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**Is there a choice when it comes to ethical-trade?** An examination of coffee production in Nicaragua

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## **ABSTRACT**

Ethical-trade has grown hugely in both status and popularity over the last few decades. On the back of an exponential growth in sales, fairtrade has become the most prominent ethical-trade model currently available. However, over the last ten years, weaknesses in the fairtrade model and the increase in demand for higher quality coffee have led to the rise of alternative ethical-trade models, such as direct-trade. This paper examines perceptions of the ability of both fairtrade and direct-trade to promote development for coffee producers, workers and communities in Nicaragua. It uses previous literature combined with first-hand research to analyse the strengths and weaknesses of each model, and determine the extent to which direct-trade can improve on the weaknesses of the fairtrade system. The paper concludes that while fairtrade cooperatives appear to be able to provide examples of success; variation amongst them questions the extent to which the fairtrade model itself can be credited. Direct-trade appears to offer improvements in terms of prices, transparency and quality; and at least matches match fairtrade on environmental protection and working conditions. However, the required infrastructure and resources puts the direct-trade model out of reach to many Nicaraguan smallholders.

**KEYWORDS:** ethical trade, fairtrade, direct trade, Nicaragua, coffee, international development.

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## 1. INTRODUCTION

Support for an ethical approach to global trade entered mainstream thinking during the second half of the 20<sup>th</sup> century in response to an extant system “geared partly towards the exploitation of cheap labour in the South and the maintenance of low consumer prices”.<sup>1</sup> Ethical-trade aims to provide an alternative to the conventional free trade model, while at the same time offer variation on the development strategies of protectionism and foreign aid.<sup>2</sup>

The most well-known ethical-trade model is fairtrade which began appearing in the 1990s and gained increased prominence during the ‘coffee crisis’ of the late-90s and early-2000s. At this time, coffee producers were faced with the challenges of rapidly declining and highly volatile prices; a chronic oversupply of coffee; and corporate control of international production and trade.<sup>3</sup> The fairtrade model hoped to bring stability to the market and redress the power balance in trade relations.

Fairtrade advocates minimum prices for commodities which are sufficient to ensure the livelihoods of producers, as well as encouraging environmentally sustainable practices and creating initiatives for social development. However, the true impact of the fairtrade movement on the development of producer communities is debated. Significant amounts of academic literature, some of which is analysed throughout this paper, have been produced over the last 15 years critiquing both the successes and failures of the movement.

Fairtrade’s commercial relevance has also grown; “the act and symbolic associations of coffee drinking are not the same as they were twenty years ago. New consumption patterns have emerged with the growing importance of specialty, fairtrade, organic and even ‘bird-friendly’ coffees”.<sup>4</sup> In recent decades, “selling an ethical cup of coffee has become big business” and the growth of “guilt-free” coffee is hailed as one of the successes of the ethical consumer movement. Fairtrade coffee sales increased by 8% in the year 2013-14, consistent with a longer term trend that has seen Fairtrade sales of coffee beans grow by 250% in the decade from 2004 to 2014.<sup>5</sup>

However, the fairtrade system has also faced criticism. Accusations range from low quality coffee to the benefits not reaching the intended individuals. Such criticisms have led the alternative system of direct-trade to gain popularity within speciality coffee circles over the last decade.

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<sup>1</sup> Utting-Chamorro. (2005): p.584.

<sup>2</sup> Utting-Chamorro. (2005): p.585.

<sup>3</sup> Valkila. (2009); Utting-Chamorro. (2005).

<sup>4</sup> Daviron & Ponte. (2005): p.xvi.

<sup>5</sup> Hunt. (2015).

The term direct-trade generally refers to the process of roasters purchasing coffee directly from producers; avoiding middleman organisations including those that control certifications.<sup>6</sup> Proponents of direct-trade claim that by building mutually beneficial relationships between producers and roasters, more of the price paid for coffee reaches the desired individuals. Furthermore, by paying higher prices for higher quality coffee greater ownership is transferred to the producer who is then in a stronger negotiating position for its sale. As *Intelligentsia*, one of the ‘big three’ roasters that pioneered direct-trade, puts it:

*“In the broadest terms, these coffees should be understood as a true collaboration, with both sides investing a great deal of time, energy and ideas to produce something great. At the end of this process, the coffee farmer who grows an award-winning cup is an artisan, and should be regarded as such. We believe human effort is the most critical factor in quality coffee and that the growers who do the best work should get the best price and individual recognition.”*<sup>7</sup>

This concept of shared value is different to the ‘corporate social responsibility’ that fairtrade promotes in that it aims to create equality through trading relationships, rather than the moral conscience of buyers providing what Paul Collier terms a “charitable transfer” to producers.<sup>8</sup> In the theory of direct-trade, the producer has as much power as the buyer.

This research project adds to the debate surrounding ethical-trade by analysing perceptions on whether fairtrade has been successful in improving the lives of producers in Nicaragua, and by critically examining the extent to which direct-trade could offer a better alternative. The paper examines the economic and social impacts of each system for both producers and workers, as well as the issues of environmental sustainability and quality. In essence, the paper addresses the following research question: Do people perceive a real choice in ethical-trade models when it comes to the developmental impact of ethical-trade in Nicaragua?

The paper begins by attempting to define what is meant by both fairtrade and direct-trade, and highlights some of the difficulties in doing so. Section 3 introduces the coffee industry in Nicaragua while the methods used during the research project are outlined in Section 4. Section 5 critiques the fairtrade system in Nicaragua, drawing on findings from previous studies as well as in-country research. Finally, Section 6 examines the extent to which direct-trade can be seen to offer an improvement on fairtrade certification for Nicaraguan producers.

The paper concludes that while both fairtrade and direct-trade can benefit producers, both models also have weaknesses. With fairtrade the benefits appear to be unevenly spread and it is unclear whether

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<sup>6</sup> Ethical Coffee. (n.d.).

<sup>7</sup> Intelligentsia. (n.d.).

<sup>8</sup> Collier. (2007): p.163.

the common denominator in smallholders' success is certification or the quality of the individual cooperative. While direct-trade can offer higher prices, greater transparency and equal results in environmental protection and working conditions; it appears to lack some of the social impacts of fairtrade. Furthermore operating through direct-trade requires levels of infrastructure and financing that are unavailable to many of Nicaragua's smallholders. Furthermore, the absence of an agreed definition of direct-trade raises the danger that the term be misused in the chase for sales.

## 2. DEFINING ETHICAL-TRADE MODELS

Given the official framework of certification and its prevalence in academic literature, obtaining a definition of fairtrade is fairly straightforward. Defining direct-trade however is more complicated. The less regulated nature of the model; the lack of an overarching auditing body and the fact that it features less in the existing literature means that providing an agreed definition is difficult. While this section begins the discussion, the matter is further examined in Sections 5 and 6 where contributions from the primary research are also included.

