FAIR TRADE COFFEE IN NICARAGUA –
IMPACTS OF CERTIFIED PRODUCTION ON COOPERATIVES,
FARMERS AND LABORERS

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Abstract

The objective of this dissertation is to study the opportunities and challenges of the Fair Trade certification system in altering conditions of coffee production in Nicaragua. The aim is to analyze the advantages as well as the constraints of Fair Trade in assisting farmers and their cooperatives, involving them in the governance of coffee value chains and improving labor conditions. The study highlights the context of increased globalization, deregulation of coffee markets, and declining and volatile coffee prices.

The research methods utilized were primarily qualitative. Seven months of fieldwork was carried out in Nicaragua in 2005–2006 and 2008 to interview and observe a wide range of actors in Fair Trade and conventional coffee production and trade. Value chain analysis and convention theory were utilized as theoretical frameworks to understand if Fair Trade can improve the position of small-scale farmers and hired workers as participants in the global economy. Through the lenses of value chain analysis Fair Trade is seen as a governance mechanism where multiple actors with diverse interests influence each other in their interactions in establishing rules and norms for conditions of production.

The results indicate that Fair Trade has supported certified producer organizations particularly during the extremely low coffee prices in 2000–2004. However, Fair Trade is a limited market existing parallel to conventional trade. This results in farmers and cooperatives selling a large part of their production to conventional markets and market prices having a greater importance for them than Fair Trade-regulated prices. Since 2005, market prices have frequently been above or close to Fair Trade minimum prices, reducing the significance of Fair Trade-controlled prices. Certified farmers are vulnerable to price volatility also because when market prices are higher than Fair Trade minimum prices, the price volatility is the same for Fair Trade and conventional coffee.

Fair Trade does not require that higher than market prices be paid to certified farmers. Prices and services offered by Fair Trade certified cooperatives to farmers have not remarkably exceeded those offered by conventional actors in Nicaragua. Although the minimum price system is a safety net in case of a future price collapse, the results of this research indicate that challenges exist in distributing benefits equally between and within producer organizations. The implementation of minimum prices also involves other practical challenges such as to what level prices should be set under constantly changing market prices. The physical quality characteristics of coffee affect its price and, because they are so varied, it is impossible to create a pricing system taking all these characteristics into consideration.

The Fair Trade premium for social development has provided financing for cooperatives and farmers. While some of these funds have been targeted to pressing social needs, a large part of the funds have been used to finance improvements in producer organizations and to pay for certification fees, undermining the ability of
these funds to focus on social issues. In addition to the Fair Trade social premium, cooperatives and farmers have been assisted by numerous development projects. As a result, infrastructure in cooperatives has improved.

A possibility for making Fair Trade pricing more transparent for all actors in the value chain would be to make the social premium a percentage of retail price of Fair Trade products and to document more carefully its use in improving cooperative and farm infrastructure and management as well as its use to improve social conditions in coffee producing communities.

Fair Trade has not significantly altered the working conditions of hired labor in coffee production in Nicaragua. Because the advantages Fair Trade offers to farmers and cooperatives are limited and vary in different contexts, the system cannot present strict demands on improved working conditions.

The participation of farmers and workers in formulating Fair Trade policies is narrow, as evidenced by most of the interviewed farmers and hired laborers not knowing they were involved in producing Fair Trade coffee and what this entailed. Despite changes aimed at involving producer organizations in Fair Trade governance, Northern actors exercise the greatest control of the system.

Approximately half of Fair Trade certified farmers are also organically certified, globally and in Nicaragua. Although the Fair Trade/organic farmers receive price premiums, the benefits of Fair Trade are not clear-cut. As experienced by the interviewed farmers, organic farming has lower yields, especially when higher intensity management systems are compared. As a result, price premiums do not necessarily lead to higher income compared to alternatives.

Inequalities in the distribution of value creation are estimated to be higher in Fair Trade than conventional coffee in the case of coffee trade from Nicaragua to Finland. In absolute terms, Fair Trade has offered slightly higher prices to producer organizations particularly when Fair Trade minimum price has exceeded market prices.

In view of the many difficulties coffee production has faced in Nicaragua in recent decades, Fair Trade certified cooperatives have been successful. Fair Trade can provide financing for development and reduce price risk. However, many other risks exist for farmers and cooperatives including loss of crops due to diseases or adverse weather conditions. If small-scale coffee production in cooperatives is to thrive, well-managed cooperatives and farms are needed. Many Fair Trade certified farmers produce low volumes of coffee. While price premiums are welcome, income from small quantity of coffee remains meagre. As a result, some Fair Trade farmers are trapped in poverty.
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List Of Original Publications

This thesis is based on the following publications:


The publications are referred to in the text by their roman numerals.
1 Introduction

Fair Trade certification sets standards for economic, social, and environmental conditions of production and aims to reduce global inequality by increasing prices received by farmers in developing countries and by providing financing for development projects. Fair Trade endeavors to empower farmers and democratic producer organizations, include developing country farmers in a dialogue on production conditions, improve labor rights, facilitate access to markets and long-term trading relationships, and protect the environment by limiting the use of agricultural chemicals and encouraging the use of organic production methods (Nicholls and Opal, 2005: 6, 7; Blowfield and Dolan, 2010).

The objective of this dissertation is to study the opportunities and challenges of Fair Trade certification system in altering conditions of coffee production in Nicaragua. The aim is to analyze the advantages and constraints of Fair Trade in assisting farmers and their cooperatives, involving them in the governance of coffee value chains and improving labor conditions. The study highlights the context of increased globalization, deregulation of coffee markets and declining and volatile coffee prices.

Coffee production and trade can offer insights into relations between the wealthy and the poor, processes of globalization, regulation of agricultural commodity markets and new governance mechanisms in the global economy. Daviron and Ponte (2005: 50) have provided an excellent overview of reasons for this: over 90% of the world’s coffee is produced in the global South and coffee is consumed predominantly in the global North. Except for periods of extremely low coffee prices, coffee has been the second most valuable traded commodity after oil when legal exports are considered. For a number of coffee-producing countries, typically the least developed ones, coffee represents a large share of their export earnings. During much of the 20th century coffee trade was highly regulated by producing countries and international agreements. Since the late 1980s, state regulation of coffee markets in producing countries has decreased. Finally, during the last two decades, coffee has been the center of attention for new forms of regulation such as certifications and codes of conduct (Daviron and Ponte, 2005: 50).

Coffee is the flagship product of Fair Trade. The certification system has its origins in coffee production and trade, and coffee is the largest Fair Trade product by value (VanderHoff Boersma, 2009). Fair Trade certification has expanded in recent years to cover a wide range of other products, including tropical fruit, tea, spices, wine, flowers, sports balls, and gold. Although academic research on Fair Trade has also expanded beyond coffee production, most research until now has concentrated on coffee, and this dissertation is no exception (Nelson and Pound, 2009). Nicaragua is one of the poorest countries among major Fair Trade coffee-producing countries. It is a country where Fair Trade certification has operated since its inception as a formal certification system in the mid-1990s (Levi and Linton, 2003: 415–416). As a major producer of Fair Trade coffee and as a country
where 30.5% of the rural population was estimated to live in extreme poverty in 2005, Nicaragua is a good location for studying the impact of Fair Trade in its aims to support disadvantaged cooperatives, farmers, and hired workers (IMF, 2009: 10).

While the dissertation focuses on Nicaragua, it also studies Fair Trade from Nicaragua to Finland. Nicaragua and Finland are small countries by population, but fairly “large” coffee-producing and -consuming countries, respectively. For example, in 2011, Nicaragua produced and Finland consumed approximately 1.3% and 0.8% of the world’s coffee, respectively, while both countries have populations of under 0.1% of the world’s population (ICO, 2013a and 2013b). This part of the dissertation sheds light on how benefits of Fair Trade are distributed between actors in a coffee-producing and a coffee-consuming country (Article III).

This dissertation is based on four articles that analyze the following main research questions:

1) What are the impacts of Fair Trade on coffee farmers, cooperatives, and hired labor in Nicaragua? How have Nicaraguan coffee cooperatives used the Fair Trade social premium to advance their goals and develop coffee-growing communities? (Article I)

2) Given the close relationship between Fair Trade and organically certified products, in the case of organically certified Nicaraguan coffee farmers, what are the advantages and limitations of Fair Trade in improving the situation of organically certified producers? (Article II)

3) How are the benefits of Fair Trade distributed between different actors in the case of coffee trade from Nicaragua to Finland? (Article III)

4) How do Fair Trade price mechanisms (minimum prices and the premium for social development) function in reducing inequalities in coffee production and trade? (Article IV)

Focusing on Nicaragua, the dissertation aims to evaluate the degree to which Fair Trade transforms conventional trade relationships into more equitable ones and the extent to which Fair Trade involves different actors in governing coffee production and trade.

Some of the issues examined in this dissertation have received relatively little attention by other researchers. For example, detailed studies are largely missing on the position of hired labor in Fair Trade coffee production, the advantages Fair Trade brings to organically certified farmers, and the use of the Fair Trade social premium (a part of Fair Trade coffee price that is to be used in developing farmer organizations and communities of coffee producers). This dissertation adds to knowledge on the possibilities and constraints of Fair Trade to improve conditions of production and enhance the position of vulnerable actors, such as farmers and workers, in the coffee value chain.

The synopsis proceeds as follows: Section 2 presents the theoretical framework of this study. Section 3 describes the context of coffee production and trade globally and in Nicaragua. Section 4 provides information on the methods utilized in this study and a discussion on research ethics. Section 5 presents the main results of the study. Section 6 provides a conclusion.
2 Theoretical Underpinnings: Value Chain Governance And Convention Theory

This dissertation concentrates on specific groups of actors in coffee production: cooperatives, farmers, and workers in Nicaragua. Because they are part of a global production network, it is useful to situate them and Fair Trade to a wider framework of developments in the global economy. Theoretical discussions on global value chains can offer valuable insights in this respect. As employed by political economists and sociologists, value chain analysis has sought to explain how production chains (or networks) are governed and how this explains changes in patterns in global production, their institutional context, and the power relations in which value chains are embedded (Muradian and Pelupessy, 2005; Ponte and Gibbon, 2005; Taylor, 2005; Raynolds et al., 2007).

This approach enables us to explore inequalities in production networks and how, in the context of rapid globalization, marginalized actors including firms, cooperatives, farmers and workers particularly in developing countries could improve their position in the chain (Taylor, 2005). As developed by Porter (1985) in connection with business studies, value chain analysis was focused on how companies could improve their competitiveness by coordinating their activities more effectively. More recently, value chain analysis has increasingly focused less on the inner operation of a single company and more on the full range of the network of activities involved in production (Ponte and Gibbon, 2005).

Gereffi (1994) employed value chain analysis especially for manufactured goods, but his concepts have been developed and applied to agricultural products, such as coffee, by other researchers (e.g. Talbot, 1997; Raynolds, 2004; Daviron and Ponte, 2005). A key concept of value chain analysis is coordination, which refers to non-market relationships between different actors in value chains and the ability of some actors to control information, capabilities, and production processes in the chain. Another key concept is upgrading, which refers to abilities to make better products, improve processes to make products and develop new functions requiring skills and know-how. Upgrading has been seen as a path through which developing country actors can improve their position and gain more influence and power in the chain (Gereffi, 1994 and 1999). As the position or performance of a value chain actor improves through upgrading the rewards increase and/or exposure to risks decrease (Riisgaard et al. 2010). Ponte and Ewert (2009:1637) have described a broad definition of upgrading as “reaching a better deal”, resembling a Fair Trade slogan according to which Fair Trade represents “a better deal for Third World producers”. Fair Trade has been used as an example of an upgrading opportunity for developing country farmers, ”getting better paid for the same product” as Bolwig et al. (2010: 177) have argued.

In the case of coffee production, upgrading could entail controlling information, and thus, value of various product qualities and having influence in regulating parameters for production, for example certification standards. However, in the case
of coffee farmers and cooperatives, gaining certifications and being involved in
governing them represent only one type of upgrading strategy. Riisgaard et al.
(2010) identify seven possible upgrading strategies, which can interact and
influence each other. These can be grouped into three types: 1) the improvement of
the product, volume or production process, 2) the change and/or the adding of
functions in the chain, and 3) the improvement of value chain coordination. To
briefly explain these in the case of coffee farmers and cooperatives, product
improvements can be achieved through reaching higher quality by, for example,
meeting quality standards or acquiring certifications such as organic or Fair Trade
and improving production processes (explained below).

