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Postprint / Postprint

Zeitschriftenartikel / journal article

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### Empfohlene Zitierung / Suggested Citation:

Valkila, J., & Nygren, A. (2009). Impacts of fair trade certification on coffee farmers, cooperatives, and laborers in Nicaragua. *Agriculture and Human Values*, 27(3), 321-333. <https://doi.org/10.1007/s10460-009-9208-7>

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# **Impacts of fair trade certification on coffee farmers, cooperatives, and laborers in Nicaragua**

**Joni Valkila • Anja Nygren**

Accepted: 5 January 2009

**Abstract** This paper analyzes the possibilities and challenges of Fair Trade certification as a movement seeking to improve the well-being of small-scale coffee growers and coffee laborers in the global South. Six months of fieldwork was conducted in 2005–2006 to study the roles of a wide range of farmers, laborers, cooperative administrators, and export companies in Fair Trade coffee production and trade in Nicaragua. The results of our evaluation of the ability of Fair Trade to meet its objectives indicate that Fair Trade’s opportunities to provide a significant price premium for participating farmers largely depend on world coffee prices in mainstream markets. While Fair Trade has promoted premiums for social development for participating producers and strengthened the institutional capacities of the cooperatives involved, its ability to enhance significantly the working conditions of hired coffee laborers remains limited.

**Key words** Certification · Coffee cooperatives · Fair Trade · Labor conditions · Nicaragua, producers · Social premium

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## **Introduction**

In recent decades, a rapid proliferation of different coffee certification initiatives seeking to advance environmentally friendly and socially responsible systems of coffee production and trade has occurred. Fair Trade is a certification scheme that attempts to build an alternative trade network between the global North and South by linking socially and environmentally conscious consumers in the North with disadvantaged producers engaged in socially and environmentally sustainable agriculture in the South (Murray et al. 2006; Renard 2003). Fair Trade has the strongest standards of social justice among the major coffee certification schemes, with goals to support democratic producer organizations, ensure payment of minimum prices, provide premiums for social development, improve labor rights, and facilitate long-term trading relationships (Muradian and Pelupessy 2005; Raynolds, Murray, and Heller 2007).<sup>1</sup>

Among the Fair Trade certified products, coffee is the best-established item. Currently, 231 producer groups are certified by Fairtrade Labeling Organizations International (FLO), representing more than 50% of the FLO-certified producer groups (FLO 2007a; FLO-Cert 2007).

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<sup>1</sup> The most important third-party certification schemes in the coffee sector are Fair Trade, Organic, Rainforest Alliance, Utz Certified, and Shade-Grown/Bird-Friendly. For comparisons between different certification schemes, see Muradian and Pelupessy (2005) and Raynolds, Murray, and Heller (2007).

Coffee is also a commodity with a strong South-North production-trade flow, as practically all of the world's coffee is produced in the South, while coffee trade and consumption are largely dominated by the North (Taylor 2005). About 78% of Fair Trade certified coffee comes from Latin America, with Mexico, Peru, Guatemala, Colombia, and Nicaragua being the largest exporters.<sup>2</sup> To be Fair Trade certified, coffee producers' operations must be small-scale and organized into democratic associations to ensure that the farmers and workers involved share the advantages of Fair Trade (FLO 2007b). Critical issues are the extent to which Southern coffee producers and laborers are able to benefit from Fair Trade certification and under what conditions.

In this paper, we analyze how Fair Trade's economic, social, and labor standards for coffee producers, producer organizations, and their workers have been implemented in Nicaragua, the poorest country among the major suppliers of Fair Trade coffee. In recent years, a rich body of literature has emerged on global coffee businesses analyzing the coffee value chain (Ponte 2002; Ponte and Gibbon 2005; Talbot 2004) and the role of certifications within the changing coffee markets (Daviron and Ponte 2005; Fridell 2007; Nicholls and Opal 2005; Reynolds, Murray, and Wilkinson 2007; Renard 2005). However, as Murray et al. (2006, p. 182) and Utting-Chamorro (2005, p. 586) have pointed out, thorough analyses of the opportunities and constraints faced by small coffee producers and laborers concerning Fair Trade are relatively scarce.

The main aim of our study was to examine the benefits that Nicaraguan coffee growers, cooperatives, and their workers have received from Fair Trade certification as well as the constraints faced by Fair Trade in endeavoring to meet their needs. Our analysis focuses on the FLO standards on economic, social, and labor conditions, including: (1) price premium, (2) market access, (3) credit, (4) participation and democracy, (5) premium for social development, (6) conditions of employment, (7) child labor, (8) freedom of association and collective bargaining, and (9) occupational health and safety. Of these criteria, particular attention was paid to labor standards, as few empirical studies exist on working conditions in certified production systems.

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<sup>2</sup> Information provided by Guillermo Denaux, FLO, through email communication with the corresponding author, on September 24, 2007. About 61% of the global Fair Trade-labeled coffee was sold in 2004–2005 in Europe, 38% in USA and Canada, and less than 1% in Japan, Australia, and New Zealand (FLO 2007a).

Earlier research has suggested that Fair Trade improves the producers' resilience to adverse shocks, reduces livelihood vulnerability, and improves organizational skills of small coffee producers, laborers, and their associations (Bacon 2005; MacDonald 2007; Murray et al. 2006; Reynolds et al. 2004). However, certification schemes, including Fair Trade, have been criticized for increasing Southern producers' dependency on third party-verified certifiers and on socially conscious Northern consumers (Freidberg 2003; Mendoza and Bastiaensen 2003; Mutersbaugh 2005). Concern has also been raised regarding the current mainstreaming of Fair Trade, with increasing amounts of certified coffee being sold in mainstream markets. According to several researchers, this may impair Fair Trade's ability to empower marginalized producers and to transform the power asymmetries prevalent in conventional coffee trade (Daviron and Ponte 2005; Guthman 2007; Renard 2005; Taylor 2005).

In the following analysis, we use FLO's economic, social, and labor standards, together with mainstream coffee trade and working conditions in rural Nicaragua, as benchmarks against which the achievements of Fair Trade are evaluated. Our examination is guided by the hypothesis that Fair Trade has benefited the farmers and workers involved, although the issues related to the benefits of Fair Trade are complex, and thus, these benefits cannot be taken for granted. By analyzing the relationships between Fair Trade, livelihoods, well-being, and labor rights, our study aims to contribute to better understanding of the potential and limitations of Fair Trade to provide a long-term strategy of livelihood enhancement among Southern coffee growers and laborers.