Fairtrade was originally a social movement designed in response to the failure of conventional trade to deliver "sustainable livelihoods and development opportunities to people in the poorest countries of the world".<sup>9</sup> In 1998, four European fairtrade organisations agreed on the following definition:

*"Fairtrade is a trading partnership, based on dialogue, transparency and respect; that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fairtrade Organizations, backed by consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade."*<sup>10</sup>

Practically, fairtrade works by advocating minimum prices for raw or finished products. Producers form cooperatives which, through obtaining an official seal from one of the certifying organisations, require buyers to pay the fairtrade price for their good. The fairtrade price is designed to "ensure that producers can cover their average costs of sustainable production. It acts as a safety net for farmers at times when world markets fall below a sustainable level".<sup>11</sup> When a commodity has a market price higher than that of the fairtrade minimum, the buyer is obliged to pay the market price. Fairtrade also aims to "enable pre-financing for producers who require it".<sup>12</sup> Access to credit allows farmers to cover expenses, hire and pay workers and support themselves and their families outside the harvest season.<sup>13</sup>

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<sup>9</sup> Smith. (2011): p.2.

<sup>10</sup> Fairtrade Resource Network. (n.d.).

<sup>11</sup> Fairtrade International. (n.d<sup>c</sup>).

<sup>12</sup> Fairtrade International. (n.d<sup>a</sup>).

Aside from pricing and finance, fairtrade also concerns itself with promoting social development in the wider community and encouraging environmental sustainability. The Fairtrade Premium is an additional sum of money paid into a communal fund that producers can use to improve their “social, economic and environmental conditions”.<sup>14</sup>

Therefore, fairtrade defines itself by two key principles:

- Paying farmers a minimum, stable, fair price; that covers the cost of production;
- Offering support services to producers and cooperatives which encourage sustainable development.

The current minimum price for fairtrade is \$1.40 per pound of washed Arabica coffee. On top of this, cooperatives receive \$0.20 per pound Fairtrade Premium which can be invested on community projects as the cooperative decides.

While these definitions provide an understanding of fairtrade; its aims and how it operates, it is also important to consider what the view of fairtrade is from the producers’ perspective; what the understanding of fairtrade is at a grassroots level. This is addressed in Section 5.

Unlike fairtrade, direct-trade is not bound to one specific definition or set of audited principles or processes. This creates the opportunity for multiple definitions, depending on the specific interest or point of view of an individual or organisation. Furthermore, the fact that it does not feature within the academic literature as often as fairtrade means that previous attempts to define it are less available. One description which does exist comes from Holland et al. and reads:

*“Although Direct-trade is in most cases not an independently audited certification, many micro roasters adhere to its various principles as they source beans, and despite slight differences in their approaches, it has manifested itself as a set of shared principles. Direct-trade often includes specific criteria such as visiting the farms or cooperatives one buys from annually, and paying significantly higher prices for higher quality coffees. It is thus argued that forming ‘direct’ relations from farmer to roaster enables better coffees”.*<sup>15</sup>

This definition identifies several factors which should be present for a trade to be termed direct; visiting the farms annually, paying higher prices, and higher quality coffees. However, a similar list of criteria provided *Intelligentsia* identifies different regulations not included in the previous definition; regulations on sustainable environmental and social practices, strict rules on the final destination of the money, and conditions regarding transparency.<sup>16</sup> Such differences demonstrate a discrepancy

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<sup>13</sup> Murray et al. (2003). Stankowski. (2015).

<sup>14</sup> Fairtrade International. (n.d<sup>c</sup>).

<sup>15</sup> Holland et al. (2015): p.2.

<sup>16</sup> Intelligentsia. (n.d.).

among definitions of direct-trade and between the necessary economic and social factors which underpin it. Such discrepancies also surfaced during the fieldwork and are discussed in Section 6.

### 3. THE COFFEE INDUSTRY IN NICARAGUA

Coffee is Nicaragua's most valuable agricultural crop, comprising 30% of total export income at the turn of the millennium.<sup>17</sup> Although the crisis caused this figure to fall, coffee still accounted for 14% of total exports in 2011.<sup>18</sup> The coffee industry is also a primary source of employment for many rural communities in Nicaragua. There are approximately 30,400 coffee producers working in the central-northern mountain regions<sup>19</sup>; 80% of whom are smallholders with less than 3.5 ha of coffee.<sup>20</sup> Coffee production typically involves 20-40% of the rural labour force in Nicaragua,<sup>21</sup> although this figure is even higher in some key regions; in Matagalpa around half of the work force is reliant on the coffee industry.<sup>22</sup>

Over recent decades, the rigours of the free market have majorly impacted coffee production in Nicaragua. The "implementation of poorly designed market liberalisation reforms, the establishment of a new coffee industry in Vietnam, and the expansion of coffee production in Brazil" all negatively affected the industry<sup>23</sup>. The coffee crisis caused the price of coffee to fall to a hundred year low, well below production cost in many regions. The impact was even greater for smallholders meaning that the Nicaraguan industry was especially affected. Poverty rates among Nicaraguan smallholders grew by 2% between 1998 and 2001 despite the fact that economic growth in Nicaragua had caused the poverty rates of rural households in the rest of the country to fall by 6%.<sup>24</sup>

As a result of these challenges, and in an effort to increase the participation of smallholders in alternative markets, ethical-trade paradigms have taken on a particular relevance in Nicaragua. The Promoter of Cooperative Development in the Segovias (PRODECOOP), founded in the late 1980s became one of the largest fairtrade coffee exporters in the world and other large associations of cooperatives such as SOPPEXCCA and CECOCAFEN followed suit once the benefits of operating in alternative markets became more well-known.<sup>25</sup> The 1990s and 2000s saw a suite of other ethical-trade associations and cooperatives establish themselves across Nicaragua, including two of the organisations interviewed for this paper. The *Asociación Pueblos en Acción Comunitaria* (APAC) is a non-profit, non-governmental producer organisation which was established in 1996; aiming to

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<sup>17</sup> Utting-Chamorro. (2005): p.586.

<sup>18</sup> The Observatory of Economic Complexity. (2016).

<sup>19</sup> Utting-Chamorro. (2005): p.586.

<sup>20</sup> Valkila. (2009): p.3019.

<sup>21</sup> Beuchelt & Zeller. (2011): p.1316.

<sup>22</sup> Interview 2.

<sup>23</sup> Utting-Chamorro. (2005): p. 586.

<sup>24</sup> Lewin et al. (2004): p.12.

<sup>25</sup> Utting-Chamorro. (2005): p.587.



empower its members to “change their social and economic standing” and “positively influence the strengthening of social and human capital in rural communities”.<sup>26</sup> The *Cooperativa Multisectorial de Productores de Café Orgánico de Matagalpa* (COOMPROCOM) is a cooperative located in central Nicaragua and has 251 members located in 16 communities across the Matagalpa region. COOMPROCOM provides employment to more than 300 farm workers.<sup>27</sup> Both organisations exemplify the growth of ethical-trade in Nicaragua.