Production volume can be increased through higher yields and/or greater area
cultivated, and production process can be improved, for example, through
increasing efficiency or improved infrastructure. Examples of improved production
include arranging fertilization and irrigation especially at the end of the dry season
to ensure the timely “arrival” of the wet season and an optimal supply of nutrients to
increase yields. Examples of improved infrastructure include obtaining better-
quality facilities for wet-processing, drying, and storage as well as cupping labs for
quality-control. The change of functions can be either (a) functional upgrading, such
as taking on new functions such as processing, exporting, roasting or service/input
 provision, or (b) functional downgrading through the abandonment of unprofitable
activities and a focus on core activities. Vertical value chain coordination can refer to
improving business ties with buyers through closer and longer relations, contracts
and personal visits. Coffee value chain actors refer to this by the term “relationship
coffee”. For producers, this involves learning from buyers about market
requirements. For coffee buyers in the global North, this provides opportunities to
learn about the conditions in which coffee is produced and possibilities to fund
improvements in production. Other possible benefits to cooperatives include a
reduced price risk, price premiums, lower marketing costs, improved access to
market information, and credit. Horizontal coordination refers to agreements
among producers or cooperatives to cooperate, for example, in marketing, crop
insurance or service/input provision.

Gereffi (1994) emphasized the central role of lead firms in the power
relationships between different actors in the value chain. These lead firms can be
retailers, brand-name companies, industrial processors – such as coffee roasters –
international traders, or manufacturers (Humphrey and Schmitz, 2001). Several
analysts have argued that as a result of globalization, coffee trade has been
increasingly dominated by a few large corporations (Talbot, 1997; Ponte, 2002;
Daviron and Ponte, 2005). Different segments of the chain can be controlled by
distinct lead firms, especially in agricultural products where vertical integration is
less common than in manufacturing (Gibbon et al., 2008). The large volumes traded
by these lead firms give them a great deal of power in determining various
parameters of production processes. These include 1) what is produced, 2) how it is
produced (definition of production processes such as environmental and labor
conditions, quality systems and technologies used), 3) when it is produced (just-in-
time delivery), and 4) where it is produced (geographical location and re-location of
production activities) (Humphrey and Schmitz, 2001). The decisions taken by lead firms can thus greatly influence developing country coffee farmers and laborers. The concentration of power to an ever-smaller number of large and growing corporations has coincided with reduced government control of coffee-producing activities.

Gereffi (1994) introduced the concept of producer-driven versus buyer-driven chains. The difference between the two types of chains lies in the types of barriers to entry. In producer-driven chains, large corporations have a central role in coordinating production networks in capital-intensive fields requiring a high degree of know-how, for example in car manufacturing. Geographically, the production network is varied and includes countries with different levels of development. Buyer-driven chains are those where large retailers, brand-name owners, and trading companies have a central role in driving geographically-dispersed production, which is often labor-intensive and increasingly takes place in developing countries and particularly in so-called emerging economies. In the buyer-driven chain, innovation lies more in product design and marketing than in manufacturing know-how, and it is relatively easy for lead firms to outsource production and switch between producers to locate the least expensive suppliers. Examples of this type of activities are garments, footwear, and consumer electronics, but also tropical agricultural products such as coffee.

Humphrey and Schmitz (2001) also identified key factors in value chain governance. Firms can influence market access and thus the position of, for example, small-scale farmers and whether these are marginalized from or involved in the global markets. Lead firms can support producers by providing fast track acquisition of production capabilities. For example, they can provide hands-on advice to improve practices and raise skills. Governments have often taken great interest in coffee production and trade. As a result of economic liberalization and increased corporate power, companies have to some degree taken the role that was formerly mainly held by state agencies in providing production capabilities through, for instance, credit and training.

Another key governance issue is the distribution of gains in the value chain. Kaplinsky (2000) suggested that the locus of power in buyer-driven chains lies not with the material production but with design, branding, marketing, and retailing, which are characterized by high barriers to entry and provide high returns. In coffee value chains these activities are usually controlled by firms in developed countries, while actors in developing countries producing coffee are locked into activities characterized by low barriers to entry and reap low returns. Fair Trade can be viewed as a response to this, attempting to increase returns to farmers and giving them a higher share of the value created by their branded product. By certifying only cooperatives of small-scale farmers in the case of coffee and providing them with financing for developing their activities, Fair Trade aims to support the production capabilities of marginalized actors, who are less likely to be targeted by development efforts of companies.

Humphrey and Schmitz (2001) further argue that governance of global value chains can both undermine government policy and offer new leverage for
government initiatives. For example, lead firms can influence the raising of labor and environmental standards of their suppliers. On the other hand, the opposite is also possible. Lowering of standards could result from intense competition and pressures for low-cost production. The value chain further provides the possibility to function as a funnel for technical assistance. Since a network exists that connects lead firms to a large number of producers in developing countries, this network could potentially be utilized to assist farmers to improve their farming practices or export capabilities. Fair Trade is increasingly taking itself multiple roles as not only a certification system, but also development organization funded by governments across the globe by official development assistance funds.

The degree to which a given value chain is controlled by a lead firm and other actors has been called drivenness. This has been described as a wide spectrum between hands-on and hands-off drivenness. Hands-on drivenness is characterized by long-term contracts and explicit control of suppliers resembling the managerial control inside a firm. Hands-off drivenness is characterized by the use of specifications, such as codes of conduct, standards, and certifications, which can be audited and measured through third parties (Ponte and Gibbon, 2005).

Increased globalization has led to intensification of corporate control in the economy. Companies are increasingly re-locating production to developing countries, where legal standards for production conditions are often weaker than in developed countries. In the case of agricultural products from developing countries, there is a more explicit coordination of production by retail chains, which aim to control different product qualities (Freidberg, 2003a). As the power of corporations has increased, so have criticisms by social movements and NGOs gained momentum as a counterweight to corporate power. Global markets connect us more closely than ever, but it is widely held that existing national and international institutions are unwilling or unable to adequately regulate conditions of production globally (Börzel and Risse, 2010). As a result, “private authority” has gained prominence as part of globalization processes. This rule-making by civil societies and companies has addressed labor practices, environmental performance, human rights policies, and various other political and economic issues. One phenomenon that has resulted from this emergence of private authority is a proliferation of certification systems and codes of conduct also in coffee production and trade (Muradian and Pelupessy, 2005; Vogel, 2010).

Islam (2008) has proposed that some value chains are “twin-driven”, where in addition to companies civil society coordinates production processes. For example, environmental organizations and certification systems participate in establishing norms for production conditions. This view resembles the wider theories in social sciences on governance, which is seen as an exercise where many different actors in addition to governmental institutions participate in establishing rules, norms, and regulatory processes (Hoffmann and Ba, 2005: 1–14). These actors include, as in the twin-driven value chain by Islam (2008), private sector actors, such as companies, public sector actors, such as governments and international organizations, and third sector representatives, such as consumer or environmental organizations, all of which influence each other in their interaction.
Raynolds (2012) has argued that in the case of Fair Trade “social regulation” would be a more appropriate term than private regulation, as public and private usually refer to state and corporate actors, respectively, and in the case of Fair Trade a number of actors participate in embedding market relations socially. The goal of these various actors in value chain governance is to raise the bar of standards of production above the requirements of the public sector, which is often seen as lagging behind in the legal control of activities. This “soft law” with elevated standards does not have the force of a formal “hard law” and its sanctions, but it may have other enforcement mechanisms, such as admission to markets, as in the case of certified coffee production (Abbot and Snidal, 2000; Hall and Biersteker, 2002; Raynolds et al., 2007a).

The various actors participating in governing conditions of production can complement each other, but they also duplicate each other’s work and compete with each other for attention and resources. Private governance systems are more diverse than public ones and “involve multiple actors in new roles and relationships, experimenting with new processes of standard setting, monitoring, benchmarking, and enforcement” (O’Rourke, 2003:5). As an example of the negative consequences of this, Stigzelius and Mark-Herbert (2009) argue that suppliers can be in a complex and burdensome situation where they have to meet standards set by many actors and inspections by many different auditors. In creating standards and implementing them, some actors tend to exercise greater power and control than others involved in governing value chains. Standards are often implemented in a top-down manner with little understanding of their purpose among suppliers and factory/farm workers. The ability of auditors in determining conditions of production during brief visits can be questioned, which undermines the rationale for the entire exercise of establishing certifications and codes of conduct.

As corporate power and criticism of corporations have increased, there has been a rise in corporate responsibility and “an ethical turn” in business practices (Freidberg, 2003a). Companies are increasingly interested in claiming that the products they sell have been produced respecting the rights of workers and sustaining the environmental good, and are willing to provide evidence for this. Companies increasingly realize that their markets are socially embedded and made up of customers, including those who care about conditions of production. Companies are thus concerned about the possibility for a tarnished image if indecent working conditions or environmentally detrimental practices are exposed by “naming and shaming practices” of NGOs. Bringing about this type of damage to a brand image has become far easier than it used to be as a result of recent improvements in communication technologies and ease of international travel. From the point of view of companies, corporate responsibility can thus be viewed as a possibility to differentiate their products as “ethical” and/or a risk-management strategy. Investors increasingly demand companies to provide information on an annual basis on how the companies are addressing environmental, social, and governance risks. The view that companies are responsible not only to their shareholders but also to other constituencies is gaining ground. All this requires that companies actually know what is taking place in their supply chains. Before they can
do so, they also have to know where their products come from, and as a result companies are interested in achieving an improved traceability of products and their raw materials as well as a greater influence in coordinating activities along the value chain. Contributing to governance, which raises environmental and social regulation beyond legal requirements, has become a matter of self-interest to companies (Blair et al., 2008; Blowfield and Murray, 2008; Börzel and Risse, 2010).

This context partly explains the interest of companies in participating in Fair Trade, which enables them improve their image as socially responsible actors and provide their customers with products certified to exceed regular standards in production processes. Raynolds (2012) argues that companies differ in their approach to Fair Trade. For some, Fair Trade represents an alternative trade model they intend to pursue and promote, but particularly for large corporations Fair Trade is mostly another market niche where they see potential for growth.

Value chain analysis can be complemented by convention theory, which has its origins in work by researchers who analyzed particularly French agriculture and food industries (Boltanski and Thévenot, 1991; Allaire and Boyer, 1995; Eymard-Duverney, 1995; Sylvander, 1995; Thévenot, 1995). Later, the convention approach has been applied to global agricultural production and trade (Murdoch et al., 2000; Raynolds, 2004; Daviron and Ponte, 2005). According to Eymard-Duverney (1995), standardization of products leads to lower prices enabled by economies of scale. The opposite is the case with a branded product, which does not aim to be a standard product, instead having improved qualities and a higher price. Convention theory focuses on qualities of products, which are not always immediately obvious or universally recognized. Conventions help to market qualities that consumers would be unable to detect without the information provided by these conventions. In the case of coffee, a wide array of actors involved in coffee trade, including NGOs and consumers, requires more information on the ethical, environmental, and socioeconomic aspects of coffee production such as fair prices for producers and decent labor conditions (Goodman, 2003; Barrientos and Dolan, 2006).

In addition to the recent “ethical turn”, a “quality turn” has taken place in production and consumption (Freidberg, 2003a). Since there are no “objective” or universal qualities, these are constructed and as a result quality depends on how the actors involved view them. More precisely, quality depends on buyers’ acceptance of the value assigned to a particular quality and the reliability of the convention used to assure it (Murdoch et al., 2000; Freidberg, 2003b). An example of this kind of quality is “local food”. Certain consumers would accept that food that has been produced near where it is consumed is of higher quality and may be less harmful environmentally because the food reaches consumers fast or travels less. Consumers need some type of assurance of the vicinity of the production process, which typically is based on trust of the information provided by the seller.

According to some convention typologies, four different conventions can be distinguished; these are not mutually exclusive and can overlap and compete with each other. 1) Market conventions are based on price. There is no uncertainty about quality, and differences in price express known differences in quality. 2) Domestic conventions are based on trust. Examples include long-term relationships between
buyers and sellers, brands, or labels of origin. 3) *Industrial conventions* are based on efficiency and reliability linked to formal testing and standards such as certifications. 4) *Civic conventions* are based on evaluations of general societal benefits such as social or environmental impacts of products (Boltanski and Thévenot, 1991; Allaire and Boyer, 1995).

Combining ideas of value chain governance and convention theory, Ponte and Gibbon (2005) have argued that in terms of value creation the central issue is how lead firms define and manage quality. This management of quality can lead to competition and/or cooperation between different actors in a value chain, each actor having only partial access to and control of information on various product qualities. As an example of cooperation, producer organizations, traders, and roasters can join their forces in marketing coffee as having attributes that consumers consider socially and environmentally desirable, such as coffee having been produced by cooperatives of small-scale farmers or women organizations, and environmentally beneficial production practices, such as high floristic diversity in shade trees.

