Fair trade and the coffee crisis in the Nicaraguan Segovias

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Small coffee producers in Nicaragua have faced a crisis as the coffee export price has halved since the 1990s. This article examines the role of fair trade in stabilizing prices for small coffee producers, and compares the prices all along the supply chain of the instant coffees, Nestlé and Cafédirect. Although Cafédirect's price guarantee has prevented producers from going bankrupt, it is clear that the processing and retail side has become more expensive since the 1990s, partly as a result of the small volumes traded. Cafédirect's high prices compared with commercial brands are likely to ensure that it remains small, and therefore only benefits a minority of producers.

The authors examine the options for Nicaragua's small coffee producers and recommend that the producers upgrade their production and post-harvest technologies to produce high-quality specialty coffees which can command high prices even without a fair trade tag. They also recommend that the co-operatives be strengthened to be less inefficient and more accountable to their membership.

Nicaragua's coffee export prices have halved since the 1990s

AS IN OTHER COFFEE-EXPORTING COUNTRIES, Nicaraguan coffee producers currently face one of the most dramatic crises of the sector. Since 2000, Nicaragua's coffee export price has gone down to less than US$1300/tonne: about half of the average price levels in the 1990s. In the midst of this, all actors involved in the country's major agricultural activity struggle to survive in the hope of better times to come. Nicaragua's large and medium-sized coffee producers have accumulated substantial arrears on their outstanding bank debts. Many live under the threat of expropriation and those trying to maintain production levels are excluded from further bank credit.

Loss of profitability, insecurity and a lack of finance all affect contract coffee-related activities and employment. In the areas of entrepreneurial coffee production, food-for-work programmes have been put in place to ameliorate the situation for agricultural workers. Still, many are forced into temporary migration or out of desperation have left their homes to organize road blocks to squeeze out some help from passing vehicles. Because of their exclusion from bank credit, smaller peasant coffee producers generally have less debt; however, they are also hard hit by farmgate prices which are even more depressed owing to their less advantageous position in the national coffee markets.

Within the dismal context of the Nicaraguan coffee economy, this article tries to evaluate the contribution of fair trade initiatives to the well-

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being and the development perspectives of peasant coffee producers. We will examine the short-term impact of the current crisis, and look at coffee producers' options, discussing more structural solutions to Nicaragua's disadvantageous position in world coffee markets. Our analysis starts with a comparison of the distribution of value added in two coffee production chains linking Nicaraguan coffee producers with final consumers in the UK. The first chain is a traditional commercial chain that connects Nicaraguan coffee producers with final consumers buying one brand of instant coffee (Nescafé) in Sainsbury supermarkets. In this chain, coffee passes through Nicaraguan commercial brokers and processing plants and the import, roasting and retailing network of the multinational enterprise instant coffee to consumers in UK solidarity shops and supermarkets. Here small Nicaraguan coffee producers link with the UK market through the commercial and processing network of the Prodecoop coffee co-operative in the Segovias region.

Segovias is located in the northern coffee region of Nicaragua. Previously a region dominated by large- and medium-scale entrepreneurial coffee production, large parts of it turned into an area of small coffee producers following the Sandinista agrarian reform which redistributed a substantial part of the entrepreneurial estates to co-operatives. Since the end of the revolution in 1990, practically all co-operatives have fragmented into small plots of around 3–4 hectares. Given the origin of the peasant sector in this region, their production system is more exclusively oriented to coffee than most other peasant coffee producers in Nicaragua.

The data compared are from the 'normal year' 1996 and the 'crisis year' 2001. In 1996, the FOB ('free on board'; meaning the price of exported goods, excluding all costs related to shipping, insurance, etc.) export price of Nicaraguan coffee averaged around US$2600/tonne, whereas it crumbled to below US$1300/tonne in 2001.

