Analysis of a Failed Primary Commodity Cartel

The Grenada Cooperative Nutmeg Association (GCNA) and the Association of Indonesian Nutmeg Exporters (ASPIN) Joint Marketing Agreement:

Stephen Fletcher

Doctor of Philosophy

Aston University

Resubmitted December 2016

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Thesis Summary

This thesis is a study of a failed attempt at the formation of a primary commodity cartel. In 1986, the Grenada Cooperative Nutmeg Association (GCNA) entered into a Joint Marketing Agreement with the Association of Indonesian Nutmeg Exporters (ASPIN) to create a cartel by agreeing to control the supply of nutmeg and mace onto the international market to increase and stabilise the prices of the commodities. At the time of the Agreement , Indonesia was the world's largest supplier of nutmegs and mace (75 - 80 per cent of supply), and Grenada the second the second largest (10 - 15 per cent of supply). Catz International B V, a Dutch spice trader played a key role in the formation of the Agreement and was also instrumental in the formation of ASPIN, as an Indonesian association of nutmeg exporters and secured sole buyer status for nutmeg and mace exported by ASPIN. The Agreement appeared to be briefly effective raising prices but cracks appeared in the Agreement within two years and it formally ended in mid-1990. This thesis investigates: (a) the motivations and decision making of Grenadian stakeholders in forming the Agreement; (b) the role of external stakeholders in the formation, performance and demise of the Agreement, and (c) the ongoing efforts of the GCNA to continue the Agreement when it was failing. GCNA's archival records, statistical data, and discussions with key Grenadian stakeholders and some international traders were the sources of data. Stakeholder analysis and the literature on cartels provided the theoretical grounding and context. The qualitative case-study approach using triangulation to establish what happened and Langley's sense-making strategies have been used to construct the narrative. The key results of this study are: (a) the fundamental economic conditions necessary for the formation and sustenance of the Agreement as a cartel were absent; (b) the organisational arrangements for the sustenance of the Agreement on the Indonesian side were deficient, and (c) GCNA was active in forming the Agreement and persisted in attempts to revive the Agreement because of deficiencies in its information and knowledge about the Indonesian and market situation arising out of over-reliance on a single source. The study contributes to knowledge on decision making in commodity cooperatives in small economies and has wider lessons for management decision making in developing countries.

Keywords:
Grenada, nutmeg and mace, commodity cartel failure, commodity cooperatives, decision making, single case study

Dedication

This thesis is dedicated to:

My family, particularly my son Kai who graced my life in the midst of completing this thesis, and my beloved father, Clive Peter Oswald Fletcher who transitioned this life on 26 September 2014. These two events provided me with clinical focus to complete this study;

My dearest mother whose unflinching love and prayers have served to sustain my existence, and my siblings who supported me throughout this process;

The memory of my deceased uncle, Swynton Fletcher, who helped lay the foundation for my academic success, and whose words “Son, just do your best” are a constant reminder of what is expected of me;

The founding fathers of the Grenada Cooperative Nutmeg Association, whose foresight created one of the most important socio-economic organisations in the state of Grenada; and the current nutmeg farmers whose daily work in the fields continue to contribute towards Grenada’s socio-economic development.

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I thank my parents, siblings and wife for all their prayers, urgings and support. I also thank Kirit Vaidya, my academic supervisor, who proved to be an anchor of support and guidance, and without whose support this task would have been so much more difficult.

I am also immensely grateful for the dedicated assistance provided by Mr and Mrs Thomas Chase, in editing this piece of work as well as providing the motivation which enabled the completion of this task.

Table of Contents

List of Figures

List of Tables

List of Abbreviations

ACP	African, Caribbean & Pacific
ASPIN	Association of Indonesian Nutmeg Exporters
BOD	Board of Directors
CDE	Commodity Dependent Enterprises
EC$	East Caribbean Dollar
EU	European Union
FAO	Food and Agricultural Organisation
GBCS	Grenada Banana Cooperative Society
GCA	Grenada Cocoa Association
GCNA	Grenada Cooperative Nutmeg Association
GDP	Gross Domestic Product
GOG	Government of Grenada
GOI	Government of Indonesia
GNP	Grenada National Party
GPM	Gross Profit Margin
GULP	Grenada United Labour Party
GVC	Global Value Chain
ICA	International Coffee Agreement
ICCO	International Cocoa Organisation
IMF	International Monetary Fund
ISA	International Sugar Agreement
KG	Kilogram
Ibs	Pounds

MoA	Memorandum of Agreement
MoU	Memorandum of Understanding
ND	No Date
NGC	New Generation Cooperative
NJM	New Jewel Movement
NNP	New National Party
OECD	Organisation for Economic Development and Cooperation
ROC	Return on Capital
SIDS	Small Island Developing States
SUNS	Sound Unsorted Nutmegs
UK	United Kingdom
USA	United States of America
US$	United States Dollar
WB	World Bank
WTO	World Trade Organisation

Chapter 1 - General Introduction

1.1 Overview

Historically, agriculture, nutmeg production and the Grenada Cooperative Nutmeg Association (GCNA) have a special place in the Grenadian economy, public policy and politics. Economically, prior to Hurricane Ivan in 2004, nutmeg was a major source of employment, particularly in the rural communities and especially during the nutmeg harvesting period, providing weekly income for approximately 30-33 per cent of the population (International Trade Centre and Ministry of Agriculture, Grenada, 2010; Brizan, 1979). It was also a major source of foreign exchange earnings. Nutmeg contributed 22.5 per cent of the island's total commodity exports in 2004, a major revenue earner for the national economy, generating an average of EC$35 million per year between 2000 and 2004 and contributing an average of 21 per cent to the gross domestic product of the island (Brizan, 2003; Gordon, 2015).

Politically, nutmeg farmers, acting collectively through the GCNA, had the ability to provide or withhold political support to the major political parties, as they did in 1974 and 1979, when they called on their membership to participate in political activities such as mass demonstrations against the government (Brizan, 1984). Since then, the farmers have been perceived by the political parties as being a major stakeholder and political grouping having the ability to influence the outcome of elections and political causes. As a consequence, they must be treated in a manner that will gain their political support. Hence, with regard to public policy, the performance of the GCNA is a critical consideration into public policy decision-making, especially as it relates to the issue of government public investment programmes, borrowing, rural and agricultural policies.

Prior to 1947, the export of nutmeg from Grenada was done through a system of multiple exporters (local and foreign) who negotiated quantities and prices directly with the individual local farmers. Such a system of haggling was a source of much dissatisfaction by the farmers since they felt that they were pitted one against the other by the exporters who were then able to secure the lowest possible price (Jackson, 1951; Brizan, 1979 & 1984). On 8 March 1947 the Grenada National Legislature signed into law the Nutmeg Industry Act. This act gave the GCNA monopsony control over "all nutmegs produced in Grenada and intended for export" (Nutmeg Industry Act, Section 3 (1), p.2).

The system of haggling was a source of much dissatisfaction for most farmers. As a result, some producers led by T.N. Smith (elected member of the Grenada National Legislature). F.M. Henry (a legal practitioner of local eminence) and N. Gay (a chartered accountant); and by large estate owners felt that such a system favoured the exporters who were able to use their status as buyers (whom the local producers depended on for sale and income) as well as their international business experiences to negotiate the lowest prices possible. As a consequence, they felt that such a system needed to change in order to enhance the capacity and ability of the nutmeg producers (especially the smaller ones) to obtain higher prices for their products as well as to retain more of the income in Grenada (Jackson, 1951). In order to achieve this change, they agitated for the formation of a monopsony organisation to control the export of nutmeg from Grenada.

This view was opposed by the exporters and some of the large estate owners who favoured the existing system. They felt that the proposed changes would lead to increased prices through their diminished ability to negotiate prices in their interest, as they did before. This group was led by Messrs.' Walter De Gale, Victor Wildman, F.D. Winslow, F. J. Louison and L. Sargeant (Copy of Dispatch from His Excellency the Governor to the Secretary of State for the colonies, No.12 dated 16th, January, 1945[1]).

According to Jackson (1951), the export of nutmeg and mace from Grenada started in 1919 following the successful introduction of the plant from Indonesia by Captain Blyth, a Dutch ship captain. From the inception of the GCNA (1947) to March 1979, the GCNA operated as an independent global exporter of nutmeg; it was in direct competition to Indonesian exporters, the world's largest supplier of nutmeg. However, over the years, the Chief Executive Officer (CEO) of Catz International (GCNA's overseas agent) Huitema, on many occasions suggested to the board of the GCNA that they should seek to collaborate with the Indonesian exporters in order to reduce competition and stabilise prices (Interview with Renwick, 5 August 2005)

In March 1979, the GCNA sent its General Manager, Renwick, to Indonesia to explore the possibilities of greater collaboration between the world's two largest nutmeg suppliers. This visit yielded no immediate positive outcomes since there was no single organisation for the export of nutmeg from Indonesia through which the GCNA could collaborate (Interview with Renwick, 5 August 2005). However in 1985, the Association of Indonesian Nutmeg Producers (ASPIN) was formed, thus providing the interlocutor needed for cooperation with the GCNA. This, the GCNA longed for since 1979 (Interview with Renwick, 5 August 2005)

In 1986, the GCNA and the Association of Indonesian Nutmeg Producers (ASPIN) reached a marketing agreement aimed at restricting the global supply of nutmegs so as to achieve high stable prices. The marketing agreement was aimed at creating an international nutmeg cartel between the producers of the two countries, which between

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[1] The copy of dispatch is an archival source at the GCNA. During that period Grenada was still a colony of Great Britain. The Governor was the resident representative of the crown, from whom the needed permission to allow such a fundamental change in the trading had to be granted.

them exported 90 per cent of the world's nutmeg. The attempt to form the cartel was short-lived due to the absence of the key conditions necessary for the formation and sustainability of cartels.

This dissertation studies the role of the principal stakeholders in Grenada (the nutmeg producers, their representatives in GCNA's Board of Directors, the Grenada Government and, to a lesser extent, the role of ASPIN) in the attempt to form the first international nutmeg cartel. In effect the study is an analysis of a failed attempt to form a commodity cartel. It details the absence of the conditions necessary for the formation and sustainability of a cartel as well as the existence of information asymmetry which caused the GCNA to keep pursuing the idea, even when it was evident that the attempt to form the cartel had failed.

The study required examination of the motivations and actions of the other stakeholders involved, principally ASPIN, the Government of Indonesia (GOI) and the sales agent/broker Catz International who mediated the agreement, drawing from the academic literature on stakeholder theory (Freeman, 2004. Mitchelle, Agle and Wood, 1997; Jones and Wicks,1999), cartels (Levenstein and Suslow, 2006, LeClair, 2000; Stigler, 1964; Connor, 2007), and global value chains (Gereffi and Fernandez-Stark, 2011; Brown, et al 2012; Hopkin and Wallerstein, 1977; Humphrey and Schmitz, 2002). This thesis investigates stakeholder intervention in the failed attempt to form the cartel between the GCNA and ASPIN.

This study was process-oriented, and studies the events in their historical context as they occurred over a specific period (Maxwell, 1992a; Mohr, 1982). The seven sense-making strategies (Langley, 1999) and, in particular, "temporal bracketing" and narratives were adopted to study the process within its context to address the research questions. The main research questions are:

Research question 1

What factors and interactions with other stakeholders influenced the GCNA Board of Directors' decision to take initiatives to form the Joint GCNA-ASPIN Marketing Agreement to operate as a cartel?

Research question 2

How did the interventions of other parties (external stakeholders) impact the creation, performance and the eventual collapse of the Marketing Agreement?

Research question 3

Why did the Agreement collapse and why did the GCNA Board persist in trying to keep the Agreement going when it started failing?

1.2 Introduction to the Topic

The GCNA, the largest agricultural commodity firm on the island (Brizan, 1979; Greenhelge and Sylvester, 2007), was concerned about the fluctuations in prices for nutmeg and mace on the international market since its formation and wanted to find a mechanism to control those prices. The low and fluctuating prices received by the GCNA were typical of commodity exporting firms whose place in the Global Value chain (GVC) at nodes close to producers deny them the ability to earn greater and more stable prices and value added in the nodes in the chain close to final consumers. These firms tended to operate in markets that were "international trader-driven" (Gibbon, 2001; 2002) or buyer-driven rather than producer-driven (Gereffi, 1999). Therefore, the commodity exporting firms as businesses and political leaderships consider strategic options secure higher incomes and values from the traded commodities.

This research follows the broad interest of stakeholder analysis, cartels and performance, which are discussed within the general strategy as process genre of the strategic management literature (Grant, 2003; Cornett et al., 2007; Seidmann and Sundararajan, 1997; Mintzberg, 1994; Freeman, 1984). In keeping with the underlying spirit of this thesis which sees strategy as process, a processual research design (Pettigrew, 1997; Dawson, 1997) was adopted since business relationships develop and dissolve over time and the processual approach is needed to capture the dynamic aspects of such relationships (Easton, 1995; Halinen and Törnroos, 1998). GCNA was therefore the organisation chosen for the application of the case-study methodology (Yin, 2003) for conducting this research.

This research provides empirical evidence on the applicability of stakeholder theory in a small island developing state (SIDS), in understanding the conditions that are necessary for the formation and sustainability of commodity cartel and reasons for their failure. The characteristics of SIDS include: (a) limited ability to exploit economies of scale; (b) lack of natural resources; (c) small markets; dependence on a narrow range of productive activities and exports, and (d) an inability to influence international prices (Briguiglio, 1995). It also contributes to the body of knowledge on agricultural commodity cartels and the role of stakeholders in formation and performance of international commodity agreements.

1.3 Motivation for Conducting this Research

At a practical and personal level, this research is motivated by the need to contribute to better strategic policy decisions in a firm which is of significant economic importance to the standard of living for a major segment of the Grenadian population. Additionally, the sheer size and economic value of GCNA to the national economy and prosperity of the country makes it a central focus of public policy discussions and debates. Finally, at the academic level, the very nature of GCNA provides an ideal opportunity for the application of stakeholder theory, information asymmetry and the necessity of having the ideal conditions for the formation and sustainability of cartels in understanding how its many stakeholders influenced its behaviour during the period 1986 to 1992.

1.4 Situating the Case and the Problem

The GCNA is located in the tri-island state of Grenada which has a land mass of 133 square miles. A former colony of Britain until independence in 1974, it is situated in the most southern part of the English-speaking Caribbean, northwest of Trinidad & Tobago, northeast of Venezuela, and southwest of St. Vincent & the Grenadines. It is a small, open economy, with a population of approximately 100,000 and a per-capita income of US$7,890 according to the World Bank, 2013. (World Development Indicators, 2013). The economy is based on tourism, financial and educational services, remittances and agriculture

Approximately 62 per cent of the total population reside in rural areas and undertake some full-time or part-time farming activities. According to Brizan (1998) over 30 per cent of Grenadians were dependent, directly or indirectly, on the nutmeg industry for parts of their livelihood (Brizan, 1998). The GCNA was formed in 1947 as part of a response to the unregulated marketing, trading and exporting system which had previously been in existence. The industry was characterised by a system of free trading in which a number of plantation owners, traders and middlemen bought nutmeg from individual small farmers for export. The small farmers were played against each other by these buyers and exporters, resulting in depressed prices for small producers (Brizan.1979; Jackson, 1951).

As a result of agitation by those in favour of eliminating the existing system of trading and support of the Governor, the Bill entitled “The Nutmeg Industry Act, 1946” for the establishment of the nutmeg cooperative was passed by the Legislative Council. The GCNA came into being in March 1947 (Brizan, 1979). This led to the creation of the GCNA (Jackson, 1951; Brizan, 1979). The Act mandated the GCNA as the sole corporate body responsible for the marketing of Grenada’s nutmeg and mace [Section 3 (2)], and that all nutmeg growers be eligible for membership of the GCNA [section 4 (1)] and to be managed by a board of directors [Section 6, (2)] comprising of nine members of which six were to be elected by the nutmeg producers, and three by the Minister of Agriculture [Section 14 (1)]. It is this section in particular which gave rise to the statutory stakeholder composition of the GCNA.

Following years of preparatory work by a special committee, the Association finally became a reality and started purchasing nutmegs on 1 October 1947 (Brizan, 1998). The Act established the GCNA as a monopsony producer cooperative owned by its members. Its surpluses were to be shared by the members in proportion to the volume of business conducted with the cooperative. The GCNA became the sole purchaser and exporter of nutmeg and mace from Grenada. Its members were prohibited from selling to any other party.

The GCNA Board of Directors' initiative to form a cartel with ASPIN was assisted by its agent in Europe, Catz International, whose Chief Executive Officer (CEO). Klass Huitema was personally encouraging and instrumental in forming the alliance. Some nutmeg industry interest groups in Indonesia had long held the view that such an alliance was important for their mutual interest. The rationale for such mutuality of interest was rooted in their desire to reduce competition between themselves as the world's two largest suppliers, and thereby control supply and achieve higher and more stable prices (Interview with Renwick, 5 August, 2005; Lord, 19 March, 2015).

1.5 Decision-Making within the GCNA

The GCNA can be defined as a democratic organisation operating through a structure of parish[2] representation, leading to the election of the Board of Directors. During June every year, the GCNA held its parish meetings where all members of the parish attended. These meetings were held to address two matters. They received and discussed the annual financial report of the GCNA and they elected nominees to attend the annual general meeting at which six ordinary members were elected as members of the GCNA Board of Directors.

The nutmeg producers of Grenada who are the primary stakeholders in the GCNA, had similar objectives to those of the Indonesian producers and traders, achieving higher and more stable prices. Between them the two countries supplied 90 per cent of the world's nutmeg and mace. Hence the stakeholders in the nutmeg sector in both the countries had a mutual interest in controlling world prices and potentially the ability to exert control because of the high share of the world supply.

[2] Parishes are divisions of Grenada. The island is comprised of parishes: St. George, St. Andrew, St. David, St. John, St. Patrick and St. Mark.

Therefore, the issues surrounding the motivations to form a cartel and the attempts to keep it going in spite of its evident failure required exploration of the rationale and context for the joint marketing agreement, the role of the primary stakeholders in forming the agreement, the eventual impact of the agreement on the GCNA, and how the absence of the conditions necessary for the formation of a cartel contributed to the eventual failure of the agreement.

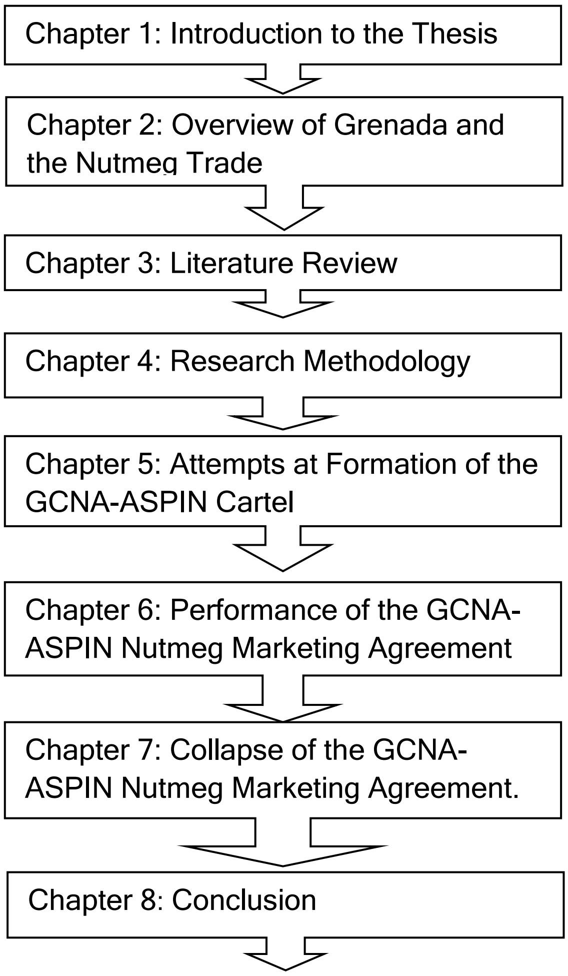
1.6 Data Collection Strategy

In order to bring understanding and clarity to the research question, a qualitative case-study approach was adopted (Yin, 2003). An eclectic triangulation strategy for data collection was adopted using primary and secondary sources. In this regard, the GCNA archives provided a significant amount of dormant data, while some active Grenadian actors during the cartel formation and demise provided complementary primary data.

1.7 Structure of the Thesis

The rest of the thesis is structured into eight chapters. Figure 1.1 provides the outline of the research process as captured in the eight chapters, with the details following. The chapters capture the main themes discussed, highlight the critical issues.

Figure 1.1 Outline of Thesis



Chapter 1 provides the introduction to the topic and highlights the issues to be addressed and the broad research approach to be adopted. Chapter 2 provides the context and background for the case study. It describes the nutmeg industry in Grenada and Indonesia, highlights the long-standing problems of the nutmeg industry and the proximate problems and motivations for primary stakeholder groups to enter into the cartel arrangement with the nutmeg exporters in Indonesia.

Chapter 3 reviews the literature and sets the conceptual framework to use the stakeholder analysis framework in understanding the decision-making process leading to the decision to form the agreement with ASPIN, the duration of the agreement, and its eventual decline. This section helps set the framework for the study. Chapter 4 is concerned with the research method which is closely intertwined with the data-collection strategy. Specifically, it outlines the triangulation approach used in data collection and demonstrates its appropriateness for the qualitative case-study research. Overall, it demonstrates the close link between theory and empirical evidence in this type of research.

Chapter 5 is concerned with the attempt at forming the cartel between the GCNA and ASPIN. It details the process by which the decisions were arrived at regarding the establishment of the GCNA-ASPIN Joint Marketing Agreement; and identifies the key stakeholders and their respective roles in forming the process. It also presents the application of temporal bracketing and narrative of events, and the text and talk that led to the formation and demise of the relationship between the two organisations. Finally, it addresses the research question 1:

What factors and interactions with other stakeholders influenced the GCNA Board of Directors' decision to take initiatives to form the Joint GCNA-ASPIN Marketing Agreement to operate as a cartel?

Chapter 6 examines the performance and operations of the GCNA during the period of the agreement and, by extension, the agreement. It addresses research question 2:

How did the interventions of other parties (external stakeholders) impact the creation, performance and the eventual collapse of the Marketing Agreement?

Chapter 7 focuses on the reasons for the failure of the agreement. It addresses research question 3:

Why did the Agreement collapse and why did the GCNA Board persist in trying to keep the Agreement going when it started failing?

Chapter 8 presents the conclusions, limitations and recommendations arising from the study.

Chapter 2 - Grenada: Its History, Economy and International Trade

2.1 Introduction

This section provides the Grenadian national, historical and economic context at the time for the formation of the nutmeg cartel between the GCNA and the ASPIN and its demise during the period 1986-1990. Three major aspects of the context were: (a) the importance of nutmeg, and the GCNA in particular, for Grenada's international trade and economy; (b) the place of nutmeg in the socio-economic fabric of the country; and (c) the place of Grenada's nutmeg sector within the global nutmeg value chain. The first two aspects above explain the Grenadian policy makers' and the other primary stakeholders' propensity to form and persist with the cartel in order to retain a greater share of the value added from the nutmeg trade in Grenada. The third aspect works against the ability of Grenada to protect the value of its share from nutmeg exports

This chapter will establish the historic rationale for Grenada's interest in seeking to establish the cartel and the desire on the part of two major primary stakeholders in Grenada's nutmeg industry – the Board of Directors of the GCNA and the Government of Grenada – to attempt to fulfill the expectations of the members of the GCNA, another primary stakeholder group.

This chapter is organised as follows:

Section 2.2 outlines the history and geography of the island of Grenada. It provides an understanding of the hemispheric location of the island. It also highlights how the prevailing climatic condition is conducive to agriculture in general and nutmeg in particular;

Section 2.3 describes the economic structure of Grenada. It explains the composition of the gross domestic product, and demonstrates the importance of agriculture in the nation's national output of goods and services, as well as the important role of nutmeg in the national economy;

Section 2.4 discusses the structure of the nutmeg industry and the agronomical aspects of nutmegs as it relates to the cultivation, harvesting and processing of the crop, and it ends with a discussion on the chemistry of nutmeg and mace;

Section 2.5 provides a detailed explanation of the chronological development of the GCNA. It details the pre-1947 phase of the industry, catalogues its development and delineates the role of its various stakeholders. This section also details the Nutmeg Industry Ordinance, with reference to the specific role of the primary stakeholders, and identifies the legitimate basis for their decisions to form a collusive agreement with the intention of forming a cartel. Finally, it discusses the organisational structure of the Association.

Section 2.6 provides a cursory view of the global nutmeg value chain and seeks to situate the GCNA within that context.

2.2 The Geography and History of Grenada

2.2.1 Location, Climate, Geography

The state of Grenada consists of several islands, some of which are not inhabited. The three major islands are Grenada, Carriacou and Petite Martinique, which have a combined land mass of 133 square miles (Grenada Handbook, 1969). Grenada is situated at 12.5^0 N and 61.4^0 W. The main island, Grenada, is 21 miles long and 12 miles wide, lying 68 miles southwest of St. Vincent and the Grenadines, and about 90 miles north of the Republic of Trinidad and Tobago, making it the most southerly of the Windward Islands. It is a volcanic, mountainous island, with rich, loamy soil, ideal in many areas for agriculture (Government of Grenada, 1991).

Grenada experiences tropical climatic conditions with temperatures ranging from 28^0 C to 31^0 C, providing ideal climatic conditions for good agricultural soil (Grenada Environmental Profile, 1991). Lower temperatures may be recorded in the higher regions but Grenada's Meteorological Office does not keep a record of these.

Christopher Columbus sighted the island of Grenada in 1498. It was inhabited by migrant Caribs (Amerindians) from South America. The French were the first Europeans to colonise the island around 1650 (Chase, T. and Chase, Z., 2011) with settlers from Martinique. The French established a tobacco plantation but conflict soon arose between the French and the Caribs. According to Brizan (1984), by 1652, in a fiercely fought battle, most of the Caribs were massacred and those who survived chose to commit mass suicide rather than live under French rule.

The island of Grenada fell under British rule by virtue of the Treaty of Paris in 1763 but soon reverted to the French in 1779 by conquest. It was later returned to the British in 1783 by the Peace Treaty of Versailles and remained a British dependent territory until it gained independence in 1974 (Brizan, 1984)

Grenada gained its independence from Britain on 7 February 1974 under the leadership of a charismatic leader, Sir Eric Mathew Gairy; Prime Minster from 1974 - 1979. His government was overthrown in a bloodless revolution by the then opposition party New Jewel Movement (NJM), led by Maurice Bishop. Factionalism developed within the NJM, resulting in the assassination in October 1983 of Bishop, some of his cabinet colleagues, and an unspecified number of Grenadians (Brizan, 1984). The murder of the Prime Minister, Maurice Bishop, along with some members of his cabinet and other Grenadians, was followed by an invasion of the island led by the United States of America (USA) on 25 October 1983. The island held its first election after the fall of the Revolution in 1984 and has remained within the fold of the Westminster system of democracy, continuing to hold democratic elections since then.

From colonial times to the period under review, Grenada's economy was based largely on agricultural products, principally sugarcane, coffee, then later cocoa, nutmeg and bananas. The island transitioned from a largely plantation economy to a mixed one of large, medium and small holdings, from 1834 to the present time (Brizan, 1984). The nutmeg industry rose to prominence at the beginning of the 20th century (Brizan, ibid). From 1930 to 1982, three crops (cocoa, nutmeg and banana) formed the substructure of the island's economy, as directly or indirectly they have generated much of the income and employment in the country as the production from the sugar cane, cotton and coffee industries declined to economically insignificant quantities (Brizan, ibid).

2.2.2 The People

According to the Grenada Poverty Assessment Report (2008), by 1985 (the year the joint marketing agreement, the Memorandum of Understanding, was signed between Grenada and Indonesia), the island had a population of 91,500. The population rose to 94,700 in 1990, comprising persons mainly of African, East Indian, European and mixed descent. By 2008 the poverty rate was estimated to be approximately 37.7 per cent of the population. Poverty, is defined as the inability of persons to meet their annual per capita expenditure including, the cost of meeting their minimal food and other basic requirement the minimum per capita requirement was less than EC$5,842 per adult annually or EC$16.01 per day, while 2.4 per cent of the population was found to be extremely poor or indigent.

2.3 The Economic Structure of Grenada

The data in this section focus on the period 1980–1995, which starts before the GCNA–ASPIN Joint Marketing Agreement (1986) was formed and extends beyond the failed attempts at cartelisation (1990). This is done so as to provide an extended view of the impact of the collapse of the agreement on GCNA, specifically, and the national economy, generally. Additionally, the extension provides evidence of attempts to revive the agreement. This latter aspect will be discussed in chapter 7.

The discussion about Gross Domestic Product (GDP) will be presented in two parts. The first assesses the GDP for the period 1980-1985, with reference to the contribution of agriculture and crops such as nutmeg, cocoa and bananas, in particular. The first part of the discussion on the GDP marks the period prior to the formation of the agreement, while the second assesses 1986-1995, the period of the existence of the GCNA-ASPIN Joint Marketing Agreement and beyond. The latter section will be discussed in chapter 4, when examining the impact of the decisions and the decision-making process of the stakeholders of the cartel on the GCNA. This approach is useful since it explains the economic and trade situation prior to the agreement, thus allowing for a better understanding of the impact of the agreement and its collapse on the performance of the GCNA.

Table 2.1 highlights Grenada's Gross Domestic Product by Economic Activity during the period 1980-85. It presents the main sectors contributing to the GDP, as well as the performance of the sectors during the period, and establishes its fluctuating pattern.

Table 2.1 shows that Grenada's GDP (1980–1985) increased from EC$205.50 million in 1980 to EC$309.57 million in 1985, the largest constituents of the GDP were: Agriculture (19.4 per cent) and Government Services (17.6 per cent). During the period (1980 to 1985), the three commodities (cocoa, nutmeg and bananas) combined generated export earnings of EC$242.9 million or 16.4 per cent of the Agricultural crops component of GDP. According to the Ministry of Finance (1992) the combined crops contributed 61 per cent of export earnings in 1985 (Ministry of Finance, 1992).The table shows that while the value of agriculture has remained static, the services sectors such as hotels and restaurants, transportation, communications, banking and insurance, and government services have experienced steady growth.

Table 2.1 Grenada's Gross Domestic Product by Economic Activity, in Current Prices (EC$ M)

SECTOR	1980	1981	1982	1983	1984	1985	Sector contribution to GDP 5 Yrs total	Sector contribution to GDP (%) 5 yrs total (%)
Agriculture	47.28	51.21	46.30	45.80	49.01	48.02	287.62	19.4
Crops	41.40	45.17	39.16	37.94	39.91	39.32	242.90	16.4
Livestock	1.80	2.10	2.20	2.30	2.20	2.50	13.10	0.9
Forestry	0.78	0.84	0.94	0.96	1.00	1.10	5.62	0.4
Fishing	3.30	3.10	4.00	4.60	5.90	5.10	26.00	1.8
Mining & Quarrying	0.90	1.08	1.08	1.08	0.90	1.44	6.48	0.4
Manufacturing	7.19	7.05	11.75	10.48	13.39	17.07	66.93	4.5
Electricity & Water	3.30	3.22	4.09	4.40	6.39	7.84	29.24	3.9
Construction	13.75	18.12	21.24	21.86	20.40	22.78	118.15	8.0
Wholesale & Retail Trade	27.48	22.74	29.23	28.09	30.15	34.47	172.16	11.6
Hotels & Restaurants	6.80	8.10	8.40	9.20	11.70	15.30	59.50	4.0
Transport	21.80	24.84	24.63	26.22	28.07	34.55	160.11	10.8
Communications	3.53	3.33	3.63	4.01	4.51	6.45	25.46	1.7
Banks & Insurance	10.47	12.03	13.83	15.92	18.32	21.11	91.68	6.2
Real Estate & Housing	12.20	12.30	12.90	12.98	15.70	17.50	83.58	5.6
Government Services	35.23	36.50	36.88	45.36	48.97	57.84	260.78	17.6
Other Services	8.50	9.00	9.70	10.20	10.60	11.00	0.59	4.0
Sub-Total	198.43	209.52	223.66	235.60	258.11	295.37	1420.69	
Less Imputed Service Charge	7.07	8.12	9.34	10.73	12.34	14.20	61.80	2.2
TOTAL	205.50	217.64	233.00	246.33	270.45	309.57	1482.49	
GROWTH RATE		4.1	6.2	5.7	9.5	15.3		100.0

Source: Central Statistical Office, Government of Grenada, 1986.

The above data highlight the contribution of agriculture to GDP and exports. The sector was the most important contributor to GDP and trade.

While future growth might have been seen to have depended on the development of other sectors, notably tourism, a large proportion of the population had a stake in farming, either as a primary activity or a secondary activity. Cash crops for exports were important contributors to the GDP and for earning foreign currencies to pay for the imports the country relied on. The following discussion reviews each of these crops and their contribution to export earnings and GDP. By so doing, the necessity to maintain stable and higher commodity prices, in order to aid Grenada's growth and development, will be highlighted.

2.3.1 Performance of the Nutmeg Sector, 1980-1985

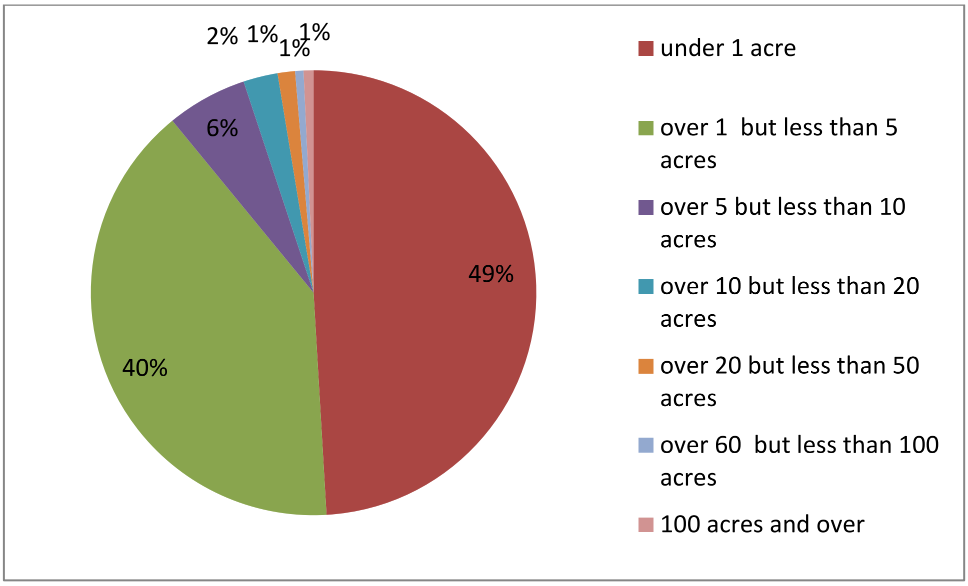
By 1979 the GCNA had a membership of approximately 5, 288 farmers, with approximately 89 per cent of them being small farmers producing on small plots of less than one and no more than five acres of land, and with the rest (11 per cent) producing on lands ranging from 10 to over 100 acres. This data show that the vast majority of producers were small farmers. Additionally, the data show that the 89 per cent of farmers delivered 1,970,872 pounds or 55 per cent of the 3,563.142 pounds of nutmegs in 1979 (GCNA, 1979)[3]. Therefore, the small farmers were critical suppliers of nutmeg and mace to the GCNA and thus stood to benefit from any increases in price as much as the larger producers.

With regards to nutmeg contribution to the value and volume of agricultural exports and its contribution GDP, table 2.2 serves to highlight fluctuations in prices and quantities of nutmeg and mace exported during the five-year period 1980–1985.

The table highlights the steady decline in the export unit price per pound of nutmeg received by the GCNA. The per-pound price of nutmeg exported steadily fell from EC$2.48 in 1980 to EC$1.35 in 1985 or 46.1 per cent. During the same period, and despite some fluctuations, the amount of nutmeg exported increased from 3,970,239 pounds to 6,602,944 pounds or 66 per cent. On the other hand, the price of mace experienced steady increases except in 1983 when it fell to EC$2.50 per pound.

[3] Since 1979 there has not been such a census of nutmeg farmers, however, the GCNA is of the belief that up to 2004, this patters of cultivation had remained,

Figure 2.1 Distribution of farmers by farmsize (acres)



Source: GCNA (1979)

The overall income of the GCNA varied slightly but with a general increasing trajectory up to 1985. This was due in part to the increased prices experienced by mace, as well as the expansion in the export of nutmeg. In each instance the GCNA was responding to market offerings rather than the result of a well thought out and planned pricing strategy (interview with Renwick, 5 August, 2005). This means that the price received by the GCNA reflected the state of the market and was not a deliberate, controlled action by the producers but rather it was the deliberate actions by the international nutmeg buyers, who increased their purchases in the face of declining prices. It appears that over this period the Association was a price-taker and used its ability to increase its supply of nutmegs on the international market mainly from stocks, and new crops in the face of the falling price to realise an increase in revenue.

With regards to the level of exports, the data showed that for the first two years (1980 and1982) sales amounted to 3,970,239 pounds and 3,572,700 pounds respectively but as at 1983, the quantity exported started to increase except in 1984 when it fell from 5,915,016 to 4,962,016 pounds, and finally rising to 6,602,944 pounds. As the price and quantity fluctuated, so too did the annual income of the GCNA, as seen in table 2.2.

Finally, the increased in annual export sales over that of the annual production came from stocks held by the GCNA. According to the Nutmeg Act, the GCNA was mandated to purchase all of the nutmeg and mace offered for sale by the producers, who were its members. The fluctuation in the quantity (and hence exports) demanded by the market in any year reflects the demand in the export market, which were forecasts by the agents and traders of possible activities by the middle and end-users during that given year, It could be assumed that the general downward pressure on nutmeg prices, which lowered the earnings per pound of nutmeg but kept overall earnings relatively stable (mainly due to the increased prices experienced by mace) for the GCNA and its members, as well as the lack of GCNA's ability to influence the international price of nutmeg, were two of the proximate factors that acted as catalysts for the attempt to form the Nutmeg Cartel in 1986. This will be demonstrated in chapter 5.

Table 2.2 Production of Nutmeg and Mace and Exports and Revenue in EC$ 1980 -1985

Year	Nutmeg production (lbs)	Mace production (lbs)	Nutmeg exports (lbs)	Export price per lb of nutmeg (EC$)	Mace exports (lbs)	Export price per lb of mace	Total Income (EC$)
1980	5,486,294	647,672	3,970,239	2.48	647,672	2.98	11,839,998
1981	5,300,836	532,129	3,572,700	2.28	532,129	3.41	9,786,726
1982	6,157,754	502,905	4,210,664	1.95	695,345	3.47	10,640,716
1983	4,795,991	330,934	5,915,916	1.6	903,225	2.5	11,736,305
1984	5,036,065	433,532	4,962,016	1.41	308,555	4.49	8,478,401
1985	4,679,472	365,947	6,602, 944	1.35	447,135	7.93	12,467,528
Total	31,456,412	2,165,447	22,631,535		3,534,061		64,949,674

Source: GCNA Financial Statement and Report of the Nutmeg Board 1980-1985

2.3.2 Performance of the Cocoa Sector, 1980-85

The other important crop during the period 1980-1985 was cocoa. Table 2.3 shows the performance of the cocoa industry during the period. Cocoa, like nutmeg, was a regulated commodity. The organisation responsible for exporting cocoa was the Grenada Cocoa Association (GCA), which was formed in 1964 as the instrument to regulate cocoa production and the sole authority to export cocoa beans from Grenada (Report on Amalgamation of Nutmeg, Cocoa and Banana Associations, 1993).

Although cocoa was generally considered to be Grenada's second-largest export crop, it is to be noted that by way of export earnings, cocoa surpassed nutmeg by EC$21.1 million during the period under study. However, cocoa, like nutmeg, experienced volatility in the quantity exported, export price and earnings. Despite some slight fluctuations the quantity of cocoa exported experienced an overall increase of 12.5 per cent from 1980 to 1985. Despite the increase in the quantity exported, income declined to 33 per cent during the same period. Table 2.3 also highlights the percentage changes in income during the period, highlighting the largest decline of 30.1 per cent occurring between 1981 and 1982, with smaller decreases in the following years until 1984 when income started to increase. The export sales and pricing behaviour of cocoa indicated the fluctuating nature of commodity pricing affecting most commodities – cycles of boom and bust.

Table 2.3 Cocoa Production, Export, Unit Price and Total Value in EC$, 1980-1985

Year	Production (lbs)	Export (lbs)	Unit Price (EC$ per lb)	Value of Cocoa Exports(EC$)	% Change In Income
1980	4,689,180	3,990,938	4.56	18,198,677	
1981	5,546,416	5,808,137	3.30	19,143,006	5.2
1982	5,024,430	4,995,649	2.68	13,388,339	-30.1
1983	5,218,752	5,045,287	2.25	11,351,895	-15.2
1984	4,627,843	4,412,625	2.64	11,649,330	2.6
1985	4,775,964	4,490,412	2.73	12,258,824	5.2
Total	29,882,585	28,743,048		85,990,073	

Source: Grenada Cocoa Association, 2015.

In spite of the importance of Cocoa as an export crop for Grenada, the country did not have the international market power which offered it the potential to be a significant player in controlling global supply. In 1985 of the sixty one cocoa exporting countries, Grenada is placed twenty fifth in terms of value, with one per cent share of world exports (www.fao.org/statistics/en/5, 1985).

2.3.3 Performance of the Banana Sector

The third most important agricultural export commodity of Grenada during the years 1980 to 1985 was bananas. Up until the collapse of Grenada's banana industry in the mid-1990s as a consequence of the creation of the Single European Market (1992), and the new European banana regime codified in EC Regulation 404/93 which came into effect on 1 July 1993 (Sandiford, 2000), the banana export trade was managed by the Grenada Banana Cooperative Society (GBCS), the third of the island's three major commodity boards.

During the period 1980–1985 banana production amounted to 134,670,100 pounds, and exports amounted to 129,805,800 pounds, generating revenue of EC$53,673,800 (Table 2.4). During the same period, production, exports and revenue showed a downward trend while prices fluctuated, a situation typical of agricultural commodities. During the period revenue declined from EC$10,688,400 to EC$8,649,400, a decline of 19.1 per cent, largely because of the decline in production and exports for reasons described below. The prices paid to farmers also broadly reflected the prices received by the GBCS. During the period under review, the average price per pound received by farmers was EC$0.205, while the average price received by the GBCS was EC$0.418. It therefore means that the GBCS paid to the farmers an average of 49 per cent of all income it received during the period under review.

This twin phenomena of fluctuations in production and income and crop diseases, contributed to the overall decline in the banana industry. The resulting poor quality of bananas led to increased rejection by Geest UK Ltd., the UK importing company (Sandiford, 2000). Later, as described below, the overall decline in the average price per pound for African Caribbean & Pacific (ACP) bananas which accompanied changes to the EU SEM and banana regime which was exacerbated by the coming into force of the European Union Single Market (1992) led to the eventual closure of the GBCS and the severe decline of banana exports.

Until the creation of the Single European Market (SEM), unlike nutmeg and cocoa, Grenada's bananas had a secure market in the United Kingdom free of duty and quotas, while bananas from Central and South America were faced with quota restrictions (Fletcher, 1993). This preferential treatment for Grenada along with other ACP countries which was to be extended to the rest of the European Union under the SEM was challenged by the USA government and Latin American banana producers. The USA interest in banana exports from Latin America was because of the US based fruit trading multinationals' (Dole and Chiquita) exports from Latin American countries. The latter made representations to the World Trade Organisation (WTO) to establish a special panel/appellant body to hear their complaints against the EU's banana regime (Sandiford, 2000; Fletcher, 1993).

The WTO panel found that the EU was in breach of various sections of the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS) and the Agreement on Import Licensing Procedures (AILP) (Sandiford.2000).

As a consequence, the WTO appellate body recommended that the EU make its banana regime compliant with the above three mentioned agreements. Against this backdrop the US was threatening retaliatory actions against the EU. As a consequence, the EU had no choice but to allow banana imports from Latin America on the same preferential terms as the ACP countries (Sandiford, 2000).

With the preferential terms removed, Grenada now had to compete with the lower cost Latin American producers. Grenadian banana production costs were higher because of the small scale of production and therefore banana production for exports could not survive, leading to the demise of the banana industry in Grenada (Fletcher, 1993, Sandiford, 2000).

While bananas were one of Grenada's three main export commodities in the early 1980s, the preceding account shows that its importance was declining and its value as an export commodity was dealt a further blow by the loss of preferential treatment in the UK and the European Union. Further, Grenada was a very small exporter in the global context. The major players in the international banana market were Ecuador, Costa Rica, Honduras and Guatemala (http://www.fao.org/statistics/en/1985). As highlighted below, the weakness of bananas as an export commodity is an aspect of importance in explaining the focus of policy makers and other stakeholders on the control of the supply and price of nutmeg.

Table 2.4 Banana Production and Exports by Volume and Value, 1980–1985

	Production		Exports		Average prices	
Year	Volume (lbs.)	Value (EC$)	Volume (lbs.)	Value (EC$)	Growers EC$ per lb.	GBCS Price EC$ per lb.
1980	27,373,600	4,737,900	26,481,700	10,688,400	0.2140	0.4036
1981	25,609,400	4,429,700	25,090,200	9,301,000	0.2200	0.3707
1982	22,808,300	3,129,300	22,030,400	8,942,700	0.1780	0.4059
1983	20,236,000	2,851,900	19,261,800	8,207,400	0.1900	0.4261
1984	19,725,400	2,895,100	19,005,600	7,884,500	0.1950	0.4184
1985	18,917,400	3,261,000	17,936,100	8,649,800	0.2319	0.4833
TOTAL	134,670,100	21,304,900	129,805,800	53,673,800		
Average	19,292,117	3,550,817	21,634,300	8,945,633	0.205	0.418

Source: Ministry of Agriculture, Government of Grenada.1992

Table 2.5 highlights the contribution of the three main agricultural exports from Grenada and the relative share of each crop to the country's commodity export. Cocoa's share experienced consistent decline from EC$18.2M in 1980 to EC$8.5M in 1985, while that of banana declined from EC$10.7M in 1980 to EC$8.6M in 1985.

Table 2.5 Grenada's Major Commodity Agricultural Exports, as a Percentage of Total Exports, 1980 and 1985

Commodity exports (Units)	Year	
	1980	1985
Cocoa (EC$M)	18.2	12.2
Nutmeg (EC$M)	10.4	14.9
Bananas (EC$M)	10.7	8.6
Total - three commodities (EC$M)	39.3	35.7
Total Grenada exports (EC$M)	45.5	59.0
Three commodities share of all exports (%)	86.4	61.1
Nutmeg's share of the three commodity exports (%)	26.5	41.7
Nutmeg share of total exports (%)	22.9	25.3

Source: Ministry of Agriculture, Government of Grenada. 1992

The performance of the above export commodities (nutmeg, cocoa, bananas) in the early 1980s therefore paints a picture of an agricultural sector beset by volatile, declining prices and income earnings. The evidence shows that the share of agriculture in GDP declined, while continuing to be of economic and social importance to Grenada. From Table 2.1 it can be deduced that while in 1980 the share of agriculture and the three main commodities were 23.8 and 20.9 per cent respectively the shares had declined to 14.0 and 11.5 per cent respectively in 1985. However, the nutmeg sector was deemed to be the one with the most economic and social significance (see 2.3.2 and 2.3.3). Further, as Table 2.5 shows nutmeg's share in the export revenue from the three agricultural commodities grew substantially from 26.5 per cent in 1980 to 41.7 per cent in 1985 and its share in the total exports of Grenada grew from 22.9 to 25.3 per cent over the same period. At the international level, nutmeg was the only one of the three major primary export commodities for which Grenada had sufficient international market power to have any chance of influencing the world supply and price.

With volatile but overall declining revenue earnings from the major agricultural export commodities, the island's overall trading performance was negatively affected as demonstrated by the widening trade deficit (Table 2.6). The deficit expanded at a rate much greater than the combined (domestic[4] and foreign[5]) export earnings, as imports in

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[5] Foreign exports refer to goods that are re-exported from Grenada.

real value terms exceeded exports by 1995 per cent over the period. On an annual basis the real difference between the imports and exports also showed significant difference to as much as more than EC$100 Million between 1982 and 1985. It was against this background that the economic and political leaders sought to seek innovative mechanisms and instruments to stem this decline in the terms of trade. One of the mechanisms chosen was the attempt to form a nutmeg cartel.

2.3.4 Impact of Revenue from Nutmeg on Grenada's Economy

The fluctuating and generally declining revenues from the export of nutmeg impacted Grenada's economy at different levels: (a) on trade balances; (b) the income of the GCNA, (c) and the incomes of individual nutmeg farmers. These will be discussed in the following sections and chapters of this thesis. Another impact of the generally declining earnings from nutmegs was the number of farmers who were unable to maintain their loan payments from the commercial banks and the Grenada Development Bank. As a result, many of their payments were in default which, in Grenadian society, carries a social stigma. The Grenada Development Bank was particularly hard hit as it was the main source of loan financing for farmers (interview with Lord, 19 March, 2015).

The export performance of the visible nutmeg, cocoa, bananas had direct impacts on the country's balance of trade, the difference between the country's exports and its imports (Madura, 2006). The data from Table 2.6 show that between 1980 and 1985, the country suffered continuous and growing trade deficits. The total balance of Grenada's visible trade for the years 1980 to 1985 was a deficit of EC$617,661,300. Further the deficit grew over this period. In 1980 the deficit was EC$ 88,627,900. By 1985 the deficit had climbed to EC$126,664,500, an increase by approximately 43 per cent. While earnings from exports increased by 28.5 per cent over this period, the increase in imports was almost 38 per cent.

This unsustainable trading situation is a feature of developing countries' reliance on primary commodities for export earnings and the dependence on imports for investment in development and consumption, especially for SIDS.

Table 2.6 Grenada Balance of Visible Trade, 1980 –1985 (Thousand EC$)

Source. Developed by researcher from data obtained from Central Statistics Office.

Exports					Imports		
Year	Domestic (EC$000)	Foreign (EC$000)	Total (EC$000)	% change in exports	(EC$000)	% change in imports	Trade Balance (EC$000)
1980	45,509	1,436	46,946		135,574		(88,627)
1981	50,275	1,081	51,356	9.4	146,709	8.2	(95,353)
1982	47,748	2,338	50,086	-2.5	152,429	3.9	(102,342)
1983	50,711	1,076	51,787	3.4	154,479	1.3	(102,691)
1984	47,858	1,256	49,114	-5.2	151,095	-2.2	(101,981)
1985	59,000	1,332	60,332	22.8	186,997	23.8	(126,664)
TOTAL	301,103	8,520	309,623		927,285		(617,661)

(Grenada)

2.3.5 Balance of Trade as a Percentage of GDP

One indicator of the adverse trade and economic situation The general decline which occurred in Grenada during the period 1980-85 is the high and growing could be gleaned from a comparison of the balance of trade as per cent of to the GDP. Table 2.7 shows that the deficit in the balance of trade experienced slight fluctuations between 1980 and 1985, ranging from 43.5 per cent in 1980 to 41.6 per cent in 1983 37.7 per cent in 1984 and 41 in 1985 as imports continued to outstrip exports. The trading and economic situations highlighted a real development challenge faced by developing countries, i.e. the persistence of trade deficits, which is generally financed by borrowing, remittances and increased taxes among other measures.

Moreover, the table shows the general trend of increasing trade deficits, and the generally widening gap between the GDP and the deficit, which demonstrated the country's inability to finance its imports from its exports, and highlights the deteriorating terms of trade.

The preceding analysis provides important economic and trade background against which the GCNA stakeholders, including the Government of Grenada, contemplated closer collaboration with Indonesia to control the international nutmeg market. The proposed cartel arrangement could have only been contemplated for nutmeg and not any of the other commodities (cocoa and banana) since the potential for such a cartel existed with nutmeg because of the high market share held by Grenada and an even higher share by its prospective partner Indonesia. In the case of banana and cocoa, Grenada was such a small producer that it could not have been an instigator of a cartel or marketing agreement. The following section provides a broader overview of Grenada's nutmeg sector and its role in the national economy.

Table 2.7. Grenada's Trade Deficit and Gross Domestic Product, 1980–85

Year	Gross Domestic Product(EC$M)	Trade Deficit(EC$M)	Trade deficit as % to GDP
1980	205.50	86,28	42.0
1981	217.64	95.35	43.8
1982	233.00	102,34	43.9
1983	246.33	102,69	41.6
1984	270.45	101.98	37.7
1985	309.57	126,66	40.9
Total	1,482.49	615.31	41.5

Source: Developed by researcher from data obtained from the Central Statistical Office

2.4 The Structure of the Grenada Nutmeg Industry

The Grenada nutmeg industry, in this dissertation, refers to the entire production and marketing systems for nutmeg and mace including nutmeg farmers, the GCNA, Government of Grenada, the financial institutions in Grenada, overseas agents and suppliers of inputs for the growing, storing and exports of nutmeg.

Some historical context on how nutmeg production came to Grenada and the nature of the products will now be provided. The nutmeg tree (*Myristicafragrans*) is indigenous to the Indonesian Moluccas islands. The plant was introduced to Grenada in 1843 (Brizan, 1978). The tree is tropical evergreen which grows to a height of approximately 75 feet (about 23 meters). It produces a peach-like, fleshy fruit from which two separate spices are obtained, nutmeg and mace. The nutmeg is the seed in the pericarp[6]. The seed itself is covered with a frill-like scarlet aril, called mace. Interestingly, the nutmeg has become an iconic part of Grenada's folklore as it is the subject of literature and a musical performed locally and overseas *The Princess* (Keens-Douglas, 1992), which riddles: "The lady in a boat with a red petticoat." The answer is *the nutmeg* which is one of the symbols on the national flag.

2.4.1 The harvesting and Processing of nutmeg

Nutmeg production takes place year round with peak periods being April/June and September/October (Renwick, nd). Approximately nine months after the flowering of the nutmeg tree, the fruit ripens and the pericarp splits open, allowing the nut to fall to the ground. In order to maintain a *grade one* quality for the mace, some farmers used bamboo rods to pick the fruit from the tree. In this way, the mace was firmer and of *grade one*

[6] The pericarp is a round fleshy yellow pod in which the nutmeg seed is located until it is sufficiently ripe after which it opens and releases the nutmeg seed.

quality, free of mildew (black, white or grey) and mould, and able to sustain more handling.

When the nut falls to the ground, it is collected and separated from the mace. The nutmeg is then delivered within a day or two to Nutmeg Receiving Stations. They are then placed on drying shelves for approximately eight weeks. On completion of the drying process, the nutmeg is then transported from the smaller receiving stations to one of the three specialised processing stations to continue the drying, sorting and storage processes in preparation for export.

Almost all of the nutmegs produced were exported. Insignificant amounts were used locally in the food industry and local tourist industry (Renwick, nd). The preparation of nutmeg and mace for the export market involved additional processes. In the case of nutmeg, they included drying, de-shelling – when the moisture content is 10 per cent (UNFAO, 2004) – a water (flotation) test for oil content and quality, a second phase of drying for another 24 hours (Renwick, nd) and, finally, bagging and treatment for shipping.

In the case of mace, once the nutmegs were collected from the field, they were removed from their shells which enclosed the nut and the mace was put out to dry in the sun by the local farmers. When dried, they were sold in grades 1 and 2 to GCNA which stored them in bins for about six months, after which they were graded again, by hand and mostly by women, before being exported to Europe and North America on demand.

2.4.2 The Chemistry of Nutmeg and Mace

It is important to obtain some understanding of the chemistry of the nutmeg. One of the main reasons for the purchase of nutmeg is for the extraction of its chemical properties for industrial use.

According to Daniel (1994), the nutmeg seed consists of 30-55 per cent oils and 45-65 per cent solid matter, including cellulose materials. He identifies two types of oils: essential oils of nutmegs also known as “volatile oil,” and fixed oil of nutmeg referred to as “nutmeg butter.” He adds that essential oils contain the highest number of individual compounds or components most valuable to industries. They contain 12 compounds with sabinese and camphene, each constituting 50 per cent of the essential oils. These essential oils are generally used in the manufacture of antiseptic, soap and perfume (Brizan, 1984, citing Trease and Evans, 1976).

The other main spice from the nutmeg is mace, which contains 10 per cent fixed oil (Daniel, 1994). Inherent in this fixed oil is 73 per cent Trimyristisin and 13 per cent essential oil (Brizan, 1979). The industries that use both nutmeg and mace are meat and food processing, pharmaceutical and service sectors such as restaurants and bakeries, as well as retail and households.

2.4.3 The Creation and Structure of the Grenada Cooperative Nutmeg Association

The Grenada Nutmeg Industry Act (1947) established the structure of the Grenada nutmeg industry and the GCNA in particular, comprising of, producers, government, banks, external agents and brokers. The GCNA is a cooperative of nutmeg farmers, developed and protected by law for the purposes of buying and exporting nutmegs. Prior to 1947, the export of nutmeg was undertaken in a very competitive environment by traders and agents, some of whom were nutmeg plantation owners. This competitive system led to the traders playing the individual farmers against each other, which in turn led to low prices for the farmers (Brizan, 1984). This was possible since the traders bought nutmeg at the farm gate and the vast majority of farmers had no access to market information or alternative markets.

It was that realization which led the farmers (small ones in particular) to demand a more equitable price and compensation system. The political pressure on the local legislature by the small farmers eventually convinced the then British Governor to provide support for the formation of what became the GCNA. On 17 March, 1942, a number of local nutmeg producers and producer exporters, under the leadership of N. Gay (a nutmeg plantation farmer), decided to form a Cooperative Association for the marketing of Grenada's nutmeg and mace (Jackson Commission Report, op. cit.).The decision was communicated via a resolution which in part reads:

> "That Government be asked to introduce legislation somewhat along the lines of the Cacao Reserve Pool Order, S.R. & O, and No. 8 of 1942 immediately. And further we agree that a working Committee be formed to formulate legislation for a Nutmeg Co-operative Association to be laid before Government with a view to remedying the disorderly marketing of nutmegs produced in the colony (Jackson Commission Report, 1951)."

2.4.3.1 The Rationale for forming the GCNA

The rationale for forming such an association was summed up in a dispatch from His Excellency the Governor Gimble to the Secretary of State for the colonies, No.12 dated 16th January 1945, as follows:

> "(a) to secure the stablest possible prices for the producers by putting an end to the cut–throat competition of independent exporters with each other in the open market;
> (b)to bestow upon producers some share of the profits of the export trade which is at present handled by middle-men; and
> (c)to increase the saleability of Grenada nutmegs and mace by setting standards of quality and providing for the efficient inspection and grading of wares destined for export."

2.4.3.2 Colonial Government Support for the Formation of the GCNA

Governor A. Gimble (1945, p.2), in his dispatch, also expressed his support for the idea as presented by the committee under the leadership of Gay in these terms:

> "the objects of the producers and the historic reasons which have dictated them are, in short, identical "Mutatis mutandis" with those which have secured approval for the establishment of co-operatives marketing associations in many other Colonies, including the Colony of St. Vincent, where the local arrowroot industry has benefitted greatly from investing a statutory Association with the powers of a sole exporter. I accordingly felt justified by established precedent in informing Mr. Gay at that stage that I sympathised with the general aim of the producers, and in asking him to keep me informally in touch with the progress of the movement."

The Working Committee lobbied and planned for almost five years and in 1946 submitted for adoption by the Legislative Council, the necessary legislation prepared by its Legal Adviser, F. M. Henry. The bill was passed by the Legislative Council, but there were certain aspects to it that were found to be unsatisfactory by the Governor and Secretary of State for the colonies. This led to the revision of the bill, which was later introduced and passed as "The Nutmeg Industry Ordinance, 1946 (No. 8 of 1946)." The Ordinance provided for the establishment of a body corporate to be called the Grenada Cooperative Nutmeg Association. The Association came into being in March 1947 and began receiving nutmegs for export on the 1st October, 1947 (Jackson, op. cit.)

2.4.3.3 Statutes and Provisions of the GCNA

The legal framework that governs the GCNA is contained in Cap 25 of the Nutmeg Industry Ordinance, No. 8 of 1946, as amended by Ordinance Nos. 8 and 29 of 1947 and 10 of 1949 (Cap. 215 1990 Revised Laws of Grenada). The major elements of the ordinance are highlighted here to lay the foundation for understanding the basis of stakeholder power within the GCNA, as well as to present deeper insights into the legitimacy and functioning of the Association.

Section 3 (1) of the Act constituted GCNA as a legal entity, with the power to enter into contracts. It was granted the authority to be the sole entity to procure and sell all nutmegs produced in Grenada and intended for export.

Section 3 (2) made provision for the Association to:

(a) process and distil nutmegs and pericarp, and
(b) manufacture products from the nutmeg or the pericarp, and sell or distribute the processed or distilled or manufactured products.'

Section 4 provided that all growers of nutmegs were eligible for membership of the Association.

Section 6 of the ordinance provided for the Association to be managed by the "Nutmeg Board". This section of the ordinance continues to provide for the composition of the Board to consist of no less than seven and no more than nine persons.

The functions of the Board, outlined in Section 6 (2) of the Ordinance, were to:

> (a) "regulate and control the export of nutmegs;
> (b) promote, protect and develop the nutmeg Industry;
> (c) consider and advise the Minister in regard to all matters affecting the industry as may be referred to the Board by Government or which the Board considers should be submitted to Government, or which are referred to the Board by the Association;
> (d) expend and account for all expenditures of the Industry."

Section 14 (1) of the ordinance further provided for six members to be elected from the membership of the Association by ballot, to become members of the Board in the month of May in each year at the annual general meeting, for the ensuing year that starts on July 1. Section 14 (3) allowed for the Minister of Agriculture to nominate a maximum of three persons on the Board of Directors, of which one ought to be a public servant. The ordinance did not set out any other criteria by which a person could serve on the Board of Directors, except that of "membership. It therefore excluded other persons who were non-framers but were involved in other related activities such as value-added processors and financiers. The members of the Association therefore controlled the destiny not only of the Association, but also that of the "Nutmeg Industry and by extension the economy of Grenada.

The above section of the ordinance excluded non-farmers from direct participation in the operation of the industry and by so doing there was an inherent risk that the Board might in fact become its own “Achilles’ heel”, unable to attract the talent needed to fulfill its mandate of promoting, protecting and developing the nutmeg industry.

2.4.3.4 Structure and Administration of the GCNA

Section 7 of the ordinance outlined the administration of the Association. It provided inter alia, for the Association to have its head office in the town of St. George. In addition to the head office, the Association, in 2004 operated 21 buying and processing depots (receiving and processing stations), comprising 18 receiving and three processing stations. Since the destruction caused by Hurricane Ivan in 2004, GCNA now has one process and seven receiving stations.

2.4.3.5 The Power, Role and Functions of the Chairman and Board of Directors

The Chairman is mentioned 24 times in the ordinance. This frequency is indicative of the role and influence of the position within the GCNA. With regard to the selection for chairmanship of the GCNA, the Act provided for the chairman to be elected by a majority of the Board members at the first Board Meeting (Section 36), and serve an initial two-year term, but is eligible for re-election once he/she is a representative of the farmers or government.

Section 37 provided for the chairman to be the ex–officio president of the Association, and to preside at every meeting of the Board and at general meetings of the Association. With regards to the Board, they had wide-ranging powers. For example, the ordinance provided for the Board to appoint:

> “(a) From time to time, any member to act as deputy chairman (Section 41)
> (b) So many committees and as such number of persons as seen fit (Section 64)
> (c) A person to be manager, who shall be Chief Executive Officer (Section 69, 1 and 2)
> (d)A fit and proper person to be Assistant Manager (Section 70)
> (e)From time to time, the board with the consent of the Minister may appoint a fit and proper person to be Secretary, who may act as Manager/ Chief Executive Officer in the absence of the Manager and Assistant Manager or be the ex-officio treasurer of the Association (Section 74).
> (f)From time to time, such officers and employees as may be required for the efficient administration of the affairs of the

> Association, and other employees as may be required for the proper administration of the Association (Section 78)."

2.4.3.6 Powers of the Government and Minister of Agriculture

The Nutmeg Industry Ordinance reflects the very essence of an organisation which would continue to be influenced by the principal stakeholders, namely the nutmeg farmers and the government through the Minister of Agriculture. Section 14 (3) provided that the names of the persons who were elected by the farmers be submitted to the Minister within 14 days of such elections. This section definitely allowed the Minister to approve the elected officials. The said section also provided for the Minister to nominate a public officer to serve on the board, as well as giving him the power to nominate no more than two other persons.