Fair Trade is an example of blurring of boundaries between the conventions described above. “Civic content” in the form of social and environmental guarantees of the production process is important for Fair Trade, which is also a form of bringing producers and consumers closer (a domestic convention). As a certification system, Fair Trade represents an industrial convention and some mainstream actors seem to participate in Fair Trade mainly in terms of market conventions (Freidberg, 2003a; Raynolds, 2004; Ponte and Gibbon, 2005). Fair Trade has been welcomed as a system that increases information on the conditions of production and re-embeds social relations to trade by removing the veil of exploitative social and economic relationships in capitalist commodity production (Hudson and Hudson, 2003). On the other hand, the information provided by Fair Trade to consumers regarding how it benefits farmers and workers is incomplete (Article III). This has resulted in some researchers calling certifications a form of “double fetishism” because the social relations between producers and consumers are only apparently unveiled, but in reality they are not made very transparent (Freidberg, 2003a). The information conveyed through conventions, such as certification systems, is effective only if consumers trust in them. As a result, providing stories and images of satisfied farmers and workers participating in Fair Trade has become a central activity of the social movement promoting Fair Trade (Goodman, 2004).
3 The Context of Regulating Coffee Production and Trade Globally and in Nicaragua

3.1 The Global Context

Global coffee markers have been subject to many interventions and relatively effective regulation during much of the 20th century. This can offer lessons for Fair Trade as it endeavors to achieve similar goals in stabilizing and increasing prices to farmers. From the early 20th century until 1989, government interventions attempted to do the same, primarily by limiting exports and controlling stocks. As the largest coffee producing-country, Brazil was especially influential in this respect, and in the early part of the 20th century, it attempted to control prices through unilateral actions, including some drastic efforts such as destroying millions of bags of coffee in the 1930s (Raffaelli, 1995: 35). International interventions also took place, aimed at stabilizing commodity prices. In 1940, the Inter-American Coffee Agreement was signed between the U.S. and Latin American coffee-producing countries. The agreement aimed at limiting production by distribution of export quotas to North America (Raffaelli, 1995: 34–37; Daviron and Ponte, 2005:84–86).

After World War II, a series of negotiations took place in United Nations forums, with the objective of creating commodity agreements that would prevent extreme highs and lows in commodity markets. Since every commodity was different, they needed to be dealt with case by case. Commodity agreements made for the following products were especially important for developing countries: coffee (1962–1989), cocoa (1972–1988), rubber (1980–?), sugar (1954–1983), and tin (1954–1982) (Raffaelli, 1995; Gilbert, 1996). Only some of the agreements included export controls or price ranges. The International Coffee Agreement introduced an implicit target price range for coffee at 115–150 U.S. cents per pound from 1981. Export quotas were allocated to producer countries, which in turn distributed export permits to coffee producers. Quotas were not constantly enforced, but were introduced when coffee price was low (Gilbert, 1996). Some international commodity agreements continue to exist, including the International Coffee Agreement, but they are no longer market interventions, but can be characterized as development programs.

In the 1970s, the example of OPEC (Organization of Petroleum Exporting Countries) showed developing countries that limiting commodity production can raise prices. Commodity-producing developing countries saw international commodity agreements as possibilities to provide financing for development and as a cornerstone of the New International Economic Order (Gilbert, 1996). There are, however, differences between OPEC and commodity agreements. OPEC is a cartel, where producing countries unilaterally restrict supply, whereas commodity agreements included both producing and consuming countries in their negotiations. Petroleum, unlike tropical agricultural products, is difficult to replace in short to
medium term. One could argue that coffee comes close to being a necessity in Northern societies. However, coffee production could be substantially expanded in a country not participating in a cartel.

The International Coffee Agreements succeeded in raising and possibly stabilizing prices, which still remained volatile. Its success relative to other commodity agreements resulted especially from the participation of all major producing and consuming countries. Even the most reluctant country to control commodity prices, the United States, participated and was motivated to do so by its desire to have friends in Latin America during the Cold War (Raffaelli, 1995: 48–50).

However, the system was far from perfect and its problems became increasingly apparent towards the late 1980s. Gilbert (1996) lists reasons why attempts to control supply were eventually discontinued. Supply restrictions tend to encourage production by non-members as well as non-compliance by members. Excess coffee could be sold to countries that were not members of the agreement. This led to lower coffee prices for non-member consuming countries. Roasters in member consuming countries had to pay a higher price and were unable to freely switch between the type of coffee and the origin they wanted. “Tourist coffee” would travel through non-member countries to member countries to avoid the quota system. Coffee producers did not always see the benefits of higher coffee prices, which, from their perspective, were reaped by government agencies controlling coffee trade. There were disagreements among producer countries over how production quotas should be distributed. With new producer countries emerging, it was increasingly complicated to allocate production quotas and to police the implementation of the scheme. The system did not have mechanisms for revising the price range. Changes in costs of production and consumer tastes, for example, could rapidly change demand of certain types of coffee and the level of prices. A downward revision of prices was unpopular among producing countries. As Gilbert concludes (1996:1): “commodity control fits uneasily in an increasingly globalized and competitive world, and this perception has resulted in a diminished willingness to resolve the practical difficulties of price stabilization.” The Brazilian government was undecided on a new coffee agreement, while the U.S. government was opposed to it. These developments led to the demise of the International Coffee Agreements with their export controls.

Another possibility for price stabilization is maintaining buffer stocks, i.e. storing coffee during periods of oversupply and low prices. However, oversupply can last for a long time and maintaining stocks involves high capital costs. Although green coffee can be stored for up to a year, quality does deteriorate with time. Additionally, knowledge of the existence of stocks can depress prices, questioning the logic of maintaining stocks to increase prices in the first place (Gilbert, 1996).

Until the 1980s, many coffee-producing countries had influential organizations of coffee producers, which controlled exports, sometimes bought coffee to stabilize prices, and provided extension services, inputs, and credit. Additionally, many countries had coffee marketing boards, which intervened in markets to stabilize prices and collected state revenue as a type of taxation. However, in many cases,
state involvement in coffee markets was notorious for corruption. In most countries, the organizations of coffee producers lost much of their influence, and the coffee marketing boards were dismantled (Daviron and Ponte, 2005:95, 96).

The end of the International Coffee Agreements as market interventions and the diminished state involvement in coffee markets took place in the wider context of increased trade, decreased barriers to trade, advanced communication technologies, and declining transportation costs, which accelerated the processes of globalization. As a backdrop to these developments were the end of the Cold War and the emergence of the neoliberal project epitomized by the “Washington Consensus” among Western governments and multilateral financial institutions. These promoted development strategies based on the deregulation of markets and privatization and liberalization of international trade. This undermined the ability of coffee producing-countries to regulate coffee markets and to collect state revenue from coffee exports (Daviron and Ponte, 2005: 83–126; Goodman, 2008). Free markets led to improved price transmission of international coffee prices to farmers, but exposed them more to price volatility (Krivonos, 2004).

Another explanation that has been offered for the powerless situation of coffee farmers is the oligopsonic market conditions where few actors control trade and roasting (Muradian and Pelupessy, 2005). However, the situation is complex. During recent decades the coffee value chains have consolidated and fragmented simultaneously. The supply of coffee has increasingly fragmented with new coffee-producing countries entering the market. The largest actors in importing, roasting, and retailing have increased their shares in coffee trade, while new niche markets of specialty coffees have simultaneously emerged (Daviron and Ponte, 2005:90–93). While consolidation of coffee trade has occurred, liberalization of markets has led to increased competition, reducing the ability of individual actors to exercise market power. In individual countries or regions, monopolistic conditions of coffee buying may occur, but this is increasingly rare due to market liberalization.

Coffee prices behave much like those of many other commodities, with wide price swings during a shortage or oversupply (or expectation of these). Occasionally, seemingly small changes drastically alter the balance of supply and demand. In tree crops, excess capacity can persist for several years after prices fall. This is because once the crop has been established and is producing even when the market price is below the total costs of production, it can be above the variable costs (primarily harvesting, processing, and minimal care of the crops), resulting in supply in the market by producers whose total costs of production are not covered (Daviron and Ponte, 2005:110–113). Low prices will result in low investment and over time this leads to prices that are closer to costs of production. After the collapse of the International Coffee Agreement in 1989, coffee prices fell markedly (Raffaelli, 1995:73). This led to negotiations by producing countries to limit exports. In 1994, the Association of Coffee-Producing Countries was formed with the intention of increasing prices by limiting exports. Coffee prices did rise, but they rose primarily as a result of severe frosts and drought in Brazil in 1994 and a speculative hike in 1997 (Daviron and Ponte, 2005:88, 89). These higher prices in the mid-1990s fuelled a coffee boom in Vietnam, where market liberalization led to policies to
expand agricultural exports, including coffee. This period of slightly higher prices in the mid-1990s postponed the effects of deregulation and liberalization of markets to the early 2000s, when the lowest coffee prices in history were recorded. In 2001, the Association of Coffee-Producing Countries admitted that it was unable to restrict coffee supply (Daviron and Ponte, 2005:89).

In 2002, coffee prices reached their 100-year lows, causing serious problems for coffee farmers and coffee-dependent economies worldwide (ICO, 2003). Since the end of 2004, prices have risen steadily, reaching particularly high levels in 2010 and 2011. In real terms, the highest prices in 14 years were reached in 2011 (ICO, 2011a). At the same time, productivity has increased through high-yield coffee varieties, higher intensity farming, and some mechanization of production, especially in the largest coffee-producing country, Brazil (Gilbert, 2006).

In this context of reduced state regulation of coffee markets, volatile coffee prices, increased globalization, calls for corporate responsibility and higher quality, and the drastic economic and social consequences of low coffee prices, certification systems and codes of conduct for coffee production have proliferated. Some of the major initiatives include Fair Trade (operated as Max Havelaar certification in the Netherlands since 1988), organically certified, Rainforest Alliance (1996), Utz Certified (1997), and the Common Code for the Coffee Community (2003). As a result of these developments, coffee markets are increasingly differentiated based on various physical qualities and increasingly also on social and environmental responsibility features (Muradian and Pelupessy, 2005). Fair Trade has been considered to stand out among these major certification systems and codes of conduct as one with the highest standards (Raynolds et al., 2007a). Table 1 summarizes major requirements of Fair Trade for certified producers and licensed importers. Fair Trade is also set apart from most other certification systems by having originated from and being supported by a global social movement. In coffee-consuming countries, the Fair Trade system comprises 19 national Fair Trade organizations covering 24 countries (FLO, 2012a). These are backed by civil societies in their respective countries. For example, in Finland, the national Fair Trade organization is supported by 30 Finnish NGOs (Reilun kaupan edistämisyhdistys, 2012).

Table 1. Fair Trade standards for coffee in a nutshell (summarizing a 22-page document: FLO, 2005)

<table>
<thead>
<tr>
<th>Certified producers must:</th>
<th>Licensed importers must:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Be members of democratically organized cooperatives</td>
<td>Have long-term contracts with producer organizations</td>
</tr>
<tr>
<td>Follow norms created by ILO (International Labor Organization)</td>
<td>Offer credit to producer organizations</td>
</tr>
<tr>
<td>Follow environmental standards</td>
<td>Pay minimum prices plus a social premium</td>
</tr>
</tbody>
</table>

19
Marked similarities exist between Fair Trade certification and the International Coffee Agreements prior to the 1990s in their aims to increase coffee prices to benefit producers. Even the nominal price level is similar, which is the result of Fair Trade inheriting the price level at which the International Coffee Agreements aimed to keep prices in the 1980s (Bacon, 2010a).

Some differences exist as well. The International Coffee Agreements aimed to regulate the entire global production and trade or at least the majority of it, whereas Fair Trade exists as a niche market parallel to conventional trade. The International Coffee Agreements attempted to raise prices by limiting production, while Fair Trade sets minimum prices. Fair Trade also sets standards for conditions of production, for example labor standards. Fair Trade can be viewed as a system that sets a higher standard for production and provides financing and incentives to farmers and cooperatives for meeting these standards. Other certification systems have been criticized for lacking such compensation mechanisms that would provide motivation for implementing practices exceeding local norms (Raynolds et al., 2007a; Stigzelius and Mark-Herbert, 2009).

