as small-scale producers in Spain, Sweden, Portugal, and Ireland closed their doors. British Sugar and Südzucker actively pushed for *deeper* cuts to the EU guaranteed sugar price, hoping to

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<sup>26</sup>“Renewable Energy” *Florida Crystals*  
[http://www.floridacrystals.com/content/112/renewable\\_energy.aspx](http://www.floridacrystals.com/content/112/renewable_energy.aspx) 5/16/11

gain from the industry's rationalization and the removal of less efficient competitors (Richardson 2009, 103). In the U.S., sugar became subject to freer trade only after lengthy delays in the implementation of free trade agreements allowed U.S. companies to position themselves as beneficiaries.

To summarize this section, it appears that the globalization of the contemporary sugar industry holds much in common with previous period of agricultural globalization. Large multinational sugar companies have increasingly pursued strategies that arguably drive international inequality in two ways. First, within Europe, the richest countries' industries survived and benefited from the shakeout of the sugar industry. Second, outside of Europe, the poorest countries have lost preferential access to the EU market through quota reforms and will lose market share to larger, lower-cost producers in Brazil. Thus, further trade liberalization is likely to enhance an already high degree of international market concentration—in 2002-2004, Brazil already controlled forty percent of world exports, and sixty-five percent went to the top five exporters (the European Union, Thailand, Australia, and Cuba). Third, sugar companies have made foreign investments primarily in facilities that source from large-scale plantations that employ landless labor, producing another parallel to earlier era's in the sugar industry. Finally, even as sugar companies have renewed efforts at vertical integration through investments developing countries, they retain the highest-value and most dynamic segments of the sweetener industry in their home countries.

However, in the context of the commodity sugar industry's stagnation, a different set of companies pursued a commercial strategy based not on consolidation and scale, but based on quality differentiations that drew attention to the social and environmental

conditions under which sugar is produced. As companies sought out sugar suppliers in developing countries, the international ties they would construct differed substantially from those made by conventional sugar producers in the past.

*The Economic and Political Features of Organic and Fairtrade Niche Markets*

Parallel to large sugar multinationals' restructuring and internationalization of the commodity sugar market has been the development of niche markets within the sugar industry based on the environmental and social aspects of its production. In the case of sugar, in addition to prohibiting agro-chemicals, organic certification specifically requires that sugarcane farmers refrain from the traditional practice of burning their sugarcane fields prior to harvest. Setting fire to fields removes leaves, straw and other underbrush, and sugarcane tops, leaving only the cane itself and reducing the amount of labor required in harvesting. The practice, however, kills micro-organisms and eliminates organic matter that enhance soil fertility. Consequently, organic sugarcane farming typically implies higher labor costs, and lower yields (at least in the short run) as external methods of enhancing fertility are eliminated in favor of more gradual internal methods of fertility enhancement.

Organic sugar processing is largely the same as conventional processing, except that specific flocculants (additives used to clarify sugarcane juice before it is boiled into syrup and crystallized) are prohibited. This slows down the process of making sugar, slightly lowering industrial yields. On the other hand, organic sugar is typically consumed or used for manufacturing in its raw state and does not undergo a second refining process to remove the molasses left from its initial crystallization, which is the case with white sugar.

As described in Chapter 2, organic certification has come to provide a new private regulatory mechanism for certain aspects of the environmental and health impacts of food production. While it does not regulate the production and property relations in the agro-food system, its requirements do have implications for the structure of agricultural production, especially as organic production has globalized and linked producers in developing countries with consumers in advanced countries. In contrast to the large capital requirements of input-intensive agricultural methods that have encouraged consolidation in conventional farming, the labor-intensiveness of organic weed-control, pest-control, and soil management practices has granted small farmers competitive advantages in organic production.

Moreover, a second market niche, Fairtrade, has developed alongside the organic movement. Fairtrade explicitly recognizes that small farmers in developing countries require political and economic organization in order to participate in global markets. In contrast to organic certification, Fairtrade certification attempts to explicitly regulate production and property relations, stipulating for certified products the types of farmers who produce them, the ways they ought to be organized, and the prices they should receive to make trade “fair.”

In the case of sugar, FLO standards stipulate that farmers must own less than thirty hectares of land to qualify and that they be organized into associations to receive a social premium of \$80 per ton of Fairtrade sugar sold under the Fairtrade label by the sugar mills that certified growers supply. FLO certifies sugarcane farmer associations and mills in producing countries, and domestic labeling initiatives grant licenses to companies in consuming countries to label their sugar or food products as Fairtrade.

Fairtrade and organic market niches stand in marked contrast to the commodity sugar markets described above—specifically in the way they construct and market value to their consumers. In differentiating their sugar products from white refined sugar, they attempt to reconfigure the social meaning of sugar as a consumer product. Before the industrial revolution, the whiteness and costliness of refined sugar made it a symbol of purity reserved for the upper class. Following the industrial revolution and especially in the early twentieth century, the commodification and plummeting cost of white sugar linked the product to the kinds of social progress to be gained through the development of an industrial, mass-consumption society. By the 1970s, this meaning came under attack, as white sugar served as a clear symbol of the nutritional deficiencies of the industrial diet for critics of industrial society and of the industrialization of the food system: white sugar provided only ‘empty calories,’ and formed the basis for the manufacture of a wide variety of ‘junk food’ that had progressively displaced healthier, more natural, less processed whole foods from the modern diet.

For its critics, this type of diet engendered not only public health problems, but supported the development and survival of powerful private agro-food industries that damaged the environment through intensive industrial farming. In the mid-1990s, the unlikely group of Hershey, Coca-Cola, the Sierra Club, and the Audubon Society formed the “Coalition to End Welfare to Big Sugar,” portraying the sugar industry as “greedy, foreign, un-American, big business—run by and for ‘Sugar Barons.’” By attacking Florida sugar monopolies, environmentalists hoped to reduce pressure on the state’s wetlands and food manufacturers hoped to decrease their input costs (Galloway 1989). Attacks on the labor exploitation linked to sugar production have been far less prominent

than those on its negative health effects and than criticism of labor abuses in other agricultural industries.<sup>27</sup> Still, sugar's colonial history of slavery, exploitation, and underdevelopment and its continued association with grueling and poorly paid labor provided another avenue of critique (Coote 1987).

By the end of the twentieth century cheap refined sugar continued to symbolize for the mass of consumers the convenience and affluence afforded by industrial development. However, a new group of consumers had developed that saw white sugar instead as a symbol of the excesses and injustices of the modern economy and began to demand alternative sweeteners. The companies that wished to take advantage of this demand faced a very different set of economic challenges and incentives than those engaged in commodity sugar production. In the case of Fairtrade, the value of their products would be intimately tied to their ability to claim that consuming them supported a fair distribution of material benefits along their supply chains and the development of smallholder farming communities abroad. In the case of organics, the value of sugar would come from the presumed environmental sustainability of organic production practices and more tenuous claims of organic sugar's greater healthfulness.

To reach these new consumers with new products, companies would have to establish and expand production and trade networks in ways that corresponded to the new social meanings that had developed through critiques of commodity sugar. The following section describes their efforts to do so and how it generated a set of opportunities that Paraguayan producers would ultimately exploit.

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<sup>27</sup> Activists promoted prominent boycotts of California grapes in the 1960s and South African Oranges in the 1980s to protest poor labor practices tied to exploitation of immigrant labor and apartheid (Mather and Rowcroft 2004).

### *The Development of Organic and Fairtrade Sugar Companies*

The 1990s marked a time when the market for organic foods and Fairtrade products in general began their rapid expansion in advanced countries. In this period, and within the context of commodity sugar's stagnation, a number of small companies sought to establish themselves or grow by differentiating their sugar on the basis of organic certification. At the same time, Fairtrade companies that had established themselves through the sale of Fairtrade and Fairtrade-organic coffee began to diversify into additional food products. Sugar provided a natural compliment to Fairtrade coffee, tea, and cocoa, because these bitter stimulants are traditionally consumed with sweeteners. However, before they could market sugar as natural, environmentally sustainable, or socially just, companies would have to find a way to produce sugar that meaningfully differed from their industrial competitors at a price consumers were still willing to pay.

The origin of organic sugar lay in Switzerland, where pediatrician, Max-Henry Béguin, began promoting unrefined cane sweeteners as a healthful and natural alternative to white sugar in the 1970s, when he imported raw, whole-cane sugar from India (*jaggary* or *gur*), claiming it did not promote tooth decay, as white sugar does. Albert Yersin then founded the Swiss company, Pronatec, in 1976 to produce and market a whole-cane sweetener under the Sucanat brand. To distinguish the product from conventional sugar, the company marketed Sucanat as "evaporated sugarcane juice" and cited its proprietary drying method that purportedly maximized the product's mineral and nutrient content. Its brown color and minimal refining stood in contrast to white sugar, and the product's association with non-industrialized countries suggested a return to "pre-industrial," "healthier" forms of food consumption.

In the mid-1980s, the company then launched Sucanat USA, based in New Hampshire, and began distributing its product in natural and health-food stores throughout the U.S. Although Sucanat and similar unrefined and minimally industrialized sweeteners gained popularity among natural foods enthusiasts and were marketed through natural food stores and catalogues. Because these products originated in the natural food movement, they were aimed at consumers who wanted to exercise greater control over their diet. Conversely, products like Sucanat were not aimed at food processors, which activists saw as exercising too much power over the food system. For this reason, they did not lend themselves to the development of organic processed and manufactured foods that have driven the rapid growth of organic consumption in general and of organic sugar in particular. The development of organic sugar as an industrial input proceeded after food companies began to see organics not as a movement to restructure the modern diet, but as a potentially dynamic niche within the modern industrial food system that would allow them to compete with established players.

The success of a company like Sucanat USA demonstrated to food manufacturers that there was significant money to be made outside of mainstream, conventional markets. By 1996, the company had become Wholesome Foods, which sourced organic sugarcane from Florida farmers and had grown into the largest producer and leading marketer of organic sweeteners in the U.S., with revenues of \$4.5 million. Wholesome's sale to the Imperial Sugar Company in 1997 marked a shift in the organic sugar industry toward greater corporate control as well as toward broader growth. Imperial paid \$5.1 million for the company, in order to "increase its share of the higher-margin, noncommodity sectors of this business" and "enter the high-margin, rapidly growing

natural sweeteners business” according to Chief Executive Jim Kempner (Antosh 1998). The sale permitted wholesome to make use of Imperial’s marketing resources and expand its customer base through mainstream supermarkets.

In Britain, Billington Food Group became the first provider of organic sugar in the 1990s. The company had its origins in the coffee, tea, and sugar trade of the nineteenth century, and had survived the consolidation of the sugar industry by marketing specialty sugars associated with the earliest pre-industrial products of the sugar trade. According to a former manager, Billington’s “business had never been commodity sugar, but instead natural unrefined sugar, like moscovado and demerara (like sugar in the raw), where you don’t refine away all the molasses and it has more of a nutritional base.”<sup>28</sup> These products were used as home baking sugars in the UK and Europe and sold a large premium compared to white refined sugar. In the 1990s, Billington developed the first certified organic sugar supply in Mauritius, where the company sourced most of its specialty sugar.

Once smaller organic sugar companies like Wholesome Foods and Billington’s had pioneered the niche, larger and more established sugar refiners acquired them or started their own organic lines to claim part of this dynamic niche for themselves. In 2001, Imperial formed a joint-venture with Billington Foods, to launch the Wholesome Sweeteners Company. The company has performed well, growing at a compound annual rate of thirty percent between 2003-2007, and reaching \$100 million in sales by 2001(Business Wire 2008; Imperial Sugar 2010). In that year, Imperial claimed to have the largest share of the organic sugar business. Subsequently, in 2004, Associated British

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<sup>28</sup> Author interview, 3/2/11.

foods (owners of British sugar) bought out Billington Food Group's organic and specialty sugar business.

Flo-Sun, established its own organic line through its Florida Crystals brand in 1997, and began marketing its sugar as "carbon free" with labeling certified through third-party life cycle assessment. Südzucker has acquired seventy-five percent of the Belgian Candico Company, the sole surviving "candy sugar" manufacturer in the old Belgian sugar port of Antwerp. The company survived and expanded throughout the period of consolidation in the European sugar industry of the 1990s and 2000s by focusing on its niche as a cane-sugar refiner, in contrast to the beet-sugar marketed by large companies, and then by developing extensive Fairtrade and organic product lines.

As the market potential for organic sugar drew the attention of larger companies and as organic food companies grew from upstarts into national brands, organic sugar grew from its initial narrow consumer niche to occupy a central place in the rapidly expanding organic food industry. Between 1997 and 2007, major food companies in the U.S. entered organics through a spate of acquisitions and new product introductions. Companies such as Kellogg's, Hershey, Kraft, Unilever, Conagra, Heinz, Pepsi, and Coca Cola, launched organic versions of their traditional products and purchased well known organic brands, greatly expanding the industrial market for organic sugar (Howard 2009). By 2006, Florida Crystals' organic sugar clients included more than 100 companies, including the makers of Silk soy milk, Kashi cereal, Tazo tea, and Clif bars. The company provided sugar for organic versions of Kellogg's Rice Krispies and Nabisco's organic Oreos (Salisbury 2006).

In 2000, General Mills purchased Small Planet Foods, owner of the Cascadian Farms and Muir Glen Organics brands (a maker of organic canned tomato products). Cascadian Farms is a producer of organic breakfast cereals and frozen foods (juice concentrate and ice cream products)—products for which organic sugar represents a key ingredient. Before its purchase by General Mills, Washington-based Cascadian Farms, along with Switzerland’s Pronatec, had been a pioneer in the organic sugar industry and played a central role in overcoming a second, technical barrier to the industry’s growth by establishing the first sourcing relationships with Paraguayan producers.

In the early 1990s, only whole cane sweeteners, like Pronatec’s Sucanat, were available. They contain large amounts of molasses, which strongly colors and flavors products like yogurt, ice-cream, jams, or juices—giving them a taste, appearance and texture foreign to consumers of conventional processed foods. Through the 1990s, the companies launching the first organic processed foods received an exception for sugar to organic labeling rules requiring that these foods be composed primarily of organic-certified ingredients, and the market for 100% organic processed foods remained unexploited. Cascadian Farms was the first food manufacturer that sought to enter this market. In the early 1990s, it began to market organic ice cream products sweetened with organic Sucanat through natural foods stores and hoped to develop a line of organic ice-cream products for mainstream distribution. But to do so, the company needed to locate a source of crystallized (centrifugal) organic sugar that was refined sufficiently to not lend their products qualities that were too unfamiliar to the mainstream consumers they wished to target.

The problem faced by companies like Cascadian farms and Pronatec, which also began to seek out a source of crystallized organic sugar in the same period, lay in finding a sugar mill that was willing to supply them with the initially very small volumes they demanded. Whole-cane sweeteners like Sucanat and the organic sugar that Billington's sourced from Mauritius can be produced in small batches using minimal technology. In India and Latin America *gur* and *raspadura* are produced by boiling cane juice in open pans into a thick paste that can be set into bricks or beaten into a powder. By contrast, crystallized sugar of the sort that Cascadian required is produced only by sugar mills employing expensive and large-scale processing equipment that reduces sugarcane juice into a super-saturated syrup, 'seeds' the mixture with crystal grains that expand under controlled temperature and pressure, and removes the finished crystals from the leftover molasses by using centrifugal force.

Because processing technology of this sort had developed in association with mass commodity markets, the scale of a single factory in any major sugar-producing country vastly exceeded the minute volume of demand created by a company like Cascadian Farms. At the time, Florida's US Sugar company produced 400,000 tons of sugar annually, and typical Brazilian mills produced 200,000 of sugar per year. In contrast, Cascadian's requirements were on the order of 2,000 tons of organic sugar annually. According to Peter LeCompte, who spearheaded Cascadian's' organic sugar sourcing project, a Brazilian mill could meet its entire demand in two days of production and "it took two days just to clean out the factory between an organic and conventional run."<sup>29</sup>

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<sup>29</sup> Author interview, 3/2/11.

The small volume of demand for organic sugar posed two problems for established sugar mills, which were related to their fixed investments and the costs of transitioning to organic production. First, producing organic sugar required a source of organic-certified sugarcane. For sugarcane farmers, this meant discontinuing the use of agrochemicals on their plantings for a period of three years and enduring decreasing sugarcane yields without any immediate reward. In principle, a single Floridian or Brazilian farmer could have supplied sufficient sugarcane to meet Cascadian's initial demand on a fraction of his land.<sup>30</sup>

However, even if established sugar mills could locate a source of organic sugar cane to crush and process into crystallized sugar, the transition costs associated with organic processing presented a second problem. To receive organic certification, sugar mills must stop their processing operations to clean their cane crushing equipment in preparation of a separate organic processing run. For such small volumes as those initially demanded by Cascadian and Pronatec, the costs to sugar millers of stopping their factories exceeded the value of the premium that small upstart companies like Cascadian were able to pay for organic-certified sugar. Companies wishing to establish supplies of Fairtrade crystal sugar faced a similar set of problems. While sugarcane from small farmers was available from small-scale producers in countries like Mauritius, these farmers did not have access to large-scale centrifugal processing facilities and instead processed their sugarcane into whole cane sweeteners.

Nigel Willerton, of Wholesome Sweeteners, explains the difficulties of sourcing from small farmers and developing Fairtrade supplies in the sugar industry: "This is

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<sup>30</sup> Producing 500 tons of sugar requires approximately 5,000 tons of sugarcane. Assuming even a very low agricultural yield of 50 tons of sugarcane per hectare of land, this volume could be sourced from 100 hectares of land—a small area in relation to plantations that often cover thousands of hectares.

different than in coffee. The farmers can't really control the quality, because you are talking about investments in the hundreds of millions of dollars in order to reach quality standards. And that is the role of mills in the business.”<sup>31</sup>

Furthermore, companies like Pronatec and Cascadian farms, on the organic sugar side, and Equal Exchange, which pioneered the Fairtrade coffee market in the U.S., were small and capital constrained. Unlike the large sugar companies that had engaged in a spate of international investment and acquisition in response to the sugar markets' globalization, Fairtrade and organic upstarts could not afford to establish their own planting and milling operations to meet their demand for organic sugar, but were forced to rely on external agricultural production and processing. However, in most sugar-producing countries, this capacity was overwhelmingly tied up in the rigid structure of commodity sugar production and could not easily be lent to small companies who wished to explore a small and uncertain market niche with very different production requirements. The sugar industry in countries like Brazil had no history of smallholder production, and sugar mills in countries like Mauritius were too large to be interested in devoting processing capacity to organic or Fairtrade crystallized sugar, especially because they received privileged quota access and elevated prices in the European sugar market.

Both organic and Fairtrade companies found their answer in Paraguay, where sugarcane farming occurred primarily on small farms that held supplier relationships to centrifugal mills, growers were easily certifiable as organic producers, and mills operated at reduced scales by international standards and with excess processing capacity that they were willing to allocate toward the production of small amounts of organic sugar.

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<sup>31</sup> Author interview. 3/10/11.

Willerton explained that Paraguay “is one of the very few countries where mills are still of a scale where the scale offered by organic markets still provides a value to the mill. If you look at the US industry, there are virtually no small mills left.”<sup>32</sup>

As major multinational food companies have moved progressively into organics and demanded larger volumes of organic sugar, large-scale sugar producers in other countries, in particular Brazil, have found it profitable to move into organic-certified production as well. However, the initial lead that Paraguayan producers had in this industry has given them an important and thus far enduring advantage. The rest of this chapter explains why this has been the case.

***Paraguay’s Sugar Industry: Economic and Political Backwardness and the Transition to Organic Production***

The remainder of this chapter argues that the organizational and productive legacy left by earlier patterns of corporatist and clientelist development in Paraguay made possible the Paraguayan sugar industry’s contemporary growth through its capture of a global niche market for organic sugar and the survival of its smallholder sector. It is divided into three main subsections. The first places the Paraguayan sugar industry into the international perspective provided by Chapter 4. The second places the industry into the context of rural development policies and campesino-state relations during Paraguay’s dictatorship, describing the history of clientelism in rural Paraguay and how it preserved the country’s smallholder sector in general. The third section returns to a discussion of the sugar industry, and explains how the organizational and productive legacy left by the earlier period served as an asset for sugar producers to confront the new

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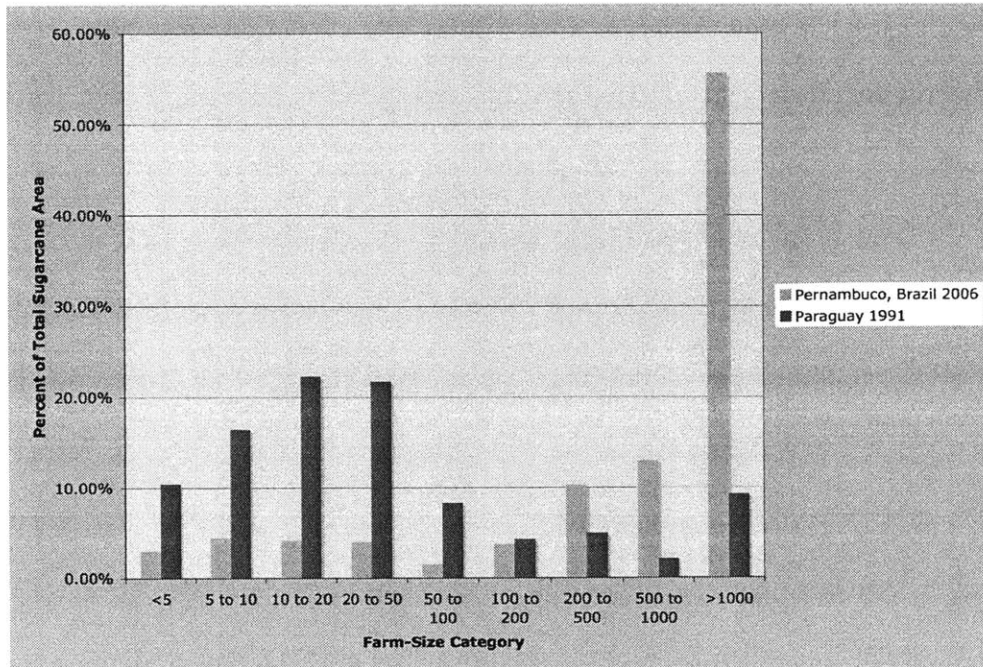
<sup>32</sup> Author interview. 3/10/11.

set of opportunities and constraints they encountered after the country's turn toward regional integration in the 1990s and as global markets developed for organic and Fairtrade agricultural goods.

In contrast to the large integrated mills and plantations in industries like Brazil's, Paraguayan sugar mills have traditionally relied on smallholder farmers for their raw materials. Paraguayan smallholders in the sugar industry use a mix of family and hired labor and have enjoyed relatively stable access to land for cash and subsistence farming. In 1991, before the industry began to export organic sugar, eighty percent of the 70,662 hectares planted with sugarcane was planted on farms with total landholdings below 100 hectares. Sugarcane plantings on farms of over 1000 hectares accounted for less than ten percent of total sugarcane hectares (Graph 5.3)

The historical and economic factors that explain the concentration of sugarcane production elsewhere were weaker in Paraguay, permitting a persistent role for smallholders. Specifically, the Paraguayan sugar industry's late historical origin and relative backwardness provided its smallholders advantages similar to those described in Mexico by Chapter 4. Paraguay's sugar industry developed during the early twentieth century in the context of an internally oriented economy regulated by corporatist development policies, rather than in the context of outward-oriented colonial ties. While this political arrangement subordinated smallholders' interests to those of rural elites, mill owners, and the state, it also preserved a space for them in the economy that was absent in other sugar producing countries.

**Graph 5.3.** Distribution of Sugarcane Plantings In Pernambuco, Brazil, and Paraguay<sup>33</sup>



Source: Paraguayan Ministry of Agriculture Agricultural Census 2008, Brazilian Institute of Geography and Statistics.

*Paraguayan Sugar’s Late Historical Origin and Corporatist Regulation 1940-1989*

Although sugarcane was introduced to colonial Paraguay as early as 1549, the country’s sugar industry had a very late start compared to other regions, and sugar processing retained a primitive state until the twentieth century. Historical visitors to Paraguay commented on the backwardness of its sugar industry in relation to major producers in the Caribbean. In 1781, Spanish military envoy Felix de Azara remarked on Paraguayan sugar exports: “as Cuban sugar is better and cheaper in Buenos Aires than Paraguayan sugar, this year’s exports were due only to the war and its abundance here, but it should be noted that sugar in Paraguay does not give half as much as it does in the Antilles and it is barely enough to cover the consumption of this country” (Friedmann

<sup>33</sup>Data are not available for Brazil until 2006.

1966, 78-79). As late as 1862, when steam-powered mills were becoming common in Cuba, a French account of industry in Paraguay recounted, “Sugarcane work is still in a very primitive state. The mills and presses are powered by oxen and produce large losses of cane juice in addition to providing only weak pressure” (Friedmann 1966, 166).

The first investments in large-scale, mechanized sugar processing in Paraguay began as efforts at import substitution in the late 1870s—sixty years after Paraguay’s independence from Spain and in the period of economic liberalism that followed the country’s defeat by Brazil, Argentina, and Uruguay in the Triple Alliance War (1864-1870). Abente (1989) dubs Paraguay’s regime in this period of history the “liberal republic” and distinguishes it from other periods due to the “exclusively private character of the capital accumulation process,” the prevalence of laissez-faire economic policy, and the development of a political arena characterized by “public contestation and elite competition” (61).

Especially in the period of Liberal-Party government that followed the country’s 1904 revolution, the National Congress encouraged investment in sugar processing by offering favorable conditions such as duty free imports of machinery and construction materials; freedom from municipal, national, and export taxes; and restrictions on competing local investment in sugarcane processing. By 1941, ten steam-powered sugar mills operated in Paraguay at a scale that was very modest by international standards, but which nonetheless placed five of them among Paraguay’s eight largest employers (Miranda 1980, 281).

However, despite untapped domestic sugar demand and the availability of land for sugar planting, government financial incentives did not succeed in consolidating

Paraguay's domestic sugar industry until the February Revolution of 1936 brought an end to the liberal republic. In 1940, General Higinio Morínigo's dictatorial administration adopted an authoritarian constitution, sanctioning the administrative expansion of the Paraguayan state and its adoption of corporatist principles of regulation inspired by those adopted by fascist regimes in Italy, elsewhere in Europe, and in Latin America.

However, unlike the corporatist-authoritarian regimes in Europe and elsewhere in Latin America, Paraguay's economy and population were overwhelmingly rural, the country's industrial base was limited mostly to traditional craft manufacturing, and the business class consisted of a small group of importers and the foreign owners of extractive industries such as timber, native yerba mate tea, and quebracho extract (tannins). Under these "primitive" social conditions, corporatism took root in Paraguay primarily through the influence of the development ideologies of countries such as Argentina, Brazil, and Mexico and "only in rudimentary form, . . . evident more in the authoritarian actions of government than the number and influence of the corporations" (Miranda 1980, 23).

Notwithstanding these differences, corporatism marked a dramatic shift in the Paraguayan state's role in economic development and the degree of private economic competition and political contestation it permitted in the process of capital accumulation. The reforms undertaken by the Morínigo Administration lay the foundations for economic development policy in the forty years of Colorado-party and military rule that followed, creating a variety of public enterprises and agencies that nationalized basic services, expanded investment in infrastructure, and regulated the prices of key

commodities.<sup>34</sup> This set of political institutions, rather than the European and U.S. imperialism of the nineteenth and twentieth centuries, provided the framework for the development of Paraguay's sugar industry.

In the early twentieth century, sugarcane processing was among the few established and more powerful industries in Paraguay, and Morínigo's administration imposed a corporatist structure of organization and regulation that limited private competition and autonomous contestation by sugar mills, planters, and workers. In this period, sugar policy in Paraguay bore many similarities to the way the Mexican state regulated its industry from the 1940s until the 1980s.

Just as in Mexico, Morínigo's government in Paraguay established public regulatory organizations to manage sugarcane products: the Paraguayan Alcohol Corporation (*Corporación Paraguaya de Alcoholes*), created in 1941, and the Mixed Commission for Sugar Distribution (*Comisión Mixta de Venta y Distribución de Azúcar*), created in 1943. The former organized fifty-six alcohol distilleries into a joint public-private corporation that included all eight of the sugar mills operating at the time. It held a state-enforced monopoly on the production and distribution of cane-derived alcohol (both for consumption and use as fuel) and fixed prices for the internal market.

Similarly, the Mixed Commission organized sugar mills into a state-sponsored association, the *Centro Azucarero Paraguayo*, and "monopolized the distribution of sugar in the national territory, fixed annual quotas that were distributed among the sugar mills,

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<sup>34</sup> In addition to the two public entities created to regulate products derived from sugarcane, between 1940-48, the Morínigo administration also created the Paraguayan Meat Corporation (1944), the national Subsistence Administration (1944), the National Financial Company Administration (1947), the Directorate of Paraguayan Industries (1948), and The General Directorate of the Capital Port (1942), The State Merchant Marine (1945), The National Telecommunications Administration (1948), and the National Electricity Administration (1948) (Borda 1989; Miranda 1980).

fixed wholesale and retail prices, regulated product quality, established the harvest period (an average of 100 days per year), controlled the distribution of sugarcane's byproducts, inspected the work and production of the sugar mills, and had the capacity to impose fines for infractions" (Miranda 1980, 89)

The Mixed Commission consisted of two representatives of the Ministry of Economy and two representatives from the sugar mills, as well as two alternate mill representatives. Sugarcane planters and harvest workers were not represented on the Commission. However, Article 14 of Decree 5226 that codified the structure and functions of the Mixed Commission in 1949 guaranteed an outlet for their crop, stating "the mills are obliged to industrialize the sugarcane produce in their respective zones of influence of the producers that are habitually their providers." In turn, the decree guaranteed sugar mills a reliable source of raw materials at a beneficial price, prohibiting smallholders from engaging in household processing, stating, "In no cases will sugarcane syrup be produced within the respective zones of influence of the mills, without previous permission of the Ministry of Economy."

These two provisions enforced mutual dependence among sugar millers, who were prevented from self-provisioning their raw materials, and sugarcane farmers, who were prohibited from investing in household processing and were thus reliant on the sugar mills as their only crop outlet. The Ministry of Economy (and later the Ministry of Industry and Commerce) determined the prices received by both groups for their produce, ostensibly by accounting for production costs, the living expenses of growers, and the interests of consumers. However, the process was typically a highly corrupt one with the

sugar mill association offering bribes in order to secure favorable prices.<sup>35</sup> Sugar marketing worked through a pooling system, where each mill placed its assigned quota of sugar into a marketing pool of generic sugar and received compensation at the official price for any purchases made by sugar buyers in proportion to its individual production volume.

Just as in Mexico and Paraguay, smallholder sugarcane farmers faced clientelistic tradeoffs between economic security and political autonomy. Regulatory arrangements in both countries greatly limited the political and economic autonomy of sugarcane farmers, but also granted them subsistence guarantees that permitted the persistence of smallholder production in an industry that elsewhere was characterized by large plantation structures, a landless workforce, and highly exploitative working conditions.

However, while the corporatist PRI state convened farmers and plant workers in Mexico into strong and encompassing national organizations for the distribution of patronage, in Paraguay, rural workers unions were entirely absent and the state encouraged the formation of fragmented farmer organizations. Sugar factory workers were not represented in the Colorado-controlled Paraguayan Workers Confederation (CPT) and attempts to organize at the plant level met with state interference. Miranda cites an account of a strike at Azucarera Friedman in 1946 in Villarrica, Department of Guairá, described in the Ministry of Economy's official periodical: "The [National Department of Labor] intervenes in response to a telegram request sent by the firm's managers, not recognizing the newly formed union and ordering the resumption of the harvest and an end to the strike" (Miranda 1980, 109).

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<sup>35</sup> Author interview with sugar mill owner, Asunción, Paraguay 6/16/09. Over the 1990s and 2000s multiple press articles also allude to the famously corrupt mixed commission, though few offer details.

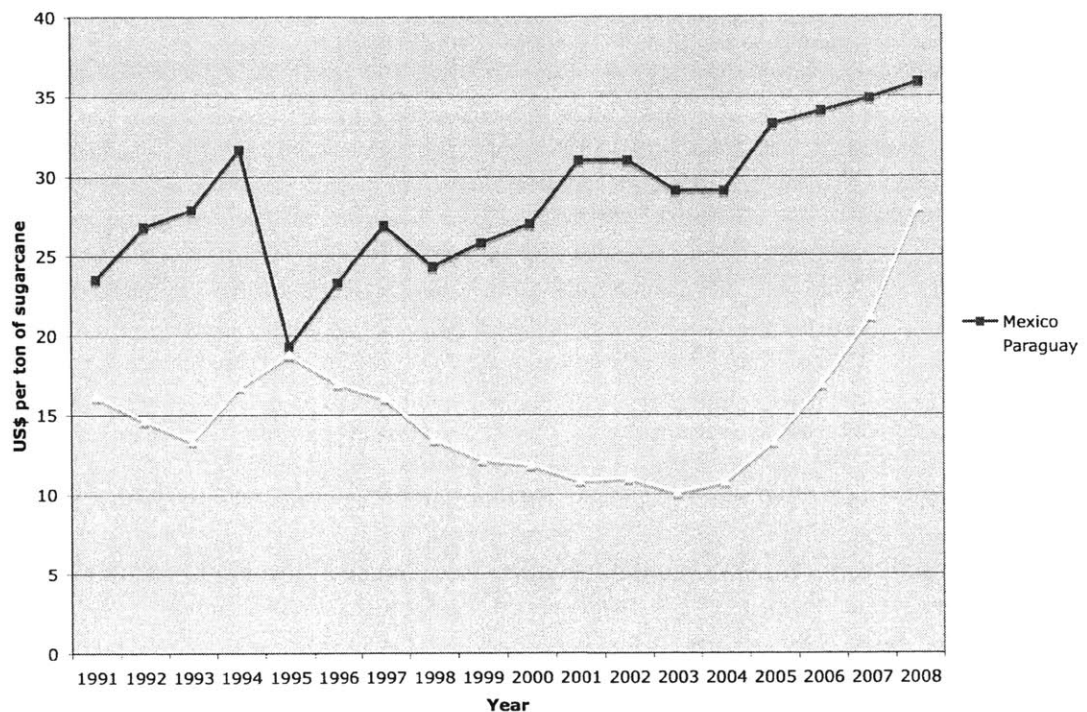
Unlike in Mexico, the Paraguayan state did not mandate that sugarcane farmers form part of a national peak organization, but instead endorsed sugar mills attempts to keep farmers organizations dependent and fragmented. Nominally national sugarcane farmers organizations, with names like the Paraguayan Cane Growers Federation and the Paraguayan Cane Growers Association, were in reality regional in scope, drawing their members from the suppliers of particular mills, rather than from a broad or encompassing swath of cane growers nationally.

Furthermore, the origin of Paraguayan sugarcane farmer organizations typically lay in the mills' top-down imperatives for coordination and control of sugarcane harvest, delivery, and sale rather than farmers' and field workers' bottom-up distributive demands and productive interests. The set of exchanges among mills, cane leaders, and cane growers structured by these organizations served to perpetuate that purpose. Mill owners ultimately controlled the pre-harvest financing and the collective funds that were composed from farmers' mandatory individual contributions and formed the main resource base of sugarcane farmer associations. These funds served as a source of patronage controlled and dispensed by sugarcane mills and allowed mill owners to easily thwart sugarcane farmers' attempts to build more unified organizations.

Attempts at federation among regional and local sugarcane farmers typically broke down because their members and leaders tended to focus more on their distributional conflicts with one another in securing a greater share of the resources available from mills and the state, rather than their distributional conflict with the mills. The historically fragmented structure of organization among sugarcane farmers in Paraguay limited smallholder sugar planters' influence over national policy. Unlike in

Mexico, Paraguayan farmers were not incorporated into national social welfare programs and have historically received much lower prices for their sugarcane, even as both countries industries entered into crisis during the 1990s (Graph 5.4).<sup>36</sup>

**Graph 5.4.** Sugarcane Prices for Mexico and Paraguay 1991-2008



Source: FAOSTAT

On the other hand, Paraguayan farmers and the mills they supplied still benefited from a captive and stable market for their sugarcane and the developmental resources that they could attract as the clients of milling elites and Colorado Party officials. The way that sugarcane farmer leaders and sugar mills mediated sugarcane farmers' access to the

<sup>36</sup> Comparable data for the two countries are only available since 1990.

national political and economic systems represents a particular instance of the broader pattern of rural power relations characteristic of Paraguay's authoritarian period.

Throughout Paraguay, peasant farmers faced a tradeoff between organizational autonomy and stable access to markets for their produce and assets such as credit, land, inputs, and farming equipment as provided by local elites with connections to the Colorado Party.

Despite their weak bargaining power and limited policy influence, smallholders, including those in the sugar industry, received substantial benefits from their clientelistic relationships to the state and the set of agricultural policies it pursued by the Stroessner dictatorship (1954-89). During the forty-year authoritarian regime, the government rewarded politically loyal campesinos while also actively and sometimes violently intervening to prevent the formation of organizations among labor and campesino groups that were autonomous of the ruling Colorado Party. It did so by institutionalizing the traditional clientelistic relationships that campesino farmers held to commercial intermediaries. The chapter's final section will explain how the forms of political and economic organization that materialized during the authoritarian period ultimately laid the background for farmers' successful insertion into international Fairtrade and organic value chains, specifically in the sugar industry.

### ***From State Clientelism to Global Value Chains in Paraguay's Sugar Industry***

The set of rural development policies pursued by the Stroessner regime had left the country with a sugar industry supplied by smallholder campesino farmers, but one that was internationally uncompetitive as the country moved toward integration with the Brazilian and Argentine economies in the post-authoritarian period. This shift in

economic development models, signaled by the signing of the Treaty of Asunción in 1991 and Paraguay's union with the Southern Cone Common Market, provoked a series of crises in the sugar industry that observers expected to end in the industry's demise. Instead, it led to sugar mills' integration into international supply chains for organic sugar, an outcome that depended in large measure on the clientelistic relationships mills held with their smallholder suppliers. The remainder of this chapter will describe this transformation, reviewing, first, how the legacy of Paraguay's authoritarian rural development shaped the sugar industry in the 1990s, second, how corporatist structures eroded in Paraguay's sugar industry and provoked an industry crisis, and, third, foreign buyers resolved this crisis by constructing supply relationships with Paraguayan mills.

*The Paraguayan Sugar Industry and the Transition from Authoritarian Rule: From Corporatism to Crisis*

During the Stroessner regime, the sugar industry enjoyed a stable and protected market. However, public support for the sugar industry in terms of agricultural research for varietal improvement, extension services, and chemical input promotion was weak. A study on sugarcane farming undertaken by the Paraguayan Center for Sociological Studies explains, "sugarcane has never been linked to the international market, and as a result has been of little interest to the state, which has not supported public research and development, and technological change has been relatively little and slow, and undertaken by private agents, rather than by the State or Ministry" (CPES 1985, 67). The study concludes that, among the selection small farmer crops studied (sugarcane, tobacco, tomatoes, cotton and soy),

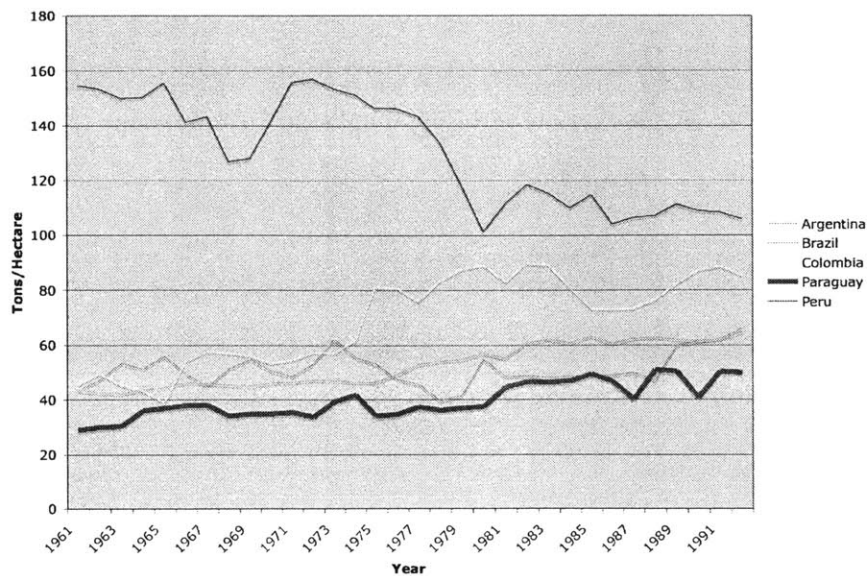
Sugarcane stands out for its weak absorption of technological change. Technological innovations have spread to a greater extent in the regions where there are sugar mills,

because of more intensive activity by the agents that offer technology. Conversely, in areas where sugarcane production is for sugarcane syrup, the technology practiced by peasant units has been less impacted by technological change, and as a consequence, continues to be supported basically in quantity and quality by the primary resources of the peasant economy [land and labor] (68).