Section 15 granted the Minister the authority to fill vacancies on the Board on failure of the membership of the Association to elect sufficient members. Section 33 provided for the Minister to use his discretion to take such action in filling any vacancy on the Board, which would arise in the case of a nominated member. This section of the ordinance further states "provided that if any such vacancy shall leave the board without a public officer, the Minister shall forthwith nominate such an officer for membership of the Board."

Section 34 further served to strengthen and consolidate the power of the government by granting the Minister the right to dissolve the Board. This section further provided: "If the Board, in the judgment of the Minister, persistently makes default in the performance of the duties by this Act or by any other law of Grenada imposed upon it, or exceeds or abuses its powers, it shall be lawful for the Minister, by Order, to dissolve the Board." This section has been evoked by successive Ministers over the life of the Association and as recently as May 2008 by the then Acting Minister of Agriculture, who accused the elected Board of mismanagement.

Section 68 provided for the establishment of a Finance Committee to which the Minister "shall appoint" a public officer. This section further stated that in the event that there is more than one public officer on the board, the minster reserves the right to name the first officer nominated to the board to be the member on the finance committee. On the other hand the section provides for the Minister to nominate any of the other members who are not first elected to the Board, and the Board shall confirm to the desire of the Minister.

Section 69 (1) granted the Minister overarching authority on the appointment of the manager of the Association in the sense that while the ordinance gave the Board the responsibility to appoint a manager, it nonetheless granted the authority to approve such an appointment to the Minister.

The above sections sought to highlight the role of the Minister of Agriculture in making appointments to the Board and other committees at the strategic / policy level of the GCNA, thus demonstrating the strategic stakeholder participatory role of the government. The Act deepened the involvement of the government in the operations and administration functions of the GCNA. The following sections served to highlight the extent of such involvement. It highlights the extent to which the GCNA is vulnerable to political involvement by persons who may not have the sufficiency of technical and professional skills required for the proper performance of the GCNA. Political considerations may override technical competence in the appointment of such persons.

Furthermore, section 70, while providing for the Board to appoint an Assistant Manager, said that such a person had to be confirmed by the Minister. Here again, the ordinance allowed the Minister to choose someone out of political considerations and not technical competence, thus compromising the efficiency of the GCNA. Sections 71 provided for the appointment of a Secretary, while section 72 made provision for the payment of the said post. Both decisions, however, had to be made with the consent of the Minister.

The involvement of the Minister ran deeper into the GCNA, as seen in section 75 where the act authorises the appointment of an Assistant Secretary, who shall hold the office at the pleasure of the Board and the Minister. Section 85 provided for the ratification of any regulations made by the Board to be confirmed by the Minister. Similarly, the Act provided for the revocation of any regulation which ceased to have force or effect. Therefore, the practical effect of section 85 was to ensure that the Board of Directors and Management of the GCNA could not take any substantial actions – strategic/policy and administrative – without the consent of the Government via the Minister responsible for Agriculture.

The role and powers vested in the Minister represent one of the avenues through which Government has, and continues to exercise, its legal claim as a primary stakeholder of the GCNA, as seen by the actions of the Minister in May 2008, when the Acting Minister of Agriculture, Michael Church, moved to dissolve the Board of Directors. The above sections served to establish the primary stakeholder role of the government in the GCNA, and put into context its support for the efforts to establish a cartel. These efforts will be detailed in Chapters 5, 6 and 7.

2.4.3.7. The Role of the Permanent Secretary, Ministry of Finance

A second avenue through which the government's legitimate claim on the GCNA was enshrined was through the Permanent Secretary in the Ministry of Finance. The role of the Permanent Secretary was particularly important in administering the membership function. In this regard, Section 59 (4) provided for the payment of membership fees of the Association to the Permanent Secretary, and for such a person, upon fulfillment of the other criteria, to obtain a membership card and a nutmeg producer book. Upon receipt of these two documents, then, and only then, did one become a legitimate member of the Association. The Ordinance also gives the Permanent Secretary the right to revoke such a membership, by cancelling the nutmeg book, and consequently the membership of the farmer. Despite the above provisions, the payments of fees have not been implemented for many years, and there is no record or recall of any cancellation of membership by the Association.

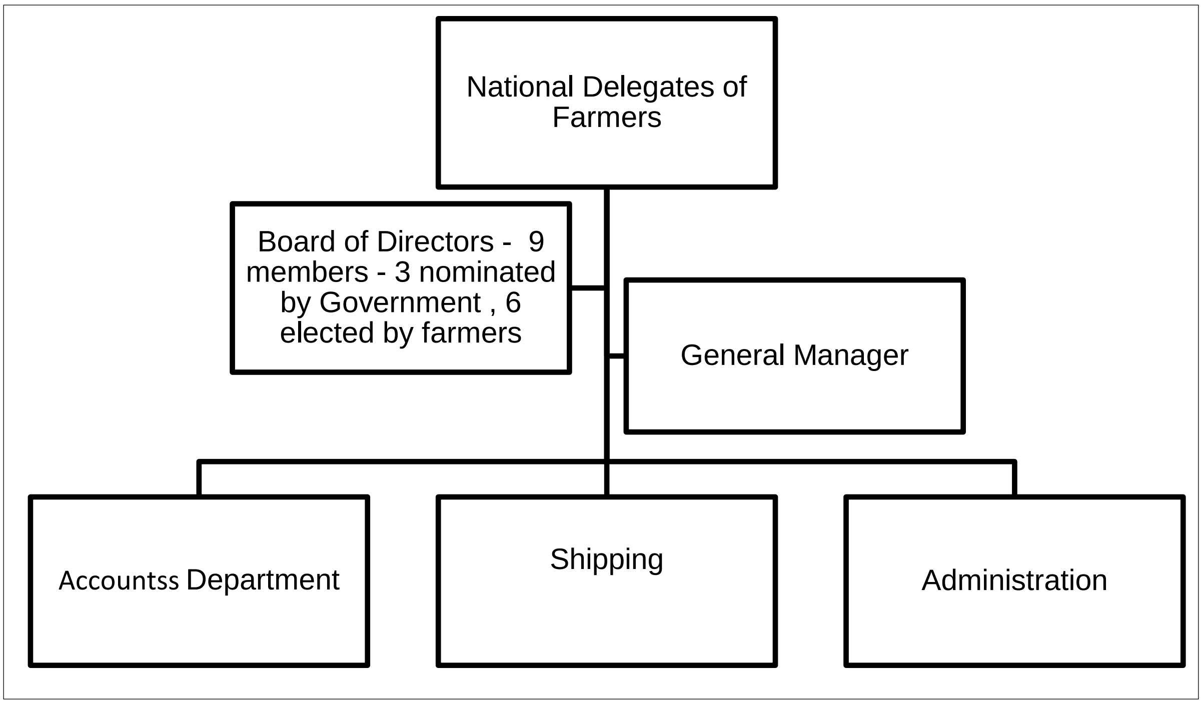
Therefore, by virtue of the above elements of the Nutmeg Industry Ordinance, direction and management of the nutmeg industry was firmly placed in the hands of two primary stakeholders; namely, the GCNA and the Government of Grenada. Further discussions on the role of these stakeholders and their performance as experienced during the formation, operations and demise of the Nutmeg Cartel, will be discussed in chapters 5 and 6 of this dissertation.

2.4.3.8 Internal Structure of the GCNA

The structure of the GCNA is depicted in figure 2.2 for the period 1986 –1995; it provides a graphical depiction of the internal administration of the Association. It highlights the two main levels in the organisation, ranging from the national delegates to the Board of Directors at the policy level and the General Manager and the Departments at the operational level.

The GCNA had a relatively flat organisational structure. As depicted in the internal hierarchical schematic (Figure 2.2), the national assembly of delegates was the highest decision-making body with the responsibility for electing the Board of Directors, and taking broad policy decisions, which included decisions on bonus payments, loans and overdraft facilities, The next level of authority was the Board of Directors, which was responsible for implementing the decisions taken by the national delegates, within the guidelines set out in the Nutmeg Industry Ordinance No.8 of 1946. Finally, the Board of Directors was accountable to the farmers and the government through the Minister of Agriculture for the overall stewardship of the Association.

Figure 2.2 GCNA Internal Administrative Structure



Source. Robertson, 2006

. Notwithstanding the above provisions, the extent to which a Board fulfills the wishes of the national delegates is a function to which the said wishes are in coherence with the prevailing objectives of the Board at the time. The evidence to this will be discussed in chapter 5. This involves the GCNA-ASPIN Joint Marketing Agreement, in which the national delegates requested that prior to visiting Indonesia for discussions on the Agreement, the Board should obtain proper counsel on the matter and prepare an agenda for that visit. This research found no evidence that this advice was acted upon.

2.4.3.9 Role of the Manager / CEO and Functions of Department

Section 69 (1) of the Nutmeg Industry Ordinance specifically provided a general outline of the role and responsibility of the Manager. According to this section,

> “the Board may appoint a fit and proper person to be Manager at such salary and upon such terms as his duties and functions and on such other conditions as the Ministry may approve.”

Subsection 2 outlined the powers of the Manager: “The manager shall be the chief executive officer of the Association and shall have all such powers and perform all such duties as may be entrusted to him under subsection (1). The subsection further specifies that,

> "He shall attend all meetings of the Association and, if required by the Chairman so to do, the meetings of the Board and of every committee of the Board."

Whereas in principle the above outlined the powers of the manager, the long practice within the GCNA was that the chairman takes in the role of the CEO and the manger becomes the implementer of the decisions of the Board and the wishes of the chairman. Anecdotal evidence known to the researcher as a result of his association with the GCNA confirms this view of the roles of the chairman and manager. The case of Renwick was an exception to this general practice.

A third internal layer within the Association was the departments that report directly to the Manager. The Association had three departments: Shipping, Accounts and Administration. The Shipping Department was responsible for the preparation of all documentation for the exporting of nutmeg and mace. This included, but was not necessarily limited to, such activities as receiving the order, verifying the orders from the importer, verifying the availability of stocks, obtaining quotations on transportation (cargo) for shipping, preparation of relevant customs documents, etc.

The Accounts Department was responsible for managing the finances of the Association. This included obtaining payments for sales and settling costs incurred by the Association. One of the major functions of this department was the preparation of the annual bonus payment.

The Department of Administration was responsible for maintaining the overall proper administrative activities of the Association. They would conduct a series of activities that could be classified as customer service, human resource management and operations. There is no documented role for these departments. Whereas it is true that the core of their activities were fixed, there appears to be a tendency for the roles of these departments to change depending on the manager's leadership style and the level of activities of a particular Board. This was particularly the case of the Administration Department.

2.4.3.10 Payment Structure

The Association operated a dual payment system, one being an advanced payment, and the other a bonus (end of financial year) payment. On delivery of produce to the receiving stations, the producers were paid an advanced rate (Section 57) that was fixed each fortnight by the Board of Directors. The Act also provided for a "bonus" payment to be paid at the end of every year of operations, representing the difference between the advanced rate and the net realized prices of nutmegs and mace (section 63). However, as a matter of practice the board informed the assembly of delegates on the proposed bonus amount, to which the assembly discusses and offers advice, which may or may not be accepted by the Board. The issues surrounding the level of advance payments is one of the key functions of the Board; and for which the membership has no input, Nonetheless, the cultural mindset of the membership is set to the belief that there has never been a time when an advanced price was too high. Finally, the Board members are remunerated at rates set and agreed upon by them.

2.5. Marketing of Grenada's Nutmeg and the Global Value Chain (GVC)

In order to facilitate the export of nutmeg and mace, the GCNA operated an international network of three agents, in Brussels, New York and Canada. The moving of nutmegs from farm to market required a series of steps which involved a number of players. The mapping of such a process is depicted in figure 2.3 below. It sets out the varied paths that nutmegs travelled as it reaches the foreign markets for consumption.

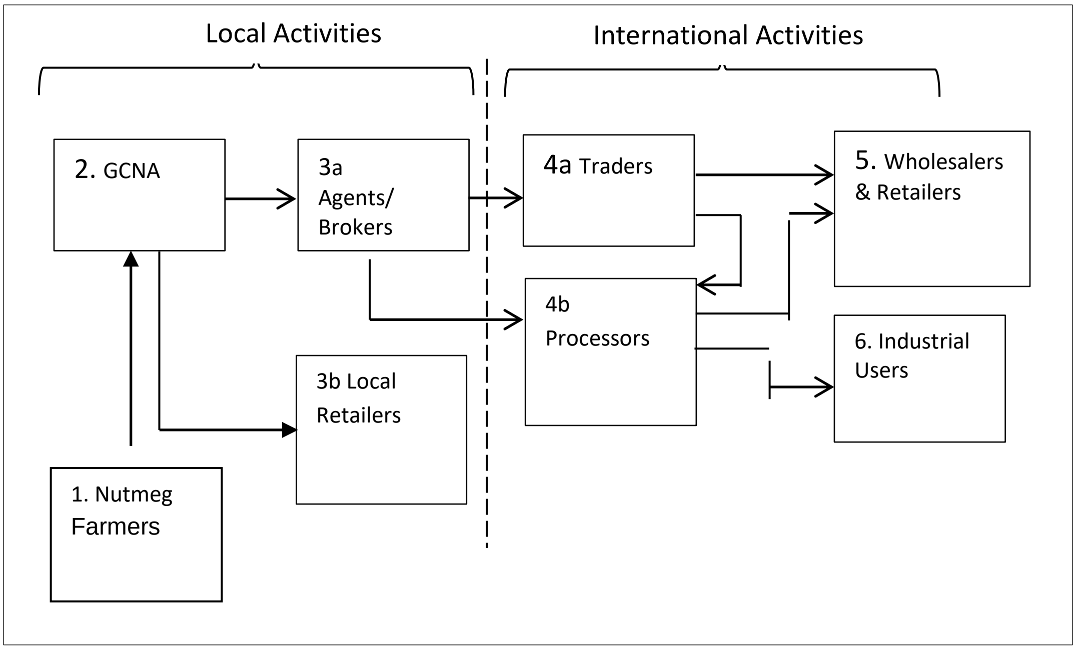
Prior to the devastation of the nutmeg industry caused by Hurricane Ivan in 2004, Grenada, together with Indonesia, met approximately 90 per cent of the world's demand for nutmeg and mace. According to UNFAO (2004), annual world production of nutmeg was estimated to be 9,000 to 12,000 tons and mace 3,000 tons. Indonesia accounted for approximately 80 per cent, while Grenada accounted for approximately 10 per cent. The market for nutmeg and mace oil was estimated to be about 150 tons annually.

The aspiration of farmers and the government and the people of Grenada was that this export commodity, once described as "Grenada's Black Gold" (Brizan, 1979) would make a major contribution in the country's efforts to alleviate poverty, increase economic growth and improve living standards. However, the position of Grenada in the global value chain (GVC) for the commodity places a limit on the contribution that nutmeg exports can make to fulfilling these aspirations.

The GVC provides a comprehensive schematic view of how nutmeg from Grenada finds its way on to the international market. It highlights the various stages and nodes it passes through. Grenada sold its nutmeg to importers via agents who deliver directly to importers/brokers in Europe and USA and Canada. Europe accounted for approximately 80 per cent of GCNA annual sales. The brokers sold whole or broken nutmeg products to manufacturers/processors, who in turn converted the seeds into various types of oils and chemicals as per specifications for inputs into the food–processing, pharmaceutical and cosmetic industries and flavouring houses, among other buyers and users.

Figure 2.3 provides a simple schematic of the process flow of moving nutmeg from farmers' fields to the international markets.

Figure 2.3 Process Flows of Grenada's Nutmeg from Farm to Market



Source: Developed by researcher

Figure 2.3 shows the six steps along the process flow involved in moving nutmegs from the farmers' fields to the market. The first involved the farmers' production and harvesting of nutmeg and mace for delivery to the GCNA's receiving and processing stations. The second stage was that performed by the GCNA receiving and processing station. They are involved in purchasing, basic primary processing activities such as grading of the nuts and mace, storage for exports, management of unsold stocks, and delivery of the products to the seaport for shipping to their various market destinations. In this stage, the GCNA sold the majority of its products to its overseas agents/brokers such as Catz International and Fooks & French. At the same time, it also sold a limited quantity of nutmegs to local retailers who packaged and sold to tourists and home users, including restaurants and bars.

The next step in the process (stage 3), involved the brokers and agents. After purchasing bulk products from the GCNA, they then resold (at a margin) in smaller quantities to traders (4a in Figure 2.3) and processors (4b). The traders performed many functions including purchasing in smaller quantities, processing the product further to meet market requirements (such as cracking and mixing with nutmeg from other origins), and distributing smaller quantities to retailers and wholesalers, including specialist herbal shops, supermarkets and domestic users. Unlike the agents and brokers, they did not maintain large stocks, whatever amounts they held were sufficient to meet the immediate needs of their market.

On the other hand, the processors (4b) were once referred to as grinders. It is at this stage the major transformation of the nutmeg from seeds into different oils and chemical compounds such as myresticin and oleoresin for use in various sectors such as pharmaceuticals, food and beverage takes place. The next step (5) in the delivery process involved wholesalers and retailers who, based on the demand for the processed and semi-processed products, purchased from traders and processors.

The final step (6) involved the industrial users/customers who used or made available the compounds and chemicals output from the processors to the type of customers mentioned in step 4. It is assumed that it is at this stage in the delivery process, that the most value added on nutmeg and mace are achieved, since the compounds/chemicals are mixed into recipes to produce the appropriate products.

The figure shows that local participation in the GVC in Grenada was in the first two stages of the GVC (stage 1 in which farmers grew, harvested and delivered the nutmeg to the GCNA and stage 2 in which the GCNA processed the nutmeg for export). The rest of the activities such as distribution, marketing and sales, production of higher value added products were conducted by foreign companies which were likely to gain the most from the above activities. Additionally, from the governance of GVC perspective, it shows where control of the chain resides. It resides close to the buyers who value it most as an input into higher value added products or as final consumption items.

2.6 Chapter Summary and Conclusion

The above provides critical background information on Grenada, the island which produces the second largest amount of nutmeg in the world (Indonesia being the largest supplier). It described the socio-economic conditions of the people, it scanned the economic landscape and outlined the economy of the country, but more important and specific to this dissertation, it established the central importance of nutmeg to export earnings and the GDP of the country, and by extension the welfare of the members of the GCNA and, indeed, the entire population. It provide the underlying rationale for the stakeholders of the GCNA to be interested in the formation of a nutmeg cartel during the period under review in this study.

The chapter further discusses the legislative framework (Nutmeg Industry Ordinance Act, Chapter 215 of 1947) which identifies and establishes the major stakeholders of the GCNA, highlights the major aspects of the ordinance as it relates to this dissertation, and presents a schematic overview of the stages Grenada's nutmegs follow from farm to market. By so doing, this chapter provides the context for GCNA's partnering with Indonesia in the formation, and later demise of a nutmeg cartel between the GCNA of Grenada and ASPIN from Indonesia during the period 1986-1992.

Grenada's history and economy since being colonized by the Europeans were heavily based on the export of primary agricultural commodities to Europe and other parts of the world. The geography and climate of the tri-island state were conducive to agriculture, given the rich volcanic soil and largely favourable tropical climate. The local population was largely agrarian, with government, retail trade, restaurants and hotels proving an increasing share of the island's economic activities (GDP). In the 1980s the agriculture sector, mainly bananas, cocoa and nutmeg, experienced generally low and declining prices, and efforts were made to stop this decline and increase prices in order to prevent any further decline in the agricultural industry, where possible, evidenced by GCNA's attempt at entering into a cartel relationship with ASPIN of Indonesia, which failed but achieved short-term price increases. The global demand for nutmeg and its by-products in the pharmaceutical, food and other industries, has helped to create a meaningful livelihood for thousands of Grenadian families over the decades and contributes to the country's national income and foreign exchange earnings, particularly when the prices are good.

The GCNA, being a monopsony organisation; the sole purchaser and exporter of nutmegs in Grenada, by reason of the 1947 Nutmeg Industry Ordinance Act, was positioned to build a massive infrastructure across the state that allowed it to manage the purchase, processing, sales and export of all nutmegs to the outside world, i.e. it controlled the supply of nutmeg in Grenada. The proceeds were used to improve the standard of living of its members and, by extension, the nation. The Grenada Government has taken a great regulatory and management stake in the industry, given its importance for the nation's balance of trade and GDP.

This chapter has further discussed the legislative framework which identified and established the major stakeholders of the GCNA. It highlighted the major aspects of the ordinance as it relates to this dissertation and presented a schematic overview of Grenada's nutmeg value chain. By so doing, this chapter provides the context for GCNA's attempts at partnering with Indonesia in the formation and demise of a nutmeg cartel between the GCNA of Grenada and ASPIN from Indonesia, during the period 1986-1992. However, the analysis of the period extends to 1995 in order to discuss the second attempt at cartelisation and the residual effect of the period.

Chapter 3 - Literature Review

3.1 Introduction

This study is about the failed attempt by one set of primary stakeholders, the Board of Directors of the GCNA, to form a nutmeg cartel with ASPIN of Indonesia. It examines the reasons for undertaking such an initiative, the absence of the preconditions necessary for cartel formation and sustainability and the reasons for the failure of the attempt. The study has a number of facets and therefore a review of work in a number of areas related to these facets has been undertaken.

Section 3.2 reviews aspects of the stakeholder literature since the motivations and actions stakeholders are relevant for understanding the attempts at forming the cartel and later actions. Section 3.3 reviews the literature on cartels in general, and agricultural commodity cartels in particular since at the core of the study is the attempt to form a cartel and its failure. Section 3.4 focuses on issues relating to the global value chain, since the issue of the relative retention of value added in producing countries is a core motive driving the desire for collusive agreements such as cartels. Section 3.5 deals with information asymmetry by examining the disparity which exist in agent-buyer relationships. Section 3.6 presents the summary and conclusion of this chapter.

3.2 Stakeholder Theory and Its Importance for This Study

One broad definition of stakeholder theory is that it is,

> “a view of capitalism that stresses the interconnected relationships between a business, its customers, suppliers, employees, investors, communities and others who have a stake in the organisation” (http://stakeholdertheory.org).

This section explores and defines key concepts, processes, framework and perceptions from the stakeholder literature to provide the theoretical and contextual basis for explaining why some of the key stakeholders made decisions and acted in the ways in which they had done in relation to the performance of the GCNA and with respect to the formation and collapse of GCNA’s relationship with ASPIN.

The literature on stakeholder theory contains many authors and definitions of stakeholders, which is not required to be repeated in this thesis. This review focuses on a few pertinent definitions. According to Freeman (1984), stakeholders are those who are affected by and/or who can affect the achievement of the firm’s objectives. Stakeholders are also defined as those groups from which the organisations have voluntarily accepted benefits and to whom the organisation has therefore incurred obligations of fairness. Typically, these include groups such as employees, customers, suppliers and communities (Phillips, 2004). It is also argued that stakeholders need not be limited to individuals or groups, but may also be inanimate objects such as the earth or animate beings such as animals (Schlange, 2009). Finally, Crane and Matten (2010, p.62), define a stakeholder as;

> "an entity, which either is hampered by, or benefits from the corporation, or whose rights can be violated, or have to be respected by the corporation."

Much of the stakeholder literature focuses on business corporations and how they balance the interests and concerns of stakeholders. For example, Greenley and Foxall (1997) used the stakeholder approach to study consumer and non-consumer stakeholder orientation of UK companies, and found that a frequent problem faced by companies trying to balance the competing interests of stakeholders is both the scarcity of resources and skill capacity, along with the complexity that is brought about by networks of strategic alliances. Others, such as Harrison and St. John (1998) used it to study the management and partnering with external stakeholders, and found that partnering yields benefits such as an increased success rate of products, and more favourable regulatory policies. Gupta, Polonsky, Woodside and Webster (2010) used it to examine the use of external forces on cartel networking dynamics, and found that the bargaining power of intermediaries increases with the advent of new and powerful actors, and that international regulators are less favourable to cartels like De Beers[7].

Prior to the erosion of the relationship between De Beers and its intermediary partners (actors), De Beers was one of the most successful and longest lasting cartels, controlled by one family, first the Rhodes family (until the death of Cecil Rhodes in 1902) and then the Oppenheimer family, in one form or other, to today (Gupta et al, 2010 citing Spar, 2006a). Prior to the 1980s, as a single cartel De Beers controlled both the supply and demand of resources, as the company was both a producer and purchaser in the exchange process (Gupta, et al., 2010). This dual role gave De Beers comprehensive control over the supply and demand for diamonds (hence its monopolistic cartel).

However, during the 1980s De Beers's operation was affected by external political changes which were occurring in South Africa and the Union of Soviet Socialist Republics (USSR). These changes led to the erosion of government support for a cartel, which eventually led to new entrants into the market, resulting in competition, This, in turn, led to a loosening of the network relationships between De Beers and its network partners

[7] De Beers was the world's diamond cartel based in South Africa, operating as both a buyer and purchaser of the resources required in that industry

(actors, intermediaries), allowing them to become competitors themselves, thus fundamentally eroding De Beers's control of the market.

Oates (2013) uses stakeholder theory for explanation of institutional changes. Stakeholder theory has also been used to study social entrepreneurship to provide a descriptive case to demonstrate stakeholder salience on management salience (Burga and Rezanaia, 2016). Details on salience are discussed in section 3.2.3.

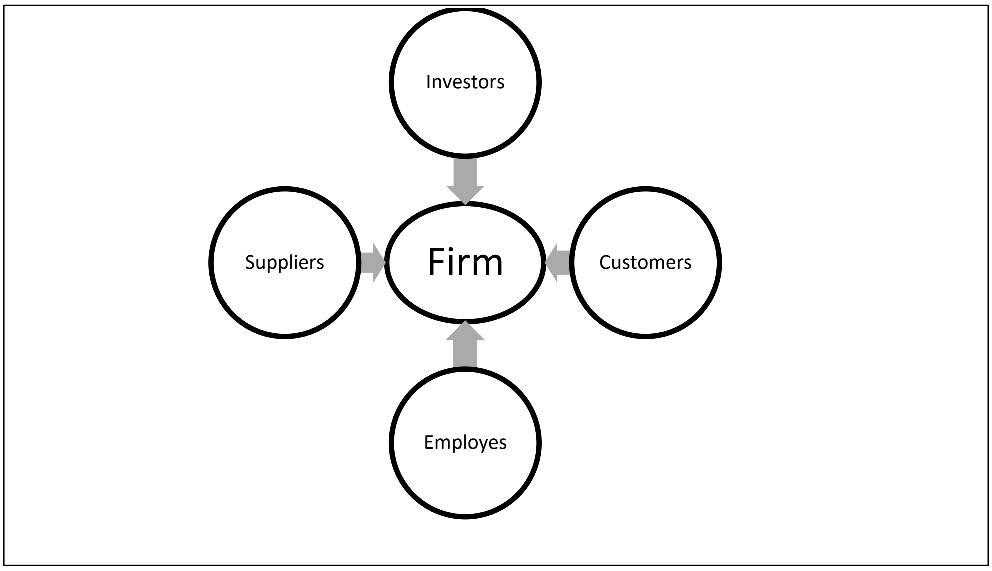
Notwithstanding its widespread use, Mainardes et al (2011) called for more studies of stakeholder theory as it relates to organisational performance. For this study, the stakeholder approach has been adapted to examine the influence of principal stakeholders on a cooperative's decision-making, since most of the literature on the subject matter referred is concerned with the decision makers within commercial enterprises balancing the interests of owners and managers against the other stakeholders. However, this researcher's interest in this case touches on how the ownership and governance structure of the GCNA and the influence of external stakeholders affect the decision made by the GCNA, and those who benefit from its commercial success, as it pursued a failed attempt to form a cartel.

3.2.1 The Development of the Stakeholder View of the Firm

Stakeholder theorists' views contrast with the neo-classical stockholder approach which argues that corporations belong to stockholders and therefore must be run in their interest (Kaler, 2006 and Sundaram and Inkpen, 2004). The stakeholder theory holds that groups, even those without economic claims on an enterprise, should be taken into consideration when decisions are being made by the organisation (Kuratko, Hornsby, & Goldsby, 2007). According to Freeman et al (2004), values (and not just maximising value for shareholders) are a part of doing business. Kochan and Rubinstein (2002) suggest that corporations should cause a fair corporate value distribution to stakeholders.

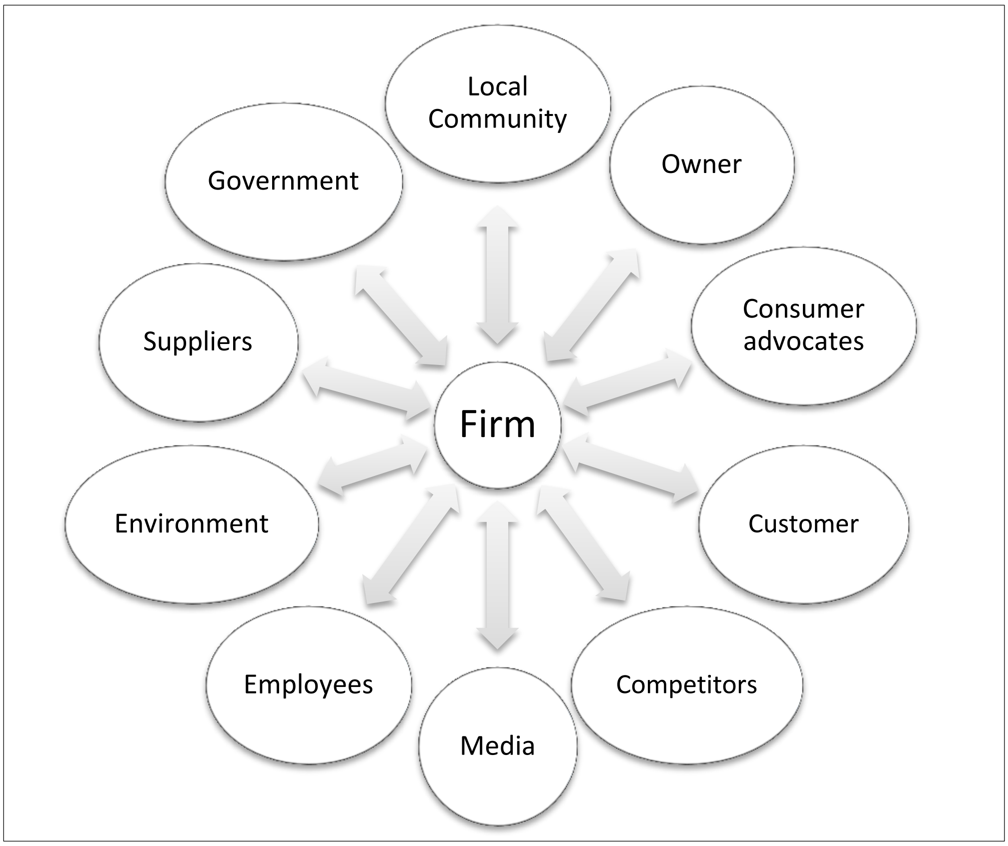
On the other hand, a stockholder is defined as: "an individual, group, or organization that holds one or more shares in a company and in whose name the share certificate is issued, also called shareholder; (British); "A company or individual who holds supplies for manufacturers" (http://www.businessdictionary.com). Figures 3.1 and 3.2 illustrate the differences between the stockholder's and stakeholder's view of the firm. In figure 3.1 (the stockholder`s view), the arrows are uni-directional, showing the relationship that the claimants affect the firm but that the firm has no effect on its claimants, while figure 3.2 (the stakeholder's view) shows that claimants affect and are affected by the firm in a two-way relationship, demonstrating that the action(s) of any one group affects the other.

Figure 3.1 Stockholder/ Investor View of Firm



Source: Turnbull (1996,n.d)

Figure 3.2 Stakeholder View of the Firm



Adapted from Freeman (1984: p. 25)

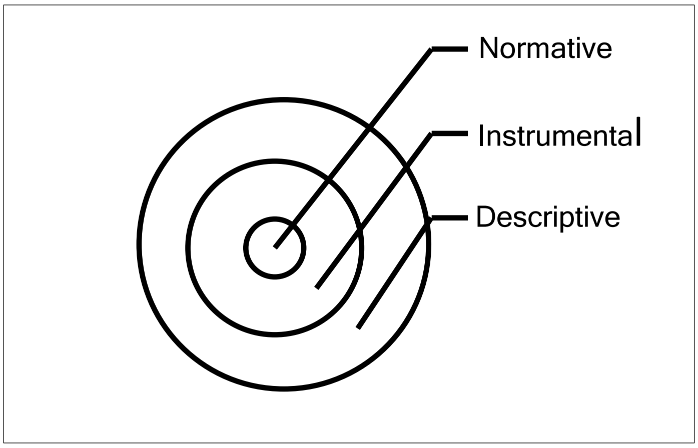
Stakeholder theory has developed in response to two drivers. One was the reaction to the traditional neoclassical economic position on businesses pursuing profit maximisation and narrow stockholder interests. According to Jones et al (2006), given that management is fundamentally a reflection of human behaviour, there are always contrasts between narrow self-interest and concern for others. Hence, stakeholder theory sought to widen this latter concern. The other driver was the attempt to provide an explanation of the financial and economic turbulence affecting businesses in the USA in the 1980s (Freeman, 1984; Abzug andWebb, 1999, citing Savage, et al., 1991).

3.2.2 Strands in Stakeholder Theory

This section will discuss the different strands of stakeholder theory and their interconnectedness. Donaldson and Preston (1995) distinguish three strands: descriptive, instrumental and normative.

Figure 3.3 shows that these three strands are not necessarily disaggregated but are nested
within each other, with the outer circle representing the descriptive aspect which represents and explains the practice; the middle circle representing the Instrumental aspect which provides support to the descriptive and possesses predictive powers; and the inner circle which represents the normative aspect.

Figure 3.3 Three Aspects of Stakeholder Theory



Source: Donaldson and Preston, 1995, p. 73.

3.2.2.1 Descriptive Theory

According to Zanden and Sandberg (2009, p.7), the descriptive strand describes and explains “specific corporate characteristics and behaviours.” A number of researchers have used this strand to describe the characteristics and behaviours of firms. They include: Brenner and Cochran (1991) who described the nature of the firm (1991); Wang and Dewhirst (1992) who focused on issues involving the board of directors and how they think of the interest of corporate constituencies; and Clarkson (1991) and Rowley (1997) who addressed issues of how corporations are actually managed.

Donaldson and Preston (1995, p.71) further propose that,

> “the descriptive aspect of stakeholder theory reflects and explains the past, present and future states of affairs of corporations and their stakeholders. Simple description is common and desirable in the exploration of new areas and usually expands to generate exploratory and predictive propositions. (All such activities shall be called descriptive).”

Brenner and Cochran (1991) use stakeholder theory to, inter alia, describe how organisations operate and help predict their behaviour.

3.2.2.2 The Instrumental Theory

The instrumental strand deals with the financial effects on the corporation, of the firm’s actions towards stakeholders (Jones, 1995; Egels, 2004, citing Donaldson and Preston, 1995). These researchers suggest that there are two different and inconsistent interpretations of instrumental stakeholder theory. The narrow instrumental strand is defined by Donaldson and Preston (1995) as a framework for examining the connections, if any, between the practice of stakeholder management and the achievement of various financial performance goals. The broad instrumental stakeholder theory, as represented by Jones (1995) and Berman et al. (1999), has as its main focus an analysis of the type of relationship the firm should have with its stakeholders in order to maximise value.

According to Berman et al (1999), the broad instrumental interpretation is close to shareholder value maximisation (Jensen and Meckling, 1976; Friedman, 1970). The development of instrumental stakeholder theory has been accredited to Jones (1995), who used economic literature and the preponderance of asymmetrical information in the marketplace to argue, that if firms act ethically they are likely to be more competitive, which is synonymous with maximising shareholder value. Moreover, Jones (1995) based his theory on the following three assumptions about the firm-stakeholder relationship:

(a) Firms have relationships, called contracts, with many stakeholders and can therefore be seen as a ‘nexus of contracts’ (Jensen and Meckling, 1976) or a set of principal–agent relationships between managers (as agents) and their stakeholders (as principals)”;
(b) Firms are run by professional managers who are their contracting agents; and
(c) Firms exist in markets in which competitive pressures do influence behaviour but do not necessarily penalise moderately inefficient behaviour.

The use of the instrumental strand in this thesis gives rise to the attendant issue of agency theory. This issue is of importance to this thesis in two respects: first, for theoretical reasons, as it is intertwined with stakeholder theory, as agents are stakeholders of organizations; secondly, from a practical and operational point of view, since the case involves the decision-making of the board of directors of GCNA, who are agents for the broader membership of the GCNA. Additionally, the development and demise of the cartel between the GCNA and ASPIN involve the use of various actors who were acting on behalf of the principals in the case.

3.2.2.3 Normative Theory

The third strand (normative) prescribes how organisations ought to treat stakeholders. It contends that firms should consider stakeholder interests, not only for instrumental or strategic purposes, or because the stakeholder is perceived to possess power, legitimacy or an urgent claim on the organisation (Mitchel et al., 1997), but also out of moral obligation (Butterfield, Reed, & Lemax, 2004).

Whereas these three strands appear to be clearly distinct, Jones and Wicks (1999) argue that there is an overlap between normative and instrumental strands of the theory. An example of such overlap is cited in (Butterfield, et al., 2004) descriptive case analysis, which has instrumental and normative implications for stakeholders and target firms. The case involved the United States Department of Energy's attempts to clean up three nuclear sites which were closed and the extent to which collaboration between the various stakeholder groups – mainly government and the community-- was inclusive. It was found that the instrumental stakeholder perspective focused on how relationships with the stakeholder groups can be managed. This view closely resembles the normative strand which focused on the end result of management actions, i.e. the ethical outcomes of why managers should pay attention to certain stakeholder groups and the obligations which accompanies such actions. The descriptive strand was used to describe and tell the story of the sites. These represent the overlap which has been cited above.

3.2.3 Theoretical Underpinning of Stakeholder Identification

The literature on stakeholder identification[8] and salience[9] contain divergent views on who should be considered to be stakeholders (Pouloudi and Whitley, 1997) or who really

[8] Stakeholder identification refers to knowing what kind of stakeholder actually exist (Mitchell, Agle and Wood (1997),

[9] Stakeholder salience refers to the priority which should be placed on the type of stakeholder (Mitchell, Agle and Wood, 1997).

matters and who counts (Mitchell, Agle and Wood, 1997). It aims to provide a basis for resolving some of the differences in definitions and assumptions about who the stakeholders are. In other words, the use and application of the framework, as presented in Table 3.1, is decidedly context-driven. For example, Freeman (1984), used the framework to evaluate the impact of the external environment on organisations. Preston and Sapienza (1990), Evan and Freeman (1988), and Jones (1995) also used the framework to bring to bear ethical considerations as a basis for assigning benefits to various interest groups

The stakeholder identification framework calls for identifying the relevant groups or stakeholders in relation to the issue(s) to be addressed. In order to achieve this, Freeman's (1984) definition of a stakeholder, and Mitchell et al.'s (1997), stakeholder identification and salience framework in which salience is defined as, "the degree to which managers give priority to competing stakeholder claims" (Eesley and Lenox, 2006, p.766) are used, and given the nature of this case study, the term management here will be interpreted to mean the Board of Directors of the GCNA. This is further discussed in chapter 4.

Stakeholder analysis is necessary not only to identify the stakeholder groups, but also to clarify the consequences of their actions in connection with organisational changes. It is important to identify all stakeholders for the purpose of identifying their impact in relation to this study.

This thesis uses Mitchell et al. (1997) methodology of identifying stakeholders' attributes of power to influence the firm. Mitchell et al (1997) draw on the work of Etzoni (1964, p.59) who defined "power as the extent one has or can gain access to coercive (physical means), utilitarian (material means) or normative (prestige, self-esteem, social) means to improve their well-being." Legitimacy is taken from the work of Suchman (1995, p.574), who defined legitimacy as a,

> "generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, belief and definition. Mitchell et al (1997, p.967) defined urgency as it relates to the stakeholder's claim on the firm as " the degree to which stakeholders claims call for immediate attention, where the 'degree' depends not just on time-sensitivity but also on how critical the relationship is with the stakeholder or the importance of their claim."

It is argued that the more attributes stakeholders are perceived to have, the greater their salience.

According to Friedman and Miles (2006), citing Flagestad and Hope (2004), classes of stakeholders can be identified by the possession of one or more of three attributes: power, urgency and legitimacy. The issue of stakeholder influence and power was also discussed by Baumfield (2016), who indicated that if stakeholder influence (i.e., salience) in both commercial and political arenas is based on power, then the key to increasing customer influence is to increase their power. These attributes will be discussed in the following section using the construct of Mitchell et al. (1997) summarised in Table 3.3.

Table 3. 1 Stakeholder Constructs

Construct	Definition
1. Power	A relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not have otherwise done.
Bases	Coercive – force / threat Utilitarian – material / incentives Normative – symbolic influences
2. Legitimacy	A generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values and beliefs
Bases	Individual, organisational, societal
3. Urgency	The degree to which stakeholder claims call for immediate attention
Bases	Time sensitivity – the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder Critical – the importance of the claim or the relationship to the stakeholder

Source: Mitchell, Agle and Wood (1997, p.869).

The above framework has been criticised by many, including Wolfe and Putler (2002), for the method used in determining the groups, and for presenting a segmentation approach drawn from the marketing field. Williams and Zinkin (2006) criticised the impossibility of serving groups with conflicting interests, while Kaler (2006) argued that the definition is wealth-destructing and Scholl (2004) viewed it as being too broad. Despite these concerns, the framework of Mitchell et al. (1997) has been supported by Gago and Antolin (2004) as acceptable in the mainstream of the stakeholder literature.

According to Mitchell, Agle and Wood (1997) in using the stakeholder analysis framework, it is important to address four critical issues: (a) determining what is a stake and who has the right to it; (b) determining the stake of each group; (c) determining how well expectations are met, and (d) adjusting strategy. The following addresses each of these critical issues.

3.2.4 What Is a Stake and Who Has a Right to It

Freeman (1984) identified three groups of "stakes": equity stakes, which are those held by persons who have direct ownership in the organisation; economic stakes, which are held by persons with an economic interest but not an ownership interest such as employees, suppliers, etc.; and influencer stakes, which are held by persons with the propensity to exert influence (e.g., government agencies, consumer advocates, etc.).

This step is a critical aspect of this study, since it helps bring the spotlight on the rationale for the interventions undertaken by the Board of Directors of the GCNA in attempting to establish the cartel, and as a consequence, which of the stakeholder groups were expected to be the main beneficiaries of such interventions (i.e., who had the right to benefit from such a stake or the interest to be derived from the nutmeg cartel). In this regard, the Mitchell, Agle and Wood (1997) framework will be used to identify the stakeholders of the GCNA.

3.2.4.1 Determining the Stake of Each Group

It is necessary to distinguish what is meant by a "stake" since the stakeholder theory is based on the concept of "stake" or "interest" (Freeman, 1984). There are two schools of thought on what determines the "stake" of a group. One school represented by Ring and Van De Ven (1994) argues that for a stake to exist there must be an actual relationship with the firm. The other school, represented by Mitchell, Agle and Wood (1997) argues that the potential relationship can be as relevant as the actual one. It ought to be recognised that stakes can also evolve over time, since what is an ethical issue today may be an economic or legal one tomorrow (Carroll, 1999). Moreover, Carroll (1996 p.73) argues that,

> "to appreciate the concept of stakeholders, it helps to understand the idea of stake. A stake is an interest or a

> share in an undertaking. The idea of a stake... can range from simply an interest in an undertaking at one extreme to a legal claim of ownership at the other extreme."

3.2.4.2 Determining How Well Expectations are met

The extent to which expectations are met depends on the stake of the particular stakeholder group in the organisation. The stakeholder management principle suggests that management strategy must reflect the interest of its various stakeholders (Noland & Phillips, 2010).

Different stakeholders have different and competing expectations (Grimmer, et al., 1999; Polonsky, 1995; Donaldson, 1999; Unerman and Bennet, 2004). According to Friedman and Miles (2006), investors' interests are to maximise profits and managers to increase their power and influence (David, 2005). Moreover, many consider stakeholder management as part of a firm's strategy (Hillman, et al.,2001; Markides, 2003) which allows it to succeed, by creating and exploiting a unique strategic position in the industry. Additionally, Friedman and Miles (2006) point to two research projects conducted in England by Ogden and Watson (1999), which found some alignment of conflicting concerns by different stakeholder groups, but little evidence of management responding to diverse stakeholder interests.

3.2.4.3 Adjusting the Strategy

It is a truism that firm-stakeholder relationships are very complex (Johnson-Cramer and Berman, 2010), and therefore it is difficult to effectively meet expectations on an ongoing basis without adjustment to strategies. This involves readjusting corporate priorities to bring the firm in line with stakeholders' interests (Polonsky, 1995, citing Roberts and King, 1989). According to Pitts and Lei (2003), strategy refers to the plans and programs employed to compete successfully. Therefore, successful and sustainable organisations require strategic adjustment to their strategy (De Wit and Meyer, 1994; Hammer and Champy, 1993). It therefore means that the continuous realignment of strategy is a key element for corporate success.

3.2.4.4 Stakeholder Classification and Legitimacy

In addressing the issue of stakeholder classification, Freeman (1984) classifies stakeholders based on two dimensions: (1) the nature of the stakeholder group's stake in the organisation, as explained by their ownership, economic, or social stake, and (2) the type of influence which the stakeholder group has on the behaviour of the organisation. Such an influence can be described as formal, contractual, regulatory, economic and political. By undertaking such a classification, managers like the Board of Directors of the GCNA, can better understand the needs and power of their stakeholders (Harrison and St. John, 1994). Table 3.2 serves to explain Freeman's classification.

Table 3.2 Stakeholders Classified by type of Stake

		Influence on Behaviour		
		Formal	Economic	Political
Stake	Ownership	Share-owning managers Shareholders Sole proprietors	Other companies that own shares in the firm	
	Economic dependence	All paid managers and directors of for-profit and non-profit organisations Joint venture partners Creditors Taxation department	Employees Customers Suppliers Creditors Competitors	Competitors Foreign governments Local communities
	Social	Regulatory agencies Unpaid trustees and managers of non-profit organisations	Financial community	Activist groups Government leaders The media

Source: Adapted from Freeman (1984, p.63)

Table 3.2 serves to provide some overarching directions in helping to identify the claimants to organisations' resources, and their influences on its strategy and actions. The definition offered by Freeman (1984) on stakeholder theory also implies that there exist internal (primary) and external (secondary) stakeholders. Preston and Post (1975) theorised that the stakeholders could be classified as either primary or secondary. Stakeholders were primary to the organisation when they provided,

> "the basis for exchange relationships between it and the rest of society" (Preston and Post 1975, p.75). Preston and Post (1975, p.96) argued that stakeholders should be considered secondary when their relationships or activities were "ancillary or consequential to its primary involvement activities. "

Authors such as Jawahar and Mc Laughlin (2001), Clarkson (1995) and Jones and Wicks (1999), have argued over the importance of the primary (internal) stakeholder, whereas others such as Berman, Phillips and Wicks (2005) have argued that organisations rely upon actors outside the organisation for much important and critical resources, Freeman's (1984) classification is deemed a useful tool in prioritising the multiple stakeholder groups which are linked to organisations. A primary stakeholder group is one without whose continuing participation the organisation cannot survive as a going concern. Such groups involve shareholders and members, investors, employees, customers, intermediaries, suppliers and governments, as is the case of the GCNA. This definition finds consistency with the definition as proffered by the Stanford Institute.

Secondary stakeholders influence or affect, or are influenced or affected by, the organization, but who are not engaged in the transactions with the corporation and are not essential to its survival. Such stakeholder groups include media, non-governmental organisations, and special interest groups. Secondary stakeholders are seen as providing aid to the primary stakeholders (Eesley and Lenox, 2006).

The importance of the primary group of stakeholders was highlighted by Clarkson (1995) who argues that a corporation's survival and continuing success depends upon the ability of its management to create sufficient wealth, value or satisfaction for all primary stakeholder groups (Jawahar and Mc Laughlin, 2001, p.397, citing Clarkson, 1995). In contrast, Heath and Norman (2004, p.2) argue that some stakeholders hold superior claims to the organisation by stating that,

> "in cases where these interests conflict, the demands and interests of some stakeholders… must be moderated or sacrificed in order to fulfill basic obligations of other stakeholders."

The concept of legitimacy in the literature on stakeholder theory was discussed extensively by many scholars including Mitchell, Agle and Wood (1997); Evan and Freeman (1988); Carroll (1979); Clarkson (1995); Donaldson and Preston (1995); and Suchman (1995). In this regard, Suchman (1995) posits that there are three fundamental bases on which legitimacy can be grounded: pragmatic (power); cognitive (habitual); and moral (positive normative evaluation). Jones's et al. (2007) and Philips's (2003) discourse on legitimacy is very suitable for this thesis.

However, Philips (1997) postulates that the concept of legitimacy remains imprecise within the stakeholder literature as well as inconsistent with other literatures important for the study of organisations. Gioia (1999) cited by Wolfe and Putler (2002) indicates that normative theory is overly simplistic and does not adequately reflect the realities that managers face. Donaldson (1999) alludes to an unresolved issue of the convergence between normative and instrumental stakeholder theory.

Moreover, there is an overarching emphasis on corporate response to stakeholders' claims and demands, and less emphasis on the interrelationships between the firm and its stakeholders, and the consequence of such relationships on performance (Donaldson, 1995). Many scholars and practitioners such as Mahoney (2004); Turnbull (1996); Jones (1995); Bailur (2007); and Kuratko et al. (2007) have used stakeholder framework as a decision-making device to help determine the impact of decisions on different groups.

3.2.4.5 Summary on Review of the Stakeholder literature

The literature review of stakeholder theory has shown that there are three major strands: descriptive, instrumental and normative, different aspects of which will be applicable to this study. This theory has been used by many to assess the performance of firms. It has provided the theoretical framework for stakeholder identification, classification and legitimacy. It has established what the stakes of different groups are and helped to gauge how expectations are met. The review has established a stakeholder view of the firm, its determinants and measurements for performance.

Nonetheless, stakeholder theory has its limitations. Stakeholder theory seeks to suggest that there ought to be some harmonious relationship between the competing claims of shareholders, employees, suppliers, etc., and that the benefits to an organisation and the operations of the organisation should give consideration to these groups. The claims between each group are competing and as such the attainment of such a view -- distributive justice -- is not realistic. The theory has failed to provide a framework for equitable consideration of the issues and sharing of the gains from the organisation to all its stakeholders. In fact, this theme could form the basis of future research work.

The context of this case study is different from that of a firm with stockholders. This case concerns a cooperative with members, not stockholders. The main concerns of the GCNA primary stakeholders are obtaining higher and stable prices. Additionally, it is the information and power asymmetries and the external context which the primary stakeholders faced but did not recognise which was at the core of the GCNA problem.

3.3 Cartels

3.3.1 Introduction and Definition

This section looks at selected literature on cartels since the core of study is the examination of the failed attempt at a cartel. It examines the nature of cartels as well as their purpose and origin. It will also look at types of cartels, why some succeed and others fail.

Cartels are well known concepts in the economic, trade and legal fields. Connor (2002, p.4) defines a cartel as,

> "an association of two or more legally independent entities that explicitly agree to coordinate their prices or output for the purpose of increasing their collective profits" whereas
>
> Grossman (2014, p.2) notes that,
>
> "they are collusive agreements among firms in what otherwise would be competitive industries."

Others see cartels as price coordination units and commercial agreements (Levenstein and Suslow, 2006) and regulators of markets (Fear, 2016).Stenegel (2014) underscores the monopoly nature of cartels: "where the sellers coordinate their activities so well that they behave in effect like divisions of one enterprise, rather than as a competing business, that make independent decisions on quantity and price." In a fully effective cartel the members act jointly to control supply and to maintain prices higher than market-clearing prices. In the case of a homogeneous product, every cartel member would sell at the same price. Where there is a degree of product differentiation, a market price for a specified product may be set with agreement in differences in prices for products with different specifications. Cartels could either seek to maximise profits or maintain stable prices above the market-clearing price.

Three necessary conditions for a cartel to maintain prices above market-clearing prices are that: (a) the cartel members control a very large proportion, if not all of the supply; (b) there are natural or strategic entry barriers which prevent new entrants from entering the market by offering the product at lower prices, and (c) members of the cartel either have no incentives to "cheat" on other members of the cartel or the sanctions against such cheating are sufficiently severe to prevent cheating (Stigler,1964). The final condition also applies to existing suppliers who are not members of the cartel. The importance and relevance of these conditions are developed further in this section and in the case-study analysis in later chapters.

Cartels are recognised as one of the clearest forms of anti-competitive conduct against which there are sanctions in countries with effective competition policies. The Organisation for Economic Cooperation and Development (OECD) in its Policy Brief on Prosecuting Cartels without direct Evidence of Agreements notes that.

> "Cartels are agreements among competitors fixing prices, allocating markets or rigging tenders (bids). They are the most harmful of all types of competition-law violations and should be sanctioned severely."
> (http://www.oecd.org/competition/cartels.).

However, some cartels are condoned or actively supported by governments with no legal sanctions against them, providing a rationale exists for distinguishing between private and public cartels.

A private cartel is one formed between two or more private-sector companies, normally in contravention of competition law. Cartels condoned by governments fall within a broader class of agreements, typically in primary commodity markets, between two or more countries (Stocking and Watkins, 1949 and Spulber, 1989). Within this class, International Commodity Agreements (ICAs) are normally agreements between a number of supplying and consumer countries, with the aim of maintaining stable and fair prices for commodities prone to price instability, because of supply shocks (Gilbert, 2004). The second category is cartels which are agreements between producers with a greater emphasis on maintaining prices above the market-clearing price. These are referred to in the thesis as publicly condoned agreements or cartels as appropriate.

Conditions conducive to cartel formation exist in oligopolistic markets with at least some of the suppliers controlling a significant portion of the supply, and hence the ability to influence market price through changes in levels of supply (Stengel, 2014). Regarding international commodity agreements and cartels, it can be argued that they are responses mainly by developing countries to realise inter alia the stabilisation of their export prices, the improvement in their income / revenue from exports, attempts to improve their terms of trade and development prospects. Whereas this strategy may provide welfare gains for the exporting country, the opposite might be true for the consuming countries, if the price is stabilised at a level which is too high (Kravis and Lipsey 1978). However, relatively small numbers of commodity agreements and cartels have the market power to sustain high and stable prices over a certain period of time and eventually fail.

There are also examples from developed countries of governments limiting competition to improve export performance. Tilton (2004) found that in Japan, after years of government support for cartels, the Japanese Fair Tarde Commission (JFTC) became more agressive in enforcing anti-competive legislation, which led to inter alia the banning of 'depression cartels. In the United States, the Webb-Pomerene Act made an exception from anti-trust regulations, for American companies to form export associations which could set prices and specify quantities to be supplied by members. These state-led policies are seen as instruments for fostering economic growth and development, such as in the United States and Japan. Commodity agreements or cartels have existed for such commodities as diamonds, oil, coffee, sugar, cocoa, wheat, wool, rubber and tin. Therefore, the establishment of a cartel for Grenada could also yield positive benefits in terms of increased prices (Brizan, 2002; interview with Lord, 19 March, 2015).

3.3.2 Economic and Political Justifications for Cartels

International trade between countries is integral to their development aspirations, and as such countries are continuously seeking ways to maximise the benefits from trade, including using such mechanisms as commodity agreements and contracts, especially when they are unable to do well in achieving price stability and preventing price decline within the open competitive space. International commodity agreements are used as a means of permitting developing countries to gain control of their own resources and the stabilisation of prices, since such stabilisation tends to promote welfare gains as a means of maintaining or improving the terms of trade with rich countries (Kooroshy, Preston and Bradley, 2014; Brizan, 1979; Kravis and Lipsey, 1978; Daviron and Ponte, 2005; and Farfan, 2005).

In the 1950s, Prebisch (1950) theorised on the “deteriorating terms of trade” for primary commodities from developing countries. He noted a general reduction in prices of commodities from developing countries while the prices of manufactured goods from developed countries were rising. The situation of Grenada, with the continuous and chronic price volatility experienced in the commodity market (fluctuation in demand and prices) for its agricultural commodity exports and widening trade deficit before the attempt at forming the cartel described in Chapter 2, is consistent with the views of those in support of international commodity agreements (Brizan, 2002; Prebisch-Singer,1950; Gereffi, 1994; Krugman, 2014).

Countries and producers who are dependent on primary commodity trade are faced with falling prices over time for their exports, while the prices for imports keep increasing. Therefore, the producing countries find it difficult to finance their imports as well as to keep pace with the cost of production. Such a situation could be damaging to the economies of primary commodity-producing countries (Kooroshy, Preston and Bradley, 2014; Page and Hewitt, 2001).The fluctuating low level of pricing provided the economic necessity, and indeed rationale, for countries and companies to enter into collusive agreement (Filson, Keen, Fruits and Borcherdeng, 2001; Brizan, 2003). It is due to this fluctuation in commodity prices that Krugman (2011) refers to as boom-and-bust cycles.

A number of scholars on cartels such as Connor (2002), Grossman (2004), Levenstein and Suslow (2006), and Murciego (2013), theorise that one of the main rationales for cartel formation is the desire on the part of its participants to earn super–normal profits, as output falls and price rises. Peterson (1958) proffered the view that cartels are arrangements between two or more countries which seek to fix prices, reduce or eliminate competition, and thereby increase profits. However, studies conducted on the late nineteenth century German steel industry by Kinghorn and Nielsen (2004) found little empirical support for the above view.

For countries that are heavily dependent on single or a few export commodities, volatility in commodity prices implies a very high burden in terms of uncertainty, reduced average export earnings, reductions in domestic output and employment, and a host of other chain effects. The reductions of price fluctuations for imported primary commodities (mostly food and raw materials) also hold great attraction for policy makers in the developed industrialised countries, especially after the external shocks and inflationary pressures they experienced following the oil price rise in 1973 and a consequent commodity boom

Kooroshy, Preston and Bradley (2014), argued that global pressure on resources contributes to government interventions and active interference in markets using a variety of tools. There are four methods by which commodity prices for producers can be stabilised: price compensation schemes; buffer stock schemes[10]; multilateral contracts; and export controls (El Baghdadi and Suliman, 1989). The case of the cartel under study falls under the export controls category, more precisely an attempt at control of exports coordinated by two parties.

3.3.3 Dangers and Challenges Posed by Cartels

Cartels are not a panacea for solving the price volatility and profit-seeking objectives of producers from developing countries. They are faced with many problems and success is not guaranteed. Indeed, Levenstein and Suslow (2006) placed the challenges faced by producing cartels into three categories: selecting and coordinating the behaviour of

[10] Buffer stock schemes are price and supply stabilizing schemes operating in the volatile agriculture market run by governments and organisations where they buy stocks of traded products at floor prices when supply is high and sells when supply is low at higher prices, because supply can vary depending on weather condition

members; monitoring members' behaviour to deter defection from agreement; and preventing the entry of new firms into the industry.

Additionally, Jensen-Eriksen (2011) cites implementing cartel agreements as equal to that of the most complex government agreements. Moreover, cartels are seen as unstable and inefficient since the higher prices can act as an incentive for new suppliers to enter the market. As new suppliers enter the market and weaken the market power of cartel members, some of them may have an increasing incentive to cheat (Plahte, 1994). The International Cocoa Organisation (ICCO 1973) and the International Sugar Agreement (ISA, 1947-85) are two examples of agricultural commodity cartels which existed and employed price controls and quota restrictions as mechanisms aimed at achieving higher prices for their members. To some degree they were successful for a while but then failed for a variety of reasons. In the case of ICCO, it was due to disagreements about how to 'share the spoils' when prices were raised, disagreements about what the ICAs were meant to achieve and their inability to control prices (Gilbert, 1995). With regards to the ISA, Gilbert theorised that its eventual failure was complex and interrelated. However, some reasons for its failure included poor drafting of the agreement which led to confusion over its interpretation, and the denial of access of Cuba to the American markets. The other producing countries were called upon to make up for the short fall to the U.S. market but they were unwilling to do so and the adverse market conditions made attempts at price stabilisation impossible (Gilbert,1995).

3.3.4 The Success and Failure of Cartels

Cartels have had varying degrees of success in terms of their profitability and longevity. Several factors, including competition, technology and adaptability, impact the success and longevity of cartels. Tilton (2004, p174), defines cartel success as meaning two things.

> "First, an industry maintains an agreement aimed at supporting prices, either directly or by limiting supplies. Second, the agreement helps an industry over the long term to keep prices above levels that would otherwise be determined by the pressures of supply and demand,"

however, while some cartels have been able to raise prices over a long period, others have not been so successful (Levenstein and Suslow, 2006, p.43). Secondly, the extent to which a cartel is successful has generally been measured by its duration (Dick, 1996) and profitability (Eckbo, 1987 and Griffin, 1989 cited by Levenstein and Suslow,2006, in Grossman 2006, ed.).

On the other hand researchers like Utton (2011) describes failed cartels as short-lived and inherently unstable agreements, like the case of the International Sugar Agreement (ISA). However, Grossman (2004) states that there is no single measure for assessing the success or effectiveness of a cartel. Levenstein and Suslow (2006) concluded that the median duration of commodity cartels is five to six years. Eckbo (1976) observed that some cartels last for under one year while the longest-lasting existed for 18 years, while Griffin (1984) found cartels lasting under one year, at the minimum end of the scale, and as long as 29 years at the maximum.

Igami (2012) studied the International Coffee Agreement which lasted for 24 years (1965-89). This agreement is seen as one of the world's most successful cartels, and is credited with the economic growth of Colombia and for its ability to maintain high prices through the establishment of an international quota agreement. It is further argued that the economic decline of Colombia was accompanied by the abandonment of the said agreement (Rettberg, 2010).

Thirdly, successful cartels have developed appropriate mechanisms in order to survive, such as third-party intervention. In fact, Zimmerman and Connor (2005, pp.9-14) identified five categories of factors which determine cartel duration, success and failure:

1. Market structure. It is suggested that industry concentration, cartel market share, etc., impact cartel longevity;
2. Internal cartel organisation. It is assumed that third-party verification and monitoring contribute to cartel longevity. Stigler (1964) proffered that in order to sustain collusive behaviour, participating firms must seek to control free-riding and cheating incentives. In the absence of such effective mechanisms for monitoring, control and self-control, it is easy for firms to defect from the cartel and thus cause it to become short-lived;
3. Industry specification. It was found that the fewer substitutes that exist for products, the greater the chances for cartel success;
4. Unfavourable external macro-economic conditions. Steady or declining economic conditions create instability in cartels which eventually leads to collusions and decline;
5. Antitrust law environment. The use of global anti-trust legislation acts as a disincentive for cartel formation.

Rettberg (2010), and Levenstein and Suslow (2006) also agreed that in places where cartels are formed in highly concentrated industries, and where the agreement is able to be monitored to prevent cheating, the necessity to collude is stronger than going it alone, thereby contributing to the cartel's success and longevity. Additionally, Jensen-Eriksen (2011, p.186) argued in his study of European Paper Cartels, (1959-1972) that the success of this cartel was based on the establishment of ,

> "administrative headquarters, the availability of raw materials, and support of restrictive trade practices by the European Economic Community, among others. The ability of producing countries to maintain high prices and having national and international arrangements to monitor and police such arrangements are key to cartel success."

(Rettberg, (2010), and Utton (2011) suggest that in order to assess the impact of a cartel on revenue or profitability, one needs to compare the difference between the before-cartel prices vs. the after-cartel price, and multiply by the duration of the cartel and the amount of products sold.

Despite the apparent success of cartels like the Organisation of Petroleum Exporting Countries (OPEC), which wield great power, and the International Cocoa Agreement, there are also cases of failed cartels.