Nicaragua has also been a part of the rise of speciality coffee and direct-trade. One importer explains how “pioneering farmers with a vision [in Nicaragua] have begun to promote the quality of coffee” while programmes such as the Cup of Excellence and the creation of the *Nicaraguan Specialty Coffee Association* have greatly contributed towards raising awareness of the differences between speciality and commercial grade coffees.<sup>28</sup> Speaking at the 2015 World Coffee Event in Sweden, Emilio Baltodano Oyanguren, president of the Nicaraguan coffee group; *Mercon*, expressed that “Nicaragua is being recognised as a producer of quality coffees...it is important for us to have presence in these events, so that we can strengthen our image as a country that produces premium coffees”.<sup>29</sup> The embracing of direct-trade by some farmers is driven by the search for higher prices, greater transparency and long-term trade relationships. Whether direct-trade can achieve these is discussed during this paper. Overall, the importance of coffee production to the Nicaraguan economy, and its role as a pioneer in both the fairtrade and speciality coffee industries, proves the country’s suitability as a case study for this investigation.

#### 4. METHODS

The focus of this investigation is the impact of ethical-trade at the “producer” level of Daviron and Ponte’s “classical organisation” of the global value chain (GVC) for tropical products.<sup>30</sup> The authors support the idea of GVC analysis due to the opportunity it provides to isolate and examine the different actors and flows within the global trade system. The GVC is comprised of both vertical links; those that link “local livelihoods upstream and downstream to distant networks of production and exchange”, and horizontal links; “the ways in which the impact and nature of integration into globalised systems are locally mediated”,<sup>31</sup> for example; through ethical-trade models. This investigation concerns itself with the horizontal links of the GVC; specifically examining the local level perceptions and impacts of both fairtrade and direct-trade.

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<sup>26</sup> APAC. (n.d.).

<sup>27</sup> Fairtrade Foundation. (n.d.).

<sup>28</sup> Mercanta. (n.d.).

<sup>29</sup> PRO Nicaragua. (2015).

<sup>30</sup> Daviron & Ponte. (2005): p.26.

<sup>31</sup> Bolwig et al. (2010); p.178.

The methods used in this research paper were employed in order to achieve two overall aims: 1) to define and investigate local level understanding of fairtrade and direct-trade; and 2) to qualitatively assess the impacts of the models at the producer level of the GVC. The fulfilment of these aims was completed using a combination of primary and secondary research. Given the lower quantity of previous studies on direct-trade, the majority of the analysis on its meaning as well as its impacts on producers was completed using primary research conducted in country. However, relevant studies are examined where available.

The primary fieldwork was conducted over a five-week period in July and August 2016 in the coffee growing regions of Matagalpa and Jinotega, located in north-central Nicaragua. The two departments are the most well-known coffee producing regions in Nicaragua and produce over 80% of the country's entire output.<sup>32</sup> Matagalpa is the primary agro-producing region in the country and is also a popular region with eco-tourists. Jinotega, which borders Matagalpa to the north, is the single highest coffee-producing region in Nicaragua with much of its output exported to the USA, Europe and Asia.

In total eleven interviews were conducted across the five-week period. Interviewees included cooperative members and management, direct-trade producers, connective-businesses<sup>33</sup> and local academics. A list of interviews can be found in Appendix 1. Each interview was semi-structured, following a pre-designed guide with open questions, although deviation from the structure was permitted where appropriate. The minimum length of interview was thirty minutes with the longest lasting seventy-five minutes. The fieldwork also involved visits to two fairtrade cooperatives, three estate farms, two connective-businesses, one university academic and one end buyer. All interviews were conducted in Spanish, recorded; and transcribed and translated by the author. Interviewees were chosen based on their role within the coffee industry, their geographical location within the area of investigation and the access provided by 'gatekeepers'<sup>34</sup>. The interviews covered several topic areas; the interviewees' attitude to and understanding of fairtrade and direct-trade; access to services such as healthcare, education and financing; the prices, salaries and benefits received by producers and workers; and questions on the environment and quality.

Given the limited time and resources available to complete the primary research there are three points which should be considered when interpreting the results and conclusions of the investigation. Firstly, the use of gatekeepers raises the potential danger of the negative effects of 'snowball sampling', a research technique in which "one contact suggests other possible interviewees who in turn suggest

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<sup>32</sup> Café Imports. (n.d.).

<sup>33</sup> Connective-businesses refer to companies that specialise in "linking roasters with producers and vice versa and taking care of the practical side of things" (van Keulen, 2016: p.9).

<sup>34</sup> 'Gatekeeper' is a term used in social research which refers to "persons who are able to arbitrate access to a social role, field setting or structure." (Harvey, L. 2012). In the context of this study, gatekeepers refers to the connective-businesses, NGOs and academics that helped facilitate contact with producers; as well as other local contacts.

others”.<sup>35</sup> These negative effects include violation of potential interviewees’ privacy and the risk of only interviewing people of a similar opinion or experience. In order to mitigate these effects, attempts were made to diversify the gatekeepers used and to avoid reliance on any one lead, as suggested by Desai & Potter.<sup>36</sup>

Secondly, it is important to note the relatively small sample size of the study. While effort was taken to ensure that interviewees were unconnected and were introduced to the researcher through different gatekeepers, the fairtrade producers interviewed were all members of the same cooperative. While not ideal in terms of case study selection, this was the best option given the limited time and resources available. The potential negative effects were partly mitigated through speaking with ex-members of other cooperatives which provided different and contrasting views.

Finally, the possibility of contacts believing the researcher to be a potential future buyer was warned of by the gatekeepers and should also be considered when interpreting the results. In order to minimise this possibility, the purpose of the interview was always explained beforehand. Nevertheless, certain exaggerations of positive aspects of ethical-trade should be expected and allowed for.

## **5. FAIRTRADE**

Fairtrade’s ability to encourage development among coffee producers is the subject of debate in academic literature. While there is not enough space in this paper to address all of the issues in depth; key economic, social and environmental impacts are explored as well as issues relating to quality.

### **5.1. Producer Understanding of Fairtrade**

In order to gauge producers’ understanding of the concept, interviewees were asked what the term fairtrade meant to them. In general, producers from fairtrade cooperatives showed a detailed understanding of the system and their answers generally matched the explanation provided by official fairtrade organisations. Both the minimum price and the social impacts were cited as important;

*“Apart from price, my motivation for working within fairtrade is the social funds which are distributed between improving productivity and improving social services in the communities. Fairtrade has helped us a lot”.*<sup>37</sup>

The manager of COOMPROCOM claimed that all producers within the cooperative had a good understanding of the fairtrade system and that 80% perceived it positively.<sup>38</sup> However, one

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<sup>35</sup> Desai & Potter. (2006); p. 148.

<sup>36</sup> Ibid.

<sup>37</sup> Interview 5.

interviewee did mention, off-the-record, that there were some issues with producers not understanding the system; due to many having only basic levels of education; and that this presented a danger to transparency and democracy within cooperatives.