Fair trade in a buyer-dominated market

A few multinationals control the bulk of roasting and retailing

The revenue share of producers has dropped dramatically

After the breakdown of the International Coffee Agreement in 1989, world coffee markets have been characterized by high price volatility. The roasting, processing and retailing phases are increasingly located in the consumer countries, where a few multinational corporations control the bulk of roasting and retailing. In 1999, the two biggest enterprises, Philip Morris and Nestlé, had a joint world market share in the final coffee market of 49 per cent (Calfat and Flores, 2001, p.11). At the same time, the previous co-ordination and control over supply in the producing countries has crumbled, giving rise to periodic over-supply to the market. These changes have resulted in a severe deterioration of the revenue share retained by the producing countries and the producers. If producers earned above 20 per cent of total revenue in the 1970s (Calfat and Flores, 2001, p.8) and even 27.6 per cent during the coffee boom of the late 1970s (Clairmonte and Cavanagh, 1988), their share descended dramatically in the 1990s to around 15–20 per cent (Pelupessy, 1999; Talbot, 1997) and even below 10 per cent during the current crisis (see Table 1).

This oligopsonistic market structure and the ensuing extraction of super rent in the buyer-dominated commodity chain should theoretically offer opportunities for new competitors in the market. However, the oligopsonistic market power is very strong, based as it is upon product differentiation (brands) as well as competitive advantages due to economies of scale. In this context, it seems logical to formulate the main theoretical challenge of 'fair trade' as follows: 'To establish a production–commer-

Table 1. Estimated price composition of instant coffee, 1996–2001 (current US$ thousands per equivalent of 1 tonne of coffee beans)

	Commercial chain Nestlé–Sainsbury			*Fair trade chain Prodecoop–Cafédirect*		
	1996	*2001*	*% change*	*1996*	*2001*	*% change*
Final consumer price	10.6	9.4	-11%	14.2	16.0	+13%
Wholesale and retail margin	2.6	3.1*	+19%	3.9	4.8	+21%
Marketing licence	0	0	0	0.26	0.31	+19%
Advertising	0.66	0.62*	- 1%	1.9	2.2	+21%
Roasting, storage, transport, finance	4.8	4.3*	-11%	5.1	5.9	+15%
FOB price Nicaragua	2.64	1.41	-46%	2.91	2.64	-9%
Export taxes and fees	0.15	0.11	-31%	0.20	0.15	-13%
Processing, transport, finance	0.53	0.62	+15%	0.57	0.66	+13%
Producer price	1.96	0.68	-64%	2.03	1.87	-10%

Source: Data constructed from Nestlé (1995a, 1995b); Fair Trade Foundation (1995); Unicafé (1996); informants at Oxfam UK, Twin Trading, Sainsbury supermarket; information provided by Nestlé-UK, Unicafé, Prodecoop and two coffee processing plants in Nicaragua.
* These data are informed estimates.

cialization chain that allows producing countries, and in particular (small) coffee producers, to retain a larger and thus fairer share of total revenue generated.' Or in other words, the challenge is to redistribute value added in the chain more equitably without affecting price levels. Given the brand differentiated nature of the coffee consumer market, this issue of relative share in revenue cannot be separated from the related challenge to create a market niche, i.e. a brand that matches the product chain. This niche characteristic creates the opportunity (but not the necessity) for fair trade to adjust the final consumer price upward due to its attribute of being 'fair' and thus to obtain higher absolute prices throughout the chain.

The challenge is to redistribute value added in the chain more equitably without affecting price levels

The ideal situation would seem to prevail when the 'fair trade' chain were to develop a market niche with both a higher final price and a reversed trend in the relative distribution of rent throughout the chain, especially concerning the share of its declared target group, i.e. peasant coffee producers. An additional variable that needs to be taken into account is the volume handled in the chain. Assuming quality levels are the same, a too high mark-up evidently reduces the scope of the market and thus the number of producers that can benefit from better prices. Should these ambitious objectives turn out to be unattainable, one could formulate a less ambitious goal: to generate positive externalities that allow their counterpart (trade) organizations to gain additional and more favourable access to commercial markets.

Nestlé versus Prodecoop

Tables 1 and 2 present the data and estimates of our comparison of Prodecoop–Oxfam with the Nestlé–Sainsbury chain from Nicaragua to the United Kingdom. Both refer to instant coffee without any clear distinguishing attributes apart from their brand (Nescafé versus Cafédirect).