Additionally, Fair Trade provides financing for development through its social premium. Assessing the performance of Fair Trade is complicated by the multiple roles it has taken: Fair Trade is simultaneously a social movement and a certification system, an expression of solidarity providing higher than market prices to poor farmers, a compensation for meeting higher standards in production, a system providing financing for development projects and a development organization financed by official development assistance funds of governments.

### 3.2 Coffee Production and Trade in Nicaragua

The Somoza family ruled Nicaragua as dictators from the 1930s until 1979. They treated the state as their personal possession and limited political freedoms (Enríquez, 1997). The authoritarian state was legitimated by the need to keep the communists from taking power. The gross domestic product rose on average an impressive 3.9% between 1962 and 1971 as a result of industrialization and expansion of export agriculture (Booth et al., 2006:72). However, the Somoza regime repressed unions and kept wages low, preventing the benefits of economic expansion from reaching the oversupplied laborers. This resulted in high income inequality. The dictatorship ended in 1979 with the Sandinista revolution (Paige, 1997:280). The Sandinistas inherited a host of grave problems from the previous regime. These included 1.6 billion dollars of international debt as well as problems in public health, housing, education, and nutrition all exacerbated by war. Despite these problems, the Sandinistas built a new governmental system, reactivated, at least initially, the economy and implemented numerous social and educational programs, including improved health services and literacy campaigns (Paige, 1997:280; Booth et al., 2006:72–82).

The Somoza family had owned approximately 25% of land, which the Sandinistas confiscated, turning them into state farms and cooperatives. However,
land ownership was unequal more broadly. In 1981, 1.2% of the population owned 47.1% of the land and 30% of the rural population did not own any land (Paige, 1997: 277). In a process of land reforms, the Sandinista government confiscated lands that were underutilized or owned by dissident members of the agroindustrial elite and distributed these to more than 100,000 peasant families (Paige, 1997: 277; Rocha, 2003: 71, 72). Encouraging coffee production was one of the priorities of the Sandinista government, which received a large part of its export earnings from coffee, which enjoyed relatively high international prices in the 1980s. The share of coffee exports of all Nicaraguan exports ranged between 27% and 44% in 1980–1987 (Rocha, 2003: 71, 72).

Despite the establishment of state farms and cooperatives during the Sandinista period, most of the coffee in the country continued to be produced by private farms. The coffee-farming bourgeoisie initially supported the revolution, which they hoped would bring them the political freedoms they had lacked. Over time, coffee farmers became disillusioned with the Sandinistas, who limited the economic freedoms they had previously had under the Somoza dictatorship. The coffee market was tightly controlled and most farmers believed that the Sandinistas were working on turning Nicaragua into Cuban and Soviet style communism, which would mean confiscation of their land at some point. Export products were sold to government trading boards at fixed prices. It was difficult or impossible to obtain imported agricultural inputs such as fertilizers (Paige, 1997).

Paige (1997:287) estimates that in 1986 coffee growers in Nicaragua received only 10% of the international market price of coffee, while the government market board retained 90%, effectively as a huge export tax. This would have eliminated any incentive to produce coffee, but it was offset by price controls of other factors of production enabling farmers to continue producing. For example, the state provided credit to coffee farmers with negative interest rates in real terms (Rocha, 2003). There was a shortage of all critical items needed in agriculture and excessive black market prices for them. Most coffee farmers saw no point in investing in their farms because they believed their lands would be taken away (Paige, 1997).

Another critical problem for farmers was lack of labor. This was attributed to the contra war, which took many men to the army and made coffee work dangerous, as the areas of coffee production were hard hit by the war. The contras sought to paralyze the Nicaraguan economy by targeting coffee laborers. Another reason for the lack of labor was a dysfunctional labor market. The low level of salaries set by the government did not encourage taking employment, and due to low prices received by farmers they were unable to pay higher salaries. Coffee harvesting is labor intensive, and if labor is not available, coffee cherries will rot in the trees and on the ground. The Sandinista government organized volunteer labor to coffee farms, and as a gesture of international solidarity volunteers from all over the world came to Nicaragua to volunteer in coffee harvesting (Paige, 1997; Rocha, 2003).
The Sandinistas gained friends from the beneficiaries of land reforms, but made enemies of those who lost their lands. The agroindustrial elite, including owners of coffee estates, increasingly sympathized with the contras and hoped for the United States to intervene militarily in Nicaragua. The United States and its Reagan administration viewed Nicaragua in terms of its Cold War confrontation with the Soviet Union. The U.S. support to the contras pushed the Sandinistas further into the arms of the Soviet Union, as they became increasingly dependent on the Soviet military aid. Towards the end of the 1980s, the economy of Nicaragua collapsed as a result of civil war, the U.S.-imposed trade embargo, and problems related to reforming agriculture. By then, the Nicaraguan economy was characterized by a massive foreign debt and hyperinflation. The Sandinistas responded to this by introducing structural reforms limiting government spending (Enríquez, 1997; Paige, 1997).

After the Sandinistas lost in elections in 1990, the Chamorro administration embraced neoliberal policies of privatizing government properties, cutting public expenditure, and lowering tariffs. The economy stagnated and ordinary Nicaraguans suffered from lack of basic services, but hyperinflation ended, modest economic growth started after 1996, and reconciliation ended atrocities (Booth et al., 2006:85, 86). The government abandoned the control of coffee exports. After the government stopped subsidizing coffee cooperatives in 1990, most cooperatives collapsed. The Sandinista land reforms had created a large base of small-scale coffee farmers in the

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**Picture 1**  A mural in the town of Jinotega showing coffee harvesting during the civil war.
main coffee-producing regions in Matagalpa and Jinotega. Since the mid-1990s some cooperatives started to reorganize themselves around the idea of defending their lands received in land reforms. To improve their position in the coffee value chain, they sought new partnerships through socially responsible businesses (Bacon, 2010b). Supported by international NGOs and development cooperation, cooperatives established links to specialty markets including Fair Trade. Organizations such as Cooperative League United States supported many farmers who sought to gain organic certification to reach higher value markets (Valkila, 2010).

Analysts of the global coffee value chains often point out that state marketing boards and international coffee agreements guaranteed coffee farmers a larger share of retail prices of coffee before the liberalization of markets in the 1990s (Talbot, 1997; Muradian and Pelupessy, 2005). Obviously, the Nicaraguan case is different due to in many ways chaotic situation the country was in during the 1980s and the heavy government control of coffee trade, which was utilized to finance the state. Coffee farming survived this difficult period, although production declined during the 1980s (Rocha, 2003). Liberalization of the economy in Nicaragua since 1990 led to a situation where government support to cooperatives and farmers is negligible. Coffee farmers in Colombia, Costa Rica, Brazil, or Mexico enjoy better government services, including credit, extension, subsidies, and market support as well as better infrastructure and a higher level of education. Nicaragua also does not have a functioning national coffee institution (Beuchelt and Zeller, 2013). In addition to political turmoil, Nicaraguan coffee production suffered from a series of other shocks. Hurricane Mitch paralyzed the country in 1998, there was a severe drought in 1999–2001, and coffee prices were extremely low in 2000–2004 (Bacon, 2005:502).

Rocha (2003) provides an overview of developments in Nicaraguan coffee production since the early 1980s. Nicaraguan coffee exports reached a peak of 54,545 tons in 1983. By 1989, exports had descended to 26,599 tons. Coffee production by cooperatives reached 40% of production in Nicaragua in 1989. This high share was partly explained by the collapse of coffee production on private farms. Since 1990, the state has intervened in coffee markets only minimally. After 20 years of liberalized coffee markets, total green coffee exports reached 101,962 tons in 2010. In proportion to its population, Nicaragua produced roughly the same amount of coffee in 1983 and 2010, as both the population of Nicaragua and its coffee exports have roughly doubled in this time period (Rocha, 2003; CETREX, 2011a). According to government statistics (CETREX, 2011a), the value of coffee exports from Nicaragua were 342 million U.S. dollars in 2010. This represented 18% of all Nicaraguan exports. A total of 69 companies and cooperatives exported coffee from Nicaragua in 2010. Two of the largest export companies, Cisa Exportadora and Exportadora Atlantic, exported 52% of all Nicaraguan coffee by volume. Cooperatives exported approximately 20% of all coffee (CETREX, 2011a; Mendoza et al., 2011). Approximately 17,000 coffee farmers are members of cooperatives (Mendoza et al., 2011). CAFENICA is an umbrella organization for Nicaraguan cooperatives, consisting of 11,500 farmer members. Of these farmers, 28% are
women (Mendoza et al., 2011). Table 2 presents the main destinations of Nicaraguan coffee exports in 2009–2010. Most coffee is exported to wealthy Northern countries and Nicaragua’s close ally Venezuela.

Table 2. Principal destinations of Nicaraguan green coffee exports in 2009–2010 (thousands of kilograms) (Source: CETREX, 2011b).

<table>
<thead>
<tr>
<th>Country</th>
<th>Export (thousands of kilograms)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>44,970</td>
</tr>
<tr>
<td>Venezuela</td>
<td>7,840</td>
</tr>
<tr>
<td>Belgium</td>
<td>6,370</td>
</tr>
<tr>
<td>Spain</td>
<td>6,240</td>
</tr>
<tr>
<td>Spain</td>
<td>6,240</td>
</tr>
<tr>
<td>Germany</td>
<td>5,770</td>
</tr>
<tr>
<td>Finland</td>
<td>5,220</td>
</tr>
<tr>
<td>Canada</td>
<td>4,460</td>
</tr>
<tr>
<td>Italy</td>
<td>3,520</td>
</tr>
<tr>
<td>Sweden</td>
<td>3,460</td>
</tr>
<tr>
<td>Japan</td>
<td>2,750</td>
</tr>
</tbody>
</table>

Coffee is produced in Nicaragua both on small farms and on large coffee estates. Although recent statistics are not available regarding different types of coffee farmers, data from 2000/2001 indicate that a large number of small-scale coffee farmers exist in Nicaragua. In 2000/2001, there were approximately 48,000 coffee farmers, and 80% of these were small producers with less than 3.5 ha of coffee in cultivation. Despite the vast number of microproducers, farms larger than 3.5 ha produced more than 85% of the Nicaraguan coffee harvest. The largest 400 farms produced approximately 36% of Nicaraguan coffee. These farms covered 12% of the coffee farming area (Flores et al., 2002: Annex). Approximately 280,000 people, representing 42% of the economically active rural labor force in Nicaragua, derived at least part of their annual income from coffee production (Flores et al., 2002: 14).

Nicaraguan coffee production takes place in a context of heterogeneous coffee farms. During recent decades there have been major political upheavals and related changes in production and trade. Liberalization of coffee production and trade has occurred in a context of high fluctuations in international coffee prices. The coffee crisis in 2000–2004 had a dramatic impact on coffee-dependent rural areas, where poverty was widespread even without the effect of low international coffee prices (Bacon, 2005). In this challenging environment coffee certification systems such as Fair Trade have become one of the many new institutions governing coffee production and trade.
4 Research Methods

4.1 Methods

Approximately 78% of Nicaraguan coffee is produced in the adjacent departments of Jinotega and Matagalpa, where average yields are higher than elsewhere in Nicaragua and the altitude (mostly between 900 and 1400 meters above sea level) is ideal for coffee (IICA, 2003: 53, 54). Most Fair Trade certified cooperatives in Nicaragua are located in these departments and the adjacent departments of Las Segovias, and Boaco. For this study, farmers and administrators of 11 coffee cooperatives and unions of cooperatives were interviewed in the departments of Jinotega, Matagalpa, Boaco and Las Segovias. These cooperatives varied from organizations of a few dozen producers to unions of cooperatives containing more than 2,000 members. Four of the cooperatives had been Fair Trade certified since the mid-1990s, five had received certification in the early 2000s, and two were in the process of becoming Fair Trade certified. The study therefore includes cooperatives of different sizes, with varying lengths of experience with Fair Trade.

Initially the plan was to include fewer cooperatives in the study, but during fieldwork it became evident that cooperatives differ significantly from one another in size, length of involvement in Fair Trade, organic certification (some Fair Trade certified cooperatives produce only organically certified coffee, while others produce a small percentage as organically certified), and proportion of production sold as Fair Trade certified. A plan to include a larger number of cooperatives was devised during fieldwork because it became apparent that the experiences of cooperatives and farmers producing organically certified coffee, for example, differed from those cooperatives where few farmers were organically certified.