Three additional points were also raised during the interviews which are not necessarily represented in the official definitions:

- Fairtrade is something which *only* smallholders do due to having fewer opportunities in the global market; “*they don’t have many possibilities to improve their own situation*”.<sup>39</sup> “*In Nicaragua the only people who start in fairtrade are producers that are associated with cooperatives; and if you are a part of a cooperative in this country, it is because you don’t have the necessary resources [to do it yourself]*”.<sup>40</sup>
- Fairtrade is *required* by smallholders if they wish to sell their product on the global market; “*In the international market, they buy from us because we have certification. If we weren’t certificated with fairtrade it would be impossible for us to sell our coffee*”.<sup>41</sup> Therefore the cost of obtaining certification is not necessarily something smallholders *choose* to do to improve their situation; it is an occupational necessity.
- All farmers spoke largely of their own obligations under fairtrade and not necessarily what the movement could do for them. “*As a producer I have to improve my levels in order to be able to sell as fairtrade*”.<sup>42</sup> So while the benefits to the producer are a key part of the definition of fairtrade, the obligations of the farmer are also an important aspect as they often require large changes from the producing side.

## 5.2. Economic Impacts

As the coffee crisis showed, commodity goods are particularly vulnerable to price swings. Fairtrade aims to shield producers from the worsts effects of these swings by increasing market stability, through minimum pricing and access to finance. In his 2005 study, Christopher Bacon argued that fairtrade had succeeded in reducing producer vulnerability, and that farmers linked to fairtrade cooperatives received higher average prices and were more secure.<sup>43</sup>

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<sup>38</sup> Interview 7.

<sup>39</sup> Interview 4.

<sup>40</sup> Interview 2.

<sup>41</sup> Interview 5.

<sup>42</sup> Interview 6.

<sup>43</sup> Bacon. (2005).

While higher prices and access to finance were regularly mentioned in interviews with producers; two further economic benefits of fairtrade also emerged. Firstly, certification allows farmers to export their coffee abroad. Being a member of a cooperative gives smallholders access to global markets which they would not have had access to individually. As previously mentioned, this raises the question of whether producers choose to embrace fairtrade or if they do so out of necessity.

The second advantage was access to a cooperative's resources and training in areas such as internal management, recordkeeping and documentation. Smallholders commented that they did not have the necessary infrastructure, knowledge or contacts to "go it alone" and assistance from the cooperative helped them develop economically as producers. However, while some producers claimed membership of a cooperative had been of great help, others suggested differently. This questions whether certification or the quality of the cooperative is the real determining factor.

As well as advantages, certification also raises certain economic issues. Firstly, there is debate over whether the minimum price is high enough to really aid producers' development. One farmer claimed that "*certification is not so flattering.*" In his opinion, fairtrade still gives farmers a low price for their coffee, even though the price they receive is protected. He did not believe the minimum of \$1.40 per pound was enough.<sup>44</sup>

The manager of COOMPROCOM said that he prioritised other impacts over monetary benefits;

*"For me, the monetary benefits of fairtrade remain low. They are higher when the price of coffee is low, like last year at \$110, and then we are all very happy with fairtrade. But this only happens only once in every 10 years or so. With average prices between \$140 and \$180, I don't believe that fairtrade has much impact monetarily, but it does have other impacts that will reflect in the future...If we are talking about net price, I don't think that fairtrade is having an impact, but if we are talking about the balance in general, then yes [it has impact]".<sup>45</sup>*

Secondly, the monetary benefits of fairtrade do not always reach the producers and sometimes get trapped within cooperatives. One ex-fairtrade producer who now sells his coffee through direct-trade explained that he often never received the monetary benefits from fairtrade. Dr. Mendoza agreed with this view;

*"There is incredible variation from cooperative to cooperative. There almost doesn't exist a cooperative in which [all the benefits] arrive at the members. There are cooperatives in which*

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<sup>44</sup> Interview 3.

<sup>45</sup> Interview 7.

*members receive zero. There are cooperatives in which the members receive 1 dollar extra. And there are others where they receive 15 dollars. There is incredible variation”.*<sup>46</sup>

The interviews evidenced the variation of which Dr. Mendoza spoke. Producers from COOMPROCOM spoke well of the fairtrade system, including the financial benefits. Others, including ex-cooperative members, were less complimentary. This returns to the question of whether the real factor in smallholder development is certification, or the quality of the cooperative. While there is no clear pattern as to which cooperatives operate well and which do not, Dr. Mendoza did offer one hypothesis;

*“There may be two or three commonalities that cause this variation. One of them is probably the following; the lower the relationship with fairtrade, the more money producers receive. In other words, if you are a member of a first grade cooperative, and your cooperative is a member of a second grade cooperative, and the fairtrade buyer buys from the second grade cooperative, there is less possibility that you as a member will receive all of the money. However, if the buyer buys directly from your cooperative, there is a greater chance you will receive more money”.*<sup>47</sup>

Thirdly, farmers have to pay for fairtrade certification, which can be a costly and lengthy process and in some cases, the financial gains may not make up for the fees. For small organisations of less than 50 members, certification can cost €2000 for the first year alone, with a minimum cost of €1200 for every following year. These fees come before all the other costs associated with coffee farming.<sup>48</sup> One interviewee reported the price of certification as \$3000 per year.<sup>49</sup>

Finally, fairtrade has been accused of changing from an ethical movement into a business with “the entry of conventional distributors and retailers into fairtrade networks” bringing “additional pressures on producers to conform to traditional industrial and commercial expectations”.<sup>50</sup> This trend was highlighted in interview, and was partly blamed for less money reaching producers and variation between cooperatives;

*“My interpretation is that FLO Cert and other certifiers; little by little have entered the world of neoliberalism; which means the logic of money. I’ll give you an example: I am from fairtrade. I’m an inspector. I come to your cooperative to inspect it. Your cooperative, at a minimum, pays me \$4000, each year to inspect. If I find a problem in your cooperative I should say; “There is a*

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<sup>46</sup> Interview 1.

<sup>47</sup> Ibid.

<sup>48</sup> Stankowski. (2015): p.19.

<sup>49</sup> Interview 5.

<sup>50</sup> Murray et al. (2003): p. 5.

*problem, and therefore I am suspending the certification until we resolve the problem”. Now why don’t I do that? Because I would lose \$4000”.<sup>51</sup>*

The managers of both APAC and COOMPROCOM agreed that for some organisations, fairtrade had become a business;

*“I think many buyers [of fairtrade] do it for business reasons [rather than ethics]. And it worries me when I see the de-certifications. Fairtrade, at the global level has decertified 20 [producer] organisations, but only one or two buyers. Therefore there are more rules on the part of the producers than for the buyers, because the buyers contribute more profit to the system”.<sup>52</sup>*

*“There are too many organisations that see fairtrade as a business. There are many buyers who see fairtrade as a business; they don’t do it for the principle, they do it to sell more coffee at a higher price”.<sup>53</sup>*

Overall, the economic impacts of fairtrade appear to vary. While some producers and organisations report positive impacts, others are less optimistic. The real determining factor could be the status or quality of the cooperative, rather than the presence of certification; calculating the additional income a farmer receives through fairtrade is difficult because “payments vary according to the cooperatives’ handling of debt servicing, cooperative expenses, distribution of Fairtrade social premiums, etc”.<sup>54</sup> Interviewees also highlighted this variation in success rates and some expressed doubt over the role of fairtrade;

*“I also worry because there are many organisations that are within the fairtrade system, but they don’t appear to be within the system as they don’t act like fairtrade organisations”.<sup>55</sup>*

*“I don’t believe that certification leads to improvements or a worsening of conditions. If your logic is to rob the people, then certification can help you to do that. If your logic is to help the people, then certification can also help you do that”.<sup>56</sup>*

### **5.3. Impacts on Workers**

Fairtrade also aims to ensure fair pay and conditions for farm workers; basing its labour standards on the conventions of the International Labour Organization. “Good working conditions” is also explicitly cited in the “10 Principles of Fairtrade” provided by the WFTO.<sup>57</sup>

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<sup>51</sup> Interview 1.

