Kopi, Cooperatives, and Compliance:

**A Case Study of Fair Trade in Aceh,
Indonesia**

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Table of Contents

Table of Contents.....	3
List of Figures.....	7
Abstract.....	8
Acknowledgements	9
Glossary of Frequently Used Terms and Acronyms.....	10
Map of the Special Province of Aceh, Indonesia	12
Map of Indonesia.....	13
Chapter One: Introduction	14
1.1 Research Aim and Questions.....	15
1.2 Outline of the Thesis	16
Chapter Two: Methodology	17
2.1 Research Approach	17
2.2 Fieldwork and Research Methods	18
2.2.1 Timeframe and Location of Research	19
2.2.2 Cooperatives Involved.....	19
2.2.3 Methods.....	20
2.3 Ethics	25
2.4 Analysis.....	26
2.4.1 Quotations in Writing.....	26
2.5 Reflections on the Process.....	27
2.5.1 Researcher Positionality.....	27
2.5.2 Lessons Learned	29
2.6 Summary	31
Chapter Three: Fair Trade: The Principles, History and Theory of the Movement ...	32
3.1 Growth and Presence of the Fair Trade Market	32
3.2 Commonly Accepted Definition of Fair Trade	34
3.3 Fair Trade Philosophies	36
3.3.1 Market-Access and Shaped-Advantage.....	36
3.3.2 Market-Reform and Alternative Globalization	37
3.3.3 Market-Breaking Force.....	38
3.3.4 The Philosophy of Fairtrade International	39
3.4 Early Origins of Fair Trade	42

3.4.1 Origins in Development	43
3.4.2 Origins in Solidarity	44
3.5 Second Phase of the Fair Trade Movement	45
3.5.1 Concerns Regarding Mainstreaming	47
3.6 Summary	51
 Chapter Four: Coffee and the World Market: Conventional and Fair Trade	
Production	52
4.1 The Coffee Industry At Large	52
4.1.1 Coffee for Development	53
4.1.2 Historical Review of Coffee Production: Colonial Roots, the International Coffee Agreement, and Industry Liberalization	54
4.1.3 The Coffee Industry More Recently: High Production, Increasing Consumption	59
4.2 Fair Trade Coffee	67
4.2.1 Fair Trade Standards Specific to Coffee	70
4.2.3 Existing Research on the Effectiveness of Fair Trade for Producers	73
4.3 Summary	76
 Chapter Five: A New Era for Coffee and Farmers? Coffee Production in Indonesia and the Special Province of Aceh	
77	
5.1 Indonesia and the Special Province of Aceh in Context	77
5.1.1 Indonesia.....	77
5.1.2 Aceh	80
5.2 Coffee Production in Indonesia	83
5.2.1 Historic Coffee Production: From Forced Cultivation to Farmers Associations	83
5.2.2 Current Characteristics of Coffee Production in Indonesia.....	88
5.3 Specialty Coffee and the Acehnese Coffee Industry.....	91
5.3.1 High Prices Earned for A Leading Producer of Arabica Coffee.....	91
5.3.2 Aid and Assistance in Aceh Coffee	97
5.3.3 Fairtrade in Aceh	99
5.4 Summary	100
 Chapter Six: Archetype of an Aceh Fairtrade Cooperative	
101	
6.1 Cooperative Profiles	101
6.2 Leadership and Elected Management	102
6.2.1 Pressure from Fair Trade USA and Fairtrade International for Exclusive Certification	103

6.2.2 Financial Transparency: Present at the AGM	104
6.3 Office Staff	105
6.3.1 The Social Premium: Used Primarily for Salaries and Infrastructure	107
6.4 Warehouse and Processing Staff	108
6.5 Internal Control Staff	109
6.5.1 Farmer Trainings Prioritize Environmental Over Social.....	110
6.6 Collectors	112
6.6.1 Transparency in the Cooperative Hinges on Collectors	115
6.8 Farmer Delegates	116
6.8.1 Democracy as Practiced by Delegates.....	117
6.9 Farmers.....	120
6.9.1 Farmers Selling to Traders Outside the Cooperative	122
6.9.2 Fragmented Community Development.....	122
6.10 Summary.....	124
 Chapter Seven: Producer Attentiveness to Compliance: An Outcome of Buyer-Driven Demand for Fairtrade Coffee?	 125
7.1 Buyer Demand for Fairtrade Coffee in Aceh	125
7.2 INGOS and the National Government: Other Actors Influencing Fairtrade's Establishment in Aceh.....	128
7.2.1 The Largest Cooperative in Gayo and NCBA's Assistance	128
7.2.2 Koperasi and the National Government's Regulation on Cooperatives.....	129
7.3 An Eye for Compliance: Ramifications of Top-Down Pressure for Certification	131
7.3.1 "Staff Must Understand Standards:" Fairtrade and Compliance	131
7.3.2 Fairtrade is for Customers.....	136
7.4 Summary	138
 Chapter Eight: Final Discussion and Conclusion	 140
8.1 Discussing the Research Questions.....	140
8.1.1 Central Research Question.....	140
8.1.2 Supporting Question A	141
8.1.2 Supporting Question B	142
8.1.3 Supporting Question C	144
8.1.4 Supporting Question D	145
8.2 Implications of this Study: The Mainstreaming Debate in Aceh.....	146
8.3 Future Research	148

8.4 Final Reflections	149
References.....	150
Appendix A: Additional Participant Details	161
Appendix B: Ethics Materials.....	163

List of Figures

FIGURE 1 CATEGORIES OF PARTICIPANT PSEUDONYMS.....	22
FIGURE 2 FAIRTRADE WORLDWIDE SALES BY COUNTRY	33
FIGURE 3 FAIRTRADE AND WORLD FAIR TRADE ORGANIZATION LOGOS.....	34
FIGURE 4 CORE PRINCIPLES OF FAIR TRADE	35
FIGURE 5 FAIRTRADE'S THEORY OF CHANGE FOR SMALL PRODUCER ORGANIZATIONS	40
FIGURE 6 IDENTIFIED VALUE CHAINS WITHIN THE FAIR TRADE NETWORK	48
FIGURE 7 IDEAL GROWING CONDITIONS, ARABICA AND ROBUSTA COFFEE	53
FIGURE 8 ICO MONTHLY COMPOSITE INDICATOR PRICES, 1965-2013	60
FIGURE 9 INTERNATIONAL COFFEE PRODUCTION BY REGION, 2013.....	61
FIGURE 10 TOP TEN COFFEE PRODUCING COUNTRIES 2009-2013.....	61
FIGURE 11 WORLD COFFEE PRODUCTION BY REGION (IN MILLIONS OF 60KG BAGS), 1963/4-2008	62
FIGURE 12 RATIO OF GLOBAL SUPPLY AND WORLD CONSUMPTION 2003-2013	63
FIGURE 13 WORLD COFFEE CONSUMPTION BY TYPE OF MARKET, 1964-2012	64
FIGURE 14 COMPARISON OF POPULAR ETHICAL COFFEE CERTIFICATIONS.....	66
FIGURE 15 MAP OF FAIRTRADE COFFEE PRODUCER ORGANIZATIONS, 2011	69
FIGURE 16 FAIRTRADE COFFEE PRODUCER ORGANIZATIONS AND MEMBERS BY REGION, 2009/10.....	70
.....	70
FIGURE 17 TOP TEN COUNTRIES, FAIRTRADE CERTIFIABLE PRODUCTION CAPACITY 2010/11	70
FIGURE 18 SELECTED FAIRTRADE STANDARDS FOR SMALL PRODUCER ORGANIZATIONS	71
FIGURE 19 GINI COEFFICIENT IN INDONESIA, 1980-2012	80
FIGURE 20 TOTAL ANNUAL COFFEE PROFIT AND ITS DISTRIBUTION IN INDONESIA, 1976-2003.....	87
FIGURE 21 GROWTH OF NEW FARMERS' ORGANIZATIONS IN INDONESIA SINCE 1998.....	88
FIGURE 22 TOTAL COFFEE PRODUCTION AND AREA UNDER PRODUCTION BY INDONESIAN PROVINCE IN 2006	90
FIGURE 23 PHOTO OF THE CITY OF TAKENGON AND LAKE TAWAR.....	92
FIGURE 24 PHOTO OF TOURISM SIGN ABOVE TAKENGON.....	93
FIGURE 25 PHOTO OF A FISHING HOUSE ON LAKE TAWAR,.....	93
FIGURE 26 PHOTO OF A PATHWAY BETWEEN HOMES IN TAKENGON	94
FIGURE 27 PHOTO OF BECAK STYLE TRANSPORT AND BUILDING WITH TRADITIONAL GAYONESE ARCHITECTURE.....	94
FIGURE 28 PHOTO OF A COFFEEHOUSE IN TAKENGON.....	95
FIGURE 29 DONOR DEVELOPMENT ASSISTANCE TO THE ACEH COFFEE INDUSTRY, POST-2005.....	98
FIGURE 30 PROFILE OF FAIRTRADE COOPERATIVES PARTICIPATING IN THIS RESEARCH	101
FIGURE 31 OVERVIEW OF COOPERATIVE OFFICE STAFF	106
FIGURE 32 IMAGES OF COOPERATIVE MEMBER TRAININGS	111
FIGURE 33 KOPERASI LOGO	130

Abstract

A development initiative at its core, fair trade endeavors to provide better trading conditions for disadvantaged producers in the world market system, such as smallholder coffee farmers, who face a volatile market and prices that have yet to recover from a deep price crisis in the early 2000s. With the onset of labeling and certification, fair trade entered the mainstream by the late 1990s, and has continued to demonstrate strong growth in sales. Moreover, new producer organizations are becoming certified in an expanding number of countries, and fair trade coffee is expanding beyond its traditionally dominant productive center in Latin America.

To explore how fair trade is established, and interacts with, new producer contexts, a case study was performed with five fair trade certified coffee cooperatives in Aceh, Indonesia, all of whom have gained certification within the last 10 years, was performed. This thesis sought to understand the particularities behind how fair trade reached Aceh, what factors influenced its implementation, and how coffee producers experience their participation in the fair trade movement. Further, particular attention was paid to the practice and formation of the cooperatives' structures and policies; fair trade requires that coffee farmers are organized into democratically owned and governed cooperatives, an institution relatively unpracticed in Indonesia.

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Glossary of Frequently Used Terms and Acronyms

Terms

Fair trade Term used when referring to the principles and movement at large

Fairtrade Fairtrade Labelling Organizations International

Acronyms

AGM Annual General Meeting

ATO Alternative Trade Organization

BRA Badan Reintegrasi-Damai Aceh (Aceh Peace-Reintegration Board)

FLO Fairtrade Labelling Organizations International, often referred to as Fairtrade International

FLO-CERT The inspection and certification body for Fairtrade Labelling Organizations International

FOB Free on Board Price for Coffee

FTO Abbreviation used for dual Fairtrade and Organic Certification

GAM Gerakan Aceh Merdeka (Free Aceh Movement)

GBE Green Bag Equivalent. An internationally accepted measurement for coffee weight, GBE is one 60 kilograms bag of green coffee beans prior to roasting; parchment, decaffeinated, soluble, and liquid coffee are often translated into GBE standards.

GDP Gross Domestic Product

GI Geographical Indicator

GVC Global Value Chain

ICA	International Coffee Agreement
ICO	International Coffee Organization
ICS	Internal Control Staff, Employees of Aceh Coffee Cooperatives
INGO	International Non-Governmental Organization
LoGA	Law of Governing Aceh
MNC	Multinational Corporation
MY	Marketing Year
NCBA	National Cooperative Business Association
RGDP	Regional Gross Domestic Product
STABEX	Export Earnings Stabilization System Agreement
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VOC	Vereenigde Oost-Indische Compagnie (United East Indies Company)

Map of the Special Province of Aceh, Indonesia

(ANU, 2013)

Map of Indonesia

(Nations Online Project, 2014)

Chapter One: Introduction

This thesis explores the growth of the fair trade movement and the implications for coffee farmers who have become certified during this expansion. Fair trade originated in Mexico with a partnership between the Union of Indigenous Communities of the Isthmus Region (UCIRI), seeking improved conditions to selling to the European market, and Dutch organization Solidaridad; this partnership created the Max Haavlar fair trade label in 1988. When international coffee prices dropped to a 30-year low in 2003 consumers gained an increased awareness of the challenges faced by smallholder coffee farmers, disadvantaged in a volatile market. The movement has since entered mainstream retail outlets, such as supermarket chains, and several large corporations now carry fair trade product lines. 123,200 tons of fair trade certified coffee was produced in 2011, a 19% growth on the year prior (Fairtrade International, 2012). Further, fair trade coffee has grown beyond its origins in Mexico and is currently produced in 28 countries by 348 cooperatives (*ibid*, 2012). Now operating in locales outside of the context that created it, it is important to understand how fair trade is being practiced in these new contexts.

Fair trade is a sustainable development initiative ultimately seeking, “greater equity in international trade” so to improve the position and livelihoods of disadvantaged farmers and artisans in the world market (WFTO and FLO, 2009, p. 5). To do so, fair trade has established a minimum purchase price for products, provides community development funds through a social premium, and fosters long-term, transparent relationships with buyers. Specific standards exist for each type of fair trade product, and for coffee specifically, a critical component is for producers to be organized into associations that they own and govern democratically, requiring smallholder farmers to be members of a cooperative.

Additional to a gap in research and literature on fair trade production in Asia, Indonesia is an interesting location for research on fair trade coffee. Internationally, Indonesia is an important producer of coffee, or kopi in Indonesia’s national language, Bahasa. Currently, Indonesia is the fourth largest producer of coffee worldwide, with 2.33 million smallholder farmers producing 420,000 tons in 2007 (Marsh, 2008). This accounts for approximately 7% of the world’s coffee (USAID, 2007). However,

Indonesia's position in fair trade coffee is slightly less prominent, representing just 5% of the world's fair trade coffee produced in 2010 (Fairtrade Foundation, 2012). Only recently has Indonesia begun exporting fair trade certified coffee, but the uptake has been quick. In less than ten years sixteen cooperatives have been certified, clustered predominantly in one province, Aceh, between two districts, Aceh Tengah and Berner Meriah; the 16th cooperative is located in Nusa Tenggara Timur.

Indonesia does not have an extensive or positive history with agricultural cooperatives, the organizational structure required by fair trade. During Suharto's authoritarian government the village and agricultural cooperatives that did exist were intimidatingly used as political tools for propaganda and securing vote blocks (Neilson, 2008). Only since the end of authoritarian rule in the late-1990s has Indonesian civil society had the opportunity to openly and actively participate in democratic governance.

To gather an understanding of how Indonesian coffee farmers are organizing into cooperatives in Indonesia, and how fair trade is being implemented in a different producer context, this thesis presents a case study of cooperatives in Aceh both applying for and holding fair trade certification. Doing so, an understanding of the structure, policies, and practices of certified cooperatives, what potential benefits or constraints they create for coffee farmers, and how participants view their experience with fair trade was gained and illustrates how fair trade is established in new contexts.

1.1 Research Aim and Questions

Noting this rationale, this thesis aims to address the following question:

How has fair trade been applied in a new context, specifically in coffee production in Aceh, Indonesia?

In order to address the central question above, questions to explore are:

- a. What factors contributed to the clustering of fair trade coffee cooperatives in the Gayo Highlands of Aceh, Indonesia?*
- b. Focusing on fair trade's requirement for coffee producers be organized in democratically owned and governed cooperatives, how have these cooperatives developed in Aceh, Indonesia? What changes were made to achieve fair trade certification?*

- c. *What is the governance structure of fair trade coffee cooperatives in Aceh, Indonesia?*
- d. *How does the leadership of fair trade coffee cooperatives in Aceh work to ensure collective action, democracy, and empowerment of the cooperatives' membership?*

1.2 Outline of the Thesis

This thesis is structured as follows: this first chapter provided a brief introduction to the research aims of this thesis. **Chapter Two** presents the research approach taken and methodology used to address the central and supporting questions of this research. **Chapter Three** will present a definition of fair trade and its core principles, as well as outline the history of, and key theories guiding the movement. **Chapter Four** reviews the history of coffee governance, its present challenges and trends, and highlights the disadvantaged position of farmers in the coffee industry. The second half of chapter addresses the market presence of fair trade in the industry, and fair trade's effectiveness in tackling poverty alleviation and creating sustainable businesses in developing countries. **Chapter Five**, a chapter built on secondary research, seeks to place the discussions of previous chapters into the research context. The chapter begins by providing necessary background regarding Indonesia's, and Aceh's political and economic situation. Coffee production, nationwide and in Aceh, is surveyed, highlighting Aceh's unique position in Indonesia as a producer of specialty coffee. **Chapter Six** is the first of two chapters analyzing primary research. This chapter presents an archetypal organizational structure of fair trade cooperatives in Aceh, and discusses particularities of how fair trade is being practiced there. **Chapter Seven** addresses factors behind the clustering of fair trade cooperatives in Gayo, namely the buyer demand and aid assistance, and the prioritization of compliance amongst fair trade producers in Gayo as a result. **Chapter Eight**, the final chapter of this thesis, summarizes the key findings of this research as they relate to the central and supporting research questions, and discusses the larger implications of the research findings. Opportunities for future research are offered, along with a few final remarks.

Chapter Two: Methodology

Details of how this case study was performed was carried out are provided within this chapter. Critical realist and qualitative approaches to research are described, and the methods utilized to gather and analyze data related to the research questions are outlined. Lastly, this chapter ends with a reflection on the research experience and offers some lessons learned.

2.1 Research Approach

At the center of this research are coffee producers in Indonesia: farmers, processors, and the small organizations that grow and facilitate coffee sales. Further to the core of this thesis is the belief that the trade relations and politics of the current market system disadvantage farmers and small-scale producers. Acknowledging such, this thesis reflects a critical worldview.

A critical worldview holds that certain groups in society are privileged over others, and is highly concerned with power and its application. As characterized by Gray (2004), a critical epistemology believes that ideas are mediated by power relations in society and facts are intertwined with the “ideology and the self-interest of dominant groups,” (p. 23). Aiming to bring forward the voice of the marginalized, a critical worldview “questions currently held values and assumptions and challenges conventional social structures” (*ibid*, p. 23). Critical approaches have also been termed “transformative;” they build on the insights gained from challenging the status quo to advocate for reform (Creswell, 2014, p. 15). Critical research is action-oriented, both in process and outcome.

To describe how to create change, this thesis also works from a realist perspective. Realists believe that structures dictate the “pattern and form” of relations, and researchers are therefore concerned with identifying “causal mechanisms” of policy and practice (Kitchin and Tate, 2000, p. 15). More specifically, realist research seeks to ascertain “what produces changes, what makes things happen, and what allows or forces change,” (Sayer, 1985, cited in Kitchin and Tate, 2000, p. 15).

Within the discipline of geography, Sayer (1985, cited in Kitchin and Tate, 2000) had proposed four types of realist research: abstract, concrete, empirical generalizations, and synthesis research. This thesis can be categorized in this framework as concrete research: “practical research focusing upon events and objects produced by structures and mechanisms and thus seeks to explain a circumstance or scenario,” (Sayer, 1985, as cited in Kitchin and Tate, 2000, p. 15). The focus is upon inductively developing a theory that may explain the circumstances that lead to particular scenarios.

