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Impacts of Fair Trade-certification on Coffee Farmers, Cooperatives, and Laborers in Nicaragua

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Impacts de la certification commerce équitable sur les producteurs de café, les coopératives et les travailleurs du Nicaragua

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Abstract

This paper analyzes the possibilities and challenges involved in the Fair Trade certification as a movement that seeks to improve the living conditions of small-scale coffee growers and coffee laborers in the global South. Six months of fieldwork was conducted in 2005–2006 to study a wide range of farmers, laborers, cooperative administrators, and export companies involved in Fair Trade coffee production and trade in Nicaragua. The results indicate that the Fair Trade's opportunities to provide a significant price premium for participating farmers largely depend on the world coffee prices in the mainstream markets. While Fair Trade has encouraged the social networks of participating farmers and strengthened the institutional capacities of the involved cooperatives, the ability of the Fair Trade to significantly enhance the working conditions of hired coffee laborers remain limited.

Résumé

Cet article analyse les opportunités et défis posés par le commerce équitable, mouvement qui cherche à améliorer les conditions de vie des petits producteurs et les ouvriers des plantations au Sud. Il s'appuie sur un travail de terrain de 6 mois effectué en 2005–2006 auprès d'un large échantillon de producteurs, travailleurs, responsables de coopératives et entreprises d'exportation impliqués dans la production et la commercialisation de café labellisé commerce équitable au Nicaragua. Les résultats montrent que la capacité du commerce équitable à offrir une prime de prix significative aux producteurs qui y participent dépend en grande partie des cours mondiaux du café sur les marchés conventionnels. Alors que le commerce équitable a dynamisé les réseaux de producteurs et renforcé les capacités institutionnelles des coopératives impliquées, sa capacité à améliorer significativement les conditions de travail des ouvriers agricoles reste limitée dans le secteur du café.

Introduction

Fair Trade is a certification scheme that attempts to build an alternative trade network between the global North and South, by linking socially and environmentally conscious consumers in the North with disadvantaged producers engaged in socially and environmentally sustainable agriculture in the South (Murray et al., 2006; Renard, 2003). In this article, we analyze how the social and economic standards of Fair Trade for small coffee producers and laborers have been implemented in Nicaragua, one of the major suppliers of Fair Trade coffee in the world.

The main aim of our study is to examine the impacts of Fair Trade certification upon the livelihood strategies and organizational capacities of small coffee producers and producer associations in Nicaragua. Special attention will be paid to the ability of Fair Trade to improve the working conditions on coffee farms and in coffee processing plants, as there are few empirical studies on labor conditions in certified production systems. By analyzing the relationships between Fair Trade, livelihoods and labor rights, this study aims to contribute to better understanding of the potential and the limitations of Fair Trade to provide a long-term strategy of livelihood enhancement among Southern coffee growers and laborers and a remarkable alternative to conventional coffee production and trade.

Fair Trade, value chains, and civic conventions

Recent studies of global value chains of coffee have illustrated the rising power of corporate control in the global coffee business, with significant implications upon the governance structure of the value chains and the allocation of the resources and gains within the chains (Daviron and Ponte, 2005; Muradian and Pelupessy, 2005). At the same time, increasing consumer interest in issues of quality, health, environment and social sustainability have created growing markets for different kinds of certified coffees, such as Fair Trade, organic, and Bird-Friendly coffees (Ponte and Gibbon, 2005, Reynolds et al, 2007). Characteristic of these certification schemes is the encouragement of civic conventions in the definition of coffee quality and the promotion of ideas and institutions that emphasize social and ecological responsibility of coffee production and trade (Muradian and Pelupessy, 2005).

Based upon its standards for social and economic development, Fair Trade aims to elevate the social conditions of coffee production by requiring that coffee is grown by small farmers, and by supporting democratic organizations and funds for social programs. Simultaneously, Fair Trade aims to enhance the standards of coffee trade by stipulating price premiums and long-term trade contracts (FLO, 2005a; FLO, 2005b). Concerning the labor standards, Fair Trade argues to promote an enhanced “labor rights” approach, by upholding the national labor laws and international labor conventions regarding the rights to association, freedom from unequal pay, no forced or contracted child labor, fair conditions of employment, and rights to occupational health and safety (Raynolds et al, 2007). All the Fair Trade-registered producers are expected to meet these labor standards, although the requirements are applied slighter to those farms that rely on few seasonal workers (FLO, 2005a).