In March 2005 and from September 2005 through February 2006, I conducted semistructured interviews with a total of 110 coffee producers involved in cooperatives. Of these producers, 94 belonged to a Fair Trade certified cooperative and 16 were members of cooperatives that were in the process of becoming Fair Trade certified. The experiences of these 16 farmers from two cooperatives were useful for understanding the situation of cooperatives and farmers who already have organic certification and seek Fair Trade certification. In addition, I interviewed 10 producers who had been members of a Fair Trade certified cooperative but who had withdrawn due to better terms of trade elsewhere. Their experiences were useful for understanding why some farmers prefer to deal with export companies rather than Fair Trade certified cooperatives. Approximately 10 farmers were interviewed from each cooperative. I selected the informants based on the criteria that in each

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1 About 65% of these farmers also had an organic certification for their coffee. The same situation characterizes Fair Trade coffee producers worldwide; approximately 50% of Fair Trade certified coffee is also organically certified (Meyer, 2005).
cooperative both larger (>3.5 ha) and smaller (<3.5 ha) producers and both men and women would be represented. I received information from cooperatives regarding their members and based on this information selected coffee-producing regions to visit. These were typically prime coffee-producing areas. Most Fair Trade coffee farmers in Nicaragua produce coffee in these areas, where most conventional coffee farming also takes place. The selection process of farmers was not very elaborate. When in the area, I asked around where I could locate cooperative members who would fit the above-mentioned criteria.

I carried out the majority of interviews with producers in their homes and included visits to their farms. This enabled participant observation of various stages of coffee production as well as interviews with workers on the farms. Most of the farmers retained records of their coffee production and sales dating back several years, allowing data gathering of selling prices and costs charged by the cooperatives. To cross-check the information, several producers delivering their coffee to a processing plant were also interviewed. Farmers often personally delivered coffee to reception centers, as they wanted to ascertain that all coffee reaches its destination and they could personally witness weighing and quality evaluation of their product.

Picture 2  Coffee is pre-dried and pre-selected on a farm.
The main topics discussed in the interviews were coffee production, income and costs, premium for social development, terms and channels of sales, changes made in coffee production due to certification, cooperative services, hired labor and their working conditions, experiences with conventional and organic production, and in the case of organically certified farmers, transition to organic production. The interviews took place during a period when international coffee prices had started to rise after having been extremely low for four to five years. The time was therefore good to inquire about the situation in previous years when prices were very low as well as the situation of rising coffee prices. To triangulate data, the issues were discussed with many different actors in the same cooperatives, including cooperative managers, farmers, and workers.

The objective of the interviews was to inquire from farmers and representatives of cooperatives about their experiences with Fair Trade and conventional coffee trade. As Fair Trade certified farmers and cooperatives participate in both Fair Trade and conventional coffee trade, the objective was to hear about their experiences with both. The objective therefore was not to establish a treatment group of Fair Trade certified farmers and a control group of non-certified farmers and to compare these. However, some comparisons between Fair Trade and conventional coffee trade are made in this thesis based on experiences of Fair Trade certified farmers and cooperatives participating in both markets. Representatives of coffee export companies were also interviewed regarding conventional coffee markets in Nicaragua. Representatives of the two major coffee export companies in Nicaragua were interviewed on three levels: regional (reception centers in coffee-producing regions), provincial (e.g. department of Matagalpa), and national (headquarters in Managua) regarding coffee prices and services provided to farmers. I also attended an international coffee conference in Managua and gathered information in several meetings and workshops arranged by coffee certifiers and cooperatives in Nicaragua.

Additionally, FLO’s economic, social, and labor standards were utilized as benchmarks against which achievements of Fair Trade were evaluated. I was interested in determining how well Fair Trade stipulated price premiums reached farmers, whether working conditions met the criteria set by Fair Trade, and how the funds provided by the Fair Trade social premium were used.

The way the Fair Trade system operates makes it complicated to assess the benefits of Fair Trade for various actors in the value chain. Most Fair Trade standards are quite abstract, including “long-term trade relationships”, although repeated sales/purchases are not required or monitored, and “democracy”, although the degree to which farmers are represented is left open. Fair Trade standards are divided into entry and progress levels rather than fixed benchmarks, which makes quantification of the impacts of Fair Trade very difficult or impossible (Raynolds, 2009). During the research process, I identified areas, which I thought were possible to examine. These included whether labor conditions in Fair Trade coffee production exceeded labor conditions in general in rural Nicaragua, the advantages of Fair Trade/organic production over just organic or conventional production as well as prices received by farmers from conventional and Fair Trade markets.
Research Methods

To investigate labor conditions of workers in coffee processing, I interviewed 62 workers at eight dry mills of coffee in Matagalpa and Las Segovias. Three of these dry mills were owned by Fair Trade certified cooperatives. These data were complemented by interviews with managers, treasurers, and technicians at these mills. The main objective of these interviews was to determine whether working conditions in Fair Trade certified processing plants differed from those in mainstream plants. I conducted interviews with workers both inside and outside the mills. In Matagalpa, I carried out most of the interviews by the roadside while workers waited for buses. This was a good location for interviews because, although buses passed by quite often, most workers waited for the cheapest buses, which passed by infrequently. The workers therefore had a lot of time for discussions. Unsurprisingly, workers interviewed outside the mills were more critical of their working place than those interviewed inside. According to these workers, visitors often come to the mill to ask about their working conditions, but they are afraid to say anything negative for fear of losing their job.

Picture 3  Workers at a coffee dry mill in Matagalpa.

Some of the early literature on Fair Trade and organic production is quite enthusiastic about the possibilities of these certification systems for small-scale farmers. Before starting fieldwork, I was under the impression that organically certified production represented a possibility for Fair Trade certified farmers to increase their income beyond that of Fair Trade production utilizing conventional methods. Most studies do not deal with this issue in detail, but only mention it in
passing. Early on during the fieldwork I noticed that despite clear price premiums received, Fair Trade/organic farmers themselves were not convinced that their chosen method of coffee production was especially advantageous. I also noticed that many Fair Trade certified farmers did not want to become organically certified but preferred conventional methods of production even when assistance in transition to organic production was offered. Many farmers, including organic farmers themselves, believed that organic methods of fertilization lead to lower yields. I noted that this is a topic that is not much discussed in Fair Trade literature and an area where I could potentially add a new angle to academic discussions on Fair Trade since a large proportion of Fair Trade certified coffee is also organically certified.

To complement the data collected in 2005–2006, I conducted follow-up interviews with 15 organic farmers and 15 of their non-organic farming neighbors during one month in 2008. Organic and non-organic farms obviously differ from each other in many respects such as altitude, soils, and skills of farmers. The selection of farms did not attempt to take these differences into consideration. An issue that was studied more carefully was cost of fertilization used by organic and non-organic farmers. This is an important issue because many organically certified farmers complained about the low yields achieved using organic methods. One possible explanation for low yields is a poor nutrition of coffee plants, which according to van der Vossen (2005) is hard to remedy using organic methods because coffee requires a relatively high amount of nutrients to provide high yields. It was therefore interesting to determine whether organic farming would be able to provide the same nutrients as non-organic farming with comparable costs, or whether organic farming is considerably more demanding in this respect in the case of Nicaraguan coffee farmers. Because fertilization is a relatively simple activity, it was also possible to compare these costs. The data acquired from farmers were complemented by interviews with organic and inorganic fertilizer producers and sellers (Article II).

To facilitate data analysis, I organized transcribed interviews and field notes by using the Atlas-Ti qualitative data analysis program. I classified the interviewed farmers according to the certifications that they possessed and their cooperative membership or lack thereof. I coded the texts by the themes covered in the interviews. This facilitated access to the materials relevant from the point of view of answering my research questions. For example, by coding all parts of the interviews that covered the Fair Trade social premium, I was able to collect all material on this topic in one place and to compare what farmers, workers and representatives of cooperatives had reported.

4.2 Research Ethics

To position myself as a researcher, I provide a brief description of my relationship to Fair Trade prior to starting this research and since then. When I was an undergraduate student in the late 1990s and early 2000s, Fair Trade started to
grow in Finland with the inception of the labeling system in 1999. Fair Trade enjoyed support among my university student friends and I, who were interested in issues of globalization, solidarity towards developing countries, and environmental questions. My Fair Trade activism was limited, but I knew several people involved with the Fair Trade national initiative in Finland. Since beginning this research, the association has been helpful in providing information, including establishing initial contacts with cooperatives and farmers in Nicaragua.

When I started to do fieldwork in Nicaragua and to study Fair Trade more closely in academic discussions, I began to notice slight discrepancies in Fair Trade rhetoric and reality. This made me change some of my views on Fair Trade. The effectiveness of Fair Trade in transforming the lives of farmers and workers seemed superior in Fair Trade promotional materials to what appeared to be taking place in Nicaragua. I became friends with several people working closely with Fair Trade and Fair Trade certified cooperatives in Nicaragua. Many people I knew therefore supported Fair Trade and made a living from it. Providing critical views on Fair Trade was not always easy because of this. However, I believe that my job as a researcher is to point out the advantages as well as the deficiencies, constraints, and obstacles of Fair Trade, and that this can help the certification system (and the movement) to improve its function, serving the best interests of all parties involved. In the end, I have been more or less comfortable reporting both positive and negative outcomes of Fair Trade. Because of some criticism offered in my research on Fair Trade, I decided to keep the cooperatives anonymous. However, I mention some cooperatives by name when reporting their positive achievements.

The research was funded by the Academy of Finland, University of Helsinki and the Ministry for Foreign Affairs of Finland. No part of the research was funded or ordered by actors directly involved in Fair Trade. I did not experience any kind of pressure from any of the funding sources for certain kinds of research results. Conflicts of interest occur when some researchers who publish academic research on Fair Trade also work as consultants for FLO or organizations closely involved in promoting Fair Trade or receive funding from them. I have not been employed or funded by organizations promoting Fair Trade.
5 Main Results

5.1 Fair Trade for Cooperatives and Farmers

Many Nicaraguan coffee cooperatives, which are now Fair Trade certified, started in the 1990s with very few resources at a time when the country suffered from the aftermath of civil war and an economic collapse. Government support to cooperatives has been minimal. Now these cooperatives have well-equipped offices, coffee processing plants, storehouses, and cupping labs, and they export a significant portion of all Nicaraguan coffee. In view of the many difficulties faced by the Nicaraguan coffee farming sector, these cooperatives have been successful. Part of this success is due to a large number of development projects, which have assisted the cooperatives. Financing for development through Fair Trade has also played a role (Raynolds et al., 2004; Bacon, 2005; Murray et al., 2006; MacDonald, 2007).

Fair Trade regulates the minimum price, a premium for social development, and an organic premium. The current prices are summarized in Table 3. The prices are regulated only at one point in the coffee value chain, when coffee is bought by importers or roasters from a Fair Trade certified cooperative. Prices are not regulated when a cooperative buys coffee from its members (farmers), when a roaster buys coffee from an importer, when a supermarket chain buys coffee from a roaster, or when a consumer buys coffee from a supermarket.

### Table 3. Fair Trade prices for washed arabica coffee (US cents/lb) (Source: FLO 2011b).

<table>
<thead>
<tr>
<th>Price Description</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair Trade minimum price</td>
<td>140</td>
</tr>
<tr>
<td>Fair Trade premium</td>
<td>20 (out of which at least 5 US cents/lb are to be invested in quality/productivity improvement)</td>
</tr>
<tr>
<td><strong>Total Fair Trade price</strong></td>
<td><strong>160</strong></td>
</tr>
<tr>
<td>Organic premium</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total Fair Trade/organic price</strong></td>
<td><strong>190</strong></td>
</tr>
</tbody>
</table>

At the level of farmer organizations, the difference between Fair Trade regulated prices and the market price in New York can be used as an indicator of price premiums received by cooperatives. As is evident from Figure 1, the price advantage Fair Trade provides (Fair Trade premium) can be quite different in different market conditions. During the historically low coffee prices in 2000–2004 Fair Trade offered a substantial advantage to producer organizations. The representatives of
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cooperatives interviewed for this study all agreed that Fair Trade was highly advantageous when the minimum price guaranteed up to two or three times the market price. Since 2004, coffee prices have been rising and the advantage provided by Fair Trade has been small. Especially between 2007 and 2013, the minimum price has been largely irrelevant because market prices have been close to or above the minimum price (ICO, 2013c). However, the minimum price can potentially guarantee a very large premium if market prices drop significantly below the minimum price (and if the minimum price is not adjusted to the new level of market prices).

![Figure 1](image)

**Figure 1** Fair Trade price (including the social premium), coffee market price (ICO indicator price for other mild arabicas), and Fair Trade premium (the price above market price offered through Fair Trade, including the social premium). The prices are daily prices from October 1st, 1998 to April 8th, 2011. Fair Trade also entails costs of certification. These costs are not taken into account here. Source data: ICO (2011a) and FLO (2007a, 2007b, and 2011a).