This thesis is concerned with the expansion of fair trade and the clustered adoption of fair trade in the Gayo Highlands of Aceh, Indonesia. Information gathered will build a description of producers’ motivations to become certified and seek to explain how, with fair trade, the production of coffee changed in the area. Particular attention is paid to the structures of social relations, especially the implementation and practices of producer cooperatives.

Proponents of fair trade frame the movement in terms of social justice, often contending that participating improves the livelihood of disadvantaged small-scale farmers. Not arguing that the goals of fair trade are unworthy, this thesis does however find it necessary to detail the experience of coffee producers involved in fair trade, particularly those in a context new to the movement, with the intention of ascertaining whether participation does, in implementation, improve the conditions of coffee producers.

2.2 Fieldwork and Research Methods

A qualitative strategy of inquiry was implemented for this case study (Denzin and Lincoln, 2011). Key characteristics of qualitative research, as identified by Creswell (2014) and Mayoux (2006) are outlined below.

- *Natural setting.* Researchers will typically immerse themselves into the location of their study in order to see first-hand the practices and interactions of participants.
- *Multiple sources and different sampling techniques.* Research is not limited to one source of data, and varied sampling methods are “combined depending on

the particular dimension of the issue being considered,” and may include multiple purposive techniques such as identifying key informants or even chance encounters (Mayoux, 2006, p. 118).

- *Questions are broad and open ended.* Participants are encouraged to elaborate and add personal accounts, and the researchers’ questions are likely to change over time depending on the participant and how the study is developing.
- *Researcher as the key instrument.* Data is collected and interpreted by the researcher themselves, instead of relying on a questionnaires or instruments developed elsewhere.
- *Build theory from bottom up.* Patterns and themes are discerned from intuitively organizing data, rather than establishing a hypothesis prior to collection.
- *Reflexivity.* It is acknowledged that the researcher is acknowledged as present in the study, and that their background may influence the interpretation and outcome of the study. Qualitative researchers disclose their background and reflect on how their perspective influenced the research.

The application of these research features for this thesis is described throughout the remainder of this chapter.

2.2.1 Timeframe and Location of Research

Committed to conducting research in the participants’ natural setting, research took place in Aceh, Indonesia, over seven weeks between May and July 2014. In Gayo for two of those weeks, I based myself in the city of Takengon, visiting cooperatives and farms in both the districts of Central Aceh and Berner Meriah. Ideally the time in Gayo would have been longer, but kept to a two-week duration due to budget constraints and consideration of Ramadan.

2.2.2 Cooperatives Involved

Four fair trade certified cooperatives participated in this research. Access to these cooperatives was obtained initially by referrals from professional contacts and

communicating with Fairtrade Indonesia/Philippines staff. After reviewing an outlined project proposal, I was connected with the producers' representative board for fair trade coffee in Indonesia. After a brief conversation regarding the aims of the research, the board facilitated introductions to Fairtrade cooperatives in the region and organized visits to cooperatives. I had sought introductions to a range of cooperatives—varied in size of membership, years of certification, and sales—but the boards connected me with the four largest and most successful cooperatives. I was also given the opportunity to visit one cooperative that was in the application process to becoming Fairtrade certified, the introduction made by my translator. A comparative profile of these cooperatives is presented in Chapter Six.

2.2.3 Methods

2.2.3.1 Observation

Visits to the cooperatives generally had two components, and took place over two mornings or one full day. The first half of the visit involved meeting cooperative management and leadership, plus touring the office and processing facilities. The second half of the visit, whether in the afternoon or the following day, involved visits to villages, farms, and/or storage facilities guided by a host from the cooperative. Both office and village visits offered opportunities to observe cooperative operations and staff dynamics. Two cooperatives did not include a farm or village visit.

Networking in the wider community also provided the opportunity to visit non-certified coffee operations, including local cafés and roasters, wholesalers, offices, storage and processing facilities, farms, and NGO operations. Further, participating in an English conversation group at a popular coffee shop created many opportunities to observe interactions between various stakeholders in the Aceh coffee industry.

2.2.3.2 Semi-Structured Interviews

Leadership of Fairtrade certified cooperatives were identified as key informants and primarily sought as participants for semi-structured interviews. This research was focused on identifying governance decisions related to establishing and operating a fair trade cooperative. Management and leadership are in the best

positions to provide insight on these experiences, being the primary decision makers involved in policy setting. Opportunities to interview farmers were taken when they arose, for they are able to give insight into how the policies are put in practice, but were not deliberately sought out.

A large portion of interviews took place during visits to cooperatives and villages. Each visit would begin with a series of semi-structured interviews with cooperative leadership. In some cases, the interview would be one-on-one, and in others there would be a small number of individuals, who would come in and out of the conversation. Generally, the cooperative themselves volunteered individuals to be interviewed. Further opportunities for interviews would arise during tours of the facilities by chance of coming across a willing participant. During visits to the villages, hosts from the cooperative had often contacted several members and previously arranged meetings; similar to office visits, additional interview opportunities were taken during these visits when we would meet interested participants. It must be noted that participants in the villages were interviewed one-on-one, but that the cooperative hosts were generally present in the vicinity.

While in Gayo I was also given the opportunity to assist with an English language conversation group organized by the staff at one cooperative. Meeting nightly at a café for casual conversation, the topic of conversation for some sessions would be fair trade, coffee in Gayo, or about their work at a cooperative.

Additional to purposive and snowball sampling done to meet leadership or management of fair trade cooperatives in Gayo, snowball sampling was used to find additional participants outside of cooperatives. These additional participants were sought to gain a more holistic picture of fair trade and coffee in Aceh, and to check the accuracy of descriptions given by the cooperatives. Networking, socializing, and chance encounters in the community allowed for access to these participants.

An interview schedule was created prior to fieldwork, addressing the larger themes intended to be discussed with participants. A copy of this generic interview schedule is provided in Appendix B. However, as data was collected, and a better understanding of the nature of fair trade certified cooperatives in Gayo gained, questions developed accordingly. An outline for discussion was brought to interviews, to be a springboard for conversation and ensure consistency of topics addressed, but

the interviews were free flowing with a natural line of questioning and dialogue created with each participant.

The audio of some interviews was recorded. For those that were not, brief notes were taken during interviews, with particular attention to numbers given and key statements, and extensive notes were taken from memory immediately following the interview.

A system for pseudonyms was created to refer to participants in the analysis and discussion of this thesis. Each pseudonym begins with RP, to denote their status as a research participant, and ends with an arbitrarily assigned number. In between RP and the number is an abbreviation that describes a category ascribed to participants to provide context for their perspective; the four categories are described in Figure 1.

Figure 1

Categories of Participant Pseudonyms		
Abbreviation	Category	Description
EM	Elected Cooperative Leadership, High-Ranking Management	Certified cooperative chairmen, secretaries, treasurers, and committee members.
OS	Office Staff of the Cooperative	Certified cooperative general managers, departmental managers, and internal control staff.
VL	Village Level Participants	Certified cooperative collectors, village delegates, and farmers. For this group of participants, and additional letter was provided at the end of the pseudonym, in order to recognize if this participant was a coffee collector or village delegate; Collectors were labeled C Delegates labeled D.
LE	Local Experts	Government officials, aid project facilitators, independent distributors, local roasters, and industry consultants.
Created by Author (2014)		

When statements from the primary are included, the abbreviation PR is used, in stand in for primary researcher.

There were 37 interviews, including group interviews, in this research. Some participants were available for only one interview, while others were interviewed on multiple occasions. A full list of participant pseudonyms and other relevant details are provided in Appendix A.

2.2.3.3 Group Interviews

Although it was rare that any participant spoke without others present, four instances in this research were considered group interviews. These sessions were considered group interviews was because it was clear to the researcher that the group was speaking collectively, voicing responses through one person, or agreeing on content. Further, at least four participants present for the entirety of the interview and all held the same position at the same cooperative.

Group interviews followed the same pseudonym system described above. To denote group interviews the abbreviation GI was placed at the end of the pseudonym.

2.2.3.4 Use of a translator

It is necessary to note that the vast majority of interviews were conducted with the assistance of a translator. The official language of Indonesia is Bahasa and Gayonese is prevalent in the Gayo Highlands. Prior to the fieldwork, I had no familiarity with these languages outside a handful of greetings.

Some participants had a working knowledge of English, and occasionally would respond directly to questions in English; however, most were more comfortable with Bahasa or Gayonese. Interviews with participants outside of the cooperatives were typically not translated. For these participants, English was either their native language, they worked professionally in English, or had a conversational level of English. Which interviews were translated is noted in Appendix A.

Two translators were used. The first was a professional translator, and is considered the 'go-to' English translator in Gayo. He was referred to me from

contacts made in Aceh, both local and expats, and is frequently hired by international coffee professionals. He has a strong working knowledge of the Gayo coffee industry and coffee certifications, and has established relationships with fair trade cooperatives in Gayo. It is possible that cooperatives connected this translator with audits from certifiers or international buyers, and so may have guarded their responses accordingly. This was addressed by beginning each interview with an explanation of the research aims a clarification of the independent, academic nature of the project.

The first translator participated in visits and interviews that took place in the Central Aceh, the second translator conducted those in Berner Meriah. Fairtrade had referred him for having the strongest English in any of the cooperatives, and is a staff member of one cooperative involved in the research. I was aware of the potential power dynamics involved in having a staff member of one cooperative interviewing those of another, but this translator assisted them from their cooperative, and has an ongoing, friendly relationship. Translating co-workers interviews was also a potential concern, but I decided ultimately that since interviews were typically conducted in open offices there would not be any more privacy granted by using an alternate translator. Also, participants would likely be more comfortable talking with their colleague than another translator. Also, I recognized the potential for the translator to censure or modify comments made by the participant to improve the image of the cooperative, the rapport built with the translator, and the mutual understanding that there was no intention to 'catch-out' any of the cooperatives, seemed to ensure that there was no false representation of the cooperative.

2.2.3.5 Documents

Chapter Five contains secondary research, by gathering and collating literature on the setting of this research, Aceh, Indonesia, and the political, economic, and social context related to its coffee industry. Existing literature on the Acehnese and Indonesian coffee industries is limited, and a gap exists particularly regarding the fair trade sectors of these industries. Furthermore, government documents are primarily written in Indonesian Bahasa, and English translations are difficult to obtain. It was a

task of this thesis to search through and analyze varied bodies of literature to present a cohesive piece of writing to address that gap.

A small number of primary documents were collected in the field. Some were viewed in the field; others were given as digital files to be viewed later. Member agreements, documentation of trainings and audits, as well as promotional material was provided by some cooperatives. Locals and expats in the wider coffee community gave prior research on specialty coffee, aid, and development efforts in Aceh, and coffee in Indonesia, which was extremely useful, as little information on these subjects is easily obtainable.

2.3 Ethics

All participants granted informed consent to participate in this research and data was kept as confidential as possible. In the presentation of this research, care has been taken to minimize any identifying factors of participants. However, my activities were not secret, and many in the community knew which cooperatives I visited and which staff participated. The option was given for participants to have pseudonyms for the analysis and discussion of their interviews, and a majority of participants preferred to not be identifiable. For consistency, pseudonyms were given to all.

Before commencing, translators agreed to the confidentiality of interviews, and were informed of the purpose of the research. An open dialogue was available for the translators to communicate any concerns regarding dynamics of interviewing powerful members of their community and industry, and all concerns were promptly addressed.

I have attempted to portray the research truthfully; the research was self-funded and I have no vested interest in the outcome of the study. The Human Ethics Committee of Victoria University of Wellington granted ethics approval prior to commencing this research. A copy of the approval and associated documents are included Appendix B.

2.4 Analysis

Field notes were typed and recorded interviews transcribed while in the field. A quick review of the data was done while Aceh, and time was allocated to making notes of first impressions and potential themes.

Detailed coding was performed once returned from the field. Coding is “a means of conceptually organising material,” in qualitative research so to develop themes and theory (Robinson, 1998, p. 428). An “iterative process,” coding “involve[s] defining and redefining, categorising and recategorising until the categories assume a suitable degree of coherence and robustness,” (*ibid*, p. 428). A coding structure was developed as data was processed, that included both manifest and latent messages in the material (Hay, 2010). The system of coding used a combination of predetermined codes, as provided by the research questions and initial impressions noted, and codes that emerged when interacting with the data.

Coding was performed with the electronic software NVIVO. Electronic software was utilized, due to the ease and efficiency electronic sorting can provide. Further, the ability to electronically search the data streamlined the process and acted as a review measure during the analysis.

2.4.1 Quotations in Writing

Quotes from participants are presented throughout the thesis. Including the voice of the participants was felt important to give life to the data and give the description of the analysis more accuracy. However, a few things must be noted about the nature of these quotations.

First, nearly all of the quotations are translations, and therefore are not direct quotes. Not only were the questions posed by the researcher translated to the participant, but participant responses were also translated back to the researcher; effectively, each quote had gone through multiple waves of translation. The specific words were chosen for quotations in this thesis are therefore based on the felt intent of the passage. Secondly, although both translators had very strong English skills, they are not native speakers. In places, small changes were made to achieve clarity for the reader. Lastly, although a large number of interviews were recorded as audio files,

many had extensive hand written notes taken directly after the interview. Quotes from these interviews are used, and are consequently paraphrased statements from participants, although a high level of care was given to ensure that meaning of the comments stayed accurate.

2.5 Reflections on the Process

2.5.1 Researcher Positionality

The researcher is the central element used in qualitative data collection, and their background influences data collection and interpretation. Therefore necessary is a self-critical reflection on one's positionality¹ to clarify any bias that might have emerged in the research.

2.5.1.1 Young, Western, and Female

Prior to the fieldwork, I assumed being white, Western, and female would dominate my experience in a conservative Muslim society, especially one that enforces Sharia Law. Sharia Law, the implementation of a legal system based on Islam, which regulates both public and private life, is often described by Western media as threatening, isolating, or challenging for Western women who work in such countries. Aceh was considered "an antagonistic context," by one Western, female researcher, who described these traits as "inconvenient," (Schenk, 2013, p. 342-6). Recommendations given to me personally were mixed; one professional contact with previous work experience in Aceh suggested I choose another research location, while a second local contact explained the situation for foreign women was not as extreme as the international media portrayed.

I did not feel threatened or unwelcome in Aceh. I was careful to wear modest clothing, although I did not wear a hijab, and had studied Acehnese customs prior to arriving. My comfort is, however, only a partial reflection; I may have been comfortable, but others involved in my fieldwork may have gone to lengths to make me feel so. I am aware that my primary translator did feel a responsibility to watch and protect me while in Gayo, and would ensure that I was accompanied in public and

¹ See Sultana (2007) and Rose (1997) for more discussion around reflexivity and positionality.

aware of cultural decorum. Further, while the attention paid to a single female traveler in public was not desired, I recognize that curiosity about, and the novelty of, Westerners, in an area isolated by 30 years of conflict, provided more opportunities to find participants, a similar experience commented on by (Apentiik and Parpart, 2006). I rarely felt intimidated by these encounters, and upon reflection, used the curiosity as a means to access participants and have long conversations.

It is also important to note that the vast majority of participants in this research were male, reflective of the gender breakdown of cooperatives. I had initially considered working with a female translator, as I felt she could assist me on appropriate cultural behaviors for women, but ultimately decided that a male translator would be received with more respect, mediate any discomfort felt by being interviewed by a woman, and allow greater access to participants.

2.5.1.2 Professional Positioning

For participants in this research, my current status was not as important as the future possibilities for my employment. They associated me more with the business and aid community that had a recent, rapid growth in Aceh. I was afforded a high level of respect among my participants because they believed that I may come to work for Fairtrade, a fair trade buyer, or aid agency after this research, and our relationship, and the impression they gave, would be important to them.

Furthermore, being American² added to this dynamic more than I had anticipated. During this research, participants were generous with their time and hospitality, aware that a large majority of the coffee sold in Gayo is to American buyers. Calling Seattle, a cultural capital for specialty coffee and headquarters for many buyers, home further emphasized this mindset. Many considered that I may have connections to buyers and it became something of a refrain that I should share all of the good qualities of their coffee and cooperative to my friends.

² Reflecting the nationality of the author, American English is used throughout this thesis.

2.5.2 Lessons Learned

2.5.2.1 Gatekeepers

In relation to gaining access to participants, the term 'gatekeeper' has emerged in academic discourse. The term "denote[s] a person who has the means to facilitate contacts between the researcher and the subject/object to be researched... [and] hold[s] respected positions in their communities," (Eklund, 2010, p. 129). Gatekeepers are rarely neutral actors in the research process, and have much sway over what data is collected, when, and where; "just as gatekeepers can open doors, they can also decide what doors will remained closed, or even invisible," (*ibid*, p. 129). Gatekeeper bias can be intentional, as they might manipulate conditions and leave out participants to avoid unfavorable reviews of their community or organization. Alternatively, the reference from a gatekeeper may provide a 'green light' and signal to the community that is permissible to have discussions with the researcher, who can be considered trustworthy (*ibid*, p. 139).

In this research, multiple gatekeepers can be identified throughout the process. One set of gatekeepers, the coffee producer representative board, however, was particularly influential. In our first meeting I had asked to be referred to three cooperatives, ranging in size and years of operation. The board, however, responded that I should be exposed to only the best cooperatives. Ultimately we agreed to include a larger number of cooperatives in the research, but that these would still be the most successful cooperatives. The gatekeepers here were overt about their bias, aiming to exclude smaller, younger, and poorly operating cooperatives in order to provide the most positive portrait of their community.

2.5.2.2 Translators

Arguing that there has been an oversight by the literature on qualitative research to leave out discussion on the process of translation, (Wong and Poon, 2010) suggest "bringing translators out of the shadows is critical in achieving methodological rigor" (*ibid*, p. 153). Translators exert themselves into the research in several ways, and the "taken for granted assumption that translation is an objective and neutral process in which the translators are mere 'technicians,'" should be overcome, (*ibid*, p. 151).

Foremost, it is difficult to give exact translations across languages and cultures, and there will be times where direct translations are misleading regarding sentiment (Burja, 2006). Translators will also make judgment calls on what is significant, and it is “common for the translators to ‘filter out’ what they consider unimportant, even though this might be precisely what the researcher needs and wishes to know,” (*ibid*, p. 176). Filtering messages may relate to their understanding of the research aims, but may also reflect the positioning of the translators themselves; “translators are not simple ciphers without political or social views of their own,” (*ibid*, p. 176). Agreeing with Burja’s sentiment, I have been forthright about the presence of translators in interviews, and also included knowable pieces of their background to elucidate positioning in Gayo society.

Particularly with one translator, but occurring with both, the translators would frequently add interpretations or explain the responses given by participants. The translators, who are familiar with all of those features, both being practitioners in Gayo fair trade, at times felt they needed to provide additional information to the statements made by participants. To countervail this tendency, when producing data I identified the translators as participants when it was clear they were giving their own opinion or sharing their own knowledge. I also highly recommend spending a substantial amount of time socially with the translators to gain more insight into their personality, social positioning, and political opinions and increase the likelihood of deciphering when the translator is giving their own opinion as a response. Suggested by (Burja, 2006), debriefing with translators at the end of each interview was also a useful strategy. Back checking, a process of having recorded interviews translated independently by a second translator to confirm accuracy and gain a second opinion on difficult translations is suggested by Temple and Young (2004) and was considered for this research, but decided against due to time and budget constraints.