The advantage of the fair trade guaranteed minimum export price is clear

First of all, we see that the fair trade chain charges a substantially higher consumer price. The fair trade mark-up is substantial and rises from +34 per cent (1996) to +70 per cent (2001). This pricing policy allows Cafédirect to pay higher absolute prices throughout the whole chain, including both a higher FOB export price (to Prodecoop) and a higher producer price (by Prodecoop to peasants). The advantage of the fair trade guaranteed minimum FOB export price of US$2600/tonne is clear. Whereas the FOB export price in the commercial chain almost halves, the Cafédirect price paid to Prodecoop descends by only 10 per cent. At the producer level, the comparison is even more favourable to the fair trade chain. In the Nestlé chain, the producer only receives 35 per cent of the price attained in 1996, whereas producers in the Cafédirect trade still receive 90 per cent of their 1996 price, which at that time was about 4 per cent higher than in the commercial chain. As intended, fair trade has helped to stabilize producer incomes. In the Segovias region, production costs of raw coffee are estimated at between US$550/tonne for remote peasant producers and US$880/tonne for more intensive producers. This implies that in 2001 the price paid by the commercial chain of US$682/tonne is hardly sufficient to cover peasant production costs. By contrast, the price paid in the fair trade chain of US$1826/tonne sustains positive profit margins and thus mitigates the harshest effects of the crisis. On top of that, many peasants selling to the commercial chain do so in advance as a means to finance cultivation and survival. The price for coffee sold in this way is about half of the price at harvest. Such advanced sales are not practised by Prodecoop, which instead provides credit (at a real interest rate of 18 per cent per annum).

A closer look at the data reveals a number of troublesome features of the Prodecoop–Cafédirect chain. A first problem is the limited volume handled in the chain. This restricts the outreach of the benefits to fewer producers. The volumes of the entire fair trade coffee business are so small that even established trading partners, such as Prodecoop, only

Table 2. Estimated shares of revenue from instant coffee, 1996–2001 (per cent)

	Commercial chain Nestlé–Sainsbury			*Fair trade chain Prodecoop–Cafédirect*		
	1996	*2001*	*% change*	*1996*	*2001*	*% change*
Final consumer price	100	100		100	100	
Wholesale and retail margin	25	33	+34%	28	30	+8%
Marketing license	0	0	0%	2	2	0%
Advertising	6	7	+14%	13	14	+8%
Roasting, storage, transport, finance	45	45	0%	36	37	+2%
FOB price Nicaragua	25	15	-39%	21	17	-19%
Export taxes and fees	1	1	0%	1	1	0%
Processing, transport, finance	5	7	+29%	4	4	0%
Producer price	18	7	-59%	14	11	-20%

Source: calculated from the data of Table 1.
% change: per cent change in value between 1996 and 2001

The limited volume in the fair trade chain restricts the number of producers benefiting

The competitiveness of Cafédirect coffee has declined because of increased costs in the UK

manage to sell a part of their output to the fair trade outlets. In the case of Prodecoop this part amounts to around 50 per cent. Producers selling to Prodecoop therefore receive only about half of the higher fair trade mark-up for their crop. Limited volumes also prevent more peasant producers becoming involved in the co-operative.

Of course, one main reason for limited volume is the high price mark-up, applied to a product that apart from its fair trade attribute has nothing more to offer to the consumer. It should therefore not be a surprise that the market niche is very small, since it requires aware consumers (and these are in short supply) willing to pay a higher price in order to give unknown peasants a slightly better income. That the relative price disadvantage of the fair trade chain becomes more pronounced in the crisis year is logical. Indeed, compared to the commercial chain it guarantees substantially higher producer prices. Notice, however, that according to our data not only have prices relative to conventional coffee increased, but fair trade prices have also increased relative to 1996 prices (+13 per cent). This is less logical, since the FOB export price decreases by 9 per cent during this time. A large part of the deterioration of competitiveness is thus due to a worsening cost situation in the UK, where the combined processing and retailing costs increased from US$508 out of a final price of US$644 (79 per cent) to US$603 out of a final price of US$726 (83 per cent) (see Table 1).