At the same time, the study describes how traditional farming methods predominated among the small-scale farmers (less than twenty hectares) that made up the vast majority of sugarcane producers: “none of the cane growers treat their crops with chemical products, even when there are problems with weeds and crop disease such as fungal ‘carbon’ or viral ‘*masai*’ or pests such as *triptis* (mosquito) or *taladro* or *broca*.” Nonetheless, the authors pointed out, “it is notable how well the small producers know which plagues and diseases attack their crops, although none of them use insecticides to combat them.” Instead, farmers used manual removal and variety selection as the primary way to control plant disease. For example, “to control carbon, at first they tried to remove affected plants, but this didn't work, so they were obliged to eliminate the variety and seek out one that was not affected by the disease.” Farmers also employed planting methods to deal with disease, such as avoiding certain crop associations—e.g. avoiding planting maize next to sugarcane because it can infect the cane with a type of worm.

The combination of protection from international producers, weak support for productive innovation, and slow adaptation of technology meant that the Paraguayan sugar industry was highly inefficient by international standards. Throughout the twentieth century, sugarcane yields were among the lowest in the world on a per hectare basis and well below Paraguay's South American neighbors (Graph 5.5).

**Graph 5.5.** Sugarcane Yields in Paraguay and Major South American Sugar Producers



Furthermore, during the dictatorship, the distribution of public lands in Paraguay's flawed but transformative land reform had increased the size of the smallholder sector in general and specifically in the sugar industry. At the same time that corporatist regulations during the dictatorship granted sugar mills monopsony control over the market for sugarcane, they prevented mills from consolidating integrated plantation structures that would deprive smallholders of their crop outlet. The fragmentation of sugarcane production on plots of generally less than twenty hectares controlled by farmers with access to a combination of family and hired labor discouraged investment in harvest mechanization. Furthermore, the absence of a large rural proletariat, as well as landless laborers' exit option of international migration to Buenos Aires, raised harvest labor costs. Much as in Northern India, the combination of fragmented landholdings and clientelistic domination of smallholders discouraged agricultural modernization. In Paraguay, these disincentives were compounded by the reduced size of the internal

market, and through the mid to late twentieth century, little investment was made to improve agricultural or industrial productivity in Paraguay's sugar industry.

As a consequence of low sugarcane yields in the fields, low industrial yields in the factory, and relatively high labor costs, Paraguayan sugar mills faced elevated costs for raw materials in relation to other producers around the world, paying in 2002, an average of \$292 in sugarcane costs per ton of processed sugar compared to an average of \$62 per ton of processed sugar in Brazil (Table 5.1).

*Table 5.1.* Sugarcane Costs per ton of Processed Sugar (2002).

Lowest Third			Middle third			Highest Third		
Rank	Country	US\$/Ton Sugar	Rank	Country	US\$/Ton Sugar	Rank	Country	US\$/Ton Sugar
1	Brazil	69	16	Kenya	198	31	Paraguay	292
2	Australia	97	17	Argentina	205	32	Sri Lanka	301
3	Thailand	108	18	Mali	205	33	Venezuela	326
4	Bangladesh	126	19	Sudan	206	34	Malawi	341
5	Cote D'Ivoire	131	20	Colombia	216	35	Trin. & Tob.	344
6	Nicaragua	143	21	Pakistan	216	36	Philippines	353
7	Morocco	148	22	Indonesia	227	37	Barbados	367
8	India	159	23	China	239	38	Nepal	399
9	Bolivia	160	24	Dominican Rep.	239	39	Mauritius	426
10	Honduras	164	25	El Salvador	240	40	Jamaica	429
11	South Africa	164	26	Egypt	241	41	Uruguay	452
12	Mozambique	182	27	United States	243	42	Japan	1479
13	Belize	187	28	Mexico	247			
14	Peru	194	29	Costa Rica	262			
15	Panama	196	30	Zimbabwe	278			

Source: International Sugar Organization 2002

This deep industrial efficiency gap, as well as insurmountable scale gaps, prevented Paraguayan producers from competing in the external or global commodity market with the Argentine and Brazilian industries. When the country joined the Southern Cone Common Market (MERCOSUR), in 1991, Paraguay's sugar industry was entirely dependent on the exceptional status of sugar in the free trade agreement, which

allowed member countries to retain protected sugar markets and set tariffs at 30% for refined sugar.

At the same time that Paraguay moved toward regional economic integration, the corporatist arrangements that had restricted competition among domestic sugar mills for Paraguay's limited internal market began to erode with the fall of the dictatorship and the introduction of supermarket retail into Asunción, Paraguay's capital and largest consumer market. Previously, the *Comisión Mixta* sold sugar as an undifferentiated commodity at a publicly mandated price that was set to cover the costs of the least efficient mills. Production quotas limited sugar mills' incentives to expand production volumes, and processors had no incentives to differentiate their sugar through branding or improving quality by meeting specific consumer demands.

This arrangement especially benefited *Azucarera Paraguaya*, Paraguay's largest and probably most efficient sugar mill, which received the largest quota and captured the largest margin in the stagnant sugar market. But beginning in 1989 and 1990, *Azucarera Iturbe*, Paraguay's second largest mill, began to provide sugar directly in small packages to new supermarket chains under its own brand, rather than selling exclusively to industrial customers or wholesale retailers through the pooling system of the Mixed Commission. By providing sugar at lower prices than those mandated by the Mixed Commission and selling directly to supermarkets, *Azucarera Iturbe* was able to expand its production at the expense of the other sugar mills, who soon followed suit. As a result of its commercial strategy and the competition it created among mills for the new retail market, *Azucarera Iturbe* exited the industry's organization in the early 1990s, the *Centro Azucarero Paraguayo*, and has since maintained tense relations with its members.

At the same time that mills began competing with one another for the internal market, the sugar industry came under pressure from international competition. While the sugar industry to this day remains nominally protected from the Brazilian and Argentine industries by a 30% tariff, Paraguay's international borders were weakly enforced after the mid 1990s. This has been particularly true after currency devaluations in Brazil and Argentina in 1999 and 2001 greatly increased the already substantial cross-border price differential. Calls to staunch the flow of "contraband" sugar have come with increasing frequency from members of the Centro Azucarero Paraguayo, even among media allegations that it is the inefficient sugar mills themselves that are responsible for the smuggling. In a classic case of tariff-supported rent-seeking, a number of mills have allegedly found it more profitable to illegally import cheaper Argentine sugar, avoiding both tariffs and value added taxes, and re-label it as their own production for sale at domestic prices, rather than to produce their own sugar.

Especially after 1999, the volume of cheaper smuggled sugar halted sales of Paraguayan mills in the domestic market, and created liquidity problems for them. Sitting on large inventories of higher-cost sugar, mills lacked the liquidity to pay sugarcane growers for the cane they had delivered. As mills reduced and delayed payments, or in some cases paid growers in bags of sugar for barter rather than cash, conflicts erupted throughout the industry as growers organizations began to block factory gates to demand payment.

In the context of formal and de facto regional economic integration, government officials had resigned themselves to continued stagnation in Paraguay's sugar industry and its eventual demise, along with the demise of the cotton industry. Those within

business and government who were intent on closing the door to Paraguay's authoritarian past deemed these two smallholder industries both economically and politically backward. The product of populist and clientelist development policies, these industries would soon disappear through the process of regional integration, democratization, and the expansion of modern agribusiness and mechanized, high-input agriculture through multinational investment in the soy industry. A sugar mill owner described the pessimism surrounding the sugar industry by the end of the 1990s, relating the following conversation with a the Minister of Industry and Commerce: "When we went to the government to ask for support in the transition, the Minister said 'look, you are a good family and you have done well with the sugar industry, but it is over now. We can pay you what your factory is worth in scrap metal, but you should find something else.'"<sup>37</sup>

Yet, the industry not only survived, but also rapidly expanded over the course of the 1990s and early 2000s. As the next section will describe, in response to the limited size, volatility, and insecurity of the internal market in the 1990s, a number of mills embarked on an export-oriented strategy of expansion. With secure and stable control over a supply of sugarcane that was easily certifiable as organic and with investment, training, and information from natural foods buyers, a number of sugar mills established themselves as the first international suppliers of certified organic crystallized sugar. Later, in the late 1990s, the prevalence of smallholder production attracted Fairtrade buyers to Paraguay and began to alter the patterns of organization and power relations within sugarcane farmer organizations.

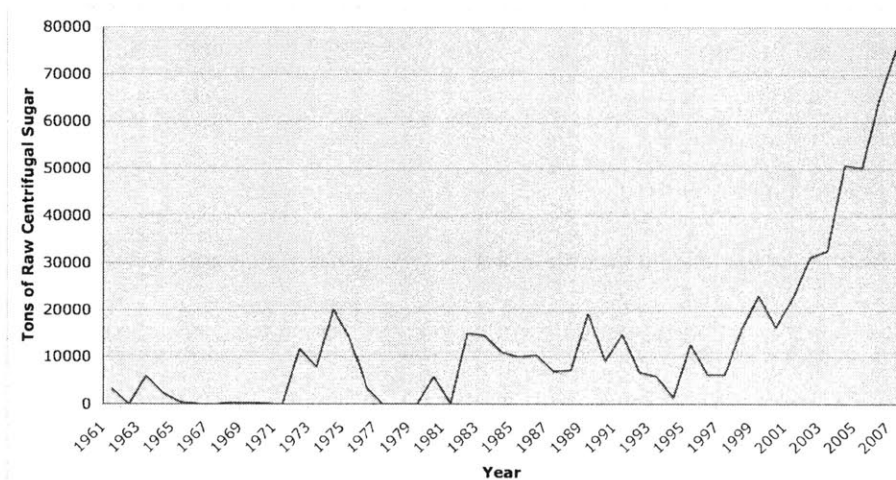
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<sup>37</sup> Author interview, Asunción, Paraguay, 07/08/09.

*From Domestic Crisis to Export Value Chains and Global Niche Markets*

Especially since 2003, the Paraguayan sugar industry has undergone a transformation from its inward-focus and dependence on government protection to the rapid expansion of its export volumes (Graph 5.6). In the process, the country has become the world's largest producer and exporter of organic and of Fairtrade-certified organic sugar. Furthermore, its sugar industry has shifted from the cartel structure illustrated above to one typical of buyer-driven value chains described in the contemporary literature on globalization.

**Graph 5.6.** Paraguayan Raw Sugar Exports 1961-2007



Source: FAOSTAT

OTISA sugar mill, in the traditional sugarcane-syrup-producing region of Arroyos y Esteros, was the first to begin certified organic sugar production in 1994. Its owner, Paraguayan industrialist Eduardo Felippo, has long held the vice presidency of the Paraguayan Industrial Union (UIP) and holds close ties to the Colorado Party. He made his fortunes securing government contracts for the construction of the electrical

transmission grid tied to the construction of the Itaipú hydroelectric dam in the 1970s. At that point, demand had been growing for ethanol in Paraguay along with the imports of Brazilian alcohol-powered vehicles, and the state-run Paraguayan Alcohol Administration (APAL) intended to increase its purchases of ethanol.

Felippo constructed a mill in Arroyos y Esteros in 1989 to take advantage of his government connections and exploit the large local supply of sugarcane syrup (a raw material for the production of ethanol). However, as manufacturing of ethanol-powered cars collapsed in Brazil, global market conditions made ethanol uncompetitive with petroleum, and APAL was privatized in Paraguay (1989), Felippo was left without a stable or secure market for the produce of his newly acquired plant. Though he soon converted the plant into a sugar mill, as described above, the domestic market became increasingly competitive during the 1990s and unable to absorb the full volume of sugar produced by domestic industries.

This was also the time when the market for organic foods and especially organic processed foods began its rapid expansion in advanced countries. Felippo encountered organic products for the first time when traveling in Europe in the early 1990s, where he learned that a special market existed for “natural products” that were produced “without chemicals.” As explained above, Paraguayan sugarcane farmers had never adopted the use of chemical inputs and continued to rely on labor-intensive production methods (such as manual weeding and pest control) that were compatible with international organic production standards. The legacy of corporatist sugar policies tied these sugarcane farmers and their organizations to particular mills, essentially as part of captive supply chains, granting mills control over a large supply of easily certifiable organic raw

material. Because Paraguay's milling capacity could be redirected from the saturated domestic market to the international market with relative ease, the country occupied a privileged position for the expansion of a new market niche for organic certified crystallized sugar.

Seeing a potential marketing opportunity, but with virtually no understanding of the process and standards involved in organic certification, Felippo began promoting his company's sugar as organic through advertisements in food trade journals. This was the same moment that U.S.-based Cascadian Farms and Swiss-based Pronatec began their search for suppliers of organic crystallized sugar. Paraguay's transition to organic sugar exports began with the purchase of 40 tons of organic sugar in 1995 from OTISA sugar mill by Cascadian Farms, whose buyer had heard of the mill from an organic advocate and certification consultant in Argentina, who had seen OTISA's advertisement.

The primary advantage that OTISA held was its size. Felippo had constructed the mill by purchasing processing equipment considered obsolete in Brazil for not reaching efficient scale. It was, however, appropriate for Paraguay's small internal market, and for the small volumes of organic sugar Cascadian Farms initially demanded. OTISA produces 10,000-15,000 tons of sugar in a year, compared to the largest mill in Paraguay which produces 40,000, and Paraguayan and U.S. mills that produce in the range of hundreds of thousands of tons of sugar.

A second important advantage OTISA had was a supply base of hundreds of dependent small farmers, typically owning and farming less than twenty hectares of land, with few other crop outlets or economic options. This meant that OTISA could begin to supply organic sugar without having to invest in its own organic sugarcane production.

Moreover, traditional agricultural practices and an abundance of fallow land among its suppliers also greatly facilitated OTISA's transition to organic production. Sugarcane farmers that could document that their land had lain fallow for a period of three years qualified for immediate certification of those parcels. OTISA would be able to supply organic-certified sugar a year after putting that land into production. Peter LeCompte, Cascadian's buyer explained,

It really was a subsistence-dominated area. The farmers were basically slash and burn. They planted crops for themselves and maybe a hectare or so of sugar cane to sell for cash to the mill, or if not to the mill to the *caña* [cane liquor] producers, which paid them nothing . . . What made the organic sugar thing work, is that what the mill offered them \$10 more a ton (not sure what the figure was) but at the time it was a lot, when your income is so small this makes a big difference.<sup>38</sup>

The majority of the mill's other suppliers could immediately enter transition periods for organic certification of one to three years, depending on their cropping history. Paraguayan farmers typically do not make use of agro-chemicals for sugarcane farming, except for those with larger amounts of land, who relied on hired rather than family labor, and who could afford to use herbicide to reduce the labor costs associated with manual weeding. Even these farmers rarely if ever used chemical fertilizer or pesticides with sugarcane. Paraguayan farmers have, however, typically used these products with cotton production, due to the legacy of agricultural extension and input-promotion programs during the authoritarian period. The 1990s saw steep declines in cotton prices and many growers abandoned the crop, permitting them to transition to organic certification more quickly. According to LaCompte, "there was so much organic by default and it wasn't hard to go through field histories to see that farmers couldn't

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<sup>38</sup> Author interview. 3/2/11.

afford herbicide and pesticide, so it wasn't hard to come up with the 1,000 hectares we needed to run the first organic campaigns.”<sup>39</sup>

Because Cascadian paid for OTISA's organic certification, and because the mill would not devote any of its own land or capital to sugarcane production, it entered organic production with very low risks. Cascadian's buyer contracted with U.S. certifier Oregon Tilth to provide the certification and required that their inspector visit each of the 150 farms that would initially provide organic sugar cane.

To ensure compliance with organic rules, and facilitate the certification of a large number of small growers, the mill established an internal inspection and certification office. In doing so, the mill centralized the information and paperwork regarding its growers and their practices. The mill banned pre-harvest burning, which was a very common practice in Paraguay, as it is in other sugar-farming regions, and prohibited the production of cotton and other crops that Paraguayan farmers typically produce with pesticides and fertilizer, such as pineapple and papaya. The establishment of the mill's inspection service and enforcement of organic rules thus further increased its monopsony power and enhanced a pattern of monocrop production already prevalent among its suppliers. The mill's control over its growers organic certification and access to organic markets, underscored farmers' economic dependence on the mill even as they gained access to a higher value, more dynamic market.

According to Cascadian's buyers, the company “did not want to be in the sugar trading business, they just wanted a supply of sugar to make icecream and jam.” After developing this supply for five years, they sold their supply contracts and inventories with Paraguayan producers to Wholesome Foods, which had purchased Pronatec USA.

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<sup>39</sup> Author interview. 3/2/11.

As Cascadian and then Wholesome's organic sugar demand grew, they ran into related quality and scale problems with their original suppliers. Beyond organic and Fairtrade characteristics that are certified through a potentially subjective processes, the additional quality characteristics of sugar are fairly basic and straightforward compared to a product with a wide variety of quality criteria, like coffee. Wholesome essentially needed a supply of organic sugar that reliably avoided contamination during processing.

Unlike white sugar, organic sugar is marketed and consumed in its raw state—after its initial processing and without additional refining. This is not typically the case for sugar purchased by European or American sugar refiners or marketers and requires greater care from sugarcane mills because they must remove as much particulate matter from their sugar before it is processed. This requires clarifying the sugarcane juice as much as possible before it is reduced and crystallized, but also minimizing the wasted sugarcane juice in order to avoid decreased sugar yields. Furthermore, some of the 'flocculants' used to precipitate particulate matter out of the sugarcane juice in conventional sugar milling are not permitted in organic production, and organic mills had to learn how to clarify their cane syrup with a more limited set of inputs. Moreover, the architecture of small, undercapitalized mills like OTISA provided another major source of sugar contamination. Their clarifying, crystallization, centrifuging, and packing operations were housed in open structures that did not provide adequate physical protection from insect and animal contamination, and the plant was not equipped with magnets to remove metal. Initial shipments of sugar contained fragments of rust, metal, fiber, and plastic as well as wasps and ants.

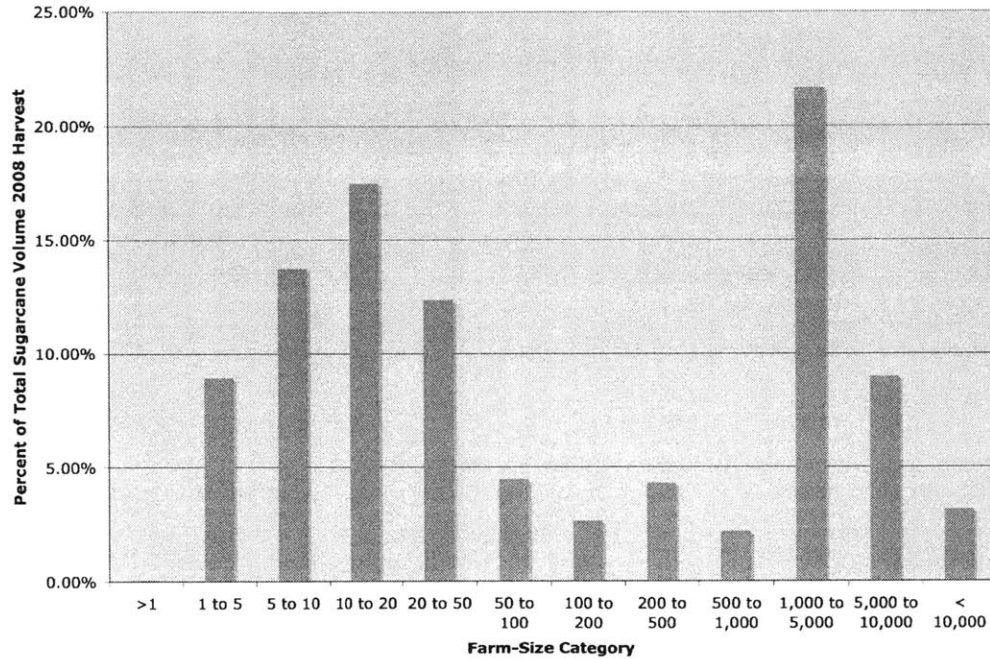
To guarantee their compliance with generic sugar quality and specific organic standards, Wholesome built relationships with larger mills that had greater technical knowledge and the resources to invest in equipment and consulting services to meet quality requirements. Wholesome first developed a second supplier relationship with a small mill, Censi & Pirotta. However, it ultimately established a long-term supply relationship with Paraguay's largest mill, Azucarera Paraguaya (AZPA), which entered organic production after Wholesome's sugar demand reached a substantial portion of the mill's total production volume. About half of the mill's annual production volume of approximately 70,000 tons was certified organic in 2007, and Wholesome is their single largest client, buying eighty percent of that production.

Since it began exporting organic sugar, AZPA has invested in expanded milling capacity, and acquired a variety of additional food-safety certifications, including the certification of the American Institute of Baking and certification of its Hazard Analysis Critical Control Point or HACCP food safety plan. With these certifications and investments, Wholesome is able to reach larger and more demanding markets, for example, selling AZPA's sugar to major food manufacturers such as General Mills for use in the breakfast cereal and canned tomato products made by Cascadian Farms and Muir Glenn Organics brands.

Wholesome's initial success in sourcing from Paraguay and selling organic-certified sugar in the U.S. prompted Imperial Sugar to purchase Wholesome. In turn, the purchase encouraged Imperial's major U.S. competitor, Flo-Sun, to enter the organic market under its Florida Crystals brand. It developed its supply base with Paraguay's

second largest sugar mill, Azucarera Iturbe, which has made similar investments to expand its milling capacity and accommodate increasing external demand.

**Graph 5.7.** Distribution of Paraguayan Sugarcane Production Volume by Farm-Size Category 2008



Even as the supply industry has expanded from small mills to larger mills, smallholders have preserved their place in the industry. New plantation production in Paraguay (owned by sugar mills and closely affiliated large growers) accounts for a portion of the new sugar cane supply consumed by exporting mills. However, even in 2008 medium and smallholders still accounted for the majority of the industry, with farms less than 100 hectares accounting for ninety-seven percent of sugarcane farms, fifty-nine percent of the area harvested, and fifty-seven percent of the production volume (MAG 2008). Small farms of less than twenty hectares accounted for forty percent of Paraguay's total sugarcane production volume (Graph 5.7).

The role of smallholders in Paraguay has distinguished its industry from the other major sources of organic sugar that have developed as the industry has grown and larger U.S. companies have entered the market. As large food companies have moved into organics, they have established supply contracts with large mills like Brazilian Grupo Balbo's Usina São Francisco. Located in São Paulo, the company began to experiment with organic production the late 1990s and has invested \$4.5 million since 1997 to launch its organic sugar brand, Native. The company now produces sugarcane on a plantation of 13,000 hectares of organic-certified land and supplies companies like Whole Foods, for its private label sugar, and Newman's Own Organics.

The advantages of backwardness for Paraguay's sugar industry have rapidly eroded as the industry has grown and quality and volume demands have increased and as larger sugar producers like São Francisco have gained interest in organic sugar. Larger buyers typically purchase sugar through brokers and maintain arms-length transactions with their suppliers. The close relationships with buyers that Paraguayan mills maintained were a function of their low capacity and the need for close coordination in very early stages of development in the industry.

Under these circumstances, the presence of smallholders in Paraguay's industry has provided a second anchor for the attention of buyers like Wholesome. Fairtrade-certified sugar has been the fastest growing and most profitable portion of the company's market niche, both as retail sugar and as inputs for Fairtrade composite foods like chocolates and ice cream. Moreover, a number of small, mission-driven or self-professed social-entrepreneurial companies are specifically dedicated to the promotion of 100% Fairtrade certified products; these include companies like Equal Exchange in the U.S.,

Canada’s La Siembra Cooperative, France’s Alter Eco, or Switzerland’s Pronatec. For these companies sourcing from smallholders provides a large portion of their central value proposition to consumers. Furthermore, double certification—i.e. Fairtrade and organic—gives their products greater consumer appeal and permits these companies greater revenues. Paraguay’s remains the only industry that produces organic-certified crystallized sugar from sugarcane grown by small farmers.

*Table 5.2. Paraguayan Sugar Mills by Production Volume*

Mill	Rank Among Exporters	Production Volume (2007)	Share of Paraguay’s Total Volume	Type of Sugar	Buyers
AZPA	24	71,909	40.02%	Conventional, Organic, Fairtrade	Wholesome Sweeteners, Domestic
Iturbe	25	36,496	20.31%	Conventional, Organic, Fairtrade	Florida Crystals
Freidman	-	28,693	15.97%	Conventional	Domestic
Guarambaré	-	11,947	6.65%	Conventional	Domestic
OTISA	73	9,718	5.41%	Conventional, Organic, Fairtrade	Multiple Fairtrade Companies
La Felsina	105	9,220	5.13%	Conventional, Organic, Fairtrade	Pronatec
Censi & Pirotta	109	8,460	4.71%	Conventional, Organic, Fairtrade	Multiple Fairtrade Companies
Insama	170	3,253	1.81%	Conventional, Organic	-
Total		179,696	100%		

These companies have consequently created supply relationships with Paraguay’s smaller mills and pushed its larger mills, specifically AZPA and Azucarera Iturbe to retain relationships with smallholders and pursue Fairtrade certification (Table 5.2). However, as described above, Paraguay’s legacy of authoritarianism and clientelist relations between sugarcane growers and their leaders, mills, and the State has meant that the reality of Paraguayan sugarcane farmer organizations did not coincide with the ideal

marketed by Fairtrade companies to socially conscious consumers. The responses of sugarcane farmers and their organizations to Fairtrade certification and their integration into organic sugar export value chains are the subject of the next two chapters.

### ***Conclusion***

This chapter has contrasted the globalization of the commodity sugar industry with the expansion of global market niches for organic and Fairtrade sugar. It began by recounting the weakening of the national regulations that governed the trade and development of the sugar industry in the twentieth century. In advanced countries, large sugar companies response to sugar's increased globalization recalls the concentration and vertical integration that marginalized small farmers during the sugar industry's historical development. However, in response to the stagnation of commodity sugar, other companies sought to differentiate their products based on their social and environmental attributes.

The chapter then described how the backwardness of Paraguay's sugar industry permitted it and its small farmers to benefit from these new market niches. In contrast to such former sugar colonies, the territory that currently comprises Paraguay occupied a peripheral role in the colonial economy of the Spanish Empire and in the global economy of the nineteenth century. Unlike the sugar industry in other colonial regions, Paraguay's export commodity industries never grew large enough to attract a massive influx of (coerced) labor, capital, and processing technology. Instead, a domestic sugar industry consolidated in Paraguay over the twentieth century, under the influence of the Paraguayan Colorado-Party State and the policies it pursued to construct a corporatist and clientelist national order. The relative backwardness of the industry in Paraguay and the

content of these policies prevented the formation of large sugar plantations and a landless rural labor force.

While elsewhere the sugar industry was global from its origin, Paraguay's sugar industry, and its smallholders, were meaningfully inserted into the global market only after the 1990s. During this time, consumer markets for food and agricultural goods became increasingly differentiated, and niche markets for natural, organic, and Fairtrade foods appeared and expanded. This permitted Paraguayan sugar mills to compete internationally, despite their initially limited size and efficiency.

The case of Paraguay shows that international links do not inevitably marginalize smallholder farmers. Even in an industry like sugar, which is dominated by large powerful companies and where demand has historically been highly commodified, specialized niches have developed that require labor-intensive and flexible production. The production requirements of organics initially granted a comparative advantage to small-scale mills, and attracted international investment to Paraguay. Moreover, the legacy of the sugar industry's corporatist sugar regulation preserved a space for smallholders within the sugar industry as it turned toward external markets.

This legacy, however, also has its costs for small farmers. Two decades after Paraguay's democratization and the country's tentative embrace of globalization, the unique but tenuous possibilities for its small farmers reflect the ambiguous and mixed effects of state agricultural policy in the authoritarian period. On the one hand, peasants' and small farmers' links to the state and market provide opportunities for deeper commercial and productive integration with dynamic agricultural markets. On the other hand, the nature of those links do not easily facilitate the sorts of learning, productive

upgrading, and cooperation, and the formation of organizations that would permit small peasant farmers to integrate into those markets under more beneficial and stable terms.

The assistance Fairtrade organizations provide is ostensibly geared toward addressing these problems and improving the representativeness and effectiveness of small farmer associations and cooperatives. The next two chapters compare the development of two Paraguayan sugarcane farmers associations that received organic certification in the 1990s, demonstrating the conditions under which farmers best leverage the opportunities of Fairtrade for their own development.

## **Part III: Global Value Chains and Local Development in Paraguay's Sugar Industry**

### **Chapter 6. Monopolistic Clientelism and Dependent Upgrading in Iturbe**

By examining the contemporary global sugar industry, the previous chapter argued that globalization has generated new constraints as well as new opportunities for small farmers in developing countries. A number of food companies in advanced countries have responded to the stagnation of commodity sugar markets and to new consumer demands by promoting niche markets for organic and Fairtrade sugar with attributes that favor small-scale production. However this view from the top presents an incomplete picture of globalization and its consequences for small farmers. It fails to take into account how variation in local productive and power relations affect developing-country farmers' ability to meet new demands and take advantage of new opportunities in global markets. It also leaves unexamined how insertion into global value chains alters these variables.

As Paraguayan sugar mills joined international supply chains, they abruptly ended the conditions of economic isolation and insularity in which their industry developed. Yet, as in many developing countries, Paraguayan farmers did not confront the challenges of globalization with previously accumulated social capital or developmental relationships with the state, private business, or civil society. Instead, they were enmeshed in patron-client relationships that subordinated their interests to those of their leaders and their mills and limited their freedom to advance their political and economic interests.

This chapter examines the case of the *Asociación Cañeros Orgánicos de Iturbe*, and demonstrates how a legacy of monopolistic clientelism compromises smallholders' ability to take advantage of new economic opportunities outside their communities. Historically, economic development peaked in the region of Iturbe in the first half of the twentieth century, during the period of corporatist State building that immediately preceded the Stroessner dictatorship. Since then, the local economy has depended on the operation of a single sugar mill, which commanded relations with the region's small farmers through its control of a single sugarcane farmer's organization, the *Asociación Agrícola Cañeros del Sur*, which provided farmers' main vehicle for political and economic action. Consequently, Iturbe's growers occupied a highly dependent position when the local mill pursued its transition to organic sugar production, and their organization initially failed use new Fairtrade resources to pursue upgrading that would enhance their autonomy from the local mill.

Over time, however, the new financial resources provided by Fairtrade certification provoked distributional conflicts that split the organization in two, and competition among the new organizations has subsequently driven organizational democratization. This has raised new expectations among growers about the performance of their organizations its leaders, driving improved responsiveness to sugarcane farmers in the region.

The chapter begins by describing the origins and functioning of monopolistic clientelism in Iturbe during Paraguay's authoritarian period. It then describes the trajectory of relations between growers, their leaders, and the local mill, as the region became a major exporter of organic sugar in the 1990s and early 2000s. The case shows

how growers' responses to their insertion into an international supply chain and inclusion in the Fairtrade system have been continually shaped by the legacy of external control.

### ***Iturbe's Sugar Industry and Monopolistic Clientelism***

Iturbe is a town of population 4,475, located 215 km from Paraguay's capital, in the extreme southwest of the department of Guairá, and near the Tebicuary-mi River. Currently, the department of Guairá forms the heart of Paraguay's main sugarcane-farming area, and Iturbe's growth and history are linked closely to the development of sugarcane milling and planting in Paraguay. As late as 1867, the principal areas of sugarcane production were disbursed throughout northern Paraguay along with small-scale processing industries that produced raw sugar (*raspadura*), sugarcane syrup, and cane liquor. Those industries resided in areas that currently comprise the departments of Cordillera and San Pedro, and Caaguazú, and near the capital (Friedmann 1966, 243-44). However, by 2008, Guairá produced 38.5 per cent of the Paraguay's sugarcane and the department is home to the country's three largest sugar mills and its largest alcohol distillery, belonging to the state-owned fuel producer, Petroleras Paraguayas (USAID/Paraguay Vende 2010). This concentration in Paraguay's sugarcane plantings occurred in the early twentieth century, as the Central Paraguayan Railway Company extended its track through the department of Guairá, linking Asunción to the Argentine border in southern Paraguay. This infrastructure project encouraged the country's largest industrial-scale sugar factories to locate in that department in order to take advantage of lower sugarcane transport costs.

Guairá's capital, Villa Rica received its rail link in 1891 and by 1894 the rail company constructed stations in Tebicuary, Borja, Iturbe, Maciel, and Yegros—areas that currently form the Paraguay's primary sugarcane farming areas. Following this development, in 1919, the Banco Mercantil and Gomez & Cia., an import-export company in Asunción, founded *La Azucarera Paraguaya* (AZPA) as a joint stock company and installed Guairá's first sugar mill near the town of Tebicuary and along the river of the same name. In the first half of the twentieth century, AZPA operated daily train service on the Central Paraguay Railway's lines between Tebicuary and Iturbe, transporting sugarcane to the factory that producers delivered to intermediate train stations by ox cart (Schurz 1920, 51). Currently, the Paraguayan Bosch family owns AZPA's sugar mill, which has retained its position as Paraguay's largest sugar and ethanol producer and is now also the largest sugar exporter in the country. The mill now forms part of a privately held group of agro-industrial and manufacturing enterprises, that includes a transport and logistics company, a processed foods manufacturer and marketer, a plastics and packaging manufacturer, an import company, alcohol and yeast manufacturers, and interests in the local commercial subsidiaries of Argentine Candy manufacturer Arcor and Praxair, the U.S.-based producer of industrial gases.

Hungarian immigrant and industrial entrepreneur Jacobo Friedman founded *Azucarera Friedman*, in Villa Rica, in 1910. Asunción import-export merchant Ramón Bonhevi founded *Azucarera Nacional* in Iturbe in 1917, in order to compete for the supply of sugarcane that had grown rapidly along the rail lines stretching between Iturbe and Tebicuary (Friedman 168). Jacobo Friedman's son, Egon, purchased *Azucarera Nacional* in 1946 and renamed it *Azucarera Iturbe*. The Friedman family still owns both

companies, which are respectively Paraguay's third largest sugar producer and second largest sugar and ethanol producer and exporter. Since the installation of these sugar mills in the early twentieth century, farmers in Iturbe have relied almost exclusively on sugarcane as a cash crop and depended on the region's sugar mills as their primary buyers.

During this period, *Azucarera Iturbe*, like other mills in Paraguay, established a variety of measures to safeguard its control over the raw material in its vicinity. First, it secured reliable flows of sugarcane by establishing credit relationships with its suppliers. In Paraguay, sugarcane is farmed on a five-year cycle that involves large the upfront, fixed costs of clearing and preparing land; correcting soil ph and fertility; securing, transporting, and planting seed cane; and weeding new cane fields. After the first harvest, the perennial crop returns annually and generates much lower production costs, although yields tend to decrease with each year as well.<sup>40</sup>

Mills such as *Azucarera Iturbe* and AZPA have typically provided their suppliers financing to cover soil preparation and planting costs, as well as fertilizer and seed for new sugarcane varieties on credit. Once mechanized transport and farming equipment came under common use in Paraguay, mills have also provided tractor services for soil preparation and financing to cover the costs of transportation (trucking), as well as transportation infrastructure (e.g. the winches that farmers use to load their harvested sugarcane onto trucks). Mills deducted the costs of these inputs and services from the final payments they made to their suppliers. These credit and commercial ties facilitated

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<sup>40</sup> The German Technical Assistance Corporation (GTZ) estimated that, given the relative prices of 2008, organic farmers must invest 40 percent of the total production costs in the first year of production in activities such as soil preparation, preparation of seed cane, and inputs such as manure and slaked lime (GTZ 2008).

the limited investment in new agricultural technology (i.e. new sugarcane varieties, the use of fertilizer and other chemical inputs, new farming practices) pursued by the region's smallholders (CPES 1985).

These exchanges operated without formal contracts, forming instead the basis of patron-client relationships that tied growers to particular mills. Even if the Paraguayan legal system had been prepared to enforce the contracts entered into by rural actors, a large proportion of the mill's smallholder suppliers farmed on state-owned lands and held land rights with varying degrees of formality, meaning that land could not easily be used as collateral. The system provided imperfect protection for the mills, because it was open to cheating by farmers who were located in between various sugar mills and who could accept credit from one sugar mill and then sell to another.

Sugar mills, like *Azucarera Iturbe*, also relied on the State to enforce their interests vis-à-vis their suppliers. As described in Chapter 5, the corporatist regulations introduced by the Authoritarian government of Higinio Morínigo and retained by the Stroessner regime, reinforced the exclusivity of these relationships and mills' monopsony power over their suppliers. Decree 5226 passed in 1946, prohibited smallholders within the area of influence of sugar mills from owning processing equipment or engaging in household processing, and obliged them to plant and sell sugarcane to the mills located near their communities. Under this set of regulations, *Azucarera Iturbe* built a set of monopolistic and clientelist ties to its suppliers by organizing them into a single, coopted producers association.

As its principle mechanism of control, the mill maintained an official supplier roster (*lista de censo*), which also served as the membership list for the local sugarcane

farmer association. In the system, which persists to this day, each grower is identified by a member number (*número de censo*), which permits him to access processing quotas and schedule delivery times with the mill. Though not formally recognized, the census number also traditionally permitted growers to act as intermediaries by purchasing cane at a discount from growers that did not hold census numbers, and selling to the mill at the official price established by the sugar industry's Mixed Commission. Similarly, young cane growers have traditionally sold sugarcane through their fathers until they are able to secure a census number of their own or until their fathers retire and they can 'inherit' his census number.

Different associations have organized growers over time in Iturbe. The mill founded the current association's precursor, *Asociación Agrícola Cañeros del Sur*, in 1961, near the start of Paraguay's 35-year anti-communist dictatorship and in the wake of conflicts between the sugar mill and the association that existed before that. According to one of its leaders, since its origin *Asociación Cañeros del Sur* "favored the industrialists criteria" and "subjugated the producers in the name of fighting communism."<sup>41</sup> The association's bylaws explicitly limited its autonomy, making membership in the organization mandatory for sugarcane suppliers and prohibited anyone who was not on the official suppliers list from joining or holding office in the association.

This permitted the mill to intervene in the politics of the association by removing growers from its supplier list (*decensar*) when they challenged the mill's interests. For example, one of the association's current leaders recounted, "before, I was in the executive committee, 18 years ago. I denounced the factory in the congress for not paying the producers. I went with a member of the chamber of deputies for support, and the

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<sup>41</sup> Author Interview. January 2007, Iturbe, Guairá, Paraguay.

factory lost a development grant from Italy because of it and it hurt them a lot. The association expelled me because of it [*me decensaron*].<sup>42</sup>

This type of external political control of private organizations was common during the Stroessner dictatorship and pervasive within the Colorado Party's local grassroots organizations, the *seccionales* and *subseccionales*. The Party leadership worked to limit the amount of internal contestation in these organizations by drawing up lists of candidates ahead of time and submitting these nominations for ratification to local organizations. Rather than permit open electoral challenges, incumbent leaders of local party organizations typically coopted their challengers by bargaining and conceding positions to them on their executive committees (Hicks 1971, 104; Nichols 1969).

The internal politics of private voluntary organizations followed a similarly dependent pattern. Paraguay's civil code required private organizations to register and receive official public recognition (*Personería Jurídica*). Since 1981, the General Office of the Public Registry, within the Ministry of Labor and Justice, has provided this recognition (Pettit 2005, 503). Prior to that time, a variety of public agencies granted associations official recognition, depending on the nature of their activities. This required new groups to submit the names of their leaders and members, along with bylaws (*estatutos*) and founding documents (*acto constitutivo*) that met the Civil Code's requirements for the establishment and functioning of private associations.