Apentiik and Parpart (2006) suggest that researchers should speak the local language in order to best understand what is being said and implied by participants. While I agree that a personal understanding of the language is ideal, translators may also hold over valuable roles in the research. Translators can have hybrid roles, acting as cultural translators or project facilitators as well (Temple and Young, 2004; Burja, 2006). In this research project this was very much the case. Both translators acted to

confirm meetings and seek out additional participants, gave advice on cultural expectations, and taught small ways to be more culturally sensitive and appropriate, which was sincerely appreciated.

2.6 Summary

This chapter established the critical realist approach taken by this research, and the qualitative strategy utilized to address the research questions. The methods—observation, semi-structured and group interviews, and document analysis—were detailed, as was the process of analyzing data through coding for themes with the electronic software NIVIVO. A reflection of the process was given, highlighting challenges faced when working with translators and accessing participants through gatekeepers.

The two chapters review the literature to give a basis for understanding the findings of this thesis. Chapter Three addresses the increasingly prominent fair trade movement, first by describing ideological stances regarding the movement's purpose, and then outlining the movement's history, ending with a critical discussion of fair trade's expansion and mainstreaming.

Chapter Three: Fair Trade: The Principles, History and Theory of the Movement

The first of two to present, this chapter provides a review of the fair trade movement. On the outset of this chapter, the rapid growth of fair trade sales is presented, followed by a definition of fair trade and its guiding principles. The chapter then works to offer a framework for understanding the diversity of theory guiding fair trade, detailing three philosophical perspectives that coexist in the movement. The multiple origins and history of the movement is next presented, leading to fair trade's current era, of which there is much debate regarding the expansion and mainstreaming of the movement.

3.1 Growth and Presence of the Fair Trade Market

Fair Trade is growing rapidly. There are over 30,000 products on sale worldwide in 125 countries (Fairtrade International, 2014b). In 2013, €5.5 billion was spent by consumers on fair trade products, which represents a 15% growth in worldwide sales from just the year before (*ibid*). Some countries are seeing incredible growth in retail sales, such as fair trade's newer markets, the Czech Republic (142%), Hong Kong (95%), and South Korea (92%)(*ibid*). There was steady growth of sales in Europe, and moreover, only five countries did not witness a growth rate of at least 5% in sales of fair trade products (*ibid*). More details are in Figure 2.

Shoppers are increasingly making fair trade purchases, and consumers more broadly are recognizing the fair trade label. Fairtrade is the most widely recognized ethical label (Fairtrade International, 2014b). A 2013 GlobalScan survey found that 60% of consumers have seen the fair trade mark, and 90% of those consumers trust the label (*ibid*). The Fairtrade³ logo is a label placed on packaging to signify that the producers and traders have followed the fair trade standards. Similarly, the World Fair Trade Organization provides a mark that can be used by its member

³ Fairtrade Labelling Organizations International (FLO) is referred to in this thesis, as well as in many places in the literature, as either Fairtrade International or Fairtrade. When two words are used, i.e. fair trade, it is in reference to the larger movement.

Figure 2

Worldwide Fairtrade Sales By Country, 2013

Estimated retail sales by country

Country	2012 (in €)	2013 (in €)	Growth rate
Australia/NZ	188,045,618	189,244,894	1%
Austria	107,000,000	130,000,000	21%
Belgium	85,837,221	93,209,845	9%
Canada	182,638,667	173,179,745	1%*
Czech Republic	2,744,524	6,439,976	142%*
Denmark	71,836,714	81,080,778	13%
Estonia	1,061,938	1,756,251	65%
Finland	152,263,629	156,785,309	3%
France	345,829,378	354,845,458	3%
Germany	533,062,796	653,956,927	23%
Hong Kong	422,803	825,175	95%
India	-	641,890	n/a
Ireland	174,954,927	197,296,405	13%
Italy	65,435,059	76,355,675	17%
Japan	71,419,147	68,976,524	22%*
Kenya	-	51,064	n/a
Latvia	938,975	975,010	4%
Lithuania	846,027	842,258	0%
Luxembourg	8,319,391	9,628,859	16%
Netherlands	186,100,623	197,142,624	6%
Norway	65,450,834	68,441,095	9%*
South Africa	22,263,619	22,573,605	22%*
South Korea	1,989,631	3,814,805	92%
Spain/Portugal	22,274,635	23,663,783	6%
Sweden	178,951,375	231,668,646	29%
Switzerland	311,590,237	353,206,210	13%
UK	1,904,891,092	2,044,926,208	12%*
USA	53,116,711	309,131,263	501%*
Rest of world	47,487,290	49,657,508	5%
Grand Total	4,786,772,862	5,500,317,789	15%

* Growth rate is based on the percentage increase reported in the local currency, not the value converted into euros.

(Fairtrade International, 2014b)

Fairtrade International calculates the total estimated retail sales value based on both out of home sales and retail sales since this more accurately reflects what consumers spend on Fairtrade products.

Out of home sales come from products consumed outside of the home; for example in cafés and restaurants. Retail sales come from consumer products bought in stores and supermarkets.

In 2013 the following countries calculated their out of home sales value using the average out of home retail price; for example, the average price of a cup of coffee at a café: Estonia, Finland, Germany, Ireland, Japan, Latvia, Lithuania, Spain/Portugal, USA.

The rest of the countries calculated their out of home sales value using the average retail price for consumer products bought in stores and supermarkets. Out of home retail prices often have a higher value per volume sold than the retail sale price found on products in stores. Therefore, the countries that use the out of home retail price for their calculation may have relatively higher sales values.

organizations; these member organizations sell 100% fair trade product and commit to fair trade in all of their business activities (Boonman, Huisman, Sarrucco-Fedorovtsej, and Sarrucco, 2011). Both labels are presented in Figure 3.

Figure 3

Fairtrade and World Fair Trade Organization Logos

(Fairtrade International, 2011a)

(WFTO, 2014)

Fair trade continues to expand the range of products in the network. Currently, Fairtrade has standards for over 300 raw products, which include coffee, cocoa, bananas, cotton, flowers, honey, coconut, tea, gold, spices, and rice, amongst others (Fairtrade International, 2013b). These products come from 74 countries with producer organizations across Asia and Oceania, Africa and the Middle East, and Latin America and the Caribbean (Fairtrade International, 2014b). At present there are 1.4 million farmers in 1,210 producer organizations participating in Fairtrade (*ibid*).

3.2 Commonly Accepted Definition of Fair Trade

In 2001, four of the largest and most active fair trade organizations—Fairtrade Labelling Organizations International, World Fair Trade Organization, (formally International Fair Trade Association), Network of European Worldshops, and

European Fair Trade Association—collaborated to produce the Charter of Fair Trade Principles. The intent was to “provide a single international reference point for Fair Trade through a concise explanation of Fair Trade principles,” (WFTO and FLO, 2009, p. 5). From this document comes the most commonly accepted definition of fair trade:

Fair Trade 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. Fair Trade 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 (*ibid*, p. 5).

Further clarifying the values of the fair trade movement, a set of fair trade principles was also published in the Charter, shown in Figure 4. Those practicing fair trade agree to strive to create market access for producers marginalized in the current world system, foster sustainable and equitable partnerships, contribute to the capacity building and empowerment of producers, raise consumer awareness of challenges facing producers, and treat fair trade as a social contract.

Figure 4

Core Principles of Fair Trade	
Market access for marginalized producers	<ul style="list-style-type: none"> • Enables buyers to trade with producers who would traditionally be excluded from mainstream and added-value markets • Promoting values of traditional forms of production • Helps shorten trade chains
Sustainable and equitable trading partnerships	<ul style="list-style-type: none"> • Take into account all costs of production • Safeguard natural environment for future needs • Information sharing and planning
Capacity building and empowerment	<ul style="list-style-type: none"> • Assist producer organizations understand more about market conditions and trends
Consumer awareness rising and advocacy	<ul style="list-style-type: none"> • Utilize consumer support to campaign for reform to international trading rules
Fair trade as a social contract	<ul style="list-style-type: none"> • Commitment to long-term trading partnerships • Based on dialogue, transparency, and respect • Agree to do more than is expected in the conventional market
Adapted from (WFTO and FLO, 2009, p. 7-8)	

Beyond the core principles and definition of fair trade outlined in the charter, the fair trade movement holds a range of beliefs on the aims of the movement and the way to achieve those goals. This reflects the diversity of participants in the fair trade movement.

3.3 Fair Trade Philosophies

The literature addressing fair trade philosophy can be grouped into roughly three categories, although an individual or specific organization's perspective might fit more along a continuum than these discrete groupings. A discussion of the categories, based on the work of Jaffee (2007) and G. Fridell (2007) follows.

3.3.1 Market-Access and Shaped-Advantage

Those within fair trade with a realist perspective towards international trade seek trade justice, and conceive of fair trade as a means to alleviate historic injustices (Jaffee, 2007). Named a 'market access' perspective by Jaffee, these fair trade advocates believe facilitating access for producers into Northern markets, from which they have traditionally been excluded, can help achieve. This perspective is focused on "missions of community development or poverty reduction," believing that the market can ultimately be used to achieve livelihood and development goals (*ibid*, p. 29).

G. Fridell (2007) terms this perspective 'shaped advantage.' Participants are focused on activities that enhance the "social and cultural capital" of producers, believing fair trade can give producers an advantage in the market. Within this perspective, globalization and the current economic system are seen as fixed, and fair trade can "mitigate" the negative impacts of the system, by "shield[ing] participants from the negative effects of the market," (*ibid*, p. 84). Here, changing the current market system itself is not the target; concentration is on improving the standing of producers within the system.

Renard (1999) is one example of a market-access perspective. She argues that homogenization created by large agri-business presents an opportunity for small-scale

businesses to earn financial gains by “taking advantage of these niches in the market,” (*ibid*, p. 484). For Renard, fair trade is “an example in which these opportunities are used to give small-scale production and co-operatives of small producers a chance for a more favourable position in a market,” (*ibid*, p. 485). Shaped advantage perspectives, such as Ruben, Fort, and Zuniga-Arias (2009) describe fair trade as “poverty alleviation strategies,” (p. 778). Another example of this perspective, Pirotte Pleyers, and Poncelet (2006), classify fair trade “as a development project” (p. 441). Fair trade is considered “a process of providing services that aims through a combination of approaches (research, funding, legal intervention, and so on) to improve the living conditions of a particular population,” (*ibid*, p. 441).

3.3.2 Market-Reform and Alternative Globalization

Termed ‘market-reform’ by Jaffee (2007), the next fair trade perspective argues that benefits gained through market access are not enough; the system is broken and structurally unfair, but does not need to be abandoned altogether. In a reformed system, social criteria will be incorporated into the rules of the market, and “existing markets... need to be changed to reallocate resources and to place value on fundamentally different criteria in transactions,” (*ibid*, p. 27).

Similarly, G. Fridell’s ‘alternative globalization’ suggests fair trade “seeks to ‘include’ the poorest sectors in the South, which it asserts has thus far been ‘excluded’ from the benefits of international trade,” (G. Fridell, 2007, p. 91). Within this ideology the free trade that operates now is viewed as laden with “Northern hypocrisy” and protectionism (*ibid*, p. 91). Fair trade, a true model of free trade, would utilize the work of Karl Polanyi and socially re-embed international trade relations (*ibid*, p. 91). Alternative globalization sees fair trade should be part of a larger political project addressing the power dynamics and relationships at the international level.

The alternative globalization perspective is held by a majority of International Non-Governmental Organizations (INGO) operating in the fair trade network (G. Fridell, 2007). Francisco Van der Hoff Boersma, of UCIRI and Solidaridad, is one example. He describes the manmade, human nature of the current system and its structural unfairness, when writing:

capitalism is nothing more than the legal and systematic organization of injustice, inequality and exclusion...they are inventions that serve particular and private interests (Van der Hoff Boersma, 2014, p. xvii).

Identifying the injustice is paired with action; “protest is meaningless if there is no credible alternative” (*ibid*, p. 45). Fair trade is a positive alternative, a “democratization of the economy,” (*ibid*, p. 18) and “globalization of solidarity and social organizations,” (*ibid*, p. 12).

3.3.3 Market-Breaking Force

The market-breaking fair trade perspective criticizes alternative globalization for believing the exploitation currently existing be only a distortion of true market principles, rather than inherent to it (G. Fridell, 2007). Market-breaking ideologies judge unfair prices not as isolated problems, but as symptoms of a larger problem: capitalism and the current economic world order (Jaffee, 2007). Fair trade should go further than produce alternatives to neoliberal policies, to create another system altogether (G. Fridell, 2007). At the moment, fair trade operates within the market in order to facilitate a transition to a post-capitalist world.

Chair of the Third World Information Network (TWIN) Twin Trading, Barratt Brown speaks from a market-breaking ideology. Barratt Brown (1993) argues that colonial rule initiated inequality by supporting uneven development, spread free trade and capitalism, and lead to “unequal trading relations between manufacturers and primary producers,” (p. 43). Recently, power has become further centralized in the hands of multinational corporations (MNC), leading Barratt Brown to ask “what is the point of a market when production and distribution are in the same hands and controlled by companies operating at a global scale?” (*ibid*, p. 50). Alternative trading networks work in and against the market” to bring about a new economic system that “replace[s] money as the sole currency of international trade exchanges,” (*ibid*, p. 144). Networks such as fair trade are part of a process that brings about a new world system, and Barratt Brown urges participants to remember that alternative networks are to serve as a transition.

3.3.3.1 Decommodification

In a similar vein to the challenges to capitalism outlined market-breaking fair trade, G. Fridell (2007) identifies ideas of decommodification in fair trade philosophy. Although most authors do not directly utilize Marxist principles in their writing, many express ideas that fair trade is to present “a challenge to core values of global capitalism” namely, accumulation and the commodity fetishes that have arisen as a result (*ibid*, p. 95). A task for fair trade is to bring people and relationship to the forefront and eliminate the need for mass consumerism. Aims would therefore be to associate people with production, by illuminating the ways in which products are made and by affirming “non-economic values of cooperation and solidarity” by emphasizing democratic cooperatives and partnerships (*ibid*, p. 96). Fair trade is seen to connect the producer and the consumer, bridging the distance between them.

One example of decommodification theory in fair trade is Ballet and Carimentrand’s (2010) argument that fair trade proposes a “personalization of ethics,” (p. 319). Consumers are to be motivated to buy fair trade products based on a desire to “belong to a common network,” where within the community, the relationships would serve a “medium for information,” (*ibid*, p. 318). Fair trade products become the “material basis” for the application of values (*ibid*, p. 319).

3.3.4 The Philosophy of Fairtrade International

It is important for this thesis to identify the philosophy held by Fairtrade International. Many fair trade organizations exist at present, but this thesis is centrally concerned with Fairtrade International, for at the time of this research they certify all fair trade cooperatives in Aceh. Many sell to buyers associated by Fair Trade USA, but as of this thesis Fair Trade USA recognizes certification of organizations by FLO-CERT, Fairtrade International’s certification body.

A diagram of Fairtrade’s theory and strategy is provided in Figure 5, providing more detail than is within the scope of this thesis. An evaluation of Fairtrade’s strategy documents suggests that Fairtrade’s vision sits between market-reform and market-access perspectives. Fairtrade emphasizes that its primary aspiration is “to be at the cutting edge of reforming global trade in favour of justice to be achieved through making trade fair (Fairtrade International, 2013a, p. 5). Fair trade would

Figure 5

Fairtrade's Theory of Change for Small Producer Organizations

resemble an “environment” with “fairer trading conditions” (*ibid*, p. 5); essentially an alternative market with integrated social conditions. Fairtrade’s vision further emphasizes the goal of empowering small producers. Fairtrade considers empowerment to be “the expansion of assets and capabilities of people to participate in, negotiate with, influence, control and hold accountable the institutions that affect their lives,” (*ibid*, p. 5); theoretically, Fairtrade seeks to build producers’ capacity to reform the market themselves.

On this point, Fairtrade’s philosophy merges and reflects that of market-access ideologies. Empowering producers to engage with trade institutions creates the opportunity for producers to reform the market for improved access for themselves and other disadvantaged producers. Empowerment for Fairtrade has a dual function, and its second role speaks to market-access and shaped advantage positions. Empowerment “enable[s disadvantaged producers] to grow profitable businesses, build thriving communities, and make progress toward a living wage for all workers,” (Fairtrade International, 2013b, p. 1); here Fairtrade is espousing development thinking related to poverty reduction. Fairtrade further has a core goal of “foster[ing] sustainable livelihoods,” through improving income and living conditions and securing decent working conditions (Fairtrade International, 2013a, p. 6). Successful participants will ultimately become “beacons of best practice, showing how smallholders can engage most effectively and profitably in trade,” reflecting sentiments of community development within the philosophy (*ibid*, p. 2).

3.3.4.1 Fairtrade International’s Approach: Minimum Price and Social Premium

Fairtrade’s philosophy becomes implemented through the Fairtrade standards. The Fairtrade Standards stipulate the specific criterion to be regulated, specific to each producer type, hired labor, traders, and are available for each product certified by Fairtrade.

Two other pillars of Fairtrade’s approach are the Fairtrade minimum price and the social premium. Fairtrade sets a minimum price for all products, determining by the estimated cost of sustainable production of that product. Purchasers of Fairtrade must buy at this price, and if the market price is ever higher than the Fairtrade minimum price, the buyer must pay the higher price. The social premium is sum of

money provided additionally to the minimum price. The social premium is given to a communal fund per each organization, to which producers decide democratically the how to use that money to improve their “social, economic and environmental conditions,” (Fairtrade International 2014c).

3.3.4.2 Fair Trade USA’s Separation from Fairtrade International

The coexistence of multiple ideologies within fair trade had survived many years, but recently “this unspoken consensus has been stretched to its limit, and the schism has become public,” (Jaffee, 2007, p. 30). Fairtrade International had long been an organization representing all national initiatives, but in 2011 the U.S. national initiative left to become Fair Trade USA. The two organizations cited long-held disagreements, which Modelo (2014) describes as tension between “who emphasize the ‘fair’ part of fair trade (for them, the interests of the producers are paramount) and those who emphasize the ‘trade’ part (they prioritize the need to reach consumers),” (p. 42).

Pursuing a strategy that “pivots on the needs of corporate buyers and consumers,” Fair Trade USA consequentially has been aligning themselves with parties that “drive the demand for these products”: large corporations (Modelo, 2014, p. 42-3). In contrast, Fairtrade International takes an “outside-the-market perspective” seeking radical change the market, by “supporting the needs of frontline producers,” and putting “farmers and workers in the driver’s seat,” (*ibid*, p. 44-5). The two organizations have taken different stances, Fair Trade USA seeking to create impact by reaching a large number of producers and consumers, and Fairtrade International aspiring to maintain a quality and purposeful experience for each participant, even if for a smaller number.

3.4 Early Origins of Fair Trade

Reviewing the history of the fair trade is necessary to understand how such a diversity of perspectives simultaneously exists in the movement. Fair trade has ‘roots’ in historical movements that focused on alternative systems of production and

consumption, self-help, development, and social justice such as producer and consumer cooperatives, Utopian Industrialists, and communalist lifestyles (Low and Davenport, 2005, p. 144). More recently, two lineages of fair trade can be identified. Jaffee (2007) terms these lineages 'strains' and has identified a 'development strain' and a 'solidarity strain' (p. 12). Using this framing of two strains of the fair trade movement, an overview of the origin of fair trade follows.