<sup>52</sup> Interview 8.

<sup>53</sup> Interview 7.

<sup>54</sup> Murray et al. (2003): p. 7.

<sup>55</sup> Interview 7.

<sup>56</sup> Interview 1.

However, a study on fairtrade and employment in East Africa found that fairtrade has made no positive difference to wage workers. Instead, the research found that wage workers on fairtrade farms “earned less than equivalent workers in research sites without fairtrade production”. While the report does not claim that fairtrade *causes* low wages, “it does reject the hypothesis that there is a positive causal chain between fairtrade certification and working conditions”.<sup>58</sup>

These findings were supported by the fieldwork. All fairtrade producers interviewed stated that they paid their farmers the minimum wage as stipulated by Nicaraguan law. None claimed to pay more than this. The manager of COOMPROCOM explained:

*“The minimum salary for a worker in Nicaragua is around 130 cordobas plus food; so the fairtrade farmer does not have to pay his workers more. They only have to pay the normal price; they don’t have to pay extra. The Fairtrade Premium is for things associated with development, which include the community, but there is not an extra which allows the farmer to pay the workers better”.*<sup>59</sup>

The manager even admitted that non-certified farms may pay higher wages than fairtrade producers, although claimed that additional benefits such as food quality and access to healthcare compensated for the lower income;

*“If you go to a non-certificated farm, maybe they will pay their workers 10 cordobas more, but they will give them beans that are only suitable for feeding animals. They call them hacienda beans here in Matagalpa... So, the salaries of workers are not higher from working on fairtrade farms, however the working conditions are better”.*<sup>60</sup>

The 2014 paper discovered that the prevalence of wage work in coffee production was much higher than previously thought. Furthermore, the role of wage work on smallholdings was hugely underestimated; something of particularly importance in Nicaragua. Finally, those involved in wage work were “about as far as it is possible to get from some notional ‘labour aristocracy’...these workers are extremely poor by any standard”.<sup>61</sup> Therefore, the benefits of fairtrade do not appear to reach the poorest in the supply chain. Instead fairtrade has underestimated the significance of wage work on smallholdings and over-concentrated on producers/employers and their organisations.<sup>62</sup>

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<sup>57</sup> WFTO. (n.d.).

<sup>58</sup> Cramer et al. (2014): p.120.

<sup>59</sup> Interview 7.

<sup>60</sup> Ibid.

<sup>61</sup> Cramer et al. (2014): p.119.

<sup>62</sup> Cramer et al. (2014): p.121.



#### 5.4. Social Impacts

The Fairtrade Premium aims to spread the benefits of fairtrade beyond the immediate producer group; through investment in education and healthcare projects, as well as farm improvements to increase yield, quality and income.<sup>63</sup> Successes of the Fairtrade Premium have been documented in previous studies; including the establishment of community businesses, improvements in education and healthcare; and the construction of water and sanitation systems.<sup>64</sup> Evidence of the social impact of fairtrade was also present in interviews. One producer claimed that there was more investment in community services through working within the fairtrade system. Another spoke of investment in roads, healthcare and education.

However, as with economic benefits, some producers claimed to never have received such investment. One producer explained one time he received a machete through the Fairtrade Premium. Dr. Mendoza explained how producers sometimes receive very little or nothing from at all;

*“If I speak with a cooperative and say; “You only give one dollar to your members?”, they can respond and say; “Yes, but the benefits arrive through the social fund”. And when I ask what is arriving, they say; “We are giving the kids a backpack”...hmm... So I do the sums: \$5 per quintal<sup>65</sup> and the cooperative exports 40,000 quintals. 40,000 multiplied by \$5 means that the social fund is large. But the backpacks only cover half that. Where is the rest?”<sup>66</sup>*

As with the economics, variation exists around the social impacts of fairtrade. This again suggests that certification may not be the determining factor.

#### 5.5. Environmental Impacts

Fairtrade also “encourages farming and production practices that are environmentally sustainable”.<sup>67</sup> In order to receive fairtrade certification, producers must adhere to several environmental conditions including the prohibition of certain agricultural chemicals and genetically modified organisms. Producers must also monitor the impacts of their activities on the environment, making sure that such impacts remain low.<sup>68</sup>

However, whether environmental protection is a result of fairtrade certification or due to good practices by well-run cooperatives; or even if sustainability is generally just seen as good farming practice by producers, regardless of certification status, is unclear. In Nicaragua, almost all coffee is

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<sup>63</sup> Fairtrade International. (n.d.<sup>c</sup>).

<sup>64</sup> Murray et al. (2003).

<sup>65</sup> A *quintal* refers to 100 pounds of export grade coffee.

<sup>66</sup> Interview 1.

<sup>67</sup> Fairtrade International. (n.d.<sup>b</sup>).

<sup>68</sup> Ibid.

shade grown on fertile mountain soils, under suitable climatic conditions which do not necessitate the need for high chemical and mechanical inputs.<sup>69</sup> It could therefore be argued that sustainable practices already existed within Nicaraguan agriculture and are not a result of certification. Furthermore, during interview, all producers cited environmental protection as a vital aspect of coffee production, regardless of whether their farm was certificated;

*“Fairtrade doesn’t have anything to do with environmental protection. It is an important aspect of coffee farming, whether you are certificated or not. I believe that a producer who works well and doesn’t have certification, can appear just like one who does, with the same motives. But I don’t see a connection”*.<sup>70</sup>

This viewpoint was shared by other non-certified producers who each cited specific environmental policies on their own farms. Such policies included management of water supplies, the use of only natural products on the soil and leaving certain areas of the farm uncultivated;

*“For every hectare of coffee, we have an area of mountain for protection. If we produce an extra hectare of coffee, we have to find another hectare of mountain for protection to maintain the balance”*.<sup>71</sup>

*“We grow 40 quintals of coffee on areas of the farm which, by using other less sustainable varieties of coffee, we could easily produce 80 quintals. By producing 40 quintals instead of 80, we are not only operating sustainably as a business, but also sustainably in terms of the environment. We also have areas within the farm which we leave to nature; which we don’t touch”*.<sup>72</sup>

The view that protection of the environment is an innate aspect of coffee production was even shared by fairtrade producers. One farmer explained that protection of the environment is important to everyone, regardless of certification. He said that it is a matter of conscience; for future generations.<sup>73</sup> Another added;

*“Of course, we protect and care for the environment as it is one of the requirements of being certificated; but also it is something necessary as producers of coffee. We would do it anyway, even if not certificated”*.<sup>74</sup>

The extent to which fairtrade certification encourages environmentally sustainable practices is therefore unclear; the quality of the cooperative or general farming practices may also be important

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<sup>69</sup> Utting-Chamorro. (2005): p.587.