The requirement limited the autonomy of farmer organizations in two ways. First, as with any organization, when a farmer association's activities became political or when Colorado party figures found the composition of its executive committees threatening or inconvenient, they could exert pressure to have official recognition of the organization

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<sup>42</sup> Author interview. August 2008, Iturbe, Guairá, Paraguay.

withheld, making the association's activities illegal (Lewis 1980, 110). One of the association's current members recalled that during this period, "the association didn't really have much of a function, because it was during Stroessner's time. If you messed around you would get the belt [*si macaneabas te daban el cinto*]. If you talked with three or four people at a time that was considered 'anti-government,' so there wasn't much activity in the association."<sup>43</sup>

Second, preparing such documents required not only Spanish literacy, but also knowledge of bureaucratic and legal procurers or access to the services of a lawyer or notary (*escribano*). These requirements made campesinos—whose primary language was Guaraní and whose average educational attainment was generally limited to several years of primary schooling, dependent on outside groups to receive formal recognition operate freely without the possibility of repression.

The national authoritarian political context encouraged top-down accountability in civil associations in general, the top-down origin of the *Asociación Cañeros del Sur* in particular meant that it functioned primarily to serve the mills interest in maintaining its control over the local supply of sugarcane and (to a lesser extent), to coordinate harvest, transport and delivery with its multiple growers. Moreover, the mill's control of the organization's resources and influence over its leaders curtailed its potential function as a representative of growers' interests. The mill deducted growers' contributions to the association automatically from its payments for the sugarcane they delivered and deposited the funds into an account that the mill itself owned and managed. This permitted the mill to intervene freely in the politics of the association, coopting its leaders clientelistically by granting loyal and quiescent leaders access to these funds and by

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<sup>43</sup> Author Interview. Grower Number 35. June 24, 2008. San Salvador, Guairá, Paraguay.

offering them more generous processing quotas. Conversely, the mill could punish leaders that sought to increase their autonomy by withholding these benefits or directing them to a challenger.

A former leader and retired sugarcane farmer described to me his frustrated attempts to improve the situation of Iturbe's growers, explaining,

I was in the executive committee in 1969-1973. We built the first headquarters of the association then, by collecting contributions from the producers. We were there for a long time and people wanted us there to stay because we had done a good job. But then the factory wanted other people in and did a campaign against us, supporting other candidates. After that, the association got weaker. In 1973, the mill started to buy people off, offering to purchase things for them if they would leave the association, and it all went down hill after that. The management didn't like the leaders of the association. They didn't like that they were getting more independent, and so it bought them off. Why can't Paraguayans make an organization to improve our situation? A group forms and then others come to manage it for personal advantage. There is a term I like to use for this: selling your conscience.<sup>44</sup>

In the latter half of the twentieth century, train service to Iturbe gradually declined, as the state-owned railway's investment failed to keep pace with its infrastructure's depreciation, and rail service was eliminated entirely by the 1990s. This enhanced the monopsony of *Azucarera Iturbe* on the local supply of sugarcane and the dependence of the producers association on the mill, as it became economically unviable to most of them to supply AZPA.

The social and economic system that developed in Iturbe within the context of a protected domestic market and corporatist economic regulation lasted until the 1990s. The transition to democracy and regional integration created greater competitive forces within the sugar industry, as Paraguay became more competitive and linked to the international economy for the first time, incentivizing new investments and productive upgrading from *Azucarera Iturbe* and destabilizing the mill's economic and social

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<sup>44</sup> Author Interview. Grower Number 45. December 5, 2007. Iturbe, Guairá, Paraguay.

relations to its suppliers.

***The 1990s: Erosion of the Cartel Structure and Azucarera Iturbe's Entry into Organics***

In the 1990s, *Azucarera Iturbe* built its first meaningful ties to external buyers and began to invest and upgrade its productive capabilities for the first time many decades. This shift from a protected national market to external markets for organic sugar granted the mill access to new expanding markets and new financial resources, but also exposed the mill and its suppliers to new quality, volume, and price demands. Moreover, the mill and its cane suppliers became vulnerable for the first time to external risks, such as currency fluctuations, foreign and global economic cycles, and the reliability of contracted transport and logistics companies. The clientelistic relationship that arose between the mill and its suppliers during Paraguay's dictatorship has facilitated smallholders' participation in this transition up to a certain point. However, as the next sections will describe, new demands on the mill and on its growers has destabilized this arrangement, leading to conflict over the terms under which the mill incorporates sugarcane farmers into their supply chain.

As described in chapter 5, *Azucarera Iturbe* played a large role in ending the cartel system that had governed Paraguay's domestically oriented sugar industry until the 1990s and in shifting the industry's focus toward the export of organic sugar. Until that time, the company had received a fixed portion of the country's small domestic sugar market, allocated by the industry's peak organization, the *Centro Azucarero Paraguayo* (CAP), as part of the Mixed Commission for Sugar Production and Commercialization convened

by the Ministry of Industry and Commerce (MIC) and the Ministry of Agriculture (MAG). *Azucarera Iturbe*'s owners describe the Commission's functioning as a disincentive for productive investment: "The laws fixed the price of sugar and of sugarcane by decree. It was a corrupt system because the industrialists would bribe the Ministry of Industry to fix the price in their favor. Companies were protected and didn't invest in productivity and quality. There was a lack of free market incentives and a monopolistic structure."<sup>45</sup>

The system provided Iturbe and the other sugar mills a secure surplus, but offered no incentives to expand that surplus, and Iturbe's owners felt that the structure constrained their own interests in expansion: "AZPA [the largest member of the industry association] was dominating the system because they set the volumes for each year. This left the other mills that wanted to grow faster stuck. The Ministries' representatives only participated to collect bribes, and, because AZPA was the largest producer, this gave it the greatest capacity to secure its interests."<sup>46</sup>

This structure began to erode in the 1990s, as the fall of the Stroessner regime in 1989 ushered in a spate of institutional changes. The country's adoption of a democratic constitution in 1992 and its accession to the Southern Cone Common Market in 1993 (along with Brazil, Argentina, and Uruguay) signaled the country's tentative embrace of regional integration and market liberalization as a new development paradigm in the country, as did the privatization of various state owned enterprises and the dismantling of

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<sup>45</sup> Author Interview. January 2007, Asunción, Paraguay

<sup>46</sup> Author Interview. July 2009, Asunción, Paraguay

regulatory institutions by the transition government of General Andrés Rodríguez (1989-1993). In this context, government reformers considered the country's sugar industry an anachronism that would ultimately have to be sacrificed for more efficient, more modern, and more entrepreneurial industries to grow. Paraguay's sugar mills and sugarcane farmers were small, inefficient, and outdated compared to their competitors in Brazil and Argentina, and the industry was dependent on protection and geared toward rent-seeking, making convergence with its highly developed competitors unlikely. As Paraguay tied its fortunes to the much larger and more developed economies of its neighbors, cooperation among the members of the *Centro Azucarero* broke down in the context of uncertainty regarding the industry's future and the likelihood of continued government protection.

In the early 1990s, The Mixed Commission first ceased its de facto functioning in response to new internal and external forms of competition and was then abolished officially. Iturbe's owners explained that the other members of the *Centro Azucarero Paraguayo* wanted to continue the practice of price fixing informally, operating as a cartel even if the public sector ended its official support. However, *Azucarera Iturbe* saw the context of liberalization as an opportunity to claim a larger portion of the internal market for itself. The company did so by becoming the first sugar mill to market sugar directly to consumers by selling packaged branded sugar through urban food shops and in the country's first super markets.

As this opened up a new plane of internal competition, the industry also became subject to informal external competition from lower cost sugar smuggled into the country from Brazil and Argentina. Along with automobiles, sugar is among the only major

products for which Mercosur Countries maintain internal tariff protection, set at an ad valorem rate of thirty per cent in Paraguay. According to Iturbe's owners, government officials enforced this tariff during the dictatorship, protecting the Paraguayan industry from smuggled sugar, because high-level officials benefited from the bribes they received from sugar mills as part of the Mixed Commission's dealings. However, military and police control became less pervasive and centralized after democratization, and subsequently government officials found it more profitable to collect bribes from the proliferating number of contraband traders than from struggling sugar mills. Alternatively, the media and government officials have alleged that the inefficient mills themselves are responsible for sugar contraband, preferring to smuggle cheap sugar from abroad and sell it at protected prices than to invest in their own productivity.<sup>47</sup>

An official working within the Ministry of Industry and Commerce explained to me how they discovered that the *Centro Azucarera Paraguaya*'s complicity in the illegal sugar trade. The industry association submitted an official request to import duty-free sugar after their sugar stocks were depleted in the post-harvest season during the summer months of 2009, and

the ministry didn't understand the note and began to analyze the causes of the request. They discovered that in earlier years, sugar mills had been selling sugar in excess of what could reasonably be produced from their supply of sugarcane. What the mills had done in earlier years was 'launder' contraband sugar from Brazil and Argentina, splitting the profits with the smugglers. Smugglers imported generic sugar and the mills packaged the foreign product with a Paraguayan brand. Since the profits were large in recent years, the members of the *Centro Azucarero Paraguayo* requested official permission to import

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<sup>47</sup>"Piden al MIC la intervención de los ingenios azucareros" <http://archivo.abc.com.py/2002-06-27/articulos/321/piden-al-mic-la-intervencion-de-los-ingenios-azucareros> 6/23/11; "Controlarán producción y stock de ingenios" <http://archivo.abc.com.py/2002-07-01/articulos/636/controlaran-produccion-y-stock-de-ingenios> 6/23/11

sugar directly from foreign mills, eliminating the smugglers and claiming the entire profit for themselves.<sup>48</sup>

As a result, *Azucarera Iturbe*'s grasp on Paraguay's internal market became increasingly insecure during the 1990s and the mill's financial position deteriorated rapidly. As early as 1992, *Iturbe*'s owners considered closing the factory and seeking alternative investments. Responding to the imminent bankruptcy of the family business and the new prospects of a democratic Paraguay, Roberto Codas, the grandson of Paraguayan sugar pioneer Egon Friedman, returned to Paraguay from abroad to play a key role in the mill's transition to organic production.

Codas had been a leftist radical and political dissident during Paraguay's dictatorship and, after graduate studies at the New School for Social Research in New York, had settled into permanent exile in El Salvador, where he operated an organic coffee farm. He helped launch the Fairtrade movement in that country and was among the first exporters to work with Max Haavelar, the precursor to Fairtrade Labeling Organizations international (FLO), launched in the Netherlands in 1988. He returned to Paraguay in 1992 and became involved with his family's business for the first time, just as the country and the company faced major economic and political challenges.<sup>49</sup>

Based on his experiences in El Salvador, Codas proposed to save the company by positioning it in the emerging market for organic food products. He traveled to Brazil, learning about the competition they would face and the latest practices in the sugar industry, in order to make two important decisions about the company's future trajectory:

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<sup>48</sup> Author Interview. June, 2009. Asunción, Paraguay.

<sup>49</sup> Author Interview. May 2009. Asunción, Paraguay.

to maintain their external supplier structure rather than replace it with their own plantations, and to operate at an industrial scale.

Codas “argued hard” with the other family owners “to keep the growers, because this was what was unique about the Paraguayan industry, compared to Brazil or other countries,”<sup>50</sup> and decided to aim for larger-scale production than the other Paraguayan mills that were experimenting with organic production. However, given the company’s financial constraints, doing so would require relying on the market strength of a large external buyer, rather than investing scarce capital to establish it’s own international marketing and branding capabilities. Codas explained, “this was a difficult decision because it generally goes against all my thinking about what is important for economic development or for a company. But if we were going to reach a scale that would have an impact on the local economy, which was already depressed, then we needed to be able to count on the brand strength of another company.”<sup>51</sup>

To reach this scale, while retaining an external supplier base, required coordinating investments and practices between the mill and the dispersed set of peasant farmers who had traditionally viewed the mill’s owners as their patrons. Codas saw transforming this region into a dynamic agro-industrial cluster and inserting the mill and its suppliers into global value chains in the organic food trade as a formidable challenge. He remarked that the mill had “inherited more than 50 years of traditional relationships its suppliers. These things are long term and you can’t have instant transformation.

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<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

Doing this in a company in good economic shape is one thing, doing it with one that is almost bankrupt is another.”<sup>52</sup>

The mill began its conversion toward organic production in 1993 and received its certification in 1994, initially exporting in small volumes through contacts made at trade fairs, which it attended using modest investment from the Marubeni Corporation, a Japanese global trading company that had previously purchased small volumes of sugar from the Iturbe. A large-scale conversion required substantial investment and implied a series of upgrades in the mill’s agricultural and industrial production systems, as well as of the management practices needed to guarantee compliance with new quality and organic standards.

One key investment the mill made to enter the organic industry involved creating an internal organic inspection and certification department. In 2007, the department consisted of ten inspectors (*fiscales*), each responsible for a geographical portion of the mill’s supply base and for the certification of approximately 800 growers.<sup>53</sup> The inspectors’ main duties involve collecting data, filling out paper work, and inspecting farms approximately twice a year to ensure compliance with organic production standards. Specifically, these include a ban on burning cane fields and on the use of agrochemicals. For the purposes of organic certification, the factory keeps a five-year history of the crops planted on their suppliers’ land, of the types of inputs used, and of where the inputs were purchased. For each grower on its supplier list, the factory maintains a folder with paperwork documenting inspection results, land-use history, and estimated and actual yields and production volumes. Estimating each grower’s organic

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<sup>52</sup> Ibid.

<sup>53</sup> Author Interview. *Azucarera Iturbe* Agricultural Department Manager. January 2007. Iturbe, Guairá, Paraguay.

cane production not only gives the mill a sense of how much raw material it will access in a given harvest, but permits the mill to ensure that the grower is not acting as a middleman for other growers' sugarcane. This traditional practice has proven difficult to control, but the mill has strictly prohibited it in order to ensure all its cane comes from organic certified land.

The mill has enforced the prohibition on synthetic chemical use among its suppliers primarily by forbidding them from producing cotton, which they customarily treat with pesticides and herbicides, on the same parcels of land where they plant sugarcane. In addition, organic inspectors discourage growers from clearing any forested land that they own and encourage them to enhance their soil quality using organic methods such as crop rotation and intercropping with nitrogen-fixing 'green manure' crops. The company receives its organic certification from the U.S.-based certifier Quality Assurance International (QAI), and Switzerland-based Institut für Marktökologie (IMO), which audit paperwork and inspect the factory, its plantations, and a sample of its suppliers once a year.

According to Codas, Iturbe took longer to enter the organic market than OTISA or Censi & Pirotta because of its larger scale. "It took a long time to convince growers to go organic. Imagine after telling them for 50 years that chemicals were good and not using chemicals was backward that we wanted them to stop using chemicals. They thought it was some sort of trick to swindle them."<sup>54</sup> To encourage farmers to adopt organic methods, the mill paid a premium price for organic sugarcane. In 2008, the mill paid Gs.120,000 per ton of sugarcane from organic-certified growers, versus Gs.98,000 per ton for conventional cane. Because most growers did not apply chemical inputs, yields

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<sup>54</sup> Author Interview. May 2009. Asunción, Paraguay.

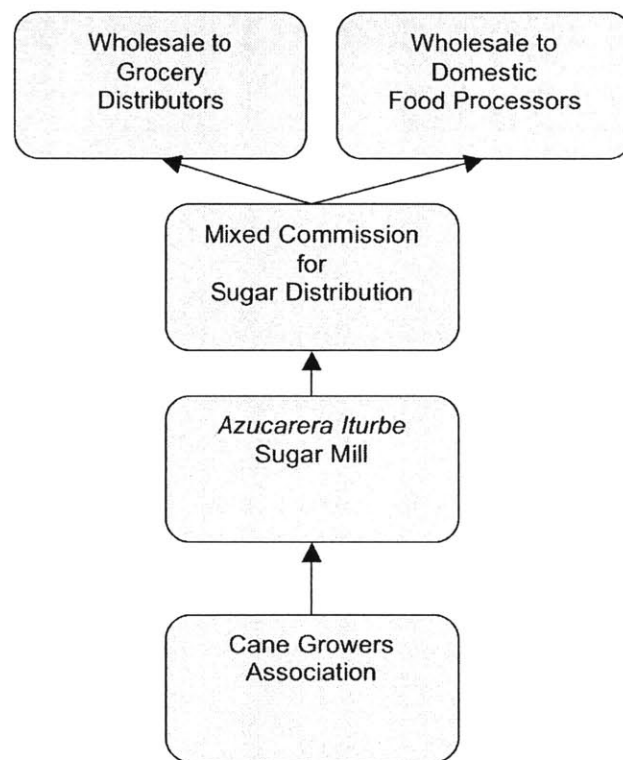
for the two production methods were typically comparable, and organic sugarcane provided a more profitable option.

Arguably, however, the mill's distribution of processing quotas provided the biggest incentive for its suppliers to adopt organic farming methods. As the mill converted to organics it gradually increased the length of its organic processing run and decreased the amount of conventional cane that it purchased, making fewer processing quotas available for conventional producers. The sugar mill is the largest, and in many cases only, buyer of sugarcane accessible to the region's growers, and its conversion to organic production has left many conventional producers without a crop outlet. Some growers have diverted their production to small-scale alcohol distilleries, but they cannot absorb the region's large volumes of sugarcane, and these enterprises pay lower prices and are located farther away, meaning that farmers have to pay higher transport costs. For most producers, selling elsewhere does not make economic sense, and as a result large portions of the Department of Guairá have converted to organic production.

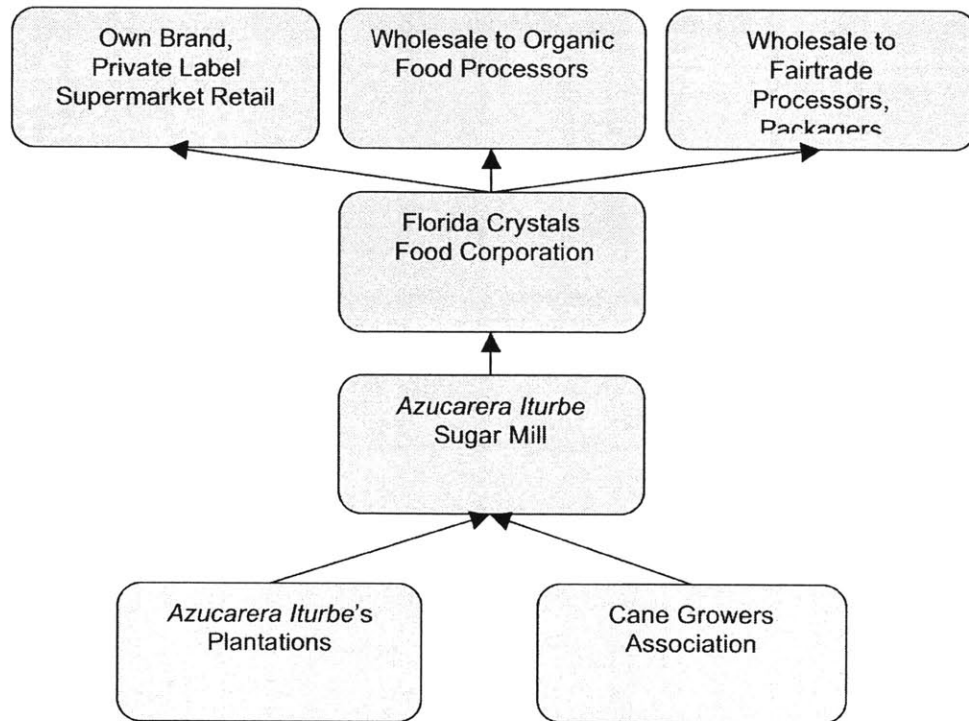
Initially, switching to organic production did not impose large transitions costs on growers. Many of the region's growers had already given up cotton production due to decreased yields and higher production costs associated with a boll weevil infestation in the 1990s, because of the decrease in agricultural subsidy and support to small farms that followed democratization, and in response to the stagnation of international commodity prices in that decade. By the mid 1990s, cotton had ceased to be a commercially viable option for Paraguayan small farmers, and the region's growers' became entirely dependent on *Azucarera Iturbe*.

In 1998, the mill secured a long-term, exclusive contract with Florida Crystals, after approaching the major U.S. sugar producer and marketer at a trade fair in the U.S. Florida crystals was expanding its organic sugar business and interested in lower-cost foreign supply to supplement the organic sugar it sourced from Florida. Figure 6.2 depicts the value-chain that resulted from the partnership and Figure 6.1 shows the structure it replaced.

*Figure 6.1.* Structure of Sugar Value Chain in Iturbe 1941-1990



**Figure 6.2.** Structure of Sugar Value Chain in Iturbe 1998-2010



Under this arrangement, *Azucarera Iturbe* has had access to credit and to the information and knowledge necessary to pursue three sets of upgrades: achieving international food quality and safety certifications, expanding its industrial plant capacity, and growing its agricultural supply base.

In addition to its organic certification, the *Azucarera Iturbe* has achieved food safety certification by the American Institute of Baking, which accredits the mill's Hazard Analysis and Critical Control Points (HACCP) plan. This essentially certifies that the mill's sugar is free of any foreign contaminants, such as metal, hair, or insects. AIB requires the mill to put into place physical and managerial control systems that prevent specific sources of contamination and to maintain laboratory that can audit and test sugar

for purity as it leaves the factory. AIB certification is a prerequisite to supply large industrial clients that wish to source sugar for organic processed foods, and, according to Codas, is a “big selling point for Florida Crystals for sugar that will be used to make products like organic baby food.”<sup>55</sup>

As a supplier for Florida Crystals, Iturbe’s organic production has grown substantially, increasing from its initial volume of 1,000 tons in 1994 to 35,000 tons in 2006, and to 50,000 tons in 2008. Until recently, the mill’s cane crushing capacity represented the major bottleneck to further growth. Codas estimated that in 2008, the mill had approximately 700,000 tons of sugarcane available to it between its own plantations and the farms of its third-party suppliers. However, its annual crushing capacity was less than 500,000 tons. Furthermore, on average, the factory operated at 80 per cent of its daily crushing capacity of 25,000 tons of sugarcane, because poor road conditions following rainstorms impedes consistent sugarcane delivery. For this reason, the mill reached an effective annual crushing volume of 500,000 tons of sugarcane by extending the harvest season beyond the ideal 200-day period between June and October when sucrose is most easily recovered from sugarcane.

This situation not only lowered the factory’s industrial yields, but also caused it to lose some of its suppliers who could not secure timely processing quotas. These growers either abandoned their sugarcane crops or, when they were able to, would sell to other buyers. Furthermore, *Azucarera Iturbe* stood to lose international market share if it did not expand its processing capacity. The mill’s manager explained that, because Paraguayan sugar mills captured the niche for organic sugar from its origin, “getting the market is easy, keeping it is hard . . . big companies are interested in this market, like

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<sup>55</sup> Author Interview. July 2009. Asunción, Paraguay.

Coca Cola and General Mills. We have to be ready to meet their demands for quality and volume. Our options are to go forward with these investments or to let go of our contract with the Florida crystals and let other countries provide their sugar.”<sup>56</sup>

Between 2008 and 2010 the mill invested US\$36 million to double its daily crushing capacity to 5,000 tons, and to bring the company’s projected production volume to 80,000 tons of organic sugar for the 2011 harvest.<sup>57</sup> Despite the relative abundance of sugarcane in the mill’s production region and Codas’s stated commitment to small farmer sourcing, *Azucarera Iturbe* also directed a sizeable portion (in excess of \$7 million) of these investments toward the expansion of its own sugarcane plantations. In 2007, the mill’s manager reported that its production covered 9,000 hectares of land, of which 1,800 were on the mill’s own plantations. By 2009, the mill had increased its cane plantations by 600 hectares and planned an additional expansion of 1,600 hectares to reach a total of 4,000.

The mill pursued this expansion of sugarcane plantings in a context where multiple factors contributed to local oversupply of sugarcane. First, alcohol distilleries in Guairá had made similar investments into their own plantings. Second, sugarcane farmers have not diversified production toward other crops in response to the concentration of sugarcane plantings since the 1990s, but instead increased their reliance on the crop, as a result of the cotton market’s collapse and the shift toward organic production, as described above. Third, the Paraguayan government has expressed its intention to expand the bio-fuels industry, and department-level and local politicians have sought support for producers to participate in the expected bio-fuels boom, requesting subsidized inputs (soil

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<sup>56</sup> Author Interview. *Azucarera Iturbe* General Manager. January 2007. Asunción, Paraguay.

<sup>57</sup> “Iturbe invirtió US\$ 36 millones para competir en azúcar orgánica.” December 25, 2010. *La Nación*.

preparation inputs and seed cane) from the Ministry of Agriculture. They distributed these inputs to Colorado Party members outside of traditional cane growing areas, causing the amount of land planted with sugarcane to expand rapidly between 2006 and 2008, even while processing capacity remained stagnant.<sup>58</sup> Finally, exceptionally good rains in the 2007 season greatly increased the yields of sugarcane. Due to these factors, the availability of sugarcane far outstripped the processing capacity of sugar mills and alcohol distilleries, and independent sugarcane growers must compete with one another for a limited sugarcane market.

Despite the local abundance of sugarcane, *Azucarera Iturbe* pursued agricultural investments in order to reduce its reliance on external suppliers and limit supply risks. Iturbe's inspectors explained the difference between sourcing from the mills own plantations and external growers, saying, "we can manage the harvest and cutting better, but you can't force the growers to cut when they don't want to. [With external growers] there is always a risk of maintaining a good flow of raw material." The mill can also better control the farming practices on its own plantations, choosing sugarcane varieties that maximize industrial sugar yields and ripen at various points of the year in order to extend the harvest season, and applying organic fertilizer and soil treatments that maximize per hectare weight yields. These treatments represent substantial investments of capital that are often beyond the capacity of small holders that lack adequate access to credit. The costs of expanding sugarcane plantings, excluding the cost of purchasing land, is between \$1,000- \$2,000 per hectare for soil preparation (clearing, tilling, and soil

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<sup>58</sup> Author Interview. *Azucarera Iturbe* Agricultural Department Manager. January 2007. Iturbe, Guairá, Paraguay.

acidity treatment with lime and phosphate), cane seedlings, and planting costs (hired labor).

Notwithstanding his broader social intentions and experience with Fairtrade coffee, Roberto Cudas is cautious about how smallholder sugarcane farmers will fit into the modernization of Paraguay's sugar industry and its insertion into the international organic food industry. Cudas explained, "we are trying to get the growers to invest in their fields, because if they don't, we of course will keep investing in ours and the growers will become irrelevant. And we will be like AZPA, and that is not our business model. We would like to be a social entrepreneur."<sup>59</sup>

Since becoming a supplier to U.S. Florida Crystals Food Corporation, *Azucarera Iturbe* has brought new economic resources to a region that had been stagnant and isolated for much of the latter half of the twentieth century. In the 2000s, *Azucarera Iturbe's* exports have generated \$30 million in annual foreign exchange, and the figure will double with its increased production volume.<sup>60</sup> However, as the next section describes, by itself, *Azucarera Iturbe's* incorporation into a global value chain initially did little to alter relations between the mill and its growers. Instead, the mill established and enforced new standards upon its suppliers in ways that relied on and enhanced their dependency on the mill.

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<sup>59</sup> Author interview. May 2009. Asunción, Paraguay.

<sup>60</sup> "Iturbe invirtió US\$ 36 millones para competir en azúcar orgánica." December 25, 2010. *La Nación*. <http://www.lanacion.com.py/articulo.php?iturbe-invirtio-us-36-millones-para-competir-en-az&edicion=2&sec=2&art=6461> 6/27/11.

***Continuity in Grower-Mill Relationships in the 2000s***

*Azucarera Iturbe* pursued its transition to export markets and organic production against the background of clientelistic relationships with its sugarcane suppliers, described in Chapter 5 as the product of corporatist regulation and during the twentieth century. On the one hand, clientelist relations have provided an avenue for smallholders' participation in a global value chains, because they connect them to a modernizing processing enterprise that could act as a mediator of the new demands arising from niche markets in the global market place. On the other hand, clientelism provided Iturbe's small farmers only a precarious foothold in the global market place, because it rendered them entirely dependent on the mill for market access, information, and finance.

At the same time, the legacy of social and economic relations in Iturbe has constrained the mill's investment strategy. Currently the company's relationships to dependent external suppliers have permitted it to establish organic production without investing its scarce capital entirely in sugarcane plantings. However, because of their traditional dependence on the mill, the regions' sugarcane farmers lack the entrepreneurial attitudes and the economic and social ties necessary to take responsibility for their own investments and upgrading. Instead, as the mill's international integration placed new demands on Iturbe's sugarcane farmers, the mill's growers have focused more energy on their distributional conflicts with the mill.

Potentially, building new relationships with government, financial organizations, and NGOs, would permit its supplier organization to better to support investment among small farmers and ensure productivity growth, agricultural diversification, and adherence to organic production standards. This would allow the mill to continue to invest in

expanded processing and ultimately in industrial diversification. However, this kind of organizational development would also empower growers to either more effectively articulate and demand their interests in higher prices and better commercial conditions from the mill or to exit the local supply chain by diversifying away from sugar—potentially placing greater financial constraints on the already cash-strapped mill. Mill owner, Roberto Cudas, explicitly referenced this dilemma saying,

For us, the short-term advantage of a weak growers organization is a long-term disadvantage. Because if they are so weak, we can't even negotiate with them . . . You negotiate one thing and then they don't commit to it. This is a problem because we cannot impose organic standards by policing them. We need their trust.<sup>61</sup>

In the first decade of the 2000s, both the mill and its growers began to reassess their economic strategies and their mutual dependence, as new resources and new demands began to flow to the mill from its buyers, and to the growers from both the mill and from Fairtrade buyers. The following section describes how relations between the growers, their leaders and the mill continued to be strongly marked by mistrust as the mill forged external economic links. In this context, the mill continued to use its monopsony power and control of the association's financial resources to coopt the leaders of the growers association and suppress collective demand making, in a process of client fragmentation. I illustrate this by relating how the mill and the cane farmers association responded to increasing competition from cheap sugar illegally imported from Argentina and Brazil.

#### *Client Fragmentation in Iturbe in the 2000s*

As described above, illegal trade in sugar increased following democratization as

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<sup>61</sup> Author interview. May 2009. Asunción, Paraguay.

the Mixed Commission ceased to function and illegal traders, government officials, (and allegedly sugar mills themselves) sought arbitrage profits by avoiding the 30 per cent tariff on sugar imports. Despite securing an export contract with Florida Crystals, *Azucarera Iturbe*'s loss of domestic market share drained the company's revenues. This provoked a series of conflicts during the period from 2000 to 2003, as the mill delayed payment for the 2000 harvest until the start of the next harvest. The mill's manager recounted, "we couldn't pay the growers, we couldn't pay the factory workers, and we couldn't pay our creditors. We passed a time when we would pay the workers with sugar and other food and only with enough cash to cover their basic needs. We endured this moment all together, though there were also strikes and mobilizations by the cane growers. But luckily these failed and we did well."<sup>62</sup>

According to the cane growers, their mobilizations and strikes failed largely because their organization was unable to maintain a united front against the mill, which ended up securing its interests by splitting the association between the followers of two rival leaders. Roberto Rojas, a cane grower who headed the association from 1997 to 2001 described himself as "someone who wanted to dialogue with the owners,"<sup>63</sup> and members agreed that the factory had a "good relationship" with Rojas's executive committee.<sup>64</sup> When the mill delayed or missed payments to farmers for the cane they delivered in 2000 and 2001, Rojas resisted growers' demands to use "forceful means" of negotiation ("*medida de fuerza*"), and he recalled that members of the association accused him of "selling out."<sup>65</sup> Interviewed growers complained that Rojas was

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<sup>62</sup> Author Interview. *Azucarera Iturbe* General Manager. January 2007. Asunción, Paraguay.

<sup>63</sup> Author Interview. January 2007. Iturbe, Guairá, Paraguay.

<sup>64</sup> Author Interview. Grower Number 36. June 24, 2008. San Salvador, Guairá, Paraguay.

<sup>65</sup> Author Interview. January 2007. Iturbe, Guairá, Paraguay.

“shameless” (*sin verguenza*)<sup>66</sup> and “wily (*vivo*); he says one thing and does another,”<sup>67</sup> that leadership had been “at the service of the mill,”<sup>68</sup> and that Rojas had “made an agreement with the mill to use the association for private gain.”<sup>69</sup>

Rojas consequently resigned as growers lent their support to a new executive committee, formed by Francisco Ferreira, a sugarcane farmer who promised to be far more outspoken and combative in his dealings with the mill. In 2008, he campaigned as a primary candidate for the position of departmental Governor with the leftist political movement, *Tekojoja* (guaraní: “all together”). Ferreira presents his leadership in explicitly political terms, articulating for growers an explanation of their problems as linked to the mills’ monopsony power and growers’ political weakness. Explaining the nature of the growers problems to me he said, “The mill gets higher prices for organic sugar in the market, but doesn’t pass it on to growers. No one is to blame for this but the producers, for their lack of organizing and capacity.”<sup>70</sup> He asserted, “It is not fair for the mill to sell the sugar at high prices and buy their raw materials so cheaply. We need to work this out with the industrialists, and if we can’t, we need to transfer the value added of processing to the primary producers.”<sup>71</sup>

In Ferreira’s view, the low prices of sugarcane also resulted from Iturbe’s aggressive expansion of its own plantations, which created an oversupply of raw material in the local economy. His proposed solution was for growers to invest in their own processing facility: “the dream of 90 per cent of the association’s members is to get their

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<sup>66</sup> Author Interview. Grower Number 27. June 28, 2008. Iturbe, Guairá, Paraguay

<sup>67</sup> Author Interview. Grower Number 35. June 24, 2008. San Salvador, Guairá, Paraguay.

<sup>68</sup> Author Interview. Grower Number 24. June 29, 2008. Iturbe, Guairá, Paraguay.

<sup>69</sup> Author Interview. Grower Number 13. June 17, 2008. Borjas, Guairá, Paraguay.

<sup>70</sup> Author Interview. January 2007. Iturbe, Guairá, Paraguay.

<sup>71</sup> Ibid.

own industry, to offer the consumers products at a lower price and take up two more links in the chain, processing and exporting.”<sup>72</sup>

In the short run, without capital or investors to build a mill, the growers had no choice but to negotiate with the mill, and Ferreira took a firmer stance than the association’s former president. In 2002, when the mill failed to work out a payment agreement with the association, Ferreira organized a strike among the association’s members to block the factory gates and not permit any sugarcane to enter for a period of 45 days. In response, the mill cultivated side agreements with individual producers, taking advantage of divisions within the association and deepening its internal conflicts. According to Ferreira, the mill also retaliated in 2003 by attempting to take away the organic certification of members of the association that had supported the strike, “principally the leadership of the organization.”<sup>73</sup>

In 2004, the mill assisted the formation of a parallel executive committee and established a new suppliers association, the *Asociación Agrícola Cañeros Orgánicos de Iturbe*, led by a group of growers allied with the former president, Roberto Rojas. One grower recounted “Señor Ferreira is a good spirit, he doesn’t want to screw anyone, and wants to share opportunities with big and small producers. But in the association there are people who don’t like that, and want benefits only for themselves. So they formed their own organization with their own executive committee and presented it to the boss [*patrón*], and the mill was happy to accept, because Ferreira organized the strike.”<sup>74</sup>

At first, the two groups operated in parallel, but only a small group remained loyal to the original organization and its president. In 2004, 700 of the of the mill’s

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<sup>72</sup> Ibid.

<sup>73</sup> Ibid.

<sup>74</sup> Author Interview. Grower Number 4. June 20, 2008. Borjas, Guairá, Paraguay.

approximately 800 growers band-wagoned around the new leader and joined the new association, responding to intimidation and threats that the mill would not purchase sugarcane from growers who remained loyal to Ferreira and the original association. One grower stated, “people stayed with Iturbe for political reasons. Everyone was their people.”<sup>75</sup> Retaining the original association’s name, Ferreira broke *Asociación Agrícola Cañeros del Sur*’s relationship with the *Azucarera Iturbe*, and, starting in 2006, negotiated a supply relationship for his group with *Azucarera Paraguaya*’s sugar mill 75km away.

Ferreira’s association, as cane growers in the region refer to it, has modified its statutes so that its members no longer have to provide cane exclusively to Iturbe and so it can include agricultural producers that do not grow sugarcane. However, even with its expanded membership, the organization remains small with about 220 members, and consists primarily of the growers best able to manage the risks of exiting *Azucarera Iturbe*’s supply chain. In contrast, *Azucarera Iturbe*’s new organization now represents the bulk of the region’s planters, growing rapidly after Rojas regained its presidency in 2006 and reaching nearly 2,000 active members by 2009.

The distance and transport costs to AZPA’s mill in Tebicuary, Guairá provided an important disincentive for growers to follow Ferreira in exiting Iturbe’s supply chain, because, for many of them, it would require coordinating harvest and transport among other small growers. Moreover, Ferreira explained, there is only a short window when it is possible to sell to AZPA, because the mill’s organic harvest last only 90 days, and it produces conventional sugar for the rest of the season. AZPA mechanically harvests the

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<sup>75</sup> Author Interview. Grower Number 24. June 24, 2008. San Salvador, Guairá, Paraguay.

organic cane on its own plantations and on the plantations of its largest suppliers. However, for farmers whose plantings are too small for mechanical harvesting, completing their harvests during this short window requires hiring more labor for a shorter amount of time, which can be difficult and costly when there is a lot of competition for field workers. One grower explained,

Sr. Ferreira gets processing quotas for the organic harvest in AZPA, but it is twice as far. They send a huge truck, and small producers can't work with such a big truck, only with cane bundles that get transported in a small truck. So there are lots of smaller producers that won't risk (*no se animan*) working with Ferreira, because if they can't get harvest workers and oxen to fill big trucks all at once they'll miss the harvest and they don't want to take the risk.<sup>76</sup>

In addition to perceiving the high coordinating costs of supplying AZPA's mill and experiencing *Azucarera Iturbe's* intimidation, many growers in Iturbe also held skeptical views of Ferreira's proposals based on the failure of his past ventures. When *Azucarera Iturbe* began delaying and denying payment to its suppliers, Ferreira proposed forming a cooperative to reactivate a small-scale sugar mill to crush its members sugarcane and process it into molasses and raw sugar. According to one sugarcane farmer, there were disagreements between Ferreira and another leader about how to manage the cooperative. He explained, "the leaders managed the money poorly and went bankrupt. And the members who went in on the deal with them lost a lot of money. So no one trusted Ferreira any more."<sup>77</sup>

*Azucarera Iturbe* contends that lack of trust among the leaders regarding finances caused the split in the organization. Cudas explained that Ferreira drew on the support of some of the biggest growers to take over the association's presidency from Rojas, "but it is typical for the winners to take the books and take the money. The problem was because

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<sup>76</sup> Author Interview. Grower Number 4. June 20, 2008. Borjas, Guairá, Paraguay.

<sup>77</sup> Author Interview. Grower Number 24. June 24, 2008. San Salvador, Guairá, Paraguay.

the organizations weren't ready to handle the money that came from Fairtrade. So they split.”<sup>78</sup> The details of the accusations made by cane growers in the two associations and their leaders are complicated and difficult to parse, involving the division, use, and misuse of organizational funds by the two at various points in time. I will describe some of this below. Ultimately, however, the clearest observation that can be taken from the history of organization among Iturbe's sugarcane farmers is that it is marked by growers' ostensibly warranted mistrust of their leaders and the mill. As the next section describes, this mistrust played a key role in shaping how Fairtrade effected the development of these organizations and the pattern of upgrading in the two organizations.

### ***Fairtrade Certification and the Legacy of Monopolistic Clientelism***

*Azucarera Iturbe* has been certified by Fairtrade Labeling Organizations international (FLO) since 1998 and, since 2004, by FLO-CERT, the independent certification company they created by FLO. As described in Chapter 2, FLO-CERT's certification process aims to uncover and correct any “non-conformities” with the standards set out by FLO for different Fairtrade products. Auditing plays a central role in the certification process and is meant to take place every three years. The audit process consists of meetings with the leadership of farmer organizations, a review of documents—including financial and accounting statements, individual interviews and focus groups with members of the organization, and site visits to the organizations offices, processing facilities and individual farms. Audits are also meant to open and close with full meetings

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<sup>78</sup> Author Interview. May 2009. Asunción, Paraguay.

of the farmer association's members, to give them a chance to discuss the purposes and the findings of the audit and discuss any actions that the organization should take.

