



Analysis

Fair Trade organic coffee production in Nicaragua – Sustainable development or a poverty trap?

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ABSTRACT

This article assesses the impact of Fair Trade organic coffee production on the well-being of small-scale farmers in Nicaragua. Studying the results of organic management is crucial for evaluating the advantages of Fair Trade because approximately half of all Fair Trade coffee is also organically certified. A wide range of farmers, representatives of cooperatives and export companies in Nicaragua were interviewed during seven months of field work between 2005 and 2008. 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 the most marginalized farmers, keeping these farmers in poverty. With higher intensities of management, the economic advantages of Fair Trade organic production largely depend on prices in the mainstream market.

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1. Introduction

Many coffee farmers started a transition to organic production during the recent coffee price slump in the international markets in 2000–2004, encouraged by the growth of certified coffee markets, low prices in mainstream markets and assistance from development projects. The impact of organic production on farmer welfare is an important issue since organic coffee production has been suggested to lower yields and farmer income compared with what can be achieved using conventional methods (van der Vossen, 2005). Globally, approximately half of Fair Trade coffee is also organically certified and vice versa.¹ Despite this substantial overlapping of the two certification schemes, most studies on Fair Trade do not analyze the economic viability of organic coffee production² or the advantages conferred by Fair Trade compared with organic certification alone. Although studies have stated that farmers receive price premiums for Fair Trade organic coffee (Bacon, 2005; Daviron and Ponte, 2005), the impact of certification on farmer welfare is a complex issue because production intensities, yields, production costs and coffee prices vary widely both in conventional and organic production. The aim of this study was to evaluate the viability and advantages of Fair Trade organic coffee

production and trade in the case of the Nicaraguan small-scale farmers. The following issues were studied: 1) yields in organic and conventional production, 2) costs of production, comparing especially the costs of organic and inorganic fertilization, 3) price premiums received by cooperatives and farmers for Fair Trade organic coffee, and 4) farmer income from Fair Trade organic and conventional coffee production.

Organic coffee production has multiple potential environmental benefits. Organic standards require coffee farms to have a structurally and floristically diverse shade cover (e.g. OCIA, Organic Crop Improvement Association International, Inc., 2005). Organic coffee farms thus provide environmental services that resemble those provided by forests (Bacon et al., 2008a: 338–339). As coffee farms are located in some of the biologically most diverse and most threatened environments in the world, their role as refuges for wildlife is important (Moguel and Toledo, 1999). Coffee fields store carbon from the atmosphere and protect watersheds by slowing down run-off. Organic coffee production also replaces inorganic fertilizers with organic fertilizers as well as pesticides and fungicides with less harmful alternatives and prohibits genetically modified organisms (OCIA, Organic Crop Improvement Association International, Inc., 2005; IFOAM, International Federation of Organic Agriculture Movements 2007). More shade trees and low-intensity farming methods, however, also imply lower yields (Perfecto et al., 2005), which is problematic from the point of view of rural poverty. On a global scale, population and economic growth associated with changing eating habits, limited arable land and biofuel production create pressures to agricultural intensification. A central question for sustainable agriculture is how production can be intensified without causing serious damage to the environment (Tinker, 1997; Pretty et al., 2003).

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¹ The global organic and Fair Trade coffee markets are small, but rapidly growing. Organic coffee sales worldwide were 67,000 MT in 2006, representing approximately 0.9% of global coffee production. There was a 56% increase in global organic coffee sales from 2003 to 2006. Fair Trade coffee sales almost tripled from 2004 to 2007, from 24,000 t to 62,000 t, representing approximately 0.9% of global coffee consumption (UNCTAD/WTO, 2008).

² Exceptions include Calo and Wise (2005) and Martínez-Torres (2008).

Low-intensity small-scale coffee production needs to be analyzed against the backdrop of recent changes in coffee production and trade. There has been a downward trend in coffee prices in recent decades. The reasons for decreasing prices include the collapse of the International Coffee Agreement (ICA) and its production quotas, increased productivity through high-yield coffee varieties, “technification” (higher intensity farming) and some mechanization of production, as well as improved roasting techniques, which have enabled roasters to use larger shares of cheaper to produce Robusta coffee in their blends (Ponte, 2002; Gilbert, 2006). Fair Trade originated in response to declining and volatile coffee prices. It has grown into a certification system covering a wide range of products. In the case of coffee, Fair Trade aims to support democratically organized cooperatives of small-scale farmers in developing countries through payment of minimum prices, premiums for social development, improved labour rights and long-term trading relationships (Muradian and Pelupessy, 2005; Raynolds et al., 2007).

Fair Trade does not require organic production, but encourages farmers “to work towards organic practices where socially and economically practical” (FLO, Fairtrade Labelling Organizations International, 2007a: 6). To be able to sell their coffee as Fair Trade certified, there is a pressure on producer organizations to produce organically. When Fair Trade coffee is not organically certified, there is a structural mismatch of supply and demand. As a result, certified producer organizations typically sell only a small percentage of their non-organic coffee to Fair Trade markets (Muradian and Pelupessy, 2005; Bacon et al., 2008a: 344; Valkila and Nygren, 2009). The supply and demand situation is completely different for Fair Trade organic markets. Demand for organic products is high and supply is limited because gaining organic certification is demanding and organic producers forego potential higher yields that can be achieved using inorganic fertilizers. This article analyzes the possibilities of Fair Trade organic production and trade to improve the well-being of small-scale coffee farmers and their labourers while protecting the environment through organic production in the challenging global context of decreasing commodity prices.