The article is structured as follows: Section 2 presents theoretical approaches important for understanding the role of certifications within the changing coffee business; Section 3 introduces the context in which Nicaraguan coffee producers and laborers operate and the methods utilized in the study; Section 4 analyzes the price premium, market access, and credit mechanisms related to Fair Trade; Section 5 explores the impacts of Fair Trade on participation and democracy among coffee farmers and cooperatives, paying special attention to social premium for development; Section 6 analyzes the working conditions on Nicaraguan coffee farms and processing plants; and Section 7 provides general conclusions concerning the possibilities and the challenges of Fair Trade in improving the living conditions of coffee farmers and laborers in the global South.

## **Theoretical frame work: Fair Trade, value chains, and civic conventions**

Within the last two decades, an increasing number of scholars have studied the changing structures of global coffee production and trade from the perspective of a global value chain approach.<sup>3</sup> As employed by sociologists, political economists, and other researchers interested in institutions, value chain analysis explores the movement of a specific good or service from producers to end-consumers, focusing especially on the power relationships between suppliers and buyers.<sup>4</sup> Recently, value chain analysis has been enriched by increasing attention paid to the impacts of external actors and institutions, such as certification schemes, on the governance structures of the value chains and the allocation of resources and gains within the chains (Muradian and Pelupessy 2005; Ponte and Gibbon 2005; Raynolds, Murray, and Wilkinson 2007; Taylor 2005).

Several studies of global value chains have highlighted the shifting nature of corporate control in the global economy of coffee and other agricultural commodities (Barrientos and Smith 2007; Gereffi et al. 2005; Talbot 2004). According to Ponte and Gibbon (2005), the value chains of coffee have become increasingly “buyer-driven” due to weakened state regulation and disintegration of international conventions, such as the International Coffee Agreement (ICA) in 1989. The growing liberalization of the global coffee industry has increased the power of large corporate roasters to govern the conditions within their supply chains, with the result of ever-smaller percentages of the final retail value of coffee reaching producers in the South. After the fall of ICA, coffee producers’ share of the final retail price dropped from 20% in 1989–1990 to 13% in 1994–1995, and below 10% in the early 2000s (Mendoza and Bastiaensen 2003, pp. 37–

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<sup>3</sup> Some researchers use the term “commodity chain approach” or “commodity network approach,” instead of “value chain approach.” These approaches often overlap with one another, and distinctions between them are not clear-cut. In recent years, the concept of “value chain” has gained increasing popularity, as it is thought to better capture a wide variety of products, some of which lack “commodity” features (Ponte and Gibbon 2005, p. 23). For similarities and differences between the value chain and commodity chain/network approaches, see e.g., Gereffi et al. (2005), Ponte and Gibbon (2005), Raynolds (2004), and Taylor (2005).

<sup>4</sup> Value chain analysis derives from industrial organization and business studies, where the main focus has been on how individual firms can improve their competitiveness by better coordinating their activities. As opposed to political economy studies, these business-oriented value chain analyses have paid limited attention to the institutional context or the power relations in which the value chains are embedded (Taylor 2005).

38; Talbot 1997, pp. 65–67).

At the same time, increasing consumer interest in issues of quality, health, environment, and social sustainability has created growing markets for different kinds of specialty coffees, such as gourmet, Fair Trade, and organic coffees (Bacon 2005; Ponte 2002). Of these specialty coffee segments, Fair Trade has attempted to explicitly transform the institutional arrangements of the global coffee business by developing strategies for improving the well-being of Southern coffee producers and laborers (MacDonald 2007). Initially, the Fair Trade movement operated in an alternative niche market, where specialized roasting companies sourced coffee directly from small producer organizations. However, in recent years, Fair Trade has grown into a certification scheme, with expanded conventional market bases directed toward mainstream consumers (Murray and Reynolds 2007, p. 5). In this study, we examine the extent to which Fair Trade certification has favored the position of Southern coffee growers and laborers within the global coffee business where diverse actors, such as producers, processors, roaster-distributors, retailers, and consumers, negotiate over the costs and benefits of Fair Trade, albeit with differing access to control and power.

Based on the concept that Fair Trade aims to promote alternative ideas of quality, we were also interested in combining ideas developed in the recent convention theory about “quality conventions” in our analysis of Fair Trade and its impacts on coffee producers and workers. According to the convention approach, there is no universal understanding of quality; different actors evaluate quality in different ways, depending on the conventions employed (Murdoch et al. 2000). In recent years, several quality standard systems and certification schemes, including Fair Trade, have put an increasing focus on civic conventions based on general societal values (Muradian and Pelupessy 2005). Characteristic of these initiatives is the encouragement of ethics-based quality definitions and the emphasis on social and environmental responsibility of business operations over the traditional market and industrial conventions, such as price or volume of production (Barham 2002).

These quality standard systems have also begun to pay increasing attention to production and process methods, rather than the product itself, in their definitions of quality (Ponte and Gibbon 2005, p. 2). While coffee has been traditionally distinguished mainly by product standards related to the cleanliness of the beans and the taste of the brewed coffee, nowadays the negotiations over coffee quality include an array of process standards related to the conditions

under which coffee is produced and traded (Raynolds et al. 2004; Raynolds, Murray, and Heller 2007). These may include, for example, domestic conventions that focus on the authenticity of origin and location-specificity, or civic conventions that refer to environmental and social sustainability of coffee production and processing. The latter is characteristic of Fair Trade, where NGOs and consumers require more information not only on the intrinsic characteristics of coffee, but on the ethical, environmental, and socioeconomic aspects of coffee production and processing, such as fair prices for producers and decent labor conditions (Barrientos and Dolan 2006; Goodman 2003).

According to the Fair Trade's mission statement, Fair Trade aims to elevate the socioeconomic conditions of coffee production by requiring that coffee is produced by democratically organized cooperatives of small farmers, with transparent procedures of decision-making. To reduce producers' vulnerability to volatile coffee prices, Fair Trade stipulates price premiums, improved market ability, flexible credit arrangements, and long-term trade contracts. A special role for promoting wide-scale well-being in coffee growing communities is given to the Fair Trade premium for social development (FLO 2005a).

Concerning labor conditions, Fair Trade aims to raise the bar on labor standards by elevating the level of working conditions above the existing norms. Compared with other certification schemes, such as organic, Rainforest Alliance, or Utz Certified, which build their labor standards upon the existing laws and conventions, Fair Trade attempts to promote an enhanced "labor rights" approach, by upholding national laws and international conventions regarding fair conditions of employment, the right to association and collective bargaining, no forced or child labor, and the right to occupational health and safety (Raynolds, Murray, and Heller 2007, pp. 154–159). All Fair Trade-registered producers are expected to meet these standards, although the requirements are applied somewhat less rigorously to farms relying on few seasonal workers than to producer organizations with significant numbers of hired workers (FLO 2005a; 2005b).

