

# Expanded abstract

## Associative upgrading strategies for peasants in oligopsony markets: Certified Fairtrade viticulture organizations in Chile

### Context and objectives

Given its history, and its socioeconomic and cultural relevance, viticulture is one of the most important economic activities in central Chile. Peasant agriculture participates in this market as a supplier of wine grapes and as a producer of wines of various qualities. However, given the high concentration of the domestic market, the deployment of non-competitive practices by the main actors and the regulatory weakness of the State, farmers have had to implement various associative upgrading strategies in order to reduce costs, improve quality, ensure competitive volumes and prices, and access dynamic markets. One of these associative upgrading strategies is the certification of winegrowers' organizations under the standards of the Fairtrade International system. The objective of this article is to analyze the diversity of associative upgrading strategies of winegrowers' organizations certified Fairtrade, and their economic results.

### Design and methodology

Based on a comparative analysis of five case studies, corresponding to the set of Fairtrade-certified small winegrowers' organizations in Chile at 2019, using interviews with key informants, the following issues are characterized: (1) business models and competitive strategies for each organization; (2) the upgrading strategies implemented; (3) industry forces; (4) strengths, weaknesses, opportunities, and threats faced by organizations; and (5) the economic results obtained.

### Results

From the analysis of the business models and competitive strategies, the diversity of the cases studied stands out. These organizations are oriented towards bottled wine production with a controlled denomination of origin for fair trade retail stores and within the framework of local circuits of wine tourism; bulk wine production for sale to fair trade importers or private intermediaries in the national market; and production and sale of certified organic wine grapes, within the framework of strategic alliances with large wine companies. Along with this, it also highlights one common aspect of the case studies, the adoption of cooperative practices in their operations, beyond the specific legal form they assume. This is a participatory and democratic decision-making process; with equal participation in the social capital and the early

delivery of the wine grapes to the organization, as working capital, which impacts the reduction of financial expenses and the participation, control and loyalty of the partners regarding the organization.

These various business models have, as a counterpart, various dominant competitive strategies, with cost leadership strategies recognizable in the case of the largest cooperative; as well as product differentiation and market focus, in the case of smaller organizations.

From the point of view of the associative upgrading strategies promoted, the original combinations of strategies that each organization carries out stand out. These include improving processes and products, with permanence in the same link, such as changing and/or adding functions in the value chain and improving value chain coordination. This can be explained by the greater complexity of the wine value chain and the consequent greater number of improvement options. Notwithstanding these points, it transversally highlights the upgrading strategies related to the quality of the wines obtained, which is consistent with the predominance of competitive strategies that seek to differentiate quality or focus on market niches.

Regarding industry forces, the interviews indicate the clients' preeminence and their preferences for quality, in the market under Fairtrade certification. This is expressed in a growing importance of processes and products' ecological attributes. On the other hand, the rivalry in the same Fairtrade certified wine market is visible, in relation to other wine exporting countries, which arrive with higher volumes and lower costs compared to Chile. Nevertheless, all the interviewees value the relative protection and influence capacity they have in the Fairtrade certified wine market compared to the conventional wine market in Chile, dominated by three large wine companies. In the strengths analysis, the interviewees highlight the patrimonial value of peasant winemaking activity and the social capital represented by their organizations, articulated on the basis of fair trade. The aging of its associates and the difficulties of generational change stand out as a weakness. The key threats observed were in climate change, mainly for those rainfed vintners.

From these business models and improvement strategies' interactions with market forces, the industry and its environment, the analysis of the economic results shows, consistently with other studies, a positive impact of Fairtrade certification on the price of wine grapes received by winegrowers through their respective organizations. In particular, the Fairtrade certified organizations studied develop upgrading strategies that place them outside the conventional market for low-quality grapes, where most peasant viticulturists participate. Fairtrade certification also allowed its partners to receive prices that equal or exceed the prices paid for high-quality grapes in the conventional market.

We simultaneously observe a lower economic vulnerability of the associated vintners, particularly in the face of price crises in the markets, generated by the existence of a guaranteed minimum price under Fairtrade. However, there is a certain lag in updating the guaranteed price compared to the reality of the high-quality grape market.

## Research limitations

In the methodological dimension, the present study shares the limitations reported in the literature related to the absence of data time series that let us measure effects before and after certification; the difficulty of separating the effects of Fairtrade and organic certifications; and the approach of selection biases and the choice of counterfactual cases. These aspects represent the main challenges to be addressed in future research.

The precariousness of publicly available market information was similarly evidenced. This issue has been key in complaints of abuse of a dominant position before the Office of the National Economic Prosecutor, which has confronted peasant family winegrowers with large wineries. Finally, although it was not its objective, the study indicated that organizations deploy varied upgrading strategies compared with which certification generates trust and identification in actors from networks other than Fairtrade, facilitating access to markets and the collaboration of public and private institutions.

## Conclusions

This study contributes to evaluating the social and economic benefits of Fairtrade certification for small producers, given that most of these types of studies have focused on mass consumption products such as coffee, cocoa, tea or bananas. The value chain of Fairtrade certified wine has seen much less analysis, even though its greater complexity makes it possible to anticipate greater opportunities to capture added value locally. In this sense, the few existing studies on the Fairtrade certified wine value chain have addressed governance issues rather than socio-economic impacts.

On the other hand, the literature on the social, environmental and economic impacts of Fairtrade certification barely addresses the relationship between business models and upgrading strategies complementary to such certification, promoted by small producer organizations. Consequently, the study stands out for addressing these dimensions, accounting for the diversity of factors that underlie the results obtained by these organizations.

This analysis makes it visible that the Fairtrade certification, along with other upgrading strategies, appears to be related to positive economic results for producers, allowing them to overcome the oligopsonic structure of the domestic market. But, the Fairtrade certification is a necessary but insufficient condition to explain the economic results achieved by the five organizations analyzed. The sufficient condition lies in the complementation of the certification strategy with other upgrading strategies that seek to respond to the conditions of each organization, in the face of a highly asymmetric domestic market for wine grape commercialization. In this sense, upgrading strategies based on the incorporation of the winemaking and export process or alternatively, based on developing the organic quality of the wine grape, together with the horizontal and vertical coordination of its commercialization, are revealed as keys to achieve economically favorable results for the peasants.