Regarding cheating by cartels, each member may have an economic incentive to cheat on any collusive agreements that are reached. They may not respect production quotas or they may cheat by offering lower prices. Levenstein and Suslow (2006) and Grossman (2006) underscore that cheating was the least cause of cartel failure, but that the more salient reasons for failure include the following eight factors:

1. The number of decision makers. Indeed, the higher the number of participants/decision-makers in a cartel, the greater the possibility for cheating. Increased membership levels make communication, negotiation and enforcement more difficult;
2. Industry concentration. Players in a less-concentrated market must keep prices low in order to remain competitive, while large player in a highly concentrated market have the incentive to collude and find it easier to maintain high prices and profits.
3. The nature of demand. The less elastic the demand, the more the incentive to form a cartel since revenue and profits would increase with higher price.
4. Organisational factors. Factors such as decentralised management impact negatively on the administration of the affairs and profits of the cartel, as well as the decision-making process;
5. Antitrust enforcements. These can reduce the lifespan of cartels as they encourage a free and open market, aggressive competition among sellers, and competitive prices;
6. Product homogeneity. This enforces lack of product differentiation and thereby limited choices;
7. Entry barriers. If entry barriers are low, non-cartel members find it relatively easy and attractive to enter the market in response to high cartel prices. Low entry barriers shortens the longevity of cartels as actual rivals or threats of potential rivals reduces the profits to be made from collusive behaviour;

8. Pricing and government factors. In their examination of the political constraints on government cartelisation", Libecap and Smith (2004) in Grossman (2006) adds that cartelisation suffers from issues which can limit its success such as output prices, individual quotas and political constraints. They also conclude that government intervention can influence the behaviour of cartels, since they can, among other things, do such things as enforce agreements and competition policy.

Other experts in the field have concluded that in addition to the above factors which are necessary for the development and success of cartels, other factors contribute to the success or failure of cartels: the ability of participants to follow through on commitment and avoid defection (Kooroshy, Preston and Bradley, 2016); maintaining market prices at the desired prices and above are less likely to reduce participating firms' compliance with the agreement and defer cheating (Moxnes, 2016); reducing information and price asymmetry (Tabarrok and Cowen, 2015; Utton, 2011); the level and consistency of interaction between the participants and finally, the greater the differences between the products, the easier it is for customers to substitute one firm's product for that of another and, in turn, increase the chances of cheating by participating firms (Kooroshy, Preston and Bradley, 2016)

3.3.5 Summary on Cartels

The formation and longevity of cartels are premised on the existence of the presence of a number of critical factors such as industry concentration, organisational factors, control of supply, participant's adherence to the rules, and information symmetry.

It appears that the goal of a cartel is specifically to raise prices, determine output, restrict market supply and maximise joint industry profits. To the extent that these goals are attained, along with profitability and longevity, cartels are deemed successful, the average lifespan being about five to six years. To the contrary, failed cartels are those that are short-lived and unprofitable. Nonetheless, considering both types studied, they all face inherent challenges. Considering those cartels studied, their ability to develop appropriate mechanisms to survive brought success.The fact that cartels continue to impact the economic fabric of communities and nations speaks to their importance. Nonetheless, there are times and circumstances that cause relations to terminate and/or resume or evolve.

3.4 Global Value Chain (GVC)

3.4.1 Introduction to Global Value Chains (GVC)

Integration into the global economy is seen as a vital condition for development, and presupposes the capacity and ability of stakeholders in developing countries to have full information (information symmetry), thus allowing them to capture the full benefit from trade gains. Therefore, the issue is not one of just access to international trade but how to do so gainfully. The concept of the global value chain (GVC) offers a framework for conducting such an evaluation.

The concept of the GVC has evolved over the years from commodity chains (CC), global commodity chains (GCC), global value chains (GVC) and, more recently, the Manchester School theorised, on Global Production Networks (GPNs) (Bair, 2014). Hopkins and Wallerstein (1986, p.159) defined commodity chains as,

> “a network of labour and production processes whose end result is a finished commodity”.

Gereffi (1994) and Gereffi and Fernandez-Stark (2016) theorised that global value chains (GVC) refer to the full range of activities that are performed to bring a product from conception to market. It is the series of activities that link firms, workers and consumers around the world and often provide the stepping stone for firms and workers in developing countries to integrate into the global economy. GVC is also concerned with how global production and distribution systems are organized in terms of what is produced, how it is produced and the physical production flow (Humphrey and Schmitz, 2002).

According to Bair (2014) the commodity chains reveal links between producers and consumers that would otherwise be concealed by commodity chain forms, where the goal is often to create an implicit link between workers in the south and consumers in the north, The GVC framework allows for an understanding of how global industries are organised by examining the structures and dynamics of the different actors involved in the given industry (Gereffi, 1994). The GVC offers a valuable tool for discussing the commodity problem, especially those experienced by Commodity Dependent Countries (CDCs). GVC analysis dissects the full range of cross-border activities involved in the process of bringing products from conception to final consumption, with the aim of examining four fundamental dimensions (Gereffi, 1994):

1. The input-output model which identifies the main activities or segments in the GVC and includes the following activities: (a) inputs; (b) production; (c) packaging and storage; (d) processing and distribution, and (e) marketing.
2. A geographic framework that focuses on the location of the country.

3. Governance which refers to the way the chain is controlled and coordinated and where power and authority lie. Power is defined as the “driveness’ within the chain” and at the firm level, where power is held and wielded and accumulated in different centres by different actors.
4. Institutions which refer to the establishment of, and links between, the institutions that form part of the GVC across borders.

The first two factors are described as descriptive, describing the situation within the chain, while the latter two are defined as causal, helping to establish the relationship between the cause and effect within the chain.

3.4.2 Governance of GVC

According to Bair (2014) citing the work of Raworth and Kidder (2009) that addressed the difference between defining governance as a coordination function as in GVC governance theory, and understanding governance as ‘driveness’. Gereffi, Humphrey and Sturgeon (2005, p.85) described governance as,

> ‘based on three factors: A. The complexity of information and knowledge transfer required to sustain a particular transaction, particularly with respect to product and process specifications; B. the extent to which this information and knowledge can be codified and, therefore, transmitted efficiently and without transaction-specific investment between the parties to the transaction; and C. the capabilities of actual and potential suppliers in relation to the requirements of the transaction.”

Bair (2014) citing Raworth and Kidder (2009) show networks with significant asymmetrical relations between buyers and suppliers.

The governance of GVC provides a tool for the understanding of how a chain is controlled and coordinated, identifies the main actors in the chain and who has more power than others. It is the “authority and power relationships that determine how financial, material and human resources are allocated and flow within a chain” (Gereffi, 1994, p.97). Therefore, the authority and power within GVC is seen as either buyer-driven or producer-driven. It is the use of this type of analysis which led Banga (2013) to conclude that, 67 per cent of total global value under the GVC accrue to Organisation of European Developed Countries (OECD) countries, while 2.5 per cent accrue to New Industrialised Countries (NICs) and Brazil, Russia, India, China and Korea (BRICK), while only 8 per cent of the total value added occurs to all other Developing Countries (DC) and Least Developing Countries (LDCs). Brizan (2003) theorised that only 6 per cent of value added to nutmegs remained in Grenada, between 1966 and 1979, the rest remaining in the consuming countries.

3.4.3 Participation and benefits of GVC

Value chain participation is defined in terms of the origin of the value added that is embodied in exports both looking backward and forward from the reference country, in which “Backward Participation Index refers to the extent to which domestic firms use foreign intermediaries’ value added activities in a given country, while Forward Participation Index captures the extent to which a given country’s exports are used by firms in partner countries as inputs into their own exports” (koopman et al,2011,p.14)

There are many ways in which firms can participate in the GVC. Examples include farming, extraction of natural resources, research and development, manufacturing, design, management and marketing. The type of participation is determined by the nature of the value creation process, the type of product, and geographical location (Kowalski, et al, 2015). Both the backward and forward participation indices are measured as shares of the referencing countries’ exports.

The benefits of GVC participation include the country’s ability to enhance its productivity, increase sophistication, diversify exports, and increase the supply of products (Gereffi, 1994; Kowalski, et al, 2015; Koopamn et al., 2011).

The participation/insertion of Small Developing Countries (SDCs) like Grenada, into the global trading mechanism is seen as necessary for development through commodity exports. It is argued that better prospects for these countries lie in moving towards differentiated products with a higher content of technology, skills and innovation, which would allow SDCs to benefit from the opportunities brought about by globalisation (Farfan, 2005).

It has been argued that SDCs that have a significant reliance on commodity exports, face numerous problems (Farfan, 2005; Sandiford, 2000; Briguglio and Kisanga, 2004 and Wint, 2003 and Wignaraja, et al, 2004; Fleming, Rao and Fleming, 2006), ranging from declining agricultural prices, deteriorating terms of trade, lack of competitiveness, and vulnerability to external shocks. For purposes of this thesis, it was Farfan (2005) who provides the most appropriate and succinct identification and explanation of the real problems faced by commodity exporting countries. Among the issues discussed, there are two that are selected to use in this review:

1. External barriers. Farfan (2005) argued that, at the global level, the power dynamics in most commodity chains have shifted against developing exporting countries as traders. Processors and retailers who are located in the developed consuming countries are moving to secure dominant positions in the chain, therefore, when such asymmetry power positions are established, producing countries are finding it difficult to move away from the low-margin processes in which they are engaged, and be able to capture some of the downstream value added offered by marketing, distribution and design. Although he offered as a solution diversification into industries that are technology-based and labour-intensive, he reminded his readers that these countries are still faced with tremendous challenges, such as the rapid pace of technological change as well as the technology gap between the producing and consuming countries.

2. Internal level issues.

Farfan (2005), like Bruguglio and Kisanga (2004), indicates that small producers lack the capacity to appropriately respond to external challenges, because their productive systems lack the scale and coordination capacity required to serve global markets efficiently. This lack of capacity partly contributes to over 65 countries still being reliant on primary commodities[11] for 50 per cent of their export earnings. Hence, Prebisch and Singer (1950) theorised that real income growth of Commodity Dependent Countries (CDCs), is constrained by the long-term structural tendency for commodity prices to decline, relative to that of manufactured goods. One of the reasons for this tendency to exist, is what has been established before, i.e. the value added and power in the commodity value chain is resident in the consuming countries where the lead firms resides, value added activities are carried out, and value is retained (Brizan, 2000; and Daviron and Ponte, 2005).

A simplified model of a global value chain is illustrated in figure 3.4 which describes the different nodes and geographical linkages at different stages of processing. The figure depicts two major sets of geographies involved in a typical agricultural commodity, GVC one denoted by producing countries and is in border with global lead firms in developed countries. The border between the two sets of countries is denoted by the vertical lines. The commodity producing countries are involved in the basic tasks of extraction and basic processing. It is at this level that the extracted products are mainly stored. As indicated by Daviron and Ponte (2005), it is the producing countries that bear the cost of holding and maintaining stocks. It also indicates that with regards to perishable products, whenever such occur, most of the extraction, basic processing and storage occur within the firms at the “upstream level” of the GVC. At the downstream nodes, the key value added activities

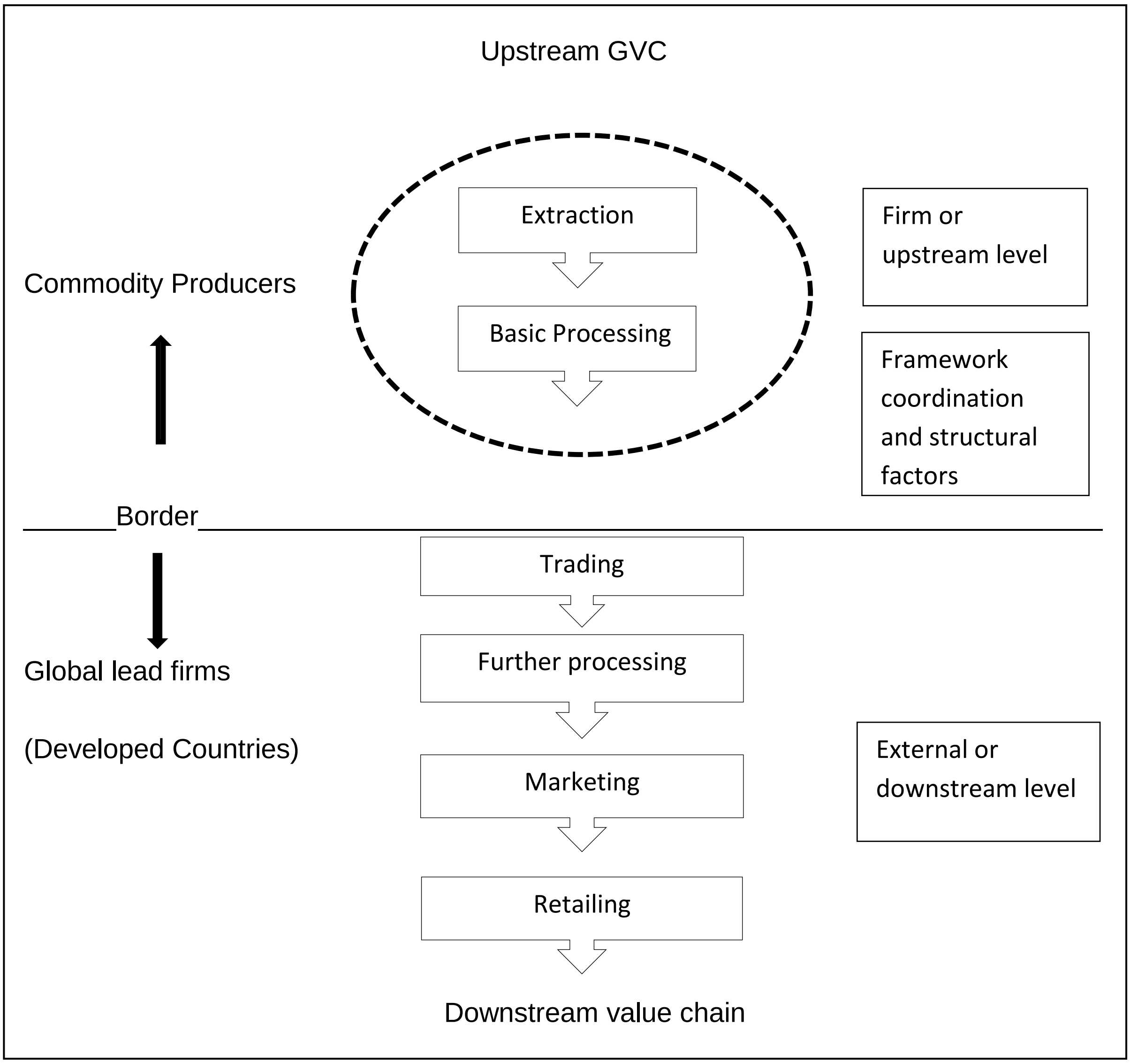
[11] Wood and Mayer (1998) defined primary commodities as unprocessed or low processed products based on non oil natural resources

such as trading, marketing and retailing which are dominated by global firms in developed countries occur.

Figure 3.4 is critical in focusing the attention of policy makers in heavily commodity dependent countries, such as those in developing countries in areas where they need to take action in order to gain and retain greater value for their producers and their countries.

This part of the downstream value chain, also represents areas where exporters from developing countries experience information and pricing asymmetries; a problem which affects their ability to maximise value from their exports.

Figure 3.4 Simplified Model of Global Value Chain



Source Farfan (2005, p.7)

Farfan (2005, p.6) argues that,

> "the growing market power of downstream players is the first clue to understanding the inability of commodity-dependent economies (CDEs) to move into high-value-added activities such as distribution, marketing and retailing."

Lead players in commodity chains have secured dominant positions as a result of four major strategic developments. The first is consolidation, especially among retailers and distributors. In horticultural chains, for example, global trade is increasingly dominated by a smaller number of "northern supermarket" (Gibbon, 2000). In the coffee industry, 40 per cent of global trade is controlled by four trading houses and 45 per cent of the retail market is dominated by only three roasters (Oxfam, 2002). Conversely, producers have become more fragmented, largely as a result of the systematic dismantling of international commodity associations and the entry of new suppliers following the wave of market liberalsations in the 1980s and 1990s (Gibbon, 2002).

Another factor contributing to the growing market power of downstream players, particularly distributors, has been increased supply chain coordination capabilities. In many commodity chains, international trading houses have been adopting modern supply systems such as just-in-time delivery, and are able to offer retailers a consistent quality at less volatile prices. These capabilities derive from the ability of international distributors to accumulate large volumes from different sources, invest in sophisticated inventory management systems, and exert complex hedging options in financial markets (Gibbon, 2002). In addition, when international distributors hold less market power than retailers – as it is increasingly the case in most commodity chains – they tend to seek higher profitability by depressing upstream prices, hence affecting profit margins in producing countries (Petkova and Zhang, 2005).

A third source of market power specific to retailers is branding, which nowadays plays an overriding role in reaching consumers. CDEs seeking to export to developed markets are increasingly reliant upon brands dominated by global lead firms. Branding is arguably one of the most diffuse and difficult barriers to overcome, and because it stems from market knowledge, it is almost exclusive to downstream players.

A final driver explaining the governance shift in favour of downstream players (market power), is technological innovation on the use of primary raw materials. In the case of the coffee industry, for example, roasting techniques have evolved into flexible processes that combine different varieties of species in order to obtain a standard quality. Roasters, therefore, have become less dependent on single producers, hence increasing their bargaining power within the chain.

Brizan (2003,) also confirmed the market power of the firms in the North, through the cost of value added by the producing countries. He cites the case of the Grenada “nutmeg industry trade over 14 years (1966 to 1979) and argues that of the value of EC$1,022 million which was generated during the period, only a mere 6 per cent of that value.” This situation has not changed since then. A review of figure 2.2 in this thesis shows, that Grenada continues to remain at the upstream end of the supply chain, performing the basic functions of extraction, initial processing and storage. These are basic functions which do not yield much value. However, the key value added functions of sales, marketing, further processing and distribution take place in the consuming countries. This evidence further highlights where the real market power lies in the commodity chains; it lies within the firms that add the higher proportion of value added which gets transferred to the consumers.

Therefore, the place of Grenada in the GVC ensures that it carries the major cost of extraction and storage, costs which it has to carry either by bank loans, overdrafts or by reducing the price of nutmegs and mace to its members - the farmers.

Another related factor contributing to the declining power within the commodity chain is that of the inelasticity of demand for commodities. The demand for agricultural commodities has low price and income elasticities (Daviron and Ponte, 2005; Brizan, 2000; Stigler, 1950), which implies that a reduction in price or increase in income for a commodity such as nutmeg will result in proportionally lower increase in demand. In principles this should imply that a higher price set by colluding producers would lead to higher revenue. In practice, the demand response to a higher price may not be inelastic since customers may prefer to substitute for a product when the price increases. The supply response of existing producers and new entrants also needs to be considered. Both these elements are of relevance for this study as we will observe.

The law of demand states that the more of a product will be demanded when there is a drop in price. Price elasticity measures how much demand changes in relation to the price change, but the extent of the response will depend on a number of factors including, whether the goods is a necessity or not, the availability of close substitutes (Mankiv, 2011). This in turn affect price elasticity supply for goods, which is a measure of the extent to how supplies change given the change in prices (Daley and Farley, 2011)

Supply and demand elasticities, with respect to price need to be low (inelastic – absolute values below 1 and the lower the better) for a cartel to be effective and sustainable. The supply elasticity has more than one dimensions. The first is that in the short-term the supply elasticity (more precisely the production capacity elasticity) is low because it takes several years for newly planted trees to start producing. However, if production is not to full capacity (e.g. if all the nutmeg are not being harvested because of low prices or producers or intermediaries have stockpiled nutmeg), the supply elasticity in response to a price increase could be high. The supply response could be that of the cartel members as well as non-members. If there is a high supply response to the prices raised by cartel members (through parallel exporting by Indonesian exporters) or non-cartel members, the additional supply would put downward pressure on the market price.

A Low demand elasticity is conducive for a cartel since it implies that customers will not cut back on demand substantially in response to a higher price. More precisely, if the absolute value of elasticity is below 1, for a price increase of 1 per cent, demand will reduce by less than 1 per cent and as a consequence the revenue will be higher. This requires that there are no close substitutes or customers do not find it possible to cut back on the use of the product. The basis notions of supply and demand elasticities are relevant for explaining the weakness of the Marketing Agreement as a cartel as the case study analysis demonstrates (see chapters 5 and 7).

3.4.4 Summary of GVC

The above discourse provides a broad overview of the GVC and its relevance for the unfolding discourse in this case. It sets the context for describing and explaining Grenada's participation in the GVC as described in figure 2.3, which traced Grenada's nutmeg supply chain from farm to the consumer, which resonates with the work of Farfan (2005) as displayed in figure 3.4.

The above section describes the GVC as an integrative process involving actors and resources, which take a product from concept to market, identify the nodes and where power and authority reside. It also establishes the key framework used in GVC analysis and highlights the benefits of participation. It indicates where the roles are played and where power resides. The development challenge vis a vis the barriers faced by producing countries was highlighted. It shows that the producing countries, by virtue of place in upstream activities conducted tasks of extraction, basic processing and storage.

The above section also provides a framework for value-added analysis, as well as the methods by which countries can participate in the GVC. The understanding of the GVC helps to aid countries' path to integration into the international trading mechanism and the development of countries.

3.5 Information asymmetry

3.5.1 Introduction to information asymmetry.

The issue of the availability of adequate and equal information between parties to an agreement has been long debated (Cowan and Toan Do, 2003; Leuz et al, 2006; Vojech, 2013; Acklerof, 1970; Stiglitz, 2000). Information asymmetry refers to a situation in which some agent in a trade or negotiation possesses information which other agents involved in the same trade do not have (Toan Do, 2013; Akerlof, 1970). Information asymmetry can also occur after the conclusion of an agreement, such as the hiring of an agent; this is referred to as a moral hazard.

Despite the widespread availability of information today, there are still many occasions when parties who are about to agree on a business, trade or other such issue, one party may tend to have some information than the other. This situation is referred to as adverse selection Toan Do, (2003, citing Akerlof, 1970); Spencer and Steward, (1973); Rothschild and Stiglitz, 1976).

The issue of information asymmetry of relevance for this study is represented by the principal-agent relationship.

The principal-agent relationship is often discussed in the context of governance of large firms where the shareholders and the principals and the members of the board and managers are their agents. However, the principal-agent relationship and asymmetric information within it are also relevant where an agent is a broker and buyer and the means of access to markets and source of information about market conditions and other sellers. Sellers of primary commodities with limited resources and ability to acquire knowledge and information independently are in a weak information asymmetric situation in their relationship with brokers and intermediaries providing access to the market. Reliance on the agents for additional information about the market places the principals in a more vulnerable position. This observation is of relevance in this case as we will observe in later chapters.

Notwithstanding the above challenges posed by information asymmetry, there are those that argue that it could be a source of competitive advantage for diversified firms (Nayyar, 1990; Tabarrok and Cowen, 2015; Leuz, et al, 2006).

3.6 Chapter Summary and Conclusion

Chapter 3 provides the underlying conceptual framework for this research, by highlighting the literary context and broad theoretical underpinning and boundary of the study. It connects all aspects of this thesis and seeks to underscore the preferred approach, while providing the path to understanding why the particular research method will be adopted. The literature review covers a wide but interrelated set of topics in relation to the question posed by this research, including global value chains, cartels, stakeholder theory, business relationships and performance. However, at the core, or primary literature for this study, is that of stakeholder, global value chains and cartel theories.

The literature on stakeholder theory is still developing and as such, does not adequately address some of the critical issues of this research. Indeed, whereas the literature speaks to some issues of the relationship between stakeholders and firms, it does not adequately elucidate the factors that influence stakeholder interventions. Neither is it conclusive on the relationship between stakeholder interventions and the performance of the firm. Additionally, whereas Jones (1995) and Donaldson and Preston (1995) hypothesize about the connection between actions and outcomes in the context of trust between managers and stakeholders, they do not demonstrate how stakeholder interventions affect the performance (outcome) of firms' activities.

The literature on cartels and GVC provide useful insights into the rationale for commodity exporting countries to be persuaded to develop and engage in various forms of collusion, such as International Commodity Agreements. Their persuasion reflects their ambition to improve the economic status of their citizens by inserting themselves into the GVC. The simplified GVC of Farfan (2005) depicts the typical situation that developing countries versus their developed trading partners. It shows that developing countries are extractors and basic processors of commodities, while the developed countries perform the higher end value-added activities and as a consequence retain a greater share of the value, which is generated in the GVC. The use of the GVC also highlights where power really lies in the GVC. This chapter also discussed the existence of information asymmetry between developed and developing countries and between principals from developing/producer countries and their agents, and how the existence of information asymmetry represents a barrier to the producing countries capacity to move higher up the GVC.

Chapter 4 - Research Methodology and Data Collection

4.1 Introduction

This chapter seeks to establish the theoretical and methodological framework used in this study. It outlines the qualitative methodology employed and the associated authenticity and validity issues. It answers the questions: *What was done? How was it done? Where was it done? Why was it done?* The rest of the chapter is divided into three main sections: Section 4.2 - Research Approaches. Sub-section 4.2.1 locates the research within its ontological and epistemological foundations. While Section 4.2 2 presents the qualitative case-study approach. The ethical issues relating to this study, the types and sources of relevant data are also explained.

Section 4.3 deals with Data Collection and Analysis. Sub-section 4.3.1 covers data collection methods and analysis. It outlines the triangulation method (Jick, 1979) used to collect primary and secondary data from multiple sources. Sub-section 4.3.2 examines the question of reliability and the accuracy and validity of the case while Sub-section 4.3,3 deals with: accuracy, validity and reliability. Sub-section 4.3.4 discusses the limitations of the case-study approach in terms of possible sources of shortcomings of the case. Finally, Section 4.4 summarises the chapter.

The main research questions addressed are:

Research question 1.
What factors and interactions with other stakeholders influenced the GCNA Board of Directors' decision to take initiatives to form the Joint GCNA-ASPIN Marketing Agreement to operate as a cartel?

Research question 2.
How did the interventions of other parties (external stakeholders) impact the creation, performance and the eventual collapse of the Marketing Agreement?

Research question 3.
Why did the Agreement collapse and why did the GCNA Board persist in trying to keep the Agreement going when it started failing?

4.2 Research Approaches

In this thesis, the phenomenon of interest, is the impact of stakeholders' intervention on the performance of firms, particularly the case of the GCNA, focusing on the decision-making processes by key stakeholders within the GCNA, which led to the attempt at cartel formation and the demise of such efforts between the GCNA of Grenada and ASPIN of Indonesia.

4.2.1 Ontological and Epistemological Social Constructionism as a Philosophical Approach to this Research

Methodology conventionally refers to knowledge of the techniques, or methods used to study empirical phenomena (Lehaney and Vinten, 1994). In a broader sense, methodology pertains to the philosophy of science (Kaplan, 1964). It indicates the ways in which theories, methods, models and assumptions are interrelated (Kuhn, 1970). Methods can also be considered as paradigms which are,

> "universally recognised scientific achievements that for a time provide model problems and solutions to a community of practitioners" (Kuhn 1970, p.8).

Scholarly findings are thus framed to a considerable extent by the conception of, and approach towards, the phenomenon of interest (Mir and Watson, 2000).

Easton (1995) urges researchers to explicitly state their underlying assumptions and values, as these influence their decision concerning their research strategy. Researchers' assumptions and values, however, ought to be rooted in some depth of realism that seeks to reflect the world around them, and the world which we attempt to influence. Therefore, implicit to the undertaking of this research is the way I perceive the world (GCNA and its Joint Marketing Agreement with Indonesia) and the reality around us (ontology) as well as what we know about, or wish to know about it (epistemology). The reality is that GCNA and ASPIN attempted to enter into a cartel arrangement aimed at restricting the supply of nutmeg and mace on the world market, which led to an increase in the price of nutmeg and mace for a brief period but the arrangement collapsed within three years, placing the GCNA in serious financial difficulties. What this study seeks, inter alia, to do is establish the circumstances and processes of decision-making within the GCNA, Indonesia and the market for nutmeg which led to the eventual demise of attempts at forming the cartel.

This reflects what Guba (1990) refers to as the paradigm of the researcher, where ontology relates to what is the reality or what is the nature of the social entity (GCNA and the cartel), and epistemology relates to how we get to know something. For the purposes of this study, epistemology refers to how we get to know about the decisions and actions which led to the formation of the cartel and its demise.

Berger and Luckman (1996) view phenomena and constructs such as organisations as socially constructed, and as such their meanings are continually being accomplished by social actors (Bryan and Bell, 2003). Giddens (1976) noted that organisations are continually being constructed and reconstructed through the interplay of multiple actors and material artifacts. Morgan and Smircich (1980, p.494, cited in Saunders et al., 2009), concur with Giddens (1976) by explaining that the social world is a pattern of symbolic relationships and meanings sustained through a process of human action and interaction. Hence, the research subjects (the GCNA and its stakeholders), as well as the individual actors in the business relationships, are the participants who continuously construct their social reality and that of the organisations which they represent (Denzin, 2001). In this research, these are individuals participating in the communicative and symbolic, and in other processes of developing the cartel. Hence, in looking at the relationship, this thesis takes the subjectivist approach which characterises the organisation as a socially constructed entity, a label used by individuals to make sense of their social experience (Bryman and Bell, 2003). By subjectivist approach, I also mean the philosophical method adopted by most qualitative researchers, in which the researcher/ observer interacts with the subject being observed in trying to understand what happens, it is a qualitative method involving the use of small samples and where everything is contextual (Ratner,2002;Holden and Lynch, 2004)

It is within this context that this research will portray the development and demise of the attempt at forming the world's first nutmeg cartel, focusing on the episodes, and the role of the actors and decision-makers as stakeholders.

The case-study research method employed is located within the broad realm of discourse as text and representation (i.e., the narratives of the story as told by actors, agents and onlookers). As a consequence, the selected methodology endeavours to show how the discourse, as interplay between the text (written data gathered from the archives of the GCNA, such as , minutes of GCNA Board of Directors Meetings and other meetings News Paper articles) and talk (this refers to the interviews and discussions held with some of the key actors and observers to the story) , was actually used by stakeholders in constructing, reconstructing, and deconstructing the cartel as a business relationship within the context of the stakeholders' roles in strategic management in general, and relationship management in particular; and hence the use of the triangulation method in the gathering and analysing of the data.

It is also guided by the views of Dreher (1994, pp.289-291cited in, Morse, ed) on critical issues in qualitative research methods, where the author writes:

> "Data pertaining to human behaviour and events are derived basically from three sources: what people tell us, what we observe, and the products of human activity such as documents and records."

This statement has informed the use of unstructured interviews and archival records as the main sources of data collection in this work.

4.2.2 The Qualitative Case-Study Approach

The qualitative case-study approach has been used by social scientists to study real-life situations. It highlights the details of contextual analysis of events, and their conditions and relationships (Soy, 1997). This theoretical and conceptual framework is different from the quantitative approach which is described as seeking to answer questions of what has happened or is happening, while the qualitative method answers why something is occurring (Miles and Hubberman, 1994), although such classifications have been described as "blurred" by Gill and Johnson (2002). Quantitative methodologies do seek to answer the *why* question by attempting to investigate cause and effect. Qualitative methodologies seek more in-depth explanations.

This case study is positioned within the qualitative method. Yin (1994, p13) defines a case study as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context especially when the boundaries between phenomenon and context are not clearly evident." In order to understand how and, more important, the processes by which the stakeholders in the GCNA and ASPIN influenced or created the marketing agreement and why the agreement failed, a single in-depth case study has been undertaken (Yin,1994; 2003).

In selecting a research method, it is important to establish what is referred to as "good research" which requires internal, external, construct and conclusion validity. Internal validity measures the extent to which empirical analysis shows causal mechanisms. A study with a high internal validity goes beyond mere correlation and differentiates between causal and spurious relations (Yin 1994, Miles and Huberman 1994). A sound case study analyses in detail causal relations among relevant factors, and thus has a high internal validity (Eisenhardt 1989; Yin 1994). External validity refers to the ability to generalise one's study to other situations. In order to do so, it is necessary to have a good representation of the population under research (Miles and Huberman, 1994). This is an issue of replicability, in that case studies do not provide the same type of external validity as does the quantitative approach. There is still an external validity in qualitative research which allows for the result findings to be replicated and generalised (Yin, 2003a; Falk and Guenther, 2006)

Construct validity indicates the degree of congruence between an empirical model and the actual phenomenon of interest (Yin 1994; Miles and Huberman, 1994). In essence, it refers to the degree to which inferences can legitimately be made from the study to the theoretical construct of the study. Regarding the above issues on research validity, it became evident that it was necessary to explore different sources of data. According to Stake (1995) examining evidence from alternative sources of data is a form of triangulation and could be part of a protocol to increase validity and accuracy. The case study is thus a good instrument to study static and dynamic complexity, to scrutinise queries of *why* and *how* (Yin 1994).

4.2.2.1 Rationale for a Qualitative Case-Study Approach

According to Yin (2003), there are three types of case studies: exploratory, descriptive and explanatory. An exploratory study seeks to define the research question and derive a hypothesis. In such a case, the data are collected before the research questions and theories are formulated. Descriptive case studies serve to describe different characteristics of a phenomenon. Such a method requires a theory in order to guide the collection of the data. Explanatory cases serve to explain the course of events and to relate how decisions and things happened. This case study is of the explanatory type since it examines a past situation in some depth to answer the *how* and *why* questions.

Descriptive case studies are also argued to be appropriate when the unit of analysis is the organisation (Yin and Heald, 1975). The descriptive methodology case provides for explanatory and exploratory types of research. *T*he main aim of explanatory research is to identify any causal links between the factors or variables that pertain to the research problem. The main aim of exploratory research is to identify the boundaries of the environment in which the problems, opportunities or situations of interest are likely to reside, and to identify the salient factors or variables that might be found there and be of relevance to the research (Van Wyk, 2006). Despite the above advantages of these two types of research, there are some limitations in their use. It is important that the researcher acknowledge those weaknesses, so that the validity of the research is not compromised. According to Yin and Heald (1975), the quality of the case is as good as the information collected, and the focus on aggregate data may not give sufficient attention to specific and unique factors, Soy (1997) contends that the intense exposure by the researcher to the case may bias findings, and may therefore lack statistical reliability and internal validity.

Moreover, according to Tellis (1997) case study is a triangulated research strategy. The case study tends to use multiple sources of evidence (triangulation) in order to capture different facets of reality or to corroborate the evidence. When different sources are used (i.e., when data are triangulated), the case study thus has a high construct of validity (Yin 1994; Miles and Huberman, 1994; Eisenhardt, 1989). The present research deals with the simultaneous influences of different stakeholders, reactions to these influences, and the outcome of the alliance that was forged between the GCNA and ASPIN, and as such the case-study methodology is further justified. The case-study method has been used by many researchers in various fields. For example, Greve, et al (2010) used it to investigate inter-firm relationships; and Martin and Eisenhardt (2010) used it to study cross-business-unit collaborations in multi-business organisations.

The case-study approach allows the researcher to gain insights from individuals who were part of the construction of social reality of creating or observing the creation of the cartel (Lincoln and Guba, 2003; Yin, 1994, 2003). It allows for a detailed and intense study of a single unit (Bryman and Bell, 2003). The case study is thus a good instrument to study static and dynamic complexity, and to scrutinise queries of *why* and *how* (Yin 1994). Finally, the triangulation approach used in this study seeks to establish what happened rather than the cause and effect of events, although there are elements of cause and effect in the case study.

4.2.2.2 Rationale for Selecting the GCNA

The GCNA was selected for three broad reasons. First, it is important for Grenada's national economy and as a source of income for a substantial number of farmers, as outlined in chapter 2. By 1986, the GCNA was the largest single business organisation in Grenada, with a peak membership of over 6,000 and a stakeholder structure embedded since its formation in 1947. The GCNA provided direct and indirect sources of income for approximately one third of the population of Grenada; therefore its performance had always been an important issue for policy makers. Moreover, the GCNA was perceived by many as having significant political influence on its membership, and as a consequence, its operation was a constant source of discourse at a national level. Secondly, GCNA was chosen for personal professional reasons, since this researcher had keen interest in understanding why the cartel was formed, and why it lasted for the short period it did. Thirdly, it is hoped that selecting the GCNA is an opportunity to provide a study that would contribute towards national development policy with regard to GCNA's future operations and organisational design.

4.2.2.3 Ethical Considerations and Gaining Access to the GCNA

Research ethics is an important issue in any social science research (Miles and Huberman, 1994). Consequently, a main aspect in conducting academic research is to ensure that the necessary research ethics are observed. For example, ethical considerations require, inter alia:

1. Securing permission and interest of participants to participate in the study;
2. Ensuring that the information will not be misused; and
3. Taking the moral responsibility to protect informants.

The study has followed the Aston Business School's Research Ethics Guidelines which are in compliance with the Economic and Social Research Council (ESRC) Research Ethics Framework.

Gaining access to the organisation was possible because the researcher's interest was known by most of the management team, and members of the Board of Directors. The researcher initiated some phone calls to the chairman of the Board of Directors and to the manager's secretary, where details of the researcher's needs were provided and access to the required information attained. It was important to follow the formal channels and thus avoid gaining access to the data in an unethical manner. The main sets of information the researcher requested were minutes of meetings from 1985-1995, including relevant documents, reports, and correspondence relating to the relationship between the GCNA and Indonesia, and copies of the audited financial statements for the period 1985-1995. A request for an interview with the then Chairman was also made. Although it was granted, it did not prove useful or applicable to this research since the interviewee had no relevant knowledge about my research topic.

Nevertheless, gaining access to the organisation was not without its challenges, as there were concerns about the way in which the information could be used against the organisation. It was necessary to reconfirm to the Chairman of the Board of Directors that the non–pertinent information to which access was being granted, would be kept confidential and not be publicised or used against the organisation, its board members, employees and members. The researcher was also able to get valuable information from others who did not wish to be quoted, as they felt that they were in vulnerable situations since information attributed to them could be detrimental to their careers and livelihoods in such a small society.

4.2.2.4 Types and Sources of Data

According to Yin (2003) there are six sources of data/ evidence-gathering for conducting case studies: 1) documentation; 2) archival records (although this is similar to documentation, it is precise to the issue under research); 3) interviews; 4) direct observation; 5) participant observation; and 6) physical artifacts. It is this use of mixed sources of data-gathering that is referred to as triangulation (Jick, 1979).

This case study used three of the above sources. Documentation is one of the sources used since it is stable and not created for the specific purpose of the case study. Additionally it can be reviewed repeatedly and covers an extensive period of time. With regards to archival records, they are the same as documentation but also contain quantitative data. In the case of interviews, its use was premised on its ability to provide specific information on the case-study topic, and was deemed insightful, providing causal inferences and explanations. The other three sources (physical artefacts, direct observation and participant observation) did not prove to be of any relevance to the case. Since the case was not occurring in real time, there was no need for cultural insights, and direct participant observation was not possible to the extent required since most of the key players were either dead or resided outside of Grenada.

Also, Silverman (2001) makes a distinction between two types of data: (a) those that are naturally occurring, and (b) those that are researcher-provoked. Naturally occurring data consist of textual artefacts, correspondence between the parties to the agreement, audited financial statements and minutes of meetings, including reports from meetings with associates, which appear to be similar to Yin’s (2003) definition of such data. Researcher-provoked data in this study are acquired through interviews, discussions and other interactions with key actors such as members of the Board of Directors and management of GCNA, representatives of traders, and Moermon of Catz International B.V. and Hachamoff of JHB International.[12] The collection of the above two types of data from a number of sources provides a strong basis for the triangulation to develop as rich a picture as possible of the issues being investigated (Yin, 2003). The two types and multiple sources also make it possible to cross-check and cross-reference the information collected to enable the development of a reliable body of knowledge and narrative. It also enabled the research to follow the flow of activities through various streams as they occurred (Silverman, 2001).

In summary, several data sources were used to provide as authoritative, reliable, valid and meaningful primary and secondary source of information as possible for this research.

[12] See Appendix 1 for a list of persons interviewed and their positions.

The sources were the GCNA Annual Reports, statistics from the Government Central Statistical Office, relevant documents and data from the Grenada Public Library, the Library of the University of the West Indies in St. George, the British National Archives (UK), the online university library, the International Trade Centre (ITC), the ASPIN/GCNA Agreement, and the GCNA–JHB International Agreement[13]. Information was also collected from local newspapers, and talks and interviews with key stakeholders.

4.2.2.5 The Research Method Explained

This section provides practical information on how the research was conducted, and in particular how data were collected to ensure that the results of this research could be trusted and replicated in similar environments and circumstances.

The study started with some broad questions associated with the challenges faced by Grenada's nutmeg sector and the role of the GCNA in coping with them. This initial investigation was exploratory in nature and identified issues which warranted further investigation. These issues included: 1) the stakeholder composition of the GCNA as a cooperative and the organisational type it represented, and 2) the extent to which its ownership and monopsonistic nature as the sole buyer in Grenada of nutmeg for exports had affected its decision-making and performance. The formation of the cartel, its short period of survival and its eventual demise were identified as a focal episode worthy of systematic and in-depth study to address some of the issues identified above.

Hence, the initial phase of the study was exploratory and descriptive. This phase formed the basis for identifying the theoretical frameworks and the qualitative case study research methodology for the in-depth explanatory analysis. The initial literature review following the exploratory and descriptive work identified the frameworks and theories outlined in chapter 3. The case-study methodology for the explanatory part is outlined below.

The stakeholder analysis framework was used to identify the stakeholders of different types and other actors and observers. The following were identified as the main stakeholders: the nutmeg farmers, the GCNA Board of Directors and management; the CEO of Catz International; and previous Ministers of Agriculture. The ministers were important stakeholders because the Government of Grenada, through its ministers, appoints representatives to the Board and approves the Board. Data collection followed on from the above and a plan was developed for data collection and analysis.

[13] JHB Agreement refers to the GCNA agent based in Brussels

4.3. Data Collection and Analysis

Data collection involved collecting primary and secondary data. The primary data, also referred to above as researcher-provoked, covered semi-structured interviews and discussions with key actors and stakeholders as noted earlier. Secondary data collection fell into two categories: company or company-related documents and non-company documents. The company data included GCNA Annual Reports, financial statements, and minutes of meetings and archival records from the GCNA for the period 1985 to 1995. The records of 120 Board of Directors (BoD) meetings (1985 to 1995), comprising of over 508 pages, were reviewed in order to make sense of the rationale, thinking and discussions that preceded decisions of the BoD. Of the 120 meetings which occurred during that period, there were 237 references made to the relationship between GCNA and ASPIN and 37 meetings, in which key decisions and actions with respect to the development and demise of the relationship were made. The researcher was also able to find sporadic newspaper articles which directly related to the GCNA and the developments under investigation.

4.3.1 Procedure for Gaining Access to Data

While continuing to review the literature, the researcher made arrangements with the GCNA to gain access to the data. This process was hampered by the unavailability of much of the archival records for the period 1985 to 1989 because of the damage to GCNA's head office in 2004 caused by Hurricane Ivan. Notwithstanding these difficulties, the accountant (Joyce John) was very helpful in providing copies of the financial statements, as well as securing the help of one of the members of her department who was instrumental in helping the researcher to find the required statements and records including audited financial statements of the GCNA.

In order to compensate for the loss of data from the company's archives, some of the key players were sought out and interviewed. The interviews were recorded electronically and notes were also taken. These procedures tracked the discussions, decisions and conflicts that surrounded the decisions of the primary stakeholders during the period under investigation. The approach was used with Grenadian interviewees and international actors, namely directors and employees of Fooks and French, a buyer of Grenadian nutmeg; JHB International, GCNA's agent for Europe, and Catz International, GCNA`s largest buyer at the time. In addition to formal interviews, some discussions with the GCNA stakeholders had to be informal because of the reluctance of the subjects to participate formally. Nevertheless, the discussions were informative and valuable.

4.3.2 Researcher-Provoked Data

It was important to decide ideally which persons should be interviewed. However, the persons interviewed and the timing of interviews were constrained by the people's availability and willingness to be interviewed, and whether their memories were sufficiently intact after such a long passage of time. Initially, informal discussions were held with some key actors and surviving members of the Board of Directors from the time of the episode being investigated. Based on this, a list of persons to be interviewed, which included former government ministers and GCNA board members, was compiled. A semi-structured interview questionnaire was designed (See Appendix 2). The information collected from these interviews allowed for the validation of the archival data, enabling the filling in of some of the gaps in the recorded date and lost data, much from the damage caused by Hurricane Ivan.

4.3.3 Data Collection and Confidentiality

An important concern that arose during this phase was the issue of confidentiality and reliability of the informants. Whereas many of those persons were willing to discuss issues involving and surrounding the GCNA, they did so on the basis of absolute confidentiality. This has to be recognised in the context of a very small and close-knit community.

Open-ended, audio-recorded interviews with key informants were conducted and transcribed. These audio-taped interviews reflected semi-structured discussions with key actors and informants in the industry. This approach was deemed appropriate in order to provide a climate for openness for the discussions. A more direct, specific and structured approach might not have allowed for the degree of actor participation achieved by this method.

The selection of the informants was undertaken on the basis of personal knowledge of members of the GCNA, time and cost of reaching those persons, and the assumed knowledge of the agreement between the GCNA and ASPIN. In addition to field work undertaken in Grenada, field work was also conducted in Rotterdam with Catz International and in Brussels, where the manager of JHB International (GCNA's sole agent for Europe), Vigi Hachamoff, was also interviewed. The information obtained from the interviews has been presented in narrative and temporal bracketing forms in chapters 5 and 6.

4.3.4 Methods of Data Analysis

The data collection was followed by data classification and analysis which are explained in this section. The data were classified into three inter-related areas: 1) textual artefacts such as minutes from the meetings of the Board of Directors, reports on meetings with key stakeholders in the network, which formed the agreement between the GCNA and ASPIN, correspondence between the parties to the agreement and other relevant reports and documents; 2) analysis of the audited annual financial statements; and 3) information emanating from discussions and talks held with key actors.

4.3.4.1 Treatment and Analysis of Textual Artefacts

The minutes of meetings were placed in an Excel spreadsheet in order to classify the information and help bring order to the analysis. The key issues and references which the researcher identified for the analysis were the GCNA-ASPIN Agreement, Recondition Nutmeg[14], GCNA financial performance, and the recruitment of the new agent, JHB International. Each of these issues was allocated a number ranging from 0 to 4, where:

0 – indicated where there was no discussion on the ASPIN-GCNA Agreement
1 – indicated reference to the GCNA-ASPIN Agreement
2 – indicated reference to reconditioned nutmeg
3 – indicated reference to GCNA’s financial situation
4 – indicated reference to JHB International, the new nutmeg agent
(A sample of the above is contained in Annex 3)

Sorting based on this classification made it easier to identify dates, actors and content in a chronological order, and the identification of issues pertinent to the case (presented in chapters 5, 6 and 7), with a focus on the textual artifacts that were used to capture the mood and sense-making of the talks between the actors in the negotiations. More specifically, the method sought to identify the decisions and activities that related to and influenced developments in the nutmeg cartel episode.

4.3.4.2 Treatment of Primary Data

The third type of data analysis in this study is the treatment of the primary data emanating from discussions and talks held with key actors in the situation. The data collected were audio-recorded and transcribed to create each account which was annotated to establish relationships, trends, and the roles of key actors. Stakeholder information was properly

[14] Reconditioned Nutmeg was a product category made from deteriorating stock of nutmegs that was lightly processed

labeled, dated and classified to avoid contamination of data and to facilitate referencing for future analysis. Having obtained an appreciation of the story, and insights into the ebb and flow of the relationship, it was necessary to proceed to establishing the key timeline of the events which followed. The data collected from these semi- structured interviews form an integral part of the narrative which is detailed in chapters 5, 6 and 7.

Overall, the evidence was used to assess the level of influence that the stakeholder groups and key individuals (actors) exerted on the decisions and actions. These actors also sought to establish the stakeholders' source of power and assess performance of the GCNA through the episode amongst other issues. The evidence was combined to provide context, meaning and understanding of the episode being investigated, using Langley's (1999) sense-making method which is outlined below.

The sense-making method of Langley (2007, p.694), adopts the process by which meaning is given to an experience for two reasons.

> "Firstly, it implies the possibility that a variety of "senses" or theoretical understandings may legitimately emerge from the same data." Secondly, "it implies that the closing of the gap between data and theory can begin at either or both ends (data and theory) and may often iterate between them."

The seven sense-making strategies are detailed in table 4.1, identifying them as: narrative, quantification, alternate template, grounded theory, visual mapping, temporal bracketing, and synthetic strategy. These strategies are assessed on the basis of key anchor points, the fit with data process complexity, specific data needs, good theory dialectics, and forms of sense-making.

For purposes of this study, two of the above strategies were employed. They are: the Narrative Strategy and the Temporal Bracketing (Ann Langley, 1999) Strategy, since they are best able to provide the time sensitivity and bracketing of the events, while the narrative allows for an easy way to tell the complex story of the rise and fall of a relationship.

According to Langley (1999), this strategy involves the construction of a detailed story from raw data. This strategy has been used by authors such as: Pettigrew (1985) and Pettigrew and Whip (1991). The adoption of this strategy involves the use of descriptive narratives (or realistic tales); these narratives are also the traditional tool of ethnographers (Van Maanen, 1988) and they frequently play a key role in studies of cultural change (Bartunek, 1984).

Table 4.1 Seven Strategies for Sense-Making

Strategy	Key Anchor Point	Fit with Process Data Complexity	Specific Data needs	"Good Theory" Dialectics	Forms of Sense Making
Narrative strategy	Time	Fits with ambitious boundaries, variable temporal embeddedness, and eclecticism	One or few rich cases can be helped by comparison	High on accuracy; lower on simplicity and generality	Stories, meanings, mechanisms
Quantification strategy	Events, outcomes	Focuses on "events" and their characteristics. Eschews ambiguity	Needs many similar events for statistical analysis: one of few dense cases is best	High simplicity; potentially high generality; modest accuracy (abstraction from original data)	Patterns, mechanisms
Alternate template strategy	Theories	Adaptable to various kinds of complexity. Different templates capture different elements	One case is enough. Degrees of freedom come from multiple templates	Each theory can be simple and general. Together, they offer accuracy, but simplicity and generality disappear with theory integration	Mechanisms
Grounded theory strategy	Incidents (units of texts) categories	Adapts well to eclectic data and ambiguity. May miss broad high-level patterns	Needs detail on many similar incidences. Could be different processes or individual-level analysis of one case	High accuracy. Moderate simplicity. May be difficult to go from substantive theory to more general level	Meanings, patterns

Strategy	Key Anchor Point	Fit with Process Data Complexity	Specific Data needs	"Good Theory" Dialectics	Forms of Sense Making
Visual mapping strategy	Events and orderings	Deals well with time, relationships, etc. Less good for emotions and interpretations	Needs several cases in moderate level of detail to begin generating patterns (5-10 more)	Moderate level of accuracy, simplicity, and generality. Not necessarily good at detecting mechanisms	Patterns
Temporal bracketing strategy	Phases	Can deal with eclectic data, but needs clear temporal breakpoints to define phases	One or two detailed cases are sufficient if processes have several phases used for replication.	Accuracy depends on adequacy of temporal decomposition. Moderate simplicity and generality	Mechanisms
Synthetic strategy	Processes (e.g., decisions, change efforts, new products)	Needs clear process boundaries to create measures. Compresses events into typical sequences	Needs enough cases (5+) to generate convincing relationships. Moderate level of detail needed for internal validity.	Modest accuracy (but much better than questionnaire research). Can produce simple and moderately general theories	Prediction

Source: Langley (1999).

4.3.4.3 Temporal Bracketing Strategy

Temporal bracketing represents a way of structuring the description of events over time, thus allowing the charting of events and incidents such as the circumstances leading up to the cartel, its initiation, subsequent developments and the collapse of the cartel. Hence, this strategy allows for the decomposing of events over time, thus proving good descriptive temporal utility (Langley, 1999). Chapter 5 provides an overview of the temporal bracketing of the events, which is a decomposition of the story in manageable, understandable portions to break longitudinal data into successive periods (Langley, 1999).

Despite its usefulness, temporal decomposition can create certain distortions. For example, there is no guarantee that the discontinuities observed in a process will naturally synchronise to produce unequivocal periods. As a consequence, accuracy is likely to range from moderate to high, depending on the appropriateness of temporal decomposition and the robustness of the analysis (Langley, 1999).The use of narrative as an analytical tool has been increasing in use over the years (Holloway and Jefferson, 2000; Riessmann.1990).

The use of the temporal bracketing and narrative is premised on their very close similarity and interconnectedness, which are deeply embedded in their structures as part of Langley's (1999) framework. More important, as qualitative tools they provide three features which are essential for this study. First, they are chronological, representing a sequence of events; secondly, they are meaningful; and thirdly, they are inherently social (Elliott, 2005).

4.3.5 Determining the Reliability, Accuracy and Validity of the Case

Langley`s (1999) process strategy illustrates that there are trade-offs between accuracy, generality and simplicity, where the object of the strategy is to map the terrain and highlight the fact that a good process strategy takes different routes. This coincides with the view expressed by Langley (1999, p.706):

> "the idea that multiple templates can produce better understandings may also be generalised to the use of multiple strategies, again, provided the combinations are complementary and provided simplicity is not compromised in the attempt to achieve integration."

Table 4.2 provides a scale of the elements of the sense-making strategies on the three areas of accuracy, simplicity and generality. It shows that narrative, grounded theory temporal bracketing, and visual mapping are high on accuracy but low on simplicity and generality. Synthetic strategy, quantification and computer simulation are low on accuracy but high on simplicity and generality. This framework allows its users to determine which is best to use, given the context of their case. Hence, this case found that narrative and temporal bracketing were best suited for use in explaining and describing what happened during the period under review.

The ordering in table 4.2 demonstrates the ranking that is allotted to each element of the strategy; there are variations among specific applications. For example, while accuracy and simplicity are almost always in opposition to one another, the generality of emerging theories will depend on other factors such as the degree and scope of replications and the source of the conceptual ideas. There have been constant calls in scholarly literature for more in-depth process research that will add to a better understanding of organisational phenomenon. This thesis makes a contribution in this respect.

Table 4.2 Sense-Making Strategies, Accuracy, Simplicity and Generality

Strategy	Accuracy	Simplicity	Generality
	High	Low	Low
Narrative			
Grounded theory			
Temporal bracketing			
Visual mapping			
Synthetic strategy			
Quantification			
Computer simulation			
	Low	High	High

Source: Langley, 1999, p.706.

While recognising the importance of the above strategies in presenting data from case studies, this case is, however, concerned with narrative and temporal bracketing strategy which Langley considers relatively high on accuracy, but low on simplicity and generality. The results from this study, therefore, will present a highly accurate account of the events studied in a simplified manner. The results, therefore, will be reflective of a particular situation but can also be applied to similar agreements. Nevertheless, the sense-making from the findings applying the theoretical frameworks (notably the conditions required for commodity agreements and cartels to survive, the position of commodity producers, notably small economies, in the global value chain and decision-making in entities managing the commodity exports with information and knowledge asymmetry and management weaknesses), shows patterns of cause and effect which can be generalised to other situations. Further, the methodology adopted can be replicated in studies of other organisations.[15]

The issue of accuracy surrounds the mixed set of data which were collected. The first set is the financial data contained in the Annual Financial Statements of the GCNA and the Central Statistical Office. The second set of data relates to recurring data, such as the minutes of the meetings of the Board of Directors, reports and newspaper articles. The third set of data relates to non-recurring, researcher-provoked sets of data which were obtained from interviews and conversations using the semi-structured approach. With regard to the financial statements and statistics provided by the GCNA, these are generally regarded as reliable, since they are audited by a reputable accounting firm. The statistics from the GCNA demonstrate a high level of consistency through the years. The statistics provided by the Ministry of Finance Central Statistics Office are generally regarded as accurate and reliable, as well, being the official repository of such data.

For issues of accuracy, validity and reliability of the qualitative data referred to above as recurring and non-recurring and researcher-provoked, Denzin and Lincoln (2003) and Guba and Lincoln (1994) emphasise the trustworthiness of the investigation. In Guba and Lincoln's construct of trustworthiness, 1) credibility, 2) transferability, 3) dependability, and 4) conformability were identified.

1. The issue of credibility. The credibility of the research in this study was enhanced in three ways. First, the financial data used are considered to be reliable and were externally audited statements. Second, multiple sources were used (triangulation) to verify the data contained in reports and minutes of meetings. This involved conversations with actors such as Hachamoff (JHB International), Moermon (Catz International) and management and members of the Board of Directors of the GCNA. Third, the communications channels between the researcher and some key actors were opened, thus allowing the researcher to return to them from time to time to double-check information provided or to seek clarification on issues.

2. The issue of transferability. The key issue according to Lincoln and Guba (1985) is whether the results of the findings are transferable to other contexts. Transferability in the form of generalisability of findings and use of methodology have been discussed earlier in section 4.2.6 in relation to sense-making strategies. Furthermore, the study uses stakeholder analysis to examine the implications of the motivations and actions of

[15] Also see the discussion on "transferability" in qualitative research below.

stakeholders on a commodity marketing cooperative. The mode of analysis and the findings are transferable to other such cooperatives in Grenada and to other developing countries.

3. The issue of dependability. The question that arises is whether the process of the study is consistent, and reasonably stable over time, and whether the research was done with reasonable care and, therefore, is dependable. This study sought to ensure that the process was reliable. This is seen in the thoroughness of ensuring the credibility of the data. Authenticated data from GCNA were consistently used as well as verified through inter-actions with other key actors.

The use of multiple sources of data is also evident. When there was need for clarity, the researcher either returned to the source and/or verified details by using other sources to cross-check. According to Miles and Huberman (1994), the issue of dependability also has to do with the extent to which the research process is connected to theory. Chapter 3 and earlier parts of this chapter have identified the theoretical contexts of this study. Additionally, the research methodology employed included triangulation, allowing for the use of multiple sources to tell the story, while relying on Ann Langley's sense-making (narrative and temporal bracketing) framework to report the findings. An attempt was made to ensure through cross-checking and reviewing that the narrative and explanations were appropriately rooted.

4. The issue of conformability that every finding can be traced back to the original source where the facts were first encountered.

The narrative strategy adopted by this thesis is deeply rooted in the raw data. The researcher is keenly aware that although the narrative strategy is high on accuracy while being relatively low on simplicity and generality, a trade-off is expected since the single-case-study method is focused on particularity and does not easily lend itself to generality (Yin, 1994). Nevertheless, it has been noted earlier that forms of generality can be achieved with respect to the findings and the methodology.

4.3.6 Challenges and Shortcomings of this Case

There are five possible sources of errors / shortcomings in the case:

1. The unavailability of pertinent data. As explained earlier, one of the difficulties encountered during this study was missing data due to the damage done to GCNA's main office and the consequent loss of records caused by Hurricane Ivan. Consequently, some

data for the period 1985 to 1988 were not available, in particular records of minutes of meetings.

2. The lost narratives from key actors/ informants. The researcher was unable to obtain the “voice” of the members of the Board of Directors that negotiated the GCNA-ASPIN Marketing Agreement Of the seven members who negotiated the agreement, four died, one is suffering from Parkinson’s disease, one refused to participate in the survey and two are now residing outside of Grenada and cannot be reached. This affected the ability of the researcher to obtain more information on the formative stage of the relationship between the ASPIN and GCNA.

3. The discussions/ interviews/ talks held with key stakeholders. Although valuable, the information obtained could be of questionable validity because it is highly subjective and not necessarily representative of all the other key stakeholders involved in the cartel relationship.

4. The minutes of the meetings obtained. These might not have sufficiently captured the content, depth of explanations, and nuances of the context in which the events unfolded.

5. Financial constraints. These prevented the researcher from travelling to Indonesia in order to obtain some first-hand information from some of the actors in the episode.

4.4 Chapter Summary and Conclusion

This chapter describes how the empirical research was carried out through the use of the case-study methodology but also touches on why it was done. Relevance was found in the work of Gummesson (2000) who stated that a fundamental challenge facing management researchers is to find access to reality, pre-understanding and understanding. The process in this study detailed a dynamic study of the nutmeg cartel episode from the perspective of the GCNA. The qualitative research method adopted utilises multiple sources of data as a triangulation approach for verification (Jick, 1979) and for enhancing the richness of the context and the narrative. Table 4.3 summarises the multiple sources used for data collection, the key stakeholder groups used to collect the data and what was the specific objectives or purpose of that interaction.

Table 4.3 Multiple Sources of Data for Triangulation and Enhancing Richness

Method	Stakeholder group and source(s)	Purpose/objective
Semi-structured Informal Interviews	Key individual actors of the GCNA, and the global nutmeg industry supply chain (including farmers)	To gain their understanding of the GCNA-ASPIN Marketing Agreement
Archival records	GCNA archives	To obtain background and context, minutes and records of minutes leading up to, and covering the period of the Agreement
Annual Financial Reports of the GCNA	Members of the GCNA Board of Directors and staff government, banks, agents	To obtain audited data on the financial performance of the GCNA, before, during and after the period of the cartel to assess the impact on the financial situation of the GCNA and payments to members

Source. Developed by the author

The chapter explains the research method and the ethical considerations governing the research, and examines the sources of data, as well as the treatment of data and the method of data recording. The data has been used to create the composite narrative of stakeholders' motivations, decisions and actions related to the formation of the cartel and the financial and economic implications of the episode for the GCNA and its members.

In constructing the composite narrative, the timeline of the key and important events were identified and sequenced to provide a deeper understanding of the case. This approach was necessary in order to create a credible narrative similar to most qualitative case-study analyses.

Chapter 5 – Attempts at the Creation of the GCNA–ASPIN Nutmeg Cartel

5.1 General Introduction

This chapter provides an account of the context, actions and decisions made between 1979 and 1986 leading up to the Joint Marketing Agreement between the GCNA in Grenada and ASPIN in Indonesia, using the data from multiple sources and the approaches described in chapter 4, and the theoretical frameworks reviewed in chapter 3.

It answers the research question: *What factors and interactions with other stakeholders influenced the GCNA Board of Directors' decision to take initiatives to form the Joint GCNA-ASPIN Marketing Agreement to operate as a cartel?*

This chapter is organised into three major sections. Section 5.1 outlines the general factors favouring the formation of cartels; Section 5.2 deals with the global nutmeg trade with specific reference to Grenada and Indonesia and Section 5.3 discusses the trading and financial performance of the GCNA(1980-1985, Section 5.4 presents the summary and conclusion of the chapter.

5.1.1 General factors favouring the formation of cartels

5.1.2 Grenada's trade and economic situation (1980-1985)

Chapter 2 shows that Grenada's trade balance was in deficit and deteriorating between 1980 and 1985. Three agricultural primary commodities, cocoa, bananas and nutmeg together accounted for a high proportion of export earnings (61 per cent in 1985). In such circumstances governments seek means by which to improve the trade balance. For a small island economy dependent on imports for essential consumer and producer goods, two of the options are to: (a) increase export earnings from the conventional primary commodities and improve the stability of these earnings, and (b) develop alternative sources of foreign exchange.

While Chapter 2 identified cocoa, bananas and nutmeg as the three major agricultural primary commodities, Table 2.5 shows that over the period 1980 and 1985 the earnings from nutmeg and their share increased substantially. More importantly there is a substantial difference between the three crops on Grenada's production and exports in relation to the total world exports. For example, Grenada's cocoa production and exports in 1985 were respectively 4,775,964 and 4,490,412 lbs respectively (2,133 and 2,067 tons respectively). These volumes are about 0.1 per cent of the total global production of cocoa for the year 1984/5 at almost of 1.96 million tons (ICCO, 2015).

Grenada's share of global banana exports in the 1980s was also small, about 1 per cent of the total. Further, as noted in chapter 2 (section 2.3.3) while banana exports to the EU were protected under the Lome Convention, they were coming under the increasing competitive pressure from exports from Latin American countries producing on larger scales. Table 2.4 and 2.5 show declining exports and export earnings of Grenada's bananas. Hence, the prospect for exerting any influence over international prices and Grenada's export revenues from cocoa and bananas was virtually non-existent. Nutmeg appeared to offer a different prospect. As noted earlier, Grenada was the second largest exporter supplying 10 per cent of exports while Indonesian producers exported 80 per cent of the world's nutmeg (Marks and Pomeroy, 1995). The combined market share of 90 per cent between the two countries appeared to provide a prospect for exercise of control over the supply if the two countries, precisely the suppliers in the two countries could cooperate on supply and prices. Chapter 2 (section 2.5) shows that in Grenada GCNA had control over the export of nutmeg by statute. The situation on the Indonesian side was different (see Table 5.7).