In the following analysis, we explore Fair Trade's capacity to embed an increasing role for civic conventions in terms of enhanced socioeconomic development and improved labor rights for Southern coffee producers and workers. Although the market share of Fair Trade coffee is only about 1% of international coffee trade, Fair Trade represents one of the fastest growing segments within the global coffee industry, with a sales increase of 40% from 2003–



2004 to 2004–2005 (FLO 2006). As such, Fair Trade is a movement worth exploring as an initiative aiming to improve the production and working conditions of marginalized coffee growers and laborers by providing alternative trade networks between Southern producers and Northern consumers.

## **Nicaraguan context and methods**

Nicaragua is the third poorest country in Latin America, after Haiti and Honduras, when measured by per capita purchasing power parity of the GDP (UNDP 2006, pp. 283–295). The strong concentration of agricultural land in the hands of a few landowners, especially during the Somoza governments from the 1930s to 1979, led to a highly unequal distribution of land and income in this country. For the majority of the rural population, the monopolistic agro-export economy meant miserable living and working conditions, with limited access to education and healthcare. During the Sandinista government in 1979–1990, the economy of Nicaragua collapsed as a result of civil war, the US-imposed trade embargo, and problems related to reforming agriculture (Enríquez 1997). The current Nicaraguan economy is characterized by an unequal distribution of resources, with 52.5% of the rural population estimated to live in extreme poverty (CEPAL 2003, p. 4). Although the official rate of unemployment was only 5.2% in 2006, most workers operate in the volatile informal sector that provides poverty wages with no additional benefits, such as pension or occupational healthcare (Central Bank of Nicaragua 2007, p. 4; CEPAL 2003, pp. 31, 39).

Although income sources outside agriculture have increased in recent years, particularly in services, apparel industry, and remittances, coffee remains one of the cornerstones of the Nicaraguan economy (Pezzini et al. 2006, pp. 46–61, 123). The value of Nicaraguan coffee exports was 201 million USD in 2006, representing 19.5% of the country's principal exports (Central Bank of Nicaragua 2007, p. 25). There are about 48,000 coffee farmers in Nicaragua, 80% of which are small producers with less than 3.5 ha of coffee in cultivation. Despite the vast number of microproducers, farms larger than 3.5 ha produce more than 85% of the Nicaraguan coffee harvest (Flores et al. 2002, Annex).

Coffee production is a relatively labor-intensive activity. Approximately 280,000 people,

representing 42% of the economically active rural labor force in Nicaragua, derive at least part of their annual income from coffee production (Flores et al. 2002, p. 14). Most of the coffee-related jobs are, however, characterized by low wages and unstable working contracts, as the labor needs in coffee production fluctuate seasonally. The largest number of workers is needed for the four-month harvesting and processing period. The minimum wage for coffee production was 1.6 USD and three meals per day in 2006, while the value of a basket of basic goods for a family of six members in rural areas was 2.4 USD per day (INIDE 2007, p. 356). Although Nicaragua has ratified all core conventions of the International Labour Organization (ILO), except the convention on occupational safety, compliance with the laws based on these conventions nevertheless remains questionable.

The large-scale organization of Nicaraguan coffee farmers into cooperatives began during the Sandinista government in the 1980s (Enríquez 1997). Today, the umbrella organization for coffee cooperatives, Cafenica, has 9,118 farmer members (Cafenica 2007, p. 4). Small alternative trade initiatives for Nicaraguan coffee have existed for decades, carried out by church-based organizations and, especially since the 1980s, by alternative trade organizations. However, the Fair Trade movement as such began to gain wider significance in Nicaragua after the inception of FLO in 1997 (Levi and Linton 2003, pp. 415–416). In 2004, about 5.3 million pounds of Fair Trade-labeled coffee was exported from Nicaragua, representing 3% of the green coffee exported from the country.<sup>5</sup> About half of the Fair Trade labeled coffee was also organically certified (CETREX 2007; Kilian et al. 2006).

The fieldwork for this study was carried out in March 2005 and from September 2005 through February 2006, during which time producers and administrators of 11 coffee cooperatives and unions of cooperatives were interviewed in the departments of Boaco, Jinotega, Matagalpa, and Las Segovias. These cooperatives, which varied from organizations of a few dozen producers to unions of cooperatives containing more than 2,000 members, represent the majority of Fair Trade certified coffee producer organizations in Nicaragua. 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.

Semistructured interviews were conducted with a total of 110 coffee producers involved in the studied cooperatives and unions of cooperatives. Of these producers, 94 belonged to a Fair

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<sup>5</sup> Information provided by Guillermo Denaux, FLO, through email communication, on 24 September 2007.

Trade certified cooperative, while 16 were members of cooperatives that were in the process of becoming Fair Trade certified.<sup>6</sup> In addition, 10 producers who had been members of a Fair Trade certified cooperative but who had withdrawn due to better terms of trade elsewhere were interviewed. The informants were selected based on the criteria that in each cooperative both larger (>3.5 ha) and smaller (<3.5 ha) producers and both men and women would be represented. The main topics discussed in the interviews were coffee production, income and costs, premium for social development, terms and channels of sales, cooperative services, and hired labor and their working conditions. The majority of interviews with producers was carried out 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.

In addition, 62 workers were interviewed at eight dry mills of coffee in Matagalpa and Las Segovias, three of which 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 of mainstream plants. Interviews with workers were conducted both inside and outside the mills; especially in Matagalpa, most of the interviews were carried out by the roadside while the workers were waiting for buses. 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. In addition, managers of coffee export companies were interviewed in Boaco, Jinotega, and Matagalpa about coffee prices and services provided to farmers. Valuable information was also gathered in several meetings and workshops arranged by coffee certifiers and cooperatives in Nicaragua. To facilitate data analysis, transcribed interviews and field notes were organized by Atlas-Ti qualitative data analysis program.

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<sup>6</sup> 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).

## **Economic impacts of Fair Trade: Prices, market access, and credit arrangements**

In the case of coffee production, only cooperatives that are constituted predominantly of small-scale family farmers can be Fair Trade certified (FLO 2005b, p. 4). FLO considers a small-scale coffee producer in Central America to be a farmer with less than 3.5 ha (5 *manzanas*) of coffee. More than half of the coffee produced by Fair Trade certified cooperatives must come from these small growers.<sup>7</sup>

According to the cooperatives' internal documents and our own field data, roughly 90% of the farmers in Fair Trade certified cooperatives had 0.5–3.5 ha of coffee. In a cooperative of 438 members in Boaco, for example, the members cultivated on average 2.0 ha of coffee, while coffee represented on average 13.3% of their farm area. In another cooperative in Boaco, with 250 members, the farmers cultivated on average 2.2 ha of coffee and owned on average 11.8 ha of land. Within this cooperative, the size of individual coffee fields varied between 0.5 and 14 ha; less than 1% of the members had more than 7 ha of coffee. Practically all of the households studied complemented their coffee production with other income-generating activities, such as basic cropping, animal husbandry, or temporary wage work on neighbors' farms, in towns, or abroad, especially in other Central American countries, where wages for agricultural labor were slightly higher than in Nicaragua. In some of the cooperatives, a small percentage of the producers had up to 45 ha of coffee. Many of these larger producers lived in nearby towns, where they operated other businesses, visiting their farms only to oversee production. Based on the information available, members with more than 14 ha of coffee represented less than 5% of the cooperatives' membership.