Considering that Fair Trade represents one of the fastest growing segments within the global coffee sector, it is an initiative worth exploring as a movement that aims to increase the role of civic conventions by altering the production conditions and enhancing the labor rights within the global coffee economy.

Methods

The fieldwork for this study was carried out in March 2005, and from September 2005 through February 2006, during which time representatives of 11 coffee cooperatives and unions of cooperatives were interviewed in the departments of Boaco, Jinotega, Matagalpa, and Las Segovias. These cooperatives represent the majority of Fair Trade-certified coffee producers in Nicaragua. Semi-structured interviews were carried out with a total of 110 coffee producers, based on the criteria that in each cooperative, both larger (>3.5 ha) and smaller (<3.5 ha) producers, and men and women, would be represented. The majority of the interviews were carried out in the producers’ homes, including visits to their farms. This enabled participant observation on various stages of coffee harvesting and primary processing, as well as interviews with workers on the farms.

In addition, 62 workers were interviewed at eight dry mills of coffee, three of which were owned by Fair Trade-certified cooperatives. These data were complemented by interviews with managers of these dry mills, as well as with representatives of coffee

export companies. Valuable information was also gathered by participating in several meetings and workshops arranged by coffee certifiers, producers, and cooperatives in Nicaragua. The transcribed interviews and field notes were organized by Atlas-Ti qualitative data analysis program.

Impacts of Fair Trade certification on coffee farmers and farm workers

The world market prices for coffee have been historically volatile and, as a long-term trend, declining. In 2000–2004, the prices fell in real terms to their lowest level in 100 years, causing serious problems for coffee farmers and their workers throughout the world (Daviron and Ponte, 2005). During these years of coffee crisis, successful Fair Trade-certified cooperatives were able to pay a significantly higher price for coffee to their members compared with the mainstream market (Kilian et al, 2006). After the recuperation of world market prices for coffee since 2004, there has, however, been little or no difference between the net prices received by producers via Fair Trade and mainstream markets. According to our study, the average price of coffee paid by the Fair Trade-certified cooperatives to producers during the 2004–2005 coffee harvest was 87.9 US cents/lb. In comparison, the average price paid by Exportadora Atlantic S.A. was 88.9 US cents/lb – with a variation from 75.5 to 99.5 US cents/lb. These figures indicate that if the farmers timed their sales correctly, they were able to receive a higher price for their coffee in the mainstream market.

In addition to price, several other factors shaped the studied farmers' decisions of whom to sell their coffee, such as forms of payment, quality requirements, transportation facilities, and credits offered. Large coffee export companies often pay to producers immediately after they have received the coffee, while the cooperatives typically pay to producers in stages (Bacon, 2005: 505). This delay in cooperatives' methods of payment was considered as a serious disadvantage by many of the farmers.

Although FLO has not set the official standards for physical quality of coffee, practically all the interviewed producers stated that Fair Trade-certified cooperatives require high quality coffee. In the absence of generalized standards for coffee quality in Nicaragua, Fair Trade has, in fact, become an indicator of good quality coffee. These

requirements for high quality can act as a barrier to entry for those producers with limited resources to improve their coffee quality.

The majority of the coffee producers that we studied in Nicaragua, demonstrated a relatively poor understanding of what Fair Trade is. At best, they knew that their cooperative was selling coffee to Fair Trade markets; however, most of them did not know the rights and responsibilities included in Fair Trade. Few of the studied farmers identified themselves as part of a global movement which aims to challenge the global structures of coffee trade by creating alternative networks between disadvantaged Southern producers and socially-conscious Northern consumers. This issue is important to consider, concerning that Fair Trade aims to empower the marginalized Southern producers.