The following discourse details the above rationale. The talk and text evidence presented later in the chapter shows, the primary stakeholder groups within the GCNA, members of the Board of Directors and the former Grenadian Minister of Agriculture and Prime Minister, George I. Brizan, believed that one of the ways of controlling this precious Grenadian natural resource, Grenada's Black Gold, was to have control over setting prices (Interview with Brizan, 20 June, 2007). This was considered possible by these stakeholders because they were persuaded that Grenada and Indonesia could jointly control supply and prices in the nutmeg market. The formation of ASPIN in Indonesia to coordinate export of nutmeg and the support and persuasion of the CEO of Catz International, Mr. Huietma from Holland, were instrumental in reinforcing the stance of these stakeholders (Interviews with Renwick 5 August 2006; Lord19 March 2015; Logie 17, April 2015; Moermon 20, May 2010).

The literature review highlights conditions necessary for the formation and survival of cartels (see section 3.3). The primary stakeholders in the GCNA believed that these conditions could be created in the global nutmeg market by GCNA and ASPIN. The formation of GCNA in 1947 and the formation of the ASPIN in 1985 appeared to provide the "legal" conditions for the formation of the cartel, while the fluctuating and low prices provided the economic incentive to enter into an agreement (Filson, Keen, Fruits and Borcherdeng, 2001; Brizan, 2003).

The desire on the part of the primary stakeholders in GCNA to increase prices for nutmegs was reinforced by the wish to improve farmers' incomes and livelihood (interview with Renwick 20, June 2006) and to contribute to improving the balance of trade which was in deficit between 1980 and 1985 and worsening over this period as shown in Chapter 2 (see section 2.3 and Table 2.6). This situation was a major concern to policy makers at the time (Interview with Brizan,   20 June, 2007)

George I. Brizan (Interview with Brizan15 May, 2005, and 20 June, 2007) argued that among the reasons for commodity agreements, such as that attempted by GCNA and ASPIN, is to allow developing countries to gain control of their own resources and stabilise prices and improve the terms of trade for poor countries exporting primary agricultural commodities.

5.1.3 Indonesia's Balance of Trade

The trade balance and terms of trade reasons for the nutmeg marketing agreement were not as relevant for Indonesia which had balance of trade surpluses since the 1960s. Additionally, unlike Grenada, nutmeg was not a major national export commodity[i]. Therefore, the motivation for the marketing agreement is focused on achieving higher and more stable prices for nutmeg producers. The relatively low importance to Indonesia of nutmeg in relation to the rest of the economy may be an explanation for the end of the agreement after a short duration.

Unlike Grenada, Indonesia's balance of trade has been in surplus since the 1960s, averaging USD764.55 million, with average economic growth of 3.7 per cent annum (www.eaber.org). Additionally, unlike Grenada, nutmeg was not a major national export commodity[ii]. It therefore means that the income obtained from the sale of nutmeg was of less importance to Indonesia's national income and development than that of Grenada. Therefore the deteriorating terms of trade argument for the formation of the Agreement for Indonesia was not a major condition, as far as Indonesia was concerned. One would therefore argue that the major factor for Indonesia's involvement in the cartel were the prices obtained by the nutmeg exporters (Thiatien, 1995), who were the primary stakeholders in the global nutmeg trade.

Table 5.1 below shows that export earnings for Indonesia declined from US$23,348.0 in 1981 to 18,689.0 in 1983 but rose slightly (11.0 per cent) in 1984 to US$20,754.0 but declined again in 1985 to US$18,527.0 Million. During the same period, imports increased from US$16,542.0 million in 1981 to 17,726.0 in 1983 but declined in 1984 and 1985 to US$15,047.0 in 1984 and US$12,705.0 in 1985. As a consequence, the trade balance (visible – goods and services) declined from US$6,806.0 in 1981 to US$963.0 in 1984, a decline of US$5,843.0 or 85.0 per cent. However, by 1985, the trade balance increased to US$5,707.0. Despite the trade surplus experienced by Indonesia during the period under review, there were years when exports declined (1982, 1983 and 1985 by 15, 5 and 11 per cent respectively).

Table 5.1 Indonesia Balance of Trade 1981 - 1985

Year	Exports (US$)	% Growth	Imports (US$)	% Growth	Trade Balance - (US$)
1981	23,348.0		16,542.0		6,806.0
1982	19,747.0	-15	17,854.0	-8	1,893.0
1983	18,689.0	-5	17,726.0	0	963.0
1984	20,754.0	11	15,947.0	-15	5,707
1985	18,527.00	-11	12,705.0	-16	5,822.0

Source: Satiotomo (1998) citing International Financial Statistics Yearbook, 1986.

5.1.4 The Global Nutmeg Trade and Global Price Behaviour of Nutmeg 1980-1985.

Nutmeg is a commodity that is produced in developing countries but consumed mainly in developed countries, and as such its demand and price condition will exhibit the inherent problems of commodity trades between developing and developed countries such as, fluctuating demand, unstable and generally low prices, and technical and non-technical barriers to trade (Le Clair, 2000; Krugman, 2011).

The global production of nutmeg is estimated to be 9,000–12,000 metric tons and of mace 1,500-2000 metric tons (Interview with Brizan, 20 June,2007) with Indonesia supplying 80 per cent and Grenada 10 per cent, with marginal amounts produced by Malaysia, India, Sri Lanka and Papua New Guinea. The major nutmeg consuming countries are the United Sates (15 per cent) and Europe (64 per cent), with Japan, Nigeria, Vietnam and Saudi Arabia being the other noted consuming countries (Interview with Brizan, 20 Iune, 2007).

Table 5.2 shows the level of exports, earnings and price per kg obtained by both countries for the export of nutmeg during the period 1981–1985. It shows that both Grenada and Indonesia supplied the nutmeg market with 44,112 kg of nutmeg over these five years. With Indonesia supplying 32,401 Kg, while Grenada supplied, 12, 711 Kg. Indonesia supplied 71 per cent of the supplies and earned 67 per cent of the income, while Grenada supplied 29 per cent of global supply and earned 33 per cent.

The amount of nutmeg supplied in the above table does not match the general stated global supply of shared production between Indonesia and Grenada of 80/20 percentage respectively. This amount can and does vary from year to year depending on production conditions, such as climatic, production of trees in the two countries and demand conditions in the importing countries. Nonetheless, the percentages accredited to both countries reflect the general trend over time and not necessarily a year on year determination.

According to Logie, former Secretary and General Manager GCNA (1988-1995), approximately 80–90 per cent of Grenada's nutmeg was sold to the European Market, 15per cent to North America and the balance to the rest of the world (Interview with Logie 5 April, 2005). According to the Daniel (1994), the distribution network for nutmeg has been influenced by the dominant position of the two suppliers in the market (Grenada and Indonesia), in that Grenada (GCNA), worked through a few major buyers such as Catz International and Fooks and French (Grenada selected a sole agent for Europe, Canada and the USA in 1988), and Indonesia's nutmegs were sold mainly to Netherlands, Germany, Japan, UK, Saudi Arabia and the USA, while Sri Lanka sold to Kuwait, and Bahrain and Papua sold to the Netherlands.

According Lord and Robertson (interviews with Lord, 19 March, 2014. Robertson 20 August,2006), annual global supply for nutmeg in the 1980s/1990s0s was estimated to be 9,000 tons, which was generally below world average of between 10,000 and 12,000 tons per year, while consumption was estimated to be around 8,000–9,000 tons. Therefore, there was an oversupply of nutmeg of approximately 3,000 tons per year on the market which was reflected in the price received by the two suppliers.

The global oversupply of nutmeg inventory was generally held by two sets of key players in the GVC nodes: the suppliers like the GCNA and foreign agents and brokers who also purchased for speculative purposes and/or held stocks to meet unexpected demand. In the case of the GCNA, by June 1984, they were holding 6,401,191 lbs of nutmeg, valued at EC$3,734,920 (GCNA Financial Statement & Trading Summary, 1984)

Despite Indonesia's higher sales volume as compared with Grenada's, the latter received a higher price per kg for its nutmeg, ranging from US$1.76 in 1981 to US$1.29, except in 1985 when Indonesia received US$1.38 per kg and Grenada US$1.29 (Marks and Pomeroy,1995). This general difference in prices (Interviews with Moermon, 22 October 2009; Hachamoff, 10 October 2008) was because of the better quality of Grenada's nutmeg, as reflected in the amount of aflotoxins contained per 100 kg of nutmegs (Dr. David Drown, Minutes of the Board Meeting, August 19, 1986).

Table 5.1 shows that both countries were experiencing declining export prices and total income from the sale of nutmeg between 1980 and 1984. This decline in prices could be attributed to the effect of the global economic downturn during the mid-1980s. Table 5.4 shows that between 1981 and 1984, both Grenada and Indonesia appear to have compensated for the falling prices by increasing their supplies of nutmeg (see table5.1). In the case of Grenada, exports increased by 91 per cent from 1.721 million kg 1981 to 3,284 million kg in 1985. The increase in price in 1985 could be attributed in part to the news of the signing of the Memorandum of Understanding between Grenada and Indonesia (Interview with Moermon 20 October, 2009).

The above discussion focuses on prices since the low farm gate prices appeared to be the proximate cause for the intensification of efforts to form the Agreement with ASPIN. the level of satisfaction of members of the GCNA with its Board of Directors is assessed to a large degree by the level of advance prices and bonus payments they receive for their nutmegs (anecdotal evidence). The global price situation, as reflected in the fluctuating and low prices provided the immediate catalyst for the external stakeholder and principle buying agent, Huitema, the then CEO of Catz, to call for a joint agreement between the GCNA and ASPIN on the one hand, and Ferguson, Board member of the GCNA on the other, to suggest to his colleagues that,

> "someone should go to Indonesia every year to obtain first-hand information on the situation there," (Minutes of Board meeting July 23, 1985).

Ferguson's recommendation seems to suggest the lack of sufficient and appropriate information asymmetry which the GCNA Board and certainly himself was feeling which in turn gave them the feeling that they were unable to control the market as they would have liked.

During the period under review the joint total volume of nutmeg nutmegs exported from Indonesia and Grenada amounted to 45,112 Million Kilograms at a value of US$52,542 Million, with Grenada receiving a slightly higher return per pound of nutmeg.

Table 5.2 Indonesia and Grenada Volume and Value of Export in Nutmeg, 1981-1985

Indonesia				Grenada		
Year	Volume	Value	Unit Value ($/Kg)	Volume	Value	Unit Value (US$/Kg
	Million Kg	(US$ Million)	Average Price per Kilo	Million Kgs.	(US$ 000)	Average Price per Kilo
1981	5,557	6,374	1.15	1,721	3,035	1.76
1982	7,723	6,254	1.07	2,040	3,086	1.51
1983	6,284	6,732	1.07	2,774	3,732	1.35
1984	6,717	7,410	1.10	2,892	3,257	1.13
1985	6,120	8,442	1.38	3,284	4,220	1.29
Total	32,401	35,212	1.15	12,711	17,330	1.41

Source: Marks and Pomeroy (1995).

The above discussion reflects a structural problem faced by the nutmeg industry; the general fluctuating but downward trajectory in market price conditions for which the primary stakeholders in the GVC, both in GCNA and ASPIN, would seek to exert control over supply and price by ensuring that they took collective actions to first stabilise prices and then to influence them upwards. In order to do so, they required some form of organization to act as a cartel, and hence their perseverance to work towards a mechanism which was established in 1986.

5.1.5. Trading and Financial Performance of the GCNA, 1980–1985

This sub-section addresses another of the factors – the trading and financial situation of the GCNA during the period 1980-1985, which provide evidence on the historical and proximate causes for seeking closer market collaboration with Indonesian exporters. It details the fluctuating but general downward trending of prices and income received by the GCNA and its membership. The section presents data on the proportion of income shared between the GCNA and farmers during the period, though some of the income retained by the GCNA is to meet the costs of receiving, processing and selling and operating the GCNA.

5.1.5.1 Export Price Received by the GCNA and Paid to Farmers (farm gate price)

Table 5.3 indicates the export price per unit received by the GCNA and the percentage changes, the amount paid to the farmers and the percentage of shared export earnings between the GCNA and the farmers for the period 1980–1985. The table shows that the price per pound of nutmeg declined from EC$2.48 to EC$1.35 in that period, a decline of

45.6 per cent. It also shows the volatility of the price received by the GCNA and shared with the farmers ranging from a difference of EC$1.03 in 1980 to EC$0.27 in 1985. In other words the farmers received between 42.6 (1982) and 78.7 (1985) per cent of the per pound price of nutmeg received by the GCNA. The declining export price received by the GCNA was generally accompanied by a reduction in the farm gate price received by the farmers,

As indicated in chapter 2, GCNA membership received two types of payments per year: the first being the advance payment, which they received when they conducted a sale with the GCNA (See Table 5.3); the second type of payment they received at the end of the GCNA trading year was the bonus payment, which was a share of the GCNA's annual trading surplus. This bonus was paid to the farmers around the third week of December (See table 5.3).

Table 5.4 shows that the advance price per pound of nutmeg received by the farmers declined by 54.0 per cent between 1980 and 1983 and by 61.0 per cent from 1980 to 1984. However, there was an upturn in price to EC$1.08 or 82.3 per cent in 1985 as compared to 1984. This fluctuating but generally declining price trajectory was described in the following terms by Lord (Interview with Lord, 19 March, 2015.), the former General Manager of GCNA,

> "…as the lowest prices received by the GCNA and the farmers for over 10 years, a situation which could not be allowed to continue. A solution had to be found and, as such, the offer from ASPIN was timely and God-sent."

Therefore, the fall in price was a strong catalyst for the creation of the nutmeg cartel and psychologically prepared GCNA for the offer from ASPIN, so much so that when the offer came Lord saw it as divinely inspired/ orchestrated, rather than looking closely at all the socio-economic and political parameters and ramifications involved (Interview with Lord 19 March, 2015).

Table 5.3 Export Price per lb of Nutmeg Received by GCNA and paid to farmers, 1980-1985

Table 5.3 Export unit price received by GCNA and Paid to farmers (EC$)			
Year	Export Price per pound in EC$ received by GCNA GCNA	Price per lb paid to farmers by GCNA (EC$)	Percentage differences between what GCNA received and paid to farmers
1980	2.48	1.45	41.5
1981	2.26	1.28	43.4
1982	1.93	0.86	55.4
1983	1.60	0.80	50.0
1984	1.41	0.90	36.2
1985	1.35	1.08	20.0

Source: GCNA Trading and Financial Reports 1980-1985

The above trading situation within the GCNA resonates with the findings of Davririno and Ponte (2005). This was an untenable situation, as the continuing relatively high farm gate prices to farmers as a proportion of the total export price would lead to financial problems for the GCNA, if the situation were not reversed. The prices reflect a political strategy on the part of Board members to maintain the support of the farmers for re-election purposes, and in the broader socio-economic context to maintain a certain level of income among farmers and safeguard national peace, given the large numbers of nutmeg farmers and families across the six parishes of the state (Interview with Brizan, 12 May, 2007).

The declining prices received by the GCNA as well as that transferred to the farmers, would have had all primary stakeholders contemplating possible actions to stem such decline

5.1.5.2 Bonus Payments Received by farmers during the period 1980 – 1985

As indicated previously, the Nutmeg Ordinance of 1947, sections 56 and 62 (2), respectively, provide for two sets of payments (advance and bonus) to be made to the primary stakeholder farmer group of the GCNA.

It is therefore important to highlight the extent to which the farmers' stakes were served. Table 5.4 shows that the farmers received EC$13,869,843 or 21 per cent of GCNA's income of EC$ 64,948,676 by way of bonus payments, during the period 1980-1985. It further shows that the payment declined from EC$4,369,467 in 1980 to EC$1,203,000 in 1984, and to zero payments in 1985. The highest percentage of payment was distributed in 1981, when 41.0 per cent of the income was paid and the lowest of 10 per cent was paid in 1983, despite the increased income. The reason for this low payment was found in the 1983 Trading & Financial Report, which stated that this was "as a result of the continuing worldwide economic recession and tight money market" (GCNA Financial Statement and Trading Summary Report, 1983). The lack of bonus payment in 1985 reflected the poor trading and financial performance of the GCNA during the 1984-85 financial year. Additionally, the GCNA paid a high per cent (74.7 per cent) of their export income to farmers by way of the advanced payment. This would have depleted the resources of the GCNA and its ability to make its usual bonus payment in 1985, as well, of reserve or emergency funds, provided for by the Grenada Nutmeg Ordinance 1947, but which never materialised.

Table 5.4 Bonus Payment Received by Farmers as a Percentage of GCNA Export Income, 1980–1985

Year	GCNA Export Income (EC$)	Bonus Payments to Farmers (EC$)	Advanced Payments to Farmers (EC$)	Total Payments to Farmers (EC$)	Farmers' Share of Income (%)
1980	11,839,000	4,369,467	5,068,528	9,437,995	79.7
1981	9,786,726	3,997,656	4,751,660	8,749,316	89.4
1982	10,640,716	3,099,720	5,228,020	8,327,740	78.3
1983	11,736,305	1,200,000	3,336,748	4,536,748	38.7
1984	8,478,401	1,203,000	4,422, 374	5,625,374	66.3
1985	12,467,528	0	4,673,414	4,673,414	37.5
Total	64,948,676	13,869,843	23058370	41350587	63.7

Source: GCNA Annual Financial Statements and Trading Summaries 1980 –1985

5.1.5.3 Summary of Payments to Farmers as a Percentage of GCNA's Income, 1980-1985

As shown in tables 5.3 and 5.4 the GCNA paid farmers 63.7 per cent of the income earned during the period, ranging from a high of 89.4 per cent in 1981 to 37.5 per cent in 1985. During the period 1980 to 1982, the GCNA paid in excess of 78.0 per cent of their total income to the farmers. These payments reflected the relatively high income received by the GCNA during those years.

The low payout was due in part to the volatile trading performance in prior years, as well as the increase in direct expenses from approximately EC$3,000,000 in 1984 to EC$ 5,000,000 in 1985, an increase of 67.0 per cent (Interview with Logie, 17 April 2006). The total payments made by the GCNA to the farmers however, does not seem to follow any particular pattern or deliberate policy as stated in the Nutmeg Ordinance, but more so the aspirations of the Board of Directors at that time (Interview with Logie, 2 April 2015)

It therefore meant that with a membership of an annual average of 6,000 farmers and their families (accounting for approximately 30 per cent of the island's population of 100,000), each farmer-household received an average of EC$6,891.76. Given that farmers were interested in cartelisation in order to improve the prices received for nutmeg, one can deduce that they deemed this amount insufficient. They expected cartelisation to increase their average annual income and improve their socio-economic status.

5.1.5.4 Trading and Financial Performance of GCNA, 1980-1985

Table 5.1 shows that during the period under review, the GCNA exported 17,330 Kg or 29,234,479 pounds of nutmeg or 86 per cent of the quantity of nutmeg available for export, and 2,315,713 pounds of mace, of the available 2,704,251 pounds or 85.6 per cent of the quantity of mace available for export. During the same period the GCNA earned EC$64,948, 676, and paid to the farmers a total of EC$41,350,587 or 63.7 per cent of total income earned.

The above discourse highlights the volatile but declining earnings which the GCNA was receiving during the period, a critical factor that created the basis for the creation of cartels, since cartels are likely to be formed when the market price falls below a desired level or below a level that people perceive as fair (Moxnes, 1989; Brizan, 2003; OECD, 2007; Le Clair, 2010).

The declining export price received by the GCNA and passed on to the farmers by way of declining advance and bonus payments (see table 5.3 ..) was a significant factor that propelled the GCNA Board of Directors into attempting to forge the marketing agreement with ASPIN of Indonesia. One of the ways agricultural policy makers have attempted to stop such declining income and welfare gains is through regulations which can be considered to be anti-competitive and in this regard, politicians can be swayed by their constituencies to use government-owned or influenced businesses for revenue-raising purposes (Baumfield, 2016)

The fluctuation and decline in prices were experienced both by Grenadian and Indonesian exporters. In Grenada's case, the fluctuations in price and income started in the late

1970s and continued into the 1980s. They led the Board of Directors to make the following commentary in its 1980 Annual Report:

> "In view of yet another substantial drop in the trading surplus, as compared with the years 1976 to 1978, and with a view to boosting the Reserve Fund the surplus for distribution to the growers, the board has given serious consideration to the financial hardships being experienced by growers because of the inflationary cost of living generally and the steep rises in all agricultural inputs (fertilizers, transportation, labour, etc.) and to the difficult position of those producers who suffered damage to their nutmeg cultivation by Hurricane Allen in early August. On the other hand, the board had to take into account the possible consequences of a cash liquidity problem being caused by too large a depletion of the reserves in view of the unfortunate fact that revenue from trading thus far for the current year from July 1980 is falling even below last year's and with the market outlook continuing to be very discouraging."

(GCNA Financial and Trading Summary, 1980, p15).

In 1983, the GCNA experienced a slight recovery over the previous two years in quantity exported (see Table 5.4), but at a lower price per pound as compared with the previous two years. This 1983 Financial Statement and Trading Summary highlighted the state of the market by concluding the following:

> "The market for Nutmegs remained very depressed during the year under review as a result of the continuing world-wide economic recession and tight money market… The Association was able to export greater quantities of Nutmegs than the previous year, albeit at slightly lower prices due to stiff competition and selling pressures from Indonesia, and other principal producers."

GCNA Financial Statement and Trading Summary, 1983, p15.

This trading and financial situation continued into 1984 as indicated in table 5.10, resulting in the following comment by the GCNA:

> "The market for nutmegs continued to be depressed during the year under review and this resulted in a fall in both the quantity and value of nutmeg exported."

GCNA Financial Trading and Summary Report, 1984, p.15.

During the period 1980 - 1985, the GCNA produced 31,456,412 lbz of exportable nutmeg and 2,707,251 of mace, of which 29,234,479 pounds or 92.9 per cent of nutmeg and 2,315,713 lbs or 85.6 per cent of mace were exported, generating income of EC$68,742.080 or an average of EC$13,748.416 per annum year, in the midst of depressed market conditions and economic recession. The farmers' share of earnings amounted to EC$41,350,587 or 63.7 per cent. The poor trading and financial situation of the GCNA, which led to the conclusion by the Board, demonstrates that the GCNA was in need of a sales solution that would render a stable and increasing income, and as such, any proposal that seemed to provide such a benefit received a positive response.

An indicator of how the GCNA managed in the short term interest of farmers as primary stakeholders, and how the objective of pursuing the interest of farmers led to the formation of the marketing agreement could be seen from the payments made by way of its annual bonus payments and the overall payments received as a percentage of the overall income received by the GCNA (see table 5.4).

5.2 Formation of the Joint Marketing Agreement

This section will address the following

1. The decision-making processes of primary stakeholders (the GCNA Board of Directors) and the role of Catz as a key interlocutor in forming the cartel;
2. The formation of ASPIN International and the formation of ASPIN (Indonesia) (1980 – 1986);
3. The negotiation between GCNA and ASPIN (talk and text between the parties) leading to the formation of the cartel; and
4. The Memorandum of Understanding and Joint Marketing Agreement between the GCNA and ASPIN.

5.2.1 The Decision Making Process and its Implications for the Attempting to Form the Nutmeg Cartel

Chapter 3 (Research Methodology) and Appendix 4 highlight the process by which the archival data were treated, using an integrative theoretical approach that includes Langley's (1999) sense-making method to treat and classify data chronologically in columns as a form of temporal bracketing. The narrative provides elaboration and interpretation. The talk and text evidence related to the formation of the cartel is presented in the rest of the chapter. Chapters 6 and 7 address the operation of the Marketing Agreement while it was in existence and its collapse respectively.

In order to better understand the talk and text and locate the various stakeholder groupings in the context of the formation of the cartel, it is useful to understand the stakeholders from the perspectives of: (a) who they were and their classification; (b) what were their stakes and who had a right to such stakes (Mitchelle, Agle and Wood, 1997), in the GCNA in particular, and the nutmeg industry in general, and (c) how well their expectations were met via the operations of the GCNA-ASPIN Marketing Agreement. A key question is concerned with the impact of these stakeholders on the decision-making of the GCNA. It is also useful to understand the following concerns: in whose interest was the cartel being formed? Who were the expected beneficiaries? And were there conflicts of interest based on the stakeholder groupings? In order to better understand the above issues, the stakeholder analysis was applied.

Table 5.5 summarises the interests of the various stakeholders with a focus on the primary stakeholders and how their objectives relate to the formation of the Marketing Agreement. It forms the basis for the later examination of the operation and end of the Marketing Agreement. Jensen (2001) argues that if stakeholder theory should seek to pay attention to all groups/constituents that would not attainable The validity in our use of table 5.5 lies in its power to identify the stakeholders, and with the appropriate tools, use it to unearth the objectives or perceived stakes/interest of the stakeholders. Moreover, it helps to establish which stakeholder groups are most important and carry most influence by virtue of their urgency, power and legitimacy in the formation of the Marketing Agreement.

Table 5.5, while seeking to present the theoretical stakeholder analysis framework for determining the stake of each group, also provides and brings to the fore the issue of who or what really counts, and therefore shows the conflicts of interest that exist when dealing with relevant stakeholders in the decision-making process, as it relates to the creation of the nutmeg cartel (Argle, Mitchell, and Sonnenfeld, 1999). The use of the above stakeholder framework helped the researcher to identify 12 key stakeholder groups within the GCNA construct, consisting of nine national and three external (foreign-based) stakeholder groups. On the basis of the above framework, the four most important stakeholders of the GCNA in order of priority are: the membership of the GCNA; the Board of Directors; the Government; and the trading agents. The 12 groups of GCNA stakeholders have been further categorised into primary and secondary groups, based on the classification by Mitchell, et al (1997).

The primary group of stakeholders comprises the following:

1. Board of directors
2. Membership of the GCNA
3. Government
4. Management
5. Financial intermediaries (banks)
6. Trade agents/brokers
7. Staff/employees.

The secondary group of stakeholders comprises the following;

1. Competitors
2. National community
3. Media
4. Suppliers of non-product inputs.
5. Retailers
6. consumers

Among the members of the primary stakeholder group, the GCNA Board of Directors is of critical interest to this thesis. . It is useful to understand the profile of this group in order to describe their interest and influence, and relate their contributions to the debate on the formation of the nutmeg cartel. Table 5.6 presents the profile of the GCNA Board Members and Management, their stake in the GCNA and in their attempt at the formation of the cartel (1985-87).

Table 5.5 Determining Stakeholders' Stake in an Organization

Stakeholders (Primary)	Basis of Relationship			Objectives of Stakeholder
	Power	Legitimacy	Urgency	
1. Board of Directors	Coercive – force or threats can be applied to other stakeholders Utilitarian – material / incentives can be provided to other stakeholders, e.g., the level of advanced payment and bonus payments to be paid to farmers, renewal of agent contracts, salary increases to staff.	The bases for legitimacy was established by powers vested in the Board from the Nutmeg Industry Act 1947.	Criticality – the time-bound nature of advanced payments and bonus, as well as the deadlines set for the execution of tasks by managers.	Increased export prices, stable prices, increased annual bonus, maintaining the power/legitimacy and influence of the Board, i.e. maintaining the status quo.
2. Membership (nutmeg farmers)	Coercive – threat of not electing or re-electing individual members to the Board of Directors, or to threaten to sell to would-be competitors. Normative – to attend the annual general meeting of the GCNA, Utilitarian – to influence managers and staff salary.	The right to vote at AGMs to elect members to the Board of Directors, as established by the Nutmeg Industry Act, 1947, and exercise national political influence. As individuals, they all have property rights to the assets of the cooperative. They are the sole suppliers of the cooperative products. Without them the cooperative will cease to exist.	Time – demand for immediacy of payment for crop delivered, and payment of annual bonus.	High pay-out of advanced payments and annual bonuses. Low or restrained payment to staff, agents and other service suppliers. Financial support from government in times of need.
3. Government	Coercive – high, can force changes to legislation or "take-over" control of the Board of Directors	As established in the Nutmeg Industry Act, 1947	Timely payment to farmers as a means of maintaining economic and social stability. Since the GCNA pays no taxes,	Maintenance of the industry as a source of income to farmers and the maintenance of economic and social stability.

Stakeholders (Primary)	Basis of Relationship			Objectives of Stakeholder
	Power	Legitimacy	Urgency	
			there is no income to the Government from the GCNA.	
4. Management	Normative – managers are symbolic leaders of the GCNA, since the real responsibility for the management is entrusted to the Board of Directors	Individual – based on qualification or competence, and as delegated by the Board of Directors.	Criticality – maintenance of the relationship between the cooperative (Board of Directors) and all other stakeholders	Job security
5. Local Financial Intermediaries	Coercive – threaten to withdraw financial services such as overdrafts or to facilitate loans. Utilitarian – offer attractive rates of interest on loan and other financial products and services.	Societal – a fundamental institution of society	Time sensitivity – timely payment of GCNA's accounts	To maximize earning opportunities for conducting business with GCNA
6. Staff/Employees	Coercive – threat of strikes, or other forms of industrial actions. Utilitarian – necessary to facilitate the workings of the cooperative.	Individual – competence, qualification, etc. Organizational – employment of contract	Time sensitivity – timely completion of all tasks relating to the purchasing and exporting of nutmeg	Higher salary, greater benefits, and compensation.
7. National Community	Coercive – threaten to initiate action to change the legal shield of the GCNA – break the monopolistic. control of the industry	Societal	None	Maintain GCNA as a source of employment, foreign exchange earnings.
8. Suppliers (Non- farmers)	Coercive – non delivery of key inputs such as bags, insecticide, etc.	Organizational - as suppliers of inputs.	Time sensitivity - ensure timely delivery of supplies.	To maximize revenue from GCNA, and maintain GCNA as a customer.

Stakeholders (Primary)	Basis of Relationship			Objectives of Stakeholder
	Power	Legitimacy	Urgency	
9. Media	Normative – symbolic influence, exerts little or no influence on the GCNA or other stakeholders.	Societal – as a vital institution of society. Organizational – based on public reputation.	Time Sensitivity – expectation that request for information would be forthcoming from the GCNA.	To obtain news worthy stories from or about the GCNA.
Secondary Stakeholders				
1. Trade Agents	Utilitarian – they are critical in finding buyers, establishing export prices. Normative – representative of the GCNA on the international market.	Organization – as contracted by the Board of Directors for purposes of making sales for the GCNA.	Time sensitivity – they must ensure that nutmeg is delivered to the customer on time and that claims made by buyers are attended to in a timely manner. Criticality - timely settlement if claims and delivery of products are necessary for good relationships.	To secure markets, enter into sales contracts and earn higher commissions/profits.
2. Competitors	Coercive – threat to undercut world prices. Utilitarian – offer of colluding on world prices.	A source of competitive products.	Virtually non-existent in dealing with GCNA.	To obtain higher prices than GCNA or to collaborate with the GCNA to eliminate competition.
3. Wholesalers	Coercive – could use marketing intelligence information to manipulate prices, unknown to the suppliers, with whom they	A key source of marketing information, may also supply grinders/processors of industrial and domestic oils	Non-existent with the GCNA	To obtain the lowest prices and thus allowing them to maximize prices from the retailers. Their

Stakeholders (Primary)	Basis of Relationship			Objectives of Stakeholder
	Power	Legitimacy	Urgency	
	have no relationship Utilitarian - Knowledge of the market including key buyers and thus the ability to influence prices	and other value added nutmeg based products		role as middlemen in this trade is to maximize income at the expense at those in the value chain who come before and after them.
4. Retailers	Utilitarian – possess knowledge of final consumers, their changing tastes and behaviour. This information is critical in informing production and supply issues	A key source of consumer information and provider of supplies to the final household consumer. They also supply value-added nutmeg-based products to the final consumers	Has no direct relationship or claim to the GCNA but are critical holders of key marketing intelligence and information. Their activities can impact on global prices	To ensure that they have a consistent supply of nutmeg-based products at a price and quality that their consumers are willing to pay
5. Consumers	Final consumer of the products and bi-products of nutmegs. If they do not buy the products there is no market for nutmeg	Buyers of nutmeg and bi-products or value added products from nutmeg.	Criticality- the demand for the products are time bound and should attain certain quality standards.	To obtain the highest quality product at the lowest price.

Sources: Researcher using aspects of Mitchell, Agle and Wood, (1997, pp.869) and key constructs in the Theory of Stakeholder Identification and Salience.

Table 5.6 Profile of the Composition of GCNA Board Members and Management, their Stake in the GCNA and Cartel, 1985-1987

Source. Developed by the researcher

5.2.2 The Story of the Attempts to Create the ASPIN-GCNA Marketing Agreement

The narrative of the attempts to create the cartel is based on the findings from the archival records, financial reports and interviews with key stakeholders from GCNA and three international nutmeg traders. The story is sequenced in a mostly chronological order, noting the key events, incidents and relationships, tapered by congruent and conflicting interests and set against the backdrop of a nutmeg market that was experiencing fluctuating but generally declining prices. The interests of the different players have shaped the outcome in an interesting way.

The story of the failed attempt at forming the first nutmeg cartel will also be told using the following: Langley's (1999) temporal bracketing and narrative framework; Van de Ven and Ring (1994) framework on business relationship development; Levenstein and Suslow's (2006) cartel formation; Mitchell, Argle and Wood's (1997) stakeholder identification and strategy; and the negotiation phases from Corvette (2006).

The report on the text and talk, which occurred during the development and demise of the ASPIN-GCNA Joint Marketing Agreement between the two organisations, is presented using Langley's (1999) bracketed timeline in a chronological order. It forms the narrative of this chapter. The table which contains the snapshot of events and the timelines is presented below in table 5.7, a brief summary of the events that occurred leading to the development of the cartel between the ASPIN and the GCNA, as well as the actions on the part of the stakeholders in that regard.

The timeline is divided into six major columns: Column (1) identifies the date of the events, column (2) the event(s), column (3) the nature of the event(s), column (4) the consequences of the event(s), and column (5) highlights the stage of the relationship, at the time of the event, while column (6) indicates the influence of the particular stakeholder group on the event. The timeline is then extracted from 5.7 and detailed in the narrative presented below.

Table 5.7 Temporal Bracketing of Events Leading to the Development of the ASPIN-GCNA Marketing Agreement

Column 1 Date	Column 2 Event / decision/action	Column 3 Influencing factors:	Column 4 Consequences / outcomes	Column 5 Stage /Description of relationship	Column 6 Stakeholder Group Influence
				Pre-negotiation Phase 1947 - 1986	
1947	Legislation Agreed to the formation of GCNA	The formation of the GCNA laid the basis for the development of the agreement between the GCNA & ASPIN.	Grenada established a single authority for the purchase and export of nutmeg and mace	The relationship was not perceived at the time of the formation of the GCNA. This was a single domestic entity, on its own.	Nutmeg farmers and Legislature (Government)
15/03/1979	Visit to Indonesia by the Secretary of the GCNA – Robin Renwick	Recognition on the part of the GCNA that there is a need for joint marketing cooperation between the two major producers. The inspiration came from the oil cartel and their ability to control supply and prices.	Increase personal understanding of the market by the actors, and a verbal undertaking by the Indonesians to consider a possible relationship in the future	Pre- Negotiation, Ring and Van de Ven (1994), on the general concept of inter-organizational relationship as an instrument to exerting control on the international market for nutmeg.	Action was initiated by Board of Directors of the GCNA, with the support and urgings of Huitema, CEO, Catz International.
26/03/1985	Formation of ASPIN by Decrees 107 & 108	Intervention by stakeholder Huitema of Catz International in order to secure his business	Laid the institutional framework for the formation of the cartel between	Negotiation/commitment phase on the part of Indonesian Nutmeg Exporters, (Ring and Van de Ven (1994).	The key stakeholder in this action was the Government of Indonesia, after years of support

Column 1 Date	Column 2 Event / decision/action	Column 3 Influencing factors:	Column 4 Consequences / outcomes	Column 5 Stage /Description of relationship	Column 6 Stakeholder Group Influence
		interest. Desire on the part of Indonesian exporters to obtain a higher price for nutmegs.	Grenada & Indonesia. Indication of commitment for further actions through formal legal contracts.	This involved an increase level of negotiations with the internal actors in Indonesia as well as GCNA and Catz International	from Catz International.
10/01/1986	Correspondence received from ASPIN expressing their desire to cooperative with GCNA in trading nutmeg and mace on the world market	:Need to control world prices for nutmeg	Catalyst in moving the process to establishing what became known as the nutmeg cartel	Offer of the process of negotiation between GCNA and ASPIN	ASPIN Catz International was the key obvious stakeholder in this action
12/04/1986	General Assembly of ASPIN through Executive Order No.41/KP111/1986 – approved the ASPIN's Corporate Plan	Existing at the time prior to, and at the time of, the agreement.	Obtained general consensus from the membership of ASPIN for its work program	Negotiation phase within ASPIN's Membership, (Ring and Van de Ven (19974). This event added to the confidence of ASPIN but its direct effect on the process of developing relationship is	This stakeholder action was initiated by membership of ASPIN with the support of the Indonesian Government

Column 1 Date	Column 2 Event / decision/action	Column 3 Influencing factors:	Column 4 Consequences / outcomes	Column 5 Stage /Description of relationship	Column 6 Stakeholder Group Influence
				neutral.	
				Negotiation Phase (ASPIN-GCNA), 1986-1987	
10/09/1986	Delegation from Grenada visited Indonesia to complete negotiations leading to the signing of the Memorandum of Understanding (MoU).	Declining nutmeg prices and the need to explore possibilities for forming international agreement, which could lead to an upward spiral in prices?	Agreement to establish a Memorandum of Understanding (MOU). Price per pound of nutmeg Increased during that nutmeg year from EC$1.57 in 1985 to EC$4.99 in 1987.	Negotiation/commitment phase, (Ring and Van de Ven (1994). The signing of the MoU demonstrated the commitment of the two stakeholders to implementing the aspects of the relationship.	The GCNA Board of Directors and their ASPIN counterparts.
				End of the negotiating phase and commencement of Commitment Phase of the negotiation process 1987 - 1988	
26/03/1987	Signing of Joint GCNA/ASPIN Marketing Agreement in	Commodity markets are characterised by fluctuating	Consolidation of sales and contractual relationship	Commitment phase, (Ring and Van de Ven, 1994). The signing of the	The GCNA Board of Directors and their ASPIN counterparts.

Column 1 Date	Column 2 Event / decision/action	Column 3 Influencing factors:	Column 4 Consequences / outcomes	Column 5 Stage /Description of relationship	Column 6 Stakeholder Group Influence
	St. George's, Grenada.	prices, This underlying feature also characterises the Nutmeg Market, and which were exacerbated on the signing of the Joint GCNA-ASPIN MoU		agreement between the two parties represented their desire to work together for higher prices.	
1988	General Increase in Prices	The increase in prices which accompanied the signing of the agreement, from EC$ 1.35 per pound prior to signing of MoU to $6.96 per pound. Post signing of MoU	Increase revenue earnings for the partners to the agreement.	Commitment Phase Both parties implement the agreement.	Joint actions on the part of the two key stakeholders – GCNA and ASPIN.

Source. Developed by the researcher.

The above summary table forms part of the narrative on the text and talk which were captured during the field work. It reveals the motivations, acts and thinking of the various stakeholders as the relationship evolved over time, as is presented below.

5.2.3 Pre-negotiation Stage 1979–1885

Though it was not known then, the formation of the GCNA in 1947 provided the basis and instrument for the attempt at the formation of the first Nutmeg Cartel in 1986/87. As indicated in Chapter 2, the formation of the GCNA took place in response to the demand by Grenada's nutmeg farmers for an organisation that would be to their benefit. In order to bring the demand of the farmers into fruition, the participation of the legislature was necessary in formulating the legislation to establish the GCNA. Additionally, the government provided some initial start-up capital. By so doing, the government established itself as a primary stakeholder in the GCNA.

The decision to attempt to form a joint marketing arrangement (Cartel) between the GCNA and Indonesian exporters started with GCNA sending a single delegate in the person of its then Secretary and General Manager (Renwick) to Indonesia. According to Renwick (Interview with Renwick August 5, 2005), the Board of Directors of the GCNA, in its attempt to increase the earnings of farmers and to provide a stable export income, decided that such a visit should be undertaken. He visited Indonesia on March 15, 1979. The immediate purpose of the discussions with the stakeholders in the Indonesian nutmeg trade was to come to,

> "Some sort of marketing arrangement that would lead to cooperation rather than competition on the international market for the benefit of farmers and both countries."
>
> (Interview with Renwick, August 5, 2005).

With regards to the outcome of this visit, Renwick stated (Interview with Renwick, August 5, 2005):

> "I was met by Government officials… The visit served to establish personal relationships with some of the exporters from Indonesia, and to provide a better understanding of the Indonesian nutmeg industry… It laid the basis for the eventual formation of the cartel in 1986."

The first visit to Indonesia in 1979 by the GCNA marked the beginning of many years of other interactions and negotiations that would eventually lead to the formation of the GCNA-ASPIN Marketing Agreement in 1986 (Interview with Renwick, August 5, 2005). This first encounter by the two parties, according to Van de Ven (1994), marked the beginning of the pre-bargaining stage of the negotiation process.

5.2.4 The Role and Impact of the CEO of Catz International on the Pre-bargaining Stage

The role of Catz in this phase is to be seen from two perspectives: that of the GCNA and Catz itself. First of all, according to Renwick (GCNA), the Indonesia visit was encouraged by Huitema (CEO of Catz International), who had a longstanding relationship with the GCNA, from its creation in 1947. This relationship flowed over into a personal one as well, as both Renwick and Huitema stayed in each other's home while visiting each other's country, to the benefit of each other's organisation. It is believed by many in the GCNA that despite the failure of Renwick's visit to Indonesia in 1979 to establish cooperation between the two markets, Catz International continued to make representation to the Indonesian exporters to do two things: (1) to form a domestic association like Grenada's; and (2) to establish corporation between themselves and the GCNA, in order to obtain better prices on the international marked (Interviews with Messers Robinson, 25 April, 2008); Alfred Logie, April 17, 2015; and Lord, March 19, 2015) .

Alfred Logie, trained in economic planning and former manager of GCNA, also notes in Grenadian Creole English: "If there was no Huitema, there was not going to be no Cartel," (Interview, April 5, 2015), thus underscoring the influential role of Catz in the different phases of the cartelisation process of the Grenada-Indonesia nutmeg industry. In fact, Catz was viewed both by GCNA and the Indonesian exporters, at the time, as the leading global nutmeg commodity trading company, whereas more recent research by Marks and Pomeroy (1995) established Catz as the third-leading global trader in nutmeg, buying on the one hand, over 50 per cent of Grenada's nutmeg prior to and during the cartel years.

Catz used its economic relationship and its long-term preferred buyer relationship with the GCNA to influence GCNA's pricing policy. Lord. (Interview with Lord, 19, March, 2015) notes the following:

> "GCNA preferred forward sales, which was what Catz offered. Huitema would arrive in June (start of the nutmeg year) and would buy 50.0 per cent of the year's crop at a fix price for forward shipment – Catz had the power to out-purchase other buyers like Rocker & Slann, who would purchase like 75 tons – as part of the contract the GCNA would agree NOT to sell at a price lower than what Catz paid, as well as providing Catz with a quality discount of 5-7 per cent."

This evidence shows both the economic and psychological influence Catz had on the GCNA, in its move to drive the signing of the marketing agreement, with the ultimate hope of cartelisation of the nutmeg industry with Indonesia

According to Moermon - current CEO of Catz International – (Interview with Moermon 4 October, 2010), Huitema earned the nick-name of the "nutmeg man" in Indonesia because of his years of doing business there and his knowledge of the global nutmeg industry. Huitema formed the nexus and interlocutor in the relationship between the two parties; the conduit through which information flowed.

The influence of Catz International on the visit by Renwick to Indonesia in 1979 and its subsequent interventions in key decisions, within the GCNA and ASPIN, and events leading to the formation of the cartel, led Lord, a trained economist and former General Manager of GCNA (1987-1992), to conclude that what happened in 1986, was the "CATZ-A-LISATION" of the global nutmeg industry and not the cartelisation (Interview 19 March, 2015). He further proffered that,

> "all of the market information which Mr. Renwick would have presented to the Board came from the lips of Huitema,"

thus establishing Huitema as a key distributor of market information leading to key decisions by the GCNA via Renwick. Based on the data studied, no evidence was found regarding independent market research done by GCNA on the global nutmeg market.

Logie, (Interview, April 5, 2015) former Secretary and Manager of GCNA, concurred with the views of Lord on the influence of Huitema on the GCNA, with regard to the formation of the cartel. He notes:

> "Catz played on the ignorance of the GCNA; the GCNA relied on Catz for its market intelligence. The General Manager – Mr. Renwick, would receive information from Catz and use that information and his influence (based on his long years as General Manager) to influence the Board and obtain their concurrence, and that is what he did when the request for cooperation was received from Indonesia."

The above shows the asymmetry of information which existed between the GCNA and Catz. The GCNA, with no independent intelligence system to obtain market information, relied on its largest buyer to so provide, one who had conflicting interest with the GCNA. Catz's interest was to obtain the best deal (lowest price) from the GCNA, which would then allow it to sell at high prices to its buyers, while the GCNA was on a constant search for higher prices and larger sales volume. These two conflicting objectives of the two stakeholders were contradictory and would therefore impact on the longevity of the Joint Marketing Agreement, which was meant to form the basis of the cartel, as will be seen in Chapter 7.

Catz International's CEO Huitema continued his personal efforts to organize the Indonesian exporters into a similar organization like the GCNA, with the aim of establishing the institutional framework for controlling the international market for nutmeg to his company's benefit, as well as that of his producers-stakeholders. The key role played by Huitema expanded the business network beyond GCNA and Indonesia exporters to include himself and thereby effectively establishing a de facto triad leading to the formation of the cartel.

From the perspective of Catz International, Neumann (Interview, 4 October, 2009) its current CEO, the influencing factor which propelled his company to encourage the collaboration between the nutmeg producers in Grenada and Indonesia was:

> "the selfish interest of our company, which is to make more money, but this, was not only for us, for sure the farmers of Grenada and Indonesia also have the same desire to obtain a higher price for their nutmegs."

During this pre-negotiating phase between the Indonesian nutmeg exporter and the GCNA, Huitema made numerous trips to Grenada and Indonesia in order to encourage both countries to form this partnership (Interview with Neumann, 4 October, 2009). Catz deemed this to be useful since it would bring order to the market and help to increase prices, which are key objectives or the rationale for the formation of cartels (Levenstein and Suslow, 2006). Therefore, Huitema, acting as the nexus to the two major producing countries, began to negotiate the marketing arrangement, long before it happened in 1986/87, He was encouraging the Indonesians to form a legal association that would provide the basis for negotiation with the GCNA to form the world's first nutmeg cartel. With this knowledge of the market and purchasing power, he was manipulating the negotiating process and players before they agreed to discuss the possibilities of forming some sort of international agreement to control the supply and prices of nutmeg.

Moermon (Interview, 4 October, 2010), described the company and its involvement in the development of what was meant to be a cartel as follows:

> "Catz has been trading in commodities for the food industry since its formation in 1856. In the 1980s Catz trade in nutmegs consisted of 80.0 per cent of Grenada's and 20.0 per cent from Indonesia. This was so because the nutmeg from Grenada was preferred by the trade since it was deemed to be of better quality, as compared to Indonesia's. Despite Catz position as one of the largest traders of nutmegs on the international market, we were not satisfied with the prices we were receiving for the products. We therefore had an interest in increasing prices, and our profits, as well."

He continued to describe the mutual desires of the main stakeholders in the nutmeg industries in both Grenada and Indonesia, by stating the following:

> "Catz also felt that the leadership in the nutmeg industries in both Grenada and Indonesia would have an interest in taking actions that would deliver higher prices to the farmers in their respective countries."

Catz therefore felt that there was some convergence between its company's objectives for higher prices and profits on one hand, and the desire of nutmeg farmers in the two major producing countries for higher prices on the other.

Furthermore, Moermon notes (Interview, October 4, 2010):

> "There was no sense in continuing the competition between the two major producers. In Indonesia, there was intense competition with hundreds of traders and exporters, and with international competition emanating from Grenada, and therefore with such intense competition it can only lead to downward pressure on prices. It is within that context, that intense efforts were undertaken by Huitema (travelling between Grenada and Indonesia) to bring about some stability in the marketing situation."

As a result of this analysis by Catz, the then CEO, Huitema, embarked on a process of negotiation (unknown to at least the GCNA), influencing both the Indonesian and Grenadian industry leaders to establish a marketing mechanism which would regulate the global supply of nutmegs. This marketing strategy conceived by Catz was "to provide the world with just a little less than what the world required but also to increase prices." (Interview with Neumann, 4 October, 2010). This is an example of information asymmetry between the GCNA and Catz International.

Therefore the nutmeg diplomacy of Catz International in this pre-bargaining stage was to accomplish the following: set up the conditions for the GCNA and Indonesian nutmeg exporters to meet and collaborate in a long-term, cartel-like organisation to its greater benefit, while sharing the spoils with the would-be cartel participants, while in the short term, it worked to maintain good socio-economic relations with the GCNA and control/ influence its pricing mechanism. This is what Van De Ven and Scott Poole (1995; p.526) referred to when they concluded that "organizational development and change are influenced by diverse units and actors both inside and outside the organization, which means that different influences may be acting simultaneously on the organization, with each impacting its own particular momentum to the development process."

Huitema's active involvement in the nutmeg trade in Indonesia provided him with the influence he needed among the nutmeg traders in order to create the domestic mechanism for regulating the nutmeg trade in Indonesia. This would later prove to be a critical step on the way to forming the Marketing Agreement between Indonesia and Grenada. According to Neumann, (Interview, September 4, 2009), Huitema was able to convince the authorities in Indonesia that they needed to establish such an export and regulatory body for the export of nutmegs. As a consequence, the ASPIN was formed in 1986, which was followed by the GCNA/ASPIN Agreement.

Lord (Interview, March19, 2015), while agreeing that the macro trading and financial factors, mentioned in sub-section 5.2.3.4 above, influenced the formation of the Joint GCNA–ASPIN Marketing Agreement and their attempts at forming a cartel, also suggested another set of proximate reasons why the directors of the GCNA were anxious for a solution to the unstable prices it was receiving, was also due to a micro level factor - membership of the GCNA:, According to Logie (Interview 17 April,2005) “many members of the GCNA had taken loans with the Grenada Development Bank (GDB)[iii], and as such the reducing income received by farmers made it difficult for them to meet their loan obligations, which in turn negatively impacted on the profitability of the Bank.”

Therefore, the declining income received by the nutmeg farmers was beginning to affect the GDB and consequently on their ability to finance other key sectors in the country. It was having what is referred to as “contingency effect” on the operations of the bank. A situation which the government of the day (sole owners of the GDB and a primary stakeholder of the GCNA), could not have allowed the situation to continue.

Therefore, the key factors which prompted the GCNA to consider at this pre-bargaining stage the formation of a cartel-like association with Indonesian nutmeg exporters, was the need to increase and stabilise prices on the international market and the desire to earn more money for their membership by entering into a marketing arrangement, in the same way that the oil producers were doing (referring to Organisation of Oil Producing and Exporting Countries). It was the hope of the Board of Directors of the GCNA that such an instrument would be used to exert control over the price of nutmeg on the international market, according to Renwick (Interview, 2006).

From the perspective of the external stakeholder, Catz International, the trading turbulence existing on the international nutmeg market was injurious to Grenada, Indonesia and Catz - as a major buyer of nutmeg from both countries. Recognising the absence of leadership, knowledge and experience in the industry in both countries to undertake initiatives to stabilise and increase the global price for nutmeg, Huitema adopted the role of the global nutmeg ambassador to help bring about the conditions necessary to the formation of some type of marketing mechanism that would control the supply and price of nutmegs. The creation of ASPIN was integral to the commencement of the negotiation process.

5.2.5 The Creation of ASPIN

Up until 1985 the nutmeg market in Indonesia was not organised into a single unified entity similar to that of the GCNA. The development to which the above refers is the formation of an association of Indonesian nutmeg exporters aimed at controlling the export of Indonesian nutmeg to the international market. This association which came to be known as ASPIN was formed on 12 March, 1985, when the then military government of General Suharto, promulgated Ministerial Decrees No.107 and 108/KP/111/1985. These decrees, as announced by the Minister of Agriculture in Indonesia, established ASPIN as the sole export-marketing organization of Indonesian Nutmegs (Tirtawaninta, 1995.). It was an Exporters' Association, representing 46 out of the approximately 200 exporters in Indonesia -- less than 25 per cent of the total number of exporters. A legal entity had to be constituted to commence negotiations with the GCNA.

Prior to March 12, 1986, Indonesia had no central organisation for the export of nutmeg. This activity was undertaken by hundreds of operators and exporters competing against each other, which over time led to a reduction in the export price of nutmeg to the Indonesian exporters and smuggling through Singapore. In such an environment, it was impossible to undertake any initiative to collaborate with another institution. Therefore, the formation of a cartel had to be predicated on the establishment of the appropriate institution which could be the interlocutor with the counterpart organisation. For example, OPEC is made up of intergovernmental organisations. The International Cocoa Organisation is made up of intergovernmental organisations, and the International Sugar Agreement is also an intergovernmental organisation. It was therefore a prerequisite that that there should be the existence of two or more organisations before cooperation could be had, hence the necessity to have two organisations established on more or less equal footing, both in Indonesia and Grenada, to give effect to any agreement to cooperate.

In order to establish the legitimacy of ASPIN, on 12 April 1986 a General Assembly of ASPIN was convened in order to approve the corporate plan, which provided the executive of ASPIN the authority it needed from its membership to proceed with the corporate work program. By so doing, the stakeholders of ASPIN provided the legitimacy which ASPIN needed to negotiate with the GCNA for the formation of the cartel. Details on the organizational structure differences between GCNA and ASPIN are provided in Table 5.8.

This phase in the development of the cartel was characterised by the combination of three interlocking factors. First, there were the ongoing efforts at lobbying the authorities in

Grenada and Indonesia by Catz International. The second factor was the ongoing desire of the Board of Directors of the GCNA to forge this partnership with the Indonesian Nutmeg Exporters. The third factor was the heightened desire on the part of the Indonesian Exporters to receive higher prices for their products, which was a mutual objective with the GCNA. The above factors combined to give birth to the decree which established ASPIN as the single exporter of nutmegs from Indonesia.

There was little available information on the decision-making process leading to the formation of ASPIN, except the undesirability of the fluctuating but generally declining prices obtained by Indonesian nutmeg exporters and the need to reverse this trend. The formation of ASPIN however, while seeking to organise the exporters into a single authority for the export of nutmeg to the international market, had some differences to that of the GCNA, which will be looked at in the following sub-section.

5.2. 5.1 Differences in the Organizational Structure of GCNA and ASPIN

The organisational structures of GCNA and ASPIN are critical to understanding the nature, operations and outcome of their business relationship and/or “nutmeg cartel,” and to pose the question to what extent the cartel would be able to sustain itself?

As indicated in Chapter 2, in Grenada the GCNA is the sole buyer of nutmeg from the farmers, and the processor and exporter of nutmegs and mace. Unlike in Indonesia, the Grenadian farmer sells his nutmeg directly to GCNA, and GCNA then enters into sales contracts with its agents and buyers overseas. In Indonesia, the nutmeg farmer sells the nutmeg to a local merchant who then resells to a regional exporter or middleman. This middleman or exporter then allocates a portion of his sale to ASPIN, which then sells it on to Catz or another external trading company. It shows that whereas nutmeg changes hands in Grenada once before it reaches the export market, in the case of Indonesia it changes hands four times, thus increasing the export cost of the Indonesian nutmeg exporters.

Additionally, ASPIN and GCNA have some fundamental structural differences as highlighted in table 5.8. The table highlights four fundamental dissimilarities between the two organizations. First, ASPIN is a new organisation as compared to GCNA, which by 1987 had 40 years of experience in trading in nutmegs. Second, it is an exporters’ organization (non-cooperative) while GCNA is a cooperative producer organization. Third, the GCNA has domestic and export monopoly control over nutmeg, while ASPIN has “legal rights” to export nutmeg. Fourth, in Grenada, all nutmeg farmers have to be members of the GCNA, while membership to ASPIN is voluntary for exporters, and as such, only 46 out of an estimated 200 exporters were members of ASPIN.

Table 5.8 Institutional Differences Between the GCNA and ASPIN

Structural Elements	Grenada – GCNA	Indonesia - ASPIN
Legal entity	Cooperative - Grenada Cooperative Nutmeg Association (GCNA)	Association – Indonesian Exporters of Nutmeg Association (ASPIN)
Year founded	1947	1985 (officially started doing business in 1986)
Legal status	Association of producers	Association of exporters
Regulatory authority	Domestic and export monopoly	Export monopoly
Membership requirements	Owners of, or persons having, legal access to nutmeg	Buyers of nutmeg and approved for export by the Ministry of Trade
Membership	All nutmeg farmers in Grenada	46 out of approximately 200 exporters
Domestic and Trading patterns	All producers sell directly to GCNA	ASPIN buys nutmeg from less than 50 per cent of exporters via traders and middlemen
Business activity	Buys and processes green nutmegs to a dried state and exports	Buys and exports dry nutmegs and mace

Source: Developed by researcher,from data derived from Alfred Logie (Interview, 2015) and Plathe (1994)

In essence, the above shows that GCNA exercised greater control over the production, sale and export of nutmeg, as compared to ASPIN, which did not possess such vertical integration or control over the Indonesian nutmeg industry. Whereas they both had legal legitimacy, only GCNA had numerical/ producers/membership legitimacy, because ASPIN had control over less than a quarter of the market. This lack of control of the nutmeg industry on the part of ASPIN would ultimately impact on the operations and longevity of the attempts to form the nutmeg cartel. It left the door open for smuggling, cheating and defection by members of ASPIN because non-ASPIN nutmeg exporters were able to obtain higher prices outside of those given by ASPIN. In other words, the competitive fringe was getting higher prices than the Cartel members (Moxnes, 1992).

Notwithstanding the dissimilarities between GCNA and ASPIN, the formation of the latter was necessary to lay the institutional foundation and legal framework for the signing of the Memorandum of Understanding (MoU) and Memorandum of Agreement (MoA).

5.3 The negotiation between GCNA and ASPIN (talk and text between the parties) leading to the conclusion of the ASPIN-GCNA Joint Marketing Agreement.

5.3.1 Preparation and Introduction for the Indonesia Meeting

During the period spanning the receipt of the invitation from ASPIN (Minutes of GCNA Board Meeting, 10 January, 1986) in which they requested cooperation on the international nutmeg market to the departure of the GCNA delegation from Grenada to Jakarta, Indonesia, the offer of joint cooperation from ASPIN was addressed at three GCNA Board Meetings and one General meeting of its national delegates. The outcomes of these meetings are detailed below.

First Meeting: Receipt of Offer from ASPIN

Board meeting January 10, 1986

The GCNA Board was psychologically prepared for the negotiations with Indonesia in as far as the “starve the market philosophy” of Huieima was concerned. It was the most dominant thought in the minds of Board members, when they received a market report from Renwick on January 10, 1986,

> “informing of developments in Indonesia with respect to the trading of nutmeg… and a desire of the exporters to cooperate with the Association (GCNA) in the trading of nutmeg and mace on the world market,”

(Minutes of GCNA Board Meeting, 10 January, 1986, p. 5).

In the ensuing discussions which followed the said report, the GCNA Board responded to the news of the request by stating that they were “pleased with the long desired action on the part of the Indonesian exporters and further considered sending a delegation for discussion.” (Minutes of GCNA Board Meeting, January 10, 1986, p.5). Additionally, Mr. Renwick explained that “during his visit to Indonesia in 1979, discussions were held regarding the formation of an association but it did not materialise [then] due to the complex situation existing at that time," (Minutes of GCNA Board Meeting, January 10, 1986, p.5).

The complex situation to which Renwick referred related to three issues:

(1) Grenada's March 13 Revolution of 1979. He noted:

> "While in Indonesia, I learnt of the overthrow of the Government of Grenada by the New Jewel Movement – "Jewel Boys" -- so when I got to London, I decided to travel to Canada, to spend time with my family there and to monitor the situation from there, before deciding on returning to Grenada." He continued: "The situation seemed very chaotic from the outside, so I thought it best to stay away until the situation settled down."
>
> (Interview with Renwick, August 5, 2004)

(2) The military government which was in power in Indonesia at the time, and

(3) The *laissez-faire* state of the Indonesian nutmeg market. To the latter, Renwick noted the following:

> "The Industry in Indonesia was not as organised as that of Grenada's GCNA. There were hundreds of exporters, with no established organization for exporting the product, quality standards or processes in place. It was reminiscent of the nutmeg industry in Grenada, prior to the formation of the GCNA in 1947."
>
> (Interview with Renwick, August 5, 2004)

Renwick also noted:

> "There were not much possibilities for any agreement between Grenada and Indonesia. Firstly, there was not a single exporter of the product, there were many/hundred exporters and that would have made the possibility of an agreement difficult. Additionally, the political situation in Grenada at the time was not conducive for proceeding with such discussions".

Therefore, the above circumstances made it difficult to conduct discussions leading to the establishment of any type of collusive business relationship with Indonesian nutmeg exporters. The creation of ASPIN was a necessary condition to the meeting in Indonesia.

On the matter of the proposed visit (mentioned above) to Indonesia in 1986, Renwick further informed the Board that Huitema had informed him "that he was planning on visiting Indonesia soon and requested to have a member of the Association (GCNA) present during his visit to Indonesia." His personal and business relations with Renwick and the GCNA, on the one hand, and his business interests for Catz, on the other, may have influenced this business poker move, giving him the confidence to table such a request through GCNA's Chairman of the Board.

The Board rejected the request, stating "that his request cannot be acceded to at this time. Members further considered it inappropriate for a buyer to participate in the discussion at the level envisaged, but agreed to seek the assistance from United States Agency for International Development (USAID) or Government of Grenada to travel to Indonesia," (Minutes of GCNA Board Meeting, January10,1986). The assistance mentioned here refers to financial assistance, (Interview with Noel, 23 April, 2010).

Second Meeting on offer from ASPIN: Board Meeting January 22, 1986

At the GCNA Board meeting of January 22, 1986, it was decided to send a delegation to Indonesia for the purpose of entering into direct negotiation with ASPIN. As a result, a three-person delegation was formed, comprising of:

1. Norris James – Chairman of the Board of Directors
2. Clarence Ferguson – Member of the Board of Directors
3. Robin Renwick – Manager of GCNA and personal friend of Huitema

Following the order above, the team therefore included a small retail business owner/ farmer, farmer/ landowner, and finally a qualified administrative functionary/ farmer of the GCNA.

Before the delegation left for Indonesia, word had leaked out in the market about the impending agreement between the two nutmeg producers. This prompted inter alia, a visit to the GCNA from a major buyer/stakeholder of nutmeg from Holland Herweijer of Messers Man Producten, on March 25, 1986. Herweijer was a former employee of Huitema, but left to form his own company. During his meeting with the Board of Directors, he briefed members on the stock position in Indonesia and the formation of ASPIN. He further made three major points to the Board:

> 1. "Whereas it will be easier to do business with ASPIN, he is doubtful whether ASPIN will exist for any length of time."
> 2. "If price increases, the food industry may soon be looking for cheaper alternatives and even the consumption of mace could be affected."
> 3. "[I am concerned] about Catz intention to orchestrate the formation of the proposed association between the Association and ASPIN, and that Huitema had been playing an internal part in ASPIN's affairs and that ASPIN was following his urgings."

(Minutes of Meeting of the GCNA Board of Directors January 22, 1986: 5-7)

The above statements reveal four major issues: 1) It showed that the proposed association between the ASPIN and GCNA had such an impact that a major buyer (stakeholder in the international nutmeg trade) was galvanised into visiting Grenada to voice his opposition to the proposed arrangement; 2) the statement from Herweijer confirmed the suspicion of the Board of Directors that Catz International played an integral part in the formation of ASPIN; 3) it brought to the fore conflicting and competing interests and stakes of various stakeholders; and 4) It revealed an evolution in the use of nutmeg related products/ substitutes that on the one hand would impact on exports/sales primary producers, and on the other, the strategic use of such market information/ intelligence by Herweijer to create the psychological and economic conditioning that may have pulled GCNA to his side (in addition to his blowing the whistle on the operations of his ex-boss) and thereby benefit from any future pricing arrangements with the GCNA.

As a result of the above, the members of the Board expressed their doubts regarding Huitema's information:

> "There is room for doubt regarding Mr. Huitema's information to the Board,"
>
> (Minutes of Meeting of the GCNA Board of Directors, January 22, 1986,p. 7).