As coffee fields differed in size and yields, there were also differences in the amount of labor needed. The smallest producers relied mainly on family labor, while farmers with 2–3 ha of productive coffee hired roughly half of their labor during the four-month coffee harvest and one or two off-season laborers. Producers with more than 5 ha of coffee typically hired dozens of workers during the harvesting season and several workers out of season. In addition, considerable differences characterized the farmers' education levels. While some of the farmers

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<sup>7</sup> Personal communication, Luís Bran, FLO-Central America, 28 February 2005.

had education beyond secondary school and were able to make detailed calculations about their farming inputs, others lacked basic accounting, reading, and writing skills, limiting their ability to make long-term production plans. This heterogeneity is important to take into account when evaluating the impacts of Fair Trade on the living conditions of coffee producers and their laborers.

World market prices for coffee have historically been volatile and have shown a long-term declining trend. In 2000–2004, the prices fell in real terms to their lowest level in 100 years, causing serious problems for coffee farmers and workers throughout the world (Daviron and Ponte 2005, pp. 88–90; ICO 2003). During these years of coffee crisis, successful Nicaraguan Fair Trade certified cooperatives were able to pay a significantly higher price for coffee to their members than the mainstream market. For example, a cooperative in Jinotega, Soppexcca, paid its members 84 US cents/pound (lb) of green coffee during the coffee cycle of 2003–2004, while 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. According to our study, 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.<sup>8</sup> These figures indicate that if farmers timed their sales correctly, they were able to receive a higher price for their coffee in the mainstream market.

In addition to price, several other factors shaped the farmers' decisions to whom to sell their coffee, including forms of payment, quality requirements, transportation facilities, and credits offered. Large coffee export companies often paid producers immediately after they received the coffee, while cooperatives typically paid producers in stages. The final payment was often made several months after the harvest, after the cooperative had received payments for all

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<sup>8</sup> The Fair Trade prices were calculated from data provided by eight of the studied cooperatives, with a comparable pricing system. Information concerning the prices paid on the mainstream market was provided by Henrik Bang, Exportadora Atlantic S.A., through email communication with the corresponding author, on 27 October 2006. Evaluating the price differences of the Fair Trade and mainstream markets was not easy, as the net prices paid to producers change daily on the mainstream market and no reliable statistics exist for the prices paid by different companies to producers in Nicaragua.

exported coffee. This delay in cooperatives' method of payment was considered a serious disadvantage by many farmers.

Although FLO has not set official standards for physical coffee quality, practically all interviewed producers stated that Fair Trade certified cooperatives require high-quality coffee. In the absence of generalized standards for coffee quality in Nicaragua, Fair Trade has, in fact, become an indicator of good-quality coffee. Especially during the period of low market prices, international buyers of Fair Trade certified coffee were in a position to demand high-quality coffee in exchange for the price premium paid. These requirements for high quality can, however, act as a barrier to entry for those producers with limited resources to improve their coffee quality, an important issue to consider in view of Fair Trade's aim to demonstrate solidarity towards marginalized producers. The farmers studied usually sold defective beans, typically comprising 10–20% of their harvest, to the mainstream market, which accepted lower quality beans. In 2005–2006, when coffee prices were fairly similar in Fair Trade and mainstream markets, many farmers sold a significant portion of even their first-grade coffee to mainstream markets, where payments were faster and the reception centers were often more conveniently located, an important factor in the Nicaraguan countryside, where transportation facilities are poor. Don Jaime, a coffee producer from Matagalpa, explained his strategies of coffee sale as follows: "One part we sell to the cooperative, and another part to Atlantic. Because at times we need the money...so...you have to take advantage where you can get it most quickly."

The possibility of obtaining credit was another factor affecting farmers' decisions about whether or not to join a Fair Trade certified cooperative. Because coffee growing is a labor-intensive activity, most of the farmers needed pre-financing to manage their coffee fields and to pay coffee harvesters. During the coffee crisis in 2000–2004, many banks in Nicaragua stopped giving loans to small producers (ICO 2003, p. 6). Fair Trade certified cooperatives continued to finance their members even through these years of crisis, although the terms of financing were not particularly favorable and the amounts loaned were moderate.

Nowadays, the most important loan providers for small coffee growers in Nicaragua are cooperatives and large coffee export companies. In 2005, export companies gave loans to producers at an annual interest rate of 11%, including all costs. Furthermore, short-term pre-financing was provided during the harvesting season, with no interest charged, as the loan was

guaranteed against the coffee harvest. In comparison, Fair Trade certified cooperatives charged interest rates of 18–22% on loans given to their members. Due to the lack of collateral in the form of land title and the relatively small volume of coffee produced, many farmers were, however, dependent on loans from the cooperatives. In any case, the Fair Trade requirement that coffee buyers provide pre-financing to producer organizations seems not to have enabled the Nicaraguan cooperatives to provide especially favorable loans to their members.

Concerning the price received by cooperatives for their Fair trade certified coffee, the FLO minimum price for Central American washed *arabica* on the Free on Board (FOB) level was 126 US cents/lb in 2005.<sup>9</sup> This price included the 5 US cents premium for social development. In comparison, the average world market price for other mild *arabicas* was 114.9 US cents/lb in 2005 (ICO 2007).<sup>10</sup> As shown in Figure 1, in real terms, the Fair Trade minimum price paid on FOB level has declined steadily. However, when deflated against the Nicaraguan consumer price index, as indicated in Figure 2, the decline in Fair Trade price has been moderate, mainly due to the reduced value of the Nicaraguan *córdoba* against the US dollar. As shown in Figure 2, the difference between the Fair Trade minimum price and the average world market price on FOB level was large during the low coffee prices in 2000–2004. Since 2005, this difference has, however, been narrow, and coffee futures' prices until 2009 are close to or even slightly above the Fair Trade minimum prices (NYBOT 2007).

[Figure 1 about here]

[Figure 2 about here]

Although FLO guarantees a minimum price for Fair Trade certified coffee for the cooperatives, it does not guarantee that the cooperatives can sell their coffee through Fair Trade channels. The cooperatives studied had variable access to Fair Trade markets. While one cooperative in Las Segovias was close to reaching its goal of selling all of its first-grade coffee as Fair Trade certified, other cooperatives sold between 30% and 60% of their first-grade coffee

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<sup>9</sup> Free on Board (FOB) refers to the price of coffee at the port of export. The FOB price for organic Fair Trade certified coffee was 141 US cents/lb. These prices remained at the same nominal level since the early 1990s, until they were slightly raised in 2007 (FLO 2007b).