The possibility for obtaining credit was another important factor in the studied farmers' decisions whether to join a Fair Trade-certified cooperative or not. Because coffee growing is a labor-intensive activity, most of the farmers needed pre-financing for their coffee production. During the years of coffee crisis in 2000–2004, many banks in Nicaragua stopped giving loans to small-scale coffee producers. Fair Trade-certified cooperatives continued to finance their members even through these years of crisis, although the terms of financing were not especially favorable.

Nowadays, the most important loan providers for small coffee producers in Nicaragua are cooperatives and large coffee export companies. In 2005, export companies gave loans to producers at an annual interest rate of 11%. In comparison, the Fair Trade-certified cooperatives charged interest rates of 18–22% on loans given to their members. Fair Trade requirement that coffee buyers provide pre-financing to producer organizations seems not to have enabled the Nicaraguan cooperatives to provide especially favorable loans to their members.

The Fair Trade premium for social development, five US cents/lb in 2005, had been used to finance different kinds of development programs in coffee-growing communities, such as building of cooperative offices, roads, schools, and community houses. Many cooperatives also provided training in coffee production techniques, as well as carried out health care and education projects among the children of coffee growers. Assessing the benefits of the Fair Trade social premium on coffee producers was, however, not easy, as many of these social programs had also been funded by

several rural development projects. Only exceptionally active cooperative members knew how the Fair Trade social premium had been used in their cooperative. Others were aware of the development programs carried out in their communities, but did not know that these had been funded with the social premiums gained through Fair Trade.

Interestingly, the two Fair Trade benefits, the price premium and the social premium, affect the coffee producers within cooperatives differently. As the price premium granted by Fair Trade is tied-up to production, larger-scale coffee producers benefit more from this premium than the smaller farmers. On the other hand, the small producers benefit relatively more from the Fair Trade's social premium, as the community programs funded with the social premium are targeted to all the cooperative members despite the fact that a significant part of these funds has been gained by larger producers.

Concerning the impacts of Fair Trade certification upon the workers on the coffee farms, according to the FLO standards "where workers are casually hired by farmers themselves, the organizations should take steps to improve working conditions and to ensure that such workers share the benefits of Fairtrade" (FLO, 2005a: 5). The wages paid to coffee laborers ranged between 1.5 and 2.1 USD per day on those Fair Trade-certified coffee farms that provided meals for the workers, and between 1.8 and 2.5 USD on those that did not. These wages corresponded to those commonly paid for agricultural work in Nicaragua. During the coffee harvesting, workers are usually paid by *latas* (a 20.5-liter basket) of coffee that they pick. The minimum wages set by the Ministry of Labor for coffee gatherers were 0.6 USD per *lata* for the 2005–2006 harvesting season (Ministerio del Trabajo, 2005). Due to a high demand for labor, most of the coffee producers were, however, obliged to pay 0.6–0.8 USD per *lata* plus meals in order to attract harvesters. This price range was common on all types of coffee farms and not limited to Fair Trade-certified farms. The working conditions on the Fair Trade-certified farms did not significantly differ from the informal working conditions in rural Nicaragua, where wages are low and additional benefits, such as vacations, pensions and paid sick leaves, are unheard of.

Nicaraguan law prohibits children under the age of 14 to be hired for coffee harvesting (Ministerio del Trabajo, 2005); according to the FLO labor standards, children under the age of 15 should not be contracted (FLO, 2005a). However, during the fieldwork, we

commonly saw children picking coffee or working in other harvest-related tasks even on Fair Trade-certified farms. This practice was not necessarily in contradiction with the FLO labor standards because the children in work were usually either the children of the farmers or of the harvesters, and thus not officially classified as “contracted” workers. Nevertheless, at least on the studied Nicaraguan coffee farms, Fair Trade’s efforts to eliminate child labor seemed to have had limited effects.

Impacts of Fair Trade on cooperatives and their laborers

The FLO minimum price for Central American washed *arabica* coffee was 126 US cents/lb on FOB level, in 2005. This price included the 5 US cents social premium. In comparison, the average world market price for other mild *arabicas* was 114.9 US cents/lb, in 2005 (ICO, 2007). As shown in Figure 1, in real terms, the Fair Trade minimum price paid on FOB level has declined steadily.