However, between 1998 and 2008, FLO had limited inspection capacity in Paraguay and suffered from the common combined regulatory problem of excessive demands and insufficient resources.<sup>79</sup> FLO's category manager for sugar was also responsible for managing the organizations relationships with Fairtrade juice processors and the farmer organizations that supplied them in various African and Latin American countries. She was able to travel to Paraguay approximately only once every two years, and most of her interaction with farmer organizations there took place over email. Until 2008, FLO maintained a single producer liaison officer for Bolivia and for Paraguay, who was responsible for capacity building for farmer organizations in the two countries, but was only able to travel to Paraguay twice a year, due to limited budgetary resources.

In Iturbe, FLO's lack of resources for inspection and producer engagement was compounded by the mill's and its buyer's limited engagement with Fairtrade markets. Florida Crystals' main marketing strategy has been to position its sugar as a healthier and more environmentally sustainable alternative to conventional sugar by pursuing organic certification, renewable energy production, and, more recently, certification of its sugar's low carbon footprint. The company does not itself market Fairtrade-labeled sugar in the U.S., but instead sells smaller volumes of Fairtrade sugar to customers in Europe and Canada who wish to market their products as socially responsible. For this reason, only 10 per cent of the sugar exported by Iturbe in 2008 ultimately carried the Fairtrade label

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<sup>79</sup> Author Interview. October 2008. Asunción, Paraguay.

at its retail destination, despite the fact that about half the volume of sugarcane processed by the mill came from Fairtrade-certified farmers.

Most importantly, Fairtrade's effectiveness has been limited in Iturbe by the legacy of Paraguay's authoritarianism and of clientelist relations between growers, their leaders, and the mill. This history has made growers reluctant to openly question their leaders or hold them accountable to accusations of corruption and unfairness. One grower said, "after Stroessner left, you could talk a little more openly, but people were still scared. Now young people aren't scared anymore, but old people are still scared for their lives." When I asked him if he'd heard of Fairtrade, he explained,

Fairtrade makes a contribution to the organization to give some help for organic cane growers, but we don't get that help . . . the president uses it to make his house and to buy trucks and tractors that he uses for himself. We accept this because our leaders know how to sweet talk and we agree to it. But when we make demands, they don't want us to talk to people who know what is going on. They tell us not to dirty the water. If you do, they marginalize you."<sup>80</sup>

Similarly, another farmer explained that FLO's liaison officer visited from Bolivia and held a meeting in Iturbe. The growers who attended learned that the organization received a large social premium (in 2006, it was on the order of \$150,000). After that the information spread through rumors, he explained, but

no one wants to get mixed up into it, because you can't gain by it. So there is no open discussion with the commission about it . . . there are 700 producers that are working as organic for Iturbe, but no one shows up for the meetings. It is like we are all scared of each other. We need something to wake us up, we need bigger glasses and to clean our ears to hear and see each other better.<sup>81</sup>

One sugarcane farmer I interviewed held a job at the factory and described to me how the community's dependence on the factory made it difficult for them to press for better conditions:

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<sup>80</sup> Author Interview. Grower Number 35. June 24, 2008. San Salvador, Guairá, Paraguay.

<sup>81</sup> Author Interview. Grower Number 45. December 5, 2007. Iturbe, Guairá, Paraguay.

The factory is a month behind in [the workers'] wages, but they pay eventually. There are not many jobs in the area. The factory employs 400 people in three shifts. If you leave, there are three or four people ready to take your place. If we get one of the managers on our side, the owners just raise his salary to shut him up; they have no other way to earn so much, so they quiet down or they just leave. If we go to the ministry of labor, we'll get the boot (*hechado a patadas*).<sup>82</sup>

I asked this grower if he'd ever heard of Fairtrade, and he replied, "I don't really get mixed up in that (*no me meto*), so I don't really know. I work in the factory, and if you mix with the association too much they fire you. My dad [a cane grower] isn't involved either because he supports me, and he doesn't want to make trouble for me in the factory."

Despite having received Fairtrade certification, the association had no previous experience democratically electing its leadership and still lacked any meaningfully internal democratic processes for choosing leaders or making investment decisions. The mill still made automatic deductions of Gs. 200 per ton of sugar from growers' weekly cane payments (about US\$0.04 at 2007 exchange rates, or less than 1 per cent of their per ton payment) and placed them into an account from which the association's leaders made monthly withdrawals to cover the association's expenses.<sup>83</sup> It was unclear to growers (and to me) whether the funds for Fairtrade were managed separately or mixed into the same pool of resources. Another grower, responding to my inquiry about Fairtrade, said

We didn't know what was going on. They said that there was a premium that came from the US. They said they used it to buy tractors, but they didn't tell us when they were going to buy them. They could have been buying them or just pocketing all the money. Plus, no help got to the producers, so people wanted to get new leaders. But in the assembly there was no discussion. The old leaders would just present their executive committee all formed and they would get voted in by applause and they would get another year in power, and people wouldn't make any objections.<sup>84</sup>

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<sup>82</sup> Author Interview. Grower Number 21. June 25, 2008. Iturbe, Guairá, Paraguay.

<sup>83</sup> Author Interview. January 2007, Iturbe, Guairá, Paraguay.

<sup>84</sup> Author Interview. Grower Number 36. June 24, 2008. San Salvador, Guairá, Paraguay.

The association's history of external control encouraged low moral among its members and low expectations about its potential. Growers concluded that it wasn't worth their time and resources to participate in an ineffective and unrepresentative organization, and these attitudes, in turn, drove low participation in the association's assemblies and meetings, including those where they received visits from FLO officials. FLO's liaison officer later suggested that participation was low because Rojas's leadership "repelled people."<sup>85</sup> President from 1997 to 2001 and again from 2006 to 2008, Rojas admitted that only 150 to 200 members attended assemblies, out of the more than 600 to 700 members listed as active in the organizations roster for much of that period.<sup>86</sup>

As a result of these factors, even in 2008, many of the sugarcane farmers in *Asociación Agrícola Cañeros del Sur* had very little or no understanding of the international Fairtrade system and the certification process. Only two of the forty-four growers that I interviewed in Iturbe's supply chain replied affirmatively when asked if they knew what Fairtrade was ("*¿sabe usted qué es el comercio justo?*"). None of the growers replied with any knowledge of FLO's certification standards or process, and, to the extent that they expressed any awareness of specific certification criteria, they tended to conflate Fairtrade and organic certification standards, explaining to me that consumers in Europe reserved special markets and granted price premia for smallholders because they produced "more natural" and "higher quality" sugar. Another grower explained,

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<sup>85</sup> Author Interview. FLO Liaison Officer. May 2009. Asunción, Paraguay.

<sup>86</sup> Author Interview. January 2007, Iturbe, Guairá, Paraguay.

“I’ve heard organic is only for small producers, but there are big ones too.”<sup>87</sup> For these growers, the fact that *Azucarera Iturbe* and its competitor *Azucarera Paraguaya* have begun to source significant amounts of their organic sugarcane from internal plantations aroused suspicion and resentment.

I wasn’t sure how to respond when one grower complained to me that “if there is a social premium it should but paid directly to the growers and not to the factory.”<sup>88</sup> As far as I understood, Fairtrade licensees in Europe were paying the social premium directly to Iturbe’s cane farmer association. When I asked how he thought the payment worked, the grower replied that he didn’t know, but that he thought that it got paid through the intermediation of the State and the industry. He said, “I want the importers to come and talk to the producers [growers] and tell us how it works, how much they are paying and how much the growers should get.”<sup>89</sup>

At the time of my research, even the association’s leaders had had limited interaction with FLO and had little understanding of its purpose and procedures. In 2007, Roberto Rojas did not know what percentage of the factory’s sugar was sold as Fairtrade or by what criteria Florida Crystals made this decision. He also did not recall any feedback to himself or the organization that resulted from the audit he experienced, but recalled, “the auditor came from Argentina. She went to three or four *compañías* [a sub-district administrative unit in Paraguay] and talked to the growers there, asking me to leave.”<sup>90</sup>

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<sup>87</sup> Author Interview. Grower Number 5. June 20, 2008. Borjas, Guairá, Paraguay.

<sup>88</sup> Author Interview. Grower Number 45. December 5, 2007. Iturbe, Guairá, Paraguay.

<sup>89</sup> Ibid.

<sup>90</sup> Author interview. December 2008. Iturbe, Guairá, Paraguay.

In a context such as this, Fairtrade works primarily as a subsidy directed to the production of smallholder farmers, which for sugar FLO defines as farmers who own less than 30 hectares of land, and to their leaders, whose positions permit them to make decisions about how to use or distribute the subsidy. At the time of my research this subsidy consisted of \$80 per ton of Fairtrade sugar marketed by licensees in advanced countries. In the case of Iturbe, according to its owners, the sugar mill receives instructions from Florida Crystals about which lots will be designated as Fairtrade, and the Florida Crystals' wholesale customers deposit the Fairtrade premium directly to the bank account of the growers association.<sup>91</sup>

In contrast to the traditional financial dependence between the association and the mill, the Fairtrade social premium does represent a larger and more independent source financing. However, also for this reason, the mill had no particular control over the volume of its sugar exports sold as Fairtrade, and no particular incentive to lobby its buyer to expand that volume, to increase the total size of the Fairtrade premium paid to its growers, or to increase their exposure to the Fairtrade system. Instead, the effect of this new flow of resources depends largely on the quality of the association's internal governance.

The reality of Fairtrade certification in Iturbe contrasts with the idea of certification as a guarantee that specific standards and criteria regarding the economic and social conditions of production are met. The language of "market-based solutions," "supply chain transparency," and "consumer choice," increasingly adopted by Fairtrade

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<sup>91</sup> Author Interview. Roberto Cudas. July 2009. Asunción, Paraguay

advocates suggests automatic adjustments, in contrast to the slow and uneven process by which social and economic conditions change and improve in a community like Iturbe. With their long history of dependent, clientelist relations, producers must gain the skills of organizing and deliberation in order to truly meet Fairtrade certification criteria requiring “democratic organization” and the investment of Fairtrade premiums in community development. This requires substantial organizational and administrative learning and upgrading that the certification process cannot directly provide.

However, in the case of Iturbe, the alleged misuse of Fairtrade resources, and the accumulation of other grievances and complaints among the association’s members, provoked a sequence of rumor and critique, demand making and conflict, and leadership competition. In this way, Fairtrade certification has played a large, though indirect, role in mobilizing growers to take advantage of the new space for collective action, push for leadership renewal, and improve their organization from within.

***The Accumulation of Farmer Grievances in the 2000s: New Costs, Exclusion, and Poor Representation***

My interviews in 2007 with a random sample of 44 of the 603 farmers listed as active members for 2006, stratified by geographical area, revealed a large number of grievances among sugarcane farmers, as well as consistent skepticism about whether they stood to gain from the mills’ insertion into the international organic industry and the Fairtrade system. Specifically, growers complained of bearing new costs associated with organic production, of increasing exclusion from the mills operations, and of poor and biased representation by their association and its leaders.

### *The New Costs of Organic Production*

Despite facing lower organic transition costs than growers in countries and regions that experienced industrial modernization of their agricultural practices, small farmers in Iturbe perceived the simultaneous switch to organic and export markets as imposing new costs upon them, which they were unprepared to assume. To begin with, the mill's prohibitions on field burning and on pesticide use have resulted in increased labor costs for many farmers. Formerly, most farmers relied on burning to facilitate by removing cane debris, but also to control weeds. Farmers who could afford it, also relied on chemical herbicide to rid their crops of an invasive grass called "yahupe." One farmer, who held the position of civil registrar in a municipality neighboring Iturbe and was wealthy enough to afford chemical inputs, explained, "yahupe hurts all the crops, yuca and sugar cane, but if you use herbicide it kills it all. Otherwise you have to manually remove it with a hoe and it is hard to get enough hired labor. With herbicide you get three months weed free."<sup>92</sup>

Organic advocates assert that, in the medium to long term, persistent manual weed control decreases the recurrence of weeds by decreasing the volume of seeds released by invasive plants. However, a switch to more intensive manual weeding initially required an increased investment in labor costs for Iturbe's farmers at a time when the cost of labor were already increasing because of rural to urban and especially international migration (to Argentina and Spain). The local extension agent explained, "there is little labor available because of migration, if you wanted to clean the fields right now to plant you couldn't because there is no labor available."<sup>93</sup>

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<sup>92</sup> Author Interview. Grower number 41. June 26, 2008. Maciel, Caazapá, Paraguay.

<sup>93</sup> Author Interview. Ministry of Agriculture Extension Agent. Dec. 4, 2007. Iturbe, Guairá, Paraguay.

In 2008, harvest workers were paid a rate of 27.000 *Guaraníes* (approximately \$5.61US) per ton of sugarcane or 24.2 per cent of the per ton price that cane growers received for organic sugarcane from *Azucarera Iturbe*. As a point of comparison, the *Folha de São Paulo*'s exposé on labor conditions in São Paulo's sugar industry cited figures indicating that in that, in 2007, cane workers there were paid less than one third that rate, with wages equivalent to \$1.82US per ton.<sup>94</sup> Furthermore, one grower implied that labor scarcity has increased worker's bargaining power saying, "the trick is that you have to treat them well or they leave you. For example, you have to sometimes pay them ahead of time or provide part of their food on top of the wages. They like this, because it stretches their credit at the local shop."<sup>95</sup> Similarly, growers who were not accustomed to applying fertilizer at all must now invest cash to acquire, transport, and spread organic fertilizers, typically cow manure: "Organic is difficult," said one grower, when I asked whether organic certification benefits farmers, "you have to invest all your earnings in cow manure. But it improves the production."<sup>96</sup>

In addition, the mill has now made growers responsible for paying the costs of transport to the mill. The cost depends on the distance but, in 2008, was typically Gs.11,000 per ton for transport in ox-drawn cart from the field to a local winch and Gs.20,000 per ton for trucking from the winch to the mill.<sup>97</sup> This left Gs.55,000 per ton of sugarcane as profit and to cover other investment costs such as loans taken to establish sugarcane plantings, or the costs of transporting and spreading organic fertilizer (cow or

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<sup>94</sup> "O submundo da cana." August 24, 2008. *Folha de São Paulo*.

<sup>95</sup> Author Interview. Grower number 25. June 29 2008. Iturbe, Guairá, Paraguay.

<sup>96</sup> Author Interview. Grower number 44. June 27, 2008. Maciel, Caazapá, Paraguay.

<sup>97</sup> Author Interview. Hugo Rodriguez, President, Asociación Cañeros Orgánicos de Iturbe. Iturbe, Guairá, Paraguay. June 2008.

chicken manure). Growers complained that, as a result, they bore excessive risk and costs under organic production:

all the risks in the production chain are the producers'. The factory only pays at the gate; all of the harvest and transport costs the producers' to cover. Before, the mill paid the truckers and discounted it from the price they paid to growers. But this year we each have to pay from our own pockets and the price dropped last year suddenly from Gs.113,500 to Gs.108,000. The money doesn't last even 15 days. When you finish the harvest, the money has already run out.<sup>98</sup>

Growers also related how the mill has become more demanding about the quality of the sugarcane that it will accept:

The mill persecutes a lot. We have to deliver our cane within one day and it has to be very clean. But the mill's own cane comes in with garbage—with leaves and dirt and even with snakes! But ours gets rejected if it is not perfect. It is probably because they have their own cane and want to use it first, but when they run out of their own they buy up all of our cane. Now they are about to start their own harvest, so they took away my processing quota and said I could get it back in a month.<sup>99</sup>

On the one hand, these demands increase labor costs, because harvest workers cannot work as quickly when they must take care to remove all the leaves, roots, and shoots (*cogollo*) from the cane, and ensure that the cane is cut to the proper length. On the other hand, they increase the importance of proper coordination of harvest, transport, and delivery, because if sugarcane gets stalled in transport and begins to rot, the factory rejects it, but the farmer still must pay his workers and the trucker.

In contrast, harvest operations of the mills' sugarcane plantations and those of some of the large producers it allegedly favors outside of the association are mechanized. A harvester removes the entire cane plant from these fields, chopping the stalk, leaves, shoot, and some roots into small pieces before the juice is extracted at the factory. Because of the additional organic material harvested, the product contains lower proportions of recoverable sugar per ton than manually harvested stalks. However,

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<sup>98</sup> Author Interview. Grower number 11. June 17, 2008. Borjas, Guairá, Paraguay.

<sup>99</sup> Author Interview. Grower Number 36. June 24, 2008. San Salvador, Guairá, Paraguay.

growers complained that despite delivering cane of “superior quality” to the factory, the gate inspectors routinely rejected their cane at the factory gate. They argued that the mill was only profitable when it mixed its mechanically harvested cane with manually harvested cane, suggesting that factory used its standard-setting power to push labor costs on to small producers in order to increase plant efficiency at their expense.

*Little Support from the Factory for Supplier Upgrading*

While the mill had imposed new demands and costs on growers, the association’s members felt that it did not provide adequate technical and credit support through its agricultural department and inspection services to assume the costs of meeting them. Different growers offered similar criticisms. One grower explained, “one or two times a year the engineer from the factory gives a talk, but it is only so we know the rules;” he also lamented the State’s inaction, saying “we are completely abandoned by the ministry.”<sup>100</sup> Another grower related, “the inspectors come maybe once a year to tell you what you should do, but they don’t come often enough; they should come every week. But they are just there to collect their salaries.”<sup>101</sup> A third grower echoed these statements, “There is no technical support, only the *técnico* that comes from the factory to inspect. They make some recommendations, like using green manure.” When I asked him what else they suggest, he replied, “pretty much just that. They only come once a year.”<sup>102</sup> The Ministry of Agriculture’s local extension agent summed up growers

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<sup>100</sup> Author Interview. Grower Number 5. June 20, 2008. Borjas, Guairá, Paraguay.

<sup>101</sup> Author Interview. Grower number 24. June 29, 2008. Iturbe, Guairá, Paraguay.

<sup>102</sup> Author Interview. Grower Number 12. June 17, 2008. Borjas, Guairá, Paraguay.

attitudes as follows: “The mill’s agricultural department are just data collectors. They don’t support; they just demand.”<sup>103</sup>

To the extent that the factory’s extension agents promoted upgrading or changes in farming practices among the bulk of its growers, it appeared to be more through a sanctioning approach than by convincing and supporting learning among their suppliers. The association’s president, Rojas, explained, “the biggest demand is planting green manure and recuperation of the soil. Two or three growers have been suspended because they failed to use green manure two years in a row.”<sup>104</sup>

Older growers lamented their current “abandonment,” recalling the social protections afforded by the mill in earlier times. The wife of one farmer recounted,

we don’t have anyone who gives recourse when we have a problem. But before when I was very little, my dad could go to the factory when my mom was sick and Don Friedman would give money. But now, this manager won’t give you anything. If you don’t have some animal to sell for cash you just die. It could be good; we need to have insurance like [the national social insurance] IPS for farmers. They should give us benefits, like tractors. Now you have to pay for these services.<sup>105</sup>

Another grower concurred, “we have to look to our own resources for any problem. The commercial lenders are too expensive, there are no *patrones* besides the factory. They never give any help. If you aren’t careful, they don’t pay you for what you sell.”<sup>106</sup>

### *Unfair Access to Processing Quotas*

Grower’s also complained that as the mill switched to organic production, access to processing quotas and other benefits had become increasingly unreliable and unfair. Processing quotas have always been restricted to members of the association, and non-

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<sup>103</sup> Author Interview. Ministry of Agriculture Extension Agent. Dec. 4, 2007. Iturbe, Guairá, Paraguay.

<sup>104</sup> Author interview. December 2008. Iturbe, Guairá, Paraguay.

<sup>105</sup> Author Interview. Grower number 32. June 25, 2008. Iturbe, Guairá, Paraguay.

<sup>106</sup> Author Interview. Grower number 8. June 18, 2008. Borjas, Guairá, Paraguay.

members typically sold at a discount to growers that held census numbers. But as the mill invested in its own plantations, growers complained, access to processing quotas became more restricted and favored larger, wealthier growers and those that had better connections to the mill. One grower protested, “there are lots of capitalist intermediaries who buy cane at the winch, and then pay off the factory’s inspectors at the gate to deliver it . . . . Intermediaries get rich this way.”<sup>107</sup> Many growers complained about how the distribution of processing quotas favored Rojas's executive committee’s closest followers:

The old commission prioritized to selling their own cane, and the small producers didn’t sell theirs . . . there was a lot of privilege in the use of the tractors for large producers that are closer to the factory. When they start distributing quotas to this zone, it is too late in the harvest season and the cane doesn’t grow back in time to harvest the next year. Last year, I had to sell all my cane at the winch to other growers who had quotas in the factory, and I got paid Gs.5,500 less [per ton] this way.<sup>108</sup>

Another grower simply asserted, “there are two kinds of agriculturalists, big and little. The big ones pay off the inspectors to get quotas. So they get their cane in first, and by the time the quotas get to the small growers, the weather is too hot and they can’t get any hired labor.”<sup>109</sup>

#### *Politicized Agricultural Extension Benefits*

The complaints of these growers contrast with the comments from a minority of growers that maintained good relationships with the factory and had political connections outside of their local communities. One grower who was related to the Colorado-Party Governor of the politically important department of Alto Paraná asserted

the factory helps, they give you a census number and they send the tractor and they finance it for you from your future cane harvests. We ask the inspector for what we need: processing quotas, payment advances, documents. He attends his clients very well. And I

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<sup>107</sup> Author Interview. Ministry of Agriculture Extension Agent. Dec. 4, 2007. Iturbe, Guairá, Paraguay.

<sup>108</sup> Author Interview. Grower number 11. June 17, 2008. Borjas, Guairá, Paraguay.

<sup>109</sup> Author Interview. Grower number 25. June 29, 2008. Iturbe, Guairá, Paraguay.

don't complain. Before the factory would take care of the roads here, but now we ask for them to bring the tractor from the departmental government.<sup>110</sup>

This grower also had a son who worked in the factory and had secured development assistance through his political connections to construct a series of concrete tanks and ponds to raise tilapia on his farm.

Similarly, another grower, who is a local broker for the Colorado Party and a local official for the Ministry of the environment, explained, "I always get processing quotas without a problem, because I am an old member. I also got a subsidy from the Ministry of Agriculture last year."<sup>111</sup> Francisco Ferreira, the dissident leader of *Asociación Agrícola Cañeros del Sur*, explained that only five producers got subsidized inputs (e.g. slaked lime) from the Ministry of Agriculture's "National Sugar Plan": "this generated much unhappiness because producers heard they were supposed to get 10 tons each. But it was not distributed evenly. Agricultural extension benefits are completely politicized. The ministry distributes here in Iturbe through the sugar mill. To get the inputs you have to be a member of the governing group and be complicit in their favoritism."<sup>112</sup>

#### *Allegations of Favoritism and Corruption in the Use of the Fairtrade Social Premium*

Finally, growers perceived similar personalism and favoritism in the use and distribution of the Fairtrade premium. After learning about the social premium's existence, rumors and allegations about graft and misuse spread rapidly among the member's of the association, as they made assertions such as, "money comes from abroad to help the organic producer, but it never reaches us. It gets eaten by the president and the factory . . . a lot comes, we hear, but no one sees it, so we know that it gets stolen. I've

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<sup>110</sup> Author Interview. Grower number 30. June 25, 2008. Iturbe, Guairá, Paraguay.

<sup>111</sup> Author Interview. Grower number 37. June 26, 2008. Caazapá, Caazapá, Paraguay.

<sup>112</sup> Author Interview. December 2007. Iturbe, Guairá, Paraguay.

worked 40 years and never got a single gift (*obsequio*).”<sup>113</sup> Another grower responded to my questions about Fairtrade and the premium saying, “I’ve never heard of Fairtrade and never heard of the social premium. I never received one *Guarani* of premium, they eat it all in the factory. I heard that it comes once a year. Once I got Gs.100.000 [between US\$20 and US\$25 depending on the period] but then never again.”<sup>114</sup> A third grower exclaimed, “the money that comes from abroad needs to have its own administrators who give the money directly to the growers and not to the association, otherwise they just keep it for themselves. They don’t show us a paper that says how much money comes from abroad. The people who send it should know how it is distributed.”<sup>115</sup>

These revelations came on top of the list of grievances recounted above and after many years of pent-up frustrations. Moreover, they coincided with an increasing oversupply of sugarcane and factory closures related to the mill’s expansion. The scarcity of processing quota’s in the 2007 season provoked open conflict and contestation of the association’s leadership as growers began to seek greater accountability and to demand the sorts of procedures that Fairtrade certification presumes are in place.

### ***Crisis of Oversupply and Leadership Renewal 2007-2010***

As described above, a combination of structural and temporary forces had contributed to a substantial oversupply of sugarcane in Guairá during the 2007 season. Growers claimed that the mill in Iturbe prioritized its own plantations, those of its privileged local growers, and those of larger growers outside the mill’s area of influence that were not part of the local sugar growers association. Where they could, producers

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<sup>113</sup> Author Interview. Grower number 27. June 28, 2008. Iturbe, Guairá, Paraguay.

<sup>114</sup> Author Interview. Grower number 13. June 27, 2008. Iturbe, Guairá, Paraguay.

<sup>115</sup> Author Interview. Grower number 7. June 25 2008. Borjas, Guairá, Paraguay.

relied on intermediaries to channel their crop, but many of them were left with unharvested cane in December, when the weather is very hot and field labor is difficult or impossible to find. Thus, a large number producers were left without income until the start of the 2008 harvest season, in May, when the mill began to process cane left over from the year before.

Growers had traditionally tolerated the privilege enjoyed by their leaders in exchange for secure access to processing quotas, income, and limited credit and social support from the mill. As these guarantees broke down and leaders failed to hold up their end of the bargain, sugarcane farmers began to desire more assertive leadership. This led to renewed division within *Asociación Cañeros Orgánicos de Iturbe* and to calls for an election of a new executive committee. For the members of the association, the failure of the executive committee to respond to the oversupply of sugarcane in the 2007 season and the difficulty producers faced in selling their crops exposed the committee's loyalty to the mill over the producers and the inadequacy of their association.

One producer, frustrated with the association's inaction, took negotiation with the mill into his own hands, bypassing the executive committee headed by Roberto Rojas, and negotiating for himself and the rest of the association's members. This farmer, Hugo Rodriguez, was the son of a respected sugarcane farmer who had served on the association's executive committee in the past. However, his education, personal history, and perspective differed greatly from any of the individuals who had previously exercised leadership among Iturbe's sugarcane farmers. Rodriguez had not intended to make his life in Iturbe or as a sugarcane farmer, but had left in his teens, with the support of his parents, and built a life for himself in Paraguay's capital. Unlike most of the region's

farmers, he had finished not only grade school and high school but had completed numerous post-secondary courses of study in business administration. In Asunción, he had worked for private companies and undertook a series of ultimately unsuccessful business ventures, including opening an automotive repair shop.

In his late thirties, Rodriguez was old enough to command the respect of his fellow cane growers, but much younger than the bulk of the association's members, who were in their fifties. This generational difference reinforced the educational and professional differences between the association's previous leaders and Rodriguez, who saw himself as a modernizing and democratic leader. In 2007, family circumstances, including his father's ailing health and the failure of his business ventures in Asunción, had taken Rodriguez back to Iturbe, reversing the urban trajectory of his personal development at a relatively young age.

This moment of great personal difficulty for him was compounded by potential financial ruin when he was unable to secure a processing quota from the mill. He would face devastating losses if he was unable to deliver to the factory the sugarcane that he had already harvested from his fields. His personal interests were threatened by the unequal distribution of processing quotas, but, as an outsider, he was also struck by the unfairness with which the mill and the association had treated the majority of the cane growers. Eventually, through the lens of his Christian belief, he came to interpret his past failures and personal struggles as the pathway that led him back to Iturbe and toward a calling to serve as a leader there. He felt compelled to contribute the benefit of the perspective and experiences he gained outside Iturbe to the development of his community and the inclusion of marginalized cane growers, explaining, "we are trying to get the most

insignificant producer to have as much benefits as the biggest one.”<sup>116</sup>

In addition to demanding more processing quotas for the association’s members, Rodriguez negotiated a smaller decrease in the price of sugarcane than the mill had announced for the season. The mill had intended to drop the price from Gs.113,000 per ton of sugarcane (roughly \$22.60) to Gs.100,000/ton (roughly \$20.00). Instead, the new price was fixed at Gs.108,000Gs/ton of sugar cane (\$21.60). Following the episode, Rodriguez gained substantial legitimacy among the association’s members, and a group of discontented members pushed him to head a slate of opposition candidates to replace the executive committee headed by Roberto Rojas, which growers had come to see as sell outs, or “*patronistas*.”

That the impetus for Rodriguez’s candidacy came from a group of the association’s members, rather than his own initiative, further bolstered his legitimacy. Moreover, as his running mate, Rodriguez chose another fellow cane grower who had gained economic and political experience outside of Iturbe and who had been expelled from the association for raising his voice against the mill in the past. Now in his late fifties, “Teniente” Francisco Acosta spent the bulk of his working years living in Buenos Aires, as a factory worker. Like many Paraguayans in his generation, he migrated to Argentina when he was young to support his family and accumulate sufficient capital to purchase land and establish himself as a farmer in Paraguay. He spoke fondly of his time in Argentina, describing how much better organized and “awake” Argentines were. He took from his experiences there a combative style of speaking, earning among his fellow cane growers the nickname *Teniente* (Lieutenant). He wished to instill more of a

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<sup>116</sup> Author Interview. Hugo Rodriguez, President, Asociación Cañeros Orgánicos de Iturbe. Iturbe, Guairá, Paraguay. June 2008.

“fighting spirit” in the cane growers, often invoking in speech the factory’s exploitation. His militant style was often at odds with but also complimentary to Rodriguez’s more pragmatic and circumspect style of leadership.

In response to this challenge, the existing executive committee sought to employ customary means of retaining power. First, Rojas attempted to coopt Rodriguez and his supporters and avoid an open vote, by offering them the positions of secretary and treasurer but preserving the presidency and vice presidency for the old group. In a series of three meetings, the opposition group held out and “continued to demand a change of authorities.”<sup>117</sup> In a second meeting Rojas’s group offered Rodriguez’s the Presidency and Vice-Presidency in exchange for the other positions, but the opposition group “would not give it up.”<sup>118</sup> Unlike earlier meetings, which had mobilized very little participation, the controversy, the potential for leadership renewal, and the continued lack of resolution attracted successively more participation from the members. When a consensus could not be reached, the assembly decided to hold an election.

According to one interview, the period leading up to the final vote displayed the same clientelistic dynamic that is common in national politics.

It was like [national] politics. The old president had all the power to stay in power. In the days before the election, they sent tractors to people’s plots to be able to gather votes, and warned them that they would have a difficult time getting processing quota’s at the factory if they voted for Hugo. So people thought he wouldn’t lose. This is why Rojas got some votes. But it wasn’t enough. People here are conscious now too.<sup>119</sup>

When a vote was finally called, the associations’ full membership of approximately 700 producers participated, and the opposition candidates won in a vote of 400 to 300. The election was the first time in the organization’s history that it had chosen its leaders by

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<sup>117</sup> Author Interview. Francisco Acosta, Vice President, Asociación Cañeros Orgánicos de Iturbe. Iturbe, Guairá, Paraguay. June 2008.

<sup>118</sup> Ibid.

<sup>119</sup> Author Interview. Grower Number 36. June 24, 2008. San Salvador, Guairá, Paraguay.

secret paper ballot rather than through negotiation and consensus among the potential leaders, followed by ratification by its members. The new leaders viewed this as a large step forward and hoped they would enjoy greater legitimacy as a result of their democratic election.

#### *Reforming a Dependent Organization*

After taking power, in December 2007, the new committee set its sights on ‘modernizing’ the association. The new president explained, “historically, just one group managed the association and they are not bad people, but they are old. So organizationally we needed to change things.” He felt that the conflict between the two groups was good for there organization, “so that it can mature and provide better opportunities in this rapidly changing market (*mercado vertiginoso*). People wanted a new organization, with well-trained and educated people to debate policies and programs.”<sup>120</sup> In addition to securing a fairer distribution of processing quotas and better prices from the mill, the new leaders prioritized increasing the flow of market information to their followers and making the association more transparent and more responsive to its member’s demands.

The new president suggested, “the fundamental problem of our organization is the lack of information. It is not the factory’s fault, or anyone’s fault . . . . The factory has its criteria and they prioritize these criteria because the growers don’t have enough information to understand what the factory’s interests are and how they differ from ours.” For example, he explained that they understood that the factory had begun demanding “higher quality,” primarily in terms of higher sucrose content at the time of harvest.

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<sup>120</sup> Author Interview. Hugo Rodriguez, President, Asociación Cañeros Orgánicos de Iturbe. Iturbe, Guairá, Paraguay. June 2008.

However, they didn't understand why the factory prioritized its own sugarcane or whether this was related to quality differences.

The association's new Vice President, added, "we have to be better informed about prices, about the way the organic market works and how Fairtrade works. For example, I'm sure that we are getting paid an unfair price." He asked, "how can they offer to pay Gs.103,000 plus Gs.3,000 bonus at INSAMA," a relatively new sugar mill in the department of Misiones, "if the world market price is the same?"<sup>121</sup>

The leaders admitted that the mill potentially established its pricing and sourcing positions on the basis of legitimate financial constraints.<sup>122</sup> However, they also agreed that the association was far too isolated and too reliant on the mill for information. The association's history of dependence on the mill and its lack of alternative information channels made it impossible to trust the mill in their negotiations and led them to wonder whether they were being cheated. The president asserted, "we are seeing if the factory tells us the truth. We have a good relations with them, but we don't know a lot."<sup>123</sup>

The two leaders also wished to gain a better understanding of Fairtrade. The two were enthusiastic about my visit to Iturbe, because it provided them an opportunity to ask about Fairtrade, about its structure and purpose, and about how the Fairtrade premium worked in general and specifically in the case of Iturbe. I spent an evening at the leader's home answering these questions and others, such as how much consumers pay for organic sugar in the U.S. and how currency fluctuations affect the price of sugarcane and

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<sup>121</sup> Author Interview. Francisco Acosta, Vice President, Asociación Cañeros Orgánicos de Iturbe. Iturbe, Guairá, Paraguay. June 2008.

<sup>122</sup> The higher price paid by INSAMA most likely stemmed from local sugarcane scarcity in Santa Maria, Misiones. The mill lay far outside Paraguay's traditional sugarcane farming area, and its owner was an outsider who had to convince potential suppliers to adopt an unfamiliar crop.

<sup>123</sup> Author Interview. Hugo Rodriguez, President, Asociación Cañeros Orgánicos de Iturbe. Iturbe, Guairá, Paraguay. June 2008.

the cost of fuel. At that time, the mill claimed that it could not raise cane prices because of the dollar's low exchange rate. Among sugarcane growers, the fact that petroleum and basic food prices continued to climb despite the drop of the dollar exchange rate generated a great deal of skepticism that the mill was truly effected by the exchange rate. However, no one in the association knew how the mill's revenues worked, and its leaders couldn't give a proper response to their followers. Under these conditions, the best course of action available to cane growers was to assume that the mill was trying to exploit them and to push back as hard as they were able for improved prices and processing quotas.

They listened with great interests to my responses, as I explained the structure of the value chain that Iturbe's farmers supply—describing how Iturbe sold to a U.S. multinational that supplied industrial food processors, as well as consumer markets through supermarket retail outlets—and as I explained how the price of sugar a consumer pays in the U.S. reflects many costs beyond the processing that occurs in Iturbe. I provided an impromptu lesson on inflation, showing how international exchange rates and international commodity prices affect domestic prices. At that time, the strengthening of Paraguay's currency had shielded the country from the rapid increases in global petroleum prices. I suggested that, if Paraguay's Central Bank were to control the appreciation of the Guaraní, it could stabilize the earnings of exporters like *Azucarera Iturbe* and the prices it paid its suppliers, but how this could also increase prices throughout the economy by making petroleum imports more expensive.

Rodriguez wished to gain a better understanding of these issues for himself, but especially to share it with the members of the association, increasing the organizations transparency and responsiveness, while helping growers make better decisions. “Before,”

he said “there would be meetings and only 15 people would show up. We want to leave this behind. We want to have debates; we want to get ahead.”<sup>124</sup> Rodriguez recalled that FLO’s liaison officer had visited before from Bolivia, explaining “he just talked to a small group inside the factory. We want him to do it for everyone, and not to do it in the factory, but to do it here for the association.”<sup>125</sup> Describing past leaders’ lack of accountability, the Vice President lamented,

They did a terrible job. In a whole year of work they didn’t leave minutes for a single meeting of the executive committee. The books were a mess. They didn’t keep track of the tractor use and tractor expenses. They weren’t signed by an accountant; we have no idea how they managed the money. There was no accounting.<sup>126</sup>

To improve this, the new leaders rented an office in Iturbe’s center (the old president administrated the association’s affairs from his personal office in his home). They purchased a computer, established an internet connection, and employed the vice president’s son, who was studying business administration at the National University in Villa Rica, as the association’s administrator. They also set up a structure of representatives for different regions of the associations. These representatives are responsible for attending meetings and are in charge of communicating with each of the members in their respective zones. The association also purchased a service from their cell phone company that allows these representatives to speak to each other and the executive committee without charge and allows members of the association to text their representatives free of charge.

However, as the following section describes, the association’s dependency on the mill as a crop outlet and a source of organic certification, combined with the history of

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<sup>124</sup> Ibid.

<sup>125</sup> Ibid.

<sup>126</sup> Author Interview. Francisco Acosta, Vice President, Asociación Cañeros Orgánicos de Iturbe. Iturbe, Guairá, Paraguay. June 2008.

poor leadership, continued to limit its capacity for collective action. This pushed the association toward negotiating positions that it was unable to maintain and which were not necessarily optimal in terms of securing their continued access to export markets.

#### *2008 Exchange Rate Conflict Tests New Leaders' Legitimacy*

While the new leaders expressed much enthusiasm and optimism for democratizing their association, their legitimacy was put to an immediate test at the start of the 2008 season, as exchange rate fluctuations provoked conflicts over the price of sugarcane. Pushed to take action by the association's members, Rodriguez's attempts to negotiate favorable prices for the season were subsequently undermined by the divided organization and weak support from the followers of the old executive committee. The episode illustrates how the legacy of monopolistic clientelism complicated the leaders' goals of transforming the organization into a vehicle for the economic modernization and political representation of its members.

In 2007, the effect of the dollar's post-crisis drop combined with upward pressure on the Paraguayan Guaraní created by exceptional soybean exports. This greatly eroded the local value of dollar-denominated exports such as sugar. Between 2007 and 2008, the Guaraní-Dollar exchange rate fell from Gs.5,200 to below Gs.4,000, leading to tense negotiations over the price that the mill would pay sugarcane growers for the 2008 season. Initially, the mill proposed a price of Gs.100,000/ton and the growers proposed Gs.125,000/ton. In order to extract greater concessions from the mill, the leaders of the new association staged a weeklong strike.

However, the new executive committee was forced to negotiate from a weak

position, as only 100 out of the 700 producers had shown up at the factory, including only the committee's closest supporters. The producers who had supported the old committee in the election had not shown up. One grower explained, "there are a lot of producers, but they are not united enough to negotiate a good price. When they do strikes, few people show up. For the small producer it is hard to get to the strike. People with money can go in motorcycle or car, but the big producers just bribe the factory's inspectors directly."<sup>127</sup>

Under these weak bargaining conditions, the committee reached the following agreement with the mill: 1) the price would be Gs.111,500 (approximately \$27 at that time) per ton of sugar cane; 2) this price would be subject to fluctuations in the exchange rate according to a table of "price-ranges" they had agreed upon; 3) the factory would prioritize sourcing sugarcane from the association's members, granting them adequate processing quotas and delivery times; and 4) any disagreements would be worked out through dialogue.

Growers were pleased with this outcome as long as the dollar exchange rate remained stable. However, when dollar exchange rate dropped below the cut-off range of Gs.4,000/US\$, in August 2008, the mill automatically began to offer a lower price, unleashing another round of conflict. When a group of sugarcane farmers showed up at the factory on their payday, the mill informed them that they could redeem their cane receipts at only Gs.109,000/ton of cane rather than the price of Gs.111,500 printed on their receipts. In response to this surprise, the growers present at the factory called the association's leaders to the factory gates for an impromptu meeting and to negotiate with the mill.

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<sup>127</sup> Author Interview. Grower number 25. June 29 2008. Iturbe, Guairá, Paraguay.