<sup>10</sup> If the market price for coffee is higher than the Fair Trade minimum price, Fair Trade standards stipulate that the market price plus the premium for social development is paid for Fair Trade certified coffee (FLO 2005b, p. 11).

to Fair Trade markets.<sup>11</sup> Although many of the cooperatives had been able to set up long-term commercial contacts with certain Fair Trade buyers, most of the cooperatives found it a great challenge to establish new, long-standing trading relationships in Fair Trade markets. Managers of the cooperatives that were recent entrants to Fair Trade complained that the system was not especially fair, with a few early entrants controlling the markets.

The variability in market access must be taken into account when assessing the impacts of Fair Trade certification on coffee cooperatives. During the low market prices for coffee in 2000–2004, the cooperatives that were able to sell a significant part of their coffee via Fair Trade channels benefited considerably from the Fair Trade price premium. Several of these cooperatives grew significantly during this period, both in membership and in the volume of coffee exported. The most successful cooperatives were also able to pay off their debts and increase their capital reserves. For example, PRODECOOP, a large union of cooperatives in Las Segovias, increased its assets from 1.2 million USD in 2001 to 1.8 million USD in 2005 (PRODECOOP 2005).

After the recovery of world market prices for coffee in 2004, the relative advantage of the Fair Trade markets has altered. A Fair Trade certified cooperative in Matagalpa, for example, was able to negotiate a quality differential of 4 US cents/lb, compared with the New York market price for its first-grade coffee, in 2005. Because of this quality premium, the cooperative was able to sell its coffee to the mainstream market at almost the same price as to the Fair Trade market. In 2006, the same cooperative started to sell part of its coffee through alternative certified channels competing with Fair Trade, including Utz Certified, Rainforest Alliance, C.A.F.E. Practices, and Bird-Friendly Coffee. Although most of the Nicaraguan cooperatives have until now limited themselves to Fair Trade and organic certifications, the proliferation of new, competing certification schemes is setting up new challenges for them.

Simultaneously, competition between different coffee markets has intensified. Big coffee export companies that operate in the mainstream market have at times been able to pay higher prices to producers than the Fair Trade certified cooperatives because of their economies of scale, their ability to take advantage of futures' markets, and their better access to financing. The Fair Trade certified cooperatives also face additional operative costs related to certification. The

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<sup>11</sup> According to Villalobos (2003, p. 8), in all Latin America, Fair Trade certified cooperatives sold on average 32% of their coffee as Fair Trade labeled during the 2002–2003 coffee cycle.



certification fee itself added the cooperatives' costs up to 5.5 US cents/lb of exported coffee in 2005–2006, although the charge was lower per unit of coffee when FLO required less intensive inspections. The cooperatives' administrative costs were also higher because of the extra personnel needed to deal with certification. Moreover, for quality improvement, Fair Trade certified coffee is usually graded manually, which in 2005–2006 increased the costs of processing by 2 US cents/lb, compared with mechanical grading. In the current situation of high market prices for coffee, some of the Fair Trade certified cooperatives in Nicaragua have lost members, and due to the decreased volume of coffee, encountered difficulties in fulfilling their contracts with exporters.

### **Social impacts: Participation, democracy, and premium for social development**

The majority of the coffee producers studied in Nicaragua demonstrated a relatively poor understanding of what Fair Trade is, not to mention the civic conventions included. At best, they knew that their cooperative was selling coffee to Fair Trade markets; however, most were unaware of the rights and responsibilities that this entailed. Exceptions to this were some of the farmers in the smaller cooperatives that had been selling “relationship coffee” through personalized channels to certain international buyers several years before Fair Trade certification. Otherwise, the rank-and-file cooperative members knew little about Fair Trade. This situation contrasted starkly with the producers, who also had organic certification for their coffee and who proudly identified themselves as “ecologically sound producers,” with a good understanding of the rules of organic certification.

This issue of farmers' limited knowledge of Fair Trade certification raises doubts about the ability of Fair Trade to empower significantly marginalized small producers.<sup>12</sup> Few of the farmers identified themselves as part of a global movement aiming to alter the global structures of coffee trade by creating alternative networks between disadvantaged Southern producers and socially conscious Northern consumers. One reason for the farmers' poor awareness of Fair Trade seems to be the multiplicity of certification schemes, coffee quality standards, and rural

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<sup>12</sup> Similar issues of farmers' not fully understanding that they are participating in the Fair Trade movement have been noted by Shreck (2005) in the case of banana producers in the Dominican Republic and by Lyon (2006) in the case of coffee producers in Guatemala.

development projects prevalent in Nicaragua making it difficult for farmers to distinguish one program from another. In addition, administrators of Fair Trade certified cooperatives were reluctant to stress to their members that the consumers pay higher prices for Fair Trade labeled coffee when the cooperatives could not guarantee a significant price premium to their members.

As most of the cooperatives were able to sell only 30–60% of their coffee through Fair Trade channels, many farmers were looking for opportunities to sell at least a part of their coffee to mainstream markets. The supply of Fair Trade coffee exceeds the demand globally. According to FLO estimations, the capacity of small producers who could meet the requirements of Fair Trade certification is about seven times the actual volume of coffee exported via Fair Trade (Murray et al. 2006, pp. 183–184). This mismatch between supply and demand raises serious concerns about equal opportunities for participation in Fair Trade, considering that a large number of small producers are either excluded from Fair Trade or able to participate in it only to a limited degree (Guthman 2007).

The Fair Trade premium for social development, 5 US cents/lb of green coffee in 2005, had been used for a wide variety of purposes in the cooperatives. These can be roughly divided into three groups: (1) social programs among cooperative members, (2) social programs targeted widely to coffee-growing communities and (3) improvements in cooperatives' infrastructure. Many of the studied cooperatives provided training in coffee production techniques, such as fertilization, biological pest control, or primary processing, for their members, and they also implemented education programs and granted scholarships for vocational education for the children of coffee growers. The number of scholarships was, however, limited, granted to only a small number of the households applying.

Among the social programs targeted more widely, different kinds of development projects had been carried out in coffee-growing communities, such as construction of roads, schools, and community buildings, as well as improvements in healthcare services. In this respect, it is important to note that the two Fair Trade benefits, the price premium and the Fair Trade premium for social development, affected the coffee communities differently. As the Fair Trade price premium depended on the volume of production, large-scale coffee producers benefited more from this premium than those with less production. By contrast, smaller producers and landless laborers benefited relatively more from the Fair Trade premium for social development, as many of the programs funded with this premium were targeted to a wide

number of inhabitants, despite a significant portion of these funds having been raised by larger producers.