In essence, Herweijer succeeded in his efforts to undermine the credibility of the market information circulated by Huitema, his former boss and present competitor.

During the meeting, Hudson Mc Phail voiced concern about the level of preparation of the delegation and urged that,

> "a program of activities be prepared and that the objectives and purpose of the visit be deliberated upon prior to the delegations departure."

He further expressed concern over "Catz's intention to orchestrate the formation of the proposed association between the GCNA and ASPIN and that Mr. Huitema was playing an integral part in ASPIN's affairs and ASPIN is now following his urgings." He also noted: "Huitema was not trustworthy. His closeness to ASPIN and his role as a major buyer of Grenada's nutmeg placed him in a position where he could manipulate the two institutions into an arrangement that benefitted him and not the GCNA nor ASPIN. Moreover, he was the sole catalyst to the agreement, he had a vested interest in the global nutmeg market," (Interview, April 17, 2015).

Given the political alignment of the Board members, the recommendations of McPhail should have been accepted and implemented, but due to the nutmeg politics of Ferguson and James, his suggestions were not implemented, since the issues he raised were still on the table by the time the GCNA General Meeting took place May 26, 1986 and captured in the Minutes of the GCNA Board, August 26, 1986. Mc Phail's advice and that of the delegates at the annual general meeting resonate with the expert view of Ring and Van de Ven (1994) regarding negotiations. His model indicates that during the negotiating processual cycle there will be a phase of assessment based on efficiency and equity and personal interactions. Mc Phail's comments show that he was assessing the extent to which the GCNA was prepared to ensure that equity would exist between the GCNA and Indonesia, since he was suspicious of the role of Huitema, as well as the smuggling which plagued the Indonesian nutmeg industry. During one of my discussions with him on the issue of the cartel, he stated that his,

> "knowledge of the geography of Indonesia and the ease at which smuggling occurs made him doubt the ability of ASPIN to control the nutmeg trade in the same way as GCNA" (Interview, April17, 2015).

The discussions of the Board indicated the deep concerns and uncertainty of members regarding the proposal from ASPIN since it appears to be on the "urgings" of Huitema. These uninformed suspicions are indicative of the absence of and disparity in the information which the majority of the GCNA Board felt existed between themselves and the other stakeholders.

As a result, a motion to delay the visit until September was moved by board member (one of the farmers' representative) Theophillus George. The motion was supported by the majority of members, but Ferguson, abstained. This was an interesting piece of manipulation on the part of Ferguson, since a few months before he had proposed a closer working relationship with Indonesia.

Ferguson's abstention exposed the political alignment and power play among Board members. Lord explained in this manner:

> "This abstention must be seen in realms of political power play between certain board members. You see, Ferguson had an intolerance for Mr. Renwick, because of his political alignment with Mr. Gairy. Whereas "Fergie" (Mr. Ferguson) had misgivings about the proposal, he went along – I believe - because he wanted a trip to Indonesia. But he abstained because he knew his partner James would have the majority of the Board's support, so he (Fergie) calculated that his abstention would not have had any negative consequences on the trip taking place. As a matter of principle, he (Fergie) is an avid opponent to Mr. Renwick, so on one hand he would like the opportunity to travel to Indonesia, but on the other, he is not anxious to be seen as overt supporters of Mr. Renwick and Huitema,"

(Interview with Lord , March 19, 2015).

Another instance of the political power play which ensued on the Board during the period under discussion was that of James''s use of the GCNA to achieve his political ambition. In Lord's view,

> "Mr. James was keen to demonstrate to his party leadership – the New National Party (NNP) - that if he could establish relationship with Indonesia and achieve an increase in the price of nutmeg for farmers, then he could achieve similar things for the country. He was keen to use the proposed agreement to galvanize support for himself and his political party in order to achieve personal political support."

(Lord Interview, March19, 2015).

The above discourse demonstrated that the Board of Directors was not as homogeneous a group as it should have been. It gives an indication of the type of conflict of interest which existed between this primary group of stakeholders on the critical issue of business and income for the GCNA. According to Lord (Interview, March19, 2015): "People supported ideas on the Board, depending on who proposed the idea."

The political alliances in table 5.14 is presented to provide a better context and understanding of why Board Members were likely to give support for an idea or not, and the rationale for their position. The table provides a list of 10 names of Board Members who served during the period of the negotiations with ASPIN and the subsequent attempt to form the first nutmeg Cartel. In addition to identifying the members by names, table 5.14, highlights their individual academic qualifications, political party affiliations and alliances at the level of the Board of Directors. While at the same time indicating how the political alliances influenced their positions on issues.

Table 5.9 Political Alliances on the GCNA Board of Directors

Aston University

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Therefore, by the end of the second preparatory meeting, the three delegates were selected to represent GCNA in Indonesia. Due to the intervention of another external stakeholder, Herweijer, another nutmeg trader, there is a shift in the Board's perception of Huitema's roles and intentions regarding the establishment of a business relationship between GCNA and ASPIN. This section also unveils the internal power play and political dynamics among Board members (primary internal stakeholders) and their impact on their decision-making process, as they prepare to send delegates to negotiate the association's affairs in Indonesia.

Third Meeting: General Meeting of the GCNA, May 26, 1986

The third meeting leading up to the start of negotiations with ASPIN was held with the general membership. The documents and records of the archive do not show that the Board sought any advice from the government on the matter. Instead, the Board only seemed to have consulted with its membership at its annual general meeting in May 1986. At this meeting of the general membership, several concerns were tabled and recommendations made. The concerns were the following:

1. Skepticism about the level of preparedness of the local delegation for such an important meeting;
2. Whether the benefits of the meeting outweighed the costs;
3. Catz International was threatening to blackmail the Association[v].

The following recommendations were made by the membership:

1. That the meeting between the GCNA and ASPIN take place in Grenada;
2. With Indonesia being the " GCNA's greatest competitor, it was important to establish contact with them;
3. A Government technocrat should be part of the delegation to Indonesia.

Source: Minutes of Special Meeting of the GCNA Board, August 26, 1986.

The above discussions reflect the thought pattern of the delegates, who while being keen to develop a business relationship with ASPIN, were cautious about the process, preparation and outcome. Notwithstanding, none of these recommendations were actually taken up during the preparatory meeting to enter into the joint marketing agreement with the Indonesian exporters.

Fourth Meeting: Board Meeting September 2, 1986

The GCNA Board held a fourth meeting September 2, 1986 in preparation for the first face-to-face or direct negotiation between GCNA and ASPIN in Jakarta, Indonesia. The major outcome of the meeting was a mandate that no agreement should be concluded without the authorisation of the full Board, three months following GCNA's first meeting with ASPIN, and not before ASPIN's visit to Grenada (GCNA Board Minutes of September 2, 1986).

Following the September meeting, the GCNA three-man delegation left Grenada to enter into direct negotiations with ASPIN. When applying the Ring and Van de Ven (1974) framework, this fits into the start of the negotiating phase or the initiation phase by Corvette (2007).

The above reporting of the talk and text highlights the roles of the key players/ stakeholders in the pre-bargaining stage of the attempt at cartelisation, as the stakeholders sought to put in place the instruments and mechanisms aimed at regulating the supply flow of nutmeg and which would impact the price of the global market for nutmeg. As a key member of the nutmeg market network, Catz's role in the preparation of the terrain for the formation of the first nutmeg cartel between GCNA and ASPIN confirms a triad rather than a dyad relationship of the primary stakeholders. It unveiled the rationale for Catz's involvement in the process of forming the first nutmeg cartel.

Negotiation Stage 1985-1986

Initiation Stage

According to Corvette, the initiation stage which coincides or resembles the commitment phase of the Ring and Van de Ven (1994) negotiation framework represents the signing of contractual instruments between the negotiating parties. This section therefore relates to the signing of the MoU between GCNA and ASPIN.

Based on the minutes of the GCNA Board Meeting of September 16, its delegates provided verbal reports on the "negotiation" held during the week of September 10 with ASPIN. Also present at that meeting with ASPIN was Huitema, CEO of Catz International, in the capacity as advisor to the ASPIN negotiation team.

During the meeting a pre-prepared MoU was presented to the GCNA delegation. There is no evidence from the GCNA Minutes of the Meeting of September 16, 1986 to suggest that the negotiating parties were engaged in a due bargaining process to arrive at an agreement. The evidence further suggests that the negotiating process went from initiation to intensification and closure, without any genuine back and forth as would be expected in a standard negotiating process (Corvette, 2007).

5.4 The Memorandum of Understanding and Joint Marketing Agreement between the GCNA and ASPIN (Appendix 5) and reactions,

Main Features and Articles of the Memorandum of Understanding

The MoU consisted of two pages, comprising six articles in the form of objectives. The key elements were as follows:

Article 1 promotes the marketing of nutmeg and mace on the international market;

Article 2 promotes technical cooperation, particularly in areas of technology and sharing of expertise in the cultivation and production of nutmeg and mace;

Article 3 encourages cooperation between the two producers in the promotion of nutmeg and mace with the aim of increasing the world consumption of nutmeg and mace;

Article 5 provides for the alteration or modification or amendment of the agreement by mutual consent;

Article 6 provides for the MoU to come into force on the date after its signing and seeks to continue in force unless one party gives notice in writing of their intention to terminate the agreement.

5.4.1 Other Moves by Huitema of Catz International during the Negotiation Phase – from MoU to MoA.

Huitema, being integral to the negotiations between the GCNA and ASPIN, and who acted as advisor to both parties prior to the negotiations (and was then on ASPIN's negotiating team), gave ASPIN an unfair advantage during the negotiations, since as an international nutmeg trader, he knew with accuracy what was being negotiated between GCNA and ASPIN and how the outcomes of these negotiations would impact on the international nutmeg market. Lord (Interview, March19, 2015) said: "Mr Huitema bought significant amounts of nutmeg while the negotiations were underway in Indonesia and requested that GCNA should remove itself from the market for a few months."

Indeed, on August 28, 1986, Catz placed an order for 190 tons of nutmeg – one of the largest single orders ever in its dealings with the GCNA, to be delivered between 12 September, 1986 and April 1987. Moreover, his proposed price per ton was below that offered by one other buyer, Man Producten. For example, Catz offered to buy 50 tons of defective nutmeg at US$5,250 per ton, and 100 tons of SUNS at US$4,000 per ton, while Man Producten offered to buy 150 tons of defective at US$5,600 and SUNS at US$6,000 per ton respectively (meeting of GCNA Board of Directors, September 2, 1986). This further testifies to Catz's influence on the two nutmeg producers to its own benefit, as evidenced by Man Producten offer of US$350 more for defective and US$2,000 more for SUNS than Catz, while Man Producten's offer was rejected in favour of Catz's. .

Finally, while Catz remained the largest single buyer of Grenadian and Indonesian nutmegs and an active player in the formation of the Agreement, no mention was made of it in the Agreement. Catz was given the sole buying rights to purchase nutmeg from ASPIN, as well as being the major nutmeg agent and buyer for Grenada consolidated significant buyer power in Catz International.

5.4.2 Intensification and Closing Stages of the Negotiating Process and its Implications

Notwithstanding the mandate of the Board of Directors of the September 7 meeting and the expressed concerns of the GCNA membership, the three-man delegation signed a MoU on September10, 1986 with ASPIN in Indonesia, without the authorisation of the full Board. This action represents the collapsing of the intensification and closing stages of a normal negotiating process.

The hurried and independent action by the GCNA delegation raised a number of issues relating to the power and influence of ASPIN and Catz, on the one hand, and the weakness of the GCNA's team, on the other (Interviews with Lord, March 19, 2015; Logie, April 6, 2015). The presence of Catz in the meeting, in the capacity of advisor to ASPIN, further contravenes GCNA Board's decision not to negotiate with ASPIN in the presence of the purchaser (Catz International) at the January 10 meeting. Catz's position and role in the meeting also confirms GCNA'S suspicion of Catz as a facilitator and manipulator of the impending agreement between ASPIN and GCNA.

Additionally, the inexperience of the GCNA team in the negotiating process, as well as Huitema's personal relations with the General Manager of GCNA might have impacted on the hasty outcome of the "negotiations." The fact also that two executive members of the GCNA Board (the Chairman and the Secretary, with Ferguson being the de facto Deputy Chairman and also referred to as the "crown behind the throne") conducted the "negotiation," probably made them feel empowered to sign the MoU, contrary to the mandate expressed and the decisions made during the meetings of the Board of Directors.

5.4.3 Reactions to the Signing of the MoU by the GCNA Board of Directors

When the GCNA head office received a copy of the signed MoU, they were very disappointed with the high-handed operations of their delegation. Moreover, what is not understood is whether Grenada's delegation was brought under any pressure or manipulated to so do by the other side. According to Mc Phail, the Indonesian exporters were quite wealthy, as compared to Grenada's farmers.

An emergency meeting was held to discuss the matter on October 14, 1986, following the return of the three-man delegation. The minutes do not indicate an agenda for the meeting. The meeting began with members asking the delegation: "What was achieved?" The Chairman, James, responded that "a Memorandum of Understanding was reached and an agreement to be ratified by the Board was drafted," (Minutes of a Special Meeting of the Nutmeg Board, September 14, 1986,p1).

Some members of the Board expressed their dissatisfaction with the procedure and outcome of the meeting and recorded eight major points, three of which are relevant to the cartel matter:

> 1. the signing of the Memorandum of Understanding was contrary to the decision taken at the Board meeting of August 26, 1986;
>
> 2. "the presence of Mr. Huitema of Catz International was accepted [by the GCNA Delegation] without resistance, despite the fact that the Board was totally against his participation in the meeting."

(Minutes of a Special Meeting of the Nutmeg Board, September 14, 1986, p.2); and

> 3. Despite the above and other concerns, the Board noted "that higher prices had already been obtained beyond the prices stipulated in the agreement."

(Minutes of a Special Meeting of the Nutmeg Board, September 14,1986, p. 2)

At the end of the meeting, the Board decided not to confirm the proposed agreement in its current state and to seek legal advice on same, since the signing of the agreement, in contravention to the expressed decision of the Board, was illegal.

The absence of data and memory recall from the actual negotiations impacted on the researcher's ability to capture and describe the mood and exchanges during the negotiations.

5.4.3.1 Reaction by the Market to the Signing of the MoU

By the first signing of the MoU of 1986, the export price per pound of nutmeg increased to EC$2.23, up from EC$1.41 in 1984 and EC$1.35 in 1985, while mace increased to EC$8.12 compared to EC$4.49 and EC$7.93 during the same period. Thus, the GCNA earned approximately EC$20,765,586.00 from the sales of nutmegs in 1986. This represented an actual increase of approximately EC$8,298,058.00 or 66.5 per cent on sales over 1985. This, it was assumed, flowed out of the joint marketing activities on the part of GCNA-ASPIN, as well as the publicity which arose from signing of the MoU.

This view was supported by Renwick (Interview 2006) and Hachamoff of JHB International, on their reflections of the collapse of the GCNA-ASPIN Agreement. They both expressed the view that businesses do not like cartels or monopolies and once the nutmeg industry learnt of this agreement, it took steps to hedge against what was expected, which was, the expected increase in prices. JHB International was selected by the GCNA to become its sole marketing agent in Europe (Interview 2009), replacing Catz International.

5.4.4 Implementation Stage

Notwithstanding the lack of confirmation of the MoU by the GCNA Board, it was allowed to stand until the drafting and signing of the Joint GCNA-ASPIN Marketing Agreement in 1987. ASPIN was invited to come to Grenada to ratify the Joint GCNA-ASPIN Marketing Agreement of which the MoU became an integral part. In fact, the contents of the MoU became in essence the main articles of MoA. This ratification of the MoU and signing of the Marketing Agreement between GCNA and ASPIN took place almost a year later on March 26, 1987, in Grenada, which finally put into place the world's first nutmeg cartel. A delegation came from Indonesia to do the signing, bringing the negotiation phase to an end and commencing the commitment/implementation phase of the business relationship, under Ring's and Van de Ven's (1994) business relationship framework. This stage of commitment allowed for the parties to determine their contracting terms and governance structure. Based on the archival records of the GCNA, there is no evidence that the GCNA had prepared the MoA or played any part in its preparation.

5.4.5 Terms of the Joint GCNA-ASPIN Marketing Agreement and Discussions

As indicated in section 5.4.4, the parties graduated from the MoU and signed the MoA on 26 march 1987. The core elements of the MoU did not change, however, four additional elements were introduced into the MoA. They were put into four articles as follows;

Article 1 established the minimum prices for all tradable grades of nutmegs and mace, and include provisions for adjustments to be made on some grades;

Article 2 sets the total exportable volume at the sum of 8,550 tons of nutmegs and 1,200 tons of mace of which ASPIN was allocated 6,300 tons of nutmeg and 1002 tons of mace, while GCNA was allocated 2,250 tons of nutmeg and 198 tons of mace;

Article 3 catered to modifications or alterations to the agreement that were only to be made by mutual consent of the both parties; and

Article 4 outlines the conditions for the implementation of the Agreement, which required consultation on issues such as: 1) the system of monitoring; 2) the supply and demand for mace; and 3), the production and marketing of nutmeg and mace in other nutmeg producing countries.

Source: Joint Marketing Agreement between ASPIN and GCNA, 1987

Whereas the Joint GCNA-ASPIN Marketing Agreement provided for the general increase in the pricing structure for nutmegs and mace; it nonetheless contained a number of critical issues hinging on parity and sustainability. These issues include: price differential mechanism, buffer stock, control of supplies, technical cooperation and central organisation.

5.4.5.1 Price Differential Mechanism

In the logic of cartels, prices should be uniform for all participants of the cartel. However, a price differential mechanism was put in place, offering varying prices between the two parties. In fact, Article 2 of the "Agreement" sets out the minimum prices which were fixed for the period January 1, 1987, up to and including December 31, 1987. Now, ASPIN and other Indonesian nutmeg traders received nutmeg and mace from four major sources (Siauw/Ambon, Banda, Ternate and Papua New Guinea). See table 5:9. It is interesting to note that for identical products ASPIN obtained either the same or higher prices than that of Grenada, when Grenada was producing a better quality nutmeg. For example, the price for Grenada's sound and unsorted nutmegs (SUNs) was equivalent to the grades ABCD from Siauw, but slightly higher than in Ternate by US$10 but US$110, than that from Papua[16], whereas the prices obtained for the Grade 2 nutmeg were lower for GCNA, as compared to all of ASPIN-Indonesia's sources.

[16] The reason for the differences in the prices, based on grade of the products from the various islands in Indonesia is not available.

With respect to mace, the price for “whole mace” was lower, except in the case of Papua, as well the grade 2 (broken mace), which was lower in three of the locations, except in Papua where it was the same (see table 5.10)..

Table 5.10 Comparative Prices for Nutmeg and Mace between the ASPIN and GCNA in US$ 1987

Type of Product	Source and Price per ton of nutmeg and mace				
Nutmeg	Siauw	Banda	Ternate	Papua	GRENADA
ABCD	6,000		5,950	4,850	6,000
SUN - Grenada’s equivalent to Indonesia’s ABCD					6,000
110s	6,350		6,300		6,000
110s					
80S –	6,650		6,600		6,650
Mace	Siauw	Banda	Ternate	Papua	GRENADA
Whole – Indonesia	13,500		13,450	9,500	11,750
Broken II	11,500	11,250	11,450	10,000	10,000

Source: Joint Marketing Agreement between the GCNA and ASPIN, 1987.

Whereas the Joint Marketing Agreement established the pricing structure which forms the basis on which the intended cartel would operate, the question was: *Would the operations of the cartel bear that out?* The details on the operations of the GCNA within the context of the attempt at cartelisation will be examined in the following Chapter Seven, “The Performance of the GCNA during the period of Attempted Cartelisation.”

Unlike most cartels or ICAs, such as cocoa, coffee, tea and sugar, the Joint GCNA-ASPIN Marketing Agreement above lacked four other important elements.

5.4.5.2 Lack of Buffer Stock

There was no buffer stock established between the parties as part of the Joint Marketing Agreement or as a node on the GVC, which would be used to fill immediate unexpected demand, and influence the supply of the products on the market. The inventories were held by the key stakeholders in the chain, namely the producers GCNA in the case of Grenada, and while in Indonesia inventories were held partially by ASPIN, the licensed traders, and Catz International. The data for GCNA show that at the beginning of the 1986 Financial Year, the accumulated stock of dry nutmeg was 1,778,499 pounds (GCNA Financial Statement and Trading Summary, 1986). At an average market price of EC$2.23 per pound, the cash value if sold would have amounted to EC$3,966,053.

5.4.5.3 Control of Supplies

There was no indication as to the extent to which the production or buying of nutmeg would be controlled, although the agreement provided for limiting the amount of nutmeg and mace to be made available (the supply) to the international market. This meant that the GCNA and ASPIN, particularly GCNA, which is mandated by the Grenada Nutmeg Ordinance Act of 1947 to purchase all saleable nutmegs produced by the farmers in the cooperative, would have no choice but to expend its financial resources both by conducting such “artificial” purchases without secured sales at appropriate prices and by bearing the costs for the management of continued stock build-up. These were fundamental weaknesses of the Agreement, which left the GCNA with huge stock piles of nutmeg and mace by the end of the agreement.

5.4.5.4 Technical Cooperation

Although most of the articles in the MoU formed part of the Joint Marketing Agreement, the tenets of “Technical cooperation” (Article 2), was not elaborated upon. The MoU and MoA expressed the commitment on the part of the GCNA to provide technical assistance to the ASPIN as it relates to, providing institutional assistance to ASPIN, as well as measures to enhance the quality of its nutmeg and mace, by reducing the level of aflatoxins found in Indonesian nutmegs, this case study found no evidence of this article being implemented by the GCNA or requested by ASPIN.

5.4.5.5 Central Organisation

The literature on cartels shows that the success of cartels require some form of central or independent organisation of the participating parties. However, the MoA did not make such a provision. Therefore, the MoU and MoA represent a compromise of group and personal stakeholder interests, and are not necessarily the optimum solution for the marketing condition faced by both these organisation.

5.5 Chapter Summary and Conclusion

The integrative method used to construct the story of the attempt to create the world's first nutmeg cartel, has helped to establish the main events of the narrative, and identify the key players-stakeholders and their interests regarding the creation of the cartel, along a timeline. The following primary data sources were used: structured and unstructured interviews with stakeholders, and archival records, including minutes and annual financial reports of the GCNA. The discourse on the attempt at the formation of the GCNA-ASPIN Nutmeg Cartel brought the archives of the GCNA to life. It provided the details of the talk and text discourse, the decision-making processes and the internal and external negotiations, which took place within ASPIN and GCNA, and in particular the GCNA, as well as between the GCNA and ASPIN.

The signing of the MoU between the GCNA delegation, comprised the Chairman of the Board, James, Deputy Chairman of the Board, Ferguson and the General Manager of the GCNA, Renwick, and delegates of ASPIN (President of ASPIN, Jantje A. Worotitjan; Vice-President, T. Palwar; Marketing Manager, Charles Sutjiawan, and H.E. Bahar). The MoU was ratified by a Joint GCNA-ASPIN Marketing Agreement in 1987, with delegates coming from Indonesia to Grenada.

The signing of the MoU followed seven years of "nutmeg diplomacy" (1979-1986), largely orchestrated and led by Huitema of Catz International, who at this time was believed to be the number-one nutmeg purchaser in the world. However, more recent market research by Marks and Pomeroy (1995) placed him third at that time. Renwick personal friend of Huitema, was the first GCNA representative to establish face-to-face contact with Indonesian nutmeg exporters in 1979, with the urgings of Huitema.

The initiation of attempts to enter into the Joint Marketing Agreement, as a precursor to form the Nutmeg Cartel was born out of the need to achieve four things: to stabilise and increase prices of nutmeg; to control/restrict the supply of nutmegs to the market; to consolidate GCNA and Aspin as the dominant suppliers of nutmeg and mace; and to increase the income of the nutmeg farmers in both countries, and thereby retain a greater share of the value of the export commodity. The formation of any attempt at controlling the nutmeg market was more essential to Grenada, where nutmeg played a much more important role in foreign exchange earnings, employment generation and the GDP, as compared to Indonesia where the nutmeg industry did not even feature in the country's major export commodities. In Grenada, nutmeg held either the first or second position on the country's commodities export index. In the '80s it held the number one position.

The varying and conflicting interests of the different stakeholder groups, as well as their scope of personal, economic or political influence, coloured the steps in the attempt at the forming of a nutmeg cartel. The Board of Directors of the GCNA showed itself to be an incohesive group, dominated by Ferguson, James and Renwick, evidenced by their breaching the mandate given by the Board of Directors to not sign any agreement during their visit to Indonesia in 1986. Of course, they did the contrary. The GCNA delegates appeared to have gone to Indonesia under-prepared and somewhat unqualified to undertake international trade negotiations with ASPIN, again not following up on the suggestion made by the membership of the GCNA to have a government technocrat accompany the Grenada delegation.

GCNA's hasty signing of the MoU, handed to them by the other side in Indonesia, raised a number of concerns and questions. It demonstrated asymmetry of information and roles, since ASPIN seemed to be more informed and prepared than GCNA for the negotiations. ASPIN also benefitted from the global market knowledge and experience of Huitema of Catz International, who attended the negotiations in the capacity of advisor to ASPIN, when the GCNA Board had prior to this rejected his attendance at such an event. It further shows that the GCNA entered into the negotiations with ASPIN as an unequal partner, which would later impact on the operations of the Joint Marketing Agreement and their attempt at cartelisation Of course, it is well established that Indonesia was the world's number one nutmeg supplier, whereas, the quality of Grenada's nutmeg was deemed to be of a higher quality. Despite the unauthorised signing of the MoU, it was allowed to stand and one year later became an integral part of the Joint GCNA-ASPIN Marketing Agreement.

Without Huitema, the chances of attempted cartelisaion would have been very slim, if not non-existent. As we have seen before, he played an integral role in encouraging Renwick's first visit to Indonesia in 1979, inspiring the formation of ASPIN in 1986 as a necessary precondition to the negotiations to form the cartel. He would have had to help exert political influence on the Indonesian military government and prepare the turf for the negotiation between the two parties in 1986 and 1987. Nicknamed the "Nutmeg Man" in Indonesia, he therefore influenced all the stages of the process at attempted cartelisation. He also succeeded in determining the marketing and sales strategies/ policies of the

GCNA and ASPIN. The extent to which he was provided with personal assistance from a member or members of the GCNA Board is a matter of further study, since such an issue touches on and involves the role of primary external stakeholders in the formulation of internal policies of third business concerns.

The intervention of another external nutmeg stakeholder, Herweijer of Man Producten, in the pre-negotiation stage helped to unmask some of the maneuvers and company interests of Catz International, as he sought to enter the play to influence GCNA against forming the cartel. In his view, the cartel would not work because the market does not like cartels and monopolies.

Notwithstanding, the period of attempted cartelisation was of great significance to all parties concerned, since it set a framework, despite the weaknesses of the MoU and the MoA, for future trade in nutmeg and mace for the next four years.

The creation of the Joint GCNA-ASPIN Nutmeg Cartel was in response to the micro and macro financial and economic needs (particularly the GCNA) of the stakeholders concerned, with Catz maneuvering and acting as an enabler in the background. At the micro-economic level, members of the GCNA Co-operative were consoled by entering into a business relationship with ASPIN of Indonesia, which they thought would have been able to control the export of nutmeg from Indonesia in a similar manner to which the GCNA was doing in Grenada, the world's largest supplier of nutmeg.

This historical business relationship offered them the prospects of an improved socio-economic status at a time when market prices were experiencing high levels of price volatility with general declining trends. This is in keeping with the literature on the formation of commodity cartels, which argues that the need to stabilise and increase prices are two of the important economic rationales for the formation of cartels.

At the macro level, the importance of the nutmeg sector to the Grenadian economy was of greater significance, unlike Indonesia, where the sector represents less than 1 per cent of their GDP. Grenada's nutmeg sector averaged 20 per cent of GDP. Therefore, the impetus for the success of the business relationship (GCNA-ASPIN) was stronger for GCNA at both the micro and macro level.

The use of the Stakeholder Analysis Framework allowed for the successful classification of the different stakeholder groups into primary and secondary stakeholder groups and determined their socio-economic and political interests which were all brought to bear on the decision-making process of the GCNA and the negotiating process and its outcomes.

The involvement of Catz International and Man Producten in the pre-negotiating phase (in the case of Catz, all phases of the negotiation process) underscores the importance of external stakeholders within the global nutmeg market value chain, and the role they played in the development practices of sales polices, marketing strategies and the pricing mechanisms of the two major suppliers of nutmeg. The strength of ASPIN/Indonesia and the dominant purchasing power (Gereffi, 1994, described power as the "driveness") within the GVC of Catz International helped to position the GCNA as a weaker partner in the relationship -- so much so, that the inexperienced GCNA delegates were unable to use the strengths of their products to secure a better marketing arrangement. This asymmetry in the stakeholder relationships and interests set a negative tone for the longevity of the cartel, especially as Catz aligned itself with ASPIN during the negotiation.

Given the profiling done using the Stakeholder Analysis Framework, which describes the political and personal ambitions/alignments of Board Members, one can assume that this impacted on the decision by the GCNA Board to accept and ratify the MoU, but it is also done against the backdrop of higher economic gains, whereas, they were mandated by the Board not to sign any agreement. Furthermore, there is no evidence from the archives of the GCNA that the government of the day (a major primary stakeholder in the GCNA) issued any policy advice on position, or guidance on the proposed Agreement.

.This study also brings to the fore the different stakes, and thus conflict, which are ingrained within organisations such as cooperatives, and which have a multiplicity of stakeholder groupings with their accompanying rights and privileges.

One of the outstanding outcomes of the cartelisation process is the demonstration of the influential role of Huitema in influencing the global nutmeg supply chain. His influence on the global nutmeg trade earned him the nickname "the Nutmeg Man" in Indonesia, while Lord characterised the role of Huitema and the Agreement as the "Catz-a-lisation" of the global nutmeg industry.

Regarding the negotiating process, the archives showed that the GCNA arrived at the bargaining table inexperienced and without expert assistance, thus exposing themselves to further marginalisation on the part of the Indonesian team that was ably assisted by Renwick's personal friend, Huitema of Catz International.

Overall, the attempt at forming the Nutmeg Cartel mirrors the political and economic rationale for the establishment of cartels as evidenced by a commodity market that has a product with little or no close substitute, the existence of monopoles and oligopoly markets, desire for increased prices, income on the part of producers and a desire to exercise control over natural resources by developing countries in order to obtain a greater share of the value-added from their products.

However, as the remaining chapters show, the absence of key conditions such as the inability of ASPIN to control the supply of nutmeg from Indonesia and the lack of, or deficiency of, information about the global market from the GCNA side, led to the early failure of the ASPIN-GCNA Joint Marketing Agreement and the demise of the attempt at cartelisation.

Chapter 6 - Operation and Performance of the Marketing Agreement

6.1 Introduction

This chapter focuses on the operations and performance of the GCNA during the period 1986-1990 as the implementation of the GCNA-ASPIN Joint Marketing Agreement unfolded. The chapter is divided into six sections. Section 6.2 addresses stakeholders' interventions, implementation and operations of the agreement and its impact on performance. Section 6.3 focuses on the key factors, affecting the performance of the Marketing Agreement during the period 1986-1990. A series of measures will be used to evaluate the degree of effectiveness of the performance of the agreement at several levels: cartel duration and performance at the institutional, micro and macro levels.

Section 6.4 presents the performance outcomes of the implementation and operations of the agreement. It discusses the revenue impact on the GCNA and farmers, as well as the impact on the national economy. Section 6.5 presents the talk and text of the period in order to highlight the interactions of the key stakeholders. Section 6.6 presents the chapter summary and conclusion.

6.2 Stakeholders' Implementation and Operations of the GCNA-ASPIN Agreement on Performances

This section addresses the implementation phase of the agreement using Langley's (1999) framework (narrative and time bracketing of events) which were highlighted in order to bring attention to the different phases during the period of implementation. For the purposes of this thesis, operations refer to the organisational and governance structure that facilitated the implementation and management of the Agreement, such as the type of monitoring mechanism of each participant, the establishment of an organisational entity arising from the establishment of the cartel; as well as the coordination and organisational structure to help solve problems as they occur (Levenstein and Suslow, 2006; Hay and Kelly, 1974). These reflect some of the issues which affected the performance of the agreement as the stakeholders sought to operationalise the Agreement.

This section puts forward the view that the GCNA entered into implementation of the ASPIN – GCNA Memorandum of Understanding (MoU) which was signed on September 15. 1986 and the Joint Marketing Agreement which was signed on 26 March 1987 (see table 5.13). with three perceptions: (a) that ASPIN had significant control over the export of nutmegs from Indonesia; (b) GCNA and ASPIN between them controlled a very high share of the international market and as such could exert control on the international supply of nutmeg and mace, and (c) that Catz International was the most important trader in the International nutmeg market. Given these perceptions, the GCNA Board of Directors felt that the Marketing Agreement would operate as a successful cartel.

The signing of the MoU and the MoA signaled the start of the implementation of the Marketing Agreement which was intended to coordinate and control the supply of nutmeg and mace to international markets. The intended coordinating mechanism for the Agreement did not materialise and was partially responsible for undermining the longevity of the attempt.

Within the context of stakeholder theory, the Marketing Agreement was reached within the broader context of stakeholder influences on both sides and the Global Value Chain for Nutmegs. GCNA and ASPIN had their separate existences, though in comparison with GCNA, ASPIN was a very new entity formed in 1986. As noted in chapter 5, the declining export prices obtained by Grenada and Indonesia created a common cause to stabilise and increase the price of nutmeg. It is this mutual interest which led to the Marketing Agreement. From an operational perspective, the implementation of the GCNA-ASPIN Agreement should be considered to be an attempt at operating a cartel.

The formation of the Agreement was influenced by their respective groups of stakeholders. The previous chapter provides an account of the influence of GCNA's stakeholders in the formation of the Marketing Agreement. The interactions and indeed the relationship between the two entities appeared to work initially, though there were inherent weaknesses in the functioning of the Agreement and the two organisations' control of the market, such as ASPIN's inability to control the supply of nutmeg from Indonesia and GCNA's lack of information on the actual market conditions and the leading players in the market. After about two years the situation deteriorated further as the Government in Indonesia moved to implement the economic liberalisation under pressure from the International Monetary Fund and the World Bank. The condition in which the implementation of the agreement took pace led to the widening of the gap between what the GCNA perceived as an Agreement aimed at establishing a cartel and the actual situation in which there was absence of conditions necessary for the establishment of a cartel. How these conditions affected the performance of the Agreement is discussed in section 6.3.

The impetus for the Agreement was reinforced by concerns about the deteriorating terms of trade voiced by individual stakeholders such as Brizan (1979), an academic and advocate for the GCNA to obtain a greater share of value-added for nutmeg farmers and Grenada. There were also stakeholders of ASPIN who were giving voice to the need for increased prices (Tirtawinata, 1995). The timeline leading up to the formation of the marketing agreement could be traced back to the formation of the GCNA in 1947, followed by a visit by GCNA representative to Indonesia in 1979 on the part of the GCNA. While on the part of Indonesia, the timeline could be traced back to the meeting with the delegate Renwick) from the GCNA representative in 1979 – prior to the formation of ASPIN (Table 5.13) - when the idea was first discussed in face-to-face meetings, and continued through Huitema of Catz International as the intermediary until the formation of ASPIN in 1985, and culminating in the signing of the MoU in 1986 and the subsequent MoA in 1987. During the time period Catz International was integral to the entire process, being the facilitator on both sides in the evolution of the MoU and MoA, as the company seeks its commercial interest.

6.2.1 Operations of the GCNA–ASPIN Joint Marketing Agreement between 1986-1990

As indicated above, operations is interpreted in the vein of Levenstein and Suslow,2005, 2006; Eckbo,1976; Griffin (1989) to mean establishing the organisational structure for the proper functioning of the Agreement as a cartel, and the internal processes that allow for the free flow of communications between GCNA and ASPIN. Such a structure was never created for the Marketing Agreement and was possibly one of the factors contributing to its short duration.

It is important that operational issues are given primary consideration in the effectiveness and success of the Agreement. There were three challenges which needed to be addressed:

1. selecting and coordinating the conduct of all participants to control total supply and allocation of supply between participants;
2. monitoring the conduct of cartel participants to detect and deter non-compliance with the Agreement, and
3. preventing new entry or expansion of sales by non-partners to the agreement or parallel exporters.

A joint entity or coordination mechanism would have been required to address these challenges. The GCNA was such an agency for coordinating and managing the supply of Grenada's nutmeg made possible by the legal framework (Grenada Nutmeg Industry Ordinance, 1947, CAP.125). As noted earlier, the GCNA had a board of directors, management structure, committees, a network of receiving and processing stations and a system for the payment of advance and bonus payments. Unfortunately the MoA did not contain such an entity.

In order to examine the operational aspects of the Marketing Agreement with the lens of a cartel, a review of the MoU (1986) and MoA (1987) has been conducted to determine whether these agreements provided for a functional governance structure. The MoA indicates that it did not establish any specific structures or mechanisms for the operations of what was hoped to be a cartel other than instituting the quota and pricing system in articles 2 and 3. Article 4 (1) (a) called for "the system of monitoring the Agreement" but failed to provide details of the mechanism to be established. The lack of a mechanism contrasts with some other international commodity agreements such as the International Cocoa Agreements, International Tin Agreement and the International Sugar Agreement (Hillman, 2010; LeClair, 2016; Fear, 2016). In the case of cocoa there have been a series of agreements which the International Cocoa Organisation (ICCO) has been instrumental in negotiating and implementing. Some specific responsibilities of the ICCO have been set out below.

1. The ICCO head quartered in London with regional offices in Africa, Asia and Latin America. Their main task was to coordinate the activities of the subsidiary bodies and committees of the organisation.

2. The International Cocoa Council was the main decision-making body. It met twice per year and would hold special sessions if the situation required it. Its main function was to "determine the strategy of the organisation in addition to supervising its financial policies and to review its proposed work programme and budget for each cocoa year."

3. The ICCO Economic Committee's main functions were to review cocoa statistics and statistical analysis of cocoa production, as well as to examine and make recommendations for funding under the common fund for commodities.

4. The Administration and Finance Committee was responsible for supervising and administering the budget of the director.

5. An expert working group on stocks worked to support the ICCO secretariat.

The fact that the ICCO is alive and functioning today and that the attempt at forming a nutmeg cartel failed could in part be due to the existence of such structures at the ICCO and its absence in the case of the GCNA-ASPIN attempt at cartelisation. An important difference between the International Cocoa Agreements and the nutmeg Marketing Agreement is that the former were commodity agreements between exporting and importing countries with the aim of sustainable development of the sector. The omission of an operational mechanism for implementing the Marketing Agreement reflects the lack of organisational and international business experience on the part of the GCNA's primary decision makers, notably the Board of Directors of GCNA. The majority of whom were elected by the membership and lacked the critical skills needed to recognise this deficiency (see table 5. 6).

Article 4 (b) of the Marketing Agreement (1987) calls for consultation on "the supply and demand of nutmegs and mace on the international market." As indicated before, whereas these statements are embedded in the agreement, they fail to detail how this would be achieved or what organisational entity is to be developed for this purpose. The article further fails to provide any indication of the purpose for monitoring. In addition to this limitation, the ability of the parties in the Marketing Agreement to take effective actions to control the global supply and price was limited because the conditions required for such control did not exist.

Unlike the GCNA with respect to the supply of nutmeg from Grenada, ASPIN was unable to exert control over the flow of nutmeg to the international market from Indonesia because of the following reasons:

1. Less than 25 per cent of all Indonesian exporters were members of ASPIN and consequently a large proportion of the Indonesian supply was outside ASPIN's control.
2. With Indonesia being an archipelago with over 17,000 islands and nutmeg growing distributed over many islands, Indonesian borders were highly porous facilitating "smuggling" of nutmeg from Indonesia by members of ASPIN and non-members.
3. Arrangements for monitoring the international supply of nutmeg and controlling it were lacking, partly because of the lack of institutional arrangements complementing the Agreement and the high potential for smuggling from Indonesia.
4. With specific reference to the GCNA, attempts to restrict international supply with increased production by farmers led to build up of large stocks financed partly from reserves but with the greater portion financed by bank loans. The evidence shows that GCNA found it impossible to finance these stocks over time.

Article 4 (2) provided that "Each party to the Agreement undertakes to give to the other party a statement of its sales and sales prices every six months". The above did not indicate what measures would be taken on the basis of the information provided. Moreover, this research found no evidence that the parties complied with this aspect of the agreement, a critical aspect for the stability and longevity of the Agreement (Chang, 2016). The Agreement lacked incentives for good performance or penalties for non-compliance. According to Levenstein and Suslow (2006) most successful cartels are those that develop organisational mechanisms that accommodate fluctuations in the external environment. Provision for such flexibility was not build into the Agreement and as the following account will show such flexibility was not in evidence during its operation.

GCNA's stakeholders based their confidence in the Agreement on the experience of the operation of the GCNA as an effective monopsony. GCNA's control of the supply of nutmeg was founded on its legal status established almost 69 years ago in 1947, functioning procedures for paying its members and an infrastructure for receiving and processing nutmeg. The assumption was that ASPIN was capable of putting in place similar arrangements for controlling Indonesian supply. Under such circumstances GCNA and ASPIN could have controlled their joint supply.

The lack of detailed and strategic planning and conceptualisation impacted negatively on the Agreement. The legal structures and operations of the two entities, GCNA and ASPIN, also affected the operations, for whereas GCNA had national reach and control of the local market, ASPIN only had about 25 per cent control, rendering the Joint Marketing Agreement porous, weak and open.

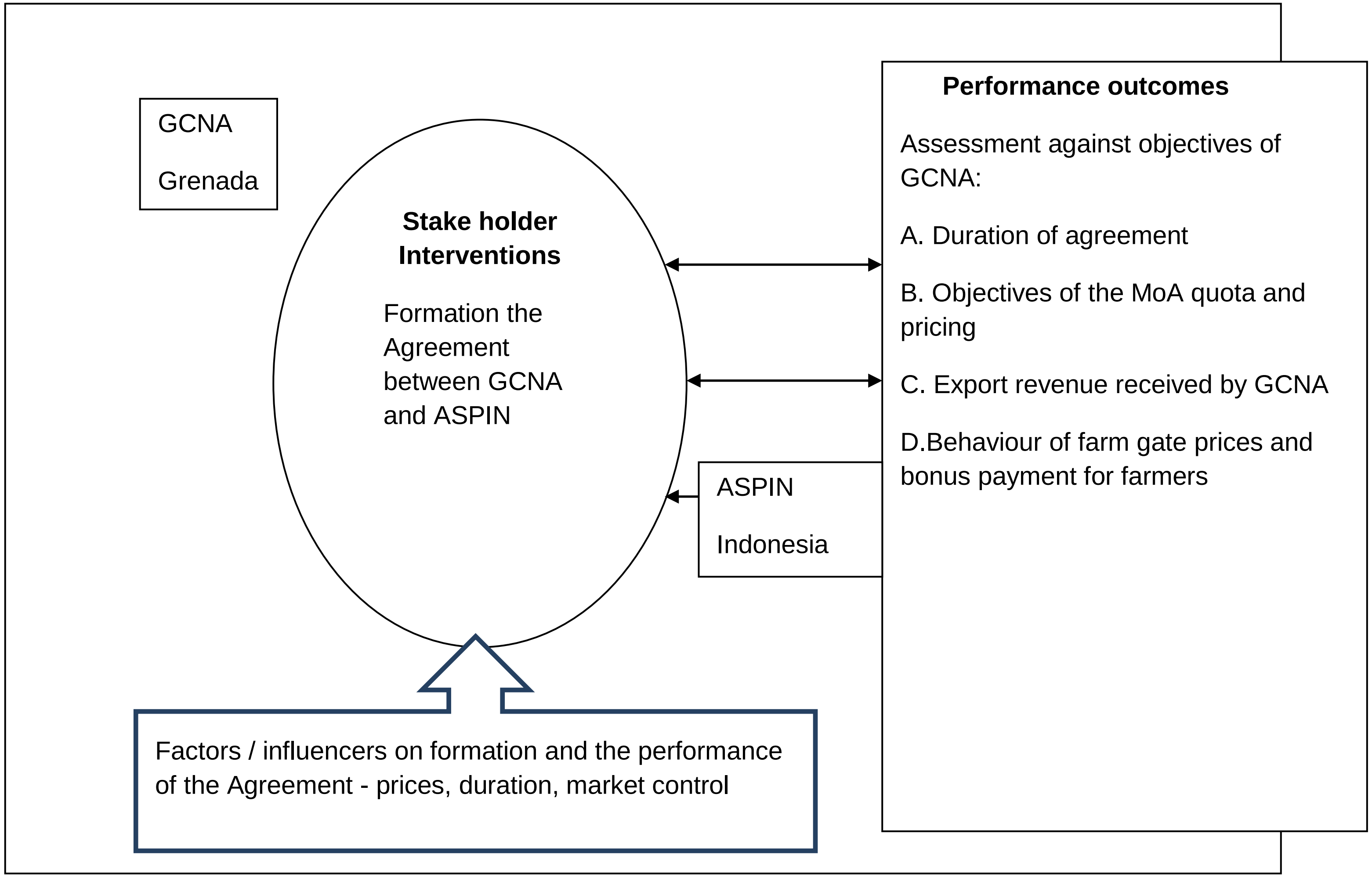
6.2.2 Stakeholders' Perspectives on the Performance of the GCNA-ASPIN Joint Marketing Agreement (MoA).

Section 6.2 have set the context for describing the operations and performance of the Agreement and identified the circumstances which were against the success of the Agreement as a cartel. In spite of the unfavourable circumstances, GCNA's internal and some primary stakeholders were active in the formation of the Agreement and in its operation. This section examines these stakeholders' part in the formation of the Agreement in spite of the unfavourable circumstances.

Chapter 5 presented the factors which influenced or triggered the joint agreement and indeed its performance and longevity. These factors included but were not necessarily limited to: (a) the desire to retain a greater share of the income from the value-added emanating from the export of nutmeg: (b) the volatile financial situation of the GCNA; (c) the nature and characteristics of the international market for nutmeg, notably the price and demand volatility; (d) the long held view of successive GCNA board members of the necessity of an alliance with Indonesia, and (e) the belief that the supply of nutmeg and mace to the international market could be controlled.

There were other factors which affected the implementation and operations of the agreement, they include: the market conditions following the signing of the agreement, reliance on international agents for access to the market and the role of the agents as facilitators in the implementation of the Agreement; the associated information asymmetry which accompanies such arrangements; actions on the part of the key stakeholders in the relationship; and fluctuating prices.

Figure 6.1: Depiction of factors and stakeholders interaction on performance outcomes



Source: Developed by the researcher.

Stakeholder theory recognises that different types of stakeholders are concerned with performance on different dimensions including financial and social (Donaldson and Preston, 1995; Preston and Saprienza, 1990). These authors also concluded that major stakeholders within firms, gain or lose collectively rather than at each other's expense. Clarkson (1991, 1995) presented a shareholder framework as a means of defining, gathering and organizing descriptive and performance data about a company and its stakeholders. Other scholars including Coff (1999) and Kochan and Rubenstein (2000) focus on employees.

In this study the focus is on decision making by primary stakeholders in the GCNA. The objectives of the different groups of primary stakeholders in either making the decision to form the Marketing Agreement or supporting the decision are broadly consistent. The GCNA Board of Directors took the decision to form the Agreement to achieve higher and more stable prices over time. This was clearly in the interest of the member since it would enable the GCNA to pay higher prices and bonuses. The Government of Grenada was also in favour of the agreement because of the favorable effects on the balance of trade and the approval of a substantial proportion of the electorate. These objectives and related performance indicators are consistent with Utton (2006 2011) and Levenstein and Suslow (2006) who identify duration and effect on price as measures of a cartel's success.

The focus of the rest of the chapter is to understand, through the narrative of the operations phase of the Agreement, what led to the decision to form the Agreement given that the conditions for its success as a cartel did not exist.

6.2.3 Application of Langley's Chronological Ordering of Events to the Operation Stage and end of the Agreement

Table 6.1 summarises the events which signaled the start of the operation stage of the Agreement and effectively its end. As they occurred, highlighting the factors which affected the Agreement, including the interaction with the primary stakeholders and factors that influenced the process of forming the Agreement and its operation. The major events were the signing of the MoU and MoA in 1986 and 1987 and ASPIN's changed policy following the Indonesian government's decision to deregulate commodity boards.

Table 6.1 contains 6 columns, each of which is briefly explained. Column1 highlights the year of the event; column 2 shows the event, decision of action taken during that year; column 3 highlights the factor (s) which affected column 2, column 4 shows the consequences/outcome(s) of the actions which were taken in column 2; column 5 explains the stage or describes the agreement and column 6 identifies the stakeholder group that influenced or is affected by the decisions or actions during the life of the agreement. The chronology considers 1990 as the year the agreement collapsed and is therefore treated in chapter 7.

Table 6.1 shows that between the signing of the MoU in 1986 and 1990 (ASPIN changed its sales policy in 1990 moving away from Catz as the main export buyer to liberalizing the market), the average international market price for nutmeg increased by 309 per cent and that received by farmers by 202 per cent between 1986 and 1988 but then fell by 70 per cent by 1990. However, the 1990 price of EC$3.04 per pound was higher by 63 per cent than 1986. It is argued that the decline in price which started in 1988 was initially triggered by ASPIN's changed sales policy as indicated in table 6.2 (Interview with Lord, 19 March 2014). Additionally, Marks and Pomeroy (1995) also argued that by 1988, the supplies reaching the market via Singapore was a major factor which contributed to the excess supply on the market and the resulting declining in prices,
The empirical evidence in this case found that the time line for duration of the agreement had undergone three episodes and thus provided three options.

Option 1: 15 September 1986 to February 1989, representing the period from the signing of the MoU to the announcement by ASPIN of its change in sales policy which excludes Catz as the sole buyer and the introduction of competitive bidding, which was a deviation from the spirit and expectations when the agreement was entered into. In this case, the duration of the life of the agreement is estimated to be 2.5 years.

Option 2: 15 September 1986 (signing of the MoA) to 25 May 1990. This covers the period from the signing of the MoU to the receipt of official notification from ASPIN which stated that as from 25 May 1990 ASPIN ceased to be the sole exporting agency for nutmeg from Indonesia. This option provides for life span of 3.8 years.

Option 3: this episode starts with the signing of the MoA in March 1987 to the cancellation of ASPIN's sole exporting license on 25 May 1990. This option provides for a life span of 2.7 years.

Within the context of the literature, the cancellation of the changes introduced to ASPIN's sales policy represents an episode in the life of the agreement and not the end of the attempt at cartelisation. As a consequence this case proposed that the life of the agreement to be option 2 (3.8 years). This option is selected because of the price increases which accompanied the signing of the MoU. Others such as Lord and Moermon concur with this assessment.

The duration of the agreement is also intertwined with its collapse, and therefore some of the issues which are detailed below will be further discussed in Chapter 7. Sections 6.3 to 6.5 elaborate on the temporal bracketing in table 6.1.

Table 6.1 Temporal Bracketing of events during the existence of the agreement, 1986-1989

Column .1. Year	Column .2. Events /decisions / actions	Column.3. Influencing factors:	Column.4. Consequences / outcome(s)	Column .5. Stage / description of the Agreement	Column 6 Stakeholder group influence
15 September 1986	Signing of the MoU between the GCNA and ASPIN in Jakarta - Indonesia.	Both ASPIN and GCNA desired to increase the price of nutmeg which was declining in the prior years	The average international market price increased from EC$1.35 per pound in 1985 to EC$2.23 in 1986while the farmers received an increase price from EC$1.08 in 1985 to average of EC$ 2.02 in 1986 per pound of nutmeg	Implementation and performance of the Agreement	GCNA, ASPIN and Catz International buyers
26 March 1987	Signing of the MoA in St. George's - Grenada	Implementation of the terms of the MoU, which inter alia included the signing of an MoA	The average international market price increased from EC$2.23 to EC$6.18, while the per pound price for farmers increased from EC$2.02 to EC$4.02 in 1987	This stage represented the continuing implementation and consolidation of the agreement, as well as the response from the market,	GCNA, ASPIN and Catz International buyers

Column .1. Year	Column .2. Events /decisions / actions	Column.3. Influencing factors:	Column.4. Consequences / outcome(s)	Column .5. Stage / description of the Agreement	Column 6 Stakeholder group influence
1989 -	ASPIN changed its sales policy from selling to a single exporter (Catz International) to selling to multiple exporters.	Indonesia's government policy on deregulation of commodity boards. smuggling accompanied by cheating by ASPIN members	The average international market price started to decline from EC$6.96 in 1988 to EC$5.76 in 1990, while the price paid to farmers declined from EC$4.12 in 1988 to EC$3.04 in 1990	Declining stage of the Agreement	Indonesia's government, smugglers, Catz International and some of ASPIN's members

Source: Developed by researcher.

6.3. Factors Affecting the Performance of the Agreement

The performance analysis will consist of the measures identified in Figure 6.2: objectives of the MoA, duration of the Agreement; quotas and pricing; export revenue received by the GCNA; farm gate prices and bonus payments paid to farmers.

6.3.1 Objectives of the MoA–Quota and Supply Issues

One of the key aspects in assessing the factors which affected the implementation and performance of the MoU and MoA is that of the objectives of the agreement as outlined in the MoA (Appendix 4), which addressed the issue of quota allocation and supplies.

Quota/Volume allocation Issues

The Joint GCNA-ASPIN Marketing Agreement (1987) provided for the two major global suppliers of nutmegs to jointly supply 8,550 tons of nutmeg or 95.0 per cent of world estimated demand of 9,000 tons and 1,200 tons of mace with ASPIN supplying 6,300 metric tons and Grenada 2,250 metric tons, while ASPIN was expected to supply 1,002 tons of mace and Grenada 198 metric tons., at prices outlined in appendix 4.

This aspect of the discussion on the MoA is critical since it deals with the matter of compliance by the parties to the agreement. A key issues has arisen from the above allocation, is the basis on which the estimated world demand was established. The MoA did not identify the source for such a decision. Therefore, it appears that the estimate was based on the educated guess of the suppliers rather than on sound objective facts.

The other issue which has arisen has to do with the management of supply by the parties to the agreement. In this regard there were two provisions: Article 2, p.3 states,

> " any additional quantities to be placed on the market in 1987 shall be subject to negotiations", and ," in the case any one party cannot supply its agreed share and /or the additional quantities assigned, then the other party shall automatically fulfill the shortage."

The article failed to provide details on the basis or methodology to be applied when deciding on the additional quantities to be placed on the market and the mechanism for doing so. For example, if the situation requires ASPIN to fulfill an order to a GCNA customer, there was no protocol for meeting this immediate demand nor for any future engagement by ASPIN with the customer. The existence of such ambiguity in the agreement increases the possibilities of conflict between the parties, which in turn can lead to instability and ultimate failure.

Using independent data supplied by the Commonwealth Secretariat, 1992, Table 6.2 shows that at no time during the period of the agreement were the primary stakeholders collectively or singularly able to consistently comply with their set quota. The data reveal that Indonesia supplied beyond its quota in 1987, 1988 and 1990; only in 1989 did it supply under its quota (3,269 metric tons). In 1986 and 1987 the GCNA supplied over its quota by 320 tons (negate the data for 1986 since most of the sales for that year were contracted in 1985). However, for the remaining duration of the Joint Marketing Agreement, it under-supplied its quota by a maximum of 238 tons in 1989.

Table 6.2 also shows that the partners to the agreement collectively exceeded the agreed, 8,500 metric tons from 1987 to 1988, but failed to meet the requirement in 1989 and 1990, when sales amounted to 5,181 metric tons or 39.0 per cent less than the agreed quota amount. This case also found that ASPIN was the less compliant of the two partners. In the meantime, re-exports from Singapore (a non-nutmeg-producing country) was in excess of Grenada's supply, while it approximated half the amount of Indonesia's market supply, except in 1989 when it exceeded the ASPIN's supply by 146 tons. Since ASPIN did not include all of the nutmeg exports (estimated at 25 per cent), not all of the nutmegs reaching Singapore from Indonesia were illegal/smuggled. The nutmeg from Indonesia that was considered parallel exports (as far as the joint agreement was concerned) was from ASPIN members who sought to obtain sales and income from Non-ASPIN sources. . The absence of verifiable data from Indonesia makes it difficult to conduct in-depth analysis on the state of the nutmeg industry there.

The above implies that there was no discipline and compliance to the agreement entered into by the two major stakeholders to the agreement, and that absence of compliance to the agreement was a contributing factor to the decline of efforts aimed at cartelisation, via the instrument of the joint marketing agreement (Chang, 2016)

Table 6.2 shows that during the period the objective of restricting supply by both parties to 8,550 tons was not effectively met, as both parties exceeded their quota amount except in the case of Indonesia (1989) when its exports declined, and in Grenada whose exports from 1988 to 1990 fell below the agreed quantities. The reason for Grenada's performance in that period was accredited to its commitment not to exceed its obligation to the agreement, as well as the lack of demand from the international buyers, which was in essence the foreign buyers' reaction to the higher prices which accompanied the signing of the agreement in 1987 (interview with Lord 19 March, 2015). The reaction of demand to the increases in price is reflective of the elasticity discussed in section 3.4.3. The evidence suggest that the price elasticity of demand for an increase in price of nutmeg even in the short term is high, as nutmeg users and consumers cut back on consumption or seek substitutes. Stockpiling of nutmeg by traders in anticipation of the price increase under the market agreement may also have contributed to the fall in demand post agreement.

GCNA's desire to comply with the agreement was also expressed by then Secretary to the GCNA BoD, , Ms. GIttens, who stated,: "the quota system imposed on the market during the GCNA-ASPIN Agreement was the main cause of the present large stock holding by the association, since GCNA refused to satisfy orders once its quota was met." (Minutes from GCNA BoD Meeting 15 July, 1991). Similar sentiments were also expressed by Moermon, who stated, that Grenada was the only true partner to the agreement (Interview with Moermon, 20 October, 2010). These statements reflect the extent of compliance to the agreement by the GCNA.

Table 6.2 World Exports of Nutmeg by Indonesia, Grenada and Singapore (re-exports) 1985 – 1990

Year	Indonesia	Grenada		Singapore(Re-exports)	World Exports
	metric tons	Metric tons	Sum of Indonesian & Grenadian Export	Metric tons	Metric tons
Agreed quota	6,300 metric tons	2,500 metric tons	Metric tons		
1985	8,008	3,521	11,529	2,677	14,206
1986	6,622	2,951	9,573	2,342	11,915
1987	8,870	2,576	11,446	1,425	12,871
1988	6,755	2,031	8,786	3,193	11,979
1989	3,269	1,912	5,181	3,415	8,596
1990	8,493	1,960	10,453	7,391	17,844

Source: Data obtained from Commonwealth Secretariat, 1990 and compiled by researcher

According to many observers, authors, and traders such as Logie (Interview with Logie 5 April, 2005); Lord (Interview with Lord, 19 March, 2005), and Pomeroy and Marks, 1995), and as discussed in other parts of this report, ASPIN was unable to control the flow of nutmegs from Indonesia on the global nutmeg market because all exporters were not members; this inability on the part of ASPIN to control exports from Indonesia fuelled the parallel sales from Indonesia to Singapore. This inability on the part of ASPIN was an inherent problem which was not in keeping with the conditions necessary for the efficient and successful implementation of the joint agreement nor for the development of a cartel.

The extent to which the agreement could have survived depended on the ability of its partners, particularly ASPIN to control supply and prices. However, as highlighted above, the inability of ASPIN to control the flow of nutmegs to the international market meant that more nutmegs were reaching the international market than was anticipated by the agreement.

Table 6.2 also serves to demonstrate the variance from the two major global producers and the demand of world imports. It shows that during the period 1986–1990, world imports ranged from 11,831 to 12,930 tons, while exports ranged from 11,915 tons to 17,844 tons (Tirtawinata,1995). The import figures as stated here must not be confused with the previous data on world consumption of nutmeg since what is imported is not necessarily what is consumed, and hence agents and brokers like Catz and Fooks& French were also holders of large quantity of unsold stocks. Additionally, the data on imports and consumption seem to range depending on the source of the data.

The variance between world exports and imports suggest the existence of a structural problem of oversupply in the global nutmeg market. This problem is not new to the nutmeg trade, since as early as 1950 the Jackson Commission Report, 1950, p.3 stated: "The world produces two and a half times more nutmegs than it consumes." Forty-two years later (1992) this structural supply problem was described in the Grenada's delegation report from Indonesia as follows:

> "The present supply of nutmegs on the world market exceeds the demand thereby creating a buyers' market and resulting in significant drop off in prices. The present annual world production is estimated at 12,000 tons while the estimated consumption is 900 tons."
> (Grenada Delegation Report, 1992).

One of the key questions, therefore, which emanates from the above data, is where does the rest of the excess stocks/inventory resides? As shown in discussion on the GVC (Chapter 2 and 3), most of the unsold stocks were held by the producers and to a lesser extent by agents and brokers. In the case of Indonesia, the stocks were held by ASPIN, domestic exporters, while in the case of Grenada, the GCNA was the main holder of unsold stocks This evidence further proves that the commodity trade was "buyer-driven and not producer-given,"

Therefore, in terms of the GCNA's and ASPIN's ability to realize their quota objectives, this was not achieved, especially in the case of ASPIN. Marshall and Mark (2012) concur that compliance is also critical to the success of a cartel but that compliance comes from the internal workings of the cartel and each member's willingness to be so compliant

6.3.1.1 Pricing Issues

The second major essential feature of the Joint Agreement, and hence the effort at cartelisation, is that of control of the pricing mechanism in order to keep prices high, since technically, in the absence of collusion it is the relationship between supply and demand which establishes the price of a product. . It is important to examine how the established pricing objective was realised. Some experts (Connor, 2007; Eckbo, 1976; Levenstein and Suslow, 2004) have argued that price increases are not the sole objective of all cartels but that it includes other objectives such as market share expansion, and the need to reduce and/or eliminate competition. It is true that in the case of the GCNA-ASPIN attempts at cartelisation, the primary objective was to increase the price of nutmeg over and above the then market price, or at a price higher than what would be obtained in the absence of collusion, by restricting the quantity of nutmeg available on the market. As a consequence, the analysis of the extent to which the pricing objective of the cartel was achieved will be assessed by comparing the prices prior to the 1986/87 Agreement versus that obtained during the attempt during 1987-1990.

The evidence suggests (see Table 6.3) that during the period 1987–1989, this pricing objective was achieved, as the prices obtained were in excess of the agreement, but started to decline from 1989, reaching the lowest point in over a decade.

Table 6. 3 highlights the prices obtained by the GCNA before and during the period of the agreement. The table indicates that price volatility continued during the implementation of the agreement for all grades of nutmeg. The variances in price for SUNS ranged from US$5,400 which is US$600 less than the agreed quota price, and US$1000, in excess of the said agreed price. This volatility was reflective for each product range (see table 6.4).

The pricing situation for mace was no different from that of nutmeg, as the price for mace traded in excess of US$3,000 above that which was agreed to by the agreement. (James newspaper interview Grenada Today, June 22, 1990).

Table 6.4 provides a comparison of the prices as per agreement and the average prices received by the GCNA during the period 1986-1989, by which time the prices began to decline, and the relationship entered a dissolution phase.

Table 6.3 shows that during the period 1987–1989, the GCNA achieved the pricing objectives as established in the agreement. However, this level of pricing was not maintained for very long, as prices started to collapse by 1989 (see table 6.5.) due to the excess supply of nutmeg reaching the international market. (Interviews with Renwick, 20 June, 2006; interview with Lord, 19 March2015; Interview with Logie 5 April, 2015; and Tirtawinata, 1995).

This issue will be revisited and expanded upon in Chapter 7, to show how this factor contributed to the decline and failure of the attempt at the cartelization of the global nutmeg market. .