That day, Rodriguez had planned to meet me and my assistant for breakfast, but instead he called me and said there was a problem at the factory and I could meet him there. I witnessed the unfolding of debate among the association's members and listened to Rodriguez's reports of his successive rounds of negotiation with the factory's manager. Arguments about what price should prevail appeared improvised on both sides. The growers consulted with a currency changer in Asunción, and protested that the exchange rate had not dropped before the close of the factory's weekly accounts on Wednesday. They argued that the subsequent exchange rate drop should not affect the prior weeks' sugarcane price. The factory manager countered that the factory received payments in dollars on Fridays for its sugar exports and had to use that Friday's exchange rate to calculate their payment. Furthermore, the mill argued, in reality the dollar had dropped below Gs.3,800 that week, and the mill was making its best effort to pay the growers Gs.109,000 rather than Gs.107,000, as their earlier agreement stipulated.

The debate about how to proceed took place at the factory gate, as producers, badly in need of cash, continued to queue and receive the lower-than-expected price for their sugarcane. Several additional rounds of negotiation between the president and the factory manager and discussion between the president and the assembled members took place, with the tone of the discussion escalating each time and calls for a strike growing stronger. After the first round, the president returned with an offer from the factory to pay back the difference in price in two weekly installments.

The president suggested accepting this agreement for the time being, but also suggested calling an assembly a week later to discuss what to do about the issue of the dollar exchange rate. He proposed delivering all the sugarcane that growers had cut in

their fields to the factory before its spoiled, and then discussing whether they should hold a strike to demand a new price agreement. This would permit them to negotiate from a stronger position and with the ability to regulate or stop harvesting and deliveries to the factory. The growers who were present for the initial debate accepted this proposal, but just before the president and committee could enter the factory to negotiate, producers who had not been present for the discussion began to object and open up discussion again. This pattern played out several times until, ultimately, the aggressive proposals won out and the president called an immediate strike and scheduled a full assembly of the members for the next day.

Later that evening, the association's president expressed frustration over the actions of agitators that "just come to rile people up at times like this, but when it is time to hold a strike or hold a meeting they are no where to be found." He suspected that the members who had acted this way were the group of people who were favored by the old executive committee and benefited personally from the arrangement that his group had with the mill. These people "wanted to see the new committee fail" and worked to raise expectations of members but then sabotage the committee's ability to meet them.

Throughout these discussions the president took pains to remain objective in tone, continually reminding the members present that his role was simply as a mouthpiece (*portavoz*) to transmit the decision of the group to the factory. He wanted the members to come to their own decision and to take responsibility for it, rather than expect him to take action on his own. Later, Rodriguez expressed frustration with how growers were accustomed to authoritarian leaders and only respected strong language and aggressive action. He believed, however, that "there is more than one way to be a man," and that

with time they would see that it is better for their leaders to listen carefully, consider various positions, and take thoughtful action.

However, the openness of the negotiation process seemed to leave the committee (and particularly the president) open to accusations of weakness or ‘selling-out.’ The discussion in the group was unstructured and just as a decision was made or consensus reached, a member who had not been involved in the earlier discussion would open up a new debate, or a member who was not satisfied would bring up a new point or revisit an old one. But as issues were revisited over and over again, the proposed actions became more and more radical as the most outspoken and confrontational members (or “agitators”) gained support for their positions because the other members didn’t wish to appear weak in front of one another. The president urged the members to have some set of concrete demands before going on a strike, but instead, the group decided to strike immediately to “show their force.”

Few additional members showed up the next day to the assembly that was called and some of the producers present at the factory gate and pushed for the strike did not show up. Those that were there held a discussion and decided that the committee should negotiate for a fixed price of Gs. 111,500 that would not be subject to exchange rate fluctuations—the same demand that they were unable to achieve at the start of the season. In the end, the association’s actions that day did not resolve the question over what price growers would receive for their sugarcane. The weak showing of numbers showed the association’s weakness rather than its “force,” as did its leaders inability to resolve the price issue themselves. The president returned to explain that the mill was going to join other exporting industries and the Ministries of Industry and Commerce and of

Agriculture and Ranching to negotiate with the Central Bank and Ministry of Finance for greater exchange rate stability. The mill hoped that the dollar's value would improve and the price of sugarcane would remain stable. The members present at the meeting agreed rather suddenly to wait another week to see how the dollar behaved before deciding how to proceed and then dispersed.

***Conclusion: Monopolistic Clientelism, Dependent Upgrading, and Gradual Change***

This chapter has shown how, in Iturbe, where growers were organized in a single organization that depended on a local mill for its resources, sugarcane growers have had difficulty sustaining collective action in ways that permitted them to increase the benefits and resources they extracted from the mill as they integrated into an international organic sugar supply chain. Moreover, the new resources Fairtrade buyers provided Iturbe's sugarcane farmers did not initially contribute to their upgrading, but became the subject of conflicts between different groups of leaders and an object of mistrust between the association's members and their leaders.

Iturbe's growers remain dependent on a single local mill that they allege has invested more resources toward vertical integration into its own plantations than in effective and efficient coordination with its external growers. Growers' relationship to the mill has permitted them to accompany the mill's upgrading into organic certification, granting them access to a market for their crops at a time when small farmers elsewhere in Paraguay have been struggling to survive. However, the switch to organic production in Iturbe has initially failed to support the types of upgrading that could potentially support longer-term and more autonomous development of its smallholder farmers in the region. Sugarcane farmers' soils are badly degraded, and grower's understanding of

organic farming methods is generally limited not burning and not using chemical inputs. Only those who professed close relationships with the mill expressed any understanding of the importance of using nitrogen-fixing green manure crops that improve soil quality and lead to increasing yields over time. Organic certification has resulted in greater reliance on sugarcane monocrop, as growers have given up cotton all together. Growers also lack commercial relationships to any buyers besides *Azucarera Iturbe*, providing a disincentive for crop diversification. Finally, their lack of access to credit constrains farmers' ability to accompany the mills' growth by investing in greater yields and increased crop areas.

The new flow of external resources to the sugarcane farmers from Fairtrade provoked a series of struggles within their association, as did their new vulnerability to external shocks, such as currency and price fluctuations. Through these struggles, the association gained a set of leaders who are more willing to act autonomously of the mill and advocate for their followers interests. However, the legacy of coopted leadership and a divided membership base granted the leaders a poor information base, a narrow margin of legitimacy, and limited organizing experience upon which to act.

During my research, rumor continued to play an important role in spreading information in the association, and the leaders pursued negotiations without the benefit of strategic information—e.g. in staking its position, the growers association took no account of factors like the degree of the mill's dependency on externally grown sugarcane, because its leaders had no knowledge of this variable. Instead, the leaders arrived at decisions by holding open debate with members. As the composition and the setting of their assembly changed, different groups continually questioned the legitimacy

of past actions and current decisions. While the agreement made with the mill about the sliding price scale was signed in an assembly and received approval as the best agreement that could be negotiated at that time, under new conditions and with a different group of producers, its legitimacy dissolved.

If the association's leaders had tried to impose the conditions of the original agreement, they would have opened themselves to accusations of weakness or "selling out." Under these conditions, the new leaders were unable to make good on their promises to create a more representative organization and employ a rational negotiation strategy at the same time. As the president suggested, this type of discussion pushes members toward positions that they are not necessarily willing to defend, and erodes their legitimacy.

Furthermore, the association is constrained by the position growers occupy in the value chain. The association's lack of information stands in contrast to the mill's centralized information about local supply and international demand, production costs in its own plantations versus on its suppliers' farms, and international prices for organic sugar. The association's leaders are unable to enforce their decision or mobilize collective action from their members, while the mill enjoys the power to impose new standards and costs on its suppliers through its agriculture department and to ensure profitable sourcing relationships with them by doing so. Finally, the mill's buyer, Florida Crystals, ultimately makes decisions about how and where the sugar produced by the mill will be sold and how much the chain will engage with the Fairtrade system, but growers hold no direct relationship with the U.S. company.

As *Azucarera Iturbe* and the Paraguayan economy integrate into the global economy, the clientelistic relationships growers traditionally held with their buyer and (to a more limited extent) with the State no longer provide the same level of security and, instead, evolve into purely economic relationships. As a result, growers feel abandoned and insecure, but have little sense of how they might build a cooperative relationship with these actors or other external to further their own development.

As growers grapple with the changes created by a shift from protected and stagnant national markets to growing international markets for organic sugar, their local experiences and knowledge provide a poor basis for decision-making. Accustomed to guaranteed returns to very limited investment, Iturbe's growers have no sense of the pace of private multinational investment in competing national sugar industries, such as Brazil. They have little sense of the kinds of extension and credit support successful small farmers have received from the State and their own associations in other countries.

Instead, the history of conflict and distrust between growers, their leaders, and the mill encourages polarization and a focus on local distributional conflicts, limiting the kinds of cooperation that could help farmers adjust to the competitive demands of globalization and address the root problems of sugar cane farmers insecurity, such as declining soil quality, inappropriate sugar cane varieties, lack of credit and technical assistance, and dependence on a single cash crop.

The association's leaders express an awareness of forces beyond their community that increasingly shape and constrain its development. However, from their isolated position, they still feel unable to articulate the nature of these constraints or imagine a response that would lessen growers' insecurity and improve their economic prospects.

To the extent that Iturbe's growers have articulated new demands on their association and on *Azucarera Iturbe*, they have responded more to local competition than to any increase in international perspective. They have responded with impatience about their own organization, *Cañeros Orgánicos de Iturbe*, after the witnessing the new benefits that *Cañeros Orgánicos del Sur* and its leader, Francisco "Kiko" Ferreira, began providing the smaller group of sugarcane farmers that broke away from the local mill to supply *Azucarera Paraguaya*. Growers heard that, "the social premium bought the machinery, tools, trucks, of the other association that belongs to Kiko." This made members suspicious, and they "didn't trust their leaders anymore." Also, a grower asserted, "Kiko's organization keeps good paperwork and that's why they get the premium. Our president wasn't in order (*en regla*) with the paperwork, and so they didn't receive the same help that the *Cañeros del Sur* did."<sup>128</sup>

For the time being, *Cañeros Orgánicos de Iturbe's* leaders have done their best to respond to their followers distinctly local concerns about the use of the organization's tractors and the budgeting and accounting of the Fairtrade premium. By April 2009, when I attended the association's annual general assembly, the leaders had made clear progress on these issues. The assembly's rigid and formal rules of order offered a strange contrast to the casual manner in which members typically addressed each other and their leaders. The executive committee presented each of the more than 500 growers assembled there a copy of the annual balance sheet for 2008, prepared and certified by an accountant and listing its assets (cash, an account at the National Development Bank, outstanding credits, and the depreciated value of its capital equipment) and its outstanding debts as liabilities. A second sheet listed the association's income and expenditures for 2008, showing

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<sup>128</sup> Author Interview. Grower Number 34. June 24, 2008. San Salvador, Guairá, Paraguay.

Gs.208,942,649 of “donations from abroad” as its largest source of income,<sup>129</sup> and Gs.120,156,778 for “lubricants and fuel” as its largest expenditure.<sup>130</sup> It also contained a line for Gs.68,517,395 of “non-deductible expenditures.”<sup>131</sup>

As the growers puzzled over the documents, I myself had trouble understanding them until the accountant, who happened to be sitting next to me, gave me a detailed explanation of each line. When it came time to debate the balance sheet, the attendees were silent, unsure of how to respond to the new transparency of their organization or of what they really gained from it. Eventually, one grower explained that he was “in agreement (*conforme*) with the numbers” and that they had “done a god job explaining it”, but that he understood them “only more or less (*más o menos bien*).” Sensing that others felt the same way and not wishing to hold up the assembly, he admitted it would be “difficult for them to really understand the documents and the terms they use completely,” and he would have to take it home and study it more carefully.

Similarly, another grower suggested that, in the future, the accountant could prepare a balance sheet to submit to the government for tax purposes, but also prepare “something simpler,” for the association’s members, “with just three numbers” that would show its total income, expenditures, and how much was left over. The accountant replied that he could do this, but that it would make it difficult for members to see “the true state” of the association’s finances. In any event, growers’ limited literacy and education limits their ability to read the “true state” of the associations financing and management from written documents. The entire exercise rested on the members trust

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<sup>129</sup> Between US\$43,000 and US\$54,000 depending on which month’s exchange rates are used to convert the figure.

<sup>130</sup> Between US\$25,000 and US\$31,000.

<sup>131</sup> Between US\$14,000 and US\$18,000.

that their leaders had not manipulated the budget numbers with the aid of the accountant to hide the misuse of funds. However, the very fact that the leaders had been willing to host such an exercise for the first time in the association's recent history strengthened this trust, as did the discussion and explanations they received about the different expenditures.<sup>132</sup>

In May 2009, FLO's liaison officer held a workshop in Iturbe and confessed to me that he was very pleased with the progress he had seen. He confirmed what my interviews had taught me, and believed that the association's former leaders had managed things very badly, that they had been far too dependent on the mill and possibly corrupt. On his first visit, he was "shocked" to see the difference between the former President's house and the others in Iturbe or in the countryside,<sup>133</sup> and then discovered that he kept no proper records of how the premium had been spent. They held the workshop on the factory grounds where "the owners could listen in and maybe be bothered or upset by what they heard." Now the association has its own offices, paperwork was in order, and they held the workshop in a rented meeting space where growers could talk freely. The new president, he said, "has attracted much more participation, many more people showed up than before and they seem much more interested in what the association can do."<sup>134</sup>

In general, however, he saw Paraguayan organizations as having a long way to go. Comparing the organizations here to the ones in Bolivia, he felt that "they are much less autonomous, there is less of a tradition of political organizing and the transition from

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<sup>132</sup> Author Observations. April 2009

<sup>133</sup> He recounted that when he asked for directions to Roberto Rojas home a women instructed him to "walk down the street until he saw the biggest nicest house." I had the same experience during my first visit, when a townsperson directed me to the "mansion on the corner."

<sup>134</sup> Author Interview. FLO Liaison Officer. May 2009. Asunción, Paraguay.

being political organizations to also being economic organizations is not as advanced here.” He also observed that “Paraguayans are more reluctant to discuss and resolve conflicts within their organizations; there is a lack of trust in organizations still.”

This case stands in contrast to case of *Cooperativa Manduvirá*, where the same series of conflicts occurred over the 1990s and 2000s, but where a more horizontal and pluralistic value-chain has arisen in contrast to the clientelistic and vertical relations that have driven captive governance in Iturbe’s value chain. The next chapter describes this case and how the cooperative responded to the contraband crisis of the early 2000s with successful collective mobilization of its members, paving the way for the growers to gain greater autonomy from their local mill and to participate in more substantial productive upgrading.

Farming and living off the land is one of the hardest livings in the world. It takes the most work and skill for the least amount of return. When you try to participate outside of your community in the market, it requires whole other levels of skill sets that you might not have had access to like business and marketing skills and this creates inherent challenges, because it is hard enough just to be a farmer.

*-A Former Organic Sugar Buyer, March 2011.*

## **Chapter 7. Pluralistic Clientelism and Autonomous Upgrading in *Cooperativa Manduvirá***

Throughout the world, globalization has rapidly exposed small farmers to increasing levels of competition and new demands for efficiency and product quality, as well as to new opportunities for economic gain. As they respond to new opportunities and imperatives that arise from outside their own communities, small farmers draw on pre-existing political and economic structures that they have constructed in relative isolation. However, the institutional structures and networks that evolve to optimize farmers' security in locally or nationally circumscribed economies do not readily support the learning and upgrading necessary to participate in global value chains, let alone facilitate egalitarian distributional outcomes.

In poor countries, small farmers lack the market information, productive knowledge, and capital resources necessary for competition in the global economy. Consequently, they depend on the few individuals or organizations in their communities that do command these resources. At the same time, long histories of rural authoritarianism often deprive small farmers of the necessary political resources and skills to hold their leaders accountable.

The previous chapter described how the history of authoritarian relations in Iturbe has complicated growers' ability to take advantage of the new economic opportunities arising from Fairtrade and organic markets. It documented how the monopolistic form of

clientelism prevalent in that community permitted the mill to factionalize the sugarcane farmers association and neutralize its mobilization. The new resources that Fairtrade provided the association did not support the upgrading of farmers' productive capabilities, but instead heightened their mistrust of their leaders, unleashing conflicts that have improved accountability but limited the legitimacy and effectiveness of the association.

The case leaves unanswered questions about whether and how small farmers can successfully adapt to a globalizing economy. How do farmers develop the economic and political capacities to respond to economic opportunities outside their communities? How can a legacy of dependence and clientelism give way to greater accountability? Can development initiatives like Fairtrade be effective under these conditions?

The following chapter presents the case of *Cooperativa Manduvirá* in the regional sugar economy of Arroyos y Esteros. This district experienced the same shocks as Iturbe as the Paraguayan sugar industry entered into crisis during the 1990s. This provoked same sequence of conflict with the local mill and mobilization among sugarcane farmers. However, in this case, successful mobilization gave way to successful cooperation among sugarcane farmers to pursue greater autonomy from their local mill, to break its monopsony control of the sugarcane market, and to become direct exporters of Fairtrade sugar. Following their integration into international supply chains, these organizations the resources and relationships that Fairtrade has made available have contributed both to economic upgrading among farmers and to greater accountability of their organization.

This chapter argues that these initiatives succeeded in Arroyos y Esteros because growers drew on an organizational legacy of pluralistic clientelism, in which the power

and resources to broker farmers' economic and political participation was divided among multiple organizations. This contrasts with Iturbe, where a single, powerful actor organized economic life. The chapter proceeds in two main parts. The first provides a background on the economic and political history of Arroyos y Esteros prior to its farmers' integration into international supply chains for organic and Fairtrade sugar in the 1990s. The second recounts the trajectory of relations between growers, their leaders, sugar processors, and buyers from that point on.

### ***Economic Backwardness and Pluralistic Clientelism in Arroyos y Esteros***

Arroyos y Esteros is a town of about 2,500 inhabitants, and is located approximately 50 kilometers outside of the capital city of Asunción in the department of Cordillera. Like Iturbe, Arroyos y Esteros is a traditional sugarcane farming area. However, in contrast to Iturbe and its centralized economic structure, Arroyos y Esteros historically had a decentralized economic production structure comprised of smallholder farmers engaged in a wider variety of subsistence farming and cash cropping. The area surrounding Arroyos y Esteros has long been a sugarcane-farming zone, but has also been home to producers of bitter orange trees, bananas, pineapple, papaya, melons, watermelons, and to a lesser extent tobacco and cotton. Smallholders grew these crops alongside a variety of food crops for their own sustenance, especially yuca, beans, and corn.

Until the mid 1990s, no centrifugal sugar mill operated in the town. Instead, household processing continued to play a large role in the local economy. The wealthier stratum of peasant families built, maintained, and managed approximately 150 *trapiches* in the rural communities (*compañías*) surrounding Arroyos y Esteros. They consisted

typically of animal (oxen) or diesel-powered crushing equipment used to extract cane juice and large open iron pans, where the resulting juice was boiled into a thick syrup using wood fuel.<sup>135</sup> Sugarcane syrup (*miel de caña*) has long formed part of the traditional diet of substance-oriented peasant producers in Paraguay and is eaten along with maize and dairy in a variety of dishes. In the department of Guairá, the installation of large sugar mills (*ingenios*) in the early twentieth century had eliminated the household processing industry. In contrast, Arroyos y Esteros's syrup producers sold their product to intermediaries that supplied alcohol distilleries belonging to the Public National Alcohol Administration (APAL), especially as cane liquor consumption grew and demand for ethanol expanded in the 1970s in response to government-mandated blending of petroleum-based fuel. Up until 1990, eight to ten alcohol distilleries operated in the vicinity of Arroyos y Esteros, buying sugarcane syrup from hundreds of *trapiche* operators. *Trapiche* owners also sold syrup to distilleries outside the region through intermediaries who traveled there.

Similarly, smallholders planted and harvested the leaves of bitter orange trees and processed them in rudimentary wood-fired stills to extract their essential oils through steam distillation. They sold this essence (*esencia de petitgrain*) to intermediaries that supplied a single trading company (Amigo & Arditi S.A.), which began to export the essence to France in the 1950s for use as a food flavoring and in perfumery. To a lesser extent, peasant farmers around Arroyos y Esteros also grew tobacco, drying the leaves for sale in bundles to intermediaries and rolling them into cigars.

Despite the commercial orientation of sugarcane syrup production in Arroyos y Esteros, its farmers and processors pursued very little productive modernization over the

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<sup>135</sup> The fibrous byproduct or residue from cane crushing.

twentieth century. Much as in northern India (see chapter 4), small sugarcane farmers in this region appeared locked into the stagnant end of a dualistic sugar industry, receiving few incentives or resources for investment and productivity growth. First, farming practices in Arroyos y Esteros were less advanced and less productive than in regions like Iturbe, where sugar mills acted as agents of technological change by establishing credit relationships with sugarcane farmers (see chapter 6). A survey conducted by the Paraguayan Center for Sociological Studies (CPES) found that the use of fertilizers and high-yielding cane varieties was significantly more common among farmers supplying sugar mills (*ingenios*) in Guairá than in Arroyos y Esteros, where farmers supplied *trapiches* and incorporated less technology and relied more exclusively on land and labor (52).

Second, household *trapiches* in Arroyos y Esteros were less efficient than the sugar mills and alcohol distilleries that performed their own larger-scale crushing. Small-scale animal and motor-powered crushing equipment extracted less juice from sugarcane than larger-scale mechanized crushing, and household processors lost substantial volumes of juice moving between the crushing and the boiling phases of production. This fact raised relative costs for alcohol distilleries in Arroyos y Esteros that relied on external sugarcane syrup suppliers for their raw materials. Their narrow profits obliged these alcohol distilleries to pay low prices to their syrup producers, who in turn paid low prices for the sugarcane they purchased from other farmers in their communities. As a result, sugarcane and syrup producers in Arroyos y Esteros received prices that were low in relation to their production costs, affording them little surplus for reinvestment.

Third, while small farmers and processors in Arroyos y Esteros enjoyed autonomous control over farmland and processing equipment, they confronted a commercialization and credit structure that discouraged reinvestment. A similar combination of productive autonomy and commercial dependence has characterized peasant producers' economic position for much of Paraguay's history. The demographic effects of two major international wars in the late nineteenth and early twentieth centuries created a context of abundant land, relatively scarce labor, and limited markets in Paraguay's rural economy.<sup>136</sup> Until the contemporary soy boom greatly increased the utility of land resources in Paraguay, smallholders enjoyed relatively secure access to land for subsistence purposes, paying little or no rent on the federal and private lands they farmed, and purchasing land at subsidized rates from the government's Institute for Rural Welfare (IBR). For this reason, Paraguayan peasants have traditionally been subjugated less by landowning oligarchs and more by the commercial intermediaries that monopolized scarce marketing outlets and consolidated their power in the period between 1870 and 1936. Miranda (1980) has dubbed this period, the "liberal republic." He writes:

The labor force was largely independent in the production stage but strongly dependent in the commercialization process. Local merchants exercised considerable influence over the peasants because of their control of the credit needed to finance the harvest and the transportation required to market it. Small peasants were also heavily indebted to local stores and normally the profits of a good harvest would hardly cover the debts contracted during the year. This structure was ideally suited for the emergence of clientelistic political structures. It fostered horizontal fragmentation because the rural labor force was not jointly subordinated to the elites in the work process itself, and encouraged vertical dependence because the peasant could not make ends meet without enslaving himself to the intermediaries (537).

Over the twentieth century and especially during the Stroessner regime (1954-1989), the Paraguayan State came to occupy a larger role in the process of economic

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<sup>136</sup> In particular, the war of the triple alliance (1864-70) provided a tremendous negative shock to Paraguay's population and greatly reduced the country's population density, with estimates of population losses ranging from 24-52% of the country's total population, (Kleinpenning 2002).

development. Public distribution of subsidized credit greatly expanded peasant farmers' participation in the national and international economies, supporting the growth of export-oriented cotton and soy industries. However, state credit policies also reinforced and institutionalized *campesinos'* traditional dependence on commercial intermediaries (*acopiadores*) who served as patrons for peasant farmers and as brokers for the Colorado Party machine. The Paraguayan Central Bank provided private banks with credit at negative real interest rates, directed to cotton and soy production through a network of processors, multiple levels of commercial intermediaries, and finally to peasant farmers. These relations granted intermediaries access to a risk-free source of profit, allowing them to charge progressively higher interest rates, but subjected peasant farmers to interest rates ranging from 40-80%. Turner (1993) describes the resulting credit relations in the cotton industry as "tied" relations combining symbolic kinship (*compadrazgo*) and debt" (189).

Unlike cotton and soy, sugarcane never provided a focus of state rural development policy and its production and processing was directed toward domestic consumption. However, sugarcane farmers accessed markets and credit through a similar network of intermediation, which guaranteed profits to actors higher up in the chain and limited those of peasant farmers. Neither sugarcane farmers nor syrup producers in Arroyos y Esteros held direct links to their final buyers, but instead formed the first two links in a chain of intermediation that ended in APAL's public monopoly over the national alcohol market.

Under this system, intermediation and speculation, rather than investment and production, provided the main avenue for capital accumulation. Poorer sugarcane farmers

sold their crops to better capitalized farmers that owned processing equipment, who in turn sold to local intermediaries who traded goods and cane syrup with intermediaries in larger market towns on credit. These intermediaries then sold to alcohol distilleries operating nearby or outside of the region, which received government-fixed prices for the alcohol they produced from cane syrup or directly from sugarcane. The actors higher up the chain with more direct ties to alcohol distilleries and to APAL exploited the difference between local market and publicly mandated prices and interest rates to extract profits from the bottom of the chain, leaving sugarcane farmers and processors in Arroyos y Esteros with little surplus to invest in their production.

Thus, sugarcane farmers in Arroyos y Esteros confronted a longer chain of intermediation than growers in Iturbe or the department of Guairá in general. As described in Chapter 6, growers in the latter region held exclusive relationships with large sugar mills. On the one hand their greater productive efficiency and shorter commercialization chain permitted these mills to pay higher prices and offer better credit terms to their growers. On the other hand, mills like Iturbe monopolized growers' political and economic relations and encouraged a high degree of dependence among them. The less centralized and longer commercialization networks that characterized the sugar syrup and cane liquor industry in Arroyos y Esteros meant that its growers were less dependent on a single enterprise, but further removed from their final markets.

Finally, Arroyos y Esteros has traditionally been a stronghold of the long-subordinate and formerly proscribed Liberal Party, reinforcing the region's political and economic marginalization. The 1947 Civil War between supporters of the Colorado Government and rebels from the Liberal, Communist, and *Febrerista* Parties occasioned

the geographical and social polarization of rural Paraguay into distinct Liberal and Colorado communities. Following the Civil War, the Colorado party took control of the country's most important population centers, setting up a system of local grass-roots organizations (*seccionales* and *sub-seccionales*) and turning their control over to local Colorado elites who stimulated and controlled political mobilization by distributing a variety of patronage to rural party members.

The Liberal Party sympathies of peasant farmers and landowning elites in Arroyos y Esteros afforded them little priority in the Stroessner regime's distribution of land, subsidized cotton inputs, and infrastructure investments. Arroyos y Esteros is only 50 km outside of Asunción; however, it did not receive a paved highway to the capital until after democratization in 1990. Until that time, the district's infrastructure and market links were to the more geographically distant but politically central town of Tobatí and departmental capital of Caacupé.

As a consequence of the region's political and economic marginalization, at the end of the twentieth century, Arroyos y Esteros still retained much of the character that anthropologists Elamn and Helen Service described in 1948 in their ethnography, *Tobati:*

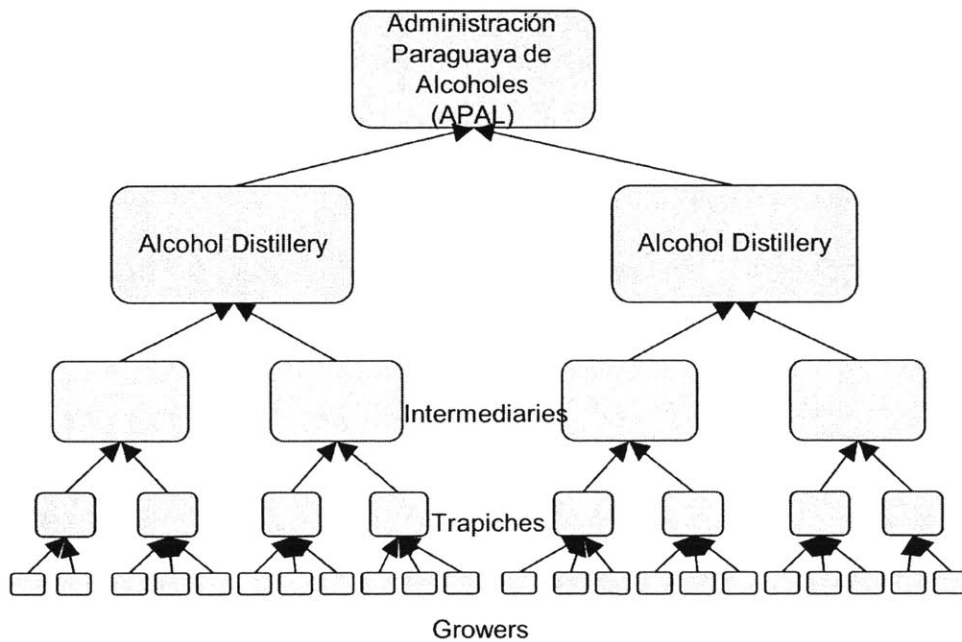
*Paraguayan Town:*

There is a generalized state of rural poverty in Paraguay, despite the great natural bounty of the land. The lack of export markets, combined with high transportation costs, lack of capital, and credit facilities, and the very small size of the internal market, results, at the local rural level, in an absence of modern tools and techniques, uneconomic marketing methods, nomadism, and a noncommercial attitude. In the market sense of the word, agriculture 'doesn't pay,' even though the majority of the population must engage in it to live." (59).

Arroyos y Esteros's economic backwardness preserved a more heterogeneous and competitive economic environment than Iturbe's. Iturbe's economy was polarized between a mass of small sugarcane farmers and the local mill, which convened a single

growers association to serve as sugarcane farmers' economic and political broker. Arroyos y Esteros's economy was likewise characterized by inequality and vertical or hierarchical economic and political relations, but, in the absence of a large sugar mill's monopsony, there arose a class of middle peasants who had accumulated land and capital on the basis of household processing, acting as a set of multiple brokers for the poorer stratum of sugarcane farmers. Figure 7.1. depicts the structure of the sugarcane syrup and alcohol supply chain in Arroyos y Esteros until the 1990s.

**Figure 7.1.** Structure of Sugarcane Syrup and Alcohol Supply Chain in Arroyos y Esteros – 1990



Beginning in the 1970s, farmers in Arroyos y Esteros began to organize themselves into groups under the guidance and encouragement of outside actors, particularly from the Paraguayan Government and later on from NGOs. As the next section describes, this process of organization did not result in democratic or

representative organizations, but rather in structures of organization that reflected the social inequalities in Arroyos y Esteros and that prioritized the interests of leaders above their base of members. However, the structure of organization exhibited greater pluralism than in Iturbe, because the existence of multiple brokers supported the creation of multiple organizations.

### *Farmer Organization in Authoritarian Paraguay and in Arroyos y Esteros*

Whereas farmers in Iturbe were organized as early as the 1940s by the sugar mill that they supplied, farmers in Arroyos y Esteros organized more in response to the incentives and activities of outside groups beginning in the 1970s. As the next section describes, at this time, the national authoritarian political context limited the freedom of organized rural groups, permitting them to organize so long as they did not substantially threaten the interests of intermediaries in maintaining monopolistic control over crop commercialization, credit, transport, information, and the articulation of peasants' political demands to the state bureaucracy. Cooperative organizations that transgressed these interests by seeking greater political and economic autonomy from intermediaries were repressed or eliminated.

### *Farmer Organizations and Authoritarian Rule Paraguay*

Playing off of international Cold War suspicions and citing an illusory threat of internal communist subversion, Stroessner maintained a permanent "state of siege" that limited constitutional rights to free assembly and expression, also investing in an elaborate internal surveillance and security apparatus and legally bolstering the state's repressive capacities through ambiguous legislation such as the "Law for the Defense of

Democracy.” Stroessner’s 1963 constitution also granted him the power to directly appoint municipal mayors and town council members and effective control over civil society groups. As described earlier, even private associations required public recognition that was easily withheld when the composition of their executive committees proved threatening or inconvenient to local Colorado Party figures (Lewis 1980, 110).

Colorado Party and government officials routinely mobilized these instruments of repression at the behest of local elites when collective action among peasant farmers threatened to supplant commercial intermediaries or wrest control of cooperative enterprises away from rent-seeking patrons. The most prominent episode of campesino organizing occurred between 1962-72 under the tutelage of the Catholic Church and as part of the movement of Christian Agrarian Leagues that formed throughout Latin America. Through the formation of community schools, education in liberation theology, and the establishment of local production, processing, and consumption cooperatives, campesino groups briefly achieved increased levels of political and productive organization and began a process of national federation that culminated in 1971, with the formation of the National Coordination of Christian Peasants (KOGA—*guaraní*: ‘field’). Shortly thereafter, between 1973-76, a state and military campaign of violent repression eliminated the organization and its bases, and members of peasant organizations were indiscriminately harassed, arrested, tortured, or killed, with many survivors fleeing into exile.

During this same period, the Ministry of Agriculture and its dependencies—the Agricultural and Livestock Extensions Service (SEAG), the Agricultural Assistance Fund (CAH), and the Direction of Cooperativism (DGC)—provided an alternative locus of

officially sponsored campesino organizing. These agencies owed their origin, organizational structure and mandate, and much of their operating funds to development assistance provided by USAID and its predecessor, STICA, in the period between 1951-1985 (USAID 1988). SEAG, modeled after state agricultural extension services in the U.S., organized “pre-cooperative” “farmer committees” of five to eight members to train their members in farming techniques and crop diversification and to link them to credit-granting agencies that financed cotton, soybean, and wheat production and exports in the manner described above. By 1963 SEAG-organized committees totaled to 603 with 24,106 members. To this day, the farmer committee represents the most common organizational and institutional structure through which Paraguayan small farmers organize and interact with one another, with public agencies and with private actors.

Beginning in 1965, USAID turned its attention toward supporting the formation of new formal credit and marketing cooperatives in Paraguay, financing “a multi-staged project which would respond to the needs of the small producers and *could compete with the long standing informal market system of credit from shopkeepers, intermediaries, and others*” (USAID 1988, 49). Prior to this period, cooperative enterprise had been limited to Mennonite, European, and Japanese immigrant colonies, who had brought with them previous organizing experience.

By 1973, USAID had supported the founding of sixteen new cooperatives and moved to support the founding of an association of these credit unions (CREDICOOP) to develop an “agriculture-oriented credit union system” and of the Paraguayan Cooperative Union (UNIPACO) to “to organize and develop marketing service cooperatives.” While the former organization survived and incorporated some of UNIPACO’s mandate into its

activities, the latter never became operational. Furthermore, despite the cooperative sector's growth in this period, it failed to serve as an effective vehicle for small farm development. First, the poor loan practices of these cooperatives exposed them to high rates of delinquency. Second, many cooperatives were composed primarily of urban residents rather than campesino farmers. Finally, even where farmers made up a substantial portion of such organizations' membership, the familiar challenges of cooperative enterprise, compounded by the controlling actions of the Stroessner regime, prevented cooperatives from developing into instruments of autonomous peasant economic and political action.<sup>137</sup>

The type of cooperative enterprise the USAID program envisioned would grant small farmers access to credit, allowing them to improve their terms of trade by collectively marketing their crops and withholding their sales until market conditions improved. However, such a structure directly contradicted the interests of local commercial elites that served as the Colorado Party's primary brokers in the countryside. For this reason, initially Stroessner resisted the growth of the cooperative sector and, only under pressure of losing U.S development assistance, did he pass a 1972 law that revised the regulatory framework for cooperatives and encouraged new cooperative enterprise (Turner 1998). He did so also with the knowledge that the aforementioned mechanisms of state control and patronage would ensure that the cooperative movement would prove no more threatening to the interests of local rural elites than the Christian Agrarian Leagues had.

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<sup>137</sup> As is common to cooperative enterprise in developing countries, illiteracy, lack of transportation, and limited free time provided high barriers to small farmers effective participation and control of the new cooperatives created in this period.

Turner (1998) recounts how members of *Cooperativa Pio XII* in the isolated department of Caazapá, where traditional campesino farming made up a large portion of the economy, successfully ousted their corrupt leader, Priest Adolfo Zaracho. After founding the cooperative with funding from Inter-American Foundation, Zaracho misdirected credits for his own benefit and stole the cooperative's profits from the collective cotton commercialization, leaving its members with debts rather than dividends. Having removed him and gained control of the coop and its potential collective marketing surplus, the new campesino leaders began to press demands on the Ministry of Agriculture that their members receive the government reference price for cotton. The ultimate response from government was to arrest all the members of the governing council and additional members under accusations of communist activities and to later dissolve the cooperative.

The fate of this farmer organization contrasts sharply with that of the *Cooperativa Minga Guazú*, in the agro-industrial frontier department of Alto Paraná. Leadership of the cooperative, along with the 54,000 hectare agricultural colony in general, rested firmly in the control of Priest Guido Coronel, a "personal friend and crony of former president Alfredo Stroessner as well as the uncle of Pastor Coronel, Stroessner's Chief of Investigations and most notorious abuser of human rights in Paraguay" (Turner 1994, 250) Government resources flowed to the cooperative, including generous financing to construct pig-feed and milk processing plants and to purchase silos, tractors, and a soybean processing plant. The cooperative received grants of valuable land and exceptions from exchange rate and export taxes that permitted it to purchase and reexport Brazilian soy speculatively.

[Th]e cooperative was inefficiently run, was being used to support a patronage system and the Colorado Party, and cooperative profits were being diverted . . . . For every cooperative management election report, only one list of candidates was presented by Pa'i Coronel and unanimously accepted. Pa'i Coronel was always elected head of the cooperative and a select group of men were always elected to the their governing positions. They were all Colorado Party members (as were most of the cooperative's members) and usually held other positions of power in the land colony infrastructure (260).

Turner's comparison of these two cooperatives illustrates the general pattern of organization in rural Paraguay during the dictatorship: officially sanctioned, elite-dominated cooperatives and farmer committees that received substantial government assistance but over which peasant members exercised little influence and often received few benefits, and alternatively, community-level organizations that lacked access to state patronage and, when successful, were vulnerable to repression. By selectively extending patronage and repression, the Stroessner regime institutionalized the pre-existing patterns of patron-client relations within ostensibly collective campesino organizations. These policies incorporated rural actors into the political base of the Colorado Party in ways that subordinated campesino groups to the interests of commercial intermediaries and traders that served as patrons to campesino farmers and most often occupied leadership positions within their organizations.

#### *Farmer Organizations in Arroyos y Esteros*

Patterns of farmer organization in Arroyos y Esteros conformed to this general pattern, except that the district's political leanings meant that the flow of public resources was less generous. Local elites have typically organized campesinos into farmer committees and cooperatives in order to gain access to state patronage and credit, promising collective development investments but using these organizations for personal material gain. Farmers in the region, and throughout Paraguay, join these organizations

because they recognize the potential for collective organization and collective investment in processing equipment and marketing capacities, and because they have been unable to access external financial resources without the mediation of local elites. When such benefits fail to materialize, peasant farmers generally abandon their organizations. Many farmer organizations in Arroyos y Esteros, as elsewhere in Paraguay, are short-lived, forming for specific projects and at the initiative of specific leaders, lasting so long as material benefits flow to their members, and dissolving once the flow of benefits ends. Because these types of initiatives have so often ended with revelations about leaders' corrupt behavior, over the years, growers in Arroyos y Esteros have accumulated a store of mistrust of their leaders and of collective enterprise.

In 1974, a group of 39 urban residents, including public school teachers and urban shopkeepers and traders, formed *Cooperativa Manduvirá* as a savings and credit cooperative. Its current president explained that, at the time, the government was promoting cooperativism as a development model, and local schoolteachers were interested in the organization as potential source of household credit to smooth their consumption during periods when the Ministry of Education delayed their payments. Similarly, shopkeepers were interested in new sources of working capital. The cooperative had few rural members, attracting only a handful of wealthier sugarcane and syrup producers with the promise of credit.