3.4.1 Origins in Development

Similar to the origins of formal development assistance, many early fair trade organizations grew out of a desire to assist with the recovery of regions badly affected by the Second World War. Oxfam's early predecessor, Quakers in Cambridge, strove to provide "relief of suffering arising as a result of wars or of other causes in any part of the world," and initially worked to raise funds for refugees of the Second World War (Nicholls and Opal, 2005, p. 21). Later, they began importing handicrafts from Eastern Europe to further assist with the economy recovery of the region (*ibid*).

The development strain is sometimes referred to as the 'charity model' due to the efforts of charities in North America in the postwar era (Tallontire, 2002 cited in Low and Davenport, 2005). The Mennonite Central Committee started what would be known as Ten Thousand Villages, to import textiles from Puerto Rico and Jordan to sell among Mennonite women's groups. Sales Exchange for Refugee Rehabilitation (SERRV), associated with the Church of the Brethren, imported handmade clocks from Eastern Europe to sell in US parishes (Low and Davenport, 2005).

Common to both of these efforts in the US and Europe was religious affiliations and the strong sense of religious duty to assist those in poverty (Davenport and Low, 2013). The approach to assistance was also similar, for these early fair trade organizations sourced goods directly from producers themselves (*ibid*). In the postwar period, sales of these products were primarily to church and charity members. Large development and religious agencies, such as Caritas and Bread for the World, would later become active in direct trade and partnerships, assisting partner cooperatives in developing countries to exporting their products and find these markets (Jaffee, 2007).

In the 1960s sales of directly sourced products from developing regions began to be advertised in catalogues, retail outlets, and 'world shops' became prominent. Youth members of a Catholic political party in the Netherlands established the first 'world shop,' opening Cane Sugar Groups, in 1969, to seek a better price for their southern trading partners, and use the shop as "a vehicle for educating consumers about development issues," (Kocken, 2003 cited in (Low and Davenport 2005, p. 145). World shops' would later be known as Alternative Trading Organizations (ATO), a business model seeking to cover all costs of production and redistribute profits back to producer groups in order to provide a tangible solution to the problems facing southern producers, instead of seeking a profit (G. Fridell 2007).

3.4.2 Origins in Solidarity

Secular groups from the political left began utilizing the ATO model in the 1970s. Multiple socialist countries faced trade bans and embargoes in the 1970s, severely limiting producers' access to wealthy markets. Groups such as Twin Trading in Britain, Oxfam Wereldwinkles in Belgium, and Stichting Idee Import in the Netherlands, founded ATOs to create markets for products from Mozambique, Cuba, and North Vietnam in solidarity with the people of those nations (Jaffee, 2007). In the U.S. during the early 1980s, Café Nica was sold via alternative networks, in direct violation of an official U.S. embargo on Nicaraguan imports, to demonstrate against government policy towards Central America (*ibid*, p. 12).

Although operating similar business models, solidarity ATOs differ from charity and development ATOs in their goals. Solidarity ATOs had a more radical agenda, operating as a critique to capitalism and attempted to "lay the basis for a parallel trading system" (G. Fridell 2007, p. 40). Solidarity ATOs viewed foreign aid to be inefficient and corrupt, and charity trade as paternalistic (Jaffee, 2007).

Within international politics there has also been a dynamic history of fair trade. If conceptualizing the fair trade movement as "a variety of initiatives" with the "purpose of radically altering the international trade and development regime in the interest of poor nations in the South," several significant events are relevant (G. Fridell, 2007, p. 23). First, at the United Nations Conference on Trade and Development (UNCTAD) in 1964, developing nations presented requests for

“constructing a new relationship” between developed and developing countries in regards to trade (*ibid*, p. 29). Developing countries demanded reduction of tariffs, protectionist policies in developed countries, and sought implementation of interventionist mechanisms to insure better prices for commodities. A phrase associated with the second demand, “trade not aid,” became the “unofficial slogan of the fair trade movement,” highlighting a preference for interventionist mechanisms to the financial aid offered by the International Monetary Fund (*ibid*, p. 30).

The demands of the first UNCTAD conference reemerged at the second conference in 1974. Developing nations advocated for compensatory finance schemes, a program that would have donors from developed countries provide a payment to producers if the market price for a commodity dropped below an agreed upon level (G. Fridell, 2007). The export earnings stabilization system agreement (STABEX) of the 1970s, part of the Lomé Conventions, is one example of an adopted compensatory finance scheme. Under this scheme target prices were set for over 50 products, and European countries were to compensate their ex-colonies in the African, Caribbean, and Pacific Group of States (*ibid*).

The adoption of STABEX marked significant political gains for fair trade. Additional momentum was built with the UN Programme of Action for the Establishment of a New International Economic Order (1974) and United Nations Charter of Economic Rights and Duties of States (1976). The political advances towards transforming the economic system with those two mandates, however, represents the “pinnacle” of the fair trade movement within international politics (G. Fridell, 2007, p. 34). With the 1980s came the dominance of neoliberal discourse in international politics, and therefore a reluctance to interfere in the world economy, as well as significant swing for the fair trade movement itself.

3.5 Second Phase of the Fair Trade Movement

Some have called it “phase II” (M. Fridell, Hudson and Hudson, 2008, p. 15) or a “distinctive new strand,” (Raynolds and Long, 2007, p. 17). Those more skeptical have referred to the change as a “shift,” (Wilkinson, 2007, p. 226) or a “reorientation,” (G. Fridell 2007, p. 94). The onset of labeling became a “watershed

event,” establishing a new era for fair trade (Jaffee, 2007, p. 12). An indigenous Mexican coffee growing cooperative, Union of Indigenous Communities of the Isthmus Region (UCIRI), approached the Dutch development aid organization Solidaridad, seeking assistance with securing increased access to European markets (*ibid*, p. 13). Solidaridad created Max Haavelar as a result in 1988; the label, to be placed directly on packaging, was licensed to any coffee retailer or roaster who complied with paying a premium price to producers.

Labeling took off quickly. Transfair, in Germany, and the Fairtrade Foundation, located in the UK, supported the certification efforts of Max Haavlar, and established national initiatives to promote and certify fair trade products. By the late 1990s almost every country had a national labeling initiative (Jaffee, 2007). Fair trade national initiatives formally coordinated their efforts in 1997 by uniting under one umbrella organization, Fairtrade Labeling Organization (FLO).

The onset of certification and labeling had two significant impacts on the fair trade movement. One was to turn the emphasis of fair trade towards commodities. Previously, although coffee was present, most ATOs focused on handicrafts. With labeling the “movement’s center of gravity shifted away from crafts toward agricultural products,” (Jaffee, 2007, p. 13). Non-food products still account for roughly a third of fair trade sales, but “it is clear that the main driver of growth of Fair Trade goods has been the food products,” (Moore, Gibbon, and Slack, 2006, p. 332).

The second impact of labeling was the mainstreaming of the movement. Labeled products can sit alongside conventional products and remain distinct, and consequently fair trade products were now able to expand to a new range of retail outlets and a new range of customers. Although the transnational companies that dominate the coffee market still did not participate in the movement at this point, fair trade labeled coffee increasingly began to be sold in mainstream stores under “recognized brand names,” (Jaffee, 2007, p. 14). New brands also emerged, as smaller ATOs began to develop new fair trade brands to be sold in larger stores alongside conventional products; Cafédirect, Divine Chocolate, and Equal Exchange are notable examples.

Large corporations and more traditional retailers began to engage with fair trade in the 2000s. In April of 2000 a milestone occurred as Starbucks complied with

demands of fair trade activists and negotiated with Oxfam and Global Exchange its entry into the fair trade network (M. Goodman, 2004). Initially agreeing to just carrying fair trade coffee in its U.S. stores, after further pressure from activists Starbucks increased its fair trade certified product from 1% of its line in 2000 (Jaffee, 2007), to 8.4% in 2013 (Starbucks Corporation, 2014). Following Starbucks, other large corporations such as Nestle, Proctor and Gamble, Sara Lee, and Kraft began making fair trade purchases, and grocery chains, such as Safeway, and warehouse retailers like Sam's Club, Costco, and Target have all begun carrying fair trade products (Jaffee, 2007). Recently, supermarkets, such as Tesco UK, have created their own-label fair trade products (Nicholls and Opal, 2005). By the mid-2000s, fair trade had witnessed "solidifying growth in the mainstream" (*ibid*, p. 20).

There now exist multiple pathways for fair trade products. Ballet and Carimentrand (2010) analyzed the commodity chains present within fair trade and identified three: specialized commodity chains grounded in alternative networks; labeled commodity chains featuring non-specialist actors; and the hybrid chain that has developed in the past few years. Comparatively, utilizing a Global Value Chain⁴ approach, Doherty Davies, and Tranchell (2013) have classified seven different fair trade value chains, an outline of which is presented in Figure 6.

3.5.1 Concerns Regarding Mainstreaming

The move to mainstream the movement by including large corporations and retail outlets provoked much discussion for participants and advocates of fair trade. The choice to "dance with the devil," has the potential to grow the movement and change the practices of large actors in the industry (Jaffee, 2007, p. 207). However, many are skeptical of corporations' intentions, stress the "disproportionate power" large corporations wield, and their ability to impose changes to the movement (*ibid*, p. 204). Two central concerns of those wary of engaging corporate actors, dilution and cooption, are further discussed on the following pages.

⁴ For more on Global Value Chain analysis see: Challies (2008) Gereffi, Humphrey, and Sturgeon (2005), and J.M. Talbot (2009).

Figure 6

Identified Value Chains Within the Fair Trade Network		
<i>Fair Trade Value Chain</i>		<i>Description and Examples</i>
1	Fair Trade Organic (FTO)/Social Economy value chain (100% Fairtrade)	FTOs trading with Fair Trade Organizations <ul style="list-style-type: none"> • CTM Altromercato trading directly through associated world shops
2	FTO value chain with corporate retail participation	FTO products distributed via supermarkets <ul style="list-style-type: none"> • Divine chocolate and Cafedirect
3	FTO supplying supermarket own-label	FTOs supplying own-label supermarket brand <ul style="list-style-type: none"> • Agrofair selling fresh fruit produce
4	Corporate dominated licensee and retailer	<ul style="list-style-type: none"> • Starbucks Coffee Company
5	Corporate retail dominated but not licensee	Own label supermarket products sourced from second tier manufacturers such as supermarkets working through existing own-brand suppliers
6	Corporate manufacturer as licensee to retailer	Multinational corporation converting major brands for general sale <ul style="list-style-type: none"> • Proctor and Gamble or Cadbury's
7	Corporations and plantation production	Control of value chain remains the same but with adherence to social premium and FT price <ul style="list-style-type: none"> • large fruit importers Chiquita or Dole
Adapted from (Doherty, Davies, and Tranchell, 2013, p. 170-172)		

3.5.1.a Dilution

Dilution is a “watering down” of a movement’s core values to the point where they are fundamentally diminished and the original movement is unrecognizable (Doherty, Davies and Tranchell, 2013, p. 163). Doherty, Davies and Tranchell (2013) analyzed corporate participation in fair trade and suggested the movement is at risk for dilution. Based on previous and current lobbying attempts, actors that pose the biggest risk for further dilution of fair trade are MNCs such as Wal-Mart and Starbuck’s, MNCs converting major brands for general sale like Nestle and Cadbury’s and, lastly, corporations and plantation production companies such as Dole and Chiquita (*ibid*). These actors have lobbied for “fair trade lite,” a desired version of fair trade with lower standards and fewer benefits for producers, particularly in regards to cooperative and democratic organization of producers (*ibid*, p. 163). Except for the fair trade minimum price and the social premium, every other principle would be diluted under fair trade lite, most extreme in three principles: providing producers with market information, promoting consumer education, and practicing sustainable production (*ibid*).

Corporations’ potential success in achieving ‘fair trade lite’ depends on the response of fair trade’s governance structure. Evaluating the structure and agency of

Fairtrade, Bacon (2010) concluded that fair trade national initiatives “hold the balance of power,” (p. 137). Vastly underrepresented are civil society and consumer interest groups, ATOs, and producers; although it must be noted that Fairtrade responded to such criticisms and increased the number of seats on the board allocated to producer groups (P. Taylor, Murray and Raynolds, 2005). Nevertheless, national initiatives are in the strongest position in the Fairtrade board, holding the largest number of seats and are connected to power through their associations with the companies, foundations, and governments they license (Bacon, 2010). National initiatives are in a precarious position; they derive their operating budgets in large part from organizations they are both mandated regulate for compliance and represent at Fairtrade (*ibid*). If pressured, national initiatives can push forward the demands of corporations. As a result of this distribution of power, Bacon (2010) concludes that fair trade “risks losing control of governance processes,” (*ibid*, p. 142); a potential pathway that could erode principles.

3.5.1.b Cooption

Cooption often involves mainstream actors entering a movement by adopting only the most tolerable policies, to increasingly push for policies that benefit their organizations rather than overall social good (Doherty, Davies, and Tranchell, 2013). Eventually, the “more radical edges,” of the movement are lost, and highly coopted movements become absorbed and assimilated into the dominant system (*ibid*, p. 163). The challenge with mainstreaming is to engage mainstream actors enough to create change in the larger system, without becoming “captured by the market’s conventional logic, practices, and dominant actors,” (P. Taylor, 2005, p. 180).

Starbucks was able to secure a special deal when negotiating participation. Before 2000, Fair Trade USA (then Transfair USA) had required that 5% of a certified company’s product supply be fair trade (Jaffee, 2007). Starbucks, however, certified with the agreement that just 1% of its purchases be made on fair trade terms (*ibid*). The justification for granting this exemption was based in the potential volume that these purchases would represent; in 2001 Starbucks was the largest supplier of fair trade coffee in the U.S. (*ibid*).

With only a small investment in fair trade, some corporates have been able to

derive significant benefits, including positive press and marketing, without living the values. Some have called the practice 'green washing' or 'fair washing' (Renard, 2005). By making only minor changes in purchasing practices companies have been able to call their practices fair, and have "succeeded in associating fair trade with its corporate image" (Jaffee, 2007, p. 201). A label cannot express the degree of fair trade participation, and it is therefore difficult for consumers to distinguish between companies that are mission driven and make 100% fair purchases from those that participate with marketing motivations (Raynolds, 2009). One label represents both and corporates like Starbucks have been able to access fair trade customers and adopt the image of a fair trade company without much effort.

The radical edges of the movement, the small, fair trade ATOs are now leaving the Fairtrade system. Five coffee roasters of the Cooperative Coffees network withdrew from Transfair USA certification in 2004, angered by the "increasingly corporate-friendly Transfair system," (Jaffee, 2007, p. 207). ATOs that sell fair trade products exclusively face being undercut by mainstream, 'profit-oriented' businesses who can subsidize their fair trade purchases with their other lines and products that are not certified (*ibid*, p. 206). 'Movement-oriented' companies, risk being outcompeted, as large companies can keep the price of their fair trade line low, earning profits from the other products they sell (*ibid*, p. 206). For example,

U-landsimporten, the largest Danish fair trade organization, which, ironically, was responsible for bringing Max Havelaar coffee to Denmark, saw its coffee squeezed off supermarket shelves and its own sales collapse in mid-1999 (Low and Davenport, 2005, p. 151).

Allowing for corporates to enter the fair trade network below previous standards, at terms that remain profitable to them, may have compromised participants in the network who are adamantly committed to fair trade mission and values.

Fair trade may eventually risk losing corporations too. Studying the response of the four largest coffee corporations towards fair trade—Sara Lee, Nestle, Kraft, and Procter and Gamble— M. Fridell et al (2008) concludes that, after a period of attempting to preempt the movement, these corporations are now trying to outcompete fair trade with their own social programs. In their marketing and Corporate Social Responsibility programs, these corporations are promoting "their solutions to the problems highlighted by the fair trade critique," and demonstrate

consideration of producers' livelihoods (*ibid*, p. 17). Corporations are establishing their own social programs and charitable projects, such as the Kraft Cares program, Proctor and Gamble's donations to TechnoServe, and funds donated towards building schools and clinics in producer communities (*ibid*). Similarly, Starbucks has created their own ethical certification scheme, Coffee and Farmer Equity (C.A.F.E.) Practices. Starbucks' "counter-strategy" may have been to participate in fair trade while "buffer[ing] up its other projects" to create momentum behind C.A.F.E. certification (G. Fridell, 2009, p. 91). Starbucks may soon be fair trade's "largest North American partner, but also its biggest competitor," (*ibid*, p. 92).

3.6 Summary

This chapter established the increasing presence of fair trade across producing countries and consuming markets, and provided a review of the theory guiding the fair trade movement, noting the approach important to this thesis, that taken by Fairtrade International. History of the movement was provided, emphasizing the current phase of fair trade with the onset of certification, labeling, and inclusion of mainstream actors, and concerns related to cooption and dilution were considered.

An understanding of the history and philosophy of fair trade will be useful for the next chapter. Chapter Four first reviews the coffee market as a whole, then focuses on the characteristics specific to fair trade coffee production.

Chapter Four: Coffee and the World Market:

Conventional and Fair Trade Production

After oil, coffee is often cited as the second most valuable commodity traded globally (Gresser and Tickell, 2002). Coffee is also the most widely available and highest earning product in the fair trade movement (*ibid*). This chapter seeks to detail both the conventional and fair trade coffee industries, and is consequently split into two sub-sections. The first will discuss the current orientation of the coffee market as a whole, governance of the industry, the coffee crisis, and current trends. Secondly, this chapter will discuss fair trade coffee and its characteristics of production and regulation. The standards and regulations of fair trade coffee production will subsequently be outlined, and this chapter will conclude with a survey of existing research on the impact of fair trade for coffee producers.

4.1 The Coffee Industry At Large

Coffee, an exclusively tropical crop, is grown entirely within what is known as the coffee belt: the land between the Tropics of Cancer and Capricorn. Conditions to successfully cultivate coffee are very specific; a precise altitude, warm and humid temperature, and lots of seasonal rainfall. Further, temperatures must be stable, as the plants do not tolerate frosts or swings in temperature. Requirements vary slightly for Arabica (*Coffea arabica*) and Robusta (*Coffea canephora*), the two main types of coffee produced, as shown in Figure 7. Robusta coffee contains larger amounts of caffeine, while Arabica coffee has a smoother and richer flavor.

Coffee is grown primarily by smallholder farmers. 25 million farmers, who farm between 1-2 ha of land, produce 80% of the world's coffee (Fairtrade Foundation, 2012). An additional 100 million people depend on coffee for their livelihood (*ibid*).

Internationally traded coffee is generally in green bean form. The price of green coffee is established in two places. First, the International Coffee Organization (ICO) publishes a set of prices serving as indicators with contracts that correlate to

Figure 7

Ideal Growing Conditions, Arabica and Robusta Coffee		
	<i>Arabica</i>	<i>Robusta</i>
Temperature	17-25 degrees C	20-26
Rainfall	1,200-1,500 millimeters per year	1,500-2,000 millimeters per year
Altitude	3,000-6,500 feet	Under 3,000 feet
Adapted from (Austin, 2012)		

quality, origin, destination, and other factors. Secondly, prices are set in the futures market, based on short-term analyses of market fundamentals and technical factors. For Arabica coffee, the reference price is set in relation to the New York Coffee, Sugar, and Cocoa Exchange; the Robusta price is set by the London International Financial Futures and Options Exchange (Ponte, 2002).