<sup>70</sup> Interview 2.

<sup>71</sup> Interview 2.

<sup>72</sup> Interview 4.

<sup>73</sup> Interview 5.

<sup>74</sup> Interview 6.

factors. However, specific regulations and training provided by fairtrade may help to turn previously existing good intentions into tangible results. The extent to which this is true requires further research.

## **5.6. Impacts on Quality**

Evidence suggests that low prices lower the quality of coffee beans produced. Farmers attempt to save money by using techniques which mix good quality beans with poor ones, thereby reducing the overall quality when roasted.<sup>75</sup> By paying farmers more, fairtrade claims to eliminate this need to cut costs and therefore helps increase quality.

However, some critics claim that fairtrade in fact leads to a lowering of quality. As producers are assured of the price they will receive, they are more inclined to sell their lower quality outputs on the fairtrade market saving higher quality coffee for the open market.<sup>76</sup>

The quality issue received mixed responses in interviews. The manager of COOMPROCOM believed that both cooperatives and farmers themselves were more concerned with volume than quality. However, recent changes in the system have led to an increase in the desire for quality;

*“Within fairtrade, in contrast to the initial movement which was more of a moral movement and not so concerned with quality, now everyone involved in fairtrade is talking about quality”.*<sup>77</sup>

One producer said that quality is important as buyers do not buy large amounts of poor quality coffee. Therefore the price fairtrade farmers receive may be guaranteed, but the quantity sold will be lower if the quality is also low. Another producer explained that COOMPROCOM pays different prices for different qualities; if farmers choose to focus on quality, the cooperative will reward them for that. Whether such a policy can be credited to fairtrade, or whether it is specific to the cooperative is unclear.

In terms of improving quality, several fairtrade producers claimed to have received training as a result of being certificated. However, none were able to give specific examples and spoke more of ‘trial and error’ methods that they had conducted themselves. This suggests that such training is not in fact forthcoming although this would again require further research.

## **6. DIRECT-TRADE**

Producers believed that the most important aspects of a trading relationship were higher prices, greater transparency and long-term partnerships. Direct-trade supporters claim that the model can offer these

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<sup>75</sup> Stankowski. (2015): p.17.

<sup>76</sup> Macatonia. (2013).

<sup>77</sup> Interview 7.

things to producers. This section examines this claim as well as direct-trade's potential to improve on fairtrade in the areas examined in Section 5.

### 6.1. Definition

Section 2 introduced the difficulty of establishing an agreed understanding of direct-trade and highlighted the discrepancies that exist among the economic and social criteria that define it. One interviewee commented that;

*“The term [direct-trade] is used rather loosely among conversations within the coffee industry, and, I do believe it can be hard to define”.*<sup>78</sup>

Respondents generally believed that direct-trade centred on three key factors; higher prices, better quality, and transparency. However, there were also areas of disagreement, particularly around the role of middleman organisations. Dr. Mendoza did not believe anything could be defined as direct-trade;

*“I don't believe that anything that exists is completely 'direct'. Never. It is not possible. There is always mediation”.*<sup>79</sup>

By mediation, Dr. Mendoza meant anything from cooperatives to connective-businesses and exporters and believed that the presence of such organisations negated the opportunity for trade to be direct and argued that the ability to undertake processing and exportation on site was vital if trade were ever to be direct, as this is the only method of eliminating middlemen.

*“To me direct-trade requires producers that, here in Nicaragua would be classed as medium or large-sized, are capable of doing the processing and exportation themselves. This would be more direct”.*

However, as the majority of producers in Nicaragua are smallholders, producing less than 20 quintals of coffee, they need to become members of cooperatives or organisations and are therefore not able to sell through direct-trade.

*“By being a member of a cooperative, the cooperative buys the coffee and then they sell it on, it's more or less like this. Therefore this is the first thing that is not direct”.*<sup>80</sup>

The absence of middlemen featured strongly in the definitions of direct-trade provided by producers with several stating that direct-trade was about forming and maintaining relationships with buyers.

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<sup>78</sup> Interview 11.

<sup>79</sup> Interview 1.

<sup>80</sup> Ibid.

When logistical issues occur, such as problems with distance or communication; middlemen, such as connective-businesses, are put into the chain. One producer said that he has known relationships to go bad because of this; *“however, that’s the risk of working in this system”*.<sup>81</sup> Another added;

*“For us, direct-trade means not having middlemen. The Nicaraguan market normally works with middlemen; brokers and coffee export businesses, who often want coffee of the quality that we produce. And this can have negative effects as it doesn’t always mean 100% transparency”*.<sup>82</sup>

However, Borella et al. argue that connective-businesses are necessary; *“as roasters have little capacity to control and coordinate all their different origins, and farmers lack the information and tools to connect with buyers, these connective-businesses are quite essential”*.<sup>83</sup> A representative of one connective-business argued that the important element of direct-trade is that there is open communication between the producers and the final roaster (a step further than just the awareness of each other’s existence), and that this principle is not compromised with the involvement of connective-businesses;

*“Direct-trade always creates the perception that a roaster is buying directly from the farmers’ doorstep without any middlemen. However, an exporter and importer will always be necessary to complete the chain. Their business activities in logistics and quality control are essential, and they can therefore play a prominent role in facilitating direct communication”*.<sup>84</sup>

Another added;

*“I believe you can have millers, exporters and importers involved but what makes it ‘direct-trade’, from my perspective, is the Producer-Buyer, transparent negotiation and agreement as it relates to the coffee purchased and the financial transaction”*.<sup>85</sup>

The role of connective-businesses within direct-trade requires further discussion in another paper. This section instead highlights how direct-trade can be understood differently depending on an individual’s viewpoint. While some differences may appear small or insignificant, their occurrence demonstrates a lack of agreement within the industry over what direct-trade really means and creates the possibility of multiple definitions; encompassing competing ethical and economic criteria. This may create confusion and misunderstanding for both producers and consumers alike, and raises the potential for misuse of the term to further individual commercial interests. With no strict definition, the term direct-trade, and all the good feeling associated with it, can be used by anyone without necessarily having to

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<sup>81</sup> Interview 2.

<sup>82</sup> Interview 4.

<sup>83</sup> Van Keulen. (2016): p.9.

<sup>84</sup> Interview 10.

<sup>85</sup> Interview 11.

fulfil agreed social and economic obligations. Such individuals can use their own definition of the term as they see fit.