Table 6.3 Comparison of Price Levels as per Joint GCNA-ASPIN Agreement 1986 vs. Prices Actually Received by the GCNA

Type/Grade of Nutmeg	Prices Set by the Agreement (US$) per Ton (1986/87)	Prices Actually Received (US$) per Ton during (1987-1990)
SUN	6,000	5,400 – 7,000
110	6,200	5,200 – 7,500
80	6,650	5,200 – 7,500
Defective	6,650	5,000 – 7,200
Type/Grade of Mace		
Number I	11,750	14,850
Number II	Not available	8,000 – 13,200
Broken	10,000	5,000 – 9.000

Source: GCNA/ASPIN Agreement (1986) and Grenada Today Newspaper (1990)

6.3.1.2 Duration

Within the context of cartels, such as the Joint GCNA-ASPIN Agreement (Scherer, 1970), successful performance is described in terms of the duration of the agreement. Dick in Grossman (2006) expressed the view that cartels, whose primary purpose is to fix prices, tend to be unstable because such contracts tend to attract fringe competition and therefore affect the longevity of such agreements. Studies undertaken by Levenstein and Suslow (2006) conclude that the average duration for such contracts is five years, and many may break up in less than one year. Hence, an examination of the duration of the sustainability of the GCNA-ASPIN Agreement is worth considering in an effort to establish the longevity of the effort to maintain the agreement.

Despite the use of duration as the most common measure of performance, this singular measure is deemed unsatisfactory. Levenstein and Suslow (2006, p: 45) observe that "cartel duration is the most common measure of cartel success, because it is the most easily measured, but it is clearly unsatisfactory in capturing the economic impact of cartels." It is precisely for this reason that other indicators have been used to help assess the performance of the Agreement as a cartel and in particular its impact on the GCNA.

According to Levenstein and Suslow (2006) cartel duration depends on four major factors:

(1) The Number of Firms and Industry Concentration

In theory and intuitively the higher the concentration of supply in a small number of firms the greater the chances of a cartel surviving and fulfilling its objective of earning high profits for its members. This is because a smaller number of firms with the common objective of maximizing their profits would have it in their interest to prolong the cartel and abide by the rules. Under cartel conditions it is critical that supply be controlled as part of the strategy to maintain prices at high levels. A cartel can only drive prices up by having its members cut back or vary production based on demand from time to time (Hirshleifer, Glazer and Hirshleifer, 2005). Such coordination is easier with high concentration of supply.

However, Levenstein and Suslow (2006) observe that there is ambivalence in the empirical findings in this area. They further found that duration was negatively related to firm concentration, and that empirical results are ambivalent on the issue. Dick (1996a) finds a negative association between concentration and the likelihood of cartel formation, and did not find any clear empirical relationship between the two. On the other hand Utton (2012) identified a high level of market concentration as a condition for the success of cartels while Posner (1970) finds a more positive relationship between firm concentration and success of cartels.

GCNA perceived that market concentration was high on the assumption that ASPIN was capable of controlling a high proportion of nutmeg exports from Indonesia. In practice ASPIN's control of the supply of Indonesian nutmeg was low and short-lived leading to the effective end of the Agreement in just over 2 years as detailed below,

(2) Large Customers

There is growing evidence from contemporary international cartels that successful collusion is possible in industries with a few large customers. In the case of the GCNA-ASPIN Agreement, Catz was the single largest buyer and agent for both members of the cartel (until February 1989, when by virtue of policy changes, they were no longer the sole agent for ASPIN's nutmegs), but was not the largest global buyer and reseller. The archival records suggest that the change in policy from one major buyer to multiple buyers, which occurred in Indonesia in 1989, contributed to a decline in prices and served as a major contributor to the shortened duration of the cartel. However, whereas Catz was the largest customer for direct purchase from the producers, the real influential customers were the wholesalers, retailers and processors who processed and marketed most of the raw commodity to industrial users. The demand for the raw commodity is a derived demand, its demand is a function of the demand for the products that use nutmeg and mace.

(3) Nature of Demand

Levenstein and Suslow (2006), citing Eckbo (1976), found that cartels are able to raise prices substantially only if demand is sufficiently inelastic and there are few short-term substitutes. This condition appeared to be met for nutmeg and mace which are used in very small quantities in food processing and by consumers. Given the levels of consumption, price elasticity would be expected to be low. However, if the cartel members do not control most of the supply (given the existence of parallel exporters), their attempts to keep prices high would be undermined by non-cartel suppliers.

Table 6.2 indicates that the average international market price started to increase from 1986 but started to decline by 1989. The reasons for this decline were attributed to the increase in supplies from Indonesia, which was indicative of the inability of ASPIN to control the market , as well as the fact that the price increase was so significant (300 per cent) in such a short period of time, that it was unsustainable.

(4) Cartel Organization and Learning.

It is argued that in order for such collusive agreements (as those intended to establish pure cartels) to be effective organizations involved in such a process must understand and learn how such agreements work, This is deem to be important since the extent to which these organisations learn about the relationship to which they become engage the greater would be the chances for success. Learning on monitoring and structuring of incentives to prevent cheating are also important in achieving success.

6.4 Performance of the agreement

6.4.1 Production, Revenue and Income Analysis of the agreement

This sub-section serves to explain the financial performance of the GCNA during the period of the Joint Agreement, through the use of specific financial ratios.

Policy makers, nutmeg farmers, the business community and the general population in Grenada had expressed concerns about the highly publicised financial “boom and bust” which had punctuated the life of the GCNA. These concerns reached a peak during the period of the GCNA/ASPIN Agreement. During the almost five years (on and off relationship) of the agreement, the GCNA's income experienced a high of EC$42.5million in 1988 and a low of EC$13 million in 1991.

Since the financial performance of the GCNA was of critical importance to the country, it is therefore important to dissect the financial/accounting performance of the association in this discourse, and place it within the narrative and chronology of events relating to the performance of the cartel.

6.4.1.2. Production Delivery and Exports of Nutmeg and Mace from GCNA, 1986-1991

The third aspect of analysis of the performance of the agreement is that of the production and delivery of nutmeg and mace to the GCNA by farmers. It seeks to analyse to what extent the increasing price influenced the level of production by the farmers during the period of the attempted cartel During the period 1986-1990, the GCNA purchased from its members a total of 29,355,698 pounds of nutmeg and 3,136,981pounds of mace (GCNA Financial Statement & Trading Summaries, 1986-1991). Table 6.5 shows that in 1986, the year of the signing of the Agreement, the GCNA bought approximately 5,148,799 pounds of nutmeg and 474,360 pounds of mace. During the years 1987–1990 nutmeg production ranged from 6,018,669 to 6,086,949 in 1990. Therefore between 1986 and 1990, the production of nutmeg increased by 938,105 pounds, or 18 per cent, while mace increased from 474,360 in 1986 to a high of 741,344 pounds in 1988 or 56,3 per cent, but declined to 634,636 pounds in 1989 and finally declining to 606,614 pounds in 1990, but remained higher than 1988.

There are three main reasons for that occurrence. First, there was virtually no known natural commodity substitute for nutmeg and mace, even products such as cloves and cinnamon are not very good substitutes. During the years 1987-1990, it was rumored that one of the unintended consequences of the sharp price increase was the intensive research conducted by processors and users in the GVC for the development of synthetic nutmeg oils, smells etc. in order to replace the authentic nutmeg (Interview with Robertson, 16 July, 2005). However, by the time the agreement collapsed there was no confirmation that there was any success in that regard as a replacement for Grenada's nutmeg. In this regard, it did not confirm Herweijer's predictions in the short term regarding competition coming from that sector, due to the rise in "cartel nutmeg prices."

Second, even if non-synthetic substitutes could have been found, it was not yet on the market and had to be plated and processed, which would take time, it was estimated that it would take a long time to transfer land from nutmeg to that of other crops. Additionally, the substitution process would be costly and irreversible in the short run. It would also be difficult to convince farmers who were versed and skilled in nutmeg production, to switch from nutmegs to other substitute crops, despite the fluctuating farm income they received from nutmegs. This, in fact, represents a major entry barrier to entering the nutmeg market.

Third, a new crop would also mean reskilling those persons who were already used to the production of nutmeg, to which of course a cost would be attached, as well as a consequent loss of income. The small nutmeg farmers never earned enough to save; they lived at a subsistence level, and changing would plunge them into dire economic crisis.

Additionally, the reason purported by many (Brizan, Renwick, Robertson, Logie and Lord) for such increased deliveries by the farmers is the increased earnings received by the GCNA, which accompanied the signing of the Joint Agreement. As per GCNA's modus operandi, the increases in the export price were passed on to the farmers by way of increases in the farm gate/advance price and bonus paid to the farmers.

Therefore, at the micro-economic level, the farmers-stakeholders, driven by their need to earn higher income, especially when the price paid by the GCNA matches or exceeds their expectations, increased the delivery of the commodity. The following pricing discussions will establish the relationship between the increased farm gate price and the volume of nutmeg delivered to the GCNA, and thereby increased pressure on the GCNA to get the additional supplies onto the market.

6.4.1. 3. Export Revenue Earnings by the GCNA

The fourth aspect of analysis of the performance of the agreement is that of the export revenue earned by the GCNA during the period of the attempted cartel. Table 6.6 highlights the revenue earned by the GCNA on the global market and how it was shared with the farmers, by way of advanced and bonus payments to the farmers, during the period 1985–1990.

The effect of the signing of the MoU in securing the high price was stated by the manager at a board meeting on 4 October, 1986: "The higher prices had already been obtained beyond the prices stipulated in the Agreement."

As a result of the increased export price prevailing on the international market, the GCNA benefitted through increased revenue. At the end of the 1985 nutmeg year the GCNA's annual revenue totalled EC$12,467,528. By the end of the nutmeg year in 1986, revenue increased to EC$20,765,580, an increase of EC$8, 298,052 or 66.5 per cent on sales of 7,531,145 pounds of nutmegs and 485,998 pounds of mace. The increased quantity sold was above the annual production for the current nutmeg year. The additional amount was obtained from unsold stocks from the previous years.

Table 6.4 also show that revenue increased as exports declined from 1986–1988. From the signing of the Agreement in 1986 to 1988, revenue increased by 105 per cent. However, by 1989, total revenue started to decline and continued to 1990 by 31 per cent.

The reasons for the decline in exports and revenue were attributed to a number of factors such as the impact of parallel exports of nutmegs from Indonesia via Singapore; changes in ASPIN's sales policy from a single buyer to multiple buyers, and the unexpected deregulation of the Indonesian market which came by way of a decree from the Government, as part of its IMF-inspired structural adjustment program, and the Catz decision to release the large stocks of unsold nutmegs which they were storing in Rotterdam warehouses.. All of these factors combined to increase the supply of nutmeg onto the market and thereby cause a decline in the prices.

The above issues will be addressed in detail in Chapter 7, since these conditions are seen as the reasons for the eventual collapse of the Agreement and the demise of efforts to establish what was hoped to be a cartel.

Table 6.4 GCNA Production, Exports and Revenue 1986-1990

Year	Production		Export		Revenue	Differences
	Nutmeg (lbs)	Mace (lbs)	Nutmeg (lbs)	Mace (lbs)	(EC$)	(EC$) on annual basis
1986	5,148,799	474,360	7,531,145	485,998	20,765,586	
1987	6,018,669	680,027	5,284,494	495,160	38,626,440	17,860,854
1988	6,074,553	741,344	4,995,398	573,205	42,554,991	3,928,551
1989	6,026,773	634,636	3,961,834	423,959	33,740,654	-8,814,337
1990	6,086,904	606,614	4,256,330	387,445	29,464,798	-4,275,856
Total	29,355,698	3,136,981	26,029,201	2,365,767	165,152,469	

Source: Researcher from data extracted from the GCNA, Annual Financial Statement and Trading Summary, 1986 - 1991

Overall, during the life of the agreement, the GCNA generated revenue of EC$165,152,469, as compared to EC$55,162,948 between1980-85. This demonstrates the positive revenue impact which occurred to the GCNA during the existence of the agreement.

6.4.1.4 Export Unit Price for Nutmeg and Mace Received by the GCNA.

The fifth aspect of analysis of the performance of the agreement is that of the export unit price received by the GCNA for nutmeg and mace during the period.

Table 6.5 shows that in 1985, the GCNA received EC$1.35 per pound of nutmeg. It also shows that from 1986 to 1990, prices increased steadily to 1989 but declined in 1990. By 1987, the price increased to EC$6.18, an increase of EC$5.83 or 431 per cent on the 1985 price. Prices continued to increase but fluctuated to EC$6.96 in 1988. This represented an actual increase of EC$5.61 or 415 per cent. The price received in 1989 declined by a meagre 0.2 cents on that of 1988 to EC$ 6.94. However, by 1990, the price had continued to decline to EC$5.76 per pound. Although this amounted to an increase on the 1985 base year, it was a decrease on the previous two years (1988-89) by EC$1.20 or 17 per cent on the peak price in 1989, and EC$ 1.18 or 15 per cent decline on 1989. Finally, in 1991, the price fell to the lowest level since 1986: EC$3.11. This represented an actual decline of EC$3.85 or 55 per cent lower than the1988 price.

With regards to mace, the price per pound increased from EC$7.93 in 1985 to EC$8.12 in 1986. In 1987, the price per pound climbed significantly to EC$11.37, an increase of EC$3.25 or 43 per cent. In 1988 and 1989, the price continued its climb to EC$13.51 and EC$14.7, respectively, before it declined to EC$12.73 in 1990.

Table 6.5 Export price per pound received by GCNA for nutmeg and mace 1985 - 1990

	Price Paid to GCNA	Price Paid to GCNA
Year	Nutmeg p/lb (EC$)	Mace p/lb. (EC$)
1985	1.35	7.93
1986	2.23	8.12
1987	6.18	11.37
1988	6.96	13.51
1989	6.94	14.7
1990	5.76	12.73

Source: Researcher, from data extracted from the GCNA, Financial Statement and Trading Summary, 1986-1990

The factors which were indicated above for affecting the production/delivery of products to the GCNA, which in turn led to increased supply onto the International market, had the negative impact on prices, as the quantity of supplies of such undifferentiated products increased, it triggered a decline in prices

The data show that there is a direct relationship between the international export price received by the GCNA and the transfers that went to the farmers, in terms of increased farm gate prices and bonuses.

The above serves to explain the performance of the GCNA with regards to the export prices received by the GCNA during the period of the existence of the Joint Agreement.

Overall, the objective of securing stable and high prices was achieved, but it was short-lived as the market continued to fluctuate in prices, thus establishing the difficulty of attempting to find an alternative sustainable mechanism for the imposition of a price fixing mechanisms in the nutmeg market.

GCNA had an interesting position in the GVC, as it stood between the farmers who were at the start of the external nodes in the GVC, as a consequence, the GCNA can be described as the controller in the production node since the price they passed on to the farmers affected the volume of nutmegs delivered by the farmers.

6.4.2 Impact of the Revenue Earning on the Internal Profitability of the GCNA

While the gross revenue of the GCNA fluctuated, so too did its internal financial performance (see Appendix 4). A review of the profitability of the GCNA showed the following, with respect to the gross and net profit margins. The gross profit is defined as the excess in sales over the cost to produce and/or sales multiplied by 100. Hence in 1988, the gross profit margin was 72 per cent. In 1989 it declined to 51 per cent. This performance could have been attributed to the declining gross income received by the GCNA from export sales (see table 6.6), and the increase in the cost of produce from the farmers, as well as the increasing provision which had to be made for the unsalable stock of nutmegs, which increased from zero in 1988 to EC$6,035,000 in 1989(see Appendix 4). This gross profit measure means that for every EC$1.00 of sales achieved, the gross profit margin was EC$0.72.

In 1990, the gross profit margin experienced a slight increase to 52 per cent; this was due to the reduced cost of the produce from approximately EC$17.3 million in 1989 to EC$15.3 million in 1990. By the time of the collapse of the agreement in 1990, the gross profit margin suffered a dramatic decline of 5 per cent, as income declined to EC$12.0 million from the previous year's income of EC$29 million (see Table 6.5).

With regards to the net profit margin, the ratio is defined as the gross income divided by the trading surplus or loss, multiplied by 100. This net profit margin is generally perceived by some managers to be the most important financial measurement in determining the overall profitability of the business (Kepner & Wysocki (nd).

By 1988, the net profit margin of the GCNA was 61 per cent. This high margin mirrored the increase in income which amounted to EC$42.O million and a surplus of EC$26.0 million. By 1989, this ratio declined to 32 per cent. This is in line with the decline in the gross income of EC$33.7 million, coupled with the decrease in the trading surplus from EC$26 million in 1988 to EC$10.8 million in 1989. By 1990, the net profit margin continued its decline from the previous year's margin of 32 per cent to 26 per cent. This was so as the gross income and trading surpluses continued to deteriorate. During the financial trading year, the Association's net profit margin collapsed into negative trading. The ratio then was -36 per cent. One of the major contributing factors to this dismal performance was the loss of EC$5.1million experienced by the GCNA during that trading year.

A reduced net profit margin indicated that the Association was operating on less or reduced cash and therefore not able to finance some of its operations from its own resources. While this was occurring, the Board of GCNA became very concerned about the declining revenue and the state of affairs of the organisation.

The review of how the reduced earnings were impacting the narrative and dynamics at the GCNA Board level occurred at the meeting of the Board on 14 March, 1989, when Ferguson, sensing the need for information to be able to better understand the changes within ASPIN, and moreover to reduce the information symmetry of the Board, recommended that the Board seek an urgent meeting with Indonesia. Further review of the minutes of the Board showed that up to this that there was no expressed concern about the state of the internal finances of the GCNA.

6.4.2.1 Farm gate Prices Received by Farmers-1986-1991

The fifth aspect of analysis of the performance of the agreement is that of the farm gate export unit price received by the GCNA for nutmeg and mace during the period

It shows the pattern of farm gate prices received by the farmers and also helps explain to what extent the financial motivations of the GCNA stakeholders, in general, and of the GCNA BoD in particular, were for participating in the Agreement.

Table 6.6 shows the farm gate price paid to farmers under the Joint Marketing Agreement by the GCNA. It highlights the price increases which accompanied the agreement. Moreover, the table highlights the factors which were part of the cross-cutting issues that gave rise to the need for joint actions by GCNA and ASPIN. The evidence in the next chapter will show that whereas the low level of prices helped spur the attempt at forming the cartel, which was followed by dramatically higher prices, these very increases were a major contributor to the eventual collapse of the attempt to form the cartel (Tirtawinata, 1995).

During the period (1986–1991), the farmers experienced dramatic increases in their farm gate prices, and the value passed on by the GCNA to them as compared to the previous five years (1980-1985). Table 6.6.shows that during the period the farm gate prices increased from an average price of EC$1.08 per pound in 1985 to an average of EC$3.12 during the period 1986-1990. The increase represented an average actual increase of EC$2.03 or 186.2 per cent. This increase ensured that the farmers received additional amounts of money in their pockets, and ultimately into the economy.

In 1986, the price per pound received by the farmers amounted to EC$2.02. In 1987, the price rose to EC$4.02, an increase of EC$2.00 or 99.01 per cent. This increase continued into 1988 to EC$4.12 –or 249-per cent increase. However, in 1989, the price began to fall, moving fromEC$4.12to EC$3.94, a decline of EC$0.18 cents from 1988, or 4.37 per cent. By 1990, the downward pressure in price continued to EC$3.04 or 23 per cent on the preceding year. .

This downward pressure on prices caught the attention of the GCNA Board, prompting them to try to obtain marketing information for the first time since the signing of the MoU, this research has ascertained. It was within this context of declining international price which was passed on to the farmers, that Dr. Guido Marcel was accommodated to provide feedback on information he had gathered while on a business trip in the East, and Renwick was directed to obtain marketing information on the cause(s) for the decline in prices.

The increased price received by farmers from 1986 to 1991 was indeed extraordinary, unique since the start of the export of nutmegs from Grenada in 1919. In fact, farmers came to expect that such increases would continue for much longer than they did. Socio-economically, nutmeg gave an image of profits and wealth, particularly for those who had large acreage. Notwithstanding the consequences of this image, it also influenced many small farmers to return to their nutmeg holdings. Indeed, many had abandoned their plots due to low prices. The archival data show that the number of farmers during the cartel years increased from 6,097 in early 1980s to 6,787 in the early 1990s (GCNA, 2008). This numerical growth showed the socio-economic impact of the increased prices received by the farmers through the reactivation of non-active farmers, as well as its thrust in bringing new ones into the industry. Additionally, the price of nutmeg lands increased, as the demand for the price received by farmers increased (Interview with Robinson, 18 August, 2014).

Table 6.6 GCNA's Farm Gate Prices Received by Farmers and Percentage Changes (1986 – 1990)

Year	Price per Pound (EC$)	Change in price per Pound (EC$)	Percentage Change
1985	1.08		
1986	2.02	0.94	87.0
1987	4.02	2.00	99.0
1988	4.12	0.10	2.5
1989	3.94	-0.18	-4.4
1990	3.04	- 90.0	-22.8

Source: Researcher, from data extracted from the GCNA, Annual Financial Statement and Trading Summary, 1986-1990

During the period under review, the financial benefits received by farmers-stakeholders fluctuated. The most positive impact of the attempt at forming the cartel was through the pricing mechanism of the GCNA, which allowed them to pass on a significant portion of the value they received from the export market to their primary stakeholders, the farmers. The financial benefits received also had psychological impact on the Grenadian economy, as more farmers were drawn back to primary agriculture in general as a means to secure their families' livelihood (Interview with Brizan, 20 May, 2006).

6.4.2.2 Total Advance and Bonus Payments to Farmers by the GCNA, 1986-1990

The total advanced payments paid to the farmers during the period amounted to EC$87,359,211. Table 6.8 shows that in 1985, the GCNA Advanced Payments paid farmers approximately EC$4, 673, 414 million. However, by the end of the 1986 financial year, payments amounted to EC$8.242,493, or 76-per cent increase from1985. As total revenue of the GCNA increased, the benefits were passed on to the farmers, and therefore as total revenue reached its peak years (1987-1990), so too did the advanced payments (see table 6.7). The period 1986-1989 witnessed a significant increase of 121 per cent. However, the advanced payments declined from 1989 to 1990, as total revenue declined. (see Table 6.7).

6.4.2.3 Bonus Payments Received by GCNA Farmers

The sixth aspect of analysis of the performance of the agreement is that of the bonus payments received by the GCNA for nutmeg and mace during the life of the agreement.

This section serves to explain/ compare the impact of the bonuses received by GCNA farmers five years prior to, and following, the Joint Marketing Agreement.

One of the key rationales for establishing the GCNA was to: "[Bestow]upon producers some share of the profits of the export trade which is at present handled by middle-men," (Nutmeg Industry Ordinance, 1947) As indicated before, the GCNA payment system allows for the payment of an annual bonus, which is based on profits obtained by the GCNA. This excess is then distributed among farmers on the basis of the quantity of nutmegs sold to the GCNA during that given nutmeg year (Section 64, Nutmeg Industry Ordinance, 1947).

With regards to bonus payments received by the farmers, the effects were equally felt as was the case with advanced payments, at the producers' end of the GVC. During the period-1980-1985, the GCNA paid the farmers approximately EC$10.3 million. The membership was approximately 6,766 farmers, who sold nutmeg and mace during the bonus years (GCNA, 2008). As a consequence, farmers received an average amount of EC$152,264.00 per farmer.

With regards to the period 1986–1990, bonus payments received by the nutmeg farmers amounted to EC$51million or an annual average of EC$8.5 million by 1990, the year that the agreement collapsed and the active membership of the GCNA stood at 6,835 (GCNA). This increase in membership can be attributed to the fact that nutmeg farmers were experiencing price hikes for their produce, and the increased price provided the incentive to those farmers who owned nutmeg lands but were not harvesting, due to the then low prices, to resume harvesting and delivering to the GCNA. The average bonus payments received per farmer during the period amounted to EC$746,159 or an increase of 390 per cent, on the previous five years. The following figure highlights the bonus benefits which were derived by farmers during the period under review. In 1985 the bonus/surplus payments received by farmers amounted to EC$2.0 million. In 1986, the year in which the agreement was signed, the bonus payment increased to EC$5 million, representing an increase of EC$3 million or an increase of 150 per cent.

By 1987, the bonus payment increased further to EC$15.0 million. This upward trend in bonus payments continued into 1988, when EC$16.0 million were paid out to farmers. However, by 1989, the farmers started to experience declining bonus payments in line with the decrease in export earnings received by the GCNA. In that year, payments declined to EC$10 million, thus representing a decline of EC$6 million on the previous year's payment. By 1990, concomitant with the decline in revenue, bonus payments declined to EC$5 million. The above narrative has demonstrated that one of the key objectives of the GCNA, that of providing increased income to the farmer, was realised, when compared to the period leading up to the signing of the Agreement. The financial objective is also intertwined with the political objectives of some persons on the GCNA Board, particularly James, who hoped to use the success of the agreement as further political capital to increase his popularity and acceptance as a candidate in the 1990 general election.

Table 6.7 Advance and Bonus Payments paid to Farmers 1985 – 1991

Years	Advance Payments Made to Farmers (EC$)	Bonus Payments to Farmers (EC$)
1985	4,673,414	
1986	8,242,493	5,000,000
1987	14,341,376	15,000,000
1988	14,786,894	16,000,000
1989	18,157,970	10,000,000
1990	16,869,762	5,000,000

Source: Researcher, from data extracted from the GCNA, Annual Financial Statement and Trading Summary, 1986-1990

6.4.2.4 Percentage Share of Export Prices Shared between the GCNA and its Membership, 1985 –1990

The seventh aspect of analysis of the performance of the agreement is that of the share of the export prices received and shared between the GCNA and the farmers, during the period. With regards to the impact on the revenue received by the farmers during the period of the cartel, Table 6.8 shows that the farmers received between 52.8 and 90.6 per cent of the export prices which the GCNA received for nutmeg, and between 61.5 and 87.2 per cent for mace. Hence, overall, the farmers were the leading direct beneficiaries of the increase in prices, which the GCNA received as a result of entering into the cartel-like agreement with ASPIN. The share of the revenue received by the farmers was not surprising because the retention of more of the income earned from nutmeg by farmers-stakeholders was a key objective for the formation of the GCNA type co-operative.

Table 6.8 serves to collate, highlight and summarise the direct financial benefits which occurred to the farmers (primary stakeholders) during the period. It showed that overall the farmers were the main beneficiaries of the price increases, which accompanied the Joint Marketing Agreement between the GCNA and ASPIN. It also showed that a significant percentage of the export prices received by the GCNA were paid out to its membership through advanced and bonus payments. This, in turn, led to an increase in the number of farmers returning to harvesting their nutmeg plots, or new ones engaging in the leasing of abandoned plots (Interview with Logie, April5, 2015). This modus operandi of the GCNA would impair its longer-term financial performance and almost cause its financial bankruptcy, when the Joint Marketing Agreement finally collapsed in 1990.

Table 6.8 Percentage Share of Export Prices between the GCNA and Farmers

	Price Paid to GCNA	Price Received by Farmers	% of Price Received by Farmers	Price Paid to GCNA	Price Received by Farmers	% of Price Received by Farmers
YEAR	Nutmeg P/LB(EC$)	Nutmeg P/LB(EC $)	Nutmeg	Mace P/LB	Mace P/LB (EC$)	Mace
1985	1.35	1.08	80.0	7.93	5.25	66.2
1986	2.23	2.02	90.6	8.12	7.08	87.2
1987	6.18	4.02	65.0	11.37	9.20	80.9
1988	6.96	4.12	59.2	13.51	9.10	67.4
1989	6.94	3.94	56.8	14.70	9.04	61.5
1990	5.76	3.04	52.8	12.73	7.62	59.9

Source: Researcher, from data extracted from the GCNA, Annual Financial Statement and Trading Summary, 1986-1990

The benefits which occurred to the farmers are in keeping with the literature on stakeholders and their salience, given their stake within the GCNA, which indicates that members of the firm who are the primary stakeholders ought to be the main beneficiaries of the performance/outcome of their organisation. As such, the benefits so derived further serves to reaffirm the view that managers manage for the benefit of their stakeholders, given the stakeholder orientation of the firm. However, this research has found that a focus on short-term performance could seriously impair the longer-term performance of the GCNA, since as income surged with the accompanying high pay-offs to farmers with little or no retained earnings, the GCNA became technically bankrupt (Interview with . Brizan 25 July, 2006), this latter point will be further discussed in the following chapter.

6.4.3 Macro Level Performance Measure- Export Performance of Nutmeg Compared to the Other Major Export Commodities (Bananas and Cocoa)

This section is useful since the GCNA's participation in the ASPIN-GCNA Joint Marketing Agreement was partly presented as an initiative to earn greater returns to farmers, as well as to improve the island trade performance from the single most important export commodity from Grenada at the time. Chapter 2 detailed the GDP and highlighted the importance of agriculture and nutmeg in the performance of the Agriculture Sector in particular, and the national economy in general. One of the elements of the GCNA's performance which is deemed useful in the analysis is to compare the trading and income impact of nutmegs to cocoa and bananas, the other two major/leading agricultural export crops in the Grenadian economy. Chapter 5 provided evidence of the fluctuating but generally declining trend of the export price of nutmeg and of the other major agricultural export crops. However, this section examines the performance of those commodities when compared to the nutmeg trade during the period of the agreement, in order to demonstrate the short-term income impact of the GCNA. This analysis is important, since as indicated before, cocoa and bananas were part of other international agreements (in the case of cocoa, Grenada was part of the International Cocoa Agreement, while bananas were part of the special EU Banana Regime Trading Protection Agreement) and nutmeg was the only major export commodity for which there was no special international agreement.

6.5 Talk and Text on the Operations and Performance of the GCNA and ASPIN Business Relationship,

The above study has shown that the first two/three years of the business relationship between GCNA and ASPIN worked well financially, with the primary objective for the stakeholders of the proposed cartel being met. However, the relationship came under external pressure from the International Monetary Fund and World Bank (IMF and WB) during the structural reform program undertaken by the Indonesian Government.

While the GCNA was mainly focused on the price movements on the international market, they were unaware of the developments which were occurring with the nutmeg trade in Indonesia developments that would lead ASPIN to change its sales policy, thus affecting the operations, performance and duration of their effort at cartelisation. It is this interplay between the actions of external stakeholders and the primary stakeholders (producers) of the global nutmeg trade that attention is now turned to.

According to Soesastro (1989), the 1980s was the period of deregulation in Indonesia, a time when such measures were undertaken as part of a wider effort towards structural economic reform. This structural reform was part of Indonesia's policy response to the oil crisis, and the need to reduce the country's dependency on revenue from the export of oil. The 1980s were marred by the influence of liberal free-market thinking among international institutions like the World Bank and the IMF, which developed a package of liberal economic views that became known as the Washington Consensus. As Indonesia contemplated making the reforms dictated by the oil crisis, the liberals within the Indonesian Government began to influence their President to liberalise the commodities market (Soesastro, 1989).

As a consequence, in May 1988, a package of measures aimed at deregulating the financial and shipping sectors of the Indonesian economy was launched. This led, inter alia, to the ending of the "Plastics monopoly" (Soesastro, 1989). According to Soesastro (1989), the performance of the non-oil exports was encouraging and seen as a sign of successful deregulation policies, and as such, the full deregulation of the Indonesian market was only a matter of time. However, this full deregulation of the nutmeg market which took effect in May, 1990, started in 1989 with ASPIN announcing changes to its sales policy.

The deregulation of the Indonesian market impacted the operations and performance of the GCNA and also laid the basis for the collapse of the GCNA-ASPIN Joint Marketing Agreement. In fact, this demise started on February 2, 1989, with the announcement that ASPIN would from then on change its export and sales agreement from a sole buyer/exporter to open bidding by other licensed firms. The implication of such a statement meant that Catz was no longer going to be the sole export buyer of ASPIN's nutmeg, and therefore the export market for ASPIN's nutmeg would now open to competition -- a fact that GCNA did not take lightly. This factor will be further detailed in chapter 7.

According to Moermon (Interview, October 20, 2009), by 1989 ASPIN was coming under immense pressure from other "would-be exporters" who felt that Catz International held an unfair monopolistic position on the Indonesian Nutmeg Market, and as a consequence, there was a need to provide a fair basis for the sale of nutmeg from Indonesia. The political policy demanded the liberalisation of the commodity sector and fed into that nutmeg narrative, i.e. to end the buyer (Catz) monopoly of the export trade in nutmeg.

According to Tirtawinata (1992), by the time ASPIN changed its sales policy, there were 155 requests for exporters' licences waiting approval.

Additionally, the operations and performance of the agreement was affected by the increase in the parallel exports via Indonesia, which in fact occurred throughout the existence of the agreement (Tirtawinata, 1992). According to Tirtawinata, (1992) between 1986 and 1990 re-export of nutmeg from Singapore increased from 2,262 to 7,672 metric tons, while Indonesia's direct exports increased from 4,734 to 6,391 metric tons (Tirtawinata, 1992). These uncontrollable (Non-ASPIN) sales of nutmegs impaired the performance of the GCNA and its effort at extending the efforts to form a cartel. In fact, at the GCNA Board Meeting of June, 1989, the then manager reported that the smuggling of nutmeg from Indonesia was negatively affecting the market, as well as the actions of Catz (see chapter 7 for further details).

In addition to the changes which were introduced by ASPIN, such as moving from a single exporter to tender bidding, there was another event that characterised this period: the resignation of Charles Sutjiawan, the Marketing Manager of ASPIN. Sutjiawan was a major exporter of nutmeg from Indonesia and a key advocate of the cartel. He was one of Indonesia's signatories to the MoU and the Joint Marketing Agreement between GCNA and ASPIN. His departure was interpreted by the GCNA as a sign of the tensions within ASPIN; that is to say, between those who were advocating a strengthening of the regulation of nutmeg export and those desirous of reverting to the pre-ASPIN era. His resignation, therefore, represented a loss of a key partner to the GCNA and the furtherance of the agreement.

Externally it was felt by many, including the GCNA delegation to Jakarta in July 1991. Increasing pressure by the IMF and World Bank to liberalise the commodity organisations in Indonesia, as a condition for financial assistance for the necessary macroeconomic structural adjustment and stabilisation in Indonesia led to the changes in ASPIN, which meant that the Indonesian nutmeg trade would revert to what it used to be prior to the coming into existence of ASPIN (see chapter 7 for further details).

GCNA received information that ASPIN decided to reduce the price of nutmeg below that in the Agreement in effect bringing it to an end. According to Tirtawinata (1992, p. 32),

> "Indonesia was experiencing slow sales at high prices, accumulating stocks, and increased smuggling both by unauthorized traders and members of ASPIN, and therefore if ASPIN members wanted the trade to move again, even at a loss and create the ability to purchase new stock at lower prices, then it had to make the decision to lower prices by a minimum of 30 per cent;"

6.5.1 GCNA's Response to ASPIN's Decision

The GCNA's response to the above policy changes was a mixture of nutmeg diplomacy and internal policy initiatives: meetings with Indonesian exporters; a reduction in farm gate prices to Grenadian farmers; and renewed consideration for the establishment of a nutmeg oil distillation plant in Grenada. Additionally, the GCNA at its meeting on March14, 1989, decided to intensify its interactions with ASPIN by formally requesting a meeting in order to discuss the declining international prices and to reaffirm their commitment to the "Joint GCNA-ASPIN Agreement", i.e., the attempts at cartelization.

As an attempt by the GCNA to gain more information and a better understanding of the events affecting the global nutmeg market, decided at its March 28, 1989 Board meeting, to accommodate a presentation by Dr. Guido Micelle, a bio-chemist and General Manager of the Grenada Produce Chemist Laboratory. He had attended the International Spice Meeting in Singapore and gathered certain information regarding the GCNA-ASPIN Agreement and other matters which he reported to the Board:

1. "That the GCNA-ASPIN Agreement was shaky;"
2. "There is a favourable market for Grenadian nutmeg, especially in Switzerland;"
3. "The European Economic Community (EEC), American Spice Traders Association (ASTA) and Japan are writing stricter rules for the importation of spices;" and
4. "The question of Mycotoxin in defective nutmegs was again raising its ugly head."

This presentation was part of the GCNA's response to ASPIN's action. The situation in this period was quite complex what with the declining price of nutmegs, the need to increase and maintain high prices and ASPIN's decision to reduce its price and change its marketing relationship with Catz International, creating much difficulties for those having to take decisions on the current state and future of the agreement.

The GCNA Board meeting of April 10, 1989 reported that the offer to meet in Grenada was rejected by ASPIN, and instead they proposed meeting in Jakarta. This was the dyadic stage of the failure of the relationship, as the communication between the two parties intensified, while they both assessed their own situation and made decisions. Additionally, other stakeholders such as the Government of Grenada, Catz International and Rucker & Slann (UK based GCNA Nutmeg Broker) were now getting into discussions.

At this stage, the GCNA decided to embark on measures aimed at restoring the agreement. This phase intensified when the GCNA Board of Directors on March19, 1989 agreed to send a two-member delegation to Jakarta, if ASPIN insisted that they were not coming to Grenada.

On April 19, ASPIN responded (telex of 20/04/1989), agreeing to the meeting but proposing that the date of the meeting be changed from May 25 to June15. The GCNA Board rejected this offer and insisted on their prior date. In response to GCNA's rejection, ASPIN counter-proposed by suggesting that the meeting take place in New York. After much discussion, the GCNA finally agreed to the date of June15. The two parties finally agreed that the meeting would take place on June17 in Jakarta. As a consequence, the GCNA confirmed their representatives to the meeting: the Chairman of the Board of Directors (Norris James, and the Secretary/CEO Renwick). This decision marked the end of a period of uncertainty and anxiety, which existed within the GCNA, as it related to the meeting which it hoped, would save the agreement. With the decision to meet, the Board hoped that the situation would improve; in other words, that ASPIN would agree to return to the status quo, by agreeing to implement the provisions of the Joint Marketing Agreement.

The GCNA remained committed to the pursuance of this agreement, by expanding the communication network. However, what GCNA failed to realise was that whereas they could deem the agreement to be legal, it was not enforceable by any third party, since such agreements are deemed illegal especially in the U.S, except in Germany where the courts ruled that cartel contracts are enforceable (Levenstein and Suslow, 2006.)

On May 25, 1990, the GCNA received a telex from ASPIN informing them that ASPIN would cease to exist, following the removal of export restrictions by the Indonesian Government.

Therefore, despite the efforts of the GCNA to persevere with efforts to maintain the agreement, its chairman had to finally announce that "the three–year old nutmeg pact signed between the island and it's major nutmeg producing partner, Indonesia, has virtually collapsed," (Grenada Today, June 22, 1990,p.13.)

The above response by the GCNA highlighted its lack of capacity to address the deteriorating nutmeg market condition which was partially due to information symmetry between themselves and the rest of the stakeholders in the GVC, politically driven motives by some individual stakeholders on the GCNA Board and a lack of international business experience. They were certainly holding on to a perception of the existence of an agreement for which there was no reality.

6.6. Chapter Summary and conclusion

This chapter studied how the interventions of other parties (external stakeholders) impact the creation, performance and the eventual collapse of the Marketing Agreement? with specific reference to the GCNA. It covered the period from the signing of the MoU in 1986 to the official announcement by the chairman of the GCNA, and receipt of confirmation from ASPIN, that the agreement had collapsed in May 1990.

The implementation of the Agreement was guided by the MoU and the MoA, as well as the legal structures of the business concerns: GCNA, ASPIN. Whereas the agreements provided for some of the general features of cartels, such as the restriction of supply and the setting of collusive pricing, but it lacked details regarding key operational structures and procedures, thus rendering it weak and in some cases inoperative and porous to challenges from the core members of the agreement, as well as from parallel exporters. Other than instituting the quota and pricing system in articles 2 and 3 of the agreement, the effectiveness of the operations of the agreement was hindered by the absence of certain regulatory features such as a body of laws/regulations , as obtained in the GCNA Ordinance of 1947, structures, organisation and control. The agreement did not establish a single entity for its management, so that when issues that threatened its continuity started emerging, there was no joint mechanism through which these issues could be addressed.

Additionally, there were operational challenges specific to the local markets of the islands. GCNA was obligated to purchase and sell all nutmegs and mace produced by its stakeholder-farmers; whereas ASPIN, an association of Indonesian nutmeg exporters, had no such obligation to its exporters and in fact “controlled” only about 25 per cent of the Indonesian exporters market that was itself plagued by parallel exporters -- a problem neither ASPIN nor the Government of Indonesia could control for sheer lack of critical mass, reach and influence.

The performance of the GCNA, and by extension the agreement, was analysed using five main criteria. First of all, using the objectives of the cartel, as reflected in its quota and pricing elements as contained in the articles of the agreements, it was found that the global demand for nutmeg was elastic in response to the price increase under the Marketing Agreement. The Agreement was also undermined by parallel exporters and suppliers from other parts of the world. The failure of the Agreement to establish new and joint institutions including appropriate structures led to the ASPIN’s inability to control the flow of nutmeg from Indonesia, thus leading to excess supply of nutmeg on the international market and a reduction in price, which in turn affected price and, eventually, the profitability of the GCNA.

The second group of criteria was that of the export trade of GCNA, including export prices received by the GCNA and the distribution of such earnings to the farmers. The evidence suggests that whereas the agreement sought to establish the two participants as price makers, they were in fact price takers as they lacked the power/driveness in the GVC to exert control over the demand for and price of nutmeg; Catz and other major exporters exerted some of that influence. The evidence further shows that as prices declined, there were no significant changes in demand, and as such suggested low elasticity of demand for nutmegs in response to price reduction. The evidence suggests that Grenadian nutmeg farmers benefitted significantly from the immediate increase in prices which accompanied the coming into force of the agreement; as parts of the increases in the export prices were passed on to the farmers. However, the price increase was of short duration because of the combination of global demand and supply conditions.

A reflective summary of the GCNA Auditors Report on the Statement of Trading for the nutmeg year 1988 captured the early impact of the GCNA's performance when it concluded inter alia that "the Marketing Co-operation Agreement between the Association and the Indonesian Nutmeg Exporters Association (ASPIN) continued to function to the benefit of the farmers of both producing countries and market demand continued healthy with prices showing further increases." (GCNA Financial Statement and Trading Summary, 1988, p.19)

The third criterion was the duration of the agreement. This is deemed by some experts as a key tool in assessing the performance of such agreement. The evidence suggests that the attempts at forming the cartel were short-lived (officially by the GCNA is 2.8 years, 1987-1990), however this case found evidence where the existence can be set as 3.8 years which started with the signing of the MoU in 1986, since the prices started increasing from that point to the official notification of the end of ASPIN's license on 25 May 1990, but with one major episode during that period – changes in ASPIN's Sales Policy in 1989), compared with other international commodity agreements and cartels, it had a lower-than-average life span. The evidence further shows that the duration itself was affected by the absence of the conditions deemed necessary for the formation and operationalisation of cartels such as adherence to the agreement, barriers to entry, product homogeneity and size of buyers.

The fourth criterion employed was an analysis of the internal financial operations of the GCNA during the cartel period. Primary stakeholders, both of the GCNA (farmers and Board of Directors) and ASPIN (exporters), viewed the cartel-like agreements as a means to control the supply of the primary nutmeg commodities market by limiting supply and increasing prices, which would lead to an improvement in the financial performance of their operations overtime, and particularly so in the case of the GCNA. The evidence from the series of income analysis shows that the immediate price increase indeed had a positive impact on the GCNA and the farmers, but that was short-lived. Additionally, the sudden collapse in prices in 1990, due to market glut, led to the technical bankruptcy of the GCNA, which incurred losses and could not meet its financial obligations to stakeholders by way of bonus payments.

An accompanying issue that arises in this study is the absence of counter factual evidence, i.e. whether the GCNA could not have achieved a similar level of financial performance in the absence of such an agreement. Since the collapse of the latter, there was a period (2007-2010) when the global price for nutmeg increased beyond that obtained by the cartel (see chapter 7). This is an area for future research so as to assess the cartel period with that new period in order to identify the causes/reasons for the difference and, as such, establish the necessity or otherwise to “re-cartelise” the global nutmeg trade.

Fifth, the role of known external stakeholders, such as Catz and the IMF, impacted the performance of the agreement. The evidence suggests that whereas Catz was a significant global trader in nutmeg and held a strategic monopolist position in the GCNA=-ASPIN export trade, both the GCNA and ASPIN over emphasised Catz’s role as a global monopolist, or allowed itself so to believe thanks to the effective economic and social evangelism of Catz; and by information asymmetry which clouded the GCNA’s capacity to make appropriate decisions. In fact, more recent research has shown that Catz was a number-three player at the time with control of only of seven per cent of the global nutmeg trade with other players: Man Producten, 20 per cent and King Spice, 26 per cent (Marks and Pomeroy, 1995). With regards to the role of the IMF/World Bank, the evidence suggests that the requirement for deregulation of the Indonesian Commodity Board, in exchange for the IMF funded program, was a key factor in determining the duration of the Cartel.

The evidence from the talk and text of the archives suggests that the lack of international business experience, naivety and political ambitions on the part of the GCNA Board, the asymmetry of information which existed between the GCNA and ASPIN combined to negatively impact on the operations and performance of the agreement. Also, the lack of interaction between the GCNA, ASPIN and Catz International highlighted a communication void during the period which influenced the knowledge base of the GCNA in particular, leaving them operating with an information deficit during the period and thus affecting the performance and duration of the attempt at cartelisation.

From a short-term perspective, overall, the agreement generated revenue of $165,152,469 during the period of its existence, as compared to EC$55,162,948 between 1980-85. This demonstrates the positive revenue impact which the agreement had on the GCNA. However, the key objective of securing stable and high prices was short-lived as the market continued to fluctuate in prices, thus establishing the difficulty of attempting to find an alternative sustainable mechanism for the imposition of price-fixing mechanisms in the nutmeg market. Indeed, the overall operations and performance of the agreement. The deregulation of the Indonesian market, pushed by the IMF and the World Bank, created the conditions for the further dismantling of the dreams of the primary stakeholders who were partners in the joint marketing agreement which attempted to form the world's first nutmeg cartel. The GCNA would end up in virtual bankruptcy (see Appendix 4), especially as they were unable to sell their administrative and economic model to ASPIN. Although arguably GCNA had the best nutmeg in the world and the most eco-friendly practices in the treatment and preparation of the nutmegs, the association was unable to use these assets to help establish a viable agreement let alone a cartel.

This research has identified the fact that the performance of the GCNA during the period of the agreement failed because the conditions necessary for the creation of an effective cartel was absent: ASPIN lacked control of the Indonesian supply chain, the demand for nutmeg appeared to be elastic in response to price increases, the barriers to entry were very low, the trade from Indonesia was not well organised, the level of market concentration was high but not high enough to exert the influence on the market which they thought they had, the wholesalers and retailers buyers/agents and the processors in the GVC were the ones who exerted the greatest control of the marketing and distribution end of the GVC and, therefore, the Joint Marketing Arrangement was driven by these nodes and not the producers.

In addition to the benefits received to the GCNA and its membership, nutmeg also outperformed the other traded commodities in terms of export earnings and increased contribution to the national foreign exchange reserves.

To have kept the impact of the performance of the agreement within the confines of the GCNA and its stakeholders did not provide sufficient evidence of the overall results and hence performance of the GCNA during the period. And it is for that reason that the national economy was introduced into the discourse.

The income and trading performance of the GCNA during the period, provides further evidence of the high elasticity of demand for nutmeg during the period in response to high increases. The high level of elasticity is not a conducive condition for a cartel and entry barriers were low. As a consequence, the GCNA and ASPIN achieved the short-term successes with their attempt at cartelisation. Some of these conditions which affected the performance of the agreement will be further detailed in Chapter 7, in order to demonstrate how they directly affected the collapse of the ASPIN-GCNA Joint Marketing Agreement. Chapter 7will address the end of the agreement and the attempt at creating a nutmeg cartel.

Chapter 7 - Analysis of the Collapse of the Joint GCNA-ASPIN Marketing Agreement

7.1. Introduction

The objective of this chapter is to explain the factors which contributed to the collapse of the ASPIN-GCNA Joint Marketing Agreement, formulated to operate as a cartel, gives an account of the GCNA Board of Directors' efforts to change ASPIN's decision to end the agreement, and provides insights into why it made these efforts. This chapter therefore answers the research question: *Why did the Agreement collapse and why did the GCNA Board persist in trying to keep the Agreement going when it started failing?*

Section 7.2 covers the classical factors influencing the collapse of the agreement as they apply in this case. Section 7.3 outlines the role of external stakeholders in the failure of the Agreement. Section 7.4 provides an account of the dissolution process of the Agreement. Finally section 7.5 presents the chapter summary and conclusions.

7.2 The classical factors contributing to the collapse of the Agreement

The literature review identified some key conditions required for the durability of International Commodity Agreements (ICAs) and cartels (see Chapter 5). Some of these factors were referred to earlier because of its relevance to the formation (chapter 5) and performance (chapter 6) of the Agreement. This chapter focuses on these factors and interdependence between them as they relate to the collapse of the Agreement. The factors are:

1. High market concentration and market features facilitating coordination between the major firms (Levenstein and Suslow, 2006; Utton, 2011).
2. Substantial entry barriers preventing expansion of supply by entrants into the market (Levenstein and Suslow, 2006; Utton, 2011).
3. Participants' compliance with the agreement and the absence of cheating (Levenstein and Suslow, 2006; Utton, 2011; Marshall and Mark, 2012; Kooroshy, Preston and Bradley, 2014).
4. Existence of an organisational structure, and processes for effective management and communication. (Levenstein and Suslow, 2006; Utton 2011).
5. Relevance of an economy's reliance on a single export commodity and the political and legal context. (Marshall and Mark, 2012).

At the time of negotiating the GCNA-ASPIN Marketing Agreement, both GCNA and ASPIN perceived that the necessary conditions required for the success of the cartel were either in existence or achievable. However, the two parties' perspectives, perceptions and the ability to fulfil their parts of the Agreement differed. The following discussion demonstrates that most of the conditions required for the success of the Agreement were either absent, extremely weak or deficient. Further some of these factors are interrelated and had cumulative effects (Levenstein and Suslow, 2006), resulting in weak functioning of the Agreement and its eventual collapse.These conditions are as follows:

7.2.1 Market features, concentration and coordination

The characteristics of the market represent a key condition for cartel success. It refers to the structure of the market in terms of the numbers and sizes of buyers, sellers and other actors, as well as the product homogeneity (the extent to which the products are similar) and substitutability (the extent to which other or similar products can replace the existing one). Each of these forms sub-sections to this major topic.

According to Grossman (2006 citing Dick (1996) through empirical evidence, and Stigler (1964) through theory, cartels have greater chance of success with few large buyers than with many small ones. With fewer buyers, their individual buying power would be greater and thus be able to influence prices more than if the opposite was true.

According to Levenstein and Suslow (2006), virtually all studies of market collusion examine the influence of the number of firms and market concentration, on their formation and success. It was found that a low number of firms and high concentration are "consistently and positively related to collusion success" (Levenstein and Suslow, 2006, p.34). Other studies have shown that cartel duration is negatively related to the number of firms in a cartel. The cartel literature indicates that the smaller the number of firms in the cartel, the easier it is to control supply and keep the cost of monitoring low, thus enhancing cartel success and longevity (Hay and Kelly, 1976; Eckbo,1976).

The international supply of nutmeg and mace was dominated by producers in Indonesia and Grenada, which between them supplied 90 per cent of the world's nutmeg and mace. In principle, the market structure comprising of two major supplier firms should have made the control of supplies, communication and monitoring of the agreement easier and less costly. In practice the conditions for such control did not exist. Whereas, the GCNA had monopsony control of Grenadian supply, ASPIN controlled only about 25 per cent of Indonesia's international supply.

GCNA sales were heavily concentrated in Europe. A heavy percentage of GCNA sales, approximately 75 to 80 per cent, went to Europe, mainly Germany, Holland, United Kingdom and Belgium (GCNA Trading and Summary Reports 1980 – 1990; interview with Mr Lord, 19 March 2015), while ASPIN sales was heavily concentrated in the United

Sates (60 per cent), but also held significant market share in some European countries namely, France, as well as the far eastern countries such as Japan and China (Tirtawinata, 1995). There was no evidence of coordination of supply between GCNA and ASPIN other than an agreement on their quotas which were poorly complied, as noted in Chapters 6 and 7. Further, the parallel suppliers from Indonesia and other countries, Thailand, Vietnam, Papua New Guinea, Sri Lanka and Malaysia according to Daniel (1994) - see table 6.2.

The case of the GCNA-ASPIN Joint Marketing Agreement indicated that while the small number of firms in agreement would be conducive to easy joint decision-making and coordination, the actual coordination was very limited, restricted to agreed supply quotas. Further the actual concentration of supply was low because of the low proportion of Indonesian supply controlled by ASPIN. Further, the high price of nutmeg and mace during the early stages of the Agreement brought in increased supplies because of low entry barriers against non-Agreement suppliers. These aspects are considered further below.

An important question which arises from section 7.2.1 is why the GCNA and ASPIN entered the Agreement while the conditions for its success were so unpromising. One reason is the role of the nutmeg buyer who acted as the intermediary in the Agreement. The nutmeg global value chain (see chapter 2, figure 2.2) shows the number of nodes in the chain and the key players. As far as the GCNA was concerned, the evidence shows that its control and direct interaction with the market was via its buying/sales agents who were resellers of the bulk commodity.

The GCNA had three major markets: Europe, Canada, and the United States. In Europe there were three major buyers: Catz International which bought approximately 50 per cent of its nutmeg per year; Man Producten; and Rucker & Slann. In Canada, the GCNA was represented by Salford Lewis, while in the US they had no permanent representative. US sales were done through the agent in Canada or directly from the GCNA head offices in Grenada.

GCNA's supplier chain structure meant that the organisation had limited options through which to sell its products, and was therefore in a disadvantageous bargaining position with the buyers. The significant reliance on one major buyer (Catz International) to purchase half of the supplies is both good and debilitating. On the one hand, half of GCNA's annual sales was secured, while on the other hand this volume of purchase gave Catz much psychological and economic leverage over GCNA's sales and pricing policy, thus allowing marginal scope for GCNA to openly leverage the unique quality of its produce in its marketing. Catz also became a central player in the formation of the Agreement as the following account shows.

Catz was appointed the sole buyer of ASPIN's nutmeg at the latter's inception in 1985 This meant that while ASPIN had a secure buyer for all its nutmeg, Catz could have exerted pricing and purchasing influence on ASPIN as it was doing with the GCNA. For the Agreement to succeed, a necessary condition was that ASPIN should rapidly become the sole buyer of all nutmeg produced in Indonesia or at the very least a buyer of a very high proportion of Indonesia nutmeg. It was also in the strong interest of Catz International that this happened. Catz International also envisaged that its role in the creation of ASPIN and formation of the GCNA-ASPIN Marketing Agreement would put it in a strong if not dominant position for nutmeg and mace in the international market.

Therefore, if the Agreement had succeeded there would have been benefits for GCNA, ASPIN, Catz International, and by implication the nutmeg producing farmers in Grenada and Indonesia. However, arguably, GCNA's and ASPIN's position in the global value chain would have been weaker with Catz International being the sole or dominant buyer.

The end of the Agreement resulted in financial losses and other adverse effects for all three parties. In the short term, the financial losses of each party were related to the stocks they held and nutmeg purchased at high prices when the prices fell. In the longer term they suffered from price volatility, loss of shares of the respective markets and reputational damage.

As far as the GCNA Board was concerned, the real problem faced by the Agreement was the multiple exporters from Indonesia, who sold below the market price agreed upon between the GCNA and ASPIN (Daniel,1994), At its meeting on 19 October 1991 (after the end of the Agreement), the GCNA concluded that: "The Indonesian nutmeg exporters must be encouraged to achieve the objective of a single selling channel which would guarantee greater control of the sale of material originating from Indonesia"(Minutes of GCNA Board of Directors, 19 October, 1991, p.4). In reality, there were many other aspects of the situation which worked against the continuation of the Agreement as the following account shows.

7.2.2. Product homogeneity and substitutability

The nutmeg seed is one of four components of the fruit obtained from the nutmeg tree, Myristica fragans Houtt (Myristicaceae). About 30-55 per cent of the seed consists of oils and 45-60 per cent consists of solid matter including cellulose materials. There are two types of oils: (1) the six "essential oil of nutmeg" also called the "volatile oil" accounts for

5-15 per cent of the nutmeg seed, and (2) the "fixed oil of nutmeg" sometimes called "nutmeg butter" or expressed oil of nutmeg accounts for 24-40 per cent of the nutmeg seed"(Daniel, 1994). The relative percentage of the different components will vary depending on the geographical origin of the nutmeg. Essential oil contains the greater number of individual compounds or components, most of which are valuable to various industries. Furthermore, the psychotropic effects of nutmeg, as well as most of its other pharmacological properties have been attributed to the compounds found in the essential oil.(Daniel,1994, p.6) Therefore, essentially, there is significant homogeneity and low level of substitutability for nutmeg in industry. However, at the domestic level, the substitutability is very high meaning that households and restaurant can easily substitute or remove nutmeg and its components from their recipes.

Product homogeneity is considered a main factor in cartel success since it makes monitoring and measurement costs lower. However, if there is scope for differentiation, as is the case with Grenada’s nutmeg, this should have been incorporated in the Agreement or recognised in differential pricing. Any differential pricing would have been an outcome of negotiations with international traders. While Grenada’s nutmeg could have commanded somewhat higher prices, in practice any such differential was overwhelmed by the ease of substitutability of nutmeg, and responses of nutmeg users to high prices under the Agreement as described below.

Herwijier of the UK spice firm Fooks and French (interview April 22, 2004) confirmed that as the price for Grenada’s nutmeg increased, importers and users of nutmeg (food processors and restaurants) embarked on cost-cutting strategies such as sourcing substitutes, reducing the quantity of nutmeg and mace in their recipes, removing nutmeg altogether from their recipes, developing synthetics, and/or combinations of the above, in an attempt to maintain their competitiveness in their respective markets and reducing their reliance on high-cost Grenadian nutmeg.

The initial high prices of nutmeg and mace at the inception of the Agreement resulted in the increased supply of nutmeg and mace from the farmers. Many members of ASPIN accumulated stocks “as everybody seemed to be senselessly attracted to buy more and more, expecting the same windfall profits as in the beginning. Traders and exporters were willing to accumulate stocks with a turnover of a period of 18 months” (Tirtawinata, 1995, p.28).

7.2.2.1 Stock Levels in Grenada

As international sales of nutmeg declined and the amount of product offered by farmers to the GCNA increased in response to the high prices, GCNA’s unsold stock increased. With every passing month of rising stock and declining sales, the GCNA sank further into anxiety and despair, as provision for unsalable stock increased from EC$0.0 in 1988 to EC$6.0 million in 1989 (GCNA Annual Trading Summary and Financial Statement, 1989). Denis Noel painted the situation in these terms: “The financial circumstances at the end of 1989 were desperate,” (Interview with former Junior Minister of Agriculture, Denis Noel, September 27, 2009).

On 9 January, 1990, a special meeting of the GCNA Board was held for the sole purpose of discussing the marketing situation, with a view to developing some strategic response to the worsening sales position of the GCNA. At that meeting, the General Manager presented a report to the Board, which contained the following highlights, relative to the stock position of the Association:

1. Stocks of No. 2 mace had increased by 75 per cent to 577,000 pounds;
2. Stocks of No. 1 mace had also increased by 34per cent to 230,000 pounds; and
3. Sales for the first half of the nutmeg year amounted to EC$17.5 million, reflecting a decrease of EC$2 million for the comparative period in 1988.

The emergence of the high stock problem is not surprising given that the GCNA-ASPIN Agreement was developing cracks, as lower-priced nutmegs form Indonesia and other parts of the world were getting in to the market. GCNA’s nutmeg sales were also affected by the falling demand in response to higher prices and international buyers’ stocks possibly accumulated in anticipation of the GCNA-ASPIN Marketing Agreement.

Whereas the GCNA was keen to maintain the high prices it had become accustomed to, it was faced with the trading challenge of declining sales; the uncertainty of a cartel, which had no clear prospect of preventing its decline. (See next section on “How the Collapsed Happened”) and a huge stock build-up which was expensive to maintain. It must have been anxious to dispose of a significant portion of its growing stocks, in order to obtain money to buy current stocks and free up warehousing space.

7.2.2.2 Stock levels in Indonesia

ASPIN differed from GCNA in its structure and functions; (see table…), its situation and that of its members was somewhat different following the Agreement but they also had to cope with high and accumulating stocks. ASPIN, as an association of nutmeg exporters did not hold stocks but its members had accumulated stocks in anticipation of continuing high international prices. The high stocks accumulated by ASPIN members awaiting approval for exports. In an attempt to control the exports of nutmeg to comply with the

Agreement, ASPIN was unable to process 155 prospective members' applications holding high levels of stocks (Tirtawinata, 1995).

The increase in supply of nutmeg by non-ASPIN members (parallel exporters), as well as ASPIN's unwillingness to finance stocks held by its members, left ASPIN's members holding large, unsold stocks of nutmeg and mace. This was an untenable situation for ASPIN and its members who also started selling their stocks through the parallel market resulting in the downward trending of prices in international markets. Internationally, sales from ASPIN declined from 6,561 kg at a price of US$4.93 per kg in 1987, the year of its creation, to 3,547 kg and 2,472 kg at reduced prices of US$4.52 and US$4.23 respectively in the years 1988 and 1989. The GCNA was experiencing similar trends (see table 6.5).

ASPIN, like the GCNA, was unable to get rid of its old stocks and find ways to purchase new stocks. The situation was so serious among ASPIN's members that they met and sent a proposal to ASPIN's central management highlighting, among other things, the following (Tirtawinata, 1995):

1. That despite efforts at the domestic and international levels, sales slowed to the point where members were facing bankruptcy;
2. At that time, the price of nutmeg from North Sulawesi was priced at IDR (Indonesian Rupiah.2, 5000 per kg and mace at IDR 7,000 per kg. The cost and freight price levels sales from ASPIN members would cover 60 per cent of current stocks, while smugglers had to sell only 70 per cent at the level held by ASPIN and they would gain a margin of 10 per cent, while ASPIN was experiencing a loss;
3. Parallel exporters (members of ASPIN exporting outside the ASPIN licence or ASPIN non-members) offered nutmeg and mace to the European and US markets at much lower prices than ASPIN's.

7.2.3 Barriers against market entry

Grossman (2006) citing Jacquemin and Slade (1989) amongst others argues that the chance of cartels succeeding is linked to its ability to limit entry to the market. The evidence presented above shows that the barriers to entry into the market by Indonesian suppliers who were not member of ASPIN was low. In addition members of ASPIN exported outside the licence agreement and as noted earlier, producers in other countries sold to international traders.

ASPIN and the Agreement were confronted with the twin problems of parallel exporting from Indonesia by non-members of ASPIN and "cheating"[17] on the agreement by ASPIN members by selling directly to international traders other than Catz International. The ASPIN management referred to both these types of parallel exports as smuggling. ASPIN had a membership of 51 exporters, while there were over 155 applicants seeking exporter status and membership of ASPIN (Tirtawinata, 1995). They would have been engaged in parallel exporting (Tirtawinata, 1995). Additionally, the decree which established ASPIN and purported to have given it exporting rights, which could not be implemented and therefore, did not debar any one from the local nutmeg (Indonesia) trade in nutmegs (Logie, 1 October, 1994).

The story of the ASPIN shows that it was unable to control the activities of competitors at home, while at the same time was extremely unhurried in processing the applications for membership from other would-be exporters, resulting in the undermining of the quota and price fixing agreement and the sustainability of the GCNA-ASPIN Agreement.

Finally, a critical entry barrier is that of the high investment in cost and time to establish a viable nutmeg plantation and supply chain. In order to get into the supply chain, new entrants must first acquire suitable land in terms of appropriateness of soil type and quantity. Second, the field must be prepared in terms of agricultural husbandry, including clearing and planting, then waiting an estimated 5-7 years for a nutmeg plant to declare its gender and reach its production cycle, and in 15 years reach full maturity, the period when it produces at its maximum. The time and effort required for nutmegs will create uncertainty, and therefore prospective competitors would not have found the industry sufficiently worth their investment.

There is a link between supply elasticity (especially of cartel non-members) and high entry barriers since the latter implies that there is a high cost to non-members entering the market, in the case of Indonesia, the parallel exporters were able to supply nutmeg independently of ASPIN, and by so doing undermine the Marketing Agreement. Further, although the elasticity of supply capacity is low in the short run as noted earlier, there is evidence that farmers in Grenada adjust their short term supply in response to prices, putting more time and effort into harvesting when prices are higher and cutting back when prices are lower. As a consequence they are able to increase supply in the short term (during the crop season) but are unable to do so in the longer term without investing in more production capacity. The evidence suggests that short-term supply and demand elasticities were high and hence not conducive to the sustainability of the cartel. Longer term elasticities would be expected to be higher.