Soon after, the cooperative faltered, due to the poor and politicized management of its credit portfolio and the advantages taken by its leaders. Its current president explained, "Twenty-one years ago, the coop was bankrupt . . . We had losses of one hundred and five percent . . . the problem with the old leadership was the dishonest

management of funds [*mal manejo de fondos*].”<sup>138</sup> He explained that the cooperative granted loans without credit checks or inquiry into the loans’ intended use, and that the organization was under pressure in that period to direct its credit toward local Colorado Party officials. The cooperative’s current president described the cooperatives early problems, saying “before the directors didn’t see the coop as a way to help people and members, but as a way to get personal advantage.”<sup>139</sup>

Lacking mechanisms to ensure rational investment and repayment, the cooperative soon suffered a high default rate. One current member recalled, “in the period of [a former leader], lots of money was used dishonestly. The coop borrowed Gs.500.000.000 of investors’ money and lots of this money didn’t get paid back.” He explained that the cooperative requested public credit to cover the loans it made to its members, using their land as collateral. The cooperative’s leaders then pocketed part of the borrowed funds while leaving its members with the bill. Members then defaulted on these loans and abandoned the cooperative, decapitalizing the coop and leaving it on the brink of collapse.

Leaders have commonly taken advantage of their positions in this manner in Arroyos y Esteros. A similar case of fraud made national headlines and involved the now defunct Sugarcane and Cane Syrup Producers Association of Arroyos y Esteros. Its president, Antonio Benegas, had been the president of the Colorado Party’s *seccional* in Arroyos y Esteros during the dictatorship. After democratization, Benegas served as the town’s mayor and subsequently as a representative on the Department of Cordillera’s Governing Council, as well as a local agent for the National Development Bank. These

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<sup>138</sup> Author interview. President, *Cooperativa Manduvirá*. May 2008 Arroyos y Esteros, Cordillera, Paraguay.

<sup>139</sup> *Ibid.*

positions had afforded Benegas the political connections and access to public resources with necessary to enrich himself and cultivate a base of supporters.

A cane farmer and syrup producer organized a group of sugar syrup producers into an association in 2001 to request financial support from the Technical Assistance Service Unit of the public Campesino Development Fund (FDC). Benegas went to the houses of the association's members and had them sign loan contracts and provide their land titles as collateral. In September 2001, the Fund authorized a loan of Gs.2,000,000,000 (approximately US\$460,000 at contemporary exchange rates) to the Association for it to invest in an alcohol distillery and a bottling plant and reactivate the ailing sugarcane syrup industry. By December of that year, the full amount had been paid to Benegas, as the Association's president; however, most of the Association's members received none of the funding they were promised for their own farming and processing investments. Furthermore, construction had not begun on either project.

Benegas was later convicted of fraud and sentenced to a five-year prison sentence. However, the FDC threatened to seize the properties of the Association's members for failure to repay their debts, even though the Association's members claimed that Benegas had mortgaged their properties without their knowledge and that most of them had only received the loans "on paper."<sup>140</sup> At the time of my research, the former members of the Association remained entangled in a legal battle to free themselves of responsibility for the fraudulent debt.<sup>141</sup> A large volume of similar fraudulent and defaulted loans, combined with financial crisis in the mid-1990s, ultimately led to decapitalization of the

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<sup>140</sup> "Prorrogan Fecha de Acusación por el Caso de Millonaria Estafa a Meleros de Arroyos." *ABC Color*. December 15, 2004. <http://fw3.abc.com.py/2004-12-15/articulos/150460/prorrogan-fecha-de-acusacion-por-el-caso-de-millonaria-estafa-a-meleros-de-arroyos> 7/17/11

<sup>141</sup> Author Interview. Grower number 57. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

FDC and the Agricultural Assistance Fund (CAH), the other major provider of credit to the small-farm sector in Paraguay. Between 1970 and 2004, the share of public to private bank credit in the economy fell from 55 to 11.6 percent, but still represented half of the credit provided to the agricultural, which in turn received a quarter of the total credit provided by the banking sector (Berry and Schreiner 2010, 259).

Growers made similar allegations about *Cooperativa el Arroyense*, a production cooperative in Arroyos y Esteros created in 1989 by a group of 116 farmers “to improve commercialization of their produce.” In 1990, the cooperative procured a stand at the central produce market in Asunción to sell crops produced by its members, such as pineapple, melon, papaya, tomatoes, peppers, tomatoes, and squash.<sup>142</sup> A founding member of the cooperative said that he quit the organization in 1998, because “he didn’t like how it was managed” and “thought they were stealing money,” explaining that this was the main complaint that farmers had about organizations in Arroyos y Esteros.<sup>143</sup> A former Peace Corps volunteer who had worked with *Cooperativa Arroyense* described the organization as “pure rhetoric, noise, and corruption.” He felt that the cooperative mostly generated employment for privileged members and paid them a salary “to do nothing.” He alleged that the cooperative’s executive council had violated its bylaws by granting employment to members with insufficient seniority and fired an employee that began to protest the dishonest management. According to this individual, two previous Peace Corps volunteers had had similar experiences.<sup>144</sup>

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<sup>142</sup> Author Interview. Executive Committee, *Cooperativa El Arroyense*. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>143</sup> Author Interview. Grower number 47. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>144</sup> Author Interview. Former Peace Corps Volunteer. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

A legacy of dependence on dishonest leaders and the history of failed ventures continue to shape growers' attitudes toward the organizations in Arroyos y Esteros. On the one hand, growers' mistrust makes them reluctant to cooperate with one another in collective endeavors such as crop diversification, collective commercialization, or investment in processing equipment. Growers are reluctant to commit time and resources to development projects and proposals promoted by farmer committees because "help gets eaten up before it reaches other producers."<sup>145</sup>

On the other hand, in the committees, associations, and cooperatives that farmers join, they tend to see themselves as the subjects of their leaders, rather than viewing their leaders as their representatives. One grower explained to me that he preferred to finance his cane plantings out of pocket rather than take a loan from a cooperative, saying, "30% is way too high an interest rate, 10% would be fair . . . but we are kind of stuck, because we have to play by their rules because we are in their hands and have no choice . . . This is a permanent challenge for the campesino. We have always been smashed down [*aplastados*]. The powerful don't want us to progress." He had been part of a producers committee ten years earlier, but "it was slow and you had to go to lots of meetings and didn't get any help. If it had good leadership, it would work honestly and fairly, but it didn't. It's like if a father doesn't manage his family well, they will get lost too."<sup>146</sup>

*Cooperativa Manduvirá's* origin made it as unlikely a vehicle for small farmer development as other elite-dominated cooperatives in Paraguay. As the next section describes, its path to greater dynamism and inclusiveness began with its engagement of

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<sup>145</sup> Author Interview. Grower number 65. May 2008. Primero de Marzo, Cordillera, Paraguay.

<sup>146</sup> Author Interview. Grower number 67. May 2008. Primero de Marzo, Cordillera, Paraguay.

the wealthier class of peasant farmers in order to rescue the primarily urban enterprise from bankruptcy.

***New Management and Elite Cooperation in Cooperativa Manduvirá***

*Cooperativa Manduvirá's* near bankruptcy prompted a group of its members to “start all over again.”<sup>147</sup> The remaining members called a general assembly and requested a change in the cooperative’s executive committee, and in 1985 the organization changed its bylaws, creating the position of a permanent professional manager in addition to the elected executive committee (President, Vice President, Treasurer, and Secretary).

Rather than simply a change in formal structure, the current president described this turning point as a change in cooperative leaders’ mentality, suggesting that since then leaders have demonstrated “new ideas” and “more willingness to work for the cooperative.” Specifically, the cooperative hired Andrés González, a local schoolteacher to serve as its general manager. González is also a prominent local Liberal Party figure, and has served as president of the Liberal Party’s local organization, as a town council member and head of the town councils oversight council since democratization in 1989.

After taking control of *Cooperative Manduvirá* in 1985, González aimed to recover the organization’s solvency and devised a strategy to do so that linked the organization to the region’s sugarcane producers and set it on a path that extended beyond its credit and savings activities and toward directly exporting sugar. Without access to credit for financial operations, the cooperative needed to find another method of capital accumulation and turned to its members that owned sugarcane syrup factories. At

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<sup>147</sup> Author Interview. Andrés González, General Manager, *Cooperativa Manduvirá*. January 2007. Arroyos y Esteros, Cordillera, Paraguay.

that time, the main buyer of sugarcane syrup was the public alcohol monopoly, APAL, which regularly delayed payments to its suppliers, sometimes for periods of two or three years (CPES 1985). Individual sugar syrup suppliers in Arroyos y Esteros had very little leverage to press the organization for timely payment.

The cooperative came up with a plan to purchase sugarcane syrup from its members, collecting larger volumes and storing the syrup until it could be sold at a profit. A donation from USAID and assistance from U.S. Peace Corps volunteers allowed the cooperative to install a sugarcane syrup storage tank—essentially a big concrete pit that holds several thousands of liters of syrup—that would allow it to store sugarcane at higher volumes and sell it at better prices without an external intermediary. Selling directly to APAL (and, after its 1990 privatization, to its successor CAPASA) allowed the cooperative to recover all of its debt in 3-4 years, recapitalize the cooperative, secure fresh access to credit, and regain the trust of its members. At that point, the cooperative entered a period of renewed growth, particularly among sugarcane farmers.

After APAL was privatized in 1990, CAPASA rationalized its distilling operations. Two major producers of cane liquor came to monopolize the newly deregulated alcohol market, and, according to the González, the price of sugarcane syrup fell dramatically. Moreover, the alcohol distilleries near Arroyos y Esteros, who had been the cooperative's major sugarcane syrup buyers, began to vertically integrate, investing in their own plantations, purchasing less syrup and at lower prices after 1990. This forced the cooperative to abandon sugar syrup intermediation and speculation as a strategy for accumulation.

This created a crisis for the region's small-scale sugarcane syrup producers, who could no longer cover their costs of production and began closing shop. In 1989, Arroyos y Esteros had 110 *trapiches*, each absorbing the sugar cane and labor of 10-15 people. In 1993, the last good year for sugarcane syrup according to the *Cooperativa Manduvirá's* manager, 90 factories operated. The figure fell to 40 by 2002 (the last year the cooperative purchased molasses from them), and 8 by 2007. Because producing and selling sugar syrup no longer represented a profitable activity for the growers and the coop, the latter returned to being primarily a credit and savings cooperative. However, the trading activities provided a valuable and successful experience collaborating with local sugarcane syrup producers that would form the basis for the cooperative's movement up the value chain and success with Fairtrade later on.

#### ***Arroyos y Esteros Integrates into the International Economy***

Over the course of the 1990s, Paraguay's integration into the regional and international economy substantially altered the economic system in which farmers and their organizations were embedded. In Arroyos y Esteros, farmers became integrated into international supply chains for organic and Fairtrade sugar as a result of decisions taken by their mills and international buyers. The remainder of the chapter recounts how these changes were initially associated with decreasing security and economic wellbeing among the district's small farmers. It then describes the sequence of conflict, mobilization, and cooperation that has permitted farmers to gain new political and economic capacities that facilitate their participation in the global economy.

### ***Industrial Upgrading and Agricultural Downgrading in the 1990s***

Just as Arroyos y Esteros's traditional sugarcane syrup industry entered into decline, the region's first sugar mill opened its doors. As recounted in Chapter Five, Eduardo Felippo, a Colorado-Party elite who had made his fortunes securing government construction contracts, constructed the mill as an alcohol distillery in the late 1980s. After APAL was privatized and ethanol demand slumped in Paraguay, Felippo acquired sugar-milling equipment from a Brazilian mill that had become obsolete due to its age and small scale and reopened the factory as a sugar mill in 1990. Soon after, the domestic sugar market collapsed under increasing national and international competition, and OTISA became the first in Paraguay to begin exporting organic Sugar in 1994. OTISA was the first supplier for U.S. organic sugar pioneers, Cascadian Farms and Wholesome Foods, and the mill claims to be the first organic centrifugal sugar mill in the world.

As explained in Chapter 5, OTISA received financial and technical support from Cascadian Farms to achieve organic certification, and new export markets provided the mill with a valuable source of profits at a time when the domestic market had collapsed. Small sugarcane farmers in Arroyos y Esteros participated in the mill's integration into an international organic supply chain, receiving organic certification as the mill's suppliers. The mill paid a price premium for organic-certified sugarcane; however, growers largely experienced their integration into the international economy as a period of productive downgrading and increasing economic vulnerability. Over the course of the 1990s, growers in Arroyos y Esteros became more dependent on a single buyer (OTISA) of a single crop (sugarcane), as their land became less productive due to soil exhaustion. This situation has led to an increasing oversupply of sugarcane relative to processing capacity, and increasing economic vulnerability among the region's small farmers.

Along with sugarcane syrup buyers, intermediaries of other crops increasingly abandoned their activities after 1990, due to depressed prices and the withdrawal of public credit subsidies. One grower, showing me the remnants of his halted *trapiche*, said, “I was a sugarcane syrup producer, but then the distillery started producing its own sugarcane, and stopped buying here. There were 300 *trapiches* in Arroyos and lots of work. Nobody was poor; everyone had work. But then there was poverty after the *trapiches* closed.”<sup>148</sup>

When I asked them to compare their current economic situation with the past, growers in Arroyos y Esteros lamented the current lack of “patrons.” One grower explained that, before, when farmers had money or health problems, “there were *patrones* that were intermediaries for tobacco and *petitgrain* [bitter orange essence]. They used to give short-term credit, but now they don’t exist anymore.”<sup>149</sup> Another grower explained that, before he had become a sugarcane producer, he had much greater economic success cultivating a combination of cotton, tobacco, and bitter orange. After the prices dropped, he explained, “all the *patrones* left. They used to give credits to harvest these products.” He lamented the region’s increasing dependence on sugarcane explaining, “since then only sugarcane is left as a cash crop. That is why people migrate and abandon the country—because if you don’t have a lot of land then you can’t make a lot of money planting sugarcane, especially if it means stopping planting food crops.”<sup>150</sup>

During this period, farmers in Arroyos y Esteros were also caught in a cycle of decreasing prices, decreasing yields due to soil exhaustion, and increasing competition

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<sup>148</sup> Author Interview. Grower number 48. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>149</sup> Author Interview. Grower number 71. May 2008. Primero de Marzo, Cordillera, Paraguay.

<sup>150</sup> Author Interview. Grower number 66. May 2008. Primero de Marzo, Cordillera, Paraguay.

from new areas of campesino settlement with new soils and higher yields. *Cooperativa Manduvirá*'s current president explained that, after the local mill replaced *trapiche* owners as the main buyer of cane, sugarcane yields dropped in Arroyos y Esteros due to soil exhaustion, while sugarcane syrup prices dropped as other areas of the country with higher cane yields started to produce it. Farmers from Arroyos emigrated to these new areas in search of better soil, increasing the level of competition.<sup>151</sup>

One former bitter orange producer explained that in the past, he “had a lot of income” and was able to buy “tools, animals, and land” by selling *petitgrain* essence to a middleman and yuca in the local market. However, competition from producers in other regions had absorbed the local market and made him entirely dependent on sugarcane. He explained “one of the biggest problems was that the road came and opened up the Arroyos market to producers from San Pedro and trucks from even farther away. They come here to sell their products and it is very difficult to compete against them. Now that we plant only sugarcane, we even have to buy corn to feed our animals.”<sup>152</sup>

As soil fertility declined and production moved to new areas with more fertile soil, growers did not always find that investing in input-intensive production was worthwhile. One grower who had farmed pineapple on 5 hectares explained, “yields started to drop as soil the soil got tired and so the maintenance of the crop became expensive. It needed more and more fertilizer and the market was bad and you didn't know if you would sell it.”<sup>153</sup> For growers that invested heavily in input-intensive crops like pineapple, the increasing saturation of the national market led to dramatic losses.

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<sup>151</sup> Author interview. President, *Cooperativa Manduvirá*. May 2008 Arroyos y Esteros, Cordillera, Paraguay.

<sup>152</sup> Author Interview. Grower number 86. May 2008. Primero de Marzo, Cordillera, Paraguay.

<sup>153</sup> Author Interview. Grower number 55. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

One grower related the story of his financial ruin after he and his brother planted two hectares of pineapple in the year 2000. They invested Gs.16,000,000 (about \$4,600 dollars in that year) for fertilizer and labor costs, and produced 1,200 boxes of pineapple. They sent it to the central produce market in Asunción, but “didn’t sell a thing.” He explained that pineapple producers from around the country took their pineapple to the market at the same time, and the price dropped:

You sold each box at Gs.10.000, minus Gs.4.000 for transport and storage, and you produced pineapple at a big loss. We had to throw away the pineapple because it didn’t sell and then had to ask for donations and collaborate among all the ruined pineapple growers in the market in order to eat while they were there. The whole neighborhood smelled of rotten pineapple. We hitchhiked back to Arroyos empty handed, with all our kids and the family members expecting us to bring something back, and we had to disappoint them all.<sup>154</sup>

The grower had to sell a pair of oxen and migrate to Buenos Aires, where his brother remains, to make up his losses. Following this episode, he then had to sell his land in order to pay for medical treatment. Pulling up his shirt to show me a long scar above his left kidney, he stated, “This is my profit from the pineapple crop.” As the farmer related the story to me with a tone of bitterness and humiliation, as though he were ashamed that he had been naïve enough to risk and lose all his assets this way.

The same grower had negative organizing experiences, explaining to me that he had joined a farmer committee to get help from the Ministry of Agriculture. He hoped “they would bring lots of benefits, tools, tractors, food (*viveres*), and everything, but nothing came and the committee’s leaders stole all the money and the members got no benefits. Now no one trusts projects anymore,” he complained. “If I propose something, people will think I just want to steal from them.” Experiences like these have made small farmers averse to the risks of diversification and caused them to invest more heavily in

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<sup>154</sup> Author Interview. Grower number 75. May 2008. Tobatí, Cordillera, Paraguay.

sugarcane. Despite low per hectare returns and increasing competition from larger producers in other parts of the country, growers feel that it is the only crop with a “sure market.”

Even for growers who wished to continue producing fruit crops, organic certification required refraining from using fertilizers and pesticides. Unfamiliar with organic methods of enhancing soil fertility and controlling pests and plant disease, growers felt that “fruits wouldn’t come out without chemicals.” He explained, “This zone is pure sugarcane now; no one plants orange leaves, melon, watermelon. These require chemicals and the coop prohibited chemical use, so no one plants them.”<sup>155</sup> An employee of *Cooperativa Manduvirá* summed up the situation of farmers in Arroyos y Esteros, explaining that the middlemen had disappeared along with alternative crops. However, “while it is good to be able to sell directly, there are no crops to sell at all. That’s why the zone of cane cultivation has extended so much in Guairá and in Caazapá but here too. They keep planting more . . . even though there is no processing capacity to absorb it.”<sup>156</sup>

As the markets for sugarcane syrup and alternative crops disappeared, OTISA gained monopsony control over the sugarcane market and over most of the agrarian economy in Arroyos y Esteros. Relations between growers and the mill began to resemble those in Iturbe over the course of the 1990s, especially as OTISA began to expand its own plantations, further exacerbating the oversupply of sugarcane and increasing the scarcity of processing quotas.

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<sup>155</sup> Author Interview. Grower number 69. May 2008. Primero de Marzo, Cordillera, Paraguay.

<sup>156</sup> Author interview. Agriculture Department Manager, *Cooperativa Manduvirá*. June 2008. Arroyos y Esteros, Cordillera, Paraguay.

**Figure 7.2.** Structure of Sugar Supply Chain in Arroyos y Esteros 1994

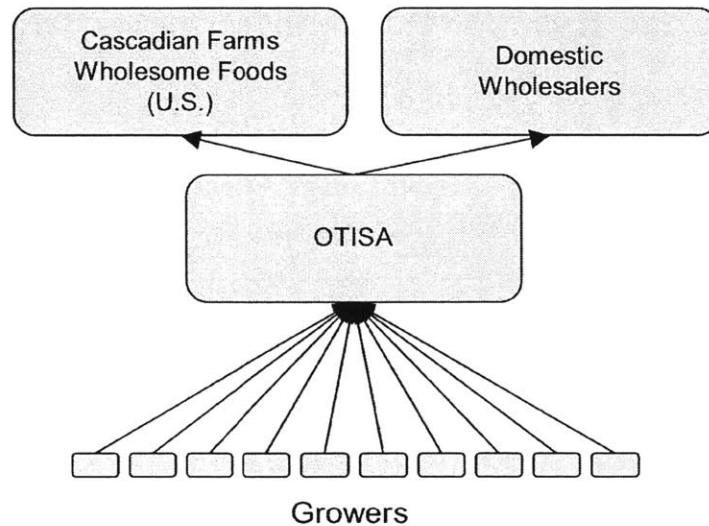


Figure 7.2 illustrates the value-chain structure in this period in Arroyos y Esteros. As the rest of the chapter will describe, the growers in the region subsequently passed through the same sets of conflicts and crises as growers in Iturbe. However, because their initial structure of organization had been less monopolistic, growers were able to successfully sustain a collective response and subsequently construct a very different value-chain structure through a process of more autonomous upgrading.

***Contraband Crisis, Elite Cooperation, and Client Aggregation 1996-2003***

At the end of the 1990s, the promise of export-led growth in Arroyos y Esteros quickly gave way to local economic crisis. In 1996, OTISA lost its contract with Cascadian Farms and Wholesome Foods, only two years after their initial interaction. The mill became once again almost entirely reliant on the domestic sugar market just as it came under pressure from smuggled Brazilian and Argentine sugar.

Cascadian's buyer recalled that OTISA had problems meeting quality criteria because of foreign material contaminating the sugar. He wished to develop an alternative supplier and looked toward the Censi y Pirotta mill, located 90 km away in the town of Benjamín Aceval, in the department of Presidente Hayes. The mill was better able to meet quality demands, he explained, because "it was a little bit bigger of a mill, was more established, and had more technical skill."<sup>157</sup>

Censi y Pirotta did not have organic certified cane of its own, and to quickly develop the mill as a supplier, Cascadian's buyer hired OTISA's organic production manager, Dario Zaldivar, to serve as his agent in Paraguay. Zaldivar was the son of the mill's plant manager, Walter Zaldivar, who owned a 500-hectare sugarcane plantation in Arroyos y Esteros and was a senior member of *Cooperativa Manduvirá*. OTISA hired Dario to manage organic certification after entering into business with Cascadian Farms, and the Zaldivars held close relationships with the region's largest organic sugarcane farmers.

Most of these farmers had previously been sugarcane syrup producers and had joined *Cooperativa Manduvirá* when it became a purchaser of sugarcane syrup. This class of growers is wealthier, holds greater land assets, and farms larger extensions of sugarcane than the vast majority of farmers in Arroyos y Esteros. In the past, they had operated *trapiches* and bitter orange stills and served as buyers for smaller farmers and brokers to external buyers. Before the region had become entirely reliant on sugarcane, these farmers had also been the more diversified and entrepreneurial of the district's producers, investing in input-intensive fruit production.

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<sup>157</sup> Author interview. Sugar Buyer, Wholesome Sweeteners. March 2011.

Among the former sugar syrup producers that began selling to Censi y Pirotta was a farmer whose large and elegant home clearly indicated his class status. He owned 142 hectares of land, farmed 21 hectares of sugarcane and owned 500 head of cattle in 2007. He was among the only growers I interviewed who reported receiving support from the Ministry of Agriculture's extension service, indicating that he contacted his extension agent "every week to get advice." He gave up pineapple production after the price collapsed and he had to throw away "thousands of boxes," and joined *Cooperativa Manduvirá* along with other syrup producers, including the factory's manager, Walter Zaldivar.<sup>158</sup>

Another member of this group owned 100 hectares and farmed 35 hectares of sugarcane in 2007. He formerly ran a trapiche and produced pineapple, banana, and bitter orange essence, and bought his land "bit by bit" from the profits of these activities. He gave up the other crops when his soil lost its fertility, and joined the cooperative "to see if he could get more support for his production." He explained, "with an organized group, you can get more advantages, you can get things faster. You are practically obligated to be part of an association nowadays."<sup>159</sup> A third member of this group was among the first syrup producers to join the cooperative. He owned 79 hectares of land, which he purchased with earnings from pineapple farming, and he planted 27 hectares of sugarcane in 2007.<sup>160</sup> By contrast, in 2007, the average cane planting for members of *Cooperativa Manduvirá* was 5.8 hectares and the mean size of landholdings was 12.3 hectares. While only one member of *Cooperativa Manduvirá* owned more than 100 hectares, the

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<sup>158</sup> Author Interview. Grower number 58. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>159</sup> Author Interview. Grower number 60. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>160</sup> Author Interview. Grower number 48. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

difference in landownership give rise to meaningful income and class distinctions among small and medium farmers. Assuming a low sugarcane yield of 40 tons per hectares and net profit of Gs. 50.000 per ton of sugarcane (as commonly estimated by cane farmers in Arroyos y Esteros), a sugarcane farmer with 30 hectares earned an income from sugarcane of Gs.60,000,000 (US\$12,026) in 2007. A farmer of average size, with 6 hectares of sugarcane, earned Gs.12,000,000 (US\$ 2,405). In reality, the differences may be even larger, because larger farmers can afford heavier fertilization with manure from their larger cattle herds, thus increasing their yields.

As Cascadian's agent, Zaldivar convinced the class of wealthier sugarcane growers to abandon their relationship with OTISA and begin selling sugarcane to Censi & Pirotta Mill in 1996. Because of added shipping costs, smaller-scale sugarcane farmers in Arroyos y Esteros could not economically sell to Censi & Pirotta unless they coordinated harvest and transport to reach larger volumes and fill larger trucks. They remained OTISA's suppliers, and the mill continued to export small volumes of organic-certified sugar through spot market transactions with natural foods buyers in the U.S.

Cascadian then hired a consultant who spent a month at the competing mill to help them to improve their quality. Censi y Pirotta's manager explained, "we had to meet quality standards for food safety and cleanliness, this revolutionized the factory a little. It helped us modernize. We got new machines and made lot of investment in the plant to meet quality standards."<sup>161</sup> The relationship worked well, according to Cascadian's buyer, but "then the demand for organic sugar started rising rapidly, along with price and volume pressures . . . after a couple of years, the volume became large enough for AZPA

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<sup>161</sup> Author Interview. General Manager, Censi y Pirotta Sugar Mill. July 2008. Asunción, Paraguay.

to be interested in going organic.”<sup>162</sup> In 1999, after only three years, Cascadian sold its contracts to Wholesome Foods, and Wholesome terminated its contract with Censi y Pirotta, establishing a relationship with Paraguay’s largest and most modern sugar mill, *Azucarera Paraguaya*, in Tebicuary, Guairá.

In that same year, the Brazilian currency devaluation increased the cross-border sugar-price differential and provoked a large influx of smuggled sugar into Paraguay, depressing sugar and sugarcane prices and creating an economic crisis in sugarcane growing areas. In 2000, Censi y Pirotta’s owners decided to close the factory, leaving the larger farmers in Arroyos who had supplied its organic cane without a buyer and strengthening OTISA’s local monopsony.

In response to depressed sugarcane prices, the group of the larger sugarcane farmers who had previously sold to Censi y Pirotta formed a “commission” of sugarcane farmers to organize a roadblock and demand a price increase from OTISA. One participant explained that the group demanded a price increase of Gs.7,000 (US\$2.00). He recalled, “we went to talk to the boss, but he didn’t want to talk to us and shut the gate. After a few hours, he offered a price increase of Gs.3,000 [approximately US\$.86 per ton of cane]. That’s how we started working again that year, for one more year.”<sup>163</sup> With this increase, sugarcane prices remained at Gs.41,000 (US\$11.71)—well below prevailing prices in past years of Gs.75,000 (US\$21.42) in regions where multiple mills competed for cane supply and below the price of Gs.55,000 (US\$15.71) that growers had received from Censi y Pirotta the year before.

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<sup>162</sup> Author interview. Sugar Buyer, Wholesome Sweeteners. March 2011.

<sup>163</sup> Author Interview. Grower number 54. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

Prices did not improve the next year and OTISA's processing capacity was insufficient to absorb the full volume of cane available from growers in Arroyos y Esteros. Halfway through the harvest season in 2002, the factory had only processed 22,000 of 80,000 tons of cane available in the district.<sup>164</sup> At that point, the same commission, composed of large growers and former sugarcane syrup producers who belonged to *Cooperativa Manduvirá*, approached the cooperative's manager and government officials for help to improve their situation. They unsuccessfully requested the Paraguayan Congress to intervene and order the mill to pay a higher price,<sup>165</sup> and held meetings with the Ministry of Agriculture and the Ministry of Industry and Commerce to another sugar mill in the district.<sup>166</sup>

The Cooperative's Manager recounted that, in 2002, the mill's "exploitation became unbearable" to the producers. He explained, "OTISA is a private monopoly, which is a double disgrace. At least with a public monopoly you can protest and get a 'political price' but when it is private, it is the law of supply and demand."<sup>167</sup> Even those growers that were lucky enough to sell their sugarcane payment had to endure long payment delays. The commission formed by the former syrup producers decided that they alone did not have "enough weight" to effectively pressure the mill, and together with the cooperative, they solicited broader participation in a strike against OTISA from the region's small growers.<sup>168</sup> The cooperative's manager recalled convincing the

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<sup>164</sup> "Cañicultores protestan por bajo precio" *ABC Color*. September 4, 2002.

<http://archivo.abc.com.py/2002-09-04/articulos/9559/canicultores-protestan-por-bajo-precio> 7/21/11

<sup>165</sup> "Cañicultores arroyenses recurren a legisladores" *ABC Color*. September 12, 2002.

<http://archivo.abc.com.py/2002-09-12/articulos/10654/canicultores-arroyenses-recurren-a-legisladores> 7/21/11

<sup>166</sup> "Cañicultores protestan por bajo precio"

<sup>167</sup> Author Interview. Andrés González, General Manager, *Cooperativa Manduvirá*. January 2007. Arroyos y Esteros, Cordillera, Paraguay.

<sup>168</sup> Author Interview. Grower number 54. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

growers to participate as a great challenge, involving some 50 meetings with producers in different rural settlements, or *compañías*, surrounding Arroyos y Esteros. The manager explained, “people have always been scared because the factory owner says they will close the factory because it doesn’t matter to them. But this isn’t true. If a factory is making \$12 million, you’d be crazy to leave it. So we changed people’s minds by consciousness building.”

The cooperation among the former syrup producers greatly facilitated the process of “consciousness-building,” because each could call on the farmers that had formerly delivered cane to his *trapiche* to come to a meeting and to support the strike. Where growers were organized into committees, they could be mobilized by convincing their leader to participate. One grower, who was part of a committee led by one of the ex-syrup producers described above, stated, “I supported the strike, but I wasn’t a very active participant. I supported it because they called on me [*apoyé porque me llamaron*].”<sup>169</sup> The growers from eleven committees organized a single commission and elected as their representatives the former sugar syrup producers who had initiated the protest.

With broader participation and the backing of the cooperative, the growers had greater success negotiating with the factory. The cooperative’s manager explained that in the previous year, the mill’s owner had ignored the growers, but “when 600 producers showed up [out of approximately 700 in the district], he got scared and began to participate,” and the cooperative negotiated an increase of Gs.12.000 (about \$2.00 at the time) from Gs.48.000 (\$8.00) to Gs.60.000 (\$10.00).

Whereas the contraband crisis had led to a process of division and fragmentation of a single growers association in the case of Iturbe, it provoked the unification of

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<sup>169</sup> Author Interview. Grower number 61. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

growers in Arroyos y Esteros into a single organization. Before this crisis, only the larger growers who had commercialized their sugarcane syrup through *Cooperativa Manduvirá* formed part of that organization. However, the successful negotiations with the mill increased the cooperative's legitimacy among growers, and, as the smaller growers came to see the cooperative as a potential vehicle to improve their economic situation and defend their interests vis-à-vis the mill, they began to join in greater numbers. During this process, the cooperative's interaction with the Fairtrade system played a large role in recruiting new members and in making investments that allowed the organization to contend with growers' aspirations.

***Fairtrade and Autonomous Upgrading: "Moving Up the Value Chain"***

Fairtrade advocates first made contact with producers in Arroyos y Esteros in 1995, when representatives of the Max Havelaar organization accompanied the Swiss raw sugar marketer, Pronatec's, visit to OTISA to seek organic sugar suppliers. After the Fairtrade Labeling Organizations International (FLO) formed in 1997 and adopted a certification and labeling model, the organization prioritized broadening the variety of products available under the Fairtrade label. The prevalence of smallholder production in Paraguay, and Arroyos y Esteros in particular, made it an attractive place to begin to develop Fairtrade-labeled sugar. This was especially so because centrifugal mills processed smallholders' cane into sugar that could be used for the manufacture of Fairtrade chocolate and which had nearly identical properties to the conventional crystallized sugar to which European and North American consumers were accustomed.

However, in contrast to Iturbe, the sugarcane farmers that supplied OTISA in Arroyos y Esteros were not organized into an encompassing organization, but instead

were divided among the overlapping membership of a series of committees, associations, and cooperatives. These included farmers whose primary crop was sugarcane, as well as farmers that did not produce sugarcane and also, non-farmers in the case of the Cooperatives. Furthermore, those farmers that produced sugarcane within these organizations did not all sell it to OTISA, which supplied Paraguay's initial shipments of Fairtrade-certified and organic-certified sugar. Instead, sugarcane farmers that belonged to one of three cooperatives, *Cooperativa Manduvirá*, *El Arroyense*, and *Cooperativa Montillo* (a third, smaller credit and savings cooperative formed around the same time as *Cooperativa Manduvirá*), might alternatively sell to a *trapiche* that supplied an alcohol distillery.

This presented a problem for FLO and for Fairtrade buyers, because certification not only required that their suppliers be 'democratically organized,' but also required that the organization receive the Fairtrade social premium, distribute it to growers, and channel it into social investments. Despite the less-than-democratic nature of the three cooperatives, and notwithstanding the fact that these organizations' membership included few sugarcane farmers at the time, FLO chose to grant them Fairtrade certification as producer organizations and employ them to distribute the Fairtrade premium. The three organizations started to receive a Fairtrade premium of US\$70 per ton of Fairtrade sugar sold by OTISA in 1999, and they divided it according to the number of their members that supplied sugarcane to the mill. The size of the premium grew with the volumes of Fairtrade sugar sold by the mill, from the small sum of Gs.3,086,635 (approximately US\$880) in the year 2000, to Gs.89,640,371 (approximately US\$22,400) in 2001, to

Gs.113,160,000 in 2002 (between US\$24,541 and US\$16,430—depending on the exchange rate).<sup>170</sup>

On the one hand, this provided a valuable recruitment tool for the cooperatives, because they could return part of the premium to cane growers as a price premium to the sugarcane farmers that joined their organizations. This provided a large incentive for sugarcane growers to sell through the cooperatives, rather than independently to OTISA. On the other hand, the Fairtrade premium provided a new flow of resources into the cooperative's budget to make investments in infrastructure and management that would allow it to attract members through better services.

While Fairtrade proved to be a valuable asset for the cooperatives, OTISA had no incentive to expand its involvement with Fairtrade or to increase the volume of Fairtrade sugar it exported. The mill received no economic benefit from its involvement in Fairtrade, and participated largely because Fairtrade buyers were among the few actors interested in sufficiently small volumes and willing cope with the mill's deficient product quality in order source from small holders. This fact not only increased *Cooperativa Manduvirá's* leverage against the mill, as the largest certified farmer organization in the negotiations described above; it also inspired the cooperative's manager to consider how it might increase the volume of Fairtrade sugar exported form Arroyos y Esteros and the size of the Fairtrade premium it received.

Describing the period of protest against the mill between 2001 and 2003, Andrés González, the cooperative's manager recalled, "we began to talk about organizing ourselves and Fairtrade helped us because we got lots of visits from abroad and they

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<sup>170</sup> "Productores fueron premiados con más de G. 250 millones" *ABC Color*. November 11, 2002. <http://archivo.abc.com.py/2002-11-11/articulos/19646/productores-fueron-premiados-con-mas-de-g-250-millones> 7/22/11

opened our eyes . . . Fairtrade inspired us to move up the value chain.”<sup>171</sup> The manager explained that Felippo, OTISA’s owner, had justified the low cane prices by pointing out the excess supply of sugarcane in Arroyos y Esteros and referencing the laws of economic supply and demand. Through its involvement in Fairtrade, the coop aimed to “use Felippo’s logic against him,” and “make competition for OTISA” by establishing a relationship with the bankrupt Censi y Pirotta mill. González explained, “They idea of doing this was not just to get a better price, but to produce our own sugar.”

The cooperative’s earlier experiences commercializing the sugarcane syrup of some of its members in the late 1980s and early 1990s positioned the organization well to pursue this kind of upgrading. After the cooperative had withdrawn from its commercial activities, those growers had gone on to supply sugarcane to Censi y Pirotta before it closed in the year 2000. Along with the cooperative, these growers entered into negotiations with Censi y Pirotta, which agreed to reopen the mill in 2003 if they could guarantee to deliver a sufficient volume of sugarcane. The larger growers could easily transport their cane to Censi y Pirotta 90 km away, but on their own they could not reach the volumes stipulated by the mill. However, following the cooperative’s success in negotiating with OTISA, these growers were able to mobilize cooperation from enough of the smaller farmers (each producing less than 20 hectares of sugarcane) to do so. A former *trapiche* owner who was involved in the negotiations recounted, “We got the majority of the producers in the first year and surpassed the volume that Censi required.”<sup>172</sup>

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<sup>171</sup> Author Interview. Andrés González, General Manager, *Cooperativa Manduvirá*. January 2007. Arroyos y Esteros, Cordillera, Paraguay.

<sup>172</sup> Author Interview. Grower number 58. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

The mill and *Cooperativa Manduvirá* negotiated a subcontracting arrangement, whereby the coop would purchase sugarcane from its members, and pay a per-ton fee to process and store the resulting sugar using Censi y Pirotta's milling and warehouse facilities. Under this arrangement, the cooperative retained ownership of the resulting sugar along with the responsibilities and any profits resulting from its commercialization. This allowed the cooperative to export directly to the small Fairtrade buyers who, up to that point, had purchased sugar that OTISA processed from the cane provided by the cooperative's members. This provided two distinct advantages. First, the cooperative would capture profits from sugar exports, in addition to the Fairtrade social premium. These resources could serve as a source of capital accumulation for the cooperative's infrastructure investments and financial operations. The cooperative could also return the profits to its members in the form of higher sugarcane payments in order to attract greater membership. Second, direct interaction with Fairtrade buyers would serve as a source of learning and networking for the cooperative, allowing it to attract new buyers, expand the amount of sugar it sold under the Fairtrade label, and increase the size of the Fairtrade social premium it received (see below).

At the same time, the cooperative's narrative—about the region's economic decline, the abuse of a monopsonistic local mill, and farmer collective action followed by a collective move “up the value chain”—proved highly attractive to Fairtrade buyers. The story provides an opportunity for Fairtrade to present itself to consumers precisely as its advocates wish it to appear—as an effective tool for ameliorating the economic dependence and political powerlessness of impoverished farmers in developing countries. Moreover, the cooperative's concrete achievements provided a track record that gave

buyers greater confidence that the cooperative would use Fairtrade resources effectively, continuing to generate stories about positive impacts that Fairtrade labelers could pass on to their consumers. González related:

this is a unique experience in the whole world, because it is hard for a group of [farmers] to rent a factory. This was published all over in the Fairtrade world. I spent 20 days in Spain giving conferences and telling the story of how the coop went from being primary producers to being industrialists and exporters of our own goods. After that we got lots of orders directly from importers in North America and Europe.<sup>173</sup>

During my fieldwork, a representative from a British Fairtrade company visited both Iturbe and Arroyos y Esteros to explore the possibility of sourcing sugar from Paraguay. He spent several days speaking with the mills, the leaders of the farmer organizations, and growers in the two regions, and concluded that Manduvirá was much more the kind of organization with which they were looking to build a relationship. He explained that the greater transparency within the cooperative provided some assurance for his company that their business was contributing to positive change.

The first year that Manduvirá subcontracted Censi y Pirotta's mill, they produced only small volumes of conventional sugar. Most of the farmers that began to sell their sugarcane to the cooperative had already received organic certification, which applies to the land itself, rather than to the farmer that owns it. However, OTISA, rather than the cooperative, maintained the documentation that verified compliance with organic production standards in its agriculture department. Even so, the coop's manager asserted, they were able to pay their growers Gs.65,000 per ton compared to OTISA's price of Gs.60,000 for organic-certified cane.

In 2004, "after years of hearing from OTISA that it was impossible, that it was too expensive," the cooperative began the process of acquiring its own organic

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<sup>173</sup> Author Interview. Andrés González, General Manager, *Cooperativa Manduvirá*. January 2007. Arroyos y Esteros, Cordillera, Paraguay.