Costs have risen in all categories. As far as we could verify, retail margins had to be raised in order to convince supermarkets to accept Cafédirect coffee; advertising costs to promote Cafédirect more broadly rose too (partly in response to pressure from supermarket managers) and also rising transportation costs from Spain (port) to Germany (roasting) to the UK seem to play a negative role. It is thus mainly this escalating inefficiency that imposes the need to increase the mark-up on the consumer price. This tendency cannot but curb opportunities to enlarge the scope of the alternative market, despite increasing marketing efforts.

Table 2 clearly demonstrates that the Prodecoop–Cafédirect chain is not able to reverse the adverse trend in the revenue shares of Nicaragua and its producers. In 1996, the revenue shares of the commercial chain even compare favourably with that of the fair trade chain. A quarter of total revenue stays in Nicaragua compared with 21 per cent in the Prodecoop–Cafédirect network, while about 18 per cent ended up with the coffee producers and only 14 per cent in the fair trade chain. The origin of the competitive disadvantage is clearly a matter of scale. Advertising and marketing licence costs make up the main difference.

As we can see from the data in Table 1 for 1996 (a ‘normal’ year), the inefficiency of the fair trade chain implies that of the 34 per cent mark-up to the final consumer in the fair trade chain (final prices US$14 200 for fair trade coffee compared with US$10 600 per tonne for conventional coffee) only a meagre 4 per cent mark-up (US$2020 compared with US$1960 per tonne) ends up with the producers. Evidently, in 2001 the comparison between both chains is reversed and the fair trade shows better shares of revenue for the Nicaraguan side of the chain. However, compared with 1996, the Nicaraguan share of total value added further decreases from 21 to 17 per cent for Prodecoop and from 14 to 11 per cent for the peasant producers (Table 2).

A final point to be noticed is the relative inefficiency of the producer–Prodecoop chain compared with the producer–commercial trader chain within Nicaragua. In both years, its processing and trading cost are estimated to be about US$40/tonne higher.

Fair trade is bonsai trade

Is it really worthwhile to invest in alternative trade when its benefits are so limited?

If we take all of the above together, we may conclude that the Cafédirect and other fair trade systems of guaranteed minimum prices definitely helps small peasant coffee producers to mitigate the fluctuations in the coffee sector. It provides them with a small cushion to help withstand and adjust to changes that would otherwise endanger their survival in a more radical way. However, a low and worsening relative cost competitiveness, as well as severe volume limitations, restricts both the social outreach and the absolute advantages for the intended beneficiaries of this fair trade initiative. In summary, fair trade compares to a bonsai tree: a skillfully crafted and somewhat prettier miniature version of the full-scale original. However, it will never be able to grow into the dense forests that peasants all over the world urgently need.

This brings us to the question of whether it is really worthwhile to invest in alternative trade when its benefits are so limited? If it is considered to be worthwhile, what measures could be taken to improve both the social outreach and the absolute benefits for the producing countries and its producers? If not, are there alternative routes that could be considered? Of course, it is beyond the reach of this short article to analyse these issues conclusively, but we can present some useful reflections.

Fair trade: politics or business?

Fair trade has been used as an excuse to lure people into regular visits to the solidarity shops

There has in the past been some ambivalence on the part of fair trade organizations, for example those like Cafédirect, that operate fully or partially through a separate network of solidarity shops. In fact, it has not always been clear that the fair coffee trade really aimed to directly improve the living conditions of peasant producers. Often, fair trade has been used more like an excuse to lure people into regular visits to the solidarity shops that are important centres of the Third World solidarity movement. In this view, the structural change necessary for the improvement of peasant conditions in the Third World has to come from the impact of the Third World movement on national and international policies.

Our conclusions about inefficiency and limited outreach should then not be particularly upsetting since progress on the political side is crucial. In the past, this 'political argument' has been used to justify amateurism and inefficiency. And in today's reality, the continued mixture of political and commercial roles does not contribute to the efficiency of either activity, and in particular not to that of commerce. In the rest of our article, we will assume, however, that today's fair trade movement has become aware of the practical and ethical problems of the 'political argument' and therefore tries to develop a real and sustainable commercialization alternative for a substantial number of peasant coffee producers. Our point of departure is that despite its limited positive impact, present-day inefficient fair trade is still far from reaching this strategic objective. Neither does it contribute much to the promotion of more advantageous links of peasant producers with other commercial markets.