[17] See section 7.2.4 a more detailed account of cheating and Indonesian compliance with the Agreement.

7.2.4 Participants' Compliance with the Agreement and the Absence of Cheating

The fourth major factor for the success of a cartel is that of compliance with the agreement by its participants and the absence of cheating.[18] Table 6.2 and the related discussion in Chapter 6 show that there was little or no compliance by the partners with the agreed quotas. Literature on failed cartels is rich with evidence of non-compliance and cheating as primary causes of cartel collapse (Levenstein and Suslow, 2006; Grossman, 2006; Eckbo, 1976). The case of the GCNA-ASPIN agreement was no different. Levenstein and Suslow (2006) in their study, which catalogues the causes of cartel breakdowns, reported that 10 per cent of cartel breakdown were because of secret cheating, that is deception of one party by another.

While the GCNA-ASPIN Agreement was fragile from the outset, evidence of non-compliance on the side of Indonesia only reached the GCNA in 1989, when unconfirmed reports were received by the GCNA that Indonesian exporters were selling nutmegs below the Agreement prices. In 1989/1990, as the cracks in the agreement began to develop, Indonesian exports of nutmeg began to increase from 5.5 million lbs in 1989 to 14 million in 1990 and 16.2 million lbs. in 1992 (Marks and Pomeroy, 1995, citing the National Statistical Bureau (BPS), Statistik Perdangangan Luar Negiri Indonesia, Ekspor Jilid I). Marks and Pomeroy (1995) indicated that,Since 1989/90, Catz was reported to have bought only a fraction of its Indonesian nutmegs directly from Indonesia and purchased the remainder through Singapore.

This conduct of Catz International can be related to ASPIN ending Catz's status as sole buyer of nutmegs from ASPIN members. This being the case, questions arose about the extent to which Catz was a participant in subjugating the GCNA-ASPIN Joint Marketing Agreement, which directly contributed to the collapse of the agreement. The actions of Catz also raised issues on the rationale for their active involvement in the attempt at the formation of the cartel in the first place. The evidence suggested that Catz might have adopted the view that they would choose the best commercial option as it saw fit. The role of Catz is considered further below in the examination of the role of external stakeholders in the episode. The incentive for cheating was inherent in the very nature of the Joint GCNA-ASPIN Agreement since the agreement did not include provision for punishment for cheating. There were also substantial costs associated with compliance. Marquez (1992) states that "cheating is too great a temptation to resist and the ensuing price

[18] *Cheating* in this context refers to the breaking of rules or agreements to gain an advantage or avoid a disadvantage in trading.

instability brings the cartel to an end." The collapse of the GCNA-ASPIN Agreement supports this conclusion but also highlights the costs of not cheating if the cartel is fragile.

7.2.5 Organisational structure and processes for effective management and communication

The fifth critical factor leading to the failure of cartels is the absence of effective organisational structures and processes (Grossman (2004); Tilton (1996); Sjostrom, 2006; Levenstein and Suslow, 2006).

The GCNA-ASPIN Joint Marketing Agreement was not supported by an organisation to provide administrative oversight and direction (see chapter 5, sections 5 and 6). The Agreement set initial prices and quotas through the MoU and MoA (see appendices 4 and 5) but there was no provision for adjusting prices and quotas and no organisational arrangements for negotiating such adjustments or to enforce the agreement, much less to deter defection and cheating. The absence of organisational mechanisms that would have allowed for flexibility and changes in the operating environment increased the chances of collapse of the attempt to form a cartel.

One of the major weaknesses of the agreement was the absence of formal or informal regular interaction between the managements of GCNA and ASPIN. The real-time technologies available now were not available in the late 1980s, but even the plain old telephone was underused by the two parties. It took almost 30 days for GCNA to be informed of the Government of Indonesia's trade liberalisation of the export of nutmeg. Additionally, the GCNA-ASPIN Agreement was left without a structured medium through which data about market conditions could be collected, analysed and shared. In these circumstances, the two parties appear to have relied on Catz International for intermediation in the formation of the Agreement and its early functioning and market intelligence.

It is argued by some cartel experts that the establishment of a sales and marketing agency or representative that is independent of the participating cartel members is a useful mechanism for cartel success, as was the case of the ISA and the sugar institute (Grossman, 2006). Eckbo (1976) argues that the most successful cartels established organisational structures, which among other things accommodated fluctuations in the external environment. The GCNA-ASPIN Agreement failed to provide for such a central organisation that could have provided critical information on market conditions, behaviour of the players, and other types of useful information, and thus advice on effective strategic and tactical responses to these said conditions, and by so doing provide the opportunity for greater chances of success of the agreement.

According to Eckbo, 1976; Suslow and Levenstein, 2006; Suslow, 2002; Grossman, 2006) successful cartels establish structures that learn and provide the structuring of incentives so that rewards can be provided and punishment exercised when necessary, thereby enhancing the sustainability and profitability of colluding members. Unfortunately, the Joint GCNA-ASPIN Agreement did not provide for such a mechanism. Therefore, other than the benefit of receiving increased prices in "good times," the Marketing Agreement did not provide for any other rewards. Neither did it set out a system for punishment in case a member was to deviate from the contract.

7.2.6 Accommodating and supportive political, economic and legal environment

With regards to the legal environment for the sustenance of efforts at cartelisation, Grenada had no legislative or policy restrictions on cartels. In the case of Indonesia, whereas, during the early days of efforts there was no such restriction, that changed later with the Government of Indonesia's acceptance of the IMF/WB structural adjustment and stabilization program, in which cartels or commodity boards were abolished in return for economic support from these institutions.

7.2.7 Country reliance on a single export commodity and the political and legal context

It has been argued by Daviron and Ponte (2005); Le Clair (2012) and Kooroshy, Preston and Bradley (2014) that the greater a country's dependence on a single export commodity, the greater the willingness of the country to enter into collusive international agreements to manage earnings from exports. In this case, the evidence showed that Grenada had a high level of dependency on agricultural commodity exports and for nutmeg it had a large enough international market share to have a chance of being an important participant in a collusive agreement (see table 6.2 and text, chapter 6). As a consequence, the Grenadian policy makers were keen to have such an agreement in place to protect and increase export earnings. It was a result of this reliance that the Government of Grenada supported the GCNA in forming the Agreement and attempting to sustain it even when it was evident that such an agreement was no longer viable.

However, in the case of Indonesia, as indicated in Chapter 5, nutmeg was not a critical commodity in the country's basket of exportable goods and balance of trade. As a consequence, the Indonesian government was less likely to be committed to the continuance of the Agreement, especially since the need to deal with more major economic challenges required the government to abandon the Agreement.

With regards to the legal environment, in particular competition policy considerations, Grenada had no legislative or policy restrictions on anti-competitive practices. In the case of Indonesia, at the time of the formation of the Agreement there were no legal restrictions that changed when the government of Indonesia's accepted of the IMF/WB structural adjustment and stabilization program, in which cartels or commodity boards were abolished in return for economic support from these institutions.

7.2.8 Summary of Major Conditions for Creating and Maintaining a Cartel

In order to understand the weak functioning and demise of the Agreement, section 7.2 has appraised its situation in the context of the conditions required for effective functioning and longevity of cartels. The evidence suggests that while the belief that high market concentration in the hands of the two parties could be achieved, the conditions were never fulfilled. Further the entry barriers against non-members of the Agreement were low. While supply capacity of nutmeg is inelastic in the short run, the actual supply response when the prices of nutmeg and mace went up at the inception of the Agreement, partly because farmers in Grenada and elsewhere harvested more crop from existing trees (it appears that farmers had cut back on harvesting when prices were low) and partly because the GCNA and traders had accumulated stock in anticipation of the Marketing Agreement. Further, the higher prices reduced end user demand substantially.

The poor compliance with the agreement and lack of flexibility in adjusting to market conditions were because of the lack of an organisational structure and processes for managing the Agreement. Only one of the conditions required was partially met, (i.e. the strong motivation on the part of the policy makers in Grenada to create a Marketing Agreement to attempt to protect export earnings). However, this was not reciprocated by policy makers in Indonesia.

Given that the basic conditions for the Marketing Agreement to function effectively and survive for any length of time, the questions of interest are why the GCNA played an active part in forming the Marketing Agreement? Why it was not aware of the inherent weaknesses in the Agreement? Why it persisted in trying to keep the Agreement going when it started failing. In addition to these unpromising conditions, the next section explains the role of external stakeholders in bringing the Agreement to an end. The dissolution of the Agreement as a process from the perspective of the GCNA Board has been examined in section 7.4 to address the questions of GCNA's persistence with the Agreement.

7.3 The role of external stakeholders in the failure of the Marketing Agreement

Another dimension in addressing the collapse of the GCNA-ASPIN Agreement is the role of four key secondary stakeholders: Catz International; Man Producten; the Indonesian Government and the Washington institutions (the World Bank and the IMF), and US Spice Traders. Three of them represent actors in the international spice trade, the other two are the policy making and policy influencing institutions. The roles of each of these stakeholder or groups in the collapse of the Agreement have been referred to earlier. They are elaborated below.

7.3.1 The Role of Catz International

Catz's role in the demise of the cartel must be seen in the historical context of Catz's longer-term business history with both GCNA and ASPIN which is referred to earlier in the thesis. Here, the focus is on the role of Catz from early January 1989 when the Agreement appeared to be unravelling. At the GCNA Board meeting of 9 January, 1989, the Chairman Norris James introduced the Catz factor into the discourse on the matter, as he sought to understand the unfolding situation (changes in ASPIN's sales policy and the declining international prices). The chairman provided the context for the discussions by outlining or previewing what he perceived as the key issues, which according to him were GCNA's relations with Catz International and with ASPIN.

There are two critical factors which shaped the relationship between Catz International B.V. and the GCNA. The first factor relates to the historical agency relationship which existed between the two parties prior to the 1986 GCNA-ASPIN Agreement. According to Renwick, as far back as the 1950s, Catz was buying nutmegs from Grenada. Catz was also GCNA's most important customer, responsible for purchasing between 75–80 per cent of the GCNA's exports per annum (Interviews with Renwick, 5 August, 2004; Hachamoff, September, 26, 2009 and Moerman, 2 September, 2009). Previous sections established that, not only was Catz the GCNA's single-largest customer, but the CEOs of Catz and GCNA shared an extraordinary friendship. In February, 1978, Huitema, in a letter to the GCNA, wrote "ultimately in order to cut out competition and to come to a good control of the market and a good marketing situation, we should get together – Both Indonesia, Grenada and our company and establish a Joint Marketing Agreement." This confirms the overall findings of chapter 5 that Catz International was intimate to the formation of efforts to form a cartel and that their decision to purchase outside of ASPIN's agreement was tantamount to undermining that agreement..

The second factor was Catz's long history and knowledge of the Indonesian nutmeg market, which along with its insider knowledge of the GCNA, provided Huitema of Catz with the platform to influence the formation of ASPIN, broker the agreement between ASPIN and GCNA, and made Catz the international agent and main customer for both organizations. Catz was responsible for purchasing 100 per cent of ASPIN members' offering during the first year of the GCNA-ASPIN Agreement and 80 per cent thereafter. While in the case of Grenada Catz was responsible for 50 per cent of Grenada's stock. The above, therefore, positioned Catz as the intermediary and prospective beneficiary of the continuing Agreement. Catz also stood to lose if the Agreement did not sustain high prices and there were leakages into the world market from Indonesia.

One of the key decisions at the 9 January 1989 GCNA Board meeting was to instruct the Board's Secretary to address Catz's outstanding indebtedness to the GCNA. The above decision represented a critical juncture in the relationship between the two parties, as it signals the start of the breakdown of the relationship between the GCNA and Catz, with the former initiating the process of recruiting a new agent (JHB International). The decision reflected growing distrust in of Catz by the GCNA. It was this growing suspicion and distrust that eventually led to the replacement of Catz by JHB, and caused Catz to act in a manner that contributed towards instability in the market. Marks and Pomeroy (1995) indicated that Catz was also a buyer of nutmegs from Singapore. If these purchases were during the early stages of the Agreement, Catz could be seen to be undermining the stability of ASPIN and the agreement by purchasing parallel exports.

In an interview, the current CEO of Catz International, Mormon stated that by 1990/91 Catz's warehouses throughout Rotterdam were overflowing with unsold nutmeg and mace, and as a business organisation, they had to make a decision about the large volume of stock. Catz finally decided around March/April of 1991 to drop its prices and make all of the nutmeg available on the market, essentially flooding the market. Mormon argued that whereas their actions were not aimed at destabilising the GCNA-ASPIN Agreement, they understood the impact that the action would have on the market.

This act on the part of Catz International is understandable in the normal business context since the holding of stock represents cash investment that was not yielding any profits. Worst yet, as the price of the commodity declined, so too did the value of the investment in stocks. However, given the place Catz held within the global supply chain for nutmeg, and given that they lost the monopoly buyer position with ASPIN (although they remained the single largest buyer), the GCNA might have had a basis for generating suspicion. However, it should be noted that before March/April 1991, when Catz started running down the stocks of nutmeg and mace the Agreement had come to an end (in mid-1990, see section 7.4).

Catz was a major if not prime mover in the formation of the Agreement and stood to gain or lose depending on its effectiveness and longevity. Marks and Pomeroy (1995) noted: “Since 1989/90 Catz is reported to have bought only a fraction of its Indonesian nutmegs directly from Indonesia, and has purchased the remainder through Singapore”. However, as the accounts in Chapter 6 and section 7.4 shows, as early as 1989 the Agreement was facing problems because the necessary conditions for effective functioning did not exist. Hence all the blame cannot be placed at the door of Catz. In this respect it is interesting to note Huitema’s statement some years after the collapse of the Agreement:

> “Grenada and Indonesia operated a more or less successful nutmeg cartel under our guidance, when prices were three times higher than what they are now until about six years ago. They managed to maintain prices at this level for three to five years; but then the cartel broke up. This was partly because the Indonesian nutmeg sector was liberalised, partly under pressure from the International Monetary Fund and the World Bank and partly because the high nutmeg prices encouraged smuggling.”

(Source: The Netherlander, 15 February, 1995)

7.3.2 The role of Man Producten

The other secondary stakeholder with a part in the end of the Agreement was the spice trading firm Man Producten and its CEO Herweijer. According to the talk and text accumulated by this study, the role of Man Producten was not as critical and expansive as that of Catz. They were more reactive than proactive to the situation, visiting Grenada, for example, in response to the news of the possibility of the impending association between the GCNA and ASPIN. Nonetheless, mention of Herweijer’s stance against the cartel is worthy of accrediting him with some of the responsibility for its collapse.

In chapter 5, which dealt with the formation of the cartel, reference was made to the meeting of the CEO of Man Producten with the Board of Directors of the GCNA, as the latter prepared for their first official meeting in Jakarta to discuss the formation of an association between ASPIN and GCNA. During the meeting Herweijer’s overarching message, if not a warning, to the GCNA Board, was that the establishment of any collaboration between the two suppliers would not be well received on the international market, and such dissatisfaction could have an adverse impact on the GCNA, including loss of its market share to substitutes for nutmeg and mace.

The minutes of the Board meeting with Herweijer seem to reflect that the message was respectfully received and understood. However, Man Producten was identified by Board member Ferguson as one of those who are working to undermine the cartel, since

Herweijer had vowed to do everything in his power to undermine the cartel. Ferguson's view was echoed by Logie, who stated that,

> "It was the actions of companies like Man Producten who worked 'overnight' to ensure that the Cartel did not succeed; they were dead set against the arrangement since they knew that it was going to lead to increase prices on the world [nutmeg] market,"
>
> (Interview with Logie 5 April 2015).

Did the threat also involve the purchase of unusually large amounts of nutmeg during the negotiation between ASPIN and GCNA, as a manipulation strategy? The large purchase could have been an indication that they must have expected the price to remain high sufficiently long to benefit by selling at higher prices. This research was unable to obtain hard information which detailed the acts of Man Producten in this regard. However, the purchasing data from Man Producten, coupled with the talk and text obtained, provided the basis to confer that the agents and brokers were acting in their commercial self-interest, and not necessarily fit into the narrative of Logie and Ferguson.

The archival records show that on 2 September, 1986, Herweijer, offered to purchase 400 tons of SUNs at US$5,850 per ton and 150 tons of Defective at US$4,500 per ton, for the USSR Market. This offer was not accepted and the GCNA made a counter offer: SUNS at US$6,000 per ton and Defectives at US$5,600 per ton. The later offer was rejected by Herweijer, stating that.

> "he thought the price was too high and [he] needed time to consider the counter offer,"
>
> (Minutes from GCNA Board Meeting, 2 September,1986,p.12).

It was this very issue of "high price" to which Herweijer was opposed and with which he was then faced. It is therefore not surprising that he would be seen by members of the GCNA Board as one who worked to destabilise the cartel.

7.3.3 The role of the Indonesian Government and the World Bank

The third secondary stakeholder playing a part in the end of the Agreement was the Indonesian government under World Bank influence. This section builds on the background and context for the deregulation of the nutmeg market in Indonesia outlined in chapter 5. According to the minutes of the GCNA Board on 26 June 1990, a telex was received from ASPIN informing the Board "that as at 25/5/1990 ASPIN ceased to be the sole selling organization for nutmeg and mace." This followed the removal of the export restrictions on these products by the Indonesian government.

The best way to understand the role of the Government of Indonesia and that of the World Bank, is to situate the deregulation of the nutmeg export regime within the broader context of the necessary, wider economic and trade reforms pursued by the Government of Indonesia. Soesastro (1989, p.853) stated that "The 1980s will be recorded in Indonesia's history as the decade of deregulation, a time when measures to deregulate the economy were undertaken as part of a broader effort towards economic structural reforms." The following narrative taken from the text of the World Bank's archives provides some of the rationale for such action on the part of the Indonesian authorities.

According to the World Bank (WB) (1991), by 1981, Indonesia experienced a severe deterioration in its external terms of trade. During the period 1982-85, the economy had to adjust to weakening oil prices (which went from a peak of US$35 per barrel to US$25 per barrel), the repercussions of such an external shock, the 1982-84 world recession, and a decline in the price of several important primary commodity exports, such as rubber and rice; then, in 1986, the oil price collapsed from US$28 per barrel to a low of US$10 per barrel. Although oil prices did recover slightly thereafter, net oil export earnings fell by US$2 billion between 1986 and 1988. These losses were intensified by the adverse effects that international currency fluctuations had on debt service payments from mid-1985. On average, Indonesia incurred an income loss equivalent to some nine per cent of its annual GNP over the period 1981 to 1988.

The responses of the government were two successive stabilization programs (1982-85) and 1986-88). While both programs were based on appropriate macro-economic policies designed to restore financial stability, the latter program also focused on micro-economic reforms aimed at reducing the complexity of the regulatory framework and improving the incentive structure, particularly for the commodities and financial markets. The process of deregulating the Indonesian economy began as early as 1978, when concern was expressed about the heavy dependency on oil and the poor performance of the non-oil export sector, among other issues, led to a devaluation of the rupiah in November, 1978. By 1982, more measures were introduced in response to the deterioration of the country's balance of payments issues, such as the relaxation of export taxes along with other measures to reduce the trade deficit.

Soesastro (1989, p.857) writes:

> "In response, the Government implemented a series of "deregulation packages" aimed at increasing private sector activity and stimulating non-oil exports. The 1988 deregulation packages in Indonesia have been heralded as the most sweeping measures so far."

It is not the intention of this section or thesis to provide a technical analysis of the reforms, but to provide the broad economic context of the specific areas which are of relevance to understanding the impact of deregulation on the ASPIN-GCNA Agreement.

With this in mind some nutmeg officials in Grenada were of the opinion that the nutmeg export regime in place within ASPIN, deregulated, to allow the Indonesian government to continue to receive IMF and WB support for its on-going program of trade reforms. Their view was not farfetched as the following text from the World Bank archives show. Commenting on the Export regulation regime in general, the WB had this to say on Export Regulation:

> "The trend towards increased export regulation runs counter to the move towards greater deregulation of the economy. Experience in other countries, which have imposed export restrictions, indicates that the dynamic effects of these interventions are often negative. These restrictions are particularly worrisome where they create artificial barriers to entry and are non-transparent. Thus, even in those limited instances where there is a case for intervention, the appropriate policy instrument needs to be carefully designed to minimize distortions."

(WB Report, 1991, p. viii).

In the above statement, the WB indicated its dislike for export regulation since they are not in line with the broader trade and economic reforms undertaken by the government. Such institutions as ASPIN and the trade regimes, which they represent, are seen as negative and thus reference is made of the experience of other countries in an attempt to influence the Indonesian authorities to consider those alternatives. In other words, the WB is saying: Do what other countries have done and you have our support.

The second and more specific view from the WB, which provides insights into their influence in deregulating the nutmeg regime, came from the 1991 Report (p.4). They had this to say about the nutmeg regime; but first, they outline the nature of the nutmeg export regime:

> "In the case of nutmeg and Cassia Vera, a Joint Marketing Organisation (JMO) is responsible for controlling all exports, including those produced by private producers. These JMOs have been created by Government Decree [ASPIN was created by Decree 107 & 108 from the Ministry of Agriculture] as an integral part of the trade association that represent the industry. The nutmeg JMO is primarily a price setting organization, issuing new export prices every month for the different grades of nutmeg."

The WB report (1991, 22 March) then proceeds to highlight what they saw as three sets of problems arising from the approved exporter arrangement:

> First, “The administration and allocation of quotas lacks transparency. This holds for both externally and domestically imposed quotas. The Ministry or Trade Association responsible for allocating quotas rarely publishes a list of quota holders and the criteria by which the quotas are allocated are not clear… Administration of the quota allocation can be slow, which causes some individual firms to miss export opportunities and reduces Indonesia’s total non-oil export earnings;
>
> Second, “The allocation of the resulting quota rent may not be in the industries’ or Indonesia’s best interests. The existence of quota necessarily produces a rent and how quotas are allocated determines the distribution of the rent. For products where the trade associations are important, current holders of the quota rights are often closely connected with those that allocate quotas. This creates the danger that the trade associations will restrict entry into the industry or to “approved exporter” status to protect their rents”.

The WB Report (1991, p. 49) then proceeds to recommend that:

> “More open system of allocating quotas would not only allow more efficient entrants into the market, but would also clearly identify who receives the quota rent, and whether this distribution meets the Government’s objectives”.
>
> Third, “The current system can result in a level of market power, which is detrimental to efficiency and equity considerations. By restricting the right to export to designated approved traders, domestic producers of the restricted item are denied the opportunity to sell to alternative traders or directly to foreign buyers. This can result in lower domestic prices, which is likely to reduce investment incentives and slow improvement in quality and production techniques.”

Following the above, the WB adds:

> “While trade associations are common in other countries, these are usually voluntary and not enforced by a government policy stipulating that all exports must be channelled through its members. Aside from creating a non-competitive domestic market, it also creates monopoly supplier on the foreign market, which is against GATT rules.”

The above cited problems and issues which emanated from the WB, with regards to the system of preferred trader, of which nutmeg and ASPIN were an integral part, highlighted the fact and provided justification for the views of the GCNA Board and that of Ferguson in particular that the WB exerted a significant amount of influence on the government of Indonesia's decision to deregulate the nutmeg market.

While the WB report expressed those views in 1991, it reflected the policy prescriptions and actions from the previous years, and therefore, the telex which was received by the GCNA on 24 June, 1990, informing them that in May, 1990, ASPIN had ceased to be the sole exporting agency of nutmeg, was the result of the broader trade and economic reforms which were undertaken by the Government of Indonesia, with the support of the WB. The influence of the World Bank on the Government of Indonesia played a part in the formal ending of the Agreement, but as we saw earlier, the absence of basic conditions for a viable Agreement had already undermined it before the formal announcement.

7.3.4 Involvement of US traders

It was the opinion of the GCNA Board of Directors that US spice traders, along with Catz International; and Man Producten, were part of a global conspiracy to undermine and cause the collapse of the GCNA-ASPIN Joint Marketing Agreement. Canute Burke, a journalist with the *Financial Times* of London, reported on the collapse of the GCNA-ASPIN cartel. In addressing the cause(s) for the collapse he cited members of the GCNA Board of Directors as accusing certain spice interests in the U.S. for so doing, and at its annual general meeting on May 31, a member of the GCNA Board of Directors referred to a statement contained in ASTA's (American Spice Traders Association) 1990 Annual Report. (GCNA is a member of ASTA.), it was felt that ASTA was actively involved in pressing the Indonesian authorities to deregulate the domestic nutmeg trade.

However, in response to the GCNA's allegations of ASTA's role, they stated that it was the Cassia Vera market for which they sought deregulation and not nutmeg (ASTA Annual Report, 1990; and World Bank Report, 1991). The allegation was further denied by ASTA's Executive Vice President, Peter Furth, who argued that ASTA, under most circumstances, would not intervene on matters relating to price and selling arrangements (Plate, 1990).

Therefore, the GCNA, having evidence of ASTA's lobbying efforts to deregulate the Cassia Vera Market and knowing that both commodities were deregulated at the same time (World Bank Report, 1991), cannot be blamed for leveling such allegations against ASTA of which GCNA is a member. The fact that ASTA represented such a large number of global spice traders having been based in the US, whose market was open to global exporters, gave them the ability to exert influence on foreign authorities in matters regarding the spice trade, and access to the US market in particular. ASTA argued, monopolies are not good for business. One can therefore see some rationale as to why they would have intervened on the deregulation of the Indonesian domestic nutmeg market.

The above account demonstrates the influence which secondary stakeholder groups can exert on primary stakeholders. Stakeholder theory has long advocated that firms that ignore the needs of a multitude of stakeholders [secondary] face their own peril (Freeman, 1984), for whereas these secondary stakeholder groups may or may not have contractual obligations with the primary stakeholders, anecdotal evidence suggests that these groups, by reason of their economic influence and place in the GVC, market intelligence and influence, can induce primary stakeholders to respond to their demands. Such secondary groups can engage in various forms of actions such as lobbying, public relations activities, etc. (Eesley and Lenox, 2006). In this case, the secondary stakeholders cited used direct trade actions, such as engagement in the illegal purchase of nutmeg, lobbying the Indonesian Government to change its trade policies, and encouragement of the deregulation polices of the Indonesian Government, to help break up the nutmeg cartel.

7.4. The GCNA Board's decisions and actions in the face of the failing Agreement

The dissolution of the Agreement as a process, from the perspective of the GCNA Board has been examined in this section, to address the questions on why the GCNA Board was apparently not aware of the inherent weaknesses in the Agreement and why it persisted in trying to keep the Agreement going when it was failing. A straightforward narrative based on evidence from the minutes of GCNA Board meetings with commentary has been used to outline the stages that the GCNA Board went through: (1) assessing the situation; (2) seeking information and solutions independently and by communicating with ASPIN and other parties, and (3) eventually accepting the end of the Agreement and start to deal with the consequences.

During the dissolution process, the GCNA Board held 13 meetings in which the relationship with ASPIN was discussed. The account below reports on 14 meetings since the 10th meeting the sequence, between a GCNA delegation, ASPIN and two international traders, Catz and First Pacitifc, was of high importance in the dissolution process. The business relationship process framework of Tähtinen and Halinen (1997; 1999) has been used to interpret the dissolution of the Marketing Agreement from the perspective of the GCNA Board. The Tahtinen and Halinen framework identifies seven stages in the dissolution of a business relationship: assessment, decision-making, dyadic communication, disengagement, network communication, the aftermath, and the potential of starting. The first six stages are relevant in this case.

7.4.1. Discussion on the collapse of the GCNA ASPIN Marketing Agreement.

GCNA Board First Meeting, 28 February, 1989 - Assessment Stage

On 28 February, 1989, the GCNA Board of Directors met in its usual bi-monthly meetings to consider some routine issues. However, the manager of the GCNA (Renwick) informed the Board of two important events that had occurred within ASPIN that would change the course of the Joint Marketing Arrangement. First, ASPIN's change in the status of Catz International's as the sole international buyer of ASPIN members' nutmeg and mace.
This was fundamentally different from the understanding that the GCNA had regarding the role of Catz International in controlling the supply of nutmegs and mace by members of ASPIN.

Second, was the resignation of Charles Sutjiawan, Marketing Director of ASPIN. These events were of major concern to the GCNA, as ASPIN had not consulted or communicated with the GCNA on these events. The changes and lack of communications from ASPIN left the GCNA contemplating what this meant for the future of the agreement. Further, the events were accompanied by the declining prices on the international market for nutmeg and mace. At this meeting, the GCNA Board expressed the following views: (a) there would be serious repercussions on the international market and for Grenada in particular, and (b) these developments were seen as the outcomes of work done to undermine the agreement by buyers such as Man Producten B.V.

During the discussions that followed, the following thoughts were expressed by some members:

- Board member Mc Phail warned against doing anything rash that might precipitate the outcome of any future negotiations with ASPIN;
- Board member Ferguson blamed Man Producten for the eminent collapse of the agreement citing previous faxes and accusing members of moving the vote of no confidence in the chairman of the board as a tool to divide the GCNA;
- Board member Benjamin expressed the view that the problem was with ASPIN and not with Man Producten.

The meeting decided to: (a) monitor the situation; (b) but make no price adjustments or other changes at the moment; and (c) direct the Board Secretary to write to ASPIN, reminding them of a promise to keep to the terms of the agreement.

These events were factors occurring during the relationship and had the effect of mediating the impact of the relationship, as the per-pound price of nutmeg on the international market continued to decline (see table 6.3). This decline in prices below that which was provided for in the Joint Agreement and expected by the stakeholders, could partially be seen as a result of this change in policy which would now create a competitive market space, allowing for more bargaining and further price reduction, as each international exporter was now competing against each other for sales, and in the process, accept lower prices than that which existed before.

The above discussions showed that the Board lacked appropriate information for a balanced assessment of the potential threat to the Agreement, with board members blaming different parties for the situation. The possibility of the GCNA re-entering into negotiations with ASPIN was also raised. The GCNA, having not been given direct reasons for such changes in policy, appeared to embark on a search to obtain reasons for the same, as well as to understand the situation.

Second Meeting, 14 March, 1989 – Assessment, Decision-Making and Attempted Restoration Stages

As a result of the above event, on 14 March, 1989, the GCNA Board of Directors, having not had a response from ASPIN, sent a second dispatch requesting a meeting to discuss the declining prices of nutmeg and to reconfirm their commitment to the Joint GCNA-ASPIN Marketing Agreement. This request indicated the need for continuous assessment and reassessment of the situation by the GCNA but also the need for information, as they sought to assess ASPIN's decision, information which would aid, not only in their understanding of the current situation; but also in providing further input into the other stages of the dissolution process.

During the meeting, Board Member Ferguson proposed, and the meeting agreed, that,

> "the Indonesians should be asked to come to Grenada in view of the fact that the last round of talks had been held in Jakarta and additionally at that meeting they had promised Grenada if the market situation warranted it, they would come. However, if they are unable to come the alternative would be to go to Indonesia,"

(Minutes of the GCNA Board Meeting, March 14, 1989 p. 5).
The above decision is important to mention since it established the GCNA commitment to maintain the agreement and stabilise the cartel, while the responses which follow from ASPIN show a less-intense commitment to maintaining the agreement, as would be confirmed by future reports from minutes of the GCNA Board meetings.

This stage reflects the overlapping of three stages in the Tähtinen and Halinen (1999) framework -- assessment, decision-making and dyadic communication - in the dissolution process. First, the GCNA Board's attempt to find reasons for the impending dissolution of the relationship confirms the assessment stage. Second, it represents the decision stage in terms of the GCNA's Board of Directors decision to engage ASPIN by electing to use the voice rather than the exit strategy (not to end the relationship). And third, the GCNA requesting the meeting and stating its purpose also represented an attempt to restore the relationship to its prior position. At the decision-making stage, the parties can choose either an exit or voice strategy. An exit strategy ends the relationship, while voice gives the opportunity to repair and retain the relationship. The latter is what GCNA attempted to do by its decisions and actions.

Third Meeting, 28 March, 1989 - Assessment, Decision-Making, Dyadic Communication and Disengagement Stage

At the Dyadic Communication Relationship Stage, the potential to use either the exit or voice strategy is directly or indirectly communicated to the partner (Alajoutsijarvi et al,, 2000). In this case study, the decision was taken to give voice to the issue – seek and confront the other partner on the matter. As a consequence, ASPIN was communicated with for a third time in that regard (Interview with Renwick, 2006). Such continuous attempts at seeking to obtain reason(s) for what was unfolding represented a search by the GCNA to find the real reasons for ASPIN's actions. In the meantime, ASPIN was not responding, with the consequence of declining international prices and growing instability of the cartel.

At this stage, unless the parties agree to perform restorative actions, the relationship is likely to enter into the Disengagement Stage. The meeting noted that ASPIN rejected the request for the meeting. This rejection represents ASPIN's implicit exit strategy, and thus the response is indicative that the relationship entered into the disengagement stage of the dissolution. However, text from the archives of the GCNA revealed the discussions at the GCNA Board meeting on 28 March, which provided further insights into the status of the relationship, and the ongoing exercise of the voice strategy which was adopted by the GCNA Board of Directors.

One month after the start of communication with ASPIN, in an effort to obtain reasons for what was occurring, the Chairman of the GCNA Board grew impatient and frustrated, as he reiterated the "need for a meeting with Indonesia as being absolutely essential and that the Board should be prepared to send a small delegation to Jakarta, if the Indonesians cannot come to Grenada," (Minutes of the Board of Directors of the GCNA, 28 March, 1989).

The attitude of ASPIN and the growing mistrust also came into question by Board Member Benjamin who “questioned the attitude of the Indonesians and suggested that their level of cooperation left a lot to be desired, and raised the possibility of a new Agreement being considered, seeing that the existing one is not working,” (Minutes of the Board of Directors of the GCNA, 28 March, 1989). The frustration with ASPIN’s non-response was also expressed by Board Member Ferguson who felt that "ASPIN should be pressed to come [to Grenada] but if they would not then GCNA would have to go to Jakarta," (Minutes of the Board of Directors of the GCNA, 28 March, 1989). Following much discussion, the Board agreed to keep pressing ASPIN to meet with GCNA in Grenada (Minutes of the Board of Directors of the GCNA, 28 March, 1989).

The above text also revealed that even at this early stage in the dissolution process, the decision-makers in GCNA were keen to restore the relationship or get it on to the restart of the relationship. The restoration of relationship in the midst of a declining relationship fits into the business dissolution model of Tahtinen (1999; 2001), which indicates that during the dissolution phase, there would be attempts at restoration.

Furthermore, at this stage, business exchange declined and resource ties became weak, as ASPIN continued its intransigence to facilitate the meeting. The nature of the relationship between ASPIN and GCNA exemplifies the weakening of the bonds (agreement to meet when necessary and to keep each other informed on relevant issues pertaining to the market) which existed between the two parties. Furthermore, ASPIN was already aware of the trade and economic reforms which were unfolding in Indonesia, and the fact that they were not in a position to maintain the relationship with the GCNA in its present form, and that the relationship was at the disengagement stage. However, the GCNA was at a disadvantage and not fully aware of the structural adjustments which were unfolding in Indonesia, and so continued to engage in communication with ASPIN hoping to save the agreement. Meanwhile, ASPIN’s actions continued to show that they were not interested in maintaining the relationship (by not providing any explicit response to the GCNA’s requests for a meeting). ASPIN was implying their intention to exit the relationship with GCNA.

Fourth Meeting, 10 April, 1989 - Dyadic (between the two parties), Network Communication and Disengagement Stages

While the GCNA continued to intensify its communications with ASPIN (dyadic) to meet in Grenada, the GCNA Board was seeking the assistance of Catz International to establish a nutmeg oil distillation plant to address the deepening crisis of excessive stock build-up (network communication). The continuing communication sent from the GCNA Board to

ASPIN and ASPIN's continuing negative reactions (Dyadic), forced the GCNA to begin to consider alternative uses of its large stock of nutmeg. This thinking by the GCNA, arising from the current state of the relationship, forced them to seek assistance from other actors in the network such as Catz International.

The turn to Catz International for assistance seems not unusual, as Catz had been GCNA's major buyer and seemed knowledgeable on all things nutmeg. It was also GCNA's way of implicitly passing on information to a network partner as a means of informing and managing the communication which would emanate from the collapse of the relationship between the GCNA and ASPIN. Catz communicated that given the high cost to recondition defective nutmegs at that time, it would not be economically viable to enter into the nutmeg oil market. However, given the high price of defective nutmeg (which the best grade of nutmeg for distillation purposes) the Board decided to delay the decision on the acquisition of the nutmeg oil distillation plant for the time being.

After almost six weeks, ASPIN finally responded to GCNA's request for a meeting, proposed for the end of April, but insisted that they were unable to come to Grenada due to personnel changes which were occurring in ASPIN. While the GCNA was exploring the option of producing nutmeg oil, their interest in securing the meeting with ASPIN was not forgotten (actions aimed at restoring the relationship), as James, the Chairman, remained mindful of the outcome of the meeting on the market. He informed the Board that "the market was awaiting the outcome of the proposed end of April meeting with ASPIN," (Minutes of GCNA Board of Directors Meeting, April 10, 1989).

At the same time, board member Ferguson insisted that ASPIN should come to Grenada for the proposed meeting and that "GCNA needed to assert itself." This meeting further agreed to send a strongly worded telex to ASPIN, informing them "that the Board found the reason which they were advancing for not coming to Grenada to be unacceptable and reaffirmed that parties to an Agreement must honour their pledges, and therefore a meeting date on or before May 15th in Grenada was essential," (Minutes of GCNA Board of Directors Meeting, April 10, 1989).

ASPIN's continued resistance to meet in Grenada increased GCNA's mistrust of ASPIN while ASPIN seemed to have hoped that GCNA would have understood by then that they were no longer interested in maintaining the relationship; but was only being diplomatically pleasant towards the GCNA.

Fifth Meeting, 19 April, 1989 – Decision-Making, Dyadic Network Communication and Disengagement Stages

At this fifth meeting of the GCNA Board of Directors, where the stability of the cartel and the relationship with ASPIN were dealt with, the Secretary informed the Board of the input from agent Roger Piper of Rucker & Slann, a spice trader from the UK. Piper advised on the following courses of action:

> (a) "that a joint statement to be worked out via telex with Indonesia regarding the current state of the marketing agreement"; (b) "that the GCNA restructure its price and meet with ASPIN"; (c) "that the GCNA announce a new price structure", and (d) "that the GCNA meet with ASPIN and discuss all problems related to the agreement."

(Source: Minutes of the GCNA Board of Directors Meeting, April 19, 1989.)

The above input from Piper showed that the market was aware of the internal problems of the proposed cartel and, as such, was waiting to see prices dip further as demand declined. In the context of the dissolution of the relation process, it also represented efforts at restoring the relation, while bordering on disengagement. During the period 1988 to 1989, export sales and revenue earned by both ASPIN and GCNA declined, as indicated in table. 6.3. Seeking information and advice from Rucker & Slann indicated that the GCNA Board of Directors was seeking assistance to improve its understanding of the current and future state of the relationship. GCNA was increasing its efforts to establish communication with ASPIN but the efforts appear to be one sided.

GCNA's Chairman indicated the unwillingness of ASPIN to visit Grenada and suggested "the time had come for the Board to take the decision as to whether a delegation from the GCNA would go to Jakarta to meet ASPIN." Campbell suggested that GCNA should restructure its pricing before meeting with ASPIN to discuss all the problems relative to the Marketing Agreement (Minutes of the GCNA Board of Directors Meeting, April 19, 1989). The Board finally "suggested a meeting date in June in order to give the Board time to prepare as well as taking into account the area and general meeting." (Minutes of the GCNA Board of Directors Meeting, April 19, 1989). McPhail suggested that time was a key factor in deriving any benefits. Benjamin was opposed to GCNA sending a delegation to Jakarta, to which two other members agreed. The decision to send a delegation to Jakarta was therefore agreed upon by a slim vote of four in favour, two against and one abstention. The delegation was to be comprised of the Chairman and Secretary, who were to visit Jakarta on 10thMay, (Minutes of the GCNA Board of Directors Meeting, April 19, 1989).

This meeting showed the strained relationship between the ASPIN and the GCNA was beginning to be felt in the boardroom of the GCNA, as tension was evident between members; this growing tension could be attributed in part to the absence of information regarding the actual situation within ASPIN and that the GCNA lacked the experience of dealing with such a situation.

Sixth Meeting, 25 April, 1989 -- Decision-Making and Dyadic Communication Stages

This stage reflects the ongoing desire on the part of the GCNA to restore the relationship by continuing to insist on the meeting with ASPIN. This insistence represents attempts at starting negotiations over the existing situation with a view to finding a solution. However, by that time, the relationship was operating at two different levels, because in Indonesia, the trade reforms were being expedited and, therefore, ASPIN was at the disengagement stage of the relationship. They knew that restoring the relationship to what existed before was impossible but ASPIN appeared to have hidden this fact from their partner the GCNA Board of Directors.

At that meeting, the Chairman read a telex dated 20/4/89, making a last appeal to ASPIN to visit Grenada by May 29th or at the earliest possible date. In what seemed to be growing desperation to find answers and solutions to the worsening price for nutmeg on the International market, the GCNA Board decided that this would be the last appeal, following which the delegation would visit Indonesia (Meeting of the GCNA Board of Directors, April 25, 1989). They were very aware of the consequences of not meeting to find a solution to the worsening financial and trade situation facing the GCNA and the Grenadian economy.

Seventh Meeting, 23 May, 1989 – Decision-Making and Dyadic Communication Stages

By May 23, 1989, the continuing brinkmanship between the GCNA and ASPIN regarding the location of the meeting continued, with ASPIN acquiescing to the request for the meeting but insisting that the meeting take place in Jakarta. However, Chairman James responded by insisting that the meeting takes place in Grenada," (Minutes of GCNA Board of Directors Meeting, May 23, 1989).

This Board meeting took place within the context of the decision-making and dyadic stages of the demise of the business relationship. The attempts by the GCNA continued to demonstrate their desire to restore the relationship in order for them to attain their personal objective to be seen as a hero to the farmers, to earn higher incomes for themselves and the GCNA, and as well to maintain the perception of the board as an effective one which managed its affairs well and was deserving of another term in office.

It took the GCNA Board of Directors approximately three months before they informed their other major stakeholder at the domestic level of the instability of the agreement. This late action on the part of the Board appeared as a sign of desperation to obtain the intervention of the Government of Grenada in finding a solution to the ever-worsening problem, though in principle the government should have been aware of the problem through its representative on the Board. Approaching the government represented an expansion of communication within the network to protect themselves from allegations of incompetence by allowing the agreement to collapse, or to demonstrate to the Government of Grenada that they were being proactive in finding a solution to the growing demise of the relationship.

Eight Meeting, 20 June, 1989 -- Assessment, Decision-Making, Dyadic and Networking Stages

The GCNA continued its efforts at assessing the situation with the cartel in order to make decisions, as it continued to engage ASPIN, and at the same time expanding its communication to the extended networks, to now include the local Grenada Development Bank (GDB). It is evident that the GCNA considered alternative courses of action, given the current state of the cartel. The communication with the GDB related to the financing of the nutmeg oil distillation plant, which was seen as a solution to erase the high level of stocks held by the GCNA. The minutes of the above meeting note the following points that are of interest to this study:

GDB advised in a letter of 9/8/89 that they have received from European Investment Bank (EIB) EC$1.2 million for the construction of the Nutmeg Oil Distillation Plant (NDP). The Board Secretary explained to the meeting that: (1) Mr. Oscari (Centre for the Development of Enterprise) advised that an allocation of $1.0 Million should be allocated as start-up cost; (2) Mr. Oscar had projected that the plant could run at a loss for the first five years; (3) the interest rate for the loan should be not more than 8 per cent, and (d) that the viability of the project depended on stocks of nutmeg exceeding 250 tons.

During the discussion which ensued, Mr Benjamin stated that: (1) negotiations should be entered into with GDB in order to help compare with the best alternative [rate of interest] available, and (2) that "The true picture, relative to the nutmeg oil distillation project, was not given to the growers."

Ferguson responded by voicing his opposition to the loan from the GDB, arguing that the bank could use the debt which the GCNA would incur to leverage against the Association in the future. He contradicted Benjamin by stating that members were presented with all information relative to the NDP. The Chairman (James) concluded the discussion on the matter by stating that the Board remained committed to the NDP and that negotiations with the GDB on the loan would commence while awaiting the feasibility study.

Four months following the change in ASPIN's sales policy, and years of knowledge of the persistence of smuggling, news of current smuggling activities reached GCNA, which was deemed to be another reason why the meeting with ASPIN ought to take place. GCNA's decision-makers understood the impact smuggling had on the stability of the cartel and were determined to work with ASPIN to resolve it.

With regards to the continuing communication with ASPIN, Chairman James reported that: (1) ASPIN had responded suggesting that the meeting takes place in New York; (2) he (James) had rejected the idea of meeting in a third country; (3) he (James) had suggested that GCNA send a delegation to Jakarta; (4) and in response ASPIN had tentatively agreed to a meeting on 17 July in Jakarta, and (5) he (James) and the Board Secretary would attend that meeting.

The above discourse shows it took three months before ASPIN agreed to a meeting. During that time the GCNA Board engaged in a search to find a solution to the problem by expanding the conversations about the issue to an ever-increasing number of actors and stakeholders in the nutmeg supply chain, ranging from domestic to external stakeholders (Catz International, Rucker & Slann, the Government and the University of the West Indies), and considered the possibility of a nutmeg oil distillation plant to make use of the accumulated stock of nutmeg.

Ninth Meeting, 4 July, 1989 -- Assessment, Decision-Making, Dyadic Communication Stages Arising from Existing Factors – the Decision to Attend the Meeting in Jakarta.

By the time the GCNA delegation left for the meeting in Jakarta, GCNA's trust in the ASPIN had lowered significantly. This was based on the unfolding events which commenced with the unilateral decisions of ASPIN regarding the pricing and sales policy, and the manner in which they were forced to acquiesce to the meeting.

While some members of the GCNA Board of Directors were doubtful about the sincerity of ASPIN, they predicted that ASPIN would honour the agreement and that ASPIN would operate in a manner which engenders good-will. However as time passed, trust started dissipating. Nonetheless, on July 4, it was decided that the GCNA delegation would leave for Jakarta on July 8 1989, with the following points for discussions: (1) the existing quota system; (2) the prices for various products; (3) arrangements for exchange of information; (4) the need for closer cooperation, and (5) a joint statement to the market.

However, Director Benjamin differed, he felt that the main issue should be adhering to the Agreement in place and nothing else, and further, the delegation was advised against agreeing to any geographical division of the market. The meeting rejected Benjamin's suggestions and maintained the points as articulated by the Chairman.

Tenth Meeting, 17 July, 1989 - Assessment, Decision-Making, Dyadic Communication, Disengagement and Networking Stages.

This tenth and very important meeting took place in Jakarta between GCNA, ASPIN, Catz International and First Pacific. It is included in this list because of its importance in the process of the dissolution of the Agreement and its significance for the GCNA.

The composition of the meeting itself reflected the growing inclusion of additional players into the relationship, including a new player, First Pacific, a Singapore-based spice trader (World Bank Report, 1991). The researcher did not find any details of the Jakarta meeting within the archives of the GCNA, however at its board meeting of 17 August1989, the minutes recorded that the delegation returned from Jakarta and the following decisions were made: (a) that a new firm, First Pacific, would be responsible for all the day-to-day activities of the Agreement while not being a participant in it, and (b) ASPIN would continue to be responsible for marketing on behalf of its members.

The introduction of First Pacific to the marketing arrangement with ASPIN, from the point of view of this study, had no influence or impact on the continuance of the agreement, but represented ASPIN’s growing disengagement with GCNA. Since there was no central marketing agency between the two primary stakeholders to the cartel, ASPIN’s stated dissected role was insignificant, as each of the parties were already operating on their own. Hence, the inclusion of First Pacific was a non-event to the idea of restoring the arrangement under cartel relationship. This act on the part of ASPIN represented further evidence of how weak and naïve ASPIN perceived the GCNA to be.

Eleventh Meeting, 10 October, 1989 – Decision-Making and Disengagement Stages

Catz continued to immerse itself in the affairs of the GCNA and the Agreement by being an interlocutor within the GCNA–ASPIN Agreement with ongoing marketing information. On 10 October, the then General Manager Renwick informed the Board that he received reports of increasing smuggling of nutmegs from Indonesia via Singapore, from Catz International, and that Man Producten was purchasing SUNs-grade nutmeg from New York at US$6,600 per ton. The Board advised that Renwick write to ASPIN about this issue. The Board also expressed concern about the conduct of Catz International in the market. These issues were under discussion while GCNA contemplated its various decisions going forward in its relationship with ASPIN.

It was a cause for concern, as in the experiences with ASPIN from February to October, 1989, the GCNA was still holding on to the view that ASPIN could have exercised control over the ongoing smuggling, in Indonesia. This seems senseless to the onlooker of these events, but more so served to demonstrate the fact that the GCNA was operating in the absence of very important information. These events also highlighted the GCNA's constant but misguided attempts at restoring the relationship with ASPIN, since it was self-evident by ASPIN's conduct that it was not interested in rescuing the Agreement. Further it did not have the capacity for rescue given the basic weaknesses and the change in Indonesian economic policy.

Twelfth Meeting, 9 January, 1990 - - Decision and Network Communication Stages

The New Year started, and GCNA was still keen to save the agreement, but they were also aware that, to date, they had not been able to find a solution to the ongoing problem of continued declining prices. It was for this reason that they decided to expand the number of organisations and persons into their network, by seeking the political intervention of the government. Therefore they requested the assistance of the Grenada Ministry of Trade or the Ministry of Cooperatives get involved in finding a possible solution, by travelling to Jakarta to try and save the agreement through the restoration of the price of nutmeg and mace to its previous levels. The use of extended networks coincided with that of Thatinen (1997, p.14) who argue that "other network actors can, through their actions, influence the focal relationship and its actors, either towards or away from the dissolution." The archives of the GCNA don't have any record about the above decision. This shows that the decision was not followed up on and, therefore, the situation remained the same.

In fact, by January, 1990, the trading situation worsened; the stock of nutmeg and mace was increasing; revenue was down, when compared to the same period in the previous year to EC$2 million from EC$17.5 million (Minutes of the GCNA Board of Directors, January 20, 1990). The decline in revenue also impacted the advanced price and bonus paid to farmers, as well as the profits of the GCNA. By that time, it appears that the GCNA Board was now fully convinced that ASPIN and Catz International were acting hand-in-glove. It was that thinking which drove Chairman James to suggest to the Board of Directors that "the key issue was for the Board to formulate its position on the following": (1) GCNA's relations with Catz; (2) GCNA's relations with ASPIN and First Pacific PTE; (3) prices relative to stock position; (4) marketing and promotion activities; (5) review of the international agents to be used, and (6) review of internal marketing structure so as to facilitate quick decision-making." (Minutes of Meeting of the GCNA Board of Directors January 9, 1990).

Board Member Campbell suggested they also needed additional information, especially on sales and on Catz's manoeuvrings. He felt that the Board was being manipulated by Catz and as a consequence the advance [payments] paid to farmers could be affected

(Minutes of Meeting of the GCNA Board of Directors, 9 January, 1990). At this point, further conflicts of opinion between Board Members on the role of Catz International in the instability of the Agreement emerged. Ferguson argued:

> “That the board should break out of thinking of Catz and focus on the $25.0 million sales target for the year; that ASPIN was short of cash and the solution was for Indonesian farmers to form as association like GCNA; that the Board should inquire from ASPIN whether the Agreement was still in place; that the outstanding payment issue with Catz international should be addressed and that delegations should be sent out to the major markets with a view to understanding such markets,”

(Minutes of Meeting of the GCNA Board of Directors, January 9,1990.p.4).

The impending demise of the attempt at cartelisation aroused wide-ranging discussions within the GCNA as they searched for solutions to the problem they were confronting. Board member St. John intervened and suggested that the Board should focus on a number of key issues such as to review the production of nutmegs worldwide to see if the market was oversupplied and therefore putting pressure on prices; review the Agreement with ASPIN; look with urgency at getting a large sale at the best possible price. (Minutes of Meeting of the GCNA Board of Directors, January 9, 1990)

The debate continued within the GCNA to the extent that certain board members began to doubt their ability to resolve the challenges confronting the GCNA. This was expressed by board member Campbell who said he was

> "not sure whether the Board had the capacity to deal with the relevant issues that arose and therefore suggested that the GCNA get a competent economist, who could advise it on marketing questions, similar to the arrangement which the Grenada Cocoa Association has with Mr. Denis Henry,"
>
> (Minutes of Meeting of the GCNA Board of Directors 9 January, 1990,p.5).

Another Board Member, Benjamin, supported Campbell’s views and reiterated that GCNA needed help and that the expertise could not be found inside the association. The above views were rejected by the chairman who expressed the view that the present administration was “au fait” with the situation and quite capable of giving the board the necessary guidance and executing the policies of the board. (Minutes of Meeting of the GCNA Board of Directors January 9, 1990)

The chairman was supported by Ferguson (a farmer representative) who stated that "the marketing of cocoa was different to that of nutmegs. I do not see the need for an outside economist and that the thinking advanced by Messrs Campbell and Benjamin was typical of thinking that reduced farmers to low levels of intelligence, who are incapable of handling their own affairs. This does not augur well and for progress, this thinking must be changed," (Minutes of Meeting of the GCNA Board of Directors, 9 January, 1990, p.2)

> "The administration was directed to get the necessary statistical information on the market so as to provide members with the database necessary for the discussions to be held with Mr. Klaus Huitema of Catz International B.V. and for subsequent decisions on visits to the market," (Minutes of Meeting of the GCNA Board of Directors, 9 January,1990:3).

The above discourse revealed how the unfolding dynamics of the collapse of the attempts at cartelisation were impacting the internal discourse within the GCNA, as they seemed unable to find an appropriate solution. Yet the lead members of the board (James and Ferguson) rejected the proposal to obtain external professional inputs.

Thirteenth Meeting, 20 February, 1990 --Network Communication and Disengagement

On 29 February, 1990, the general manager (Renwick) confirmed the visit of Huitema on Saturday, 24 February, 1990. The Board agreed to meet with him on Wednesday, 27 February. The manager then proceeded to inform the board of claims on the poor quality of mace made by Catz International but as usual he was still interested in purchasing a quantity of nutmeg and mace (Minutes of GCNA Board Meeting, February 20, 1990).

Discussion ensued on the matter and Benjamin expressed the following views:

1. That he was highly suspicious about the manner in which these claims coincided with Huitema's visit;
2. That if Catz International BV was prepared to purchase a substantial quantity of nutmeg, a discount would be given instead of an umbrella decrease in price on the international market; no umbrella protection would be given;
3. That the claims from Catz international B.V. would not be accepted.

Mr. Ferguson suggested that in order to reduce the GCNA's reliance on Catz International, they should actively pursue market visits in Europe, North America, and South America, (Minutes of Meeting of the GCNA Board of Directors, February 20-, 1990). It would appear that the reality of Catz International as a manipulator of the market was now being universally accepted by the GCNA Board of Directors, and as a consequence they should seek alternative markets/ agents.

In the meantime the proposed nutmeg oil distillation plant project was still under consideration by the GCNA Board. However, the project was delayed due to specifications that were missing. Members expressed concern over the additional costs and suggested that it might have been better to purchase the plant with advice from Tractebel, the engineering consultants.

Fourteenth Meeting, 24 June, 1990 -Disengagement and Aftermath Stages

Finally, the fallibility of attempts at cartelisation was formally brought to the attention of the GCNA Board of Directors when a telex was received from ASPIN dated 31/5/90, informing the GCNA that as at 25/5/90 ASPIN ceased to be the sole selling organisation for Indonesian nutmeg and mace. This followed the removal of the export restrictions on these products by the Indonesian Government, (Minutes of GCNA Board Meeting, June 24, 1990, p 2). Additionally, the GCNA Board reacted by stating that the board should remain calm and monitor the situation, and that no premature public statement should be made. "A telex should be sent to ASPIN expressing regret over the action of Government to deregulate the export of nutmeg and mace and to thank them for their co-operation over the past four years”.

However, the GCNA had obtained information on the changes in ASPIN prior to the receipt of the official correspondence from ASPIN. On June 22, 1990, two days prior to the Board meeting, Chairman James gave an interview to the weekly newspaper, *Grenada Today*, which carried the headline “Nutmeg PACT Collapse.” Chairman James had admitted to the newspaper “that the three-year old nutmeg pact signed between the island [GCNA] and its major product partner, Indonesia, has collapsed,” (*Grenada Today*, 1990, p.13).

He blamed ASPIN for the collapse of the agreement by stating: “ASPIN had been selling at prices below the minimum agreed upon by the two countries to get rid of a substantial amount of stock of nutmegs and mace on hand, and that ASPIN had written to the GCNA indicating that it could do nothing about it. Since they (ASPIN) can’t do anything [to stop the smuggling and increase prices] then there is no Agreement,” (*Grenada Today*, 1990, p.13).

The GCNA Annual financial statement (1991) reported that its revenue for 1990 fell from EC$29,404,798 to EC$13,255,438 in 1991, a decline of EC$16,209,359. This drastic decline in revenue was due to the decline in export prices received by the GCNA, which fell from EC$5.76 per pound in 1990 to EC$4.58 per pound in 1991. Simultaneously, the farm gate price declined from EC$3.04 in 1990 to EC$1, 54 in 1991, a 49.34-per cent decline during the same period the advanced payment declined from EC$16,869.762 to EC$10,000,000, while bonus payment went from EC$5,000,000 to non-payment. In fact this dramatic decline in earnings for GCNA brought it close to bankruptcy and its finances dried up forcing its bankers to cancel its overdraft facilities as well as stop cashing its cheques.

Table 7.1 Summary Financial Impact of the Failed Agreement on the GCNA: 1990 - 1991

Financial Elements	1990	1991
Total Revenue	EC$29,404,798	EC$13,255,438
Export Price per pound of nutmeg	EC$5.76	EC$3.11
Bonus Payments	EC$45,000,000	EC$0.0
Advance payment to farmers/Farm-gate price	EC$3.04	EC$1.54

Source. GCNA Financial Statement and Trading Summary 1990-1991

7.5 Chapter Summary and Conclusion

This section demonstrates that GCNA became aware of ASPIN's diminishing commitment to the Marketing Agreement in February 1989. The Agreement ended formally on 25 May 1990. The evidence gathered in this study shows that there was an absence of a number of basic conditions (high market concentration, significant entry barriers, organisational structures and processes to ensure compliance and commitment of participants to the Agreement) needed for the Agreement to function effectively as a cartel. The chronology of the failed attempt showed that it did not proceed along a smooth and logical trajectory, but rather through a series of decisions, actions and inaction.

The section demonstrates the unbalanced nature of the Agreement. GCNA's commitment to continuing the commitment was strong based on the importance for the GCNA and its primary stakeholders (farmer members of the GCNA, the Government of Grenada and the GCNA Board Members as agents of the primary stakeholders) of the Agreement and a belief in the feasibility of sustaining the Agreement. The belief in the feasibility of sustaining an effective agreement in the absence of the necessary conditions was based on incomplete information about the nature of ASPIN and non-existence of the necessary conditions.

Because of its commitment to the survival of the Agreement, GCNA continued in its efforts to keep the Agreement going when it was failing. However, it did not succeed because ASPIN's commitment was always lower than that of the GCNA and its powers to control the supply of Indonesian nutmeg were also very limited. Eventually, ASPIN could not survive the economic policy reforms in Indonesia formally brining the Agreement to an end.

There were differences of opinion within the GCNA Board on the causes of the failure and what could be done to retrieve the situation. However, most Board Members appeared to believe more in the malign motivation of international agents against the Agreement and the unwillingness on the part of ASPIN to comply with the Agreement MoA and MoU than the absence of the basic conditions for the survival of the Agreement.

The chronology of the talk and text highlighted some of the structural weaknesses in the agreement. The absence of an organisational structure and processes for managing the Agreement affected its implementation and may have provided ASPIN with the opportunity to delay meetings requested by the GCNA and, by so doing, increased the lack of trust between the two parties.

The talk and text further shows the asymmetry of information between the GCNA and ASPIN. The chronology of events showed that ASPIN was fully aware of the unfolding situation inside of Indonesia and ASPIN, but even when such information was available, they seemed not to be able to act appropriately or in a timely manner to inform their partner. The GCNA appears to have been naïve and uninformed in dealing with ASPIN and at worst incompetent and unwilling to seek independent expert help.

Chapter 8- Conclusion

This chapter gives an overview of this research and presents its contributions in section 8.1. Section 8.2 summarises the conduct of the research while sections 8.3 and 8.4 present the main and specific conclusions of this research. Finally, section 8.5 presents the limitations of the research and the possible areas for future research, and section 8.6 presents a brief afterword on what occurred between the GCNA and the Indonesian Nutmeg Exporters and Catz International.

8.1 General Overview of This Research and Its Contributions

This study examined the role and behaviour of primary stakeholders of the GCNA in the decision-making processes as they related to the formation, performance and dissolution of attempts at forming the first International Nutmeg Cartel established between the GCNA of Grenada and the ASPIN of Indonesia, against the backdrop of the intervention of primary and secondary stakeholders. The research addressed three main questions, in order to help focus the study:

1. What factors and interactions with other stakeholders influenced the GCNA Board of Directors' decision to take initiatives to form the Joint GCNA-ASPIN Marketing Agreement to operate as a cartel?

2. How did the interventions of other parties (external stakeholders) impact the creation, performance and the eventual collapse of the Marketing Agreement?

3. Why did the Agreement collapse and why did the GCNA Board persist in trying to keep the Agreement going when it started failing?

The study's contribution to knowledge arises from the multi-dimensional analysis of the evolution of the failed attempts at the development and survival of a commodity cartel. In particular, the study demonstrated how in the absence of the conditions necessary for a commodity cartel to succeed, the prevalence of information asymmetry and reliance on external parties, contributed to the GCNA stakeholders' persistence in developing and sustaining the Marketing Agreement as an international cartel in collaboration with ASPIN. The persistence has been based on misconceived perceptions on the existence or achievability of the economic conditions required for the Agreement to function as a cartel and belief of the GCNA Board in their own capacities to influence other key stakeholders. The study portrays the interactions between the fundamental market conditions and the decisions and actions of the GCNA Board as key internal stakeholders representing the interests of larger group of nutmeg farmers. Additionally, the contribution of this thesis lies in the way insights are provided and how the empirical data from interviews and available archival date have been combined to tell a comprehensive story of the failed attempt by the two nutmeg-producing countries at cartelisation from the perspective of Grenada as a small island economy.

The significance of Grenada being a small island economy in this context is relevant for a number of reasons. Grenada's economy, size and population are miniscule in comparison with Indonesia's (about 0.1 per cent of the GDP, less than 0.05 per cent of the population and less than 0.01 per cent of the land area of Indonesia). Further, Grenada had a minority share of the market for the commodity. However, its dependence on its exports was significant and a high proportion of households had earnings from nutmeg production. For Indonesia nutmegs were a small part of the rural economy and exports and the performance of this sector was much less of a concern than the much larger economic challenges it faced. Grenadian policy makers, commitment to the Agreement was therefore much greater than that of Indonesian policy makers. Being a small economy with a minority share of the commodity also made it vulnerable to the market power of international traders and reliant on relationships with them for market intelligence and advice on managing the sector and international sales.

At the management and policy levels, this thesis makes a contribution to strategic policy decision formulation for the Grenada nutmeg Industry at a time when its stakeholders continued to debate issues such as governance and structure of the industry, the continuance of the GCNA as a cooperative, and diversification through the movement of its products up the value chain. This work will also make practical contributions to strategic policy development, implementation and management of the GCNA, other commodity organisations in Grenada, and elsewhere. It will also aid public- and private-sector policy makers and stakeholders who are associated with producer cartels in developing countries.

8.2 Conduct of the Research

An integrative, qualitative case-study approach was adopted, since it allowed for an in-depth investigation of the phenomenon (Yin, 1994; 2003) by gathering data from multiple, reliable, primary and secondary sources (archival records and interviews with key participants) in conjunction with the use of relevant sets of academic literature on: stakeholder theory and conditions required for the formation and survival of cartels and commodity agreements. Part of the study employed the data analysis techniques of Ann Langley's (1999) strategies on "temporal bracketing" and narrative analysis. A process approach was applied to a cooperative organisation operating in the international commodity sector in a small-island/ developing-country context, and operating in a market where they perceived themselves as price-makers rather than (the reality) price-takers. This integrative case-study approach provides the opportunity to reconstruct the attempts at formation, survival and the eventual collapse of the GCNA-ASPIN Nutmeg Cartel.