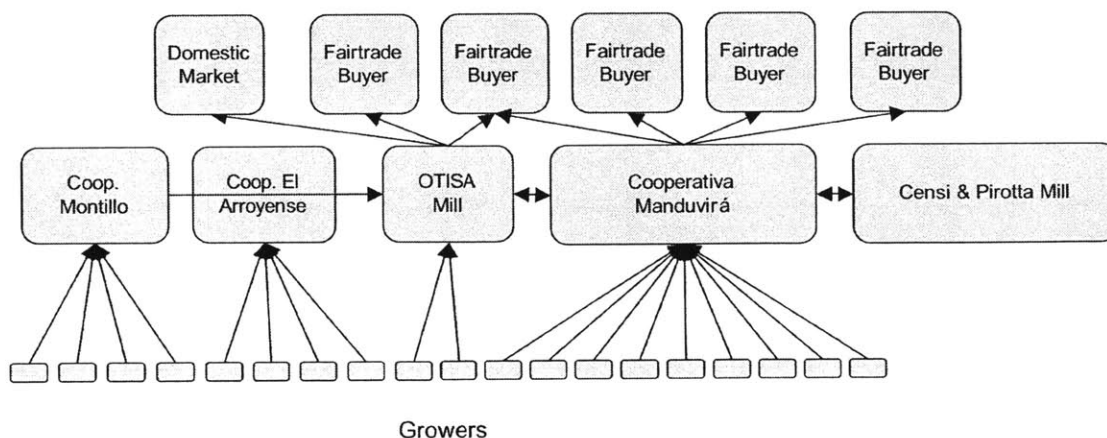
certification. González explained, “Thanks to Fairtrade, we learned that it wasn’t impossible.” The organization’s exports have steadily grown from that point on. The “first year was bad,” he recounted, with only 234 tons of sugar exported to Belgium, Canada, Italy, and Brazil. “It was only to gain experience and get market participation.” In 2006, the coop exported 1,600 tons, bringing in a Fairtrade premium of US\$13,280 (at \$80 per ton), and they had to turn down orders for another 1,400 tons they couldn’t fill. For the 2007 harvest season, exports reached 4,000 tons, while buyers’ demand grew to 8,000 tons. By 2008, the cooperative was exporting 7,200 tons of sugar and controlled a volume of nearly 150,000 tons sugarcane --outstripping Censi y Pirotta’s annual processing capacity of between 80,000-100,000 tons.

According to the general manager, this fact has made the Cooperative an equal bargaining partner with Censi y Pirotta. He stated, “the coop is working 100% of the factory’s capacity this year; they don’t really have the ability to impose standards on us.”<sup>174</sup> It has also forced the cooperative to continue working with OTISA, where approximately 300 of the cooperative’s 600 organic certified members still sell their sugarcane, and slowed the pace at which the cooperative can expand the number of organic growers. In 2007, the cooperative had 150 growers enter the organic certification transition period, and more than 250 growers request organic certification. This has left more than 200 members unable to get organic certification and receive higher cane prices, even though many of them are in compliance with organic production standards. This fact has created tensions within the cooperative that are examined below.

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<sup>174</sup> Author Interview. Andrés González, General Manager, *Cooperativa Manduvirá*. August 2008. Arroyos y Esteros, Cordillera, Paraguay.

**Figure 7.3.** Structure of Sugar Supply Chain in Arroyos y Esteros 2004-2008



These accomplishments obliged the cooperative to acquire a series of new capacities in a relatively short period of time. Since 2003, the cooperative has pursued administrative expansion while also expanding its access to raw materials by incentivizing cane growers to join the cooperative. By paying higher cane prices and distributing of half of the Fairtrade premium as a rebate to them, the coop expanded its membership from a base of 200 in 2001 to 1,200 members by 2005. Regarding this expansion, the general manager remarked, “we are a growth crisis now; we grew too quickly in terms of membership.”<sup>175</sup> As the next sections relate, this process of expansion and growth created tensions within the cooperative, as it sought to mediate between external demands arising in the export markets it wished to exploit and the demands from its members for rapid improvement in economic conditions and for broad inclusion in the benefits by organic and Fairtrade exports.

<sup>175</sup> Author Interview. Andrés González, General Manager, *Cooperativa Manduvirá*. January 2007. Arroyos y Esteros, Cordillera, Paraguay.

### ***Fairtrade and Autonomous Upgrading: The Organizational View***

In just three years, the cooperative added new functions and departments to its organizational chart, growing from essentially a professional staff of one to housing a medical clinic and separate departments for credit, commercialization, harvest, education, and agriculture, complete with an agronomist and a team of organic inspectors. To cope with this growth, it has enlarged its physical offices, purchased new computers, and invested in data management and accounting software. The cooperative's general manager has led this expansion, hiring a team of young people in their twenties and thirties with specific training and professional experience related to their positions and who held personal connection and loyalty to the manager.

#### *The Agriculture Department*

Among the most important of the cooperative's administrative upgrades has been the addition of an "agriculture department," in charge of monitoring members' compliance with organic norms and providing extension services. The ability of the cooperative to manage organic certification efficiently is crucial for the cooperative to maintain the market access of its members, even in the short run. Without this new department, the cooperative could not export sugar, and its members would have no buyer for their crops, as the local mill's processing capacity is already outstripped by local sugarcane supply. The market premium for organic sugar compensates for the smaller scale and lower productivity of Paraguayan sugarcane farming and milling that would otherwise make it uncompetitive with highly efficient conventional sugar production in countries like Brazil.

Moreover, its functions are also important for the medium- and long-term development of the cooperative. Because all the products grown on their land can be sold

as certified-organic produce, certification generates opportunities for diversification into higher-value organic crops for export, domestic consumption, or processing. Without an organization like the cooperative and its agricultural department, small growers in the surrounding areas have tended to adopt very *reactive* agro-economic strategies, particularly regarding soil fertility. Growers have tended to treat soil fertility as an exogenous factor, in the sense that they make decisions about which crops to plant, what jobs to take, or whether to migrate in response to the changing fertility of their soil, but do generally take actions to restore or conserve soil quality. Fertilizer use was never widespread and was apparently cost prohibitive, and farming techniques aimed at improving soil fertility were uncommon and unknown.

The cooperative hired an experienced agronomist to serve as manager of the Agricultural department. She was originally from Arroyos y Esteros, and had previously worked as a schoolteacher there, as a colleague of the cooperative's general manager. She had received her university degree in agroecology in Costa Rica, and after returning to Paraguay, she worked in a variety of donor-funded, NGO-led sustainable agriculture development projects focused on small farmer cooperatives in the departments of Guairá and Caazapá as part of the Paraguayan Ministry of Agriculture's larger "Support Program for the Development of Small Cotton Farms" (PRODESAL). As part of the project, she worked with two campesino organizations composed of 30-40 farmer committees, to improve their organization, their farming techniques, their commercialization practices, and to enhance the sustainability of their farms.

Her background provided thorough knowledge of organic farming practices and instilled in her a commitment both to rural development and the environment.

Consequently, her professional and social network included the variety of NGOs, international and donor organizations, and peasant organizations that have been active in promoting agro-ecology and sustainable agriculture in Paraguay. This fact encouraged her to approach her job as “development work” in a way that contrasted with the extension agents employed by Azucarera Iturbe, whose training and professional network was in conventional agronomy and agribusiness, and who viewed their jobs more narrowly as inspection and technical support. In particular, her background has facilitated the cooperative’s interaction with other national and international organizations that are promoting small-scale and organic agriculture in Paraguay, encouraging her to build institutional ties that brought new resources to the cooperative and its members.

As head of the agriculture department, she is in charge of coordinating a team of six “inspectors” that are in charge of collecting data and making recommendations to farmers. The inspectors visit farmers in two stages to collect data about the size of the farmers’ plots, cane plantings, and other crop plantings, as well as the timing and characteristics of their planting, maintenance, and harvesting activities. Certified farmers receive visits from February to April, while the growers undergoing organic transition are inspected in May. The manager then compiles the data in anticipation of the cooperative’s international audit, provided by Swiss certifier, the Institute for Marketecology (*IMO*). *IMO* typically conducts its audit in June—the middle of the harvest season—inspecting the cooperative’s paper work and visiting a random sample of its producers for visual inspections and interviews.

The inspectors are a group of young men from Arroyos y Esteros, with high-school-level educations. One holds a post-secondary diploma as an agricultural

technician. The cooperative provided training for these inspectors through Altervida, the Paraguayan NGO which has been most engaged with the promotion of agro-ecological farming, organic consumer markets, and public policies for sustainable agriculture in Paraguay. The cooperative has built a close relationship with the NGO as part of the latter's agroecology program, which is jointly funded by the Dutch Interchurch Organisation for Development Cooperation (ICCO) and the European Union. At the time of my interview, the agronomist was working with ICCO to involve the cooperative in a "value chain" project that would provide funding for the coop to purchase services from Paraguayan NGOs to support crop diversification and commercial integration among its members.<sup>176</sup>

The agronomist described her biggest challenge as getting "markets for other organic crops, for the members to have other sources of income." As described above, farmers have given up alternative crops because of low prices, the high cost of chemical inputs, the disappearance of middlemen and finance, and the ultimate prohibition of agrochemicals. She explained, "Some producers had to drastically change their productive system, and stop planting crops that are pesticide intensive. They lack knowledge about green manures crops and organic production methods." Moreover, she acknowledged, growers "have had bad experiences, mostly due to a drop in the price or to buyers backing out after they already invested in new crops," and were reluctant to diversify. Thus, as membership in the cooperative grew and more and more farmers planted sugarcane, the supply of the crop has far outstripped processing capacity.

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<sup>176</sup> Author interview. Agriculture Department Manager, *Cooperativa Manduvirá*. June 2008. Arroyos y Esteros, Cordillera, Paraguay.

The agricultural manager explained that designing projects to provide farmers with training and to support diversification are important elements of her job. However, she lamented, “The paper work takes so much time and uses all of my energy.” For this reason, she also relies on her ability to coordinate this work with the rest of the cooperative’s new departments and external groups such as Altervida and the Ministry of Agriculture’s extension office to coordinate the upgrading of both the cooperative’s functions and of farmers’ capacities in various areas.

In conjunction with the cooperative’s credit department and Altervida, the cooperative’s agronomist has organized a “campaign” to promote diversification into organic sesame, organic cotton, organic stevia,<sup>177</sup> and castor bean<sup>178</sup> production. The cooperative first identified potential buyers for each crop—in this case domestic companies that are interested in establishing a supply base of organic raw materials for export—and negotiated with them a minimum volume and price for a trial purchase. The cooperative then engaged its members with the opportunity, asking them to experiment with only a small portion of their land, planting half a hectare of one of the alternative crops. This permitted the cooperative to reach its production target while minimizing the investment and risk assumed by any individual farmer. The goal was to generate a demonstration effect that would allow the cooperative to scale up the production of these crops over time, as farmers observed one another and perceived diversification as less risky.

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<sup>177</sup> An herb native to Paraguay that can be processed into a natural calorie-free sweetener, which has a growing and potentially large market in the U.S. and Europe. See chapter 5.

<sup>178</sup> The seed of the castor oil plant, which is processed into an oil with a wide variety of industrial and pharmaceutical uses.

I attended a meeting, organized by the president of a farmer committee in response to the cooperative's request, where the cooperative's agronomist and two extension agents from Altervida promoted these crops. The sixteen farmers sat on chairs and benches in the committee leader's yard and listened, as the cooperative's agronomist described the proposal. She explained that the cooperative would provide seed and a training day with the Ministry of Agriculture's extension agents. So far they had agreements from farmers to plant 24 hectares of castor beans, but their goal was to reach 100 hectares, and they still needed more commitments for the other crops.

She assured them that they were promoting these crops as "just another alternative to sugarcane" and that the coop was offering a "secure market." The presentation was followed by "question and answer" time, during which the growers asked whether the coop would finance the costs of putting fallow land into production, how many harvests castor beans produce and how profitable they are, and repeatedly returned to the issue of whether the purchase and price agreement was really guaranteed.

The agronomist explained that the coop would provide interest-free financing for the use of its tractor. She listed the advantages of castor beans, which produce six harvests over two years, tolerate poor soils, can be associated with beans and other food crops, and leave profits of up to Gs.2,000,000 hectare (the same as is typical for sugarcane). She suggested that the farmers could reduce production costs by replacing crops that require heavy fertilization. She said, "The idea is to try a half or a quarter hectare this year and then, once you see the results, see where to go. Because if we keep expanding sugarcane without our own factory the cooperative isn't going to be able to buy it all. So we are trying to find alternative crops." She repeated that the price and the

market was guaranteed, and explained “We want to get producers to agree to plant a little of each crop, in order to reach an interesting volume so that we can secure the price and be sure to cover transport costs. The coop will accompany the producers in the production and harvest process.” The growers cited past negative experiences with unfamiliar crops and untested buyers that had left them with loans they could not repay. Altervida’s extension agent responded, saying that the NGO presented the project only “after a lot of planning, and with all this in mind, and is part of a collective project with the coop. It is a serious launching [*es un lanzamiento serio*].”<sup>179</sup>

At that point, one of the producers reassured his fellow committee members that it was a good risk, especially since they could incorporate the crop into land that they already use for subsistence production, and several others nodded their heads in agreement. The cooperative’s agriculture manager then called each of the farmers by name, asking how much of what crops they would commit to growing. In this way, she secured commitments from most of the attendees. The cooperative’s ability to encourage diversification and change in growers’ productive strategy is closely tied to its ability to provide financing for these types of projects, and the organization also hired a manager to head a new credit department.

### *The Credit Department*

To manage its new credit department, the cooperative hired another Arroyos y Esteros local, who had been a high school student of the cooperative’s general manager. At the time of our interview, she was in her third year of a university degree in

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<sup>179</sup> Author Observation. Farmer Committee Meeting. June 2008. Arroyos y Esteros, Cordillera, Paraguay.

accounting. She is also in charge of administrating the use of the cooperative's tractor service and other machinery.

By entering into production and commercial activities and increasing its capital flow, the cooperative has gained greater access to external credit from lending agencies like the Inter-American Development Bank, and the Development Finance Agency (AFD), the public entity that arose from banking reforms that merged Paraguay's bankrupt Campesino Development Fund with its Industrial Development Fund.

*Cooperativa Manduvirá* is among the only production cooperatives—aside from the soy-farming cooperatives of large-scale farmers in southern Paraguay—that qualify for a loan portfolio with the latter agency, which normally distributes credit through private banks. This has permitted the cooperative to invest in administrative upgrading, such as its IDB-financed acquisition of a computer network, including software, hardware, and training to manage their financial operations electronically.

The cooperative makes loans for commercial activities (i.e. to shop keepers); however, the bulk of its loans finance farming activities. Producers automatically qualify for credit up to Gs.5,000,000 (US\$1,285 in June 2008) if they are current on their annual membership dues of Gs.650.000 (US\$167) and can present a national identification and a cosigner. Larger loans, of up to Gs.20,000,000 (US\$5,142) and Gs.50,000,000 (US\$12,857) with co-financing from the AFD, require approval and typically a property mortgage. The cooperative charges interest rates between 26-28%, having lowered them from 30% after thirty years. The manager explained, “there were a lot of complaints from farmers to the executive committee, so they met and lowered it for the first time.” They generally grant loans on three-year terms, where in the first year farmers pay the interest,

and in the second and third year they pay the principle. She also explained that they do not require monthly payments and will refinance up to two times in the case of crop failures, saying “other coops don’t do this.”<sup>180</sup>

A credit committee approves individual loan requests and is composed of the credit manager, the general manager, and three nominated members of the cooperative. The credit manager explained that the approval process is generally informal, saying, “We mostly know everybody anyway, because they come every 3-4 months to get their social premium payment.”

However, they coordinate with the agriculture department to get information when they need it. She explained that the grower’s folder in the agriculture department can provide a good sense of whether a grower is creditworthy “some people have little land or repayment capacity, but you can tell from this folder that they have a desire to progress. You can see if the land is diversified and well utilized, and we take this into account.”<sup>181</sup>

The most common use of credit is to expand and renew sugarcane plantings. To encourage sugarcane planting in 2006 and 2007 and increase the cooperative’s volume of sugar exports, the organization offered credits at interest rates of 20-23% and five-year terms to finance new plantings. When oversupply of sugarcane became a problem, the cooperative removed these incentives, but utilized credit to encourage the adoption of new cane varieties in coordination with the mill’s agriculture and harvest department.

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<sup>180</sup> Author Interview. Credit Manager, *Cooperativa Manduvirá*. June 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>181</sup> Ibid.

### *The Harvest Department*

The cooperative added a harvest department to ensure a steady flow of sugarcane of adequate quality to the factory and avoid over- or under-harvesting and prevent losses from cane spoilage or factory stoppages. Its manager, who had previous experience working for an agribusiness company, explained to me the harvest process, which for the cooperative begins in may. The cooperative's sugarcane supply is collected and delivered to a series of 33 winches, installed at different moments by individual farmers, by farmer committees, and more recently by the cooperative itself. The winches are divided into four zones that correspond to the zones that the agricultural department uses to organize its inspection and extension work.

When it is running at full capacity, the factory can accept 16 truckloads (about 500 tons) of sugarcane per hour, twenty-four hours a day. This processing volume is distributed, first, as a daily quota of truckloads among the 33 winches, according to how much sugarcane in each zone has reached maturity, and, second, among the individual farmers that deliver to a particular winch as a daily quota of sugarcane bundles. The number of daily bundles a grower receives depends on how many growers have received cutting orders, the total hectares of his sugarcane plantings, and his harvesting capacity, which is lower for small farmers that rely only on family labor. Farmers generally receive quotas to deliver approximately 2-4 tons of sugarcane per day by ox cart to their winch, where it is bundled using metal chains and loaded onto trucks for shipment.

The harvest manager's job is to coordinate the distribution of these quotas among hundreds of small sugarcane farmers, who must hire harvest labor and are eager to receive income, and with the delivery schedules of the trucks hired by the cooperative to transport the cane to Censi y Pirotta mill 90km away. The task is complicated by farmers'

independent and uncoordinated choices of sugarcane varieties. The coop's agriculture manager explained, "before all the cane production was for sugarcane syrup, so there was no organization of what varieties would be planted in order to have a constant harvest to the factory." The mix of sugarcane varieties "makes testing the sugar content difficult and creates inconsistencies in processing too." Their goal is to coordinate with the credit and harvest departments to encourage farmers in different zones to adopt early, middle, and late-maturing varieties to stretch out the harvest season and ease the burden of harvest coordination.<sup>182</sup>

#### *The Export Department*

Building and maintaining the cooperative's relationships with buyers of Fairtrade and organic sugar has become the main activity of its president and general manager, who also serves as the export manager. The cooperative's direct relationships with its buyers provides the kind of first-hand market and price information and global perspective that the producer's association in Iturbe lacks.

The leadership of Iturbe's sugar growers association is ignorant of how costs, prices, and value are distributed through the organic and Fairtrade sugar supply chain, and negotiates only with the mill for better price and delivery times. In contrast, *Cooperativa Manduvirá* is a node of negotiation. It establishes contracts with the sugar mill, with providers of transport and logistics services to get its sugar from the Paraguayan port to those of the importing countries, with Fairtrade and organic certifiers, and with buyers of organic and Fairtrade sugar. The cooperative's clients include specialty brands of organic sugar in Europe and the U.S., as well as producers of organic

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<sup>182</sup>Author interview. Agriculture Department Manager, *Cooperativa Manduvirá*. June 2008. Arroyos y Esteros, Cordillera, Paraguay.

Fairtrade chocolate, cocoa, jams, and other processed goods. In 2010, these included Fairtrade and organic buyers in seventeen different countries. Unlike Iturbe's buyer, Florida Crystals, most of these companies are deeply engaged with the Fairtrade system, offering product lines that are 100% Fairtrade and are equally or more interested in building relationships with producer organizations that they can share with their consumers as they are in certification and the Fairtrade label.

Working with these buyers has provided the cooperative's leaders with opportunities to travel to consumer countries to tell their story, meet new potential buyers, and learn about Fairtrade and organic markets. When I asked the cooperative's president what made Fairtrade work better for his organization than for others in Paraguay, he explained, "We take all the opportunities we have to be in contact with groups working with Fairtrade. When we get an invitation . . . we try to always be present because you can give your experience in these spaces and learn about other experiences."<sup>183</sup>

He recounted that a Fairtrade buyer had recently invited him to France to talk with students, consumers, and supermarkets, in order "to learn what people think and demand." I asked him what value this kind of trip had, and he replied, "It gives us a panorama of what people are thinking . . . It is important in our work to know how people think when they are buying. The most common benefit [*of these meetings*] is to be able to get new clients and new markets." The general manager explained, "We are in permanent contact with the clients. Our importers are people that we know. They learn about us from the Fairtrade Movement and come to visit us in Paraguay. We make

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<sup>183</sup> Author interview. President, *Cooperativa Manduvirá*. May 2008 Arroyos y Esteros, Cordillera, Paraguay.

contact with new clients this way. They sell our sugar to someone and then their client comes to buy from us directly.”

According to the president, being involved in Fairtrade has also given the leaders a “more global view of what an organization can be and the development that is possible. Before, what we did here was fight for the price of sugarcane. Now we fight for the international price of sugar.” This new perspective has come from the relationships they have built to other producers groups and cooperative federations throughout Latin America. The coop’s president served on the board of the Latin American and Caribbean Coordinator for Small Farmer Fairtrade (CLAC). The network is headquartered in San Salvador, El Salvador, and sits on the board of FLO, along with representatives from other regional producer networks, consuming-country labeling initiatives, and Fairtrade-certified traders.<sup>184</sup> It advocates for smallholders within the Fairtrade system and claims to represent 200,000 farmers in 300 farmer organizations across in 21 countries, organizing its members into commodity-specific and country-level networks.<sup>185</sup> The organization has strongly opposed revising FLO standards to allow plantation production for crops such as tea, sugar, and citrus that have not traditionally been smallholder crops.

In making these international connections, the cooperative’s president has gone from making decisions in isolation and within a network that included only local actors to making decisions in a far richer information frame that includes the perspectives of producer organizations with much longer histories of supporting smallholder development and which pioneered the Fairtrade Movement in Latin America.

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<sup>184</sup> “How we are run” *Fairtrade Labeling Organizations International*  
[http://www.fairtrade.net/how\\_we\\_are\\_run.0.html](http://www.fairtrade.net/how_we_are_run.0.html) 7/17/11

<sup>185</sup> “Quiénes Somos?” *Coordinadora Latinoamericana y del Caribe de Pequeños Productores de Comercio Justo* <http://clac-comerciojusto.org/quienes-somos> 7/17/11

These Fairtrade relationships generate learning opportunities for the cooperative, not only by increasing the quality or amount of information available to the cooperative and its members; they also broaden the analytical framework used to interpret the problems small farmers face. When their network was locally circumscribed, sugarcane leaders interpreted their problems only in relation to the price they could negotiate with a much more powerful local mill. After gaining perspective from their interactions with buyers and other organizations, they have begun to consider how variables such as international currency or commodity market fluctuations, the preferences of consumers in importing countries, the quality of sugarcane, the diversity of production and diversity of market outlets, and the sustainability of farming practices affect their members' wellbeing.

The broader analytical frame provided by the cooperative's Fairtrade and other connections has allowed the organization's leaders to imagine new possibilities and has guided the changes they have pursued. However, it has also created tensions between the leaders and growers whose engagement with Fairtrade has been far less intimate and whose perspectives remain much more local (see below).

The most ambitious investment proposed by the cooperative's leaders has been the construction of their own sugar mill to process its members' sugarcane and to allow it to expand its membership and increase the pace of organic certification. The manager explained that it becomes increasingly inefficient to transport sugarcane beyond 20km, and the Censi y Pirotta mill is 90km away. He estimated that in 2007, the cooperative paid \$500,000 in transport costs for 70,000 tons of sugarcane and that the costs of renting the factory were twice what the cooperative would invest in processing costs if they

owned their own mill. In 2007, he asserted, “A new factory costs US\$8 to 10 million. It is a lot, but they have all the ingredients. There are people with this amount of capital, and we don’t want to always be primary producers. We have options, but it is still far away.” Access to financing provides the biggest barrier the cooperative faces in its plans to vertically integrate. An AFD director felt that the cooperative “was not really in condition” to invest in their own mill. He stated, “They will need investment from abroad probably. Their line of credit [from the AFD] is Gs.500.000.000 [US\$51,427], and they would need US\$8 million to invest for a plant. They won’t get this from us or a private bank.”<sup>186</sup> A former high-level official from the Ministry of Agriculture shared the same opinion, citing the lack of managerial experience as a major barrier for a cooperative like Manduvirá to successfully transition from managing several hundreds of thousands of dollars of cash flow to several millions of dollars.<sup>187</sup>

Nonetheless, the cooperative’s managers have moved forward with their plan, acquiring a plot of land in 2009 as the future site of their factory. In that year, the project attracted the local USAID export promotion contractor, Paraguay Productivo, which has been providing technical assistance to the cooperative to improve its internal financial management and credit-worthiness. Then, in June 2011, the cooperative formed a trust with 21 of its members as a step toward accumulating the funds necessary to begin construction.<sup>188</sup> The construction plan is for a mill with a crushing capacity of 1,000 tons of sugarcane per day, which is more than twice the size of OTISA’s and Censi y Pirota’s mills. This would permit production of approximately 18,000 tons of organic sugar per

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<sup>186</sup> Author Interview. Director, Development Finance Agency. August 2007. Asunción, Paraguay.

<sup>187</sup> Author Interview. Former Appointee, Ministry of Agriculture and Ranching. August 2007. Asunción Paraguay.

<sup>188</sup> “Cañeros Tendrán Azucarera Propia” <http://www.abc.com.py/nota/caneros-tendran-azucarera-propia/>

year—or about triple the cooperative’s production levels in recent years--and would create 60 permanent administrative and industrial jobs, plus 112 jobs during the harvest season.<sup>189</sup>

#### *The Health Clinic And Education Department*

In order to pursue social development goals, the cooperative has also added an education department and constructed a health clinic that houses an obstetrician-gynecologist, a pediatrician, a dentist, and the first medical testing laboratory in Arroyos y Esteros. The clinic is open to the public and charges discounted rates for its members. The education department offers lectures and English language classes, and hosts the town’s music school in collaboration with the national youth orchestra program, *Sonidos de la Tierra*. It also distributes school kits that include school supplies, books, and uniforms. While public education is free in Paraguay, the costs of these items often prevent children from poor rural families from regularly attending and participating in school. The education and clinic managers also present public health lectures in the district’s schools. “This helps reach the community in general, not just members,” the education manager explained, “we give talks on parasites, dental hygiene, and distribute some basic medicines.”<sup>190</sup>

In addition to advancing social development goals, the education department is responsible for providing training to the cooperative’s members on cooperativism and Fairtrade in coordination with agriculture department and Altervida’s trainings in organic farming and organization. The department’s most important responsibility, according to

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<sup>189</sup> Presentation, Seminario Certificación de Comercio Justo. Rediex. April 11, 2011. Asunción Paraguay.

<sup>190</sup> Author Interview. Education Manager, *Cooperativa Manduvirá*. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

its manager, is keeping growers involved and informed about what the cooperative is doing with resources and helping them understand how they benefit from its investments. They host a daily radio program about the cooperative and Fairtrade, which the education manager described as “a big help” in this regard.

The more senior members of the cooperative have either been members since it began trading sugarcane syrup or participated in the protests against OTISA. They see their interests closely reflected in the cooperative’s activities and believe that cooperation among farmers is crucial for their long-term success. When I asked to what extent the cooperative defended his interests, one such grower replied, “Very much. They help us prepare our crops, and we are all equal. We all have access to services and the same prices. Private companies want to discriminate and pay lower prices to small producers.” He explained that in the past, OTISA paid a higher price to larger producers, and that, for that harvest season, it offered Gs.10,000 less per ton of cane than cooperative despite not covering transport costs. The grower exclaimed, “It is an abusive factory [*una fábrica aprovechador*]; we all have an interest in the cooperative because we want to have our own factory.”<sup>191</sup>

Growers like such as this one know the cooperative’s story, understand the process of upgrading that has gone on, and appreciate the role that the managers have played in securing new markets and generating new capacities in order to exploit them. They have taken active roles in the cooperative, serving on its organic, credit, and oversight committees. They see the cooperative as a very different kind of organization from the ones that have previously taken advantage of farmers, and trust that they will personally benefit from the cooperative’s upgrading trajectory. When I asked one grower

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<sup>191</sup> Author Interview. Grower number 61. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

what he thought was the most important service offered by the cooperative, he responded by saying, “The most important thing in the cooperative is its leaders’ honesty. They give hope to their members. That is the reason that they make more progress, because they give greater hope.”<sup>192</sup>

Newer members that have joined in response to the incentives provided by the cooperative do not share this understanding of the organization, the investments it has made, or of its leaders. Manduvirá’s managers are afraid that the members are unaware of the ‘huge step forward’ the organization has taken in order to serve them better, and that they “don’t understand that this is their organization and that the cooperative’s growth and progress is theirs too.”<sup>193</sup> The cooperative’s education manager lamented, “Some people don’t really know what the cooperative is. They join to sell sugarcane or to get credit . . . . A lot of people just want the premium.”<sup>194</sup>

One grower who had been in the cooperative for two years explained, “I joined in order to get the help that comes from the cooperative, but they didn’t explain it well to me, and I didn’t understand it . . . there was a big promotion on the cooperative radio to plant cane, but now on the radio they are saying to not plant any more cane because there is too much.” While he admitted that he did not participate in the cooperative’s meetings often, he also felt “the directors of the coop trick us sometimes; they don’t give us much encouragement. Because we work hard and don’t see the results.”<sup>195</sup>

The newer members are aware of the cooperative’s expansion, but they interpret the

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<sup>192</sup> Author Interview. Grower number 49. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>193</sup> Author Interview. Andrés González, General Manager, *Cooperativa Manduvirá*. August 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>194</sup> Author Interview. Education Manager, *Cooperativa Manduvirá*. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>195</sup> Author Interview. Grower number 67. May 2008. Primero de Marzo, Cordillera, Paraguay.

growth of its administrative functions with skepticism that is informed by their prior experiences in organizations. Based on past experience, they tend to view leaders, managers, and buyers as simply appropriating the value created by growers' work without creating any additional value. Growers have tolerated this extraction because middlemen control the only avenues through which they can sell their crops. Without a clear understanding of the collective purpose and benefit of the cooperative's new departments, growers are left wondering whether the rapidly growing cooperative is simply stealing from them to create employment and pay high salaries to office workers. One grower remarked, "Last year we got paid a bonus by the Europeans, but the cooperative only paid half of it to the growers. The employees of the cooperative get paid a good salary, but the producers are paying it with their production. I don't know how they justify it or what they spend it on. They say it is for the poor."<sup>196</sup> While growers clearly can observe the higher social and economic status of the cooperative's managers, they can't as readily observe the value that they generate.

Moreover, in order to create greater efficiency, the cooperative's managers have imposed new costs upon its farmer members by regulating the way growers produce, harvest, and transport their produce. The cooperative's integration into international supply chains has exposed its operations to new constraints, risks, and pressures, such as the 2008 the drop in the dollar exchange. This obliged the cooperative's leaders to enforce collective efficiency and impose new costs upon its members in order to remain competitive. As the next section will describe, the administrative upgrading the cooperative undertook made this possible, but imposing greater efficiency and discipline on its members also heightened the tensions and divisions within the rapidly growing

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<sup>196</sup> Author Interview. Grower number 57. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

organization.

***Growing Pains: Oversupply, Exchange Rate Crisis, and Enforcement of Collective Efficiency 2007-2008***

In 2007 and 2008, the U.S. Dollar's drop, the consequent erosion in the price of dollar-denominated exports, and the oversupply of sugarcane put downward pressure on sugarcane prices and provoked conflicts between sugarcane farmers and their mills throughout Paraguay. Just as in Iturbe, producers in Arroyos y Esteros were unable to sell all of their crops and left a portion of their 2007 harvest uncut. Sensing that they may not be able to sell their entire harvest, larger producers in Arroyos y Esteros started cutting and shipping sugarcane to the factory independently of the cooperative, hiring their own trucks to transport it. The amount of sugarcane being cut and delivered to the factory in an uncoordinated fashion quickly outstripped its processing capacity, and the cooperative, factory, and growers sustained losses as the sugarcane spoiled before it could be processed.

However, given its very different production, commercial, and decision-making structures, this shock was experienced very differently in Arroyos y Esteros than in Iturbe. Rather than provoking protest from the members and a change of leadership in *Cooperativa Manduvirá*, the response to the inefficiencies and losses of the 2007 season came from the executive committee, which established a set of internal rules for the growers, the truckers, and the mill. These rules were intended to ensure smooth harvest, transport, and milling processes, in which risks and responsibilities were clearly and equitably distributed among the different parties involved. The declining local value of

the cooperative's sugar exports made it especially crucial to establish a new set of rules and avoid losses, so the cooperative could afford to maintain the price of sugarcane.

The cooperative called two assemblies of its members to explain these rules, which imposed new standards about how the produces should cut, clean, and load their sugarcane onto trucks, as well as making clear that any cane harvested without a "cutting order" from the cooperative's agricultural department would be rejected by the factory at the growers' loss. The standards also set a minimum sucrose content for sugarcane (measured in 'brix degrees'), which the cooperative's inspectors would test before granting cutting orders to growers. If sugarcane at the factory gate did not have the appropriate sucrose content, it would be rejected at the growers' expense. The cooperative established a similar set of standards for truckers. For example, bundles of sugarcane lost in the process of transport would be the financial responsibility of the trucker, as long as they met the length, height, weight, and shape requirements established in the standards that applied to growers. Similarly, the standards negotiated with the mill stated that losses from cane spoilage due to equipment failures or maintenance would not be charged to growers, but would be the responsibility of the mill.

Eliminating these sources of inefficiency imposed costs on specific groups in easily identifiable ways. The standards for cleanliness and length of sugarcane imposed greater labor costs on growers and indirectly reduced their payments. Delivering 'dirty' crops is a very common strategy among growers to save labor costs and to increase their payments by adding additional weight to their crops. In the case of sugarcane this has a doubly negative affect on processing yields. First, extra leaves, shoots, and soil increase the delivery weight of the sugarcane but have no recoverable sugar. Second, failure to

remove excess biomass at harvest leads to a faster drop in the sugarcane's sucrose content while it waits to be processed.

“Cheating” in this way is individually rational, especially for growers that are selling to a processor that extracts profits from its suppliers through monopsony power. However, it became collectively irrational to do so after growers formed part of a cooperative that retains the export profits from the sugar processed from their sugarcane. Whereas, before, the costs of inefficiency were simply passed on to the mill, now the cooperative growers ultimately pay that cost in terms of lower processing yields, lower sugar exports, and lower cane prices.

However, growers, to a large extent, continue to see the cooperative as just another buyer or intermediary (*acopiador*). They continue to interpret the imposition of standards by the cooperative as an attempt by its leaders and managers to extract value from the growers' labor, rather than create collective efficiency. Despite the managers' explanations that they had designed these standards so as not to harvest at a loss and to avoid reducing the price the cooperative paid for sugarcane, growers felt these standards were unreasonable and resented the managers' instruction to its winch operators to reject 'dirty' sugarcane.

Similarly, restricting harvesting to cane that had reached full maturity improves milling efficiency. However, growers' degree of dependence on sugarcane harvests for cash income and the cyclical nature of their consumption expenditures makes this requirement especially onerous. In the past, campesino growers were accustomed to selling to intermediaries who paid lower than market prices at the farm gate but provided immediate cash payment. Campesino growers use this cash for pent-up consumption

needs, such as clothing, school fees, housing improvements, household goods, and foodstuffs that they do not produce (e.g. wheat flour, cooking oil). Urgent need for cash income and the established practice of immediate payment and consumption led growers to view the coop's attempts to rationalize the harvest process as unfair.

The most controversial decision about the 2008 harvest was the cooperative management's and sugar mill's decision to not process conventional sugarcane in response to low prices for conventional sugar in the local market. This left nearly 300 of the cooperative's more than 700 members without a secure buyer for their sugarcane. These producers felt they were being treated unfairly, particularly since conventional growers generally apply the same production methods as organic-certified growers, and many of them had begun the 'transition' period required for organic certification.

In the past, to access higher prices, some non-certified growers sold their sugarcane to neighbors or relatives that held certification and who in turn sold the sugarcane as their own. However, the managers made it clear that the agricultural department had data on each members expected volumes and would punish any member that acted as an intermediary. He explained that these prohibitions were to avoid the risk of decertification and the threat of the cooperative losing the entire market.

Growers who lacked certification criticized the cooperative and its leadership for raising false hopes and benefiting only privileged organic producers. One of the conventional growers that I spoke with was considering leaving the cooperative because of the decision, he explained:

I haven't participated much in the cooperative's meetings and learned little about what the coop was about. Maybe it works for others but not for me. They won't buy conventional cane anymore, and if I can't sell my cane there is no benefit. If I take out a loan, but can't sell my cane, I won't be able to pay it back or pay for household costs like school and clothing. Last year, with the boom in sugarcane, I had some hope. I took out

52 lines of my hundred lines of orange trees to plant sugarcane. Before they bought all the cane, but now the curse of organic came and they won't buy conventional, so what will happen to the rest of us? There is a whole-scale desperation among the conventional cane growers . . . before you could sell you cane as organic through a friend you could trust. But this year they won't allow that. . . . Sugar cane turned out to be very deceptive [*engañoso*].<sup>197</sup>

This grower's problems echoed common experiences with failed crop-diversification projects that left campesino farmers feeling tricked by intermediaries that promised good pay and stable markets that then failed to materialize. These kinds of setbacks stoke member's mistrust and complicate the cooperative's attempts to encourage diversification.

As part of the new standards it developed for the growers, the cooperative management also reiterated Fairtrade's prohibition of child labor (in this case, children under age 15), sparking a moment of heated debate in the meeting. Growers explained that hired cane cutters sometimes show up with their entire families, and that they cannot afford to lose workers by turning away the ones that bring their children. In addition, growers explained, the payment that a male harvester receives is not enough to support his family and pay school costs for his children. Maintaining their families requires cane harvesters to put their sons to work as well. One grower in the meeting insisted that the cooperative talk to the Fairtrade organizations and ask for lenience because the requirement was unreasonable and would not allow them to work. He said that they should understand that "Paraguay is a poor country and things are difficult here."<sup>198</sup>

The general manager responded that the prohibition on the use of child labor is one of Fairtrade's fundamental requirements, that it could not be waived, and that violating this rule put the entire cooperative at risk of losing their market. He explained that the

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<sup>197</sup> Author Interview. Grower number 73. May 2008. Primero de Marzo, Cordillera, Paraguay.

<sup>198</sup> Author Observation. Extraordinary Assembly, Cooperativa Manduvirá. May 29, 2008. Arroyos y Esteros, Cordillera Paraguay.

money the growers receive as a social premium is paid by consumers abroad precisely because Paraguay is a poor country, and the premium is to help them meet the kinds of standards these consumers prefer. “If Paraguay were a wealthy country where things like child labor were not a problem,” he argued, “they would not receive this extra help.” However, he also explained that the cooperative could “give help to harvesters’ families in these circumstances by providing school supplies or other help in order to get their children out of the fields and into school.”

The enforcement of these new standards formed part of a process of professionalizing the cooperative’s activities and collectivity modernizing its members’ farming practices. However, it created substantial tension between the democratic ideals of cooperativism—e.g. that all members equally decide on, benefit from, and contribute to cooperative endeavors—and the management’s unilateral decisions in response to constraints that arose from the organization’s export markets.

What made this especially difficult to manage is the priority that the members place on the private benefits of participation in the cooperative, compared to their less developed understanding and appreciation of the collective benefits. The cooperative has had to strike a balance between these two types of benefits in order to maintain its members support. It has distributed 50% of the Fairtrade social premium in equal parts to individual members of the cooperative (rather than in proportion to the amount of sugarcane they produce). This has allowed farmers to make individual investments and upgrades alongside the cooperative’s administrative investments and served to ease tensions arising from the cooperative’s expansion.

### ***Fairtrade and Autonomous Upgrading: The Farmer View***

In the sample of 41 growers that I interviewed, virtually every farmer cited examples of improvements that they had undertaken on their farms as a result of joining the cooperative. Compared to the members of *Asociación Cañeros Orgánicos de Iturbe*, growers had a better understanding of both Fairtrade and organic certification. They had also pursued a broader range of investments to improve their farming practices, expand their plantings, and in equipment, and they reported greater social benefits from Fairtrade.