The need for competitiveness

An analysis of the potential of fair trade to contribute to a more structural solution to the coffee crisis in Nicaragua must of course be linked to the above analysis of oligopolistic control over the international market.

The challenge is to create new brands that can compete effectively with the brands controlled by the multinational enterprises

From that analysis, it is clear that the challenge is to identify and create new brands or products that can compete effectively with the brands or products controlled by the multinational enterprises. Two theoretical approaches are possible here. The first would be the placement of an honest, plain coffee with a fair trade attribute at a more competitive price, allowing a substantial rise in volumes. The second is the creation of a product that can be sold in higher-value market niches because of intrinsic quality attributes over and above the fair trade trademark. This option represents the route of higher price, specialty coffee, which is also more generally held to be part of the structural solution for the threatened coffee production in Nicaragua (e.g. Moore, 2002).

Plain, honest coffee in the UK: a problem of scale

In view of our tentative data on the relative efficiency of the Cafédirect instant coffee, the challenge of improving the competitiveness in the market segment of 'honest, plain coffee' turns out to be huge. Since most of the value added is lost in the UK part of the chain, attention must first go to this issue. However, our analysis points to the fact that the crux of the problem is scale. And scale is a matter of price competitiveness and brand loyalty. So we identify a vicious circle of small scale, high costs, a non-competitive brand with a high price and thus a continued small market segment and reduced scale. Unless huge subsidies are forthcoming to break this vicious circle, it is very unlikely that the structural limitations of fair trade in plain coffee will be easily removed. Even if we are naively optimistic about the adoption of radical policies at the international level, such specific subsidies for fair trade brands are difficult to justify and cannot be realistically expected.

The crux of the problem for fair trade coffee is scale

Even when the cost disadvantage due to inadequate scale can never be resolved within the bonsai market segment, this does not preclude some gains in efficiency from improving enterprise strategies. In this UK context of our study, we believe it is necessary to voice a criticism of the Fair Trade Foundation. On the whole, they focus on verifying whether the minimum price conditions are met. One might expect them to make more effort to monitor and publicize the relative inefficiency in commercialization costs, and to pursue policies to enhance information flows and transparency.

Plain, honest coffee in Nicaragua: limitations of the co-operative

There is also a competitive disadvantage on the Nicaraguan side of the production–commercialization chain. A more detailed analysis reveals that the disadvantage is mainly the result of higher administrative costs; to a lesser degree disadvantageous access to local financial services also plays its role (Mendoza, 2002, p.34–9). The crucial weakness in terms of administration costs is directly related to the co-operative model, which compares unfavourably with the decentralized brokerage system of the commercial network of intermediaries and local traders. The co-operative structure involves an expensive, top-heavy entrepreneurial hierarchy, including a large administrative staff and substantial representation costs for its leaders (12 in the case of Prodecoop). The administrative inefficiencies of such co-ops can be very serious: the Empresa Cooperativa de Cafetaleros Organicos de Nicaragua (ECOCOONIC), a quite promising co-operative of organic coffee producers with a turnover of 88 000 tonne/year, went bankrupt in the 1990s due to the administrative ineffi-

The co-operative structure involves an expensive, top-heavy hierarchy ciency of the co-operative model (for a comparative analysis of the Ecocoonic-organic chain and the Prodecoop chain in 1996, see Mendoza, 2000). There is also confusion between the co-operative's roles as an enterprise and as a member-interest organization.

In this context, our field study also raised doubts about the co-operative's transparency and democratic participation. Indeed, in Prodecoop deficiencies in downward accountability seemed to be at least partially responsible for excessive administrative costs. The annual reports of Prodecoop no longer provide details about the administrative costs and, when questioned about this practice, the Prodecoop leaders argued that publicizing these details was unnecessary since the majority of their members cannot read. We were uneasy about these remarks and believe that enhanced and especially more transparent management practices could improve cost effectiveness. More fundamentally, Prodecoop to a large extent copies the vertical and clientelistic modes of organization that form the institutional–cultural core of Nicaraguan underdevelopment and injustice (see e.g. Bastiaensen, 2000, pp.152–3; 2002, pp.36–9; Mendoza, 2000, pp.61–3). Basically, these modes treat 'members' as ignorant and therefore indefinitely poor clients in need of paternalistic protection by authoritarian patron leaders. It is one of our most troubling findings that fair trade subsidies could end up supporting such paternalistic and clientelistic forms of organization since it is these that continuously reproduce ignorance, dependence and poverty.