Although cooperatives are typically able to sell only a part of their production to Fair Trade markets, some producer organizations, especially those that had been Fair Trade certified for a long time, sold up to 80% of their production as Fair Trade certified. One interviewed cooperative leader said that before they gained
certification they were wondering “how fair is the Fair Trade market” when their neighboring cooperative could participate in it, but they could not, nor could they join the Fair Trade cooperative, which benefited from higher prices from Fair Trade/organic coffee.

The advantage that Fair Trade provides to a cooperative can vary substantially depending on the market share a cooperative can reach and the level of conventional coffee prices. The minimum price reduces price risk for producer organizations, but does not remove it completely, because cooperatives typically sell to many different markets in addition to Fair Trade. Additionally, when market prices are above the minimum price, volatility of prices is the same with or without Fair Trade certification (Articles I and IV).

Pre-financing is important for cooperatives because they have limited capital and they must buy coffee from their members before they can sell it to exporters/importers. Pre-financing to cooperatives is a requirement for buyers of Fair Trade coffee. Representatives of cooperatives had mixed experiences with pre-financing. Loans were part of the negotiations between cooperatives and the companies buying from them. In many contracts, pre-financing was not offered. When it was included, cooperatives reported that the terms were not particularly favorable for them and that they would have received loans with similar interest from elsewhere (according to Fair Trade standards, cooperatives have to pay the cost of pre-financing). On the other hand, pre-financing was also used in some contracts outside Fair Trade so it was not only a feature of Fair Trade contracts. Pre-financing is difficult to study in detail because access to purchasing contracts of cooperatives is limited.

From the point of view of farmers, it is important to consider their access to markets. The market in Nicaragua is consolidated in the sense that the two largest coffee exporters, Exportadora Atlantic and CISA, export approximately half of all coffee. However, farmers can choose between these two and a large number of other coffee buyers, and thus, coffee trade is not an oligopsony in Nicaragua. Although transportation conditions are challenging, it is usually possible for farmers to reach many different buyers. Farmers sell both to buyers whose reception centers are located closer to them in rural areas and use public transportation to reach reception centers in towns. Exportadora Atlantic and CISA have the largest networks of coffee reception centers, which are located also in relatively remote areas. Small-scale coffee farmers in Nicaragua thus do have access to markets for their coffee, but cooperative membership has enabled them to access certified coffee markets (Article II).

The prices that Fair Trade certified farmers receive depend on sales of cooperatives and costs deducted. Estimating price premiums received by Fair Trade certified farmers requires knowledge of what farmers were paid in certified cooperatives and through other market channels. Prices through various export companies change daily and there are no reliable statistics on prices paid. I received data on daily prices paid to farmers by one of the two largest export companies in Nicaragua and used this as a reference to estimate price premiums. During the years of coffee crisis in 2000–2004 successful Nicaraguan Fair Trade certified
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cooperatives were able to pay a significantly higher price for coffee to their members than the mainstream market. Particularly high prices were paid by Soppexcca, a cooperative in Jinotega, which paid its members 84 US cents/pound (lb) of green coffee (non-organic) during the coffee cycle of 2003–2004. At the same time, Exportadora Atlantic S.A., one of the largest coffee export companies in Nicaragua, paid on average 48.8 US cents/lb between 1 December 2003 and 31 March 2004, a period corresponding to the peak coffee harvest in Nicaragua. After the recovery of world market prices for coffee since 2004, there has, however, been little difference between the net prices received by producers via Fair Trade and mainstream markets. The average price of coffee paid by 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, ranging from 75.5 to 99.5 US cents/lb during the harvest. These figures indicate that if farmers were lucky in timing their sales, they were able to receive a higher price for their coffee in the mainstream market (Article I). The average net price paid to producers for Fair Trade/organic coffee in seven interviewed cooperatives was 111.1 US cents/lb in 2004–2005. The price for Fair Trade/organic coffee was clearly higher than the price for Fair Trade non-organic or conventional coffee, but the advantages from organic production are not clear-cut due to the demanding nature of organic coffee production (Article II).

Higher market prices have presented problems for Fair Trade certified cooperatives. When prices offered by other buyers have exceeded prices paid by cooperatives, members of cooperatives have sold their coffee outside the cooperative, causing the cooperatives problems in fulfilling their contracts with buyers. The problem is especially serious when cooperatives have fixed contracts several years into the future. If market prices increase, as has been experienced in recent years, fixing a sale price that seemed attractive some time ago may result in a situation where the cooperative has to buy coffee from farmers at higher prices than they can sell it to importers.

In addition to the prices, it is important to consider services provided to farmers. These could include, for example, credit, provision of agricultural inputs at favorable prices, transportation, or processing (Griffiths, 2011). In the case of coffee trade in Nicaragua, credit is especially relevant. Export companies gave credit to producers at an annual interest rate of 11%, while the studied Fair Trade certified cooperatives charged 18–22%. These interest rates are fairly modest in a developing country context and in a country where the annual inflation rate at the time was above 10% (Article I). Coffee buyers are able to offer these favorable interest rates because farmers have coffee as their collateral; the creditor expects to receive payment promptly as coffee. This arrangement also ensures that the farmer sells through the credit provider. The system is used both in conventional and Fair Trade coffee production/buying. However, Fair Trade certified cooperatives have not been able to provide their members with especially favorable credit. For many farmers, one year’s harvest is not enough to cover what they owe their creditor, and when credit is carried over to the next year the farmer is locked to same coffee buyer (Wilson, 2010). This is a disadvantage because these coffee farmers, whether Fair
Trade certified cooperative members or not, are not free to choose their association, or therefore, between the prices and services provided by different coffee buyers.

The abilities of certified coffee farmers to produce coffee differ considerably due to differences in land ownership and yields. The land area that Fair Trade certified farmers interviewed for this study had in coffee production ranged from 0.7 to 49 hectares (average 3.6 ± 2.9). The ownership of other land apart from coffee lands ranged from 0 to 49 hectares (average 9.8 ± 10.8). Based on records of cooperatives, roughly 90% of the farmers grow coffee on less than 3.5 hectares, but there is a larger variation in the farmers’ ownership of other land apart from coffee, and thus, possibilities for expansion of production vary. From the point of view of the amount of coffee produced, it is even more significant that there is large variation in the yields achieved by farmers. The interviewed farmers reported two-year average yields of productive organic coffee ranging from 131 to 1196 kg/ha (average 522 ± 233). Uncertified and Fair Trade certified farmers utilizing conventional methods reported yields from 236 to 2629 kg/ha (average 812 ± 534). These figures indicate that there is a considerable yield gap; the yields achieved by most farmers are significantly lower than the best benchmark. Large variations exist in the volume of coffee produced due to differences in land areas and yields. Although detailed data were not collected to indicate an association between higher volumes of coffee produced and improved socioeconomic situation, it is possible that the poorest farmers invest the least in their coffee production, have low yields, and produce low volumes of coffee.

As the amount of coffee produced by different Fair Trade certified farmers varies a great deal, the importance of coffee to their income also varies. If Fair Trade succeeds in its goal of increasing prices received by farmers, it is not the most marginal farmers within cooperatives who produce a very small amount of coffee who will benefit the most from this higher price, but rather farmers with larger coffee production, who are likely to be less vulnerable socioeconomically.

Although Fair Trade provides some advantages to producer organizations, at the same time, their position in Nicaragua is precarious as cooperatives have not always been able to provide as attractive terms of trade to farmers as other coffee buyers. Due to lower quality requirements, faster payments, cheaper credits, and sometimes more conveniently located coffee reception centers, many farmers in Fair Trade certified cooperatives have sold a large portion of their coffee through conventional market channels, while retaining their cooperative membership and selling some of their coffee through it (Article I).

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2 Most Fair Trade certified cooperatives switched from delayed payments to immediate payments in 2005–2006 to prevent farmers from selling to conventional markets, which offered a similar price and immediate payments.
5.2 Fair Trade Pricing and Quality Conventions

Fair Trade facilitates the marketing of product qualities that consumers would be unable to detect without the information provided by these conventions. In the case of Fair Trade, these qualities include the coffee being produced by cooperatives of small-scale farmers and subjected to standards set by Fair Trade, including regulations on labor conditions and environmental standards. Although this takes quality evaluation of coffee beyond its physical characteristics, these physical attributes seem to be quite important to those who buy coffee from Fair Trade certified cooperatives.

When farmers were asked about changes they had made in coffee production due to certification or cooperative membership, almost all respondents mentioned improving coffee quality, meaning its physical characteristics, which can be improved by careful harvesting and processing. At the same time, the interviewed farmers did not mention other quality improvements such as improved labor conditions for hired workers or enhanced environmental performance (only when coffee was organically certified were environmental advantages mentioned). Some of the qualities that Fair Trade facilitates to market do not require major changes to be made by farmers, one of them being that once they join a Fair Trade certified cooperative they fulfill the criteria that the coffee they produce originates from small-scale farmers organized in a democratically governed cooperative. Their coffee production is also environmentally quite benign, especially when it has organic certification, but even non-organic small-scale coffee production often takes place under shade trees and utilizes a limited amount of agrochemicals.

A test to determine whether, through Fair Trade, cooperatives and farmers have been able to upgrade their coffee production and successfully add value to their product by marketing various quality conventions is if they “get a better deal”, a higher coffee price, and more favorable credit arrangements compared with the alternatives. However, comparisons are complicated because Fair Trade employs various quality conventions and the price of the product depends on many attributes. This complicates the estimation of the effectiveness of Fair Trade in controlling prices at the one node where it aims to regulate them. Representatives of Nicaraguan Fair Trade certified cooperatives interviewed for this study reported that before their coffee is bought or sold they send samples to prospective buyers who taste the coffee and evaluate it for such qualities as fragrance, aroma, acidity, body, taste, and aftertaste. In the absence of quality definitions in Fair Trade price mechanisms, it remains ambiguous what proportion of the price is paid for the high physical quality of the product and what proportion for the various quality conventions that Fair Trade facilitates to market. The significance of the regulated Fair Trade price premium is diminished because buyers can require high physical quality from the product, resulting in a situation where high quality matches high price (de Janvry et al., 2010).

In 2012, FLO started to publish information on typical quality premiums for various origins and types of coffee (FLO, 2012b). Quality premium refers here to the premium typically paid for a type of coffee without certifications. FLO requires that
these quality premiums be applied to the FLO pricing system. The price is formed as follows: the minimum price (or market price, whichever is higher) + Fair Trade social premium + organic premium (if applicable) + quality premium, typically paid for a type of coffee in a geographical region. However, assessing the physical characteristics of coffee is not straightforward and the same types of coffee from the same geographical area can have variations in price depending on, for example, how well the coffee was processed. While publishing typical quality premiums may help to reach an agreement on a price that is higher than market price for a product, the price still ultimately depends on valuation of the buyer and the seller who decide how much the coffee’s characteristics are worth overall. Controlling this price formation is challenging and it is likely that in many cases market mechanisms determine the price rather than Fair Trade regulations. As McCarthy (2006: 808) has argued, alternative trade networks such as Fair Trade can be diluted as they face dynamics that are characteristic of mainstream markets, in this case, a price that depends not on Fair Trade pricing standards, but is formed through evaluations of buyers and sellers.

5.3 Social Premium and Minimum Prices

The cooperatives studied reported having used the social premium for many different purposes. Grants have been given to children of cooperative members to complete vocational education, some health services have been established, and community houses and schools have been built. Many cooperatives have used a large part of the social premium to fund improvements in their own facilities or to help meet the costs of certification. In some cases, the social premium had simply been distributed to cooperative members as cash. As numerous development programs by NGOs, international organizations, and bilateral development aid also assisted cooperatives it was complicated to estimate which programs had been funded by the Fair Trade social premium and which had received funds from elsewhere. Most farmers knew about ongoing development projects, but were unable to specify which projects were funded by the premium.