4.1.1 Coffee for Development

There have been longstanding debates regarding the relationship between commodity trading and development. Broadly, there has been four historical phases in this debate. Between 1920s-1940s, the Agricultural Crisis identified price inelasticity of supply as a key contribution to limited farmers' incomes and national economic growth (Davrion and Ponte, 2005). Structuralist arguments, prevalent in the 1950s-1970s, price inelasticity of demand and the unlimited supply of labor were considered to negatively impact import capacity and the wealth of countries exporting commodities (*ibid*). The counterrevolution of development economics beginning in the 1980s, and continuing today, focused on rural poverty, and is thought to be the result of taxation and state interference in markets (*ibid*). Unfair trade arguments, also currently popular, considered unjust trade rules such as protectionism in developed countries and the market power of traders, processors, and retailers, to create international inequalities and limit export incomes of countries exporting agricultural commodities (*ibid*).

Coffee has a unique position in the commodity trade and development debate. Where the environmental conditions permits it to be cultivated, development agencies, and other international actors tend to promote coffee production, due to coffee's high value on the global market. These agencies also tend to view coffee

exports as a means to increase economic activity, particularly in rural communities viewed as economically unproductive (Austin, 2012). Coffee exports represent a large portion of many developing countries' national economies; it has been estimated that up to 80% of the foreign exchange earnings of some developing countries come from coffee trading (Ibrahim and Zailani, 2010).

Although economically valuable, potential negative development impacts of coffee production must be considered. Coffee is more a luxury than food; it is not consumed for nutritional benefit, and does not have any significant calories. Its cultivation, especially as it becomes increasingly mono-cropped, displaces food production for farmer households (Austin, 2012). Export crops, such as coffee, likely increase malnutrition and hunger in poor communities and have been linked to higher rates of conflicts and food insecurity in some less-developed countries (Austin, 2012; Messer and Cohen, 2007). The high-labor required to farm coffee— coffee picking is difficult to mechanized due to varying ripeness rates of coffee cherries on the same tree—has been connected to lower school attendance in coffee producing communities (Gitter and Barham, 2009). And further, it has been suggested that coffee-producing countries may exhibit characteristics of development dependency, due to the increasing dominance and profit earnings of transnational coffee corporations, the persistent poverty in producing countries, and further that the labor intensive activities occur in producing countries, while processing and valued added activities occur in developed, consuming countries (Austin, 2012).

4.1.2 Historical Review of Coffee Production: Colonial Roots, the International Coffee Agreement, and Industry Liberalization

4.1.2.1 Coffee's Early History

As early as the thirteenth century coffee was cultivated in Yemen for export throughout the Middle East (Topik, 2003). Intensive cultivation began in the 1600s when Dutch colonists in Indonesia produced coffee to be transported and sold in the Middle East and Europe (*ibid*). In the 1720s Dutch and French colonists transported seedlings to the Americas, and by 1790s almost 80% of the world's coffee production was in the Americas (*ibid*).

Coffee was one of the first commodities where attempts were made to regulate it (Ponte, 2002). Between 1906-1927, Brazil implemented a valorization policy; the government would control the amount of coffee released into the market, becoming the first producing country to successfully compete with brokerage firms (Crumley, 2013; Davrion and Ponte, 2005). The policy also stabilized international prices, yet encouraged the growth of coffee production in other countries, shrinking Brazil's market share (Davrion and Ponte, 2005).

Imperial ambitions from the 1930s onward shifted control of the market to importing countries. Several imperial states imposed taxes, quotas, and other discriminatory mechanisms in order to bolster the price of coffee produced in their colonies (Davrion and Ponte, 2005). Over 25 years the number of localities growing coffee increased dramatically in the colonies and increased production 15-fold (*ibid*).

4.1.2.2 The International Coffee Agreement

The first International Coffee Agreement (ICA) (1962) is notable for including both producing and consuming countries. The ICA regulatory system featured a set price for coffee and export quotas for producing countries. Quotas would be relaxed or tightened in relation to the position of the indicator price set by the ICO in relation to the ICA set price (Davrion and Ponte, 2005). In 1989 the ICA was not renewed, and subsequent agreements have yet to be as inclusive or binding.

The ICA is generally considered successful in stabilizing the international coffee market and raising coffee prices (Davrion and Ponte, 2005; Ponte, 2002). Identified elements contributing to the success include: inclusion of consuming countries, particularly the US, in establishing the quota system; regarding producing countries as market units, implying that producing country governments control decisions regarding exports; Brazil accepting a smaller share of the global market; and import substitution in producing countries (Davrion and Ponte, 2005).

A leading factor in the demise of the ICA was the "continuing fragmentation" of the market due to an expansion of producing countries and an increasing number of non-member countries trading beyond the quota value (Davrion and Ponte, 2005, p. 87). As suggested by Crumley (2013),

ICA quota system inadvertently led to a two-tiered market; surplus coffee

produced in ICA signatory states was often sold to nonsignatory states that had no obligation to abide by the agreement as mentioned above. The nonsignatory states would then resell the coffee beans at prices lower than those established by the agreement. The signatory states lost the leverage to profit from price stabilization that had been built into the agreement, and the ICA also became undesirable in the eyes of the coffee-producing governments (p. 112).

Furthermore, the changing political climate during the Cold War de-incentivized US participation in the ICA; Brazil and Colombia were no longer considered susceptible to communism, and quotas did not allow the US to use coffee trade as a mean to engage political enemies in Central America (Davron and Ponte, 2005). The late-1980s was also the height of neoliberal and free-market ideals, and quotas and state units are considered “antithetical” to those policies (Crumley, 2013, p. 112). One of the largest consumers of coffee, the US’s disengagement effectively disabled negotiations.

4.1.2.3 The Coffee Crisis

Within a month of the end of the ICA quota system the international price for coffee dropped to a third of its prior price, from \$USD 1.80 a pound in June 1989 to \$USD 0.60 in July (Crumley, 2013). Prices would decline to less than \$USD 0.50 by 1992, the lowest price in real terms since the Great Depression (*ibid*). There was a brief stabilization between 1993 and 1998, but a second drop in prices would begin in 1999, and last to 2004, with prices declining to \$USD 0.45 a pound, a 30-year low (Gresser and Tickell, 2002; Fairtrade International, 2011a). This second drop was the longest period of low prices ever recorded prompting these five years to be known as the ‘coffee crisis’ (ICO, 2014d).

There is wide agreement that the coffee crisis is a repercussion of deregulation and destabilization after the dissolution of the ICA, compounded by Vietnam’s emergence as a large producer in the 1990s (D. Goodman, 2008). Increased production from Vietnam was coupled with a lag in consumption in the US, Germany, France, and Japan, the abundance of supply ultimately dropping the price of coffee (Ponte, 2002). As Osorio (2012) describes;

This situation is caused by the current imbalance between supply and demand for coffee. Total production in coffee year 2001/02 (October-September) is estimated at around 113 million bags (60-kg bags) while world consumption is just over 106 million bags. On top of that, world stocks amount to some 40

million bags. Coffee production has been rising at an average annual rate of 3.6%, but demand has been increasing by only 1.5% (p. 2).

Further, price volatility, not new to the coffee industry, but contained during the ICA, became potent in the 1990s as activity in futures trading increased; futures trading went from four times the amount of coffee in the physical market in 1980 to 11 times by the 1990s (Davrion and Ponte, 2005).

G. Fridell (2014), however, contends that it is not simply market dynamics that have created is the crisis of underdevelopment in producing countries; the state, and its connectivity to the market, has been overlooked as a factor. Ignoring the state “naturalise[s] the market” and downplays the consistent presence of the state in “creat[ing], manag[ing], regulat[ing] and reproduce[ing] the market,” (*ibid*, p. 409). Particular to the coffee crisis and the dissolution of the ICA, “the collapse of the ICA did not represent the end of state involvement in the industry but rather a shift in relations between coffee states from one based on a degree of collective action to one based on intensified competition,” (*ibid*, p. 413).

4.1.2.4 Liberalization of Coffee

Overtly, the state has been effectively removed from governance of the coffee trade in the post-ICA era. Liberalization of the coffee industry implied that state coffee boards, the primary operational units during the ICA, were eliminated or “rendered toothless” and state-run cooperatives were dismantled (Crumley, 2013, p. 118). As a result of the disappearance of authoritative state coffee boards there is little domestic regulation of the coffee market. Further, state institutions have become limited in their ability to create mechanisms for supply management, farm income maintenance, and price stabilization, which includes state subsidies, extension services, production quotas, and export retention schemes (D. Goodman, 2008). Ultimately, state capacity has been “diminished with the end of coffee agreements (Crumley, 2013). Noting the link between the dissolution of the ICA and coffee crisis some have challenged neoliberal assumptions, such as Linton (2005);

Finding a solution to the coffee crisis is thus a test of whether trade liberalisation can be made to work for poor people and poor countries. In part, the solution calls upon corporations and consumers in rich countries to

act as global citizens rather than simply global marketers and global consumers (p. 601).

The dissolution of the ICA marks a clear shift in the participation and power of actors the international coffee market. States, previously the key units for producing countries, no longer openly participate, and producing countries have generally lost influence. "Producing countries have disappeared as actors," in trade negotiations, and other attempts at creating institutional governance, such as the Association of Coffee Producing Countries and the ICO, who have seen minimal success or are considered "institutional shells," (Ponte, 2002, p. 1113). Where previously there was a "fairly balanced contest between producers and consumers within the politics of the commodity agreement," there has been a shift in power towards consuming country-based operators (*ibid*, p. 1105). Immediately after the end of the ICA stocks of coffee were transferred to consuming countries and processing and value-adding activities have shifted to consuming countries through private traders. Approximately 95% of coffee exports are currently processed beyond green bean outside of their original country (Crumley, 2013).

The current industry is increasingly concentrated. Related to the volatility of coffee prices since 1989, mid-sized traders have nearly become eliminated from the industry. Large traders restructured, but smaller businesses incurred bankruptcy or experienced an inability to compete with larger traders and merged with, or were taken over by, large traders (Davrion and Ponte, 2005). The roasting industry is further concentrated. Almost ten years after the disintegration of the ICA, in 1998 the top two roasters, Philip Morris and Nestlé, accounted for 49% of the total market; the top five roasters account for 69% (*ibid*).

Further, Global Value Chain (GVC) analysis conducted by Ponte (2002) has classified coffee as a buyer driven chain. The classification is made due to three features of the coffee commodity trade. First, roasters have requirements for minimum quantities for contracts. Secondly, roasters have developed technology allowing them to standardize flavor, and therefore be less dependent on any one origin or producer of coffee. Thirdly, the adoption of supplier-managed inventory practices has put roasters in the position to set the terms of coffee supply and exert control over international traders (Ponte, 2002). A roaster with supplier-managed

inventory practices will hold a minimal amount of coffee stock related to their projected and actual sales, while an international trader will procure, and hold the majority, of the stock to meet the roasters supply schedule (Davrion and Ponte, 2005).

Petchers and Harris (2008) believe the coffee crisis to continue today. The emergence of large agribusiness and dominant transnational corporations in coffee has created a “David vs. Goliath” dynamic in the industry, where family farmers are losing out “as the gains from globalization shift to the top,” (*ibid*, p. 47). The majority of margins in trade are made after export, as the value added by processing and roasting is done in producing countries, which leads to farmers only earning between 2.5-6.5% of the final retail price of the coffee, where roasters make on average 30% (*ibid*). Further, there are presently substantial obstacles at the farm level for coffee producers, including: no access to finance, difficulty obtaining economies of scale, little consistent and reliable knowledge of market and production trends, unorganized farmers or farmers’ organizations with little economic or political power, and lack of alternatives to coffee as a cash crop (*ibid*).

4.1.3 The Coffee Industry More Recently: High Production, Increasing Consumption

Coffee prices continued to be low throughout the early-mid 2000s, but slowly began to recover beginning in 2004. By 2010 prices had risen above \$USD 1.50 per pound in 2010 (ICO, 2013). A 34-year high was reached in 2011 (ICO, 2014d). However, market prices for coffee have begun to again decline, and prices in 2013 were the lowest seen in six years (*ibid*). A graph of historic and present prices for coffee is shown in Figure 8 on the next page.

The coffee market continues to be characterized by its instability, as can be seen by the variability of prices year to year. The instability is related to two key factors; first, tree crop price cycles are common in the coffee market, a market that experiences intense boom and bust cycles and intense price fluctuations (Trujillo, 2008). Farmers in the coffee belt often respond to high trade prices by planting more coffee trees, but as the coffee tree takes close to five years to mature and bear fruit, this tendency typically creates over-planting, and consequently, oversupply. Secondly, the volume of coffee on the market is heavily reliant on the production of coffee in Brazil specifically, and South America more generally. Brazil is the world’s leading

Figure 8

ICO Monthly Composite Indicator Prices, 1965-2013

(ICO, 2014d)

producer of coffee, but is highly susceptible to environmental factors. Climate shocks, such as frost and droughts, impact Brazil's Arabica production and the volume of supply entering the market. Heavy rains in 2014 are expected to lower Brazil's production by six million 60 kg bags for the 2014/2015 marketing year (MY), and the ICO (2014b) predicts significantly lower coffee stocks for 2015.

World coffee production has consistently been increasing. The annual growth rate has been consistently positive since 1963; the average growth rate was 2.8% per annum between 1963 and 1989, and 2.0% since 1990 (ICO 2014d). This growth has led to the largest production ever recorded in the 2012/2013 MY with 145.1 million 60 kg bags (*ibid*).

Production of coffee is primarily located in Latin America. Latin America accounts for nearly 57% of all coffee produced; 42% in South America and 15% in Central America (ICO, 2014c). Asia also has a significant presence, with 29% of production (*ibid*). The regional breakdown of coffee production in 2013 is illustrated in Figure 9, and Figure 10 details the production of coffee by the ten largest producing countries over the last five years of available data. Historic production volumes by

region are presented in Figure 11, showing an increasing trend in production in all regions, except a steady and small decline in Africa.

Figure 9

International Coffee Production by Region, 2013

Adapted from (ICO, 2014c)

Figure 10

Top Ten Coffee Producing Countries 2009-2013							
Country	Variety	2009	2010	2011	2012	2013	% World Production in 2013
Brazil	A/R	39,470	48,095	43,484	50,826	49,152	33.9
Vietnam	A/R	17,825	19,467	22,289	22,030	27,500	18.9
Indonesia	A/R	11,380	9,129	7,288	13,048	11,667	8
Colombia	A	8,098	8,523	7,652	10,415	11,000	7.6
Ethiopia	A	6,931	7,500	6,798	6,233	6,600	4.5
India	R/A	4,806	4,728	5,117	5,303	5,075	3.5
Peru	A	3,286	4,069	5,373	4,453	4,334	3
Honduras	A	3,603	4,331	5,903	4,537	4,200	2.9
Mexico	A	4,109	4,001	4,563	4,327	3,900	2.7
Uganda	A/R	2,845	3,203	2,817	3,698	3,600	2.5
World Total	A/R	123,023	133,065	132,207	145,323	145,194	-
Note 1: Figures given are in 1,000 of bags (60 kg per bag)							
Note 2: A = Arabica, R = Robusta							
Note 3: Countries ordered by 2013 production							
Note 4: Percent of world production calculated on 2013 data							
Adapted from (ICO, 2014c)							

Figure 11

World Coffee Production by Region (in Millions of 60kg Bags), 1963/4-2008/9

(ICO, 2014d)

Although production at present is at an all time high, it is predicted to stabilize, and possibly decline, in the near future. The ICO (2014d) suggests that coffee production may be soon saturated, and will be unable to maintain a growth rate in production. This is due to a shrinking availability of new cultivatable, an ageing agricultural population as young populations seek work in other sectors and in urban areas, and changing temperatures and climate conditions and related to climate change.

The coffee market has long been characterized by large volumes of production that outmatch demand; that trend, however, seems to be gradually eroding as production volumes stabilize and levels of consumption rise. Compared to the average growth rate of 2.0% per year since for coffee supply since 1990, demand for coffee has seen a growth rate of 2.1% on average since 1990, and an acceleration to 2.4% since 2004 (ICO, 2014d). Peaking during the coffee crisis in 2001, the ratio of production to consumption of coffee has slowly started to decline; a

breakdown by year is provided in Figure 12. Nevertheless, in 2013 there was still nearly a third more coffee produced than consumed (*ibid*).

Figure 12

Ratio of Global Supply and World Consumption 2003-2013										
2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1.71	1.58	1.49	1.43	1.42	1.29	1.29	1.28	1.26	1.27	1.27
Adapted from (ICO, 2013)										

Traditional markets for coffee imports include the US, Europe, and Japan. The US is the largest single country consuming coffee, consuming between 15-20% of global consumption (Kolk, 2013). The EU consumes 30% of global coffee consumption (*ibid*). Per capita consumption ranges across countries, from 6.39 kg per person in Canada, 4.95 kg in the EU, 4.09 kg in the US, and 3.38 in Japan (*ibid*). Within the EU, the UK has a lower per capita consumption at 3 kg, a traditionally tea drinking culture, and the Netherlands, a country who developed coffee production in Java and was once the center of the international coffee trade, has a per capita consumption of 7.1 kg (*ibid*). Overall, consumption in these markets has remained steady, although six of the ten largest importing countries are witnessing an average growth rate of less than 1% (ICO, 2014d).

Much attention is now directed at Asia and Eastern Europe for the two regions are considered emerging future markets for coffee consumption (ICO, 2013). The emerging markets for coffee imports have seen a rapid growth rate of consumption of 4.7% per year between 1990 and 2012, importing 27.9 million 60 kg bags of coffee in 2012 (ICO, 2014d). Also adding to the global increase in consumption rates is the domestic consumption of coffee in countries that also export it. Domestic consumption of coffee accounted for 43.5 million 60 kg bags of coffee in 2012, an average annual growth rate of 3%, and an increase of 64.7% since 2000 (*ibid*). This growth has been strongly led by Brazil, who represents nearly half of all domestic consumption worldwide, but is also the second largest consumer of coffee after the US, consuming 7% of global coffee (*ibid*). Other exporting countries with high levels of domestic consumption include Indonesia, Ethiopia, Mexico, Philippines, India, and Venezuela (*ibid*). Figure 13 charts world consumption of coffee by type of market, highlighting the growth of consumption in emerging and domestic markets since 2000.

Figure 13

World Coffee Consumption by Type of Market, 1964-2012

Note: bags contain 60kgs of green coffee beans.

(ICO, 2014d)

4.1.4 Emerging Sectors in the Coffee Industry

4.1.4.1 Specialty Market for Coffee

After the Second World War, roasters began concentrating on consistency, in price, packaging, and flavor, and began homogenizing their blends; coffee became cheaper, but quality was reduced as a result (Ponte, 2002). Supermarkets have traditionally been the dominant outlets for coffee sales in consuming countries, and price was the important feature for consumers in selecting a product (*ibid*).