The democratic advantages of co-operatives should not be taken for granted

In view of this, we are concerned that the fair trade and other solidarity organizations that put forward the co-operative model as the preferred form of democratic social and economic organization do not take greater care in monitoring and promoting internal communication, transparency and participation. They should adopt a less ideological approach and certainly not take the assumed advantages of co-operatives for granted. Internal democracy as well as managerial efficiency should be promoted more actively and contacts and friendly relationships should not be limited to the already powerful leaders and managers.

Plain, honest coffee: a confined future

Fair trade could even end up masking both a lack of quality and substantial inefficiencies

Even though our analysis points at some areas for improvement, the main conclusion seems nevertheless to be that the prospects for 'plain, honest coffee' are rather dismal. Peasants currently connected to this market niche can continue to benefit and these benefits can still improve somewhat, but the volume limitations under the current conditions are likely to remain so that only few peasants will be included in the future. The bonsai can further be trimmed, but will have insurmountable difficulties growing into a tree. Furthermore, there are no clear positive externalities in terms of improved access to commercial markets generated by the generally too lax exigencies of fair trade. Instead fair trade could even end up masking both a lack of quality and substantial inefficiencies, at least partially due to a democratic deficit in the co-operative structures. We therefore believe that a serious reconsideration of present-day fair trade strategies is in order.

Opportunities and challenges of specialty coffee

The Segovias region, where Prodecoop producers are located, has among the highest altitudes in Nicaragua and therefore has the potential to produce among the best coffees in the world. However, due to a series of technical and organizational deficiencies this potential is only marginally realized, even though the current crisis has provided strong incentives to exploit the available opportunities. The production of specialty coffees for higher value market niches provides a commercial alternative that could offer better opportunities for peasant coffee producers than present-day fair trade. Even though specialty coffee today represents less than 4 per cent of world coffee trade (Calfat and Flores, 2001, p.28), the segment is fast growing and especially for the Segovia producers presents a promising opportunity. The prices paid by US specialty coffee firm Starbucks for high-quality coffee even compare favourably to the Cafédirect price (Mulady, 2001). Moreover, unlike fair trade, there is less restriction on demand, as in fact these firms are generally most concerned with the current limitation on the supply of coffee of the required quality. Organic coffee represents another, but possibly more difficult and more limited, segment of the higher-value markets.

High-value speciality coffees could offer better opportunities for small producers than fair trade

Given the current technical and organizational deficiencies, meeting the required quality conditions of this market segment from the relatively inefficient Prodecoop network would, however, be difficult. To tackle these problems substantial improvements in the production-commercialization chain in Nicaragua are required. Many of the more important limitations can be identified at farm level, especially in the post-harvest treatment of green berries. The following technical problems are among the most common: hulling machines that are not adequately calibrated so that 15 to 30 per cent of the beans are broken; fermentation of green beans due to delays between harvest and hulling; inadequate drying conditions; transport of hulled beans with an excessive degree of humidity; use of inappropriate wood negatively affecting taste; excessive use of water to facilitate hulling. A shift towards pure organic coffee presents additional problems since it would require a completely different production technology.