The use of the social premium is decided by cooperatives. The most vulnerable people are not in influential positions in cooperatives and the funds are not always directed to these individuals in coffee-growing communities. A cooperative manager commented to me that the farmers who produce the greatest volume of coffee argue that they have earned the greatest share of the social premium, which is tied to the volume of coffee sold as Fair Trade, and therefore, they should benefit most from it. Almost all of the interviewed farmers were unable to say how the decisions to use the social premium were made. This raises questions about whether decisions on the use the Fair Trade social premium are taken in a democratic and transparent manner as required by Fair Trade standards. Although improvements to cooperative infrastructure are important from the point of view of success in coffee markets, a more careful targeting of these funds to social needs is needed, if Fair Trade aims to remedy social problems (Article I).
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Making the social premium a percentage of the retail price of coffee would make Fair Trade pricing more transparent to different actors in the value chain. For example, consumers would then know how much they are donating to social causes when buying Fair Trade products. At the moment, the social premium is approximately 19.5 euro cents of a package of 500 grams of coffee. If the package costs six euros, the share of the social premium is approximately 3.3% of the price. Calculating this requires knowledge that is not readily accessible to consumers such as information on Fair Trade pricing to cooperatives, conversion of pounds to kilograms, conversion of dollars to euros, and knowledge of how much green coffee is needed to produce half a kilogram of roasted coffee. Instead, consumers could be informed on the package that a certain percentage of the price of this product will go to advancing social goals in producing countries. This would be relatively simple to implement because retailers already have a comparable system for the payment of sales tax. As an improvement to the present situation, the social premium would be clearly detached from coffee price. The funds could either be distributed to producer organizations deciding on their use, as the social premium functions now, or other mechanisms could be developed to target social needs.

The minimum prices can provide a considerable advantage to a cooperative if market prices drop drastically below the minimum price. However, the experiences of cooperatives interviewed for this study indicate that this is problematic from the point of view of equitable distribution of benefits from Fair Trade; some cooperatives can potentially benefit more than others depending on their sales volumes to Fair Trade markets. Similarly, farmer members of cooperatives with higher volumes of production stand to benefit more from a higher coffee price. Similar findings have been reported by other researchers in various contexts for example by Luetchford (2012:70, 71) in Costa Rica.

According to FLO, minimum prices are set on the level where costs of sustainable production are covered. However, farmer income depends on costs of the factors of production, market prices for coffee, and exchange rates, and all of these change constantly and are different in various geographical regions where coffee is produced. Because future prices are hard to predict, regardless of the level where minimum prices are set, the future significance of them relative to the costs of production and market prices are unknown to all actors in the value chain.

No adjustments were made to Fair Trade pricing for coffee from 1997 until 2006, because market prices of coffee remained low and Fair Trade prices were high in comparison. As market prices rose close to Fair Trade prices in 2005, questions arose regarding Fair Trade pricing. The response of Fair Trade to higher market prices has been to raise particularly the social premium and the premium for organic coffee.

The Fair Trade social premium was 5 US cents per pound of green coffee from the inception of the system in 1997 until 2006. It was raised to 10 US cents per pound in 2007 and 20 US cents per pound in 2011. Since 2007, the Fair Trade minimum price has been increased by 17%, while the social premium has been increased by 300%, indicating that Fair Trade has diminished the role of the minimum price and increased that of the social premium. In the case of some other
products, Fair Trade has abandoned minimum prices altogether, instead having only a social premium that is paid on top of market prices. Of the 812 products in FLO’s pricing database, 120 did not have a minimum price in 2011 (FLO, 2011b). As this study has indicated, in the case of coffee the minimum price has largely been irrelevant for years now due to its low level compared with market prices.

5.4 Participation of Cooperatives, Farmers and Workers in Fair Trade Decision-Making

Although Fair Trade involves representatives of coffee cooperatives in some deliberations on governing the certification system, for example asking their opinions during price reviews, the Fair Trade system is mostly unknown to certified farmers. Fair Trade provides consumers and other downstream actors with some information about where the coffee originates and the conditions of production, but the interviewed farmers had little knowledge about the other end of the value chain. The interviewed representatives of cooperatives believed that, similar to conventional coffee trade, Fair Trade downstream actors (roasters, export companies, retailers) have the greatest power in controlling product information. These companies have the best knowledge about the different product qualities and their value when sold to their markets. Both in conventional trade and in Fair Trade, these companies do not have to share this information with others in the value chain in any transparent manner.

The experience of cooperatives that had close ties to their coffee buyers before Fair Trade certification has been interesting in this respect. Coffee buyers have frequently visited them and provided assistance in the form of financing projects aimed at improving living conditions or coffee processing. The term “relationship coffee” has been used to describe this type of association where close ties benefit both coffee buyers and sellers. In some cases, Fair Trade certification has meant what Raynolds (2009) has called a move away from personalized trade relationships to impersonalized negotiations through certification. In other words, earlier the terms of trade were negotiated in person and were based on trust and close ties between buyers (importers, roasters, NGOs/world shops) and sellers (cooperatives), but now certification standards reduce the need for personal contacts. In terms of convention theory, to some degree there has been a move from domestic conventions (close ties) to industrial ones (certification), building relationships have been outsourced to certification systems.

Building conventions based on increased information flows between producers and consumers is challenging when buyers and sellers are far away from each other geographically but also in their way of thinking (Freidberg, 2003b). Although Fair Trade certification initiated from the wishes of coffee farmers in Mexico, and producers have representation in FLO decision-making bodies, the movement has been very much controlled by Northern actors (VanderHoff Boersma, 2009). Cooperative leaders do not regard Fair Trade as an equal partner, but as a Northern intervention, which presents ever-changing demands on them.
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Among others, VanderHoff Boersma (2009) has demanded that Fair Trade should be governed in a more democratic fashion, involving producers in decision-making more seriously. FLO decided in October 2011 to increase producer representation in its General Assembly to 50% of members (FLO, 2011c). This highest decision-making body of FLO used to be controlled by Northern actors, including representatives of national initiatives for Fair Trade and businesses. The degree to which small-scale farmers are involved in decision-making concerning Fair Trade is still questionable, as many of them do not even know they are Fair Trade certified and their understanding of the system remains very limited (Article I). Laborers in coffee processing and on coffee farms are also not represented in any deliberations on how Fair Trade should be organized, at least in Nicaragua. Additionally, the General Assembly only meets once a year. The board runs the system in practice, and it continues to be controlled by Northern actors, with only four of 14 members from producer countries (FLO, 2012c). Democratic governance of the Fair Trade system therefore continues to be a challenge.

5.5 Low-Yield Agriculture

Most small-scale coffee farmers in Nicaragua practice low-input low-yield agriculture. Almost all of the work is done by manual labor. Coffee is manually picked, selected, and processed, literally one bean at a time. Small hand-powered mills are predominantly used for de-pulping of coffee. Transportation of coffee sacks and production and transportation of fertilizers are done almost exclusively by human muscle force. As coffee is produced in a small land area with low yields, the volumes produced are small. It makes sense for cooperatives of small-scale farmers to try to capture a higher value for the small amount of coffee they produce by upgrading their products to certified markets as well as marketing the coffee, as they do, as “artisanal”.

This type of coffee farming enables farmers to produce carefully selected beans of even ripeness and careful processing, but the work is arguably time-consuming. Even if coffee receives significant price premiums due to certifications or marketing as specialty coffee from smallholders, income from a very small volume of coffee is usually too low to make investments in improving productivity. Most farmers consider even the simplest machinery, such as motorized de-pulpers, to be beyond their investment capabilities. Low investments and financial constraints of farmers may perpetuate inequalities by creating poverty traps where marginalized farmers are unable to improve their situation. During fieldwork I observed very few young people under the age of 30 to be coffee farmers or willing to continue their family’s coffee growing tradition. Most young people dreamed about life in cities and abroad or had already left rural areas.
5.6 Working Conditions of Hired Labor

Labor conditions for hired workers in coffee farming in Nicaragua are in general characterized lack of job security, fairly low wages (although these rise occasionally when there is a lot of demand for labor) and the employment of large numbers of temporary workers (Article I). Seasonal workers are hired in Fair Trade coffee production on farms, in transportation, and in coffee processing in dry mills. The wages in Fair Trade coffee production have corresponded with those prevailing widely in rural Nicaragua. Fair Trade does not require certified cooperatives or farmers to surpass local norms in this respect; the Fair Trade requirement is simply to pay wages required by law or those widely prevailing in the area, whichever is higher. During fieldwork in Nicaragua this standard seemed to have little relevance. The legal minimum wage was not very high and because there was abundant demand for labor during coffee harvest period, many employers – Fair Trade certified or not – had to surpass legal minimum wages to attract laborers.

Fair Trade standards for hired labor were renewed in 2009 after fieldwork for this study had been completed (FLO, 2009b). Compared with the old standards (FLO, 2005), the new ones are more detailed and the applicability of the various sets of labor standards to different situations is more clearly defined and includes workers on coffee farms. Earlier, it seemed to be assumed that small-scale farmers do not contract a significant number of workers, and thus, no detailed Fair Trade labor standards would be required. However, farmers have diverse labor needs. A continuum of farmers exists, from very marginal farmers, who themselves are wage workers on other farms, to farmers who hire labor seasonally while much of the work is done by the farmers and their families, to farmers who oversee the work of a large number of hired laborers (Article I). As Fair Trade certified cooperatives have grown in size and improved their coffee-processing infrastructure, they have become large employers themselves, some of them employing hundreds of workers during the harvesting season. This has made covering labor standards of workers hired by cooperatives increasingly relevant.

With the earlier standards, it was quite difficult to evaluate which standards would be applied to various situations such as seasonal or permanent labor on farms and in processing plants. While clearer and more comprehensive, some ambiguity also remains with the new standards. For example, it is left to the certifying agency to determine when the full scope of labor standards is applied: “where a significant number of workers are employed by a member of the organization, all standard requirements should be met. The focus of the compliance criteria as set by the certifier will be on the permanent workers. The certifier interprets “significant” number of workers on the basis of national labor law” (FLO 2009b:24). Loosely defined standards are good in the sense that they fit different contexts, but they also raise questions on the ability of certifications to significantly alter the way coffee is produced.

One of the improvements to FLO’s labor standards is a clearer definition of what constitutes prohibited “child labor”. Children under the age of 15 years must not be contracted to work on Fair Trade certified farms. However, the children of farmers
can work, provided this does not jeopardize their schooling, health, or well-being and the working hours are limited (FLO 2009b:26). During fieldwork it was common to see children working on Fair Trade certified farms. Coffee harvesting season in Nicaragua is a time of vacation from school precisely for the reason that children can participate in the harvest. As possibilities for daycare are limited, hired workers bring their children with them to work in coffee fields. This is not in breach of FLO labor standards because these children are not “contracted” workers. As children in rural Nicaragua do a great deal of work in any case and as coffee harvesting is not one of the worst forms of child labor, it probably does not make sense to try to prohibit this completely. Instead of communicating to consumers that Fair Trade products have been made without child labor, FLO could argue that they work to eliminate the worst forms of child labor, which would more accurately reflect their own standards and realities in production, at least in the case of Fair Trade coffee production in Nicaragua.

5.7 Advantages and Disadvantages of Fair Trade Organic Coffee Production

Small-scale coffee farms in Nicaragua are often quite well-suited for organic production in the sense that coffee is often grown under dense and diverse shade tree cover, utilizing limited inorganic inputs. This type of management is already close to meeting the requirements of organic production, and it offers numerous ecosystem services, including carbon sequestration, biodiversity protection, and water retention. Farmers also receive clear price premiums for organic coffee, and assistance from several NGOs has been available in gaining organic certification. Representatives of cooperatives with organic production interviewed for this study said that they could easily sell more Fair Trade/organically certified coffee than they produce. The supply and demand situation for Fair Trade organic coffee thus is completely different from Fair Trade non-organic coffee, where supply clearly exceeds demand and a large portion of certified coffee must be sold outside certified markets.

The main constraint in organic production is that it is widely held among farmers and extension agents in cooperatives that yields in organic production are lower than what can be achieved using conventional methods. There are large numbers of both organic and non-organic farmers in Fair Trade certified cooperatives who only produce around 300 kg of coffee/ha. Although farms differ from each other in many respects (soils, altitude, skills of farmers, density of planting, etc.), comparing yields on different farms can give an idea about the level of yields possible to attain in Northern Nicaragua. Compared with the modest 300 kg of coffee/ha, other farmers have reached three times higher yields in organic production and eight times higher yields with conventional methods (Article II). Organic production can increase yields in cases where the starting level is very low and a farmer moves from no fertilization to organic fertilization. However, organic production usually decreases yields when farmers move from higher intensity
conventional production to organic methods. These farmers reported yield decreases of approximately one-third. Organic certification seemed to be less common in the best coffee-producing areas with the highest yields because farmers were unwilling to jeopardize high yields.