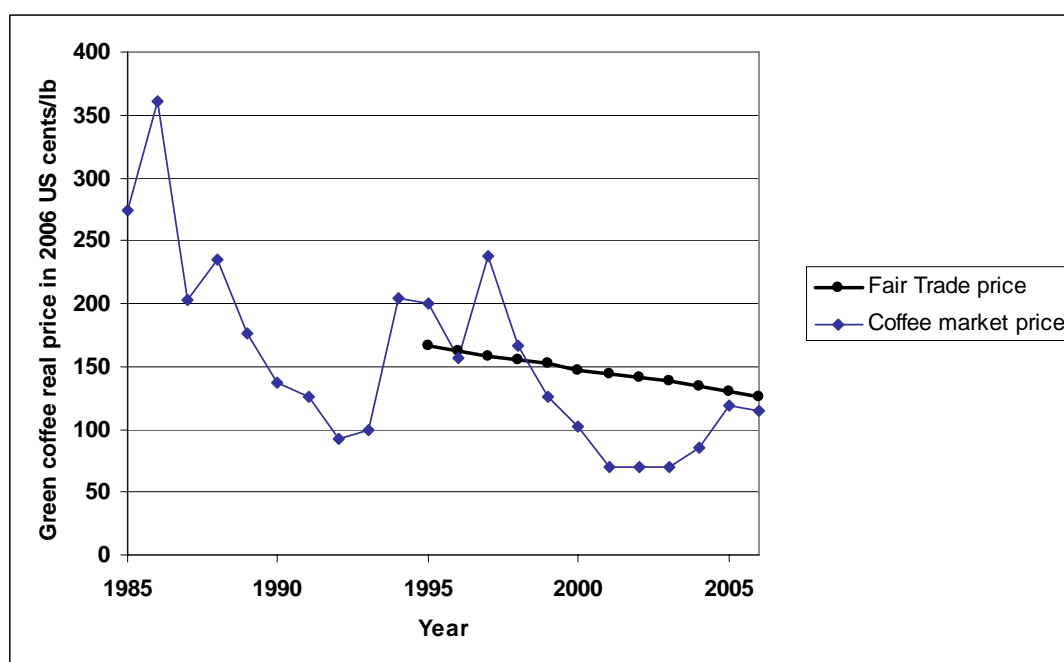


Figure 1: Fair Trade coffee price (FOB) for Central American *arabicas*, compared with the annual average New York market price for other mild *arabicas* 1985–2006. Prices are deflated against US consumer price index.

However, when deflated against the Nicaraguan consumer price index, the decline in Fair Trade coffee price has been slight, mainly due to the reduced value of the Nicaraguan *córdoba* against the US dollar (Figure 2). As indicated in Figure 2, there

was a large difference between the average world market price and the Fair Trade price during the low coffee prices in 2000-2004. However, since 2005 this difference has been narrow, and also the coffee futures' prices until 2009 are close to or even slightly above the Fair Trade minimum prices (NYBOT, 2007).