The paper is structured as follows: Section 2 presents methods utilized in this study. Section 3 analyzes reasons for variations in intensities of coffee production in Nicaragua and responses of Fair Trade and organic movements to low-intensity production. Section 4 analyzes costs of organic and inorganic fertilization. Section 5 compares Fair Trade organic coffee prices with prices in conventional markets. Section 6 compares profitability of low- and medium-intensity Fair Trade organic and conventional coffee production in Nicaragua. Section 7 concludes.

2. Methods

This study is based on seven months of field work in Nicaragua. Semi-structured interviews were carried out with a wide range of coffee farmers, administrators and technicians of cooperatives, representatives of coffee export companies, governmental and non-governmental organizations working with coffee production and certification agencies. In March 2005, initial interviews were made with representatives of farmers, cooperatives, coffee export companies and Fair Trade Labelling Organizations in Central America. From September 2005 to February 2006 a total of 120 farmers were interviewed. Of these farmers 55 were Fair Trade and organically certified, 16 were organically certified, 39 were Fair Trade non-organic farmers and 10 were uncertified farmers. The interviewed certified farmers were from 11 cooperatives and unions of cooperatives in Boaco, Matagalpa, Jinotega and Las Segovias in Northern Nicaragua.

The cooperatives provided information of their members, such as the number of members, their location, types of coffee produced and yields. The farmers were selected based on the criteria that in each cooperative both larger (>3.5 ha) and smaller (<3.5 ha) producers,

organically certified and non-organic producers, and when possible, men and women would be represented. The main topics discussed in the interviews were coffee production, income and costs, terms and channels of sales, hired labour and their working conditions, cooperative services, transition to organic production and experiences with conventional and organic production. Most producers were interviewed on their farm during coffee harvesting season. This enabled observations on coffee farming techniques and various stages of coffee harvesting and processing. The farmers also showed their documents for coffee sales, certification and farm management.

Although the number of uncertified farmers interviewed was limited, information regarding conventional coffee production was complemented from a variety of other sources. Observations on conventional coffee production and trade were made throughout the field work when visiting farms and informal discussions with conventional farmers and their workers. Information on coffee markets outside certified cooperatives was received from coffee export companies, interviews with the staff of coffee reception centres, representatives of organizations promoting coffee production and certified farmers, who typically sold part of their coffee in conventional markets.

During one month in 2008, follow-up interviews were made with 15 organic farmers and 15 of their non-organic farming neighbours. The main objective of this field work period was to compare the methods used by these farmers to fertilize coffee. The data were complemented by interviews of organic and inorganic fertilizer producers and sellers. The interviews were recorded and transcribed. To facilitate data analysis, the transcribed interviews together with field notes were organized by utilizing the Atlas-Ti qualitative data analysis program.

3. Low- and high-intensity organic and non-organic coffee production in Nicaragua

Organic coffee represents only 4–5% of Nicaragua’s coffee exports, but it is a large part of coffee produced by small-scale farmers organized in cooperatives, most of which are also Fair Trade certified. Approximately 38% of the 10.7 million kg of coffee produced by the over 9000 members of the umbrella organization for Nicaraguan coffee cooperatives, Cafenica, was organically certified in 2007 (Cafenica, 2007:4). There are approximately 48,000 coffee farms in Nicaragua, 80% of which are micro-producers with less than 3.5 ha of coffee. Despite the vast number of micro-producers, farms larger than 3.5 ha produce more than 85% of the coffee harvest in Nicaragua due to significantly higher intensity of management and the associated higher yields that are typical of larger farms (Flores et al., 2002: Annex).

Small-scale coffee farmers have made the transition to organic farming with assistance from development projects implemented by organizations such as CLUSA (Cooperative League United States of America), ADDAC (Asociación para la diversificación y desarrollo agrícola comunal), Campesino a Campesino and Solidarity. These organizations have helped farmers become certified by providing training and financing, by organizing producers in cooperatives and by finding markets for organically certified products. Receiving organic certification is a three-year process, requiring considerable commitment from farmers long before coffee can be sold as certified. Without the support of cooperatives and development organizations, it would be practically impossible for small-scale coffee farmers to acquire organic certification due to the high cost of certifying individual small farmers in Nicaragua and the non-existence of organic trade channels for small producers outside the cooperative membership. Fair Trade certification is only available to cooperatives of small-scale farmers. Therefore, for a small-scale farmer to be Fair Trade and organically certified, a cooperative membership is mandatory.

There is a high variation in coffee yields in Nicaragua. A continuum of farms exists from low-input/low yields to high input/high yields. Small-scale farmers in conditions of rural poverty often grow

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