Because organic farmers reported decreases in yields after transition to organic production and because many small-scale coffee farmers produce a small amount of coffee, it is important to determine whether higher yields are possible using organic methods. One way to approach this problem is to compare the cost and feasibility of organic versus inorganic fertilization. The results of this study indicate that organic fertilization can be less expensive when large volumes of organic materials, such as cow manure and coffee pulp, are available near the farm. Although this is not the case with all coffee farms, many small-scale farms can be fertilized with these materials because they have coffee-growing and cattle-farming neighbors. However, although careful recycling of these nutrients makes sense and leads to general improvements in soils, organic fertilization is less effective in providing nutrients for crop growth; when the same amount of nutrients is provided with organic and inorganic methods, the crop plants absorb a larger share of the inorganic fertilizers because nutrients are released immediately, enabling timing the availability of nutrients to the fastest growing season of crop plants, while organic fertilizers release their nutrients slowly and not necessarily when they are needed (Berry et al., 2002). Also the dense shade-tree cover, which is required in organic production, may partly explain why yields above 1200 kg/ha were missing among the organically certified producers studied. In very densely shaded coffee, the reduced amount of light decreases yields (Article II).

Premiums from Fair Trade/organic coffee to farmers have been significantly higher when market prices have been low. In the cooperatives studied, the price premium for Fair Trade/organic coffee was on average 30.5% in 2005 and 7.6% in 2008 (Article II). Because Fair Trade organic production does provide clear price premiums to farmers compared with conventional coffee, Fair Trade organic production raises farmer income when low-intensity organic farming is an alternative to low-intensity conventional farming. However, low-intensity farming produces very little coffee in the case of farmers who grow coffee in a small land area, keeping the incomes from coffee production very small. With higher intensities of management, comparing advantages of organic versus conventional management is complicated because lower yields in organic production must be taken into consideration, but it is hard to estimate how much lower the yields are than they would have been using conventional management.

The Fair Trade price for organic coffee has not been extraordinarily high for high-quality Central American arabicas. Particularly during higher market prices, producer organizations have received similar prices for organic coffee without Fair Trade certification. In some cases, producer organizations first had organic certification and had to acquire Fair Trade certification due to its popularity among consumers, and thus, Fair Trade represented a condition for market entry rather than upgrading because this did not raise prices for them compared with the prices they had received previously from organic coffee without Fair Trade certification.
However, if market prices of coffee are low and coffee is not of high physical quality, Fair Trade can increase its price.

FLO raised the organic premium from 15 US cents per pound in 2007 and 30 US cents in 2011. This 100% increase in organic premium is significant, but it indicates more a reaction to higher market prices rather than the ability of FLO to control prices. This is evident in Figure 1, which indicates that these price increases followed increases in market prices. As an example of the recent dramatic increases in coffee prices, in one Fair Trade/organically certified cooperative in Nicaragua the price paid to farmers for coffee more than doubled from 110 US cents per pound in 2004/2005 to 250 US cents per pound in 2010/2011 (Pedro Rojas, personal communication on October 24th, 2011).

Fair Trade/organic production has been advantageous to some farmers, especially during low market prices for coffee when the price premiums have been high, but the advantages are not clear-cut in all situations due to lower price premiums when market prices are high and due to lower yields compared with those that can be achieved using higher intensity conventional methods.

5.8 Distribution of Benefits from Fair Trade in the Coffee Value Chain from Nicaraguan Farmers to Finnish Consumers

Roasters, retailers, and brand owners exercise a high degree of control in value chains (Gereffi and Korzeniewicz, 1994; Daviron and Ponte, 2005; Gereffi et al., 2005). In view of this, it is important to consider whether Fair Trade can alter this situation in favor of upstream actors. The results of our analysis on the distribution of benefits between various actors in coffee trade in Nicaragua and Finland indicate that consumers paid considerably more for Fair Trade certified coffee than for the other available alternatives (Article III). Although Fair Trade provided price premiums to producer organizations, a larger share of the retail prices remained in the consuming country relative to conventional coffee trade. Paradoxically, along with the certified farmers and cooperatives, Fair Trade empowers roasters and retailers. The premiums paid by Fair Trade consumers largely remain in Finland, and thus, are inefficiently transferred to producer countries.

According to our estimation per package of coffee, approximately 15 euro cents more reached the producing country in 2006, while Fair Trade license fee in Finland and the cost of certification in the producing country were 13 euro cents per package of coffee. Consumers therefore paid almost as much for the administration of the Fair Trade system as they “donated” to producing countries in addition to giving retailers and/or roasters more than in conventional coffee trade. The administration of the Fair Trade system performs an important function, but the system could be more transparent in how much it benefits various actors in the value chain. Although Fair Trade regulates prices paid to producer organizations and requires transparency from them in documenting sales prices and costs of cooperatives, it does not regulate retail prices, nor does it require retailers or other actors in the
value chain to reveal their profit margins. One cooperative leader in Nicaragua complained that the transparency of the Fair Trade system ends when the truck loaded with coffee leaves their cooperative; after that the cooperative and the farmers do not know what happens to the coffee and who benefits from its sales and how much. McMurtry (2009:35) puts it this way: “The question then emerges why it is the producers in the economic South who have to conform to an externally imposed regime of monitoring while the often-questionable economic practices of distributors in the economic North are not subject to any parallel process.”

Several researchers have reported that the share farmers receive from retail prices of coffee has declined, and this indicates the consolidation of power in the hands of retailers. At the same time, others report that retailers frequently sell coffee with negative margins to attract customers, which certainly often is the case in Finland (Talbot, 1997; Daviron and Ponte, 2005: 76; Article III). While it may be true that retailers have considerable power in food markets in general, selling conventional coffee for negative margins does not appear to wield exceptional power in the value chain. However, it appears that Fair Trade does provide retailers with exceptional power because it enables them to segment customers to buyers who are willing to pay a higher price for the content provided by the certification.

Prices that are higher than market prices generally cause problems of oversupply. The International Coffee Agreement attempted to solve this problem by allocating production quotas for producing countries, which in turn sold export licenses to farmers and export companies. Fair Trade production is limited mainly through two mechanisms. First, Fair Trade production has a barrier to entry – certification – with a restricted number of producer organizations being certified (Guthman, 2007). Second, among the certified producer organizations, supply of non-organically certified Fair Trade coffee exceeds demand. The Fair Trade system gives traders, mostly export companies and roasters, who source green coffee, considerable power in deciding who sells to Fair Trade markets, as they are free to choose their suppliers amongst the certified producers. “Production quotas” therefore are distributed by coffee traders, whose coffee sourcing among certified producers is not regulated by the Fair Trade system. It is questionable how well Fair Trade empowers marginal producers in the value chain of coffee when those cooperatives with the longest involvement in Fair Trade markets that are able to provide high-quality coffee are the ones that are the major suppliers of Fair Trade coffee instead of the most marginalized cooperatives and farmers (Article III).
6 Conclusion

Fair Trade attempts to regulate markets in favor of the less powerful, such as small-scale farmers, their organizations, and laborers in developing countries, involving them in the governance of coffee value chains in establishing norms for conditions of production. In the case of cooperatives, farmers, and workers in Nicaragua, Fair Trade has provided some advantages, especially to cooperatives, and improvements through development projects it has financed. However, Fair Trade has brought limited possibilities for farmers or workers to participate in deliberations on altering production conditions. Although Fair Trade has been designed to offer an alternative to conventional trade, it re-creates some of the power relationships that exist in conventional trade, and therefore, Fair Trade has a limited ability to build more relational value chains, where there is close dialogue between more equal partners in trade and where coffee producers create and control value that is embedded in coffee quality. Based on experiences of farmers and representatives of cooperatives in Nicaragua, Fair Trade still seems to suffer from implementation of its system in a top-down manner. Although democratically governed NGOs in Northern civil societies may be active in promoting Fair Trade and participate in creating regulation of coffee trade, involving farmers and workers in Fair Trade governance is impeded by a weak institutional context where farmer and worker organizations suffer from limitations in their operation. In involving different actors in value chain governance, Fair Trade may be better serving the needs of downstream actors in the North rather than its intended beneficiaries, the upstream actors in the South.

This study has highlighted some of the challenges involved in establishing minimum prices and questioned how well minimum prices can improve the position of upstream actors in the coffee value chain. This study has also paid attention to the situation of hired workers on coffee farms and in coffee processing, arguing that they should be involved in governing Fair Trade and targeted more clearly as beneficiaries of Fair Trade. Fair Trade would probably benefit from focusing more on social issues, such as assistance to vulnerable members of cooperatives, hired labor, and coffee farming communities in general, and paying less attention to attempts to control coffee prices, which involves many practical challenges as well as issues in equitable distribution of benefits. In this respect, Fair Trade would benefit from lessons learned during earlier decades when the International Coffee Agreements attempted controlling prices, especially how controlling prices became increasingly difficult in a more globalized world.

The findings of this research echo those of other studies on Fair Trade coffee in concluding that the system is inefficient in transferring income from Northern consumers to Southern farmers. Inequalities in the distribution value creation are higher in Fair Trade coffee than in conventional coffee, implying that in Fair Trade value chains the control of information on production processes brings limited benefits to its intended beneficiaries in the global South (Zehner, 2002; Mendoza
Fair Trade presents many opportunities for future research. Most research has been done on coffee production, but Fair Trade continues to expand to other products. Remarkably little research has been done so far on labor conditions in the production of various Fair Trade goods, many of which are produced on large farms employing hundreds of workers. Fair Trade labor standards have also evolved. Although this research suggests that the ability of Fair Trade to provide improved working conditions for hired labor is limited, it will be interesting to see whether the new standards result in changes to workers’ conditions.

The higher representation of producer organizations in the FLO board presents interesting questions about how the movement might change as a result. Fair Trade USA (formerly known as Transfair) split away from FLO in the fall of 2011. Fair Trade USA received 6.7 million USD in licensing fees from sales of Fair Trade products in 2010. The same year, it paid 1.5 million USD to FLO. Fair Trade USA resented that it had to pay such a large amount for its membership, but had limited influence in governing the system, which is headquartered in Germany (Neuman, 2011). In a further complication for producers, consumers, and researchers of Fair Trade, there are now two large Fair Trade organizations, which overlap in their operations in both producing and consuming countries (in the latter, at least in the US). Fair Trade USA continues to respect FLO’s Fair Trade standards, but aims to create standards of its own as well, duplicating standard setting, certification, and implementation. One of the changes implemented by Fair Trade USA is that it no longer restricts Fair Trade coffee certification to cooperatives of small-scale farmers, but makes certification open to all coffee producers regardless of their size or involvement in cooperatives. This gives more flexibility to companies sourcing Fair Trade coffee, enabling rapid expansion of Fair Trade in the US market, and makes Fair Trade certification accessible to more farmers, but this Fair Trade model no longer favors cooperatives over other coffee producers (Fair Trade USA, 2011). This is remarkable in view of the findings of this thesis, which suggest that if Fair Trade offers some alternative to conventional coffee production and trade, it is that it has supported and provided financing for developing cooperatives.

Upgrading through Fair Trade and organic certification can function to some degree as a buffer against low coffee prices in the future. As argued by Beuchelt and Zeller (2013), from the point of view of improving the situation of small-scale coffee farmers in Nicaragua what makes more of a difference as an upgrading strategy is if cooperatives and farms can improve their operations to become well-managed rather than if they are able to acquire certifications and sell their coffee as certified. Fair Trade and various development projects have played roles in financing the development of cooperatives and farms, but much remains to be achieved. Many farmers are currently greatly indebted. Cooperatives are indebted or have limited capital reserves, which are sorely needed just to maintain their basic operation of buying coffee from their members. Many farmers produce low volumes of coffee
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providing very little income whether their coffee is certified or not. Stronger cooperatives and better-managed farms would be more likely to survive any future crises such as adverse weather conditions, coffee diseases, or low coffee prices. Beuchelt and Zeller (2013) propose that cooperatives build up their reserves in a process that is made transparent to members so that they understand that their shares are increasing. They also suggest an obligatory annual external auditing of cooperatives to avoid mismanagement and corruption. These actions would improve cooperatives’ creditworthiness to banks, reducing interest rates and improving access to credit. In the future, Fair Trade could play a role in these issues by, for example, financing extension services, external auditing of cooperatives, and creation of credit funds.

Regulating globalization through private authority, consumer choice, corporate responsibility, and marketing of civic content of products places a great deal of responsibility on actors with limited experience in altering conditions of production in developing countries. Actors participating in governing certification systems, such as Fair Trade, are searching for their roles in regulating conditions of production and trade. Fair Trade has taken upon itself multiple roles in improving the situation of farmers and their organizations, regulating price floors and credit to producer organizations, setting standards for labor conditions, and other norms for production and providing financing for development of producer organizations, farms, and social conditions in coffee-growing communities. Many challenges remain in these tasks, providing opportunities also for researchers to continue finding out how Fair Trade can alter conditions of production and trade.
References


Conclusion


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