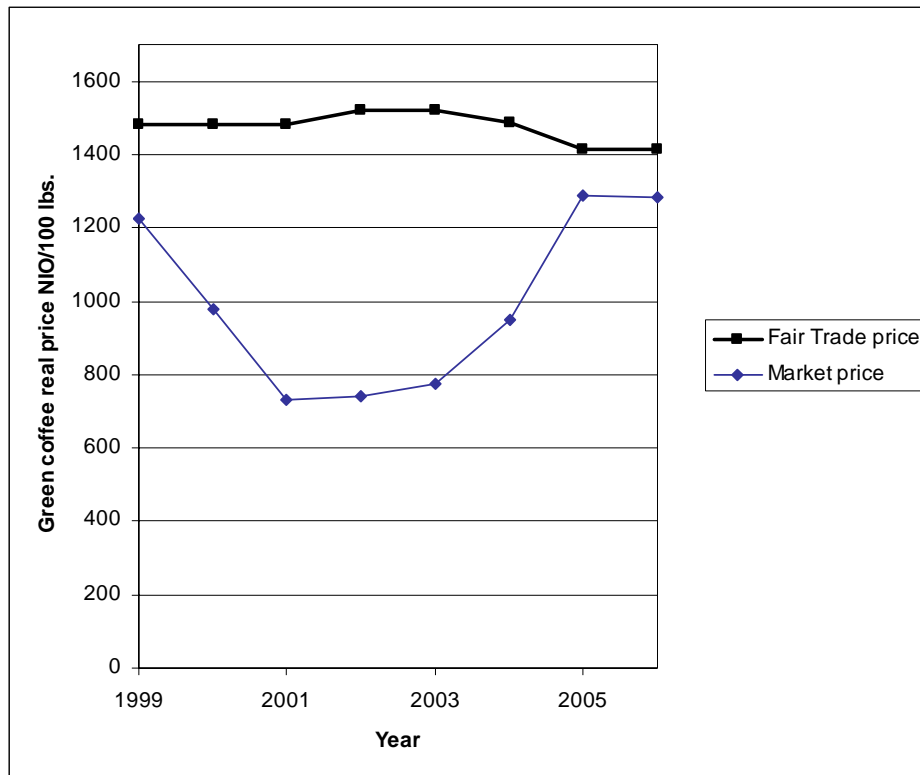


Figure 2: Fair Trade coffee price (FOB) compared with the annual average New York market price for other mild *arabicas* 1999–2006. Prices are deflated against Nicaraguan consumer price index.

Although FLO guarantees a minimum price for Fair Trade-certified coffee, it does not guarantee that the Fair Trade-certified cooperatives can sell their coffee through Fair Trade channels. In their access to Fair Trade markets, the studied cooperatives were somewhat differentiated. When a cooperative in Las Segovias was close to reach the goal of selling all of its first-grade coffee as Fair Trade-certified, the other cooperatives sold between 30% and 60% of their first-grade coffee into Fair Trade markets. Although many of the cooperatives had been able to set up longer-term commercial contacts with certain Fair Trade coffee buyers, most of the cooperatives felt it as a great challenge to establish new, long-standing trading relationships in the Fair Trade markets. Not surprising, cooperatives that were recent entrants to Fair Trade complained that the

system was not especially fair in a situation where few, early-entrants tended to control the markets, with certain risks of saturation.

This differentiation in access to markets is important to take into account when assessing the impacts of Fair Trade certification upon the coffee cooperatives. During the low market prices for coffee in 2000–2004, the cooperatives that were able to sell a significant part of their coffee via Fair Trade, benefited considerably from the price premium granted by Fair Trade. During this period, several of these cooperatives grew significantly, both in terms of membership and the volume of coffee exported. The most successful cooperatives were able to pay off their debts and significantly increase their capital reserves. For example, PRODECOOP, a union of cooperatives in Las Segovias, increased its assets from 1.2 million USD in 2001 to 1.8 million USD in 2005 (PRODECOOP, 2005). At the same time, the cooperatives' administrative capabilities and processing techniques were improved. As a consequence, the cooperatives which started in the mid-1990s “with just a calculator,” soon counted with well-equipped offices, coffee processing plants, storehouses, and cupping labs.

After the recovery of world market prices for coffee since 2004, the competition between the different coffee markets has intensified considerably. A Fair Trade-certified cooperative in Matagalpa, for example, was able to negotiate a quality differential of 4 US cents/lb in comparison to New York market price, for its first-grade coffee, in 2005. Due to this quality premium, the cooperative was able to sell its coffee into the mainstream market at almost the same price as into the Fair Trade market. At times, the large coffee export companies that operate in the mainstream markets have been able to pay even higher prices than Fair Trade for coffee producers because of their economies of scale, as well as their better abilities to take advantage of the futures markets and their better access to financing. As a consequence, some of Fair Trade-certified cooperatives have lost members, and because of the decreased volume of coffee, encountered difficulties in fulfilling their contracts with importers. In this respect, it is important to note the Fair Trade-certified cooperatives' additional costs related to certification, in comparison to coffee export companies. The Fair Trade-certification fee in itself added the costs of the cooperatives up to 5.5 US cents/lb of exported coffee in 2005–2006. The cooperatives' administrative costs were also higher because of the extra personnel needed to deal with certification issues. Moreover, to improve quality,

Fair Trade-certified coffee is usually graded manually after the dry processing, which in 2005–2006 increased the costs of processing by two US cents/lb.