Assessing the impact of the Fair Trade premium for social development on coffee producers and their families was, however, difficult because many of these programs had been co-funded by other rural development projects.<sup>13</sup> Interestingly, only exceptionally active cooperative members knew how the Fair Trade premium for social development had been used in their cooperative. Others were aware of the development programs carried out in their communities, but did not know that these had been funded with premiums gained through Fair Trade. This is incompatible with Fair Trade social standards, according to which the benefits of Fair Trade, including the premium for social development, need to be shared based on a democratic and transparent decision taken by the beneficiaries (FLO 2005b, p. 3).

Several cooperatives also reported that at least half of the funds from the social premium had been used to pay for Fair Trade certification and to improve the cooperative infrastructure. As a result of these investments, funded with the social premium together with various development projects, the cooperatives' administrative capabilities and processing techniques had been considerably improved. The cooperatives that started in the mid-1990s "with just a calculator," as a cooperative technician expressed the matter, now possess well-equipped offices, coffee processing plants, storehouses, and cupping labs. Although high-quality infrastructure is crucial for efficient operation in the coffee business, it can be questioned whether some of the cooperatives had spent a considerable portion of the Fair Trade premium for social development on the cooperative's normal business costs rather than on promoting widely targeted social development programs in the coffee-growing communities. Considering that many of the rank-and-file cooperative members did not even know how the premium for social development had been used in their cooperative, certain doubts arise as to whether the issues of democracy and transparency in the cooperatives' decision-making ever received the same amount of attention as the investment in their infrastructure and logistics.

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<sup>13</sup> At least the following organizations had provided development aid for the studied cooperatives and their members during the last five years: Amigos de Bonn (Germany), Ayuda en Acción (Spain), Ayuda Obrera Suiza (Switzerland), Ayuda Popular Noruega (Norway), Centro para la Promoción, Investigación y el Desarrollo Rural y Social (Nicaragua), Christian Aid (UK), Coffee Kids (USA), Cooperative League United States (USA), Fondo Agro (Sweden), Lutheran World Relief (USA), NOBI (the Netherlands), and Solidarity (Finland).

## **Impacts on labor conditions on coffee farms and in coffee processing plants**

Concerning the impacts of Fair Trade certification on coffee farm workers, according to the FLO standards on coffee production, “where workers are casually hired by farmers themselves, the organizations should take steps to improve working conditions and to ensure that such workers share the benefits of Fairtrade” (FLO 2005b, p. 5). The wages paid to coffee laborers in 2005 ranged between 1.5 and 2.1 USD per day on Fair Trade certified coffee farms that additionally provided meals for their workers, and between 1.8 and 2.5 USD on farms that did not. These wages corresponded to those commonly paid for agricultural work in Nicaragua. Several farmers stated that they had increased the wages from the previous year to meet the minimum wage requirements set by the Ministry of Labor; however, none of them stated that Fair Trade required higher wages be paid. During the coffee harvest, workers are usually paid by *latas* (a 20.5-liter basket) of coffee picked. The minimum wage set by the Ministry of Labor for coffee gatherers was 0.6 USD per *lata* for the 2005–2006 harvesting season, with the average gatherer estimated to pick five *latas* in eight hours, thus earning 3 USD per day (Ministerio del Trabajo 2005). Due to the high demand for labor, most of the producers were, however, obliged to pay 0.6–0.8 USD per *lata* plus meals in order to attract harvesters. This price range was common throughout Nicaraguan coffee farms and was not limited to Fair Trade certified farms.

The majority of the producers had a limited awareness of the rules set by Fair Trade regarding working conditions on coffee farms. As underemployment was widespread, it was considered sufficient that poor laborers be offered any sort of work with a minimum wage, neglecting the official requirements for fair conditions of employment. The working conditions on Fair Trade certified farms thus did not significantly differ from the informal working conditions in rural Nicaragua, where benefits related to social security, such as vacations, pensions, and paid sick leaves, are unheard of.

Nicaraguan law prohibits children under the age of 14 to be hired for coffee harvesting (Ministerio del Trabajo 2005, p. 2); according to the FLO standard, children under the age of 15 should not be contracted (FLO 2005b, p. 6). Both of these norms are in accordance with the ILO convention on child labor. However, during the fieldwork, we commonly saw children picking coffee or working in other harvest-related tasks, even on Fair Trade certified farms. This practice

was not necessarily in breach of FLO labor standards because these children were usually the children of farmers or harvesters, and thus, not officially classified as “contracted” workers. However, on the Nicaraguan coffee farms studied, Fair Trade’s efforts to eliminate child labor seemed to have had limited effects.

Fair Trade certified cooperatives owned three large coffee processing plants in 2005, where hundreds of people worked temporarily in carrying coffee sacks, raking coffee on patios, grading coffee beans, and processing coffee. Most of the workers were employed during the four-month coffee harvest, although some of the jobs were more permanent. The working conditions in the Fair Trade certified processing plants did not significantly differ from other coffee processing plants in Nicaragua. All of the plants studied, Fair Trade certified or not, paid the minimum wage set by the Ministry of Labor, which for coffee processing was 2.8 USD per day in 2005–2006.<sup>14</sup> In some plants, workers who spent the entire day carrying heavy coffee sacks received 3.0 USD per day.

No additional benefits, such as medical care or a retirement plan, were provided in Fair Trade certified processing plants. When a woman working in a dry mill owned by a Fair Trade certified cooperative was asked whether she received any benefits other than wages, she replied: “Just a bitter cup of coffee, they give us nothing else.” As the work was seasonal, the number of workers was increased or decreased according to the volume of coffee to be processed. Most of the workers felt that they could be fired at any time, and according to them, no advance notice was given when the number of employees was reduced; every now and then a certain proportion of them would just be told not to come to work the following day. When we asked another female worker how long she intended to work in the mill, she replied: “until they fire me.” For fear of losing their jobs, workers rarely reported any problems or grievances in their working conditions to their superiors.

Although the Nicaraguan labor legislation recognizes the right to sick leave, several workers in coffee mills had lost their jobs after becoming ill. In fact, the workers were confused about sick leave, as according to their experiences, the employer’s decisions concerning sick leave were arbitrary. Much of the work in the processing plants involved carrying heavy coffee sacks; however, only a few workers utilized a support belt to protect their backs, despite the Fair

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<sup>14</sup> The average exchange rate in January–February 2006 was 1 USD = 17.71 NIO. Most of the interviews with the workers in coffee processing plants were carried out at this time of intensive coffee processing in Nicaragua.

Trade standard recognizing the workers' rights to occupational health and safety (FLO 2005b, pp. 7–8).