Mainstream roasters have lost market share since the 1980s, largely due to growth of 'quality' coffees. An 'economy of quality' has emerged with the proliferation of small specialty roasters and specialty café chains, such as Starbucks (D. Goodman, 2008). The "'quality' turn" has been based on giving material and symbolic value to coffee based on constructions that "distinguish... type, country, region, or estate of origin, flavor, and roast," (*ibid*, p. 9). For these quality characteristics consumers are charged a premium price, which some have argued represents an economic rent in the industry (*ibid*). Nonetheless, the specialty coffee market is

highly profitable; while accounting for just 20% of the US market, specialty coffee earns 40% of the industry's profits (Linton, 2008).

The 'quality turn' has also involved increased attention on the experience of the consumer. The success of Starbucks is linked to their focus on educating the consumer on the attributes of coffee, and moreover the café atmosphere the company created in its outlets (Ponte, 2002). Adding a comfortable setting with the option of choosing a coffee from multiple available varieties Starbucks has successfully decommoditized coffee (*ibid*).

There are, however, questions as to the longevity of the quality coffee market. Starbucks itself has begun to implement mainstream corporate strategies, acquiring local chains and partnering with corporate giants for marketing, and further, has become intent on providing a consistent experience worldwide (Ponte, 2002). Large, quality coffee vendors have possibly re-commoditize coffee;

If chains get bigger, they tend to (re)commoditize the supply chain and simplify business. Higher sales entail more centralized buying requirements and more difficult relations with smaller suppliers (*ibid*, p. 1112).

As the industry continues to grow and increase its scale it may face additional challenges related to standardizing experience.

4.1.4.2 Certifications

Growing out of social and environmental movements in the 1990s, the coffee industry has witnessed growth of a 'moral economy' via alternatively produced coffees (D. Goodman, 2008; M. Goodman, 2004). Organizations dedicated to social and environmental causes have created market-based solutions, by establishing a set of standards for production, to which producers and roasters can demonstrate their adherence, become certified, and place a label of certification on their packaging.

Multiple certifications are present in the coffee market; most prominent are Fairtrade, Organic, Rainforest Alliance, Utz, and Smithsonian Bird Friendly coffee, and their features are compared in Figure 14 on the following page. Certifications have an increasing market share within the coffee industry. Organic, fair trade, and shade-grown coffee in 2000 valued at \$USD 152 million, roughly 1% of the North American coffee market and 2% of the specialty market (Davron and Ponte, 2005). Globally the figure is slightly higher: 1.2% of the international coffee

Figure 14

Comparison of Popular Ethical Coffee Certifications						
<i>Certification</i>	<i>First Certified Coffee</i>	<i>Standard Setting Organization(s)</i>	<i>Mission</i>	<i>Characteristics</i>	<i>Geographic Conditions</i>	<i>Percent World Production</i>
Organic	1967	International Federation of Organic Agriculture Movements and affiliated associations	Create a verified agriculture system that produces food in harmony with nature, supports biodiversity and soil health.	Extensive ecological guidelines.	<ul style="list-style-type: none"> • Global • Farms 	~1.2% (2005)
Fair Trade	1989	Fair Trade Labeling Organizations International and Fair Trade National Initiatives	Ensure equitable trading arrangements for disadvantaged smallholders who are organized into co-operatives.	Purchase directly from farmer cooperatives, guaranteed floor price, offer farmers credit, promote partnerships.	<ul style="list-style-type: none"> • Global • Smallholders 	0.9% (2007)
Rainforest Alliance	1996	Rainforest Alliance	Integrate agriculture, biodiversity conservation and human development.	Conserve ecosystems, protect wildlife, provide legal wages and health care for workers.	<ul style="list-style-type: none"> • Latin American countries only • Mostly estates, but some co-ops 	~0.6% (2007)
Utz Certified	1999	Utz Kapeh Foundation	Implement a global decency standard for responsible coffee growing and sourcing.	Social, environmental, and economic standards.	<ul style="list-style-type: none"> • Mainly in Latin America, but growing • Mostly estates, some co-ops 	~0.8% (2008)
Bird Friendly Coffee	1997	Smithsonian Migratory Bird Center	Provide good, forest-like habitat for Birds.	Planting coffee in shade, under a canopy of trees.	<ul style="list-style-type: none"> • Standards apply to Latin American countries only • Mostly estates 	~0.04% (2007)
Adapted from (Auld, 2010; Kolk, 2013; Giovannucci and Ponte, 2002; Linton, 2008)						

market (*ibid*). Certified coffee purchases are, however, rapidly growing, approximately increasing by 10% a year and is predicted to grow further as major roasters have recently committed to a range of certified coffee purchases (Giovannucci and Koekoek, 2003 cited in Davrion and Ponte, 2005). However, many contend that certifications ultimately may be limited to the niche market (Linton, 2008).

With a large and increasing number of certifications there are tensions in the industry. Certifications have been attempting to differentiate themselves, “driven partly by the interests of firms and standards organizations in preserving their autonomy and identity, and partly by claims to moral authority over the definition of what a sustainability standard should provide,” (Reinecke, Manning, and von Hagen, 2012, p. 798). However, it should be noted that there have been prominent instances of certifications collaborating to create shared platforms and industry standards such as International Standards Organization accreditation and the ISEAL Alliance (*ibid*). The cooperation is positive for legitimacy, however, many still warn of the potential of consumer confusion over the large number of existing certifications (Walsh and Mitchell, 2010). As many roasters are beginning to create their own ethical labels, such as Starbucks’ C.A.F.E. and Nespresso’s AAA Sustainable Quality Coffee, concerns of consumer confusion are heightened.

Businesses are increasingly adopting social and environmental certification. Linton (2005) identifies four motivations for business to become certified. First, companies can access customers loyal to certifications and gain new customers as the company becomes branded as altruistic. Secondly, businesses that do not proactively approach certification face protests and boycotts. Third, certification reduces negative publicity. Lastly, the independent character of certifications allows companies to access credibility that statements made by the companies themselves may not find.

4.2 Fair Trade Coffee

The growth of fair trade in coffee is often suggested as a response to the coffee crisis in the early 2000s. Although the fair trade movement has earlier roots,

the coffee crisis brought an increased awareness of the plight of distressed coffee farmers (Nicholls, 2010). Assisted by advocacy from organizations such as Oxfam and their publication “Mugged: Poverty in your coffee cup,” fair trade presented itself a positive alternative to the conventional market (Gresser and Tickell, 2002).

Coffee is widely considered fair trade’s “flagship” product (Modelo, 2014, p. 42). Coffee is by far the most widely available and highest earning fair trade product. Coffee producers represent 47% of all farmers certified by Fairtrade, and by volume, coffee was the third largest item produced in 2011, behind cane sugar and bananas (Fairtrade International, 2012). Sales of Fairtrade coffee amounted to € 391.4 million, which equates to 59% of the earnings of all Fairtrade products (*ibid*).

Global production of Fairtrade certified coffee reached 123,200 tons in 2010/2011, which represents a 19% growth since 2009/2010 (Fairtrade International, 2012). The number of Fairtrade producers has also steadily increased in the last ten years, increasing from 175 coffee producing organizations in 2002 to 348 in 2011, nearly double (*ibid*). These coffee producing organizations include 580,200 farmers across 28 countries (*ibid*). After Organics, Fairtrade has certified organizations in the broadest range of countries and has certified growers in a number of least developed countries, including Ethiopia, Haiti, Rwanda, Tanzania, and Uganda, among others (Byers, Giovannucci, and Lui, 2008).

Fairtrade coffee is produced in a number of countries throughout the coffee belt; Figure 16 provides a map of producer locations. Fairtrade coffee production is heavily dominated by Africa and Latin America. Over half of the members of coffee producing Fairtrade organizations are located in Africa, while Latin America contains the largest number of producer organizations (Fairtrade International, 2012). Regarding the volume of coffee produced, seven of the largest ten producing countries, and nearly 80% of all Fairtrade coffee, is produced in Latin America (*ibid*). Further data is provided in Figures 16 and 17.

Figure 15

Map of Fairtrade Coffee Producer Organizations, 2011

(Fairtrade International, 2012)

Figure 16

Fairtrade Coffee Producer Organizations and Members By Region, 2009/2010		
<i>Region</i>	<i>Producer Organization</i>	<i>Total Number of Members</i>
Africa and the Middle East	42	342,200
Latin America and the Caribbean	276	187,300
Asia/Oceania	30	50,700
Total	348	580,200
Adapted from (Fairtrade International, 2012)		

Figure 17

Top Ten Countries, Fairtrade Certifiable Production Capacity 2010/2011	
<i>Country</i>	<i>Production Capacity (Metric Tons)</i>
Colombia	107,200
Peru	61,500
Brazil	50,000
Indonesia	27,100
Nicaragua	23,700
Costa Rica	21,400
India	16,400
Mexico	16,100
Honduras	16,000
Tanzania	13,800
Adapted from (Fairtrade International, 2012)	

4.2.1 Fair Trade Standards Specific to Coffee

Fairtrade regulates the principles guiding fair trade through their standards. Standards guidelines exist for small producer organizations, hired labor, and traders, and additional to these overarching documents are product specific standards; only small producer organizations can be certified coffee producers. These standards are organized into four categories: general requirements, trade, production, and business development. Requirements notable for this thesis are presented in Figure 18.

There are no extensive additions to the general or small producers standards in the standards for specific to coffee producers. The bulk of the additions relate to details around contracts and business development. ‘Price to be fixed’ contracts should be used, although there are allowances for outright priced contracts in certain cases (Fairtrade International, 2011b). Also, use of a broker by either the producer or

Figure 18

Selected Fairtrade Standards for Small Producer Organizations	
General Requirements	<ul style="list-style-type: none"> • Accept all audits and provide information upon request (1.1.1) • At least half of all product sold, and half of all members must be small producers (work is mostly done by family members, and labor is not hired year-round)(1.2.1, 1.2.2)
Trade	<ul style="list-style-type: none"> • Can only sell products as Fairtrade that are sourced from members, and product from non-members must be kept physically separate (2.1.1) • Clear and written record keeping of sales and purchases from members (2.1.2-2.1.6)
Production	<ul style="list-style-type: none"> • Management must inform and explain to members the labor and environmental requirements (3.1.1) • Must identify risks of, and provide training regarding the following: pest management, pesticides, soil erosion, fertilizer, soil fertility, sustainable water sources and use, waste, genetically modified organisms, and biodiversity (3.2) • Freedom of labor, freedom from discrimination, child labor and child protection, freedom of association and collective bargaining (3.3)
Business Development	<ul style="list-style-type: none"> • Must create a Fairtrade Development Plan than includes all activities to be funded with the Premium. Plan must be presented to the General Assembly for approval. The results of the Plan must also be presented (4.1) • Organization must be structured so the General Assembly is the highest decision making body (4.2.1) • It must be clear who is a member with written rules for becoming a member and a written record (4.2.2) • Must hold a General Assembly at least once a year (4.2.4) • Must report annual report, budget, and accounts to General Assembly (4.2.7)
Adapted from (Fairtrade International, 2011c)	

the buyer must be explicit from the beginning (*ibid*). Up to 60% of the contract must be available for pre-financing as soon as the contract is signed (*ibid*).

Prices are established similarly to conventional coffee; the New York Board C contract for Arabica and London EURONEXT LIFE for Robusta, and the buyer must pay at least these prices or the Fairtrade minimum price,⁵ whichever is higher (*ibid*).

⁵ As of April 1, 2011, the minimum Fairtrade price for natural Arabica coffee is \$USD 1.35 per pound and \$USD 1.40 per pound for washed coffee. The minimum Fairtrade price for Robusta coffees are \$USD 1.01 per pound for natural, and \$USD 1.05 per pound for washed. All organic coffees receive an additional \$USD 0.20 per pound (Fairtrade International, 2014a).

Quality differentials can be added or deducted, but must not go lower than the minimum price (*ibid*). Prices offered by a buyer cannot be fixed for more than one crop period (*ibid*). One last significant standard established for coffee is that at least 5 cents of the premium must be invested in “the improvement of productivity and/or quality of Fairtrade coffee” (*ibid*, p. 7), which

refer[s] to any measures that will increase the quantity and quality of coffee produced. It can include measures to improve yields such as, for example, training on agricultural practices, farm-level replanting and renewal projects, purchase of equipment or infrastructure investments. It can include measures for quality such as hiring cuppers, investing in cupping labs, trainings and similar activities (*ibid*, p. 7).

The premium was doubled in April 2011 to become \$0.20 per pound (*ibid*).

The inclusiveness of the standards setting process has been questioned. Giovannucci and Ponte (2005) note that producers had minimal participation the standard setting procedures, and suggest that the benefits to producers may be limited as a result. Sick (2008) has also proposed that the broader decision-making process within Fairtrade has been a mostly a top-down process. This concern has been acknowledged by Fairtrade, who voted in 2011 to increase producer representation on the Fairtrade General Assembly to 50% (Fairtrade International, 2013b).

4.2.2.1 Fairtrade Coffee Farmers Must Belong to Cooperatives

Fairtrade standards are explicit in requiring that coffee producers be organized into cooperatives. Smallholder producers must be organized in an association that as members they own and govern democratically. As explained by the Fairtrade Foundation (2012), the UK National Initiative,

Fairtrade Standards follow ILO Recommendation R193 on the promotion of co-operatives as a proven model that contributes to the socioeconomic development of farming communities. Therefore Fairtrade farmer organisations – co-operatives, associations or others – must incorporate co-operative principles including voluntary membership, democratic control, economic participation of members, autonomy and independence, and concern for the community (p. 15).

Cooperatives are held to enable producers to combine funds for investment in equipment for processing, achieve economies of scale, and negotiate higher sales prices (*ibid*).

Until recently, all fair trade organizations had been in agreement regarding the requirement for coffee producers to be organized in cooperatives. In 2011, Transfair USA (now Fair Trade USA) separated from Fairtrade International, due to different stances on the necessity of cooperatives (Modelo, 2014). Fair Trade USA continues to support cooperatives in their network, promising not to displace their sales, (Crumley, 2013). However, they have certified the first fair trade coffee estate, Fazenda Nossa Senhora de Fatima, in Brazil in January 2012 (Fair Trade USA, 2012). The certification has been considered “unwelcomed” by Fairtrade International, as well as several other organizations, including the European Fair Trade Association, Fairtrade Africa, the Network of Asian Producers, and the Red Café-CLAC (Crumley, 2013).

4.2.3 Existing Research on the Effectiveness of Fair Trade for Producers

Research regarding fair trade, both by academics and fair trade organizations, is becoming more prominent, however, two gaps have been identified. First, there are few longitudinal studies examining fair trade over time (Nelson and Pound, 2009). Secondly, existing research on fair trade coffee is overwhelmingly located in Latin America. Summarizing 10 years of research on fair trade, Nelson and Pound (2009) found no case studies in Asia and only three in Africa, as compared to the 21 studies in Latin America.

Overall, research suggests that fair trade can bring “positive changes to rural areas,” by “creat[ing] the preconditions for rural development to take place on many fronts,” (CEval, 2012, p.7). Although many find it unlikely that fair trade can eliminate poverty itself and “needs to be supplemented by changes in development policies and coordination with other development agencies, funds, and initiatives,” there are strong benefits to the organizations created by fair trade producers (Nelson and Pound, 2009, p. 35). Two dominant themes in the fair trade coffee literature are further discussed further below.

4.2.4.1 Poverty Alleviation

Research on income earned from fair trade demonstrates that participation brings slightly higher and more stable earnings for producers, and is a “favourable

economic opportunity,” (Nelson and Pound, 2009, p. 34). However, evaluations on fair trade’s success at combatting poverty have predominantly found that the income earned from selling fair trade coffee alone is not enough to bring poverty alleviation to coffee-farming families (Bacon et al, 2008; Mendez et al., 2010). One case study of Nicaraguan farmers determined that certified coffee farmers did not received substantially more income than those that were not certified, and that coffee sales added less than \$USD 1 per day per person, closer to \$USD 0.38 per day per person (Bacon et al., 2008). Research in Mexico concluded that coffee farmers, with a range of certifications including fair trade, only earned a net income of \$USD 116-406 per year from coffee sales, and further, that coffee sales only accounted for 37% of the household’s total income (Mendez et al., 2010). Most households studied required second income-earning activities, such as basic cropping, animal husbandry, or temporary wage work on neighbors’ farms, in towns, or abroad (Valkila and Nygren, 2010). Further, remittances from family members who emigrated accounted for larger sums than income earned from coffee (Lewis and Runsten, 2008).

Two significant factors regarding income earned from fair trade coffee have emerged in the literature. First, cooperatives typically do not sell all of their coffee as fair trade, and therefore only earn a portion of the higher price. Fair trade was the certification with the lowest proportion of coffee sold at certified prices, with 60% of total volume sold as fair trade, whereas organic producers sold 100% of their total volume at certified prices (Mendez et al., 2010). Fairtrade estimated sales of coffee as Fairtrade certified to represent 45% of producers’ total coffee sales (Fairtrade International, 2012). The supply of fair trade coffee is currently higher than demand; Murray et al. (2006) found that the capacity of small producers who could meet the requirements of fair trade certification is seven times the actual volume of coffee exported via fair trade.

Secondly, the fair trade minimum price may not currently represent as advantageous a price as when first established. Reconstructing the historical prices of the fair trade minimum price Bacon (2010) found that the minimum price for coffee had not changed for the 12 years prior to a nominal increase in 2007, and when adjusting for inflation the fair trade minimum price lost 41% of its value between 1988-2008. As argued by Bacon, the heart of the issue of a declining real value for fair

trade coffee is that fair trade minimum prices are associated with the international commodity price for coffee, rather than any direct measurement of the costs of sustainable production by farmers (*ibid*). As of 2008, no systematic study calculating costs of production for fair trade farmers was available, with the exception of a study commissioned by Latin American and Caribbean Network of Small Fair Trade Producers; this lack of documented research stands in contrast to claims by Fairtrade that the minimum price is set with the intention to cover production costs (*ibid*).

4.2.4.2 Creating Sustainable Businesses

Many argue that fair trade's greatest contribution has been building sustainable businesses in developing countries. Fair trade's emphasis on partnerships and long-term relationships is considered a valuable strategy for creating successful businesses (Bacon et al., 2008). Fair trade has allowed for small-scale producers to access networks and partner with organizations they would not had access to by other means (Mendez et al., 2010). Forming cooperatives has also been found to be more attractive to INGOs offering assistance (Nelson and Pound, 2009). Small, marginal producers have gained organizational skills and other forms of human and social capital because of their relationships with fair trade buyers (Bray, Sanchez, and Murphy, 2002).

The cooperative structure mandated by Fairtrade is argued to facilitate capacity building. A cooperative is believed to increase the potential for knowledge dissemination and the transfer of these skills to other members (Neilson, 2008). Cooperatives have offered literacy courses and a range of other classes, such as trainings on agricultural topics, market knowledge, and organizational strengthening, as well as provide a number of scholarships for further education for members and their children (Nelson and Pound, 2009; Bacon et al., 2008). However, the benefits of capacity building may be limited for research demonstrates that there is confusion and little understanding about fair trade certification amongst the general members (Mendez et al., 2010). Many have consequently questioned fair trade's ability to empower producers if most are unaware of the participation (Valkila and Nygren, 2010). The motivation of those in key cooperative leadership positions, and

communication structures, are vital to the success of cooperatives and the fair trade approach at large (Nelson and Pound, 2009).