Concerning the impacts of Fair Trade certification upon the cooperatives' laborers, the working conditions in the Fair Trade-certified processing plants were not significantly different from other coffee processing plants in Nicaragua. All the studied plants, Fair Trade-certified or not, paid the minimum wages set by the Ministry of Labor, which for coffee processing were 2.8 USD per day in 2005–2006. No additional benefits, such as medical care or a retirement plan, were provided in the Fair Trade-certified processing plants. Although FLO requires that the organization recognizes "the right of all employees to join an independent trade union" (FLO, 2005a: 6), there were no trade unions in the Fair Trade-certified coffee mills. In fact, most of the workers stated that if they tried to organize themselves, they would be fired. Even if the working conditions in the Fair Trade-certified coffee mills were not exceptionally poor, there was little evidence either, that the Fair Trade had significantly enhanced the labor standards of coffee production and processing in Nicaragua.

Conclusions

This paper has analyzed the impacts of Fair Trade certification upon the living conditions and organizational capacities of the small-scale coffee producers and producer associations in Nicaragua, paying special attention to issues of livelihoods, labor rights and social justice. The economic benefits provided by Fair Trade for Nicaraguan coffee producers and cooperatives were remarkable during the low world market prices for coffee in 2001–2004. After the recuperation of world market prices for coffee since 2004, the price premiums granted by Fair Trade have, however, been small. Under the current conditions of relatively high market prices for coffee, Fair Trade does not possess the same kind of bargaining power any more, as many of the Fair Trade-certified coffee farmers and cooperatives can get a similar price for their produce at certain mainstream markets, associated with more rapid payments, more favorable loans, and more convenient coffee delivery systems.

Another benefit provided by Fair Trade has been its facilitation of desperately needed credit for small-scale coffee growers in situations where other sources of credit have been limited. In addition, Fair Trade can be credited for its social premiums for

community development, such as education and health programs, institutional capacity-building, and improvement of transportation facilities. Together Fair Trade institutions and development projects have provided remarkable facilities for small-scale farmers and their cooperatives for more sustainable coffee production and processing.

Improving the working conditions on coffee farms and in coffee processing plants has been exceptionally challenging both in Nicaragua and in many other parts of the global South. According to our study, the labor rights of the hired workers on coffee farms and in coffee processing facilities have not been enhanced significantly as a result of Fair Trade. At the same time, the farmers' poor knowledge of the Fair Trade, and their limited identification with the Fair Trade as a solidarity movement between marginalized Southern producers and socially-conscious Northern consumers raises important questions about the opportunities of Fair Trade to significantly empower the disadvantaged coffee producers and laborers in the global South.

For cooperatives, the Fair Trade provides a certain kind price guarantee during the periods of low market prices for coffee. In the event that world market prices for coffee collapse once again, as they have historically done at intervals, the cooperatives are cushioned against the price depressions through Fair Trade's standards for minimum prices. This price guarantee is, however, not secure, as due to an oversupply of Fair Trade-labeled coffee, most of the cooperatives are able to sell only 30-60% of their production into Fair Trade markets.

Crucial questions remain about the ability of the Fair Trade to significantly alter the living conditions of a considerable number of disadvantaged coffee producers and coffee laborers in the global South. This especially in the context of increasing mainstreaming of Fair Trade scheme which raises serious questions about the ability of Fair Trade to provide a noticeable alternative for conventional coffee production and trade (Taylor, 2005). Competition between the different coffee markets and the different coffee certification schemes is also likely increase in the near future. Although Fair Trade alone cannot change the structural inequalities involved in the global coffee trade, as a movement with strongest standards of social justice among the major coffee certification schemes, it has a crucial mission to strive for enhanced living conditions and labor rights for disadvantaged coffee producers and laborers in the global South.

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