Children under the age of 16 were not observed to be working in processing plants. In fact, most of the dry mills only employed people between 18 and 35 years of age, which contradicted the FLO standard prohibiting age discrimination. Several workers complained about this age limit, stating that they had no idea where they could find work after the age of 35 years; the only options they believed to be available were domestic work, street vending, or illegal migration. However, due to the difficult employment situation, they were afraid of criticizing this discrimination. Although the FLO labor standards require that the organization recognizes “the right of all employees to join an independent trade union, free of interference from the employer, the right to establish and join federations, and the right to collective bargaining” (FLO 2005b, p. 6), no trade unions existed in the Fair Trade certified coffee mills. In fact, most of the workers stated that if they tried to organize themselves they would be fired.

Although the working conditions in Fair Trade certified coffee mills were not exceptionally poor, there was little evidence that Fair Trade had significantly enhanced the labor standards of coffee production and processing. Interestingly, the managers of Fair Trade certified processing facilities regarded the Nicaraguan labor legislation, not the Fair Trade standards, as the norms they needed to comply with. Considering that the FLO labor standards and the Nicaraguan labor legislation largely base their norms on the same ILO core conventions, it can be questioned whether Fair Trade really raises the bar on labor standards above the existing norms, or whether Fair Trade just complies with the labor standards already recognized in the Nicaraguan legislation.

Hired workers on coffee farms were beneficiaries in widely targeted community development programs, such as building of schools, roads and community buildings, sponsored by the Fair Trade premium for social development. In contrast, the workers processing coffee in urban processing plants were left out as a target group of this premium. As Fair Trade limits itself to certifying coffee cooperatives composed of small producers, the standards prevalent in Fair Trade certified coffee mills follow the guidelines for small farmers' organizations; these do not explicitly require that the Fair Trade social premium promote the well-being of the workers involved. In contrast, the FLO standards for hired labor, utilized in Fair Trade banana and tea production, for example, stipulate that a body is established where worker representatives have a

voice in how Fair Trade social premium is utilized (FLO 2005c, p. 27). Today, when many Fair Trade certified coffee cooperatives have grown to organizations that employ hundreds of workers, these standards for hired labor could be highly relevant in coffee production.

## **Conclusions**

This paper has analyzed the impacts of Fair Trade certification on living conditions, well-being, and working conditions of small-scale coffee producers and producer associations in Nicaragua, paying special attention to issues of price premium, market access, premium for social development, and labor rights. Careful case study analyses of the benefits and constraints faced by Fair Trade certified coffee producers and laborers in the global South are crucial for better understanding of Fair Trade as a movement aiming to alter the social and economic inequalities associated with global coffee production and trade.

The economic benefits provided by Fair Trade for Nicaraguan coffee producers and cooperatives were marked during the low world market prices for coffee in 2001–2004. After the recovery of world market prices in 2004, the Fair Trade price premiums have, however, been small. Under the current conditions of relatively high market prices for coffee, Fair Trade does not possess a strong bargaining power, as many of the Fair Trade certified coffee farmers and cooperatives can get similar prices for their produce from certain sectors of the mainstream market. If the world market prices of coffee collapse again, as they have historically done at intervals, the cooperatives will be cushioned against price depressions through FLO standards for minimum prices. This price guarantee is, however, limited, as most of the cooperatives are only able to sell 30–60% of their produce to Fair Trade markets.

Another benefit provided by Fair Trade has been facilitation of desperately needed credit for small coffee growers in situations where other sources of credit have not been available. In addition, Fair Trade can be credited for its premium for social development, such as education and healthcare programs, institutional capacity-building, and improvement of transportation facilities, in coffee-growing communities. These impacts are, however, difficult to evaluate as they cannot be separated from the benefits provided by various rural development projects active in Nicaraguan coffee-growing communities. Part of the Fair Trade premium for social

development has been used to cover cooperatives' normal business costs, with limited wider benefits for coffee-growing communities.

Although the global demand for Fair Trade products is growing rapidly, the volumes of coffee moving through the Fair Trade channels are relatively small compared with conventional coffee businesses. Due to an oversupply of Fair Trade labeled coffee, Fair Trade can act as a barrier to entry for many small coffee producers, with significant consequences for the social distribution of Fair Trade benefits (Guthman 2007). Farmers' poor knowledge of Fair Trade and their limited identification with Fair Trade as a solidarity movement between marginalized Southern producers and socially conscious Northern consumers raises important questions about the ability of Fair Trade to significantly empower the disadvantaged coffee producers and laborers in the South.

Achieving considerable improvements in the working conditions of Fair Trade certified coffee farms and processing plants is challenging both in Nicaragua and in many other parts of the global South. According to our study, the labor rights of hired workers on Nicaraguan coffee farms and in coffee processing facilities have not been enhanced significantly as a result of Fair Trade.

Compared with Nicaraguan labor legislation, Fair Trade duplicates existing labor standards and its strategies for implementing these standards in practice have several deficiencies. This is the case especially concerning the limited compliance with the standard on social security benefits for laborers on coffee farms and the freedom of association and collective bargaining for workers in Fair Trade certified processing plants.

Recent globalization has consolidated an increasingly buyer-driven value chain in the global coffee industry, where large transnational coffee roasters and retailers have considerable power compared with small coffee producers and producer associations in the South (Daviron and Ponte 2005). Under these conditions, important questions remain about the ability of Fair Trade to significantly alter the well-being of disadvantaged coffee producers and laborers in the South. This is especially the case in the context of increased mainstreaming of Fair Trade, which raises questions about the ability of Fair Trade to provide a remarkable alternative to conventional coffee production and trade (Taylor 2005). Although Fair Trade alone cannot change the structural inequalities in global coffee trade, as an initiative with the strongest standards of social justice among the major coffee certification schemes, it has a crucial mission



to strive for enhanced living conditions and labor rights for disadvantaged coffee producers and laborers in the South.

## Acknowledgments

We are grateful to Nicaraguan coffee farmers, cooperative managers, and laborers for their valuable contributions to field research. Special thanks are owed to Mauricio Ruiz, Pedro Rojas, Juan de Dios Castigo, Santiago Dolmus, Fátima Ismael, and Merling Preza. We also thank Jeremy Gould, Pertti Haaparanta, Juhani Koponen, Wim Naude, Marie-Christine Renard, and the two anonymous reviewers of this journal for their valuable comments on earlier versions of this paper. Funding for this research was provided by the Academy of Finland (grant numbers 1107665 and 1124189) and the University of Helsinki.