It must also be noted that the businesses created by fair trade coffee production require substantial costs. Certification itself is expensive, adding an additional cost of up to \$USD 0.055 per pound of exported coffee in 2005-2006, and there are further administrative costs to pay personnel required for audits and records maintenance (Valkila and Nygren, 2010). Multiple studies have found that cooperatives often spend over half of the fair trade premium on paying for certification, general operating costs, and improvements to cooperative infrastructure (*ibid*). Figures from Fairtrade International report a large amount of the premium are used for cooperatives' operation expenses; 53% of the premium was used for "investment in business or organizational development, production and processing" in 2011 (Fairtrade International, 2012, p. 58). Other uses of the premium were: cash payments to members (18%), community (7%), education (4%), and environment (3%)(*ibid*).

4.3 Summary

This chapter has given foundational information regarding the coffee industry and the production of fair trade coffee. A review of coffee's history led to a discussion on coffee's neoliberal governance, price crisis for farmers, and movement of value-adding activities to coffee consuming countries. The characteristics of fair trade coffee production were given, as well as Fairtrade standards related to coffee, highlighting the requirement for coffee farmers to be organized into agricultural cooperatives. A review of prior research on fair trade's effectiveness presented mixed results; although fair trade will not significantly reduce poverty among coffee growing families, it may cultivate improved businesses in developing countries.

The following chapter explores thesis dimensions in a specific coffee-producing context: Indonesia and the Special Province of Aceh.

Chapter Five: A New Era for Coffee and Farmers?

Coffee Production in Indonesia and the Special Province of Aceh

With this chapter this thesis begins to place the discussions of the previous chapters more in the research context. It begins with the political and economic context, first nationwide across Indonesia, and then with the Special Province of Aceh. Secondary research was performed to present the production of coffee – kopi in Indonesian Bahasa—in these locations, giving attention to the political positioning of coffee farmers. Indonesia’s history as a large exporter of Robusta coffee is discussed, and the chapter ends by establishing Aceh’s position as a specialty Arabica producer, and a location where Fairtrade has recently become popular.

5.1 Indonesia and the Special Province of Aceh in Context

5.1.1 Indonesia

Since their declaration of independence in 1945 Indonesia has been lead by two authoritarian leaders. The first, Sukarno, pursued nationalistic economic policies and focused on political state building over economic policy. He implemented Guided Democracy, a governance that sought to combine popular decision-making with a strong, central leadership, and established Indonesia’s national political philosophy, Pancasila, or the Five Principles/Pillars: national unity; internationalism, or sometimes read as humanitarianism; government by discussion; social prosperity; and belief in one God (Vickers, 2013; Brown, 2003). Suharto, Indonesia’s second president, came to power in 1965 after a violent military coup. Suharto took efforts to “depoliticize the population,” believing politics disruptive and distracted from productive activities and economic development (Brown, 2003, p. 204). Although politically repressive, Suharto’s New Order government was economically effective; during the New Order, Indonesia became one of the fastest growing economies worldwide with an annual growth rate of 6.7% (Vickers, 2013).

Indonesia since 1998 is a distinctly different landscape, witnessing a “political rupture,” (Chalmers, 2006 p. 25). Globalization and increased access to media had increased public awareness of corruption, cronyism, and nepotism (Hainsworth, Turner, and Webster, 2007). The bubble of Suharto’s economic development began to burst in time with the impact of the Asian Financial Crisis. Indonesia’s economy shrank by 13%, the sharpest of any East Asian economy affected by the crisis (Bird, 2008). A formerly depoliticized public held large-scale social protests, calling for political reform, and Suharto announced his resignation in May of 1998.

Elections in 1999 were conducted “enthusiastically and peacefully” with close to 50 political parties campaigning and 20 winning seats, a strong contrast to the New Order era where only two opposition parties were permitted (Chalmers, 2006, p 31). Indonesia has had subsequent free and fair elections in 2004 and 2014. Reform has also featured decentralization, instituted through Law No. 22, which grants increased regional autonomy to the provinces. Implementation has been extremely popular both with the public and political elite, due to a “renaissance of local identities” and maintained positive relations between the state and regions⁶ (Mietzner, 2013, p. 9).

Although there is much justified celebration regarding Indonesia’s transition to liberalization and democracy, it has not been seamless. Evaluating the onset of regional autonomy, the United Nations Development Programme (UNDP) (2009) has described the need to clarify power hierarchies in the governance arrangements, specifically for governors, and the need for improved integration of planning and budgeting across the levels. Patronage systems and project hunting continue to be common, and political elite’s stronghold over the national economy remains (Aspinall, 2013; Vickers, 2013). Wide scale skepticism towards politics persists amongst the public;

Restoring peoples’ ‘faith in the system’ remains the most critical challenge in seeking to secure Indonesia’s prosperity, social harmony, participatory democracy, and national integrity... restoring faith and stability still requires several more bold steps on the road to *reformasi*, (Hainsworth et al., 2007, p. 46).

Nearing 25 years since the end of Suharto’s authoritarian regime, Indonesia is continuing to process their new political and economic landscape.

⁶ For more on secessionist movements in Indonesia see Webster (2007).

In 2013 the UNDP described Indonesia as a “rapidly growing middle-income country” with “visible signs of [the] economic affluence and economic development that Indonesia has experienced in recent years,” such as improved infrastructure in Jakarta and improved access to electronic communications across the country (UNDP, 2013, p. 3). Gross Domestic Product (GDP) has grown at an astonishing rate; averaging 6% between 2009 and 2012 (*ibid*). Currently Indonesia is positioned as the 15th largest economy in the world (World Bank, 2014). Rates of poverty in the country have dramatically declined; in 2013 the national poverty rate was just above 11%, representing a decrease of 4% over the last five years (UNDP, 2013). The poverty rate that is half of what it was in 1999 (World Bank, 2014). However, the growth has “not benefitted everyone” and has created deep inequality and one of the fastest growing rates of inequality in the SE Asian region (UNDP, 2013, p. 13; World Bank, 2014). Gini coefficients⁷ across historical eras are presented in Figure 19 on the following page.

The economic growth experienced recently by Indonesia is connected to strong commodity prices between 2003-2009. From 2005, commodities have overtaken manufacturing as Indonesia’s largest export sector, at 65% of exports (World Bank, 2014), and much of this was driven by sales of coal, palm oil, and mining. Indonesia is the second largest producer of palm oil, exporting 23 million ton in 2012 (UNDP, 2013). Further, recent job growth has favored urban areas. Between 2001 and 2011, of the 20 million jobs created in Indonesia, 19 million were in urban areas (World Bank, 2014). 45% of all jobs created were in the services sector (*ibid*).

Indonesia has reduced the number of people living in poverty to 12%, but 27% of the population is “hovering” just above the poverty line and are “highly susceptible” to slipping back below it (World Bank, 2014). The World Bank (2014) concludes that proportion of vulnerable workers within each sector is “relatively high in all sectors except communications and banking/finance/business services,” but that 42% of all vulnerable adults work in the agricultural sector (p. 50). A small shock or disturbance in economic growth could lead to severe consequences for those in Indonesia just above the poverty line.

⁷ A Gini coefficient, ratio, or index, is a statistical representation of inequality, measuring the dispersion of incomes. A number between 0 and 1, the higher the number the more inequality exists in the measured population, the closer to zero the more equal the distribution.

Figure 19

(World Bank, 2014)

5.1.2 Aceh

From its location as the eastern most point in Indonesia, Aceh has long been known as the ‘Veranda of Mecca’ and seen as the entry point of Islam into Indonesia by Arab traders in the pre-colonial era (McGregor, 2010). Acehnese identify more with Middle Eastern societies, and “feel little affinity” with the Indonesian state, which is seem to be dominated by ethnic Javanese, who have Hindu and Buddhist religious traditions and adopted Islam much later (*ibid*, p. 733). Although holding an identity distinct from Indonesia at large, Aceh joined with Java and other islands in the “common struggle” against Dutch colonial forces and the Japanese during the Second World War and years following (BRA, 2008, p. 19). Once independent, the Indonesian central government assimilated Aceh into the province of North Sumatra, prompting the Darul Islam (House of Islam) Rebellion of 1953. The rebellion ended in 1957 after independent provincial status was returned to Aceh. The promises to give Aceh strong autonomy were, however, not implemented, initiating further bitterness between the province and central government (*ibid*).

Conflict flared again in Suharto’s New Order era as Suharto pursued policies of national integration and favored Javanese cultural traditions. In 1975 Gerakan Aceh Merdeka (GAM) (Free Aceh Movement) was founded, issuing a Declaration of Independence in December 1976. Harsh military operations were initiated by the central government, who simultaneously pursued natural resource exploitation in the region for national economic development (BRA, 2008). The Joint Understanding on

Humanitarian Pause for Aceh was negotiated between the GAM and Indonesia's new president in 2000, followed by a series of peace negotiations. A changeover in the central government, however, saw the conflict reignite and military conflict intensify.

The 2005 Indian Ocean tsunami, generated by an earthquake 150 km off the coast of Aceh, had a devastating impact on Aceh. McCullough (2008) describes the widespread damage;

The earthquake, and the enormous tsunami it generated, killed around 200,000 people and displaced more than half a million in the province. Some 465 coastal villages were partially or wholly destroyed, and around 88,000 hectares of productive farmland damaged. Local economies and livelihoods were decimated, and local health, education and government capacities lost. Several hundred thousand people were left destitute and completely dependent on aid. Total damage and losses have been reckoned to be equivalent to almost 100% of the province's regional GDP (p. 10).

The tsunami is widely considered one of the most destructive natural disasters of recent times, and initiated the "most generous and immediately funded international humanitarian response ever," (Tsunami Evaluation Coalition, 2006, p. 38).

Reconstruction spending in Indonesia alone, in Aceh and Nias, amounted to \$USD 7.5 billion over a five-year period (World Bank, 2008).

The decades long conflict between Aceh and the central government ended in 2005. The GAM had held secret talks with President Yudhoyono in 2004, but "the tsunami made the Acehnese people more reflective, contemplative, religious, and humanistic," (Sujatmiko, 2012, p. 108). Where previously the GAM and the Indonesian central government invoked identities of ethnonationalism and nationalism, in the wake of the tsunami "humanism became the bridging value between the two conflicting parties," (*ibid*, p. 108).

The Law on the Governing of Aceh 11/2006 (LoGA) was enacted following the 2005 peace negotiations. The LoGA replaced the national law on regional autonomy, and granted additional fiscal and economic powers to the province (McCulloch, 2008, p.10). LoGA is guided by the three following principles:

- 1) Aceh can exercise authority within all sectors of public affairs except in the areas of foreign affairs, external defense, national security, monetary and fiscal matters, justice and freedom of religion, which in accordance with the national constitution are exercised by the Government of Indonesia.
- 2) The Government of Indonesia will consult with Aceh and seek the consent of the legislature of Aceh before entering into international agreements that are of special interest to Aceh.

- 3) The Government of Indonesia will consult with and seek the consent of the legislature of Aceh with regard to decisions related to Aceh undertaken by the Government of Indonesia (BRA, 2008, p 56).

Additional terms of the LoGA address oil and gas resources located in Aceh. The LoGA specifies that oil and gas resources will be co-managed by the central and provincial government, with increased transparency and monitoring by independent auditors. Further, 70% of revenues earned from oil, gas, and other natural resources are to stay in Aceh (McCulloch, 2008).

The Badan Reintegrasi-Damai Aceh (Aceh Peace-Reintegration Board) (BRA) has been the lead provincial organization for post-conflict recovery and peace building in Aceh. Tasked primarily with facilitation and coordination of all partners involved, and to develop collaborations with partner organizations, the BRA has taken a “three pillar approach for peace building” which consists of the return, reconstruction and reintegration of Acehnese people affected by the conflict; truth, reconciliation and social cohesion; and peace consolidation and conflict prevention through “building back better,” (BRA, 2008, p. 14).

Economic growth in Aceh since 2005 has been modest. In 2006 the economy only grew 2%, highly connected to reconstruction efforts; growth was only witnessed in sectors receiving reconstruction funds: construction, transport, and services (World Bank, 2008). Many worry that a reconstruction economic bubble exists, and once burst, unrest and poverty will return to Aceh, perhaps stronger than before (BRA, 2008). Governmental strategies to promote economic growth in the province emphasize business and the private sector. The Governor of Aceh, Irwandi Yusuf, proposed that two guiding elements for Aceh’s economic development strategy are to attract investment and generate employment, accomplished by focusing on the following:

- Construction of basic and large infrastructure;
- Revitalization of the agricultural sector, with a grassroots focus. Emphasis on food crops, fisheries and livestock, and plantation crops;
- Commodities led, demand driven exports;
- Investment promotion;
- Natural resource and ecosystem management;
- Environmental protection (Yusuf, 2007).

Phelps, Bunnell, and Miller (2011), however, are skeptical of the perceived opening up

of Aceh for increased economic activity. They see a potential influx of ‘disaster capitalism,’ yet warn that the economical-geographical imaginaries associated with post-conflict and post-disaster Aceh—that it has (re)opened for business, is a site of revivable Islamic and Malay trade connections, and is a self governing economic space—are not accurate. Phelps, Bunnell, and Miller come to this position citing regulatory uncertainty, halted progress in constructing a port in Aceh, and government reliance on donor input.

Historically one of Indonesia’s richest provinces, Aceh was the fourth richest province in terms of GDP in 2005 (McCulloch, 2008). Aceh’s economy is heavily reliant on mining, with 24% of Aceh’s Regional GDP (RGDP) in 2006 coming from mining, the sector in which oil and gas are located (World Bank, 2008). Historically the numbers are even higher; in 2000 the RGDP was 50%, and 35% in 2006, demonstrating a decline in production (McCulloch, 2008). Further, manufacturing in Aceh represents 14% of Aceh’s RGDP, and is dependent on cheap gas inputs (World Bank, 2008).

Although one of the richest provinces in Indonesia, Aceh has one of the highest rates of poverty. For the past 30 years poverty figures have been higher in Aceh than Indonesia’s average (World Bank, 2008). In 2004, before the tsunami and end of the conflict, the poverty rate in Aceh was at 26.5%, whereas the national average stood at 16.7%; Aceh’s nearest provincial neighbor, North Sumatra, has a poverty rate of 14.9% (*ibid*). Poverty in Aceh is a “rural phenomenon,” with poverty in rural areas over 30%, a number over twice the rate of urban poverty (*ibid*). Households with a larger family size, lower educational attainment, headed by women, and working in agriculture is also characteristic of poverty in Aceh (*ibid*). Agriculture is the dominant form of employment in Aceh, with 57% of adults working as farmers (Kecamatan Development Program, 2007).

5.2 Coffee Production in Indonesia

5.2.1 Historic Coffee Production: From Forced Cultivation to Farmers Associations

The Dutch East Indies Company (Vereenigde Oost-Indische Compagnie, or VOC) established their headquarters in Batavia, later named Jakarta, in 1602 (J. Taylor,

2003). Beginning in 1696, on their private estates near Jakarta VOC employees experimented with propagating seedlings, and once methods were established, coffee seedlings were given to district leaders in the highlands of west Java, who urged farmers to harvest the beans to fulfill tax payments (*ibid*). The VOC paid high cash prices for the first harvest in 1718, and in following years district heads saw increased incomes from their percentage of coffee payments (*ibid*). Farmers were ultimately incentivized to increase production and coffee harvests rose to three million pounds by 1725 (*ibid*). However, the increased supply of coffee to Amsterdam negatively affected prices, and the VOC responded by cutting prices paid for Indonesian coffee to reduce production there.

The original intention of the Dutch in Indonesia was not for territorial governance, but focused upon trade. Vickers (2013) describes Indonesia as an “unplanned colony” due to its economic, not territorial, interests;

[the colony] was founded on business, not Dutch national expansionism. These seventeenth-century Dutchmen set up this colony as investors in the world’s first great multinational company, the United East India Company (p. 10).

While operating in the archipelago, the VOC “avoid[ed] as far as was possible acquiring direct control over territory or peoples,” (Brown 2003, p. 69). However, the Dutch Royal Family assuming the VOC’s assets during a financial crisis in 1799, and upon signing the Treaty of London with Britain in 1824 Indonesia was firmly established as imperial colony.

In 1830 the Dutch introduced the Cultivation System, where production of certain crops was treated as tax payments (Brown, 2003). Initiated by the Dutch Governor-General Johannes van den Bosch, who believed “the only reason to have a colony was to make a profit out of it,” the system obligated villages to dedicate one-fifth of their farmland to the production of a crop chosen by the government (*ibid*, p. 84). Coffee was the dominant commodity in this system; nearly 56% of Indonesian households were forced to grow coffee, approximately four times the number of those assigned to sugar (Clarence-Smith, 1994). Between 1830 and 1850 production of coffee grew from 26,600 tons to 79,600 tons per year (McStocker, 1987). The Cultivation System was a large financial success to the Dutch Crown and local officials, and both pushed peasants to increase productivity by dedicate more land to cash

crops and less on food crops, leading to famines in the 1840s and 1850s (*ibid*).

Debates in Holland arguing against state capitalism and for private enterprise brought about the end of the Cultivation System, starting with pepper in 1864, and ending with coffee in 1917 (*ibid*).

The Agrarian Act of 1870 had a quick impact on Indonesian coffee production. The Agrarian Act permitted long-term contracts on uncultivated land, and ushered in European investment in Indonesia and the growth of estate farming, particularly in East Java (McStocker, 1987). Growth in the industry was stalled by disease in pests for the next 60 years, but when Robusta, a disease resistant, high-yielding coffee variety, was introduced in Indonesia, production grew and surpassed 19th century peaks by 1925 (*ibid*). Declining world prices in coffee limited the profitability of estate coffee farming in Indonesia; dependent on wage labor, estates responded to declining prices by reducing the area cultivated, where smallholder family farmers responded by increasing the area cultivated. By 1940s, smallholder production dominated in Indonesia, particularly in South Sumatra (*ibid*).

The coffee industry, like many others, was distressed during the Second World War and Indonesia's lengthy struggle for independence. Indonesia's first president, Sukarno was disastrous for the economy. By the end of Sukarno's leadership in Indonesia the economy was in a "free fall" as inflation reached 600% in 1966 (Booth, 1999, cited in Danzer, 2008). Further, the budget deficit rose to 300% of government revenues (Kingsbury, 2002, cited in Danzer, 2008).

Suharto, Indonesia's second "quasi dictator," came to power in 1965, and his era of rule is referred to as the New Order. Suharto was keenly focused on economic stability and fostering economic development (Brown, 2003, p. 184). It took until the early 1960s for the coffee industry to recover to prewar levels of production and see slow, but steady growth through the 1970s and 1980s. Growth was due to expanded areas of cultivation by smallholders, who were responding to high coffee prices. Transmigration schemes relocated mainly Java residents to less populous islands, and encouragement of US government agriculture advisors, hoping to reduce the influence of Brazil's inconsistent output on the world market, also contributed to the increased position of the Indonesian coffee industry (McStocker, 1987). Coffee was a valuable crop for Indonesia through this era. In 1984, coffee represented 10%, \$USD

604 million, of Indonesia's non-oil exports, and was the third most valuable product after rubber and timber (*ibid*).