In collecting the relevant data, a triangulation approach (Yin, 1994; 2003) was used to gather data from multiple sources: (a) through interviews with key actors and others in Grenada and outside, and (b) archival records of text and financial data from the GCNA. With regards to data from the other stakeholders in the story, primary data through interviews were collected from Mormon from Catz International and from Fooks & French. However, the research did not unearth much published literature on ASPIN or the Indonesian nutmeg industry during the period. Two sources of value here were Marks and Pomeroy (1995) and Tirtawinata (1992). Langley's (1996) sense making – narrative - strategy and chronological methodology were relied upon to describe and tell the story of the formation and collapse of the GCNA-ASPIN Nutmeg Cartel. The work of Thàtinen and Halinen (1994) on the steps in business relationship dissolution was referred to with respect to the study of the demise of the Agreement.

Donaldson and Preston (1995) argued that stakeholder theory is unarguably "descriptive" but at the same time recognized the inter-relationships between the descriptive, normative and instrumentalist approaches. This research found that in order to gain a comprehensive understanding of the case, all three perspectives were relevant. Whereas the descriptive helped to illuminate the entities and actors in the case, the normative was used to gain insights into the contractual arrangement and the behaviour of each party towards the agreement, while the instrumental strand was employed in establishing the framework that looked into the management of the organisation and its performance. Nevertheless, the descriptive strand was the main one used since it helped to describe, explain and illuminate the issues in the case.

Concerning the organisation of the work, Chapter 1 introduced the study and outlined the issues to be investigated. Chapter 2 presented the context for the study, in particular Grenada's history, geography and agricultural economy, and demonstrates that the nutmeg is one of Grenada's leading export products. Chapter 3 reviewed pertinent literature in a number of areas relevant for examining the multi-dimensional aspects of the investigations, in particular the conditions necessary for the development and survival of cartels, and the use of stakeholder analysis in setting the contextual background of the case and understanding the perspectives and conduct of internal and external stakeholders. Chapter 4 presented the research methodology, covering data-collection methods and analysis, including Langley's (1999) temporal bracketing approach, issues of reliability, accuracy, and validity associated with a single-case study, and the possible sources of errors and shortcomings.

The next four chapters focused on the investigation of the phases of the failed attempt at the formation and operations of the GCNA-ASPIN Agreement and its ultimate collapse. Chapter 5 focused on the aspects relating to the formation of the cartel, and answered the question "*What factors and interactions with other stakeholders influenced the GCNA Board of Directors' decision to take initiatives to form the Joint GCNA-ASPIN Marketing Agreement to operate as a cartel*?

Chapter 6 discussed the second question of this research: "How did the interventions of other parties (external stakeholders) impact the creation, performance and the eventual collapse of the Marketing Agreement?" It further described the operational and performance aspects separated into two major periods, 1986 to1989 and 1989 to1991, representing the periods of short-term pricing success and failure. The latter period is presented from the perspective of the talk and text of that period, using Langley's temporal bracketing and narrative strategy. The third research question addressed is: "Why did the Agreement collapse and why did the GCNA Board persist in trying to keep the Agreement going when it started failing?" This question is principally addressed in Chapter 7. However, in discussing the "why did the Agreement collapse" part of the overlap with the earlier chapters cannot be avoided. The collapse of the Joint GCNA-ASPIN Marketing Agreement has been analysed using the theoretical lens of Levenstein and Suslow (2006), Utton (2011); Marshall and Mark (2012), as well as that of Ring and Van de Ven (1994), Thàtinen (1999;2001) and Thàtinen and Halinen (1997).

8.3 The main conclusions of this research

Ring and Van de Ven (1994) suggested that business relationships always need human factors to emerge, evolve, grow and dissolve as time passes, and the roles of the actors can be conflicting at times. The roles of actors also interact with the underlying fundamental factors and perceptions of these factors. A summary of the overarching conclusions, below, is followed by more detailed findings and conclusions.

This thesis arrived at conclusions in seven areas: (a) the motivation of the participating primary stakeholders; (b) desire to achieve sustained increased prices overtime; (c) the role of external stakeholders the formation and demise; (d) conditions for cartel success; (e) implications of objectives for the performance and longevity of the Agreement; (f) inability of participating partners to the agreement to stem the influence of external stakeholders, and (g) the absence of conditions necessary for the development and survival of cartels. Each of these will be discussed in turn.

On the first area, on the basis of the evidence in this study, it can be concluded that the motivation of the primary stakeholder groupings within the GCNA, the nutmeg farmers as members and their representatives on the Board of Directors in creating the pressure to form the nutmeg cartel, was strong. For the nutmeg farmers and the GCNA Board as the agents of the farmers it was based on the desire to stabilise and increase incomes. For the Government of Grenada, apart from the political dividend from higher nutmeg prices for a significant proportion of rural citizens, it was based on the foreign exchange earnings from nutmeg exports.

The evidence indicates that the impact of the pressure of the primary stakeholders resulting in the Agreement provided impressive financial success in the short term but did not provide long-term price stability or profitability. It also led to financial jeopardy for the GCNA. In this regard, the maximisation of income sought by the members was no different from the short-term profit maximisation motive of private shareholders in a conventional business. Shareholders, to varying degrees, may have the objective of short-term profit maximisation or longer-term value maximisation. Arguably, the GCNA members as primary stakeholders had an interest in its long-term sound performance. Their pressure to form the cartel appears to be based on their perception that higher stable prices were sustainable.

On the second area, the desire for sustained increased prices emerged from a misplaced perception that as the world's two major suppliers of a primary commodity, Grenada and Indonesia could exert significant influence on the international supply of nutmeg and thereby become price-makers, rather than remain price-takers. An evaluation of the literature on GVC (Gereffi and Fernandez-Stark, 2011; Gereffi, 1994; Banga, nd and Brown; Derudder, Pamreiter, Pelupessy, Taylor and Witcox; Hopkins and Wallerstein, 1986) showed that primary commodity producers are fundamentally price-takers who lacked the control and power (driveness) of the key high-value marketing and distribution end of global commodity value chains. Therefore, a key economic motivation on the part of the international stakeholders in Grenada to create this cartel was a desire to retain a greater proportion of the value of their exports. Foreign traders and retailers gaining high shares of the value of the commodity is what Brizan (2003) referred to as the export of a nation's wealth and "neo-mercantilism".

On the third area, the evidence suggests that a secondary and external stakeholder, Catz International, through its CEO Mr. Huitema, was the major catalyst in the formation of the GCNA-ASPIN Joint Marketing Agreement, since he perceived that with a controlled market Catz, GCNA and ASPIN stood to benefit from increased prices, and this was his primary motive for steering Grenada and Indonesia into the Agreement. This case found evidence of his contribution to the demise of the effort as well, in the words of Moermon of

Catz who stated that as sales for nutmeg slowed and their warehouses in Rotterdam swelled, they decided to release an unspecified amount of nutmeg on the market which led to a further decline in prices. It was this downward spiralling of prices which contributed to the proximate causes for the failed attempt at cartelisation. However, it should be noted that this release of stocks came quite late, in 1991, by which time the Agreement had ended.

Huitema had a long history of being Grenada's single-largest agent and broker as well as that of Indonesian nutmeg (37 years by 1991). That experience provided him with a significant and possibly unique knowledge of the global nutmeg trade. In fact, at a meeting of the Indonesian and Grenadian nutmeg representatives held in Rotterdam on 5 April 1994, Mr. Huitema declared:

> "I think that nobody in this room has been doing business in nutmegs and mace as long as I have been."
>
> (Speech by Huitema, 5 April, 1994.)

His long engagement with the nutmeg trade and GCNA also gave him special access to the GCNA through personal relationships and a position of trust at the beginning of the episode.

There were other stakeholders who were against the formation of the cartel. The idea of forming the Agreement did not have the support of all international traders. Major traders and distributors such as Fooks & French and Rucker & Slann voiced their opposition to interference in the market.

The actions of other external stakeholders also contributed significantly to the demise. In the late 1980s, in response to an economic crisis the Indonesian Government entered into a structural adjustment programme with support from the IMF and the World Bank. As part of the reform package, the Government of Indonesia was required to liberalise all state monopolies and commodity export boards such as ASPIN and the Rubber Board. This decision to cease control of nutmeg exports was communicated via a Government Decree in May 1990 to ASPIN. As a consequence, ASPIN ceased to exist and put an end to the Agreement. This indicates, from a stakeholder theoretical perspective, that external stakeholders' influence and power were more significant in determining the viability of the nutmeg cartel than the primary stakeholder groups in GCNA and ASPIN. The case of the impact of the external stakeholders -- IMF/WB and the Government of Indonesia -- within the context of the failed attempt to develop and sustain the cartel will be revisited later in the chapter because of its overarching significance for the events leading to, and the eventual demise of, the efforts at cartelisation. However it should be noted that irrespective of this influence, the basic economic conditions required for the Agreement to function effectively as a cartel did not exist.

The fourth area is the conditions that must exist in order to allow for the development and continuation of cartels. Each cartel is different; formed in different economic and other circumstances, requiring a considerable amount of organisational and other types of skills in order to be successful. However, in this case there were a number of factors which were absent. These include sufficient control of the market by cartel members, compliance with cartel conditions, high entry barriers and establishing a centre of operations for the cartel which would combine data on prices, costs and other marketing variables to make more informed decisions on prices and quotas and respond to changing circumstances. The need for a communications protocol to reduce information asymmetry, and to be activated from the centre of operations to handle internal and public communications, would positively impact the timeliness, order and direction of information flows, factors crucial to achieving smooth operations of the cartel as well as its longevity.

The conclusion on the fifth area is that sustainability and longevity of a cartel depend on the objectives of the cartel with the distribution of benefits between the participants being clearly established and met, and based on a sound appraisal of the economic conditions necessary for sustainability. In this case, the primary objective of GCNA and ASPIN was to obtain increased sustained stable prices over the long term by restricting supplies to the market. Whereas this objective is not unusual for a cartel, this research found that this, in itself, was not sufficient. Other objectives such as the establishment of a buffer stock and other joint ownership mechanisms were absent which served to dilute the cohesiveness of the participants to the agreement.

On the sixth area, the parties to the agreement did not have the market conditions in their favour or the capacity to combat the responses of other actors in the sector (producers, suppliers, international traders and end users) which worked against the Agreement. When the influence of the World Bank and the IMF came to bear on the Government of Indonesia which ended the formal status of ASPIN as the agency to control the exports of Indonesian nutmeg, any semblance of the effectiveness of the Agreement as a cartel came to an end.

On the seventh area, probably the most important reason for the short duration of the Agreement was the non-existence of the basic economic conditions required for sustaining the cartel which are outlined in section 7.2 (Chapter 7). They fall into two broad categories: (a) economic conditions concerned with market structures, and (b) management of the Agreement. The issues highlighted under area six above are related to the economic conditions as the responses of the external nutmeg sector stakeholders are consequences of the non-existence of the basic economic conditions, for example low share of supply under control of the members of the Agreement and low entry barriers lead to non-Agreement with suppliers selling below the Agreement prices and undermining it.

8.4 Specific Conclusions on the research questions

This sub-section will summarise the findings on the research questions addressed in this study based on the conclusions summarised in the previous section.

Research question 1

> *What factors and interactions with other stakeholders influenced the GCNA Board of Directors' decision to take initiatives to form the Joint GCNA-ASPIN Marketing Agreement to operate as a cartel?*

The first and major factor which influenced the GCNA Board to form the agreement was the need to increase prices and retain a higher proportion of the value in nutmegs to the farmers. The decision by the GCNA Board of Directors to enter into an agreement with ASPIN of Indonesia to attempt to form the first nutmeg cartel was motivated by stakeholder, political and economic interests as well as the wider need to foster national economic growth and development.

A central concept in stakeholder theory is that all stakeholders in an organisation are of importance to the organisation and the organisation, in return, treats them with fairness as stakeholders This was manifested in the application of the Mitchell, Agle and Wood (1979) framework on stakeholder analysis, which was used as a tool to determine who the stakeholders in the GCNA were, the nature of their stakes and, as a consequence, how they should be treated. The need for nutmeg farmers to receive fairer treatment, arising from the sale of their produce via the price they received for their produce was one of three fundamental objectives for forming the GCNA in 1947, and it was that same underlying concept of fair treatment for the farmers which influenced the consensus to enter into the Agreement with ASPIN. It was the perception of the GCNA BoD that such an agreement would achieve the objective.

The second factor was the power of the Board to take such strategic decisions on behalf of its members. Mitchell, Agle and Wood (1997) framework helped to identify the interests and stakes of the GCNA BoD as well as their dominant role in the formation of the Joint Agreement. One illustration was the Board's decision to pursue the Agreement with ASPIN without proper consultation with the general membership, as well as their refusal to adhere to the advice offered by the delegates at the GCNA Annual General Meeting

(AGM). The advice and decision of the AGM (1986) required the BoD to develop a comprehensive plan prior to meeting with ASPIN. In fact, Mitchell et al (1997), in developing the stakeholder constructs, uses power, legitimacy and urgency in order to establish the salience of stakeholder groups. The research has found that the power of a group is transitional with time and space as evidenced by the refusal of the BoD to accede to the advice of the delegates. Indeed, later the external stakeholders such as the Government of Indonesia, IMF and the World Bank exerted greater power than the two parties to the agreement.

Within the primary stakeholder group of the GCNA Board of Directors, the individuals had personal as well as inter-group interests which were expressed in different forms and served as motivators to forming the Joint Agreement. For example, whereas Chairman James and Board Member Ferguson had different political allegiances, they nonetheless found coherence in their support for the Agreement with Indonesia. That convergence of support on this issue was rooted in nutmeg politics in which as members of the Board, their overarching objective was to be seen as taking decisions in the best interest of the farmers.

The archives of the GCNA showed that the discussions on the GCNA's participation in the Agreement were dominated by James and Ferguson, with intermittent inputs from others. This research has not found any conclusive explanation for the silence of other Board members including the government appointee. It appears that the other members had ceded decision-making to those whom they perceived to be the most knowledgeable on the industry. Therefore, this key stakeholder group, the GCNA Board of Directors, led by two dominant actors driven by a combination of personal political objectives (both nutmeg related and national), and combined with their desire to retain a greater portion of the value added from the export of nutmeg in Grenada, made key decisions on the Agreement.

A third factor involved the political ambition of key stakeholders in the organisation. The political ambition of some members of the Board of Directors and, in particular, the then Chairman of the GCNA Board, appeared to be a factor encouraging and supporting the formation of the cartel (interviews with Logie, April 4, 2015, and Lord, March19, 2015).

In general, members on the Board of Directors who harboured overt or covert political or other interests, and who dominated the talk at the Board level, could exert disproportionate influence on the decision-making processes and decision outcomes. There was evidence that some Board members used the formation of the cartel and the resulting short-term higher prices and bonuses for the members to consolidate their position by seeking re-election on the Board and to gain political capital with the farmers and their respective political groupings. It has been suggested by Meckling (1976) that electing board of directors from the membership could adversely affect management of the cooperative because the members may not possess the relevant competence for effectively managing the cooperative as a business.

A fourth factor was the knowledge base of decision-makers within the GCNA. Decision-makers in commodity marketing organisations, contemplating forming a cartel or taking measures to improve their market performance, needed to have sound knowledge of market conditions for their products and position of the organisation in relation to other suppliers, intermediaries and customers in the GVC. This study found that the Board of Directors of the GCNA did not have such knowledge and relied on external advice from its agent. The GCNA did not have the knowledge to scrutinise and validate the advice being received from the agent. This gap in the knowledge and information base within the GCNA widened the information asymmetry, which in turn influenced their decision to enter into the type of agreement at the time. This factor is relevant for addressing research questions 2 and 3 as well.

A fifth factor was the economic conditions which served to explain the formation of commodity cartels. Regarding this, Stigler (1966) and Schumpeter (1978) held that slow growth of exports and volatile but generally declining export prices from commodity-producing countries have resulted in persistent and expanding balance of payment deficits which, in turn, acted as the stimulus for the formation of cartels.

The data gathered during this research showed that Grenada had continually experienced declining terms of trade as its trade deficits widened from EC$M88.6 in 1985 to EC$M126.6 in 1990. The research found no evidence to suggest that the need for the government to arrest and turn around the declining terms of trade was an economic consideration on the part of the GCNA Board of Directors in fostering the drive towards the attempt at the formation of a cartel, However, one can assume that there were members of the BoD (such as McPhail a teaching colleague of Brizan) who could have been influenced by advocates such as Brizan who consistently publicly advocated the need for collusion as a counter balance to the neo-mercantilism in the nutmeg trade.

In the five years leading up to the agreement, the export price received by GCNA, as well as the farm gate price paid to the farmers, was on a downward trajectory and needed reversing (see Chapter 5, Table 5.2 and 5.3). This downward trending of prices was a key economic and social factor which influenced the GCNA BoD into attempting to form a cartel. Further, the government policy was influenced by GCNA members who were perceived as a large voting block of stakeholders with the potential to influence the outcome of national general elections as voters. The Government of Grenada was not directly involved in the formation of the cartel, but was represented by three individuals on the Board of Directors who supported the Board decision to enter into the Joint Marketing Agreement, despite the silence of their voices, except that of Mc Phail.

A sixth factor concerned with market conditions was the need for regulating the International nutmeg market. The literature on cartels argues that cartels are collusive arrangements made by firms to regulate markets, restrict the level of output and thereby increase prices and profits for the cartel members (Fear, 2006; Dick, 1995; Hook, O'Neil and Toole, 2012; Kooroshy, Preston and Bradley, 2014, Igami, 2012). The study confirms these motivations for the attempted nutmeg cartel.

The rationale to regulate supply onto the International market was identified by others in the field (Igami, 2012; Kravis, 2014; Levenstein, 2003). The need for regulating the supply chain was of major concern to the GCNA as well as Huitema. In Huitema's attempts at convincing the GCNA to enter into an agreement with Indonesia, he argued that there was an oversupply of nutmegs in the world market. Though there were various estimates regarding the global supply and consumption of nutmegs. Huitema advised the GCNA that there were 12,000 metric tons of nutmegs produced annually, consumption was only 9,000 metric tons and, as a consequence, this excess supply exerted downward pressure on prices and, as such, there was a need for regulation that required cooperation with Indonesia, This argument appears to have strongly influenced the thinking of the GCNA BoD with regard to the formation of the Agreement (Interview with Lord, 19 March, 2015).

A seventh and significant factor referred to above was the influence of external stakeholders such as Catz International on the GCNA BoD. This case found that as early as 1979, Huitema convinced the GCNA BoD of the need to collaborate with Indonesia for purposes of controlling the supply of nutmeg to the market and to this end facilitated the visit of a one-man mission (Renwick) to visit Indonesia. Though the effort did not result in any immediate positive outcome, it nonetheless demonstrated GCNA's initial interests in collaborating with Indonesia to regulate the supply of nutmeg.

An eight factor was the existence of a legal basis. Grossman (2006) agreed that the formation of cartels takes place between legal entities where there are no legal impediments in the operating environments for such entities to participate in collusive agreements such as cartels. This was confirmed by this research and seen as a major factor facilitating the GCNA's participating in the agreement. Despite Renwick's visit to Indonesia in 1979 (Interview with Renwick 4 July, 2006), it was not possible to establish any type of business relationship with the Indonesian nutmeg exporters, since there was no established legal entity in Indonesia through which such an association could take place. The development of the Agreement was possible only after ASPIN was established in 1985.

A ninth factor was political and economic factors. In summary the attempt at forming a nutmeg cartel was born out of a combination of political and economic factors as seen through the lenses of the primary stakeholders group, the GCNA Board of Directors. These factors included the need to consolidate the GCNA and ASPIN as the world dominant supplier of nutmeg and mace; the desire on the part of key stakeholders in the GVC (internal and outside to the cartel - primarily Catz International) to restrict supply of the product and increase prices on the market (Stengel, 2014; Connor,2002; Levenstein and Suslow, 2006);the need to retain a higher portion of the value-added to nutmegs in Grenada; the need to exert greater coordination and control over the perceived power of the middleman in the GVC such as Catz as well as their competitor Indonesia (ASPIN); the need to eliminate competition between the world's two largest suppliers of nutmeg and thereby to improve the livelihood of the nutmeg farmer.(Interview, with Logie, 4 April, 2015;Lord,19 March, 2015; and Tirtawinata,1995) all confirmed that the need to increase prices was the primary reason for forming the agreement which sought to establish the first nutmeg cartel.

The Agreement was more important for Grenada, where nutmeg played a much more important role in foreign exchange earnings, employment generation and the GDP than it did in Indonesia where the nutmeg industry did not even feature in the country's major export commodities. In Grenada, nutmeg held either the first or second position on the country's commodities export index.

Research question 2

> *How did the interventions of other parties (external stakeholders) impact the creation, performance and the eventual collapse of the Marketing Agreement?*

The extent to which stakeholders external to the GCNA–ASPIN Joint Marketing Agreement impacted on the development and sustainability of the Agreement has to be placed within the context of these stakeholders' place, and their relative power

Chapter 6, continued to demonstrate how the interaction of these stakeholders influenced the sustainability of the efforts at cartelisation. It showed that whereas, the GCNA and ASPIN were of the misconceived perception that they controlled the supply chain for nutmegs, that this was not the truth in the case of Indonesia, where the non-ASPIN exporters were able to export via Indonesia to such spice companies as King Spice and Man Producten, and Catz International. This evidence demonstrated that there were other players in the GVC that exerted greater power and influence over the performance of the market than that of the combined strength of ASPIN and GCNA, as they were able in collaboration (deliberate of unintended) with other players in the chain, including what the Indonesian's described as "smugglers "to exert downward pressure on prices. It was this pressure on prices that eventually undermined the efforts at cartelization and contributed towards its failure.

This case identified four key official external strategic stakeholders: Catz International, Man Producten, Government of Indonesia and World Bank, with Catz being characterised as primary while the others were characterised as secondary stakeholders. The actions of each of these stakeholders were highlighted in Chapter 7. The evidence from the case highlighted the fact that Catz was the main facilitator and advocate to the Joint GCNA-ASPIN Marketing Agreement without whom this agreement could not have happened. It also showed that following the official start of efforts at cartelisation, the company rights as sole agents for ASPIN nutmegs were revoked, and ultimately they were purchasing lower-priced nutmegs from Singapore (Tirtawinata, 1995). Finally the case found that in 1989, Catz released tons of nutmegs onto the markets from its warehouses in Rotterdam (Interview with Moermon. 20 October, 2010).

The evidence with regard to Catz's role in the development, performance and failure of the efforts at cartelisation showed that the GCNA had misconceived perceptions that Catz was the largest global buyer of nutmegs, and thus was in an advantageous position to dictate market prices and, by so doing, was being unfair to the GCNA and its farmers, However, the evidence contradicts that view and showed that Catz was the third-largest buyer, and their objective was similar to that of GCNA and ASPIN (i.e. to increase earnings and profits) and also that the prices were dictated by buyers lower down in the chain, thus confirming the characterisation of the GVC for nutmegs as "buyer-driven" and not "supplier-driven." The misconceptions of the GCNA regarding what they thought was possible under the agreement, and their efforts at cartelisation could be ascribed to information asymmetry because of GCNA's over-reliance on Catz for information on and analysis of the market situation and the role and status of ASPIN in the international supply of Indonesian nutmeg. These misconceptions also influenced GCNA's decision to persevere with the attempts to preserve the Agreement in the face of the unpromising reality.

Even if the basic economic conditions enabling a cartel exist, organisational structures and processes are required for managing the cartel. The cartel literature highlights the importance of an effective organisation to manage the cartel (Grossman 2006; Tilton, 2006; Dick, 1996; Kale and Singh, 1999) state that the establishment of an "alliance function or department can have positive effect on performance of such alliances." No mechanisms or organisations to manage the Agreement had been set up. This absence could have impacted the performance and longevity of the Agreement. Further the absence allowed some external stakeholders, notably Catz as the intermediary, to exert more influence on the Agreement.

Whereas the conventional literature (Levenstein and Suslow, 2006; Grossman, 2006; Eckbo, 1979) presupposes that cheating (including smuggling) by cartel members is one of the main threats undermining them, in this study the non-participating stakeholders (notably Indonesian exporters who were not members of ASPIN and producers from other parts of the world) also undermined the Agreement. The increasing flows of nutmeg from Indonesia onto the world market via Singapore undermined the ability of ASPIN and GCNA to maintain high prices. There is some evidence that in these circumstances ASPIN did not and could not prevent parallel exporting by its members which is equivalent to "cheating" on the Agreement.

Catz International was a key external stakeholder which actively promoted the cartel. However, Catz itself was competing in the nutmeg market with other agents and intermediaries including Man Producten who did not have a commitment to the cartel and may even have been actively engaged in attempting to undermine the cartel. Therefore, Catz probably had no option but to start buying at prices lower than those of the Agreement to protect its own position as a seller.

The Government of Indonesia had key roles in the creation and demise of the Agreement. Creation of ASPIN by government decree, intended to control the international supply of Indonesian nutmeg was an essential precursor to the Agreement. However, when the much greater national need for financial support from the IMF and WB (Washington Institutions) for the structural adjustment programme arose, the government had to accede to the advice and conditions of the Washington Institutions. A consequence was termination of ASPIN's intended role as the sole licenser of Indonesian nutmeg exporters and its sole international agent agreement with Catz International effectively ending the Marketing Agreement.

Evidently, the Washington Institutions as external stakeholders had an indirect but crucial effect on the end of ASPIN's controlling role and by extension the end of the Agreement. Arguably if the Government of Indonesia had not been under pressure to implement economic reforms during the mid to late 1980s, ASPIN may have been enabled to exert greater control over Indonesia's international nutmeg supplies.

Research question 3

> *Why did the Agreement collapse and why did the GCNA persist in trying to keep the Agreement going when it started failing?*

The formation and collapse of the attempted nutmeg cartel ought to be seen as a process and not an event. The process unfolded overtime through the interaction of the principal stakeholders, external secondary stakeholders and the absence of the fundamental conditions for the development and survival of the Agreement. There is an overlap between "why did the Agreement collapse" part of this question and the previous two research questions. Nevertheless this part has been included here as a summary of the combination of factors contributing to the collapse and their relative importance. The very active role of the GCNA in the demise of the Agreement considered principally in Chapter 7 provides important insights on the process of decision making in the GCNA and the quality and sources of information on which it is based.

The literature on cartel failure confirms that cartel formation and sustainability depend on the presence of a number of conditions, high market concentration, commitment of members to the Agreement, absence of cheating and defections, high entry barriers, low price elasticity of demand and effective and flexible management of the cartel (Kooroshy, Preston and Bradley, 2016; Levenstein and Suslow, 2003; 2006; Utton. and Elgar, 2011; Marshall and Mark, 2012).

Chapter 7 (section 7.2) identified and analysed the absence of factors which led to the failure of the Agreement as a cartel. The findings in this case support the classical theoretical findings listed above. Reliance on nutmeg as an important export commodity for Grenada was the single condition which was conducive for the Agreement. However the condition did not hold for Indonesia. Further, for Grenada the condition influenced the motivation to enter into the Agreement and was not one of the market conditions essential for sustaining the cartel.

Economic features which worked against the Agreement were the high short-run elasticities of demand and supply for nutmeg and mace. It was noted in sections 7.2.7 and 7.3.2 (Chapter 7) that in response to the high prices under the Agreement, demand fell proportionally more as end users cut back their purchases and sought substitutes. While the production capacity cannot be expanded in the short term, the supply of nutmeg on the international market rose as farmers in Indonesia and Grenada and nutmeg producing countries harvested more nutmeg and traders released more stock on to the market to benefit from higher prices. In these circumstances, during the early stages of the Agreement, prices were kept high by the building up of stocks of nutmeg and mace by the GCNA, Indonesian traders licenced by ASPIN (ASPIN did not have the mandate or the resources to hold stocks) and Catz.

The Agreement started failing with the continuing imbalance between supply and demand since the participants in the Agreement could not continue buying the excess supply.

According to Huitema of Catz and others, there was an underlying imbalance between supply and demand in the sector during that period, annual global demand for nutmeg was about 9,000 metric tons while supply was 12,000 metric tons. Huitema's motivation in bringing GCNA and Indonesian traders together to form the Agreement was to restrict the supply to a level closer to the demand. The nature of evidence and analysis which underlay this assessment is not clear. It is also not clear what the balance was in setting prices between achieve stability and higher pieces. Price stability would have required a buffer stock policy which appears to be absent and ASPIN did not have the resources or the mandate to hold a buffer stock.

ASPIN's mandate was to licence Indonesian nutmeg exporters and coordinate and control their marketing and selling. Its role included prohibiting the exporting by its members outside the Agreement. As a consequence, with ASPIN restricting the level of exports by its members, they were left with stocks which they had to finance. When demand for nutmegs started to decline, it was reported that some ASPIN members had no option but to "cheat" on the Agreement by selling through alternative buyers in Singapore at lower prices in order to reduce their stock holdings and ease their financial burdens (Tirtiwinata, 1995). These actions led to further declines in prices and destabilised the Agreement.

The internal contradictions and weaknesses within ASPIN were also significant factors contributing to the failure of the Agreement. The membership of ASPIN approximated 25 per cent of the all Indonesian exporters. Further, Charles Sutjiawan, the then Marketing Manager of ASPIN, also owned a nutmeg and spice trading company based in Singapore. ASPIN delayed the granting of licences to a large number of exporters who were holding on to large stocks for which they had no option but to find alternative channels for exporting. These internal weaknesses of ASPIN combined to contribute to the failed attempt.

Because the basic economic conditions, market power based on control of sufficiently high share of supply, high entry barriers and low price elasticity of demand, did not exist and could not be created because of the limitation of ASPIN, the Agreement members were price takers and did not have the capacity to make the price.

The Government of Indonesia had a key role in the formal demise of the Agreement when the much greater national need for financial support from the Washington Institutions for the structural adjustment programme arose. As part of the economic reforms, ASPIN's intended role as the sole licenser of Indonesian nutmeg exporters and its sole international agent agreement with Catz International were ended effectively ending the Marketing Agreement.

The rest of this section addresses the persistence of GCNA with keeping the Agreement even attempting to revive it when ASPIN considered it to be at and end. GCNA became aware of ASPIN's diminishing commitment to the Marketing Agreement in February 1989. The Agreement ended formally on 25 May 1990. GCNA's commitment to continuing the commitment was strong based on the importance for the GCNA and its primary stakeholders (farmer members of the GCNA, the Government of Grenada and the GCNA Board Members as agents of the primary stakeholders) of the Agreement and a belief in the feasibility of sustaining the Agreement. The belief in the feasibility of sustaining an effective agreement in the absence of the necessary conditions was based on incomplete information about the nature of ASPIN and non-existence of the necessary conditions.

There were differences of opinion within the GCNA Board on the causes of the failure and what could be done to retrieve the situation. However, most Board Members appeared to believe more in the malign motivation of international agents against the Agreement and the unwillingness on the part of ASPIN to comply with the Agreement MoA and MoU than the absence of the basic conditions for the survival of the Agreement. A consequence was that the Board continued to attempt to get ASPIN to reappraise the Agreement and continue or revive it with adjustments. The position was based on the perception that ASPIN had control on the international supply of Indonesian nutmeg or such control was capable of being achieved.

The chronology of events shows that GCNA was not fully aware of the unfolding situation in Indonesia and ASPIN, but even when such information was available, they seemed not to be able to act appropriately or in a timely manner to inform their partner. The GCNA appears to have been uninformed in dealing with ASPIN and at worst incompetent and unwilling to seek independent expert help.

There was asymmetry of information, with serious deficiencies on the GCNA side. This led to two critical misperceptions. The first was that Catz International was the largest international buyer/trader of nutmegs. The GCNA records are punctuated with this reference. The second was that ASPIN could exert control on the international supply of Indonesian nutmeg in a manner similar to the GCNA's control of Grenadian nutmeg. A reason for these misconceptions was the over-reliance on the part of GCNA on Catz for information on all aspects of the market and trade and on ASPIN's ability and powers to deliver the control of Indonesian supply.

While export prices were high, there was no evidence of discussions at Board level on the relationship between GCNA and ASPIN. However, when prices started to decline, and clear signs of cracks in the relationship between ASPIN and GCNA emerged, much discussion occurred. In one such discussion, the conflict between the political factions of

Ferguson and Benjamin emerged. During the meeting, the board's attention was drawn to the declining export prices and the impact on the finances of the GCNA. As a result of the deteriorating situation, Benjamin proposed that the GCNA seek the advice of an external independent expert to advice on the situation and the course of action. This proposal was interpreted by Ferguson as an attack on his expertise and that of the rest of the Board. to manage the affairs of the GCNA, causing him to respond to Benjamin by accusing him of "colonial thinking" and believing that the board did not contain the intelligence and skills to manage the problem and decried Benjamin for harbouring such thoughts.

The GCNA Board placed the responsibility for the demise of the Agreement on the IMF and WB and also on other external stakeholders like Man Producten and ASTA for being instigators of efforts to undermine the agreement. In fact, Ferguson referred to the threat made by the CEO of Man Producten to ensure that the agreement would not last. However it appears that the economic and organisational conditions for a cartel which could survive for any length of time and deliver high and stable prices did not exist and the GCNA had unrealistic expectations of the Agreement based on information deficit and limited communication with ASPIN.

8.5 Limitations of the study and possible areas of further research

There were a number of practical issues which imposed limitations on this study. The events being investigated took place more than two decades ago. While it was possible to interview some actors and observers, including members of the Board of Directors, government officials and farmers, reliance on their recall was a limitation. To some extent it was possible to corroborate and supplement from records but some records were incomplete because of their destruction by Hurricane Ivan.

In the case of ASPIN, the constraints were the lack of resources to meet the costs of travelling to and undertaking research in Indonesia to seek further corroboration of findings and the difficulties of gaining access to relevant documentary sources and persons even if resources had been available. Insights from investigations in Indonesia would have been helpful on some aspects, for example on why such a high proportion of Indonesian nutmeg exporters remained outside ASPIN during Agreement period, Huitema's relationship with ASPIN and the perceptions which were held by GCNA about ASPIN. This constraint was coupled with the paucity of published information on ASPIN. This limitation was side stepped to some extent by focusing on the GCNA perspective. Nevertheless, more information on ASPIN and access to its records would have enriched the study.

While some may argue about the validity of generalising from a single-case study, from the perspective of contribution to knowledge, the findings from this study strongly point to the applicability of the approach adopted in studies of decision making in organisations, in particular of commodity cooperatives. The study attempted to investigate multidimensional aspects within a specific context. There is no homogeneity in the factors which may cause a cartel to collapse or be sustained. The factors which contributed towards the collapse of the attempt were standard economic as well as context-driven and specific to the sector and the individual actors and organisations. However, the in-depth, multidimensional analysis provides a deeper understanding of the interactions between the actions and reactions of stakeholders based on their objectives and perception of the context.

Further multidimensional case-study research of this type could improve understanding of why commodity cartels are formed, why they fail and why some actors persevere in their attempts to continue the collaboration when the fundamental conditions required for their success do not exist. Studies of such perseverance could be extended to other types of collaborations and decision making within organisations.

Another possible area of research in failed and even existing commodity cartels is to explore the extent to which power differential and a country's place in the GVC affect the development and demise of efforts aimed at creating collusive agreements. On stakeholder theory, the questions are concerned with the implications of incomplete information and knowledge on participation in commodity agreements and effectiveness in decision-making within the context of international trade.

8.6. An afterword on events following the failed attempt at forming the cartel

The premise for the discourse in this section is contained in chapter 7 which dealt with the collapse of the cartel the unravelling of which started in early 1989. It formally came to an end on 8 May 1990 by the Government of Indonesia decree No.141/KP/V/1990 which effectively ended the existence of ASPIN as the country's sole exporter of nutmeg.

This decision was communicated to the Board of Directors of the GCNA by telex on May 31, 1990, advising "that as at 25/5/1990 ASPIN ceased being the sole exporter of nutmeg and mace from Indonesia."

The official end of the attempts at cartelisation came as a surprise to the GCNA BoD which had been attempting to improve the functioning of the Agreement but with limited cooperation from GCNA as noted in Chapter 7.

Following the collapse of the Agreement the GCNA was virtually bankrupt; as export earnings declined from EC$29.464,798 in 1990 to EC$13,255,439 in 1991 and to EC$7,183,607 in 1993. The average export price per pound for nutmegs declined from EC$5.76 in 1990 to EC$3,11 in 1991 and to EC$1.38 in 1993. No bonus payments were made in 1991 and 1992. The profitability of the GCNA declined from EC$4,714,822 in 1990 to a loss of EC$6,067,978 in 1991 and a further loss was made of EC$3,541,321 in 1993. The end of the agreement left GCNA holding stocks of 11 to 14 million pounds of nutmegs and 800,000 pounds of mace. The situation prompted Barclays Bank to cancel the GCNA overdraft facility.

Logie, in reflecting on the impact of deregulation of the Indonesian nutmeg market which resulted in the closure of ASPIN, said:

> ”Since the Agreement officially ended in May, 1990, nutmeg prices have fallen to the lowest in the last 25 years”
>
> (Market report Grenada/Indonesia Cooperation, nd, P.1).

Then Minister of Agriculture, Brizan, declared the situation was one in which the GCNA was technically bankrupt, as the banks stopped honouring cheques from the GCNA, and as such he had to get his government to move speedily to find solutions. The government then took two decisions to: (a) to replace the existing Board of Directors with an interim board. According to Minister Brizan, the current Board was just not capable of managing the GCNA; (b) cease its agency relationship with Catz International, and (c) recruit a new marketing agent, JHB International, on the proviso that JHB provided the GCNA with a loan of US$3,500.000.00.

In spite of the end of Catz’s agency relationship with GCNA Huitema persisted in efforts to create a new relationship between the GCNA and exporters from Indonesia. In one of his attempts before the end of the agency relationship, he had recommended that:

> “it was advisable that the Ministry of Trade or Cooperatives in Grenada should proceed to Jakarta to try and sign an agreement which would restore the price of nutmeg and mace to what it was during the GCNA-ASPIN Agreement”
>
> (Minutes of GCNA Board of Directors Meeting, April 16,1991.p.3).

At the Indonesia end, a new organization named Berdikari emerged as an exporting agent. Details on the composition and other aspects of this organization were not available. However, at the urgings of Huitema, a meeting was held in Rotterdam between the GCNA and Catz, Berdikari (July 23–27, 1991) which resulted in a proposed Joint Agreement (MOU) between the GCNA, Berdikari and the National Federation of Village Union Cooperatives (NFVUC) in Indonesia.

On 27 August 1991 a Memorandum of Understanding was signed between the GCNA and P.T. PP Berdikari and the National Federation of Village and Union Cooperatives. This memorandum, like the previous one with ASPIN, was aimed at controlling the international price for nutmeg.

On 2 April 1991 Berdikari formed a joint venture with Catz International, creating BerCatz B.V with Berdikari owning 70 per cent and Catz International owning 30 per cent of the shares. Huitema continued his efforts to form an Agreement between Indonesia's nutmeg producers and exporters and GCNA. In April 1994, following the creation of BerCatz, he organised a meeting of representatives of GCNA and Berdikari in Rotterdam against the backdrop of continuing price volatility during the period 1991–1995 when Grenadian and Indonesian nutmeg producers had received some of the lowest prices for the last decade. In Huitema's two-page speech (1994) at the meeting, he made eight points:

1. He was the most knowledgeable person in the room on the nutmeg trade, after being in the nutmeg business for over 40 years.
2. Prices are at their lowest for a long time and the demand for nutmeg is inelastic;
3. Both producing countries are holding large stocks of nutmeg and mace.
4. Users of nutmegs are no longer holding stocks but are forcing producing countries to keep the stock, which is bad for the producing countries.
5. He said, "Collective and united actions are required by the producing countries to change the situation around."
6. He said: "In the past we have seen that there is only one solution. Between 1985 and 1990, we, Catz International B.V created cooperation between Indonesia and Grenada, prices soared and the farmers in both countries had a better life."
7. Due to Indonesia's short-sightedness the cooperation plan fell apart, causing bankruptcy in Indonesia and Grenada is left with large stocks of nutmeg.
8. Cooperation is needed to regain those days but with rules and agreements laid down.

The GCNA was offered to be part of BerCatz with a 25 per cent stake but it declined (Minutes of Meeting between the Indonesian delegation, GCNA, and BerCtaz, April 7 1994). No reports of further attempts to form an Agreement between the two countries have been found. In 2001, Huitema retired as CEO of Catz International and was replaced by Hank Moermon. Mr Huitema died in 2012.

Since the collapse of the Agreement international prices continued to display the level of volatility that is generally associated with international commodity trade. By 1993, the GCNA was in a state of chronic depression generating less than EC$10 million or almost one third of the lowest income earned since the period of attempted cartelisation. Table 8.1 shows that from 1992–2014 income volatility for nutmeg continued unabated, confirming the theoretical explanations on the volatile nature and characteristics of commodities markets (Brizan, 2003).

The main features shown by the table are set out below.

1. The GCNA experienced declining Income initially between 1992–1999 but earnings rose between 1999–2005 before a sharp decline in 2006 because of damage caused by the Hurricanes Ivan and Emily.
2. Between 1999–2005 the GCNA achieved its highest incomes since the attempted cartel years, ranging between EC$26,139,252 and EC$49,696,270.
3. One of the primary stakeholder groups (farmers) continued to receive significant shares of GCNA's incomes up to 2003 but the shares fell in following years because of low revenues largely because of the destruction caused to the nutmeg industry by the hurricanes. Which provided the catalyst for other producing countries to enter the market/
4. The farmers did not receive any bonus payments in 2008, 2009 and 2010 because of low sales.
5. As noted earlier, in 2004 and 2005, Grenada was hit by Hurricanes Ivan and Emily which destroyed over 90 per cent of the island's nutmeg cultivation.

Grenada's Nutmeg Industry suffered two devastating blows when Hurricanes (Ivan in September 2004 and Emily in July 2005) struck the island. As a consequence over 90 per cent of the nutmeg trees were destroyed affecting the then registered 6579 members or the 1/3 of the population who depends on nutmeg directly or indirectly. As a consequence of the hurricanes the number of active farmers dropped to 2500 and the number of persons under the poverty line increased from 32 to 38 per cent (Grenada Ministry of Agriculture and International Trade Centre, 2010)

Table 8.1: GCNA Payments to Farmers as a Percentage of Gross Sales 1992 - 2014

GCNA sales revenue and advance and bonus payments to farmers (1992 - 2014) in EC$					
Year	Advance	Surplus	Total Payments	Sales revenue	% of Payments
					to Sales
1992	7,149,362	NIL	7,149,362	9,776,461	73.1
1993	4,191,803	2,649,780	6,841,583	7,183,607	95.3
1994	2,795,403	3,999,647	6,795,050	10,497,076	65.0
1995	3,226,315	3,500,000	6,726,315	11,098,034	61.0
1996	3,348,420	1,998,262	3,348,420	12,941,866	41.3
1997	7,575,800	4,222,762	11,798,562	15,224,736	77.5
1998	8,804,356	4,978,449	13,782,805	21,378,836	56.5
1999	16,830,183	10,000,000	26,830,183	29,725,407	90.3
2000	17,539,927	13,003,585	30,543,512	49,696,270	61.5
2001	17,709,721	10,165,324	27,875,045	35,671,116	78.1
2002	26,603,374	10,000,000	36,603,374	36,265,467	100.9
2003	26,603,374	5,000,000	31,603,374	39,543,742	80.0
2004	14,611,345	3,000,000	17,611,345	26,139,252	67.4
2005	3,884,513	3,000,000	6,884,513	31,564,730	22.0
2006	2,015,351	5,000,000	7,015,351	8,645,803	81.1
2007	2,899,004	250,000	3,149,004	9,825,667	32.1
2008	3,251,107	0	3,251,107	6,528,414	50.0
2009	3,739,543	0	3,739,543	6,876,994	54.4
2010	3,196,432	0	3,196,432	10,533,611	30.4
2011	6,860,607	700,000	7,560,607	11,262,869	67.1
2012	9,692,838	3.5000,000	9,692,838	20,228,731	48.0
2013	9,692,838	1,500,000	11,192,838	20,939,470	53.5
2014	2,366,444	1,000,000	3,366,444	15,645,360	21.5

Source: Compiled from GCNA Annual Trading and Financial Reports 1992 - 2014.

Grenada declined from the second largest supplier of nutmegs to number eight in the world (see table 8.2), as production declined from 2,300 tons to 250 tons by 2009 (ibid) with a recovery to double that amount in recent years. In an effort to resuscitate the industry a number of studies were conducted including: European Union All ACP Commodities Programmes Caribbean Region and the Consultancy to Support Private Sector Development through the Increase in Value-Added Capacity of the Agri-Business Sector in Grenada (Gordon,2015). The report called for rehabilitation of the industry aimed at increasing the availability of nutmeg and mace, while the later report calls for amendment of the "The Nutmeg Industry Act, Cap 215 and the Nutmeg (Regulation of Export) Cap 216" to include the following:

- Remove the need to distribute surpluses

- Remove the GCNA as the sole exporter of nutmegs
- Leave the GCNA as the sole authorities required to certify the quality and grade of nutmeg and mace prior to export
- Allow sale of nutmeg and mace to 3rd party local processors (only) for further processing for oil and grinding. These products will also need to be certified as 100% Grenadian
- Restructure the board of the GCNA to reduce the control of farmers (majority government and independent members)
- Extend the life of the Board to 3 years between elections; keep the AGM requirement (Gordon, 2015).

These recommendations have ignited much discussion among the board members, farmers and the wider society about the future organisational format for the nutmeg industry. At the time of writing no decision has been taken on the above proposals. In the absence of any type of known collusion, the GCNA was able to achieve its highest level of earnings since its inception of almost EC$50 million in 2000. This questions even the short term success of the Agreement and the view that commodity producers in this and many other sectors are price-takers and not price-makers (Brizan, 2003).

The farmers generally received high proportions of revenues earned by the GCNA during good years leaving very little for investment into the nutmeg sector. This behaviour on the part of the GCNA is in keeping with the views of the stakeholder theorists who argued that while all stakeholders should benefit from the operations of the organisation, it is the primary stakeholder groups, especially those with economic claims (Kochan and Rubinstein, 2002) and those with the highest level of power, urgency and legitimacy (Mitchell, Agle and Wood, 1997) who retain most of the benefits. Additionally, with regards to the primary stakeholder farmers grouping, their retention of the vast majority of earnings from the GCNA is consistent with one of the fundamental cooperative principles of “user benefit” which argues that the benefit of the cooperatives should be distributed to its users on the basis of their use (Donoso, Shadbolt and Bailey, 2004).

Persons closely associated with the GCNA had this to say about the manner in which successive boards chose to distribute the income of the organisation between them: “these boards are incompetent and selfish, they use the organisation for their selfish gains, and they don’t care about the industry, not even the staff members who helped to create the wealth of the GCNA over the years. Staff members do not get annual increases or bonuses like the farmers, occasionally we get a small one off payment but not salary increases. They are destroying the industry, we are near bankruptcy, we are selling nutmeg far less than what is required to keep nutmeg price to the farmers. To the levels at which they are, but the Board refuses to reduce the farm gate price to the farmers; the price is kept artificially high because most of the board members are nutmeg farmers, so they stand to benefit by this high prices, so they really don't care about the financial health of the industry". (Discussion with a GCNA operative, 20 August 2015).In the meantime Grenada is now the eighth largest supplier in the world, producing an average of 500 metric tons of nutmegs per year (Interview with Clyne, 25 July, 2016). The other major suppliers ranked by production are shown in table 8.2.

Table 8.2 The World's largest producers of nutmegs by value and volume (2016)

Rank	Area	Production value (US$000)	Production Volume (MT)
1	Guatemala	49,973	24,000
2	Indonesia	39,562	19,000
3	India	37,626	18,070
4	Nepal	12,547	6,026
5	Lao People's Democratic Republic	8,274	3,974
6	Bhutan	1,457	700
7	United Republic of Tanzania	1,413	679
8	Grenada	1,193	573
9	Sri Lanka	1,145	550
10	Malaysia	816	392

Source: www.mapsoftheworld.com (2016)

The above chapters represent a thorough analysis of the topic for this research. It highlights the circumstances which led to the development of a Joint Agreement between GCNA of Grenada and ASPIN of Indonesia, which was aimed at creating the world's first nutmeg cartel. Overall the results of the research shows that the fundamental conditions required for the success of such agreement did not exist and as a consequence the attempt to create the cartel failed.

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Appendix 1: List of Interviewees

Aston University

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Appendix 2 – Semi-Structured Questionnaire

This questionnaire is an aid to assist in the collection of data from various stakeholders on their observations, perceptions and understanding of the GCNA-ASPIN Marketing agreement.

Name of Participant……………………………….

Date of Interview……………………………………

Location of interview……………………………….

Guide Q1. I wish to engage you in a discussion on the joint GCNA-ASPIN Agreement to form a nutmeg cartel during the period 1985 – 1991. What can you tell me about this agreement?

Guide Q2. I understand that there were many motives or motivations behind this agreement, what is your view of what contributed to such an agreement?

Guide Q3. Which side benefitted most from this agreement and why?

Guide Q4. How did you think the agreement affected the global nutmeg trade and the farmers of both Indonesia and Grenada?

Guide Q5. Understand that Catz International was a key player in all of this, what is your view, how do you assess their role? Was it a positive one, lets discuss this?

Guide Q6. Why do you think the agreement collapses?

Guide Q7. What was your role in all of this? And having the benefit of history how do you assess that role both from a personal and institutional level?

Guide Q7 (for member of the GCNA Board of Directors). Was the board fully aware of what it was getting into?

Guide 7 b. Tell me about the membership, what is your perception of the board and their disposition towards the agreement?

Appendix 3 – Sample of Listing of Meetings & Coding Scheme

Cods & Meanings.

0 = No discussion on any of the key issues

1 = issues with GCNA – ASPIN relationship

2 = Reconditioned nutmegs

3 = GCNA Financial situation

4 = JHB International

Date of Meetings	Code of Issues		No. Of pages	ISSUES
03.01.89	1		5	Visit of klass Huitema of Catz international
				Gm was requested to reschedule his vacation in light of the
				Visit of klauss Huitema of Catz international
17.01.89	0		4	No mention of any of the interventions
31.01.89	2		4	Catz proposal on reconditioning nutmegs
				No mention on the interventions
14.02.89	2		5	CDI PLANNED VISIT (Caterz and Oscari) 1_8 OF MARCH TO DISCUSS NUTMEG OIL PLANT
				Ferguson, observed that the feasibility study for the distillation plant was revived for 2nd time since 1985
				Ferguson stated, "given the large quantity of defectives and the urgency of the matter everything would have to be Done to expedite the setting up of the distillation plant. Ferguson requested, "that the chairman visits the UWI in Trinidad later in the week to request that a multidisciplinary team visit Grenada to coincide with the visit of personnel from CDI to evaluate proposal and advise the association.

Appendix 4. Financial Analysis of GCNA 1988 - 1995

Year / areas of analysis.	1988	1989	1990	1991	1992	1993	1994	1995
BALANCE SHEETS								
CURRENT ASSETS								
Cash - Current account	4,243,872	3,167,018	379,836	370,900	245,394	305,880	111,211	432,503
- Fixed Deposits	15,750,000	15,250,000	3,500,000	0	0	0	0	0
Accounts Receivable - Produce	5,902,621	2,322,418	8,554,580	2,688,658	1,464,674	1,112,703	1,227,513	757,882
Other	732,902	613,711	178,166	0	0	0	0	2,000,000
Inventories	8,686,717	10,492,749	13,171,784	11,268,121	11,489,093	10,082,380	6,002,436	5,013,478
Total Current Assets	35,316,112	31,845,896	25,784,366	14,327,679	13,199,161	11,500,963	7,341,160	8,203,863
CURRENT LIABILITIES								
Bank Overdraft	0	0	0	685,455	2,550,408	3,126,654	731,928	0
Accounts Payable and accrued liabilities	160,043	109,327	512,771	328,133	182,950	1,607,458	1,357,313	1,661,207
Due to growers - uncollected surplus of prior years	901,241	400,414	466,714	483,358	446,171	423,572	462,396	527,598
Balance of surplus current year	12,000,000	10,000,000	5,000,000	0	0	0	0	0
Short Term Loan	0	0	0	0	0	0	0	2,000,000
Total Current Liabilities	13,061,284	10,509,741	5,979,485	1,496,946	3,179,529	5,157,684	2,551,637	4,188,805
WORKING CAPITAL	22,254,828	21,336,155	19,804,881	12,830,733	10,019,632	6,343,279	4,789,523	4,015,058
FIXED ASSETS	4,328,160	6,076,139	10,344,059	12,145,163	11,986,986	12,582,079	12,841,966	12,780,318
NET ASSETS	**26,582,988**	**27,412,294**	**30,148,940**	**24,975,896**	**22,006,618**	**18,925,358**	**17,631,489**	**16,795,376**
LONG TERM LOANS								
FUNDS OF THE ASSOCIATION								
Cess No. 1	650,000	650,000	650,000	650,000	650,000	650,000	650,000	650,000
Cess No. 2	25,160,378	25,989,431	28,744,785	24,325,896	21,356,618	18,275,358	16,981,489	16,145,376

Reserve fund	647,612	647,865	629,157	0	0	0	0	0
Capital Reserve	124,998	124,998	124,998	0	0	0	0	0
Capital Employed	**26,582,988**	**27,412,294**	**30,148,940**	**24,975,896**	**22,006,618**	**18,925,358**	**17,631,489**	**16,795,376**

INCOME STATEMENTS								
Gross Income	42,554,991	33,740,654	29,464,798	13,255,439	9,776,451	7,183,607	10,497,076	11,098,034
Less: Cost of produce from buyers	11,827,237	10,370,265	12,934,011	9,805,181	6,767,542	5,674,022	6,840,305	4,224,478
Provision for unsaleable stock	0	6,035,000	1,216,005	2,369,000	0	0	0	0
	30,727,754	17,335,389	15,314,782	1,081,258	3,008,909	1,509,585	3,656,771	6,873,556
Direct Expenses	3,371,772	4,312,198	4,686,167	3,823,927	3,332,840	2,897,713	3,119,230	3,558,582
General & Administrative Expenses	2,484,750	3,124,027	3,247,550	2,618,526	2,385,959	2,212,852	2,203,754	2,633,528
	5,856,522	7,436,225	7,933,717	6,442,453	5,718,799	5,110,565	5,322,984	6,192,110
Operating Income/ (loss)	24,871,232	9,899,164	7,381,065	(5,361,195)	(2,709,890)	(3,600,980)	(1,666,213)	681,446
Other Income (net)	1,174,543	929,889	374,288	646,429	444,079	761,828	1,264,159	482,088
Trading Surplus before reserve for cess	26,045,775	10,829,053	7,755,353	(4,714,766)	(2,265,811)	(2,839,152)	(402,054)	1,163,534
Cess Reserve for the year	10,045,775	3,643,624	3,040,531	1,353,212	983,758	702,169	984,343	1,049,280
Net surplus for the year	16,000,000	7,185,429	4,714,822	(6,067,978)	(3,249,569)	(3,541,321)	(1,386,397)	114,254
Grant - Stabex								2,000,000
Bonus Paid to Growers								3,999,647
Transfer from reserve	0	2,814,571	285,177	6,528,964	3,953,036	0	0	0
Due to growers	16,000,000	10,000,000	4,999,999	460,986	703,467	(3,541,321)	(1,386,397)	(1,885,393)
Interest & bank charges	22,705	21,230	21,658	0.0				125,166
PROFITABLILITY & ASSET TURNOVER								

Return on capital employed	98%	39%	26%	-19%	-10%	-15%	-2%	6%
Gross Profit Margin	72%	51%	52%	8%	31%	21%	35%	62%
Net Profit Margin	61%	32%	26%	-36%	-23%	-40%	-4%	10%
Asset Turnover	160%	123%	98%	53%	44%	38%	60%	66%
LIQUIDITY, GEARING & WORKING CAPITAL								
Interest Cover	114714%	51008%	35808%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	930%
Current Ratio	270%	303%	431%	957%	415%	223%	288%	196%
Quick Ratio	204%	203%	211%	204%	54%	28%	52%	76%
Average Debtor payment period (in days)	51	25	106	74	55	57	43	25
Stock Turnover period (in days)	268	233	340	338	620	649	320	
GROWTH								
Sales growth	0%	-21%	-13%	-55%	-26%	-27%	46%	6%
Net Asset growth	0%	3%	10%	-17%	-12%	-14%	-7%	-5%
gross profit growth	0%	-44%	-12%	-93%	178%	-50%	142%	88%
Net profit growth	0%	-58%	-28%	-161%	-52%	25%	-86%	-389%
working capital growth	0%	-4%	-7%	-35%	-22%	-37%	-24%	-16%

Appendix 5: Memorandum of Understanding 1985

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PROPOSED

A G R E E M E N T

The Indonesian Nutmeg Association (ASPIN) and the Grenada Co-operative Nutmeg Association (GCNA) have agreed in according with the existing laws, regulations and policies of their respective Associations and countries to the following conditions :

1. Price

The selling price for nutmegs can be reconsidered in accordance with development of the market on mutual consent.

For the period of September upto and including December 1986 the following prices are fixed :

			Siauw/Ambon	Banda	Ternate	Papua
Nutmeg	ABCD	USD	6,000		5,950	4,850
	Shrivels		5,700		5,650	
	BWP		5,300		5,250	4,200
	CN 120 up		5,900		5,850	
	CN 110/115		6,250		6,200	
	CN 100/115		6,350		6,300	
	CN 80/85		6,650		6,600	
	CN 70/75		6.800		6,750	
	CN 60/65		7,000		6,950	
	CC		1,200		1,150	
	Dust		1,000		950	
	Reconditioned		6,000			
Mace	Whole I		13,500		13,450	9,500
	Whole II		11,500		11,450	
	Broken I		11,500		11,450	
	Broken II		11,000	11,250	10,950	10,000
	Black Mace		6,000		5,950	

All on basis per metric ton C&F European Basis Ports, Without Commission.

Grenada Nutmeg	S.U.N.	USD	6,000
	Defectives		5,574
	110s		6,250
	80s		6,650
Mace	I Whole		11,500
	Broken II		10,000

All on basis per metric ton C&F Europe, Without commission.

Note : The prices for Sumatra are as follows :
(1). Edible nutmeg are 10 % (ten percent)
(2). Mace 20 % (twenty percent)
lower than the respective Siauw/Ambon grades.

The price of BWP will be adjusted according to Defectives starting from January 1st, 1987.

The price of Grenada Mace I Whole will be adjusted to USD 11,750 if demand justifies it.

If not salable the price of Grenada Mace Broken II will be adjusted to USD 9,750 after consultation with ASPIN.

On no account either party may deviate from mentioned fixed prices without mutual approval.

2. SUPPLY

The following share in the annual total supply to the international market will be honored by ASPIN and GCNA :

a.	Nutmegs	:	Indonesia	75 %	and Grenada	25 % .
b.	Mace	:	Indonesia	83.5 %	and Grenada	16.5 % .

3. VOLUME SUPPLY

The annual supply will be limited for spices/edible nutmegs to 8.000 (eight thousand) metric tons and for spices/edible mace to 1.200 (One thousand two hundred) metric tons.

The distilling nutmeg and mace of Sumatra origin are to be excluded from the above mentioned supply limits.

However, if demand exceeds the above mentioned limits then the quantity above the limit will be shared proportionally on the agreed percentage between ASPIN and GCNA.

In case one party cannot supply its portion according to the agreed percentage then the other party will fulfil the shortage.

The volume of supply is based on the export realization which will become effective starting 1st May 1987 until 30th April 1989.

4. ADDITIONAL CONDITIONS

In order to facilitate the implementtationm of this Agreement both parties agree to consult each other in respect of any matter arising from or in connection with this Agreement.

Any alteration, modification or amendment to this Agreement will be agreed upon by both parties based on principles of reciprocity and in accordance with the spirit of this Agreement.

This Agreement will come in force on the date after signing by the parties.

Done and signed in St. George's Grenada , West Indies on ....198... in two originals in the English language.

For the Grenada Co-operative Nutmeg Association.

President : .... Witnessed by : ....

....

Done and signed in Jakarta , Indonesia ....198... in two originals in the English language.

For the Indonesian Nutmeg Association.

President : .... Witnessed by : ....

....

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AGREEMENT

The Indonesian Nutmeg Association (ASPIN) and the Grenada Co-operative Nutmeg Association (GCNA) have agreed in accordance with the existing laws, regulations and policies of their respective Associations and countries to the following conditions:

ARTICLE 1

The Memorandum of Understanding between the Indonesian Nutmeg Association (ASPIN) and the Grenada Co-operative Nutmeg Association (GCNA) done and signed in Jakarta, on September 15th 1986, in two originals in the English language forms part of this Agreement.

ARTICLE 2

PRICES:

The selling prices for nutmegs and mace shall be reviewed annually in the month of December or at such other times that may be deemed necessary in accordance with developemnt of the market, on mutual consent.

For the period commencing 1st January 1987 up to and including 31st December 1987 the following minimum prices are fixed.

		Siauw/Ambon	Banda	Ternate	Papua
Nutmeg	ABCD	US$ 6,000		5,950	4,850
	Shrivels	5,700		5,650	
	BWP	5,574		5,250	4,200
	CN 120 up	5,900		5,850	
	CN 110/115	6,250		6,200	
	CN 100/110	6,350		6,300	
	CN 80/85	6,650		6,600	
	CN 70/75	6,800		6,750	
	CN 60/65	7,000		6,950	
	CC	1,200		1,150	
	Dust	1,000		950	
	Reconditioned	6,000			
Mace	Whole I	13,500		13,450	9,500
	Whole II	11,500		11,450	
	Broken I	11,500		11,450	
	Broken II	11,000	11,250	10,950	10,000
	Black Mace	6,000		5,950	

All on basis per metric ton C&F
European Basis Ports, without
Commission.

Grenada Nutmeg S.U.N.		US$6,000
	Defectives	5,574
	110's	6,250
	80's	6,650
Mace I Whole		11,750
Broken II		10,000

All on basis per metric ton C&F
Europe, without commission.

NOTE: The prices for Sumatra shall be as follows:

(1) Edible nutmeg 5% - 10% (five percent to ten percent)

(2) Mace 5% - 20% (five percent to twenty percent)
lower than the respective Siauw/Ambon grades.

These prices shall be applicable to the total production of Sumatra or 16% (sixteen percent) of the total Indonesian production whichever is less.

On no account may either party deviate from the mentioned fixed minimum prices without mutual approval.

ARTICLE 3

VOLUME SUPPLY IN 1987:

The 1987 supply shall be limited for spices/edible nutmegs to 8,550 (eight thousand five hundred and fifty) metric tons based as follows:

(ASPIN)	Indonesia	6,300 metric tons
(GCNA)	Grenada	2,250 metric tons

and for spices/edible mace to 1,200 (one thousand two hundred) metric tons based as follows:

(ASPIN)	Indonesia	1,002 metric tons
(GCNA)	Grenada	198 metric tons

Any additional quantities to be placed on the market in 1987 shall be subject to negotiations.

In case one party cannot supply its agreed share and/or the additional quantities assigned, then the other party shall automatically fulfill the shortage.

The volume of supply is based on the export realization which will become effective starting 1st January 1987 until 31st December 1987.

The distilling nutmeg and mace of Indonesian and Grenadian origins are to be excluded from the above mentioned supply limits.

ARTICLE 4

ADDITIONAL CONDITIONS:

(1) In order to facilitate the implementation of the Agreement both parties agree to consult each other in respect of any matter arising from or in connection with this Agreement and in particular:

(a) The system of monitoring the Agreement.
(b) The supply and demand of nutmegs and mace on the international market.
(c) The production and marketing of nutmegs and mace in other nutmeg growing countries.

(2) Each party to the Agreement undertakes to give to the other party a statement of its sales and sale prices every 6 (six) months.

Any alteration, modification or amendment to this Agreement will be agreed upon by both parties based on principles of reciprocity and in accordance with the spirit of this Agreement.

This Agreement will come in force on the date after signing by the Parties. It will continue in force unless one of the Parties gives notice in writing to the other of its intention to terminate it. In this case the Agreement will be terminated three months after the date of this notice.

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