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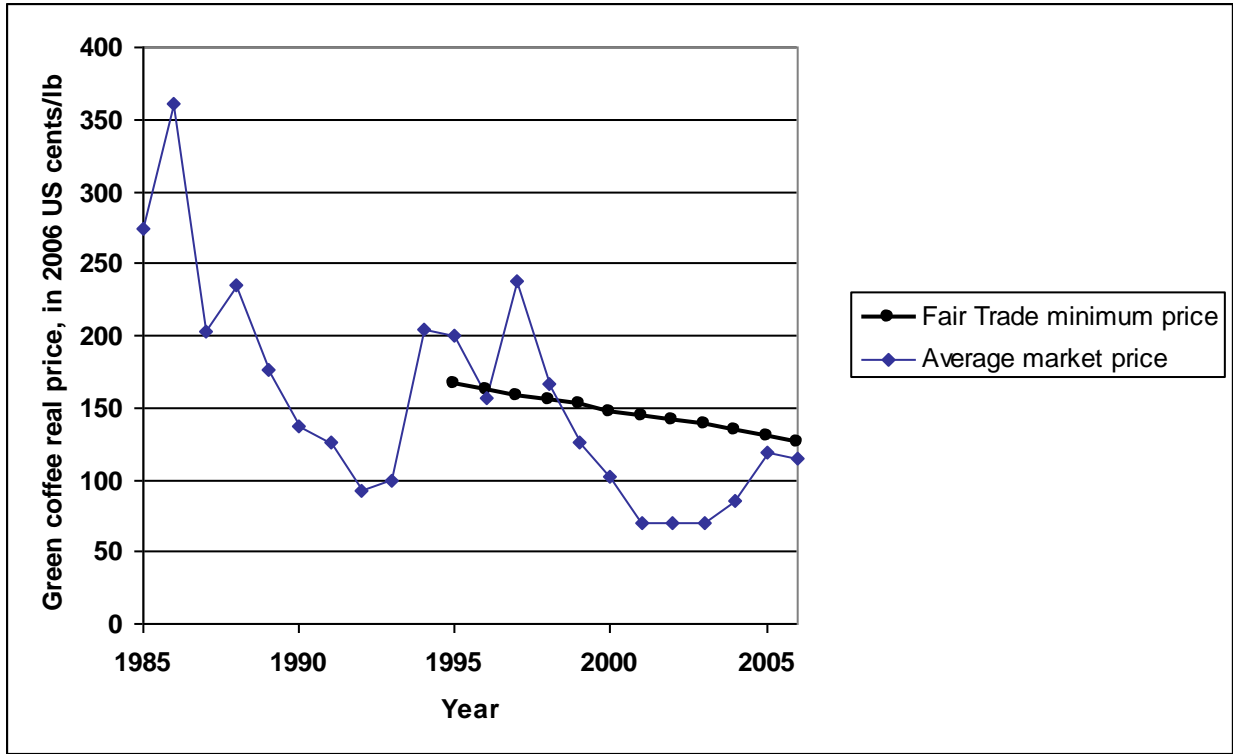
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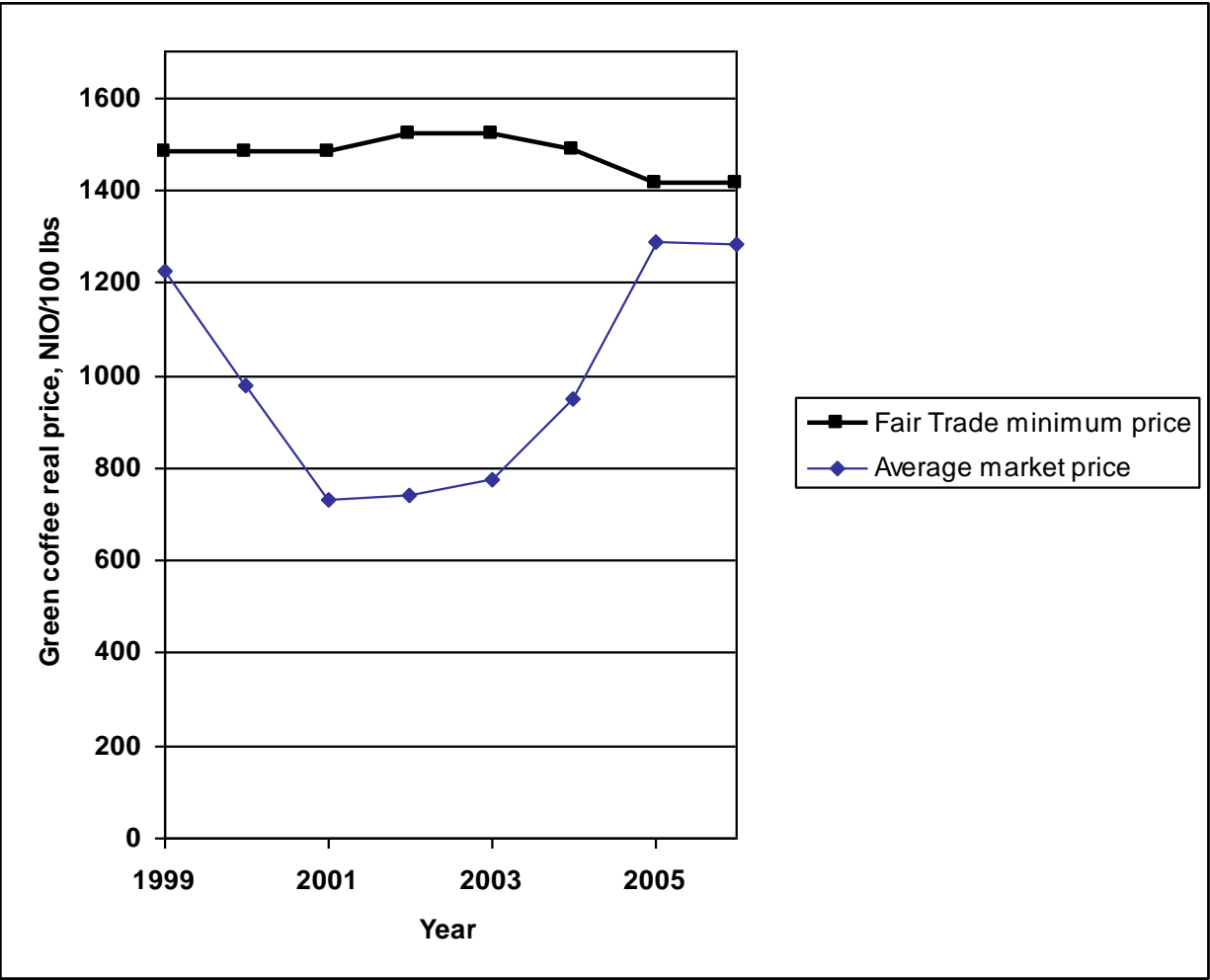
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**Fig 1.** Fair Trade minimum price (FOB) for Central American *arabicas* and the average New York market price for other mild *arabicas* in 1985–2006, deflated against the US consumer price index (source data: FLO 2007b; ICO 2007).



**Fig 2.** Fair Trade minimum price (FOB) for Central American *arabicas* and the average New York market price for other mild *arabicas* in 1999–2006, deflated against the Nicaraguan consumer price index (source data: FLO 2007b; ICO 2007).