## 6.2. Economic Impacts

Purchasing companies operating through direct-trade claim to pay higher prices than the fairtrade minimum. *Intelligentsia* says it pays 25% above the fairtrade price while *Counter Culture* has a minimum price of \$1.60. *Mercanta* typically pays “30-150% more than the cost of production, invariably higher than the Fairtrade price”.<sup>86</sup> The direct-trade farmers also cited higher average and top-end prices; ranging from \$1.70 to \$4.50 per pound of coffee; considerably higher than the \$1.40 fairtrade minimum. One producer commented that moving to a direct-trade system had “*opened his eyes*”. He had never before believed that he could receive a price of \$300 per quintal.<sup>87</sup>

Aside from higher quality, one reason direct-trade buyers can pay higher prices is that they bypass middleman organisations, such as cooperatives. This also has the benefits of increasing transparency in the supply chain, ensuring more of the money reaches the producer and eliminating the costs of certification. One producer commented that;

*“Working in a direct way provides more opportunities for transparency than working in a cooperative; as in a cooperative there are many actors, all of whom are looking out for their own interests”*.<sup>88</sup>

Dr. Mendoza argued that the presence of middlemen means that even when companies attempt to ensure that the price paid goes to the producer, this cannot be guaranteed;

*“Even if one purchasing company demand that the entire price to goes to the producers themselves, and none stays in the cooperative, the cooperative can use the income from other buyers to redress the imbalance caused”*.<sup>89</sup>

Therefore, direct-trade can also increase the percentage of the price that goes into the producer’s pocket whilst costs of certification are eliminated and the transparency that producers seek is increased.

However, the receipt of higher prices does not necessarily translate into greater development for producers or their communities;

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<sup>86</sup> Mercanta. (n.d.).

<sup>87</sup> Interview 3.

<sup>88</sup> Ibid.

<sup>89</sup> Interview 1.

*“They say that it direct-trade has more benefits because a little more money arrives at the producer. But if someone asks me, does that mean a change, or an improvement in quality of life? No, I don’t believe so”.*<sup>90</sup>

The main challenge is to improve the environment in which producers are operating, not just throw more money at the same situation. Dr. Mendoza uses the analogy of a fish in water;

*“If you want to help a little fish, just like with a producer, you have two options. You can give it more food. But in the long term, the fish needs its water to be better; its environment. For producers this is their social rules; their political context, not in terms of being a supporter, but in terms of power relations. Direct-trade says “I will give a little more food to this little fish”, nothing more. But if you are not teaching him that his environment needs to change, you are harming him”.*<sup>91</sup>

This taps into a wider issue within international development. Simply providing more money will not solve problems. Instead there needs to be structural or cultural change along with increases in income;

*“Development is complicated, it’s not easy. It’s important to first develop an understanding. We need to improve peoples’ capabilities, not just give them more money. But to expand capabilities, you need to know your capacities. We need to study the capacity of the people”.*<sup>92</sup>

### **6.3. Impacts on Workers**

Unlike fairtrade, direct-trade does not benefit from a fixed policy regarding workers’ rights. Neither *Intelligentsia* nor *Counter Culture* address labour standards.<sup>93</sup> However, direct-trade producers in Nicaragua are still subject to the country’s minimum wage laws. All of the direct-trade producers interviewed claimed to pay their workers at least this minimum, suggesting that workers of direct-trade farms are no worse off than those on fairtrade farms. Several direct-trade farmers also claimed to pay salaries higher than the minimum wage; one producer said that they offered 10 *cordobas* more than the average in order to attract the best workers. The producers also spoke of wage variation within their farms, offering higher salaries to loyal and efficient workers, and those involved in more specialist roles;

*“What is rewarded is quality and efficiency. Normally, people can double or triple their salary than in other places, if they work hard. We have been forming our team of workers over the last 14*

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<sup>90</sup> Interview 1.

<sup>91</sup> Ibid.

<sup>92</sup> Ibid.

<sup>93</sup> Ethical Coffee. (n.d.).

*years, and so they have higher salaries as they are more experienced with different skills. They all have fixed salaries, like any other business, with bonuses for high productivity”.*<sup>94</sup>

*“We differentiate between our permanent staff, who live almost all year on the farm, and our seasonal workers. There is a difference in salary and social security but it follows the rules and regulations of Nicaragua. With our temporary workers, we reward the people that are with us consistently. They also receive better food; not just rice and beans but meat and salad etc., a diet which is a little more balanced”.*<sup>95</sup>

The ability to attract and retain the best workers was the main motivation for paying higher salaries. Having experienced, skilled workers improves the quality of coffee farmers can produce. When asked specifically if direct-trade allowed the payment of higher wages, one producer answered;

*“Absolutely. Yes. We have the facility to do so and it is a more efficient form of working. In the long term [paying better wages] is more efficient for the farm. But yes; by having good clients and good relationships with our buyers, with have a little more opportunity to stop and think what to do, and how to do it. So definitely yes”.*<sup>96</sup>

Another explained that while currently he only pays the minimum wage, he hopes that by developing long-term relationships through direct-trade he will be able to change this;

*“My farm is growing. I still don’t have a contract with a buyer who says that they will buy my harvest for many years, if I guarantee a certain quality. As yet I don’t have that. But the day I do, I have the ability to invest more, including in the salaries of my workers”.*<sup>97</sup>

Overall, salaries on direct-trade farms seem no worse than on fairtrade farms. In fact, the desire for quality, the payment of higher prices, and the stability of long-term relationships, appear to give direct-trade the potential to also benefit wage workers.

#### **6.4. Social Impacts**

While there are issues with the Fairtrade Premium, direct-trade offers even less guarantee of community investment. The model assumes that higher prices subsequently lead to improving social conditions, with knock-on effects for the wider community.

Reports from producers varied. One claimed that the access to services of the local community was “100% better” for the fact that he worked through direct-trade.

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<sup>94</sup> Interview 2.

<sup>95</sup> Interview 4.

<sup>96</sup> Interview 2.

<sup>97</sup> Interview 3.



*“Nicaragua as a country has very basic medical services; so we administer all the facilities, the electricity, drinking water, food, healthcare, ensure that the people have options, have their own house, have the option to go to hospital... and if not, my father is a doctor!”<sup>98</sup>*

He claimed that working with the community brought long-term benefits to the business. However this means that the social benefits are more focused towards farm workers. Another producer spoke about variation among buyers;

*“We have buyers who say; beside from offering a better price, we are also going to invest in social projects. For example there was a drinking water project, hygiene and health service project, a school project and technical programmes for the workers”.<sup>99</sup>*

As a less altruistic model, direct-trade does not benefit from a set programme for community development. It is instead up to individual producers and buyers to invest in the wider community as they see fit, creating variation in the social impacts of direct-trade. Furthermore, producers investing in community projects appear to do so for the benefit of the farm meaning that the majority of benefits go only to workers.

## **6.5. Environmental Impacts**

Direct-trade also has no common environmental policy. *Intelligentsia* claims to examine its farms to ensure that “healthy environmental practices” are followed, although admits that its standards are “not dogmatic” and recognises the need for different standards in different growing environments. *Counter Culture* also does not address environmental issues.<sup>100</sup>

Nonetheless, all direct-trade producers interviewed spoke of policies they had implemented with regards to environmental protection; explaining that alongside moral reasons, environmental sustainability also has economic benefits. One producer commented that protecting the environment ensures that local conditions remain right for producing high quality coffee.<sup>101</sup> The connection between sound environmental practices and higher quality coffee was also mentioned by others. They argued that producers who focus on volume, and so higher maximum yields, are more likely to exploit the environment.<sup>102</sup> Therefore, through its association with speciality coffee, direct-trade appears to have at least equal motivation to fairtrade for encouraging environmental sustainability.