The resolution of all these problems almost inevitably requires new, much more co-operative relations between all the actors in the chain. On the Nicaraguan side, the mere adoption of a formal co-operative structure falls short of producing the kind of social relations needed to create and sustain shared interests as well as the required horizontal processes of knowledge generation and mutual monitoring and control. The new kind of organization also requires the adoption of a much more entrepreneurial culture, aware and sensitive to the exigencies of highly demanding consumers. An important first step would be to make a clear-cut distinction between Prodecoop as an enterprise for processing and trading coffee and Prodecoop as a membership structure. The confusing mixture of roles (enterprise-interest organization) and functions (coffee trader, credit organization, provider of technical assistance) entails an unhealthy dispersion of management attention and does not contribute to the much-needed transparency in decision-making processes. Given the challenges faced in an endeavour of this sort, an organization such as Prodecoop badly needs help in the form of applied research and development aimed at identifying bottlenecks and opportunities. Little of such research exists today and therefore the capacity and knowledge gap continues to exist and to widen. And such capacity shortfalls continue to justify subsidies for the poor through protective higher prices, thereby trapping the poor into a path without a future.

Fair trade should promote the technical and organizational conditions needed to find a permanent place in the high-quality market niches

Fair trade and its subsidies could therefore better be used to promote actively the technical and organizational conditions that are desperately needed to find a permanent place in the high-quality market niches for the

Prodecoop and other Segovian producers. It should look for ways to actively support the incipient efforts of Prodecoop in this direction. Instead of continuing to subsidize the purchase of ‘plain, honest coffee’ and so protect the peasant producers that are not competitive against the worst consequences of the price volatility in times of crisis, it is more useful to think of ways to stimulate the production of high-quality beans. This could be done by gradually redirecting the revenue of the fair trade premium – and possibly additional aid resources – towards the promotion of quality improvement instead of just ‘spoiling’ the subsidy in inefficiency and slightly higher producer prices. Fair trade could also study the potential for a gradual shift in their purchase policies in order to focus on higher quality brands, while becoming radically more demanding in terms of quality. New rules of the game could include the right of the fair trade organizations to purchase coffee of an appropriate quality from other suppliers (at market prices) when, despite subsidies, quality standards cannot be met. Only in this way can the appropriate and necessary incentives be maintained in the chain. Competitiveness in world markets demands profound cultural and institutional changes that would transform poor peasant producers into entrepreneurs for the global market and civilians of world society. It is definitely not a good idea to subsidize them to remain poor peasant producers trapped in the small world of their farms and their local communities dominated by authoritarian patrons.

Small producers should not be subsidized to remain in the small world of local communities dominated by a few authoritarian patrons

A legitimate future for fair trade?

We conclude that in its present form Prodecoop-Cafédirect is not up to the theoretical ‘fair trade’ challenge that we have formulated at the outset. In normal years, it indeed needs a substantial ‘fair trade’ premium on top of market prices, assumed to incorporate oligopsonistic super rents, in order to provide their peasant clients with only slightly better prices. Severe inefficiencies in processing and retailing, both on the Nicaraguan and the UK side of the chain, are to blame. The sole, but indeed very real, advantage of the chain is therefore the maintenance of a guaranteed minimum price that allows for profitable coffee growing. For the peasants associated with Prodecoop, this guaranteed ‘fair’ price has made the difference between survival and starvation in the last two years. Still, our analysis indicates that there is not much reason for the fair trade actors to be at ease with this positive result, since so much more should be possible and so many more peasants should be included.

The guaranteed ‘fair’ price has made the difference between survival and starvation in the last two years

Reducing inefficiencies at all levels in order to expand the market niche is therefore an urgent priority and a critical challenge for the credibility of fair trade. As we have indicated, we think this requires substantial changes in organizational set-up and a shift towards a much more demand-oriented contractual-entrepreneurial culture on both sides of the chain. Attaining the social objectives of fair trade paradoxically requires adopting a clear entrepreneurial stance for the organization of the market chain. Part of an entrepreneurial culture is also to understand and monitor the nature and demands of the market so as to be able to respond to opportunities that match available means and (potential) capabilities. In the Nicaraguan Segovias, the market niche of specialty coffee clearly offers promising opportunities. Fair trade initiatives should be able to revise their support mechanisms so as to help their peasant clients ‘graduate’ into this and other promising market niches. The values as well as the accumulated human and social capital in the fair trade marketing chains still provide an interesting platform to tackle these challenges, but up to now results fall short of legitimate ambitions. Fair trade owes it to its 'intended beneficiaries' as well as to its 'conscious consumers' to be much more effective and efficient than it is today.

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