### ***Fairtrade and Organic Certification***

The members of *Cooperativa Manduvirá* revealed varied knowledge and understanding of Fairtrade, but they generally exhibited more familiarity with its purpose and functioning than the growers I interviewed in Iturbe. As was the case in Iturbe, many growers conflated organic and Fairtrade certification, making comments such as “to be Fairtrade you have to comply with the organic rules. Fairtrade is what brings the premium too. The money is because of the quality of the product;”<sup>199</sup> or “the Fairtrade certifiers bring the premium to share between the cooperative and the members. There is no requirement except to do organic production without pesticides.”<sup>200</sup> However, in general, even growers that conflated the two certifications expressed an intuitive, if limited, understanding of Fairtrade’s goals, making comments like, “Fairtrade means you

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<sup>199</sup> Author Interview. Grower number 70. May 2008. Primero de Marzo, Cordillera, Paraguay

<sup>200</sup> Author interview. Grower number 57. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

produce correctly, they pay well, and you get a premium . . . They use the money to do projects, like to buy a tractor or things like that.”<sup>201</sup>

Growers exhibited the greatest familiarity and enthusiasm about the Fairtrade social premium they received, making comments like “Fairtrade helps in a very important moment, just as your wallet gets emptied. The help comes to clear fields and to cover school costs. It comes from other countries, like France, and it is channeled through the coop;”<sup>202</sup> and “Fairtrade is very good for producers because it comes at the right time and the crops have even improved with this money, mainly by cleaning [weeding] the parcels. This increases the yields.”<sup>203</sup>

These growers tended to not attach many obligations to Fairtrade production but to see the Fairtrade premium as a gift of “money that comes from above” from foreign consumers to “help with school costs for members with children” and which “ you can invest in your fields or your house, depending on how much comes.”<sup>204</sup> Only the growers who were most involved in the cooperative, such as one grower that sat on the cooperative’s oversight committee, understood that the cooperative distributes half the Fairtrade premium of \$80 per ton to its members and uses the other half for specific collective projects.<sup>205</sup>

Growers also exhibited a range of understanding and engagement with organic production methods. However, compared to Iturbe’s more exclusive reliance on inspection and sanctioning, the cooperative’s larger emphasis on training, through its

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<sup>201</sup> Author Interview. Grower number 48. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>202</sup> Author Interview. Grower number 62. June 2008. Arroyos y Esteros, Cordillera, Paraguay

<sup>203</sup> Author Interview. Grower number 63. June 2008. Arroyos y Esteros, Cordillera, Paraguay

<sup>204</sup> Author Interview. Grower number 61. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>205</sup> Author Interview. Grower number 48. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

NGO and public-sector-partnerships, has created stronger engagement with organic farming.

Some growers evaluated organic production purely in terms of the price they received. When I asked them whether organic or conventional production is better, these growers responded with comments such as, “organic gets a better price: Gs.1,000, which covers our costs better;<sup>206</sup>” and “organic cultivation is much better this year, because you won’t be able to sell it otherwise.”<sup>207</sup> Only one grower was explicitly critical of organic methods, stating,

conventional would be better if it paid the same price, because you can use herbicides, pesticides, and fertilizer, and your costs [for planting sugarcane] are lower the first year, because you can plant melon or get your neighbors to plant melon on your land and they take care of it, so you don’t have to pay for weeding. We can’t do the conventional system because we are members of the cooperative. It is difficult because I don’t want to leave the cooperative. You can’t sell conventional cane anymore.”<sup>208</sup>

Unlike Iturbe, a substantial number of growers from *Cooperativa Manduvirá* spoke about organic farming as an alternative production system and cited its productive and economic, as well as environmental and health benefits. These tended to be growers that produced crops for their own consumption and who had received training from Altervida. One grower stated with pride, “we are a 100% organic family—well maybe 99%. But we don’t buy anything that has not been grown organically into our bodies.” He claimed to avoid produce that was not organic because he didn’t “want to eat poison.” This farmer had used chemical inputs in the past and said that it had increased his yields, but he concluded that there was no financial advantage because of the costs of chemical inputs.

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<sup>206</sup> Author Interview. Grower number 52. May 2008. Arroyos y Esteros, Cordillera, Paraguay

<sup>207</sup> Author Interview. Grower number 66. May 2008. Primero de Marzo, Cordillera, Paraguay.

<sup>208</sup> Author Interview. Grower number 61. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

When I asked another farmer about his educational attainment, he proudly responded that he had completed second grade and had received “two diplomas in Agroecology.” He also asserted that that he had the “knowledge of the forest” about “how to use his farm to produce organically.”<sup>209</sup> He explained that he didn’t want to be a big farmer, but wanted to remain a small farmer and produce naturally, citing his catholic faith and God’s desire for us to protect nature as an inspiration for organic agriculture. His farm was among the most diversified I visited. In addition to the two and half hectares of sugarcane he grew, it contained a hectare of virgin forest; half to three-quarter acres each of beans, corn, and yuca; one hectare of pineapple; a quarter hectare of banana; and two raised garden beds with a large variety of fruits, vegetables, and fruit, citrus, and shade trees. He consumed these products and also sold them at the organic municipal farmers market initiated as part of Altervida’s project.

#### *Farmer Upgrades*

As a consequence of their new organic production knowledge and the changes they had implemented on their farms, growers reported increased productivity. One grower explained that previously, he burned post-harvest field residue and plowed it under the soil. However, after attending trainings at the cooperative, he learned about green manure, no-till farming, and “how the soil, sun, and organic material works.” He explained, “what gives the soil fertility is the bugs [*vichos*] in it; they decompose the waste when it rains and feed the soil, so now I know to leave the [the plant residue] as ground cover to protect the soil from sun and keep moisture, and I plant the seed under

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<sup>209</sup> Author Interview. Grower number 49. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

that cover.” As he explained his new farming system, he left to fetch me a large tuber of yuca, proudly stating, “This one is a small one. They have gotten much bigger.”<sup>210</sup>

Growers belonging to *Cooperativa Manduvirá* also exhibited greater use and understanding of nitrogen-fixing green manure crops than their counterparts in Iturbe. One farmer described the results from intercropping with sugarcane with the nitrogen-fixing velvet bean plant, “The natural fertilizer works well; yields increase. I get 60-70 tons per hectare now . . . it depends on soil type. On newly cleared land you can get 100 tons, but on . . . older soils you only get 40 to 50 tons” without using the velvet bean.

Growers have also begun to switch to higher-yielding and pest-resistant cane varieties based on the trainings provided by the Cooperative in conjunction with the Ministry of Agriculture. One grower recounted, “I had to change cane varieties when I started organic production. Before I had ‘*picamilla*’ which causes a problem with roots.” He cut a stalk of sugarcane from his field to show me the girth of his new variety, explaining that it gave both greater weight and higher sugar yields. A “big producer, who served in the Parliament during the dictatorship,” had gotten the new variety of from Brazil and provided the seed cane to him. He explained that twenty farmers accompanied the cooperative’s agronomist to the State-owned alcohol distillery in Troche, Guairá, where the Ministry of Agriculture runs a sugarcane experiment station and adapts new sugarcane varieties from Brazil. The farmer’s story suggested that the cooperative’s activities have helped widen access to public-sector benefits, such as these, beyond the elites that have typically monopolized them.<sup>211</sup>

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<sup>210</sup> Author Interview. Grower number 48. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>211</sup> Author Interview. Grower number 62. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

In addition to improving their farming methods and yields, growers have reinvested their Fairtrade premiums and used their access to credit through the cooperative to purchase new equipment and expand their sugarcane plantings. When I asked one farmer if members of the cooperative have shown progress he replied “Yes you can tell. They’re lots of people who’ve bought oxen and carts that didn’t have them before. I bought a cart now too because I’m working with the coop, and this way I can make more money. It saves me the Gs.100,000 per day that I used to pay to the cart owner.” He also explained that his sugarcane crop leaves a profit, but “if you just consume all your money you don’t really see all the benefit, so he buys machinery and other things to produce with.”<sup>212</sup>

When I asked one farmer whether he had heard of Fairtrade he responded, “I know it. They send help so small farmers can progress, to improve their production. I am an example of that. With that help, I planted one more hectare of sugarcane, and this year I will plant another.”<sup>213</sup> His economic situation had improved sufficiently from his involvement with the cooperative that he planned to bring his son back from Spain, where he was employed at a vineyard, in order to work on their farm. Another farmer recounted, “I only had 4 hectares of sugarcane and now I have 12 in different places. The cooperative helped me expand. They gave seed when I needed it, machines when I needed it, and credit to do weeding and crop care.”<sup>214</sup> When I asked another farmer whether the cooperative defends its members’ interests, he explained, “I work well; I didn’t have very much, and now it is going well for me. With the cooperative I have

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<sup>212</sup> Author Interview. Grower number 66. May 2008. Primero de Marzo, Cordillera, Paraguay.

<sup>213</sup> Author Interview. Grower number 49. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>214</sup> Author Interview. Grower number 47. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

expanded cane; bought property; sent my kids to school; bought cows, oxen, and a cart; and improved my house.”<sup>215</sup>

In terms of the collective benefits provided by the cooperative, members most commonly cited the construction of new winches that allow them to load their cane onto flatbed trucks without transporting it long distances. Wealthy cane farmers can afford to install and operate their own winches, and often provide loading services to smaller farmers for a per-ton fee. With financial help from the cooperative, farmers have organized into committees to install collective winches and create greater access to infrastructure already in place. One grower recounted, “we formed a sugarcane committee last year to ask for help from the cooperative to get a winch. There was a private winch that we used to pay the owner to use . . . It was very expensive, so the cooperative made arrangements for a new winch and started to build it, but the owner realized we wouldn’t use his anymore and sold it to the coop.”<sup>216</sup>

#### *Social Upgrades and Labor Spillover*

As members of *Cooperativa Manduvirá* expanded their cane plantings, invested in extra weeding and crop care, and responded to the more stringent harvest standards imposed by the cooperative, they increased their demand for hired labor. On the one hand, this has made the labor process more arduous. One farmer, who planted seven of his twenty-four hectares with sugarcane, explained that *Cooperativa Manduvirá* was the best cane buyer in terms of price. However, he complained, that, compared to OTISA, was very demanding in terms of the “cleanliness” of the cane it purchased, saying, “the

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<sup>215</sup> Author Interview. Grower number 48. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

<sup>216</sup> Author Interview. Grower number 68. May 2008. Primero de Marzo, Cordillera, Paraguay.

harvests workers are the ones that suffer this, because it takes more time to clean and harvest a parcel . . . They prefer to work for OTISA growers but they do it the same.”

On the other hand, with labor scarcity, workers’ wages and bargaining conditions also have improved and remain far freer than in regions like São Paulo, where landless laborers lack the autonomy that they enjoy in Paraguay to freely enter and exit employment relations. The same grower explained that he had trouble hiring enough workers from his neighborhood, and asked for help getting workers from a friend from another *compañía* in the District of Arroyos y Esteros. He employed seven harvest workers for three months, purchasing their machetes and building them a house and kitchen in order encourage them to stay. He explained, “some people left because they didn’t like it or weren’t good at it, others stayed. There are a lot of people that work here but there is a lot of cane, so not enough workers.”<sup>217</sup>

Moreover, the tightening of the labor market has obliged growers to pass on part of the higher sugarcane prices they receive from the cooperative to landless laborers who are not typically cooperative members. Wages increased from a per ton rate of Gs.17.000 to Gs.20,000 for the 2007 season, and to Gs.25.000 per ton in 2008. Increased labor demand from Manduvirá’s growers also contributed to the convergence of wages in the district. A harvest worker I interviewed explained, “Before OTISA’s growers paid less to than Manduvira’s growers, but now they pay the same. Worker’s conditions are so-so, but the general situation is a little better now. The cooperative runs reports on its radio so everyone knows how much harvest workers are getting paid.”<sup>218</sup>

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<sup>217</sup> Author Interview. Grower number 66. May 2008. Primero de Marzo, Cordillera, Paraguay.

<sup>218</sup> Author Interview. Grower number 50. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

Landless workers and those with little land have benefited from the cooperatives social programs as well. One grower, who planted two of his four hectares with sugarcane remarked, “we get a lot of help from the cooperative: school supplies from FLO-International and medicine in the school for the kids. They forbid children to work here now, so this way we get help to cover the costs of school. Before, if you wanted to send kids to school, you had to kill an animal or sell an animal, but with FLO help we can avoid this.” I asked this grower how he used his social premium, and he responded,

I didn't have animals before. We were able to buy them with the premium and pay for some household expenses. Before we had almost nothing, now we have more economic security. [Fairtrade] is a big help that comes through the cooperative. Sometimes people have to sell rather than buy animals. In general, people are better off now . . . people who are bad off have the possibility to improve their situation, this wasn't true before.<sup>219</sup>

***Conclusion: Fairtrade, Autonomous Upgrading, and Organizational Democracy***

In Arroyos y Esteros, growers are linked a relatively coherent and integrated set of development institutions through *Cooperativa Manduvirá*, compared to growers in Iturbe. The cooperative's external relationships increasingly permit it to act as a nexus of market and price information and as a transmitter of the knowledge and capacities its members will need as organic product markets evolve. The cooperative's internal capacities increasingly permit it to coordinate investments among its members that will permit them to take advantage of external markets. The cooperative has invested in greater administrative capacity to coordinate the demands of buyers with the actual and potential supply of growers, while providing investment credit to its members and contracting the extension services necessary to upgrade the production capacity and knowledge of its growers. While still in preliminary phases, the cooperatives'

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<sup>219</sup> Author Interview. Grower number 69. May 2008. Primero de Marzo, Cordillera, Paraguay.

diversification programs offer the potential to extract much greater benefit from its members' organic certification, as they diversify away from sugarcane an exclusive reliance on sugarcane and into higher-value, less commodified crops.

These outcomes result from the interaction of external changes with the district's historical legacy. The decisions taken by foreign companies, Cascadian Farms and Wholesome Foods, to seek out organic sugar suppliers from Paraguay led them to Arroyos y Esteros to establish a relationship with the local mill, OTISA, whose growers were organized into a series of hierarchical and clientelistic associations and committees. The new resources and relationships that resulted from the mill's export activities created a stimulus for farmers to organize within a single cooperative through the Fairtrade system. The buyers' subsequent decision to switch suppliers multiple times in search of quality and volume generated an economic crisis in Arroyos y Esteros to which the Cooperative responded by mobilizing its followers to seek better conditions and greater autonomy from the local mill.

Following this episode, Fairtrade's contribution has been less to certify a particular set of production conditions than to facilitate the construction of a new set of local relationships between growers, their leaders, and other institutions such as the public-sector extension agency and Paraguayan NGOs. Growers now form part of an organization that is motivated and equipped to support their upgrading at an individual and a collective level. At the same time, the social premium paid by Fairtrade to the cooperative and distributed by the cooperative to its individual members has been instrumental in facilitating this transformation. It provides the cooperative with an important selective incentive to recruit and mobilize new members. Paying out individual

benefits helps the cooperative scale up beyond the most committed members, giving it an opportunity to win the trust of less committed growers who do not immediately see the value of cooperative organization.

Just as the Cooperative's participation in Fairtrade markets has granted it new tools for recruitment, its reliance on smallholders to exploit external markets has generated new pressures toward leadership accountability. As was the case for *Asociación Cañeros Orgánicos de Iturbe, Cooperativa Manduvirá's* Fairtrade certification and integration into international organic supply chains has not engendered a meaningful and fully democratic process for choosing the organization's leaders, for holding them accountable, or for making collective decisions. The cooperative's current president was chosen in the year 2000 as part of a slate of candidates that "got elected together as a *junta* and then distributed different roles among themselves."<sup>220</sup> He served as secretary, speaker ("*vocal*"), and treasurer before becoming president in 2005. As is nearly universally common in rural organizations in Paraguay, elections offer no real choice and the leaders run unopposed each year.

However, the cooperative has built its success around mobilizing growers collectively behind a project of local development and a promise of greater economic justice. Both its appeal to external Fairtrade buyers and the support of its growers derives from the narrative the cooperative has constructed and transmitted about itself as an authentic champion of small sugarcane farmers in Arroyos y Esteros. In recent years, Government agencies, such as the Ministry of Industry and Commerce's Export Promotion Agency, REDIEX, and the USAID-funded, non-governmental business

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<sup>220</sup> Author interview. President, *Cooperativa Manduvirá*. May 2008 Arroyos y Esteros, Cordillera, Paraguay.

extension agency *Paraguay Productivo*, have begun to promote the cooperative as an export success story and an example of opportunities available to Paraguayan firms in Fairtrade and organic agricultural export markets.

To the extent that their activities contradict this development narrative, the cooperative risks losing the support of external buyers, national organizations, and especially its own members, whose loyalty is highly contingent on the individual material benefits they receive. Growers in Arroyos y Esteros remain attentive to alternative commercial opportunities, and the OTISA mill is especially interested in exploiting divisions that arise in the cooperative. Its manager offers an alternative to the cooperative's narrative about Fairtrade, which echoes growers' past experiences with intermediaries. He explained to me,

Fairtrade always needed Fairtrade sugar . . . . So they came to OTISA, but there were no organized [farmers]. So they took a savings and credit cooperative and made it into an organic producer. [The cooperative] realized they had power. What is the business of a credit and savings cooperative? Not agriculture, it is to expand its capital. What is the strength of the cooperative? The ability to give credit. But if I give you credit you are mine. The growers complain here about not getting paid their part. [The cooperative is] screwing the growers in order to make money . . . . We receive this criticism from the growers. Fairtrade is going to end soon.<sup>221</sup>

The cooperative's managers respond to allegations such as these by countering that OTISA wishes to turn the cooperative's members against one another and by reminding growers of OTISA's "exploitation." The cooperative also claims that it had to delay payment of the premium to OTISA's growers because the mill refused to provide the cooperative with the list of its suppliers until forced to do so by FLO.

Thus far, the cooperative has been successful in getting its members to identify with their leadership by crafting a narrative trajectory that begins with growers' dependence on OTISA and ends with them owning their own sugar factory. This is

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<sup>221</sup> Author interview. General Manager, OTISA August 2007. Arroyos y Esteros, Cordillera, Paraguay.

evident in the way that growers tell the cooperative's story. One member, who plants three of his nine hectares with sugarcane, related, "the most important accomplishment of the cooperative is being able to make and export its own sugar. This is how the cooperative progresses and its members progress. The cooperative's project now is to have its own sugar factory . . . the executive committee proposes the projects and the assembly approves them."<sup>222</sup> Another grower with two hectares of sugarcane and four total explained, "the dream of the members and the cooperative is to have our own factory in this area. So people could deliver their cane in ox-carts. They are doing everything possible to make this happen; without having to use winches and trucks, producers will have more income."<sup>223</sup>

The Cooperative must make concrete and visible efforts to deliver on the promises it has made in order to retain the legitimacy it has gained among its members and capitalize on the trust and motivation they express. Aware of the fragility of growers' support of the cooperative, its managers claim to have "improved transparency a lot." The general manager explained that they added an education department because

you need to socialize the members, and you need to give them hope and explanations. They need to feel they are better off each year. Because if the coop does well, and the members don't feel they are doing well, then they don't trust the coop and there is unrest. But if the coop does well and the members do better, then it is good.<sup>224</sup>

The education manager described big improvements and a "change in mentality" as a result of their efforts. He asserted that participation in their meetings had gone up as members developed a "feeling of belonging" and "commitment." He asserted,

Since I got here, we have started working much closer with producers. It is very transparent and producers participate. Any problems that come up, if they can't be

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<sup>222</sup> Author Interview. Grower number 84. May 2008. Primero de Marzo, Cordillera, Paraguay.

<sup>223</sup> Author Interview. Grower number 69. May 2008. Primero de Marzo, Cordillera, Paraguay.

<sup>224</sup> Author Interview. Andrés González, General Manager, *Cooperativa Manduvirá*. August 2007. Arroyos y Esteros, Cordillera, Paraguay.

resolved with the [leaders], we call an extraordinary assembly . . . . The leaders don't impose decisions on members.<sup>225</sup>

My own observations of the cooperative's assemblies can only be partially reconciled with the education manager's account. The members' role in these meetings can, at best, be described as consultative, rather than as genuinely participatory or deliberative. To begin with, a wide margin of the cooperative's choices are constrained by international market competition, by organic certification, and by Fairtrade standards. The latter impose specific practices and procedures that create new costs for growers, and the former requires that the cooperative's productive efficiency converge to a substantial degree toward producers in the conventional sugar industry. This leaves only a narrow space for democratic choice among growers that are ill equipped to respond to rapidly changing market demands. Furthermore, the scope for organizational democracy is further narrowed by the members' disadvantage vis-à-vis their leaders in terms of educational attainment, social status, and industry knowledge.

However, nearly all of the growers I interviewed gave positive assessments of the cooperative's management and elected leaders, describing them as "accessible" and reporting regular, sometimes weekly, contact with them. While some growers raised questions about the honesty of the cooperative's finances, others cited the leaders' honesty as the greatest difference between *Cooperativa Manduvirá* and other organizations. Considering the history of grower-leader relations in Arroyos y Esteros and Paraguay in general, it may also be the case that growers feel that the cooperative exercises its power in a more democratic and less imposing way than other organizations and than it did in the past.

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<sup>225</sup> Author Interview. Education Manager, *Cooperativa Manduvirá*. May 2008. Arroyos y Esteros, Cordillera, Paraguay.

In my observations of the meeting where growers received instruction on the new harvest rules, the cooperative's managers led a much more thorough and open consensus building process than is typical in Paraguay between buyers and farmers and than managers in either *OTISA* or *Azucarera Iturbe* prioritized. It is uncommon for a buyer to call a meeting to inform his growers of a new policy, explain new policies in *Guarani* (rather than Spanish), justify them in terms of their common good, and show concern to safeguard his legitimacy before growers.

The meeting did not provide growers the opportunity to vote for, amend, or revise the new rules, which had been drawn up beforehand by the managers in consultation with the sugar mill. However, growers were able to ask questions, come to their own understanding of the leaders' decisions, and voice their concerns and objections publicly. They did so with the expectation that the cooperative would make its best effort to address its members' objections. In the best of scenarios, this type of interaction allows leaders to voice their priorities in ways that stimulate useful responses and problem solving by their leaders. For example, when growers objected to the prohibition on hiring workers younger than 15 years of age, the cooperative responded by making resources available to help harvest workers' families afford schooling for their children.

By way of contrast, during a separate study, a representative from a Paraguayan company interrupted a meeting organized for my colleagues and me by a group of its suppliers. Our host was the president of a farmer committee whose members had diversified their farms and integrated into a new supply chain. The committee president had begun relating the group's history when the buyer arrived; the president stopped in mid-sentence to allow the buyer to recount his company's generous assistance to the

group. He then ascribed the farmers' poverty to their "ignorance" and dismissed their concerns about commercialization as a "lack of loyalty to the company."

*Cooperativa Manduvirá* has not overcome Paraguay's legacy of authoritarian rural relations in becoming a Fairtrade exporter. However, to do become a Fairtrade exporter, the cooperative has had to mobilize growers' support and has granted them greater voice. As the cooperative's members practice the skills necessary for more meaningful participation, the legacy of mistrust they carry serves as a source of accountability.

## Chapter 8. Conclusions

This dissertation has focused on how clientelism shaped the response of smallholder sugarcane farmers in Paraguay to the development opportunities provided by new global niche markets for Fairtrade and organic sugar. In the previous chapters, I explained difference in responses among the members of *Asociación Cañeros Orgánicos de Iturbe* and *Cooperativa Manduvirá* by drawing a new distinction between *monopolistic clientelism* and *pluralistic clientelism*—arguing that the former permitted a more collective and autonomous pattern of upgrading among Cooperativa Manduvirá’s growers.

These cases also demonstrated how the clientelist production networks occupied by Paraguay’s sugarcane farmers evolved over time. As these associations’ leaders responded to the new resources and demands presented by organic and Fairtrade export markets, they attempted to mobilize their followers collectively against the monopsonistic mills they supplied and to integrate into processing and commercial activities.

In response to Fairtrade opportunities, Cooperativa Manduvirá’s leaders supported cooperation among the leaders of sugarcane farmer committees to successfully challenge growers’ dependence on OTISA sugar mill. Subsequently, in a process of *autonomous upgrading*, the cooperative forged new institutional and economic ties to government agencies, NGOs, and Fairtrade organizations and sugar buyers abroad. This process of institutional “thickening” has provided the cooperative’s growers with new

market information, production knowledge, and material resources—better equipping them to benefit from their participation in global value chains.

Relations among the cooperative's members still lack the elements of participation, deliberation, trust, and equality to which Fairtrade certification aspires as a mechanism of democratic local development and alternative globalization. Given the social, educational, and material inequalities between peasant farmers and their leaders (inequalities that are pervasive in developing countries like Paraguay), Fairtrade initiatives are unlikely to establish this type of organizational democracy in many of the producer communities with which they engage. This seems especially unlikely considering that integration into global value chains requires farmers to attain or access managerial expertise that only a small number of relatively elite figures possess within farmer's communities. However, the case of *Cooperativa Manduvirá* shows how leaders can become more accountable to their followers as they come to rely on the mobilization of political and economic support of small farmers to achieve their goals.

In the case of *Iturbe*, the new flow of resources from Fairtrade generated conflicts among the leaders of the sugarcane farmer association and a split among their followers, frustrating the association's attempts to negotiate better conditions from Iturbe's sugar mill and break the mill's monopsony. Subsequently, members' frustration with the ineffectiveness of their association and their suspicion that its leader was misusing Fairtrade resources prompted them to pursue the association's first democratic change of leadership. Iturbe's growers successfully elected a set of entrepreneurial leaders that wished to transform the sugarcane farmers association into a more effective advocate for smallholders and into a vehicle for market information and productive services for its

members. However, modernizing leadership has been insufficient to overcome the legacy of the mill's domination and the high barriers to change within this community.

To the extent that it is possible to draw broader conclusions about agricultural globalization from these cases, they suggest three lessons. First, the local institutional structures in which growers are embedded continue to shape their prospects for economic development under globalization. Second, important variation exists among different types of unequal or clientelistic institutional structures that farmers confront at the local level. Third, the interventions of external groups seeking to organize growers politically and economically can play an important role in transforming their local institutional structures in ways that prepare them to upgrade in the global economy.

*The Enduring Importance of Local Institutions in the Global Economy*

The global value chain literature conceives of the contemporary process of economic development as one in which developing-country suppliers move from lower-value, commodified activities to higher-value, rent-rich activities in which technological sophistication, tacit-knowledge requirements, or capital-intensiveness provide high barriers to entry (Gereffi et al. 2005). This literature suggests that the main resources for upgrading into rent-rich activities come from the commercial relationships that globalization permits developing-country suppliers to establish with foreign buyers. Moreover, the literature suggests that technologically or productively backward producers can easily get locked into "captured" supply chains that foster dependence and limit suppliers' capacity to move into more economically valuable activities. This is

especially true as buyers exercise more explicit control on their suppliers in order to impose more complex and stricter product and process standards.

Thus, the global value chain literature suggests that globalization has placed strong external constraints on the process of local development. It cannot be denied that changing trade regimes, the growth of powerful multinational retail corporations, and the consolidation of buyer-driven value chains have created barriers for smallholder farmers' development. Understanding these barriers should remain an important research focus. Yet, in the cases examined by this dissertation, both sets of farmers shared similar external commercial relationships to monopsonistic local mills that exported to buyers abroad. In both cases, sugar mills leveraged their control over backward and isolated farmers in order to form relationships with foreign buyers of organic and Fairtrade sugar.

The difference in these two cases suggests the enduring importance of variation in local institutions, local-level governance, and local power relations in shaping economic development, even as globalization has granted unprecedented power to transnational actors and greatly transformed the sets of constraints and opportunities that local actors face. In particular, the case of *Manduvirá* suggests that growers' ability to establish non-commercial relationships as a basis for upgrading is key to crafting greater autonomy on the basis of dependent or "captured" commercial relationships.

Thus, making sense of contemporary patterns of local development requires understanding how the historical legacies of different patterns of political and economic organization at the local level have created different capacities for economic actors to respond to and take advantage of the changes unfolding at the global level. For students of agricultural globalization, this means examining variation in the local power relations

between growers, their leaders, local processors, the State, and civil society, to understand how these relationships create different capacities for adjustment and upgrading among small farmers.

*Varieties of Clientelism and Upgrading in Global Value Chains*

Turning to local power relations, few actors would appear less prepared than small peasant farmers to confront globalization and the new constraints of global competition in the agriculture and food industries. Peasants and smallholders often occupy subordinate positions within their commercial networks, which create obstacles and disincentives for their upgrading. Politically and organizationally, peasants and small farmers are often enmeshed in clientelistic relationships and form part of elite-dominated organizations that provide poor representation.

Yet, in this regard as well, the two sugarcane farmer associations examined in this dissertation initially appeared very similar. Both of the organizations had their origins during Paraguay's long authoritarian period which greatly curtailed the autonomy of civil society groups. Both organizations were dominated by elites that were more accountable to external actors than to their members. The case studies illustrate how clientelist relations can vary from one region to the next and how these differences can create different opportunities for upgrading within global value chains.

In order to explain the outcomes in these two cases, I have introduced the concept of a *clientelist production network* to describe the vertical and unequal relations between small farmers, their leaders, and processors or buyers within developing countries. This concept recognizes the significance of buyers' market power in shaping upgrading

trajectories within global value chains. In addition, it draws attention to the social and political aspects of power within a supply chain. In particular, the potential to mobilize many small farmers collectively serves as an alternative source of power within supply chains and creates possibilities for autonomous upgrading.

In order to explain the circumstances under which collective action provides or fails to provide a counter balance to buyers' market power in clientelist production networks, I have drawn a distinction between *monopolistic clientelism* and *pluralistic clientelism*. I have also drawn greater attention to the role that brokers play in fostering collective action in clientelist networks, explaining how brokers may activate opposing mechanisms of *client aggregation* and *client fragmentation* that permit them to serve alternatively as barriers to or agents of collective action. This provides a basis for varying patterns of upgrading in clientelist production networks. Under *monopolistic clientelism*, where a broker depends entirely on a single patron, leaders or brokers are very likely to use their monopoly of resources to extract value from weaker actors, to foster dependence among their followers, and to reinforce the vertical structure of clientelist networks. However, under *pluralistic clientelism*, brokers are more likely to pursue their interests by mobilizing their followers collectively against their patrons, enhancing the political and productive capacities of their followers, and building increasingly complex institutional ties with outside groups.

#### *Outside Intervention and Local Institutional Change*

Finally, in both cases examined by this dissertation, Fairtrade contributed to changes in the relationships between farmers, their leaders, and sugar mills. In both cases,

farmers lacked previously accumulated social capital and a rich set of institutional and organizational ties. While growers in *Cooperativa Manduvirá* have enjoyed greater success, both sets of farmers have worked to construct new organizational and institutional structures at the local level to facilitate their development in global markets. This temporal variation suggests that students of agricultural globalization should resist interpreting local institutions and their effects in overly static terms, but instead focus on how local networks may evolve in a variety of ways in response to globalization. Studying this type of variation may temper the pessimism evident in the literature about agricultural globalization, revealing greater variety in the effects of globalization and suggesting the types of policies and initiatives that can lead to more inclusive rural development in a global economy.

In particular, the cases suggest that value-chain interventions by outside groups can provide a stimulus for local institutional change. Fairtrade forms part of an increasingly popular set of interventions that includes donor and NGO-led development projects, corporate social responsibility and sustainable sourcing initiatives, and public-sector projects focused on supporting the participation of smallholder farmers in global value chains.

These types of projects function in close coordination with actors that compose global value chains, but outside of the set of vertical commercial relationships from which global value chains are composed. They provide an alternative to the upgrading resources of lead firms, by 1) targeting material resources to small farmers in order to fund their upgrading investments, 2) helping farmers build new commercial and institutional relationships that increase their access to market information and productive

knowledge and 3) exposing farmers to new institutional structures and encouraging them to adopt new more effective ways of structuring their productive, commercial and political activities.

The Paraguayan case suggests that, in clientelistic circumstances, the outcomes of outside interventions depend on whether brokers have incentives to mobilize broad and collective participation among their followers and to establish new institutional ties that reduce their followers isolation and dependence. As brokers engage in these types of strategies, they grant previously marginalized small farmers opportunities to develop the skills and assets they need to exercise greater voice and autonomy within their organizations. Fairtrade initiatives can and should play a more explicit role in supporting these kinds of institutional change in the communities where they are active.

#### *Lessons for Fairtrade*

Over the last decade, Fairtrade's growth has been linked to its adoption of a model that relies on auditing, certification, and labeling. By facilitating Fairtrade's engagement of mainstream consumer brands and supermarket retail through licensing agreements, this model has permitted a rapid increase in the volume of "fairly traded" commodities worldwide and allowed Fairtrade to diversify beyond its primary focus on coffee. This has in turn increased consumer awareness of Fairtrade and of its goals and drawn consumers' attention to the conditions smallholder farmers face in developing countries.

In part, Fairtrade asks consumers to channel political demands about global distributive justice and working conditions abroad through the international economic

system by “voting with their dollars” for companies that respect established Fairtrade standards in their dealings with suppliers in developing countries. Among these standards, Fairtrade has especially emphasized its payment of a minimum price designed to cover production costs and permit a reasonable standard of living among farmers. This view of Fairtrade highlights its potential as a private regulatory system in a way that is especially attractive to private companies that wish to use Fairtrade certification as a marketing tool. The Fairtrade label permits companies to make claims about “supply chain transparency” and assert that their consumers are not supporting exploitation by buying their products.

In practice, this primarily requires a set of global institutions charged with setting Fairtrade standards and externally verifying the social conditions under which commodities are produced and traded. Over the past decade, national Fairtrade labeling initiatives have prioritized consolidating FLO and FLO-CERT to operate as global regulatory institutions of this type. Given the growth and power of multinational actors in food production, retail, and trade, this type of institutional response is valuable and probably necessary for Fairtrade’s continued growth and support of more inclusive development under globalization.

However, conceiving of Fairtrade certification as a “guarantee” to buyers or consumers that specific commodities are produced in ways that meet a set of social standards both underestimates and misunderstands the importance of local institutions in shaping the conditions under which small farmers confront global markets. Fairtrade standards do contemplate the role of local institutions—e.g. by requiring that growers form part of democratic cooperatives or producers associations. However, the notion of

certification as a guarantee or as a tool for supply chain transparency implies that these types of local institutions are either present or absent in some objectively and externally verifiable way.

In contrast, the case studies in this thesis suggest that the effectiveness and representativeness of farmer organizations and cooperatives is likely to vary substantially from one case to the next and over time within a single organization. Rather than simply verify whether growers are members of democratic associations, Fairtrade certification provides new resources for existing farmer organizations to recruit and mobilize members and generates new incentives for farmers to establish new organizations. In turn, this creates opportunities for growers to enhance the accountability of these organizations and their leaders.

However, rather than a static endpoint to verify, democratic organizing is a process by which highly unequal and vertical relations within an organization can gradually be leveraged to create wider benefits. In the areas where Fairtrade hopes to improve conditions, impoverished farmers lack many of the skills and resources necessary to independently and profitably engage with markets. For this reason, they invariably depend on elites or intermediaries that are in a position to extract value from small farmers. However, these elites are also well positioned to aid smallholders' upgrading, when it is in their interest, and Fairtrade can tip the balance between these strategies by tying elites' economic interests to the interests of more marginal members of their communities. However, to do so, it must begin with a clearer accounting of how governance within farmer organizations operates.

Fairtrade's potential function as a global regulatory mechanism (as it appears to buyers and to a certain extent to consumers) is separate from Fairtrade's potential function as a driver of local development. Creating a market for socially responsible products by providing consumers with new information does not automatically generate the capacities required for inclusive development in producer communities. This requires the transformation of farmer organizations and the construction of new local and international relationships that permit collective learning among small farmers.

Notwithstanding the debate about the Fairtrade's turn toward the mainstream, these two aspects of Fairtrade are not necessarily mutually exclusive. Indeed, because they are charged with establishing standards and carrying out certification, FLO and FLO-CERT's responsibilities place them in regular interaction with producers groups. This contact has made FLO officials aware of how Fairtrade certification contributes to organizational learning and capacity building among growers and how this, rather than certification *per se*, forms the basis of positive local development experiences.

The FLO official I interviewed was eager to engage more closely with producers groups and pursue more capacity and relationship building than FLO's current level of resources permitted. Given the costs of sustained interaction and capacity building with hundreds of producer groups, FLO has much to gain from partnering with NGOs and donor organizations like that are working to construct an institutional and political basis for smallholder development in countries like Paraguay. Fairtrade also has much to gain by encouraging government institutions in producing countries to devote more of their resources to the goal of building up the capacity of small farmer organizations.

This leads to a final observation about the limits of envisioning Fairtrade primarily as a market mechanism or private regulatory institution to ensure fair production standards in the global economy. This positions Fairtrade as a substitute for State institutions and as an alternative to public regulation and publicly provided development support. It suggests that private economic demands directed at Multinational companies can or do provide a substitute for collective political demands directed at the State.

Instead, this dissertation suggests that Fairtrade can function as a complement to national and State politics, rather than as a replacement. After only a decade and a half of Fairtrade, Paraguayan sugarcane farmers have much more work ahead of them in securing adequate public-sector support for their development. However, they are better equipped than ever to interact with the State and to make demands for the types of policies that will make them competitive in a global economy. This suggests opportunities for Fairtrade initiatives to greatly expand their impact by engaging more explicitly with public-sector institutions and by providing support for growers to demand and get more out of government.

#### *A Role for National-level Institutions*

Absent from this dissertation's examination of agricultural globalization has been a developed account of how local-level institutions relate to national-level institutions and of what type of national-level institutions may support farmers' successful exploitation of new global niche markets. These questions fall mostly outside the empirical focus of this study. However, the case of Iturbe does suggest that, where farmers have inherited a legacy of monopolistic clientelism, local organization and local

leadership is insufficient to support this type of development. Iturbe's new leaders have struggled to command sufficient legitimacy and elicit sufficient cooperation among their followers to pursue autonomous upgrading strategies.

In circumstances such as these, national institutions can work to aid local leaders' efforts to break their followers isolation and connect them to various sources of upgrading resources outside of their communities in the State and internationally. With these goals, the leaders of Paraguay's six organic and Fairtrade-certified sugar organizations created the Federation of Organic and Fairtrade Sugarcane Producers of Paraguay, in March 2010.

It is too soon to know whether the activities of the Federation will create a success story in Iturbe. However, it aims to forge previously absent links between producers and the State, articulating demands for policies that support the development of the organic sugar industry. It also has established previously absent horizontal links between sugarcane farmer leaders, creating a new basis for cooperation among distinct sugarcane farmer associations. In this way, the organization has the potential to ameliorate information asymmetries within the sugar industry, to further reduce the isolation of sugarcane farmers, and to improve their capacity to craft rational development strategies.

More broadly, the comparison between *Manduvirá* and *Iturbe*, suggests a need for national institutions and programs to encourage a shift toward pluralistic clientelism in producer communities. The multiple farmer committees and cooperatives that compete with one another in the region surrounding *Cooperativa Manduvirá* were the legacy of clientelistic public-sector development initiatives that took place in the 1970s. Today, public programs (in addition to non-governmental, donor-led, or Fairtrade and other

private development projects) could support a similar process of local organizing to break up local power monopolies in regions like Iturbe. These would help farmers to establish multiple organizations to represent their political and economic interests at the local level.

While such projects and the resulting organizations would most likely operate in a clientelistic fashion, greater competition among new farmer organizations would render their members less dependent, better able to demand accountability from their leaders, and more capable of extracting economic benefits from their participation in global value chains. Over time, the competition between clientelistic organizations could promote the processes of client aggregation and autonomous upgrading described in the case of Manduvirá.

Efforts are already underway in Paraguay to create national institutions that support smallholder organizing and upgrading of this sort. The country's new Organic Industry Roundtable hopes to perform for small farmers at the national level the same functions that *Cooperativa Manduvirá* has performed for sugarcane farmers at the local level—i.e. organizing and mobilizing growers politically, generating and distributing resources for farm-level and collective upgrading, and connecting small farmers to a thicker network of domestic and international ties. For those interested in making agricultural globalization more inclusive of small farmers, these initiatives may provide a model for how national-level efforts can help create the local institutional environment small farmers need to take advantage of global niche markets.

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