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<sup>98</sup> Interview 2.

<sup>99</sup> Interview 4.

<sup>100</sup> Ethical Coffee. (n.d.).

<sup>101</sup> Interview 3.

<sup>102</sup> Interviews 2, 3 & 4.

## 6.6. Impacts on Quality

As we have seen, quality coffee is a key element of direct-trade. “The international coffee market is awash in coffee of ‘low quality’, while there is a dire shortage of ‘high quality’ coffee – and it is the latter that is generating sales growth”.<sup>103</sup> In fact, speciality coffee is the only part of the industry that is currently growing, which gives major opportunities to producers.<sup>104</sup>

Direct-trade’s association with quality coffee was reflected in the interviews. While the focus of fairtrade producers varied between quantity and quality; direct-trade farmers unequivocally favoured quality as it provides the best price and helps generate long-term relationships;

*“By focusing on high quality, speciality coffee I am able to demand a higher price, whereas a focus on quantity leaves me more at the mercy of global markets. With a smaller area of production I can achieve the same income by focusing on quality than if we had a large area and focused on quantity”.*<sup>105</sup>

*“We know that we have high quality coffee, and we try to position ourselves as a high quality farm. And through this we aim to establish long-term relationships with our buyers”.*<sup>106</sup>

Producing high quality coffee is therefore a key element of direct-trade and is the main driver behind the higher prices that producers receive. Without the speciality element, producers are unable to reap the financial benefits that direct-trade can offer;

*“If a producer focuses more on volume than quality, they will receive prices closer to the market price, even if they are in a transparent direct relationship”.*<sup>107</sup>

## 6.7. Who Can Benefit?

Direct-trade has advantages over fairtrade in terms of price, transparency and quality; while arguably equal on working conditions and environmental protection. However, operating through direct-trade requires a certain amount of resources, infrastructure and financing. Smallholders therefore find operating through direct-trade more difficult and because of this become involved in cooperatives.

*“As a larger farm, we were fortunate enough to get access to local financing. Before we didn’t control our coffee; the processing, negotiations or exportation. Therefore, one needs to have the industry and infrastructure in place if one wants to work in a more direct manner”.*<sup>108</sup>

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<sup>103</sup> Daviron; Ponte. (2005): p.xvi.

<sup>104</sup> Linton. (2008).

<sup>105</sup> Interview 3.

<sup>106</sup> Interview 4.

<sup>107</sup> Interview 2.

Focusing on quality also requires a certain amount of resources;

*“Focusing on quality requires you to have access to resources; namely finance. It is important to sell your coffee at the best price; your highest quality coffee at the highest price. However, if you do not have access to finance, you are forced to sell your high quality coffee straight away rather than wait for the right price. In this case, focusing on quality does not make sense as you will not receive the correct compensation”.*<sup>109</sup>

Direct-trade may therefore be unrealistic for many of Nicaragua’s smallholders. While it can offer advantages, encouraging all producers to embrace direct-trade will likely leave behind many of the poorest and most vulnerable.

## **7. CONCLUSIONS**

From the research undertaken for this paper, we can conclude that there is a perceived choice in ethical-trade models. While fairtrade and direct-trade each offer distinct advantages, they also both have weaknesses.

One of the main successes of fairtrade has been to put the concept of ethical-trade into the wider public consciousness. This is demonstrated both by the exponential growth in fairtrade sales over the last two decades, as well as the emergence of newer ethical-trade models such as direct-trade. Fairtrade has also raised the minimum price received by smallholders and there is evidence that it has had social impacts outside of the immediate producer community.

However, such benefits do not appear to be evenly spread, with some cooperatives reporting greater successes than others. Some producers claim not to receive the full economic benefits of fairtrade and others are sceptical of the social impacts. It is therefore unclear whether the common denominator in the success of smallholders’ development is the fairtrade certification or the quality of the individual cooperative. Furthermore, in the areas of environmental sustainability, workers’ rights and improving quality; there is little evidence to suggest that fairtrade has made a discernible difference. Fairtrade’s shift from an ethical movement to a commercial business has helped fuel some of these criticisms.

Direct-trade has emerged as a response to some of fairtrade’s failings, with its proponents claiming that it leads to improvements in the coffee trade; both ethically and in terms of quality. The model appears to offer the higher prices, greater transparency and potential for long-term relationships that producers’ desire. It also demonstrates the ability to match or improve on fairtrade both in terms of environmental sustainability and workers’ pay and conditions. However, the extent to which direct-

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<sup>108</sup> Ibid.

<sup>109</sup> Interview 3.

trade can promote development in the wider community appears limited, especially given its specific focus on improving prices. Furthermore, direct-trade requires levels of infrastructure and financing that are unavailable to many of Nicaragua's smallholders. This means that the potential benefits of direct-trade are only accessible to certain producers, and not those most in need of them. Finally, the absence of an agreed definition of direct-trade provides the possibility of misunderstanding amongst producers and consumers, and raises the potential for misuse of the term.

Overall, while there are apparent differences in the outcomes of alternative ethical-trade models, the choices available to smallholders are limited by their current circumstances and conditions. While direct-trade can offer improvements; in doing so it may leave behind many of the poorest producers and their communities. Finally, the limited time and resources available for this project mean that the conclusions raised here would need further examination in future research projects.

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## **APPENDIX 1 - LIST OF INTERVIEWS**

*Interview 1:* Dr. Rene Mendoza; Nicaraguan Academic specialising in social, economic and civil issues in Central America He currently writes for the Winds of Peace Foundation. Interview date: 23<sup>rd</sup> July 2016.

*Interview 2:* Enrique Ferrufino; Direct-trade farmer based in Matagalpa. Interview date: 27<sup>th</sup> July 2016.

*Interview 3:* Alfredo Aruaz; Direct-trade farmer based in Jinotega. Interview date: 3<sup>rd</sup> August 2016.

*Interview 4:* Jose Victor; Direct-trade farmer based in Jinotega. Interview date: 5<sup>th</sup> August 2016.

*Interview 5:* Jose Espino; fairtrade farmer and member of COOMPROCOM. Interview date: 9<sup>th</sup> August 2016.

*Interview 6:* Jesus Maria; fairtrade farmer and member of COOMPROCOM. Interview date: 9<sup>th</sup> August 2016.

*Interview 7:* Ervin Miranda; manager of the COOMPROCOM Cooperative in Matagalpa, Nicaragua. Interview date: 27<sup>th</sup> July 2016.

*Interview 8:* Nestor Rodriguez; manager and director of the *Asociación Pueblos en Acción Comunitaria* (APAC). Interview date: 30<sup>th</sup> July 2016.

*Interview 9:* Oscar Cardoza; Technical direct for APAC. Interview date: 9<sup>th</sup> August 2016.

*Interview 10:* Friso Spoor; European Representative for Peralta Coffees; a connective-business based in Nicaragua. Interview date: 19<sup>th</sup> August 2016.

*Interview 11:* Amanda Eastwood; Latin American Representative for Falcon Coffees; a connective-business from the United Kingdom. Interview date: 31<sup>st</sup> August 2016.