In the 1980s, ICA quotas permitted Indonesia to receive higher profits for coffee exports although production levels witnessed lower growth rates; \$USD 338 million were earned annually during the New Order with a 3.5% growth, as compared to \$USD 95 million with a 6.5% growth in the following 10 years (Danzer, 2008). The New Order government had the ability to auction quota rights and force exporters into a bidding war, but deferred profits to a limited number of well-connected, private exporters by establishing the Coffee Export Syndicate (Sindikot Ekspor Kopi Indonesia, SEKI) (*ibid*). Danzer (2008) suggests this demonstrates the prioritization of patronage over state revenue and development in the New Order (*ibid*). The favor done for exporters had a negative impact on the earnings of coffee farmers, who during the ICA era captured just 52% of total coffee profits, while traders earned 37% (*ibid*). Those figures would dramatically change in the years after the fall of Suharto, increasing farmers earning to 86% of the profits and traders just 3% (*ibid*). Profit distribution can further be seen in Figure 20, on the next page.

Although negatively impacted by the government practice favoring exporters, farmers did not have viable opportunities to object. Suharto's New Order government, notoriously violent, was extremely suspicious of grass root activity and farmer organizations (Neilson, 2008). Although these organizations were permitted, they were treated as political vehicles by authorities, used to promote propaganda and secure vote blocks, and cannot be considered participatory, member owned organizations (Neilson, 2008; Mackie and O'Malley, 1988). Farmers have remained cautious of Koperasi Unit Desa (village cooperatives) and Koperasi Pertanian (agricultural cooperatives), and consequently "farmer groups were unable to evolve as meaningful economic actors," (Neilson, 2008, p. 1613). Opportunities for political expression were constrained, and dissent was considered "un-Indonesian and counterproductive as it might disturb the goal of social harmony," (Vickers, 2013, p. 181). During his leadership, Suharto was remarkably successful in controlling Indonesian political life and creating a "culture of political passivity," (Chalmers, 2006, p. 26).

Figure 20

Total Annual Coffee Profit and Its Distribution in Indonesia, 1976-2003						
Year	Production (kg)	Profit (\$USD/kg)	Total Profit (\$USD Millions)	Farmers' Share	Traders' Share	State's Share
1976	193,377	\$3.73	\$722	88%	8%	4%
1977	193,966	\$9.53	\$1849	81%	12%	7%
1978	222,690	\$4.17	\$928	90%	1%	9%
1979	273,675	\$5.69	\$1558	55%	38%	7%
1980	294,973	\$4.57	\$1347	47%	45%	8%
1981	314,899	\$1.37	\$433	35%	51%	14%
1982	281,251	\$0.90	\$253	44%	32%	18%
1983	305,648	\$1.85	\$564	49%	29%	10%
1984	315,489	\$1.45	\$458	57%	28%	11%
1985	311,398	\$2.18	\$678	55%	48%	9%
1986	356,822	\$3.74	\$1335	55%	34%	7%
1987	388,669	\$2.22	\$862	59%	20%	8%
1988	391,095	\$2.02	\$789	65%	28%	8%
1989	401,048	\$1.14	\$459	56%	57%	10%
1990	412,767	\$0.27	\$112	64%	-7%	10%
1991	428,305	\$0.65	\$150	65%	25%	8%
1992	436,930	\$0.16	\$69	63%	58%	17%
1993	438,868	\$0.23	\$100	45%	43%	12%
1994	450,191	\$2.40	\$1079	51%	14%	3%
1995	457,801	\$2.35	\$1075	71%	10%	3%
1996	421,751	\$0.90	\$380	88%	0%	5%
1997	426,800	\$1.07	\$455	90%	6%	4%
1998	512,165	\$1.45	\$743	80%	43%	1%
1999	524,687	\$0.80	\$420	78%	9%	2%
2000	625,009	\$0.33	\$205	80%	1%	3%
2001	575,160	\$0.07	\$40	92%	0%	10%
2002	682,019	\$0.04	\$28	93%	-5%	14%
2003	686,319	\$0.01	\$6	86%	9%	16%
Overall Average	404,420	\$1.96	\$611	67%	23%	8%
New Order	357,851	\$2.34	\$713	63%	27%	8%
Quota	336,129	\$2.14	\$718	52%	37%	10%
Non-Quota	374,560	\$2.48	\$709	72%	19%	7%
Democratic Era	618,639	\$0.25	\$140	86%	3%	9%

(Danzer, 2008)

Danzer (2008) argues that the onset of democracy, liberalization, and decentralization at the beginning of the 21st century greatly opened up potential political space for previously excluded commodity farmers in Indonesia. The extent to which civil society has engaged in democracy and politics, and if a significant new

political actors have entered the stage, continues to be debated in the literature. However, Danzer cites the number of farmers' organizations that have formed in the past 15 years since the onset of Indonesia's decentralization as evidence of farmers seizing the newly available political space; a list of selected organizations are listed in Figure 21. Aspinall (2004), however, warns that the rapid formation of many organizations post-Suharto should not be viewed as purely representative of a well-functioning democratic state, as many of these organizations have yet to establish their charters, mission and their relation to the state.

Figure 21

Growth of New Farmers' Organizations in Indonesia Since 1998	
Sectoral	Indonesian Coffee Farmers' Association (APEKI)
Regional	Farmers' Association of Aceh
National	Indonesian Farmers Union (HKTI) The Indonesian Farmers' Union Federation (FSPI) The Union of Prosperous Farmers and Fishermen of Indonesia (PPNSI) Indonesian Farmers Movement Network (JGPI)
Adapted from (Danzer, 2008)	

5.2.2 Current Characteristics of Coffee Production in Indonesia

A reflection of its colonial legacy and early dominance in international trade, the world has adopted the name of one of Indonesia's islands, Java, as slang for coffee. Moreover, Indonesia continues today to have a large presence in the industry. Indonesia is the world's fourth largest producer of coffee internationally, generating 8% of the world's coffee (Fairtrade Foundation, 2012). In 2011, Indonesia produced 3,484,940 60 kg bags of green coffee and an additional 2,673,855 60 kg bags Green Bag Equivalent (GBE) processed coffee (ICO, 2011). The estimated value of exported coffee in 2011 was \$USD 641.41 million, roughly 0.8% of Indonesia's GDP (ICO, 2011).

Coffee is farmed on 1,311,330 ha of land across 31 of Indonesia's 33 provinces (Ibrahim and Zailani, 2010). Indonesia has the second largest amount of land utilized for coffee production worldwide, after Brazil. However, productivity on land cultivated for coffee is relatively low compared to other major coffee producing countries. In Indonesia, 792 kg of dry coffee bean are produced per ha per year,

comparatively low, as Brazil produces 1,000 kg/ha/year, Colombia 1,220 kg/ha/year, and Vietnam 1,540 kg/ha/year (*ibid*).

Coffee production levels vary greatly across the archipelago, from 14 tons produced by one province in 2006 to 188,972 tons in another (Ibrahim and Zailani, 2010). Figure 22, on the following page, establishes highly concentrated production within a few provinces; the seven highest producing provinces account for over 80% of the national production, and five of those seven provinces are located on the island of Sumatra.

Only 4% of coffee cultivation is on private plantations, particularly on Nusatenggara Timur (Ibrahim and Zailani, 2010). 2.33 million smallholders, with farms on average 1-1.5 ha in size, produce Indonesian coffee (USAID, 2007). It is estimated that coffee sales represent 50-70% of a smallholder farmer's income in Indonesia, which varies significantly by variety of coffee farmed; farmers of Robusta coffee on average earn \$USD 910/year, and Arabica coffee earns \$USD 1,680/year for a smallholder farmers (*ibid*).

At present, Indonesia's coffee production is primarily in Robusta varieties. Nearly 80% of coffee produced in Indonesia is Robusta; 10-15% of production is Arabica, and the remaining production is the Rubiaceae variety Liberica (USAID, 2007). Robusta coffee is grown primarily in Southern Sumatra. While Arabica coffee is grown in multiple places across Indonesia, the province of Aceh produces the largest amounts (Marsh, n.d.). Other Arabica and specialty coffee regions in Indonesia include South Sulawesi and Flores (Wahyudi and Jati, 2012).

Since 1998 Indonesia has witnessed a growth rate of 6.5% in coffee production (Danzon, 2008). Production is forecasted to further increase on average 8.3% year on year over the next five years (Business Monitor International, 2014). This growth is largely driven by increased production of Arabica coffee, a response to increased demand for Indonesian Arabica coffee by international buyers, as well as 4.9% growth in domestic consumption since 2000 (Business Monitor International, 2014; ICO, 2014a).

The proliferation of ethical certification programs worldwide, such as Organic, fair trade, and Utz Kapeh, is also widespread in Indonesian coffee, and many

producers hold certification. Overall, 47,000 tons of certified coffee is exported annually (Wahyudi and Jati, 2012). Certifications are primarily in Arabica production;

Figure 22

Total Coffee Production and Area Under Production By Indonesian Province in 2006			
Province	Area Under Cultivation (Ha)	Amount of Coffee Produced (Tons)	Percentage of National Total Production (%)
Nusatenggara Timur	69,211	188,972	22.23
Sumatera Selatan	276,864	150,167	17.665
Lampung	164,006	141,305	16.623
Bengkulu	21,579	63,757	7.5
Jawa Timur	9,1801	50,132	5.897
Sumatera Utara	79,613	50,032	5.886
Nanggroe Aceh Darussalam	107,544	41,894	4.928
Sulawesi Selatan	1,622	30,257	3.559
Sumatera Barat	48,714	29,615	3.484
Bali	1,385	14,309	1.683
Jawa Tengah	39,289	14,268	1.678
Sulawesi Barat	26,730	12,857	1.512
Jambi	24,458	10,190	1.199
Jawa Barat	21,723	7,719	0.908
Sulawesi Utara	9,579	5,951	0.700
Nusatenggara Barat	13,937	4,979	0.586
Kalimantan Selatan	13,937	4,303	0.506
Kalimantan Timur	17,469	4,614	0.543
Kalimantan Tengah	8,133	3,804	0.447
Riau	10,816	3,804	0.447
Sulawesi Tenggara	10,703	3,682	0.433
Sulawesi Tengah	10,714	2,987	0.351
Kalimantan Tengah	7,701	2,810	0.331
Irianjaya Barat	8,318	2,583	0.304
Banten	9,827	2,509	0.295
Maluku	7,964	1,469	0.173
Maluku Utara	3,129	457	0.054
Daerah Istimewa Yogyakarta	1,832	396	0.047
Papua	708	218	0.026
Bangka-Belitung	43	14	0.002
Kepulauan Riau	156	14	0.002
Totals	1,309,505	850,068	100
Adapted from (Ibrahim and Zailani, 2010)			

75% of all certified coffee produced in Indonesia is of Arabica varieties, and 75% of certified producers are located in Aceh, reflecting Aceh's position as the dominant Arabica producing province in Indonesia (*ibid*). Organic is the most common

certification; 60% of Indonesian coffee certifications are Organic (US, European Union, and others), 25% are Utz Kapeh, 20% are Starbucks C.A.F.E., and the remaining 10% are a combination of Rainforest Alliance, and Fair Trade amongst others (*ibid*).

Neilson (2008) contends that, in Indonesia, ethical certifications have become a heightened form of private regulation of coffee production, replacing state and local structures with corporate management. He suggests that certifications aim to increase traceability, as a means to control the supply chain and replaces traditional trading networks of local connections based on trust, which has historically earned farmers high farm gate prices⁸, with cooperatives, the effectiveness of which is to be seen (*ibid*). Neilson further notes several key issues in this new structure, unresolved at present, including: certification ownership, costs of system upgrading and technology transfer, and the potential for foreign firms to dictate supply chain governance.

Neilson's (2014) work is critical of GVC approaches that have been adopted by leading international aid agencies working in the Indonesian coffee sector. Three of Indonesia's largest five aid donors—the World Bank Group, US Agency for International Development, and Australian Agency for International Development—have all “explicitly adopted value chain approaches in their programming during the last decade,” and there is evidence that the Asian Development Bank may soon be doing so as well (*ibid*, p. 51). Neilson is highly critical of these programs, which have focused on upgrading and private partnerships, especially with MNCs, as they are depoliticized, and tend to avoid engaging the state. They therefore invite exclusion and uneven development, and perpetuate neo-classical economics and neoliberal development approaches (*ibid*).

5.3 Specialty Coffee and the Acehnese Coffee Industry

5.3.1 High Prices Earned for A Leading Producer of Arabica Coffee

Arabica coffee did not reach Aceh until 1924, when a road was built between Bireun and the favorable coffee farming climate of Takengon in 1913 (Marsh n.d.).

⁸ See Dewey (1962) and Ruf and Yoddang (1998) for more on the competitiveness of traditional traditional networks in Indonesia.

Coffee cultivation expanded in the area, but export was slow as Europe and North America were facing an economic recession in the 1930s, and due to its isolation and difficult terrain, transport costs Gayo Highlands were high (Marsh, n.d.). The Gayo Highlands, encompassed in the mountainous regencies of Central Aceh and Berner Meriah, remain the exclusive producers of Arabica coffee in Aceh, and are the primary research locations of this thesis. Photos of the region are presented in Figures 23-28.

Figure 23

City of Takengon and Lake Tawar
Ardhi (2011)

Figure 24

Tourism sign above Takengon
Author (2014)

Figure 25

A fishing house on Lake Tawar
Author (2014)

Figure 26

Pathway between homes in Takengon
Author (2014)

Figure 27

Becak style transport and building with traditional Gayonese architecture
Author (2014)

Figure 28

Coffeehouse in Takengon
Author (2014)

At present, Aceh contributes 4.9% to Indonesia's total coffee production (Ibrahim and Zailani, 2008). Arabica coffee is Aceh's second most valuable agricultural export after palm oil, likely earning close to \$USD 100 million a year (Marsh, 2008). In 2005, Free on Board (FOB) prices for Aceh coffee reached \$USD 3,000 per ton (Marsh n.d.). Estimates suggest that 75% of the FOB price for Arabica coffee reaches Aceh's coffee farmers, which implies that coffee contributes \$USD 75 million to local economies in Aceh, primarily in the Gayo Highlands (Marsh, n.d.). Marsh (n.d.) estimates 90% of people in these districts have direct links to coffee. Arabica coffee in this province is entirely smallholder based, with approximately 60,000 families farming Arabica coffee (Marsh 2008). Coffee farmers will range from those for whom coffee is a sole source of income, to others who operate low-intensity coffee farms.

In contrast to the patterns of production in Indonesia as a whole, which produces primarily Robusta, the province of Aceh produces Arabica coffee almost exclusively. Aceh produces approximately 30,000 tons of Arabica coffee per year (Marsh, 2008). There is a small level of Robusta production, 1,000 tons a year,

however this sector is in disrepair, as areas suitable for Robusta varieties were heavily impacted by the conflict and many farms are abandoned (Marsh, 2008). When combined with production in the province of North Sumatra—coffee from the two are often mixed by traders exporting through the port at Medan and sold under the name Mandheling—Arabica coffee from the region accounts for 75% of Arabica coffee produced in Indonesia, and this region is the largest producer of Arabica coffee in Southeast Asia (*ibid*).

Aceh and North Sumatran coffees receive high prices for the quality of their coffees. Base international prices for coffee are set on the New York Stock Exchange C price. Coffees then earn a differential for their quality characteristics, to be applied to the base C price; good quality coffees will earn a positive differential to add to their sale price, while low quality coffees will receive a negative differential to be detracted from their sales price. An average coffee will generally have a price differential of -15 to -25 cents (Marsh n.d.). Aceh and North Sumatra coffees, by comparison, will generally receive positive differentials, and +20 to +50 cents, an amount about 30% higher than coffees produced by similar regions in other countries (Marsh, n.d.). Aceh and North Sumatra has become one of the largest specialty origins for coffee worldwide, and are the third most expensive coffees per pound after Jamaica 'Blue Mountain' and Hawaiian 'Kona' coffees (Marsh, n.d.). As concluded by a USAID assessment (2007) of the sector, "owing to their unique character and body, coffees of Northern Sumatra are in high demand from major specialty coffee buyers," (USAID, 2007, p. 1). Of these buyers, one is most prominent; Starbucks buys 50% of all coffee produced in Aceh (Marsh, n.d.). Starbucks is also the largest buyer of Indonesian coffee more broadly, buying an estimated 60-80% of all Indonesian coffee (USAID, 2007).

However, unreliable traceability of Acehnese coffee is limits the industry.

USAID (2007) identified apprehensive participants across the industry;

Concerns regarding coffee traceability were expressed at all levels of the supply chain. Mingling of coffees from various regions in order to satisfy customer contracts have served to compromise integrity of coffee from specific regions and obfuscate taste profiles (p. 13).

Others have described instances of "deliberate mixing of lesser grades of coffee" in order to meet contracts, consequently creating many rejected shipments (Marsh n.d.,

p. 4). Buyers are losing trust in Aceh exporters, who are the ‘ambassadors’ of the Aceh industry. Marsh (n.d.) suggests more needs to be done to protect Aceh’s reputation for high quality, specialty coffee and maintain the premium prices it currently earns. Doing so, as argued by Marsh, “will require a move by traders and exporters from a ‘Commodity Coffee’ mentality, with the business based on margins and volumes with little regard for quality, to a ‘Specialty Coffee’ mentality where quality, consistency and reliability are key,” (Marsh, n.d., p. 4).

An interesting opportunity to build the reputation of Gayo and Aceh coffee reputation proposed by Marsh (2008) is to create and register a Geographical Indicator (GI),⁹ a name or sign used by a product to denote a specific place and the characteristics associated with that origin. By registering a GI, access to the Gayo name would become industry wide, for it is currently held by one company, and would become a “symbol of quality, reliability, and unique flavor for the whole industry to benefit from,” (Marsh, 2008, p. 7). Neilson (2007), using a case study of South Sulawesi, Indonesia, contends that a producer established and regulated GI is an opportunity for producers to differentiate their coffee and capture increased value earnings.

5.3.2 Aid and Assistance in Aceh Coffee

From the late-1970s to early 1990s, several assistance projects were active in the Aceh coffee sector. The International Development Assistance Project, transitioned to several Dutch run projects: Central Aceh North Aceh Rural Development (CANARD) and CANARD- Small Holders Coffee Project. These projects were primarily focused on researching improved cultivation and production practices, as well as developing the associated technology. Disagreements between the Dutch and Indonesian governments ended these projects, and there have been little research or extension services to the Aceh coffee industry since (Marsh, n.d.).

There has been an increase government and donor funded aid activities in the Aceh coffee sector since 2005. The sector benefits from the large amount of funds going into reconstruction activities province-wide, both to individual farmers in rebuilding their homes and farms, and also from large infrastructure projects

⁹ For more on GIs see Murray and Overton (2011).

rebuilding roads and bridges, increasing access to the region (Kecamatan Development Program, 2007). Some also contribute to the Governor of Aceh's strategy described in Section 5.1.2, speaking to revitalizing the agricultural sector and emphasizing export of demand-driven commodities, by assisting in the establishment of coffee sector associations and facilitating the formation of farmer cooperatives. Figure 29, below, provides a brief overview of recent development interventions.

Figure 29

Donor Development Assistance to the Aceh Coffee Industry, Post-2005		
<i>Project Name</i>	<i>Funded By</i>	<i>Activities</i>
Enterprise Development and Employment Generation Project for Tsunami Impacted Areas of Sumatra	Funded by USAID, implemented by NCBA	<ul style="list-style-type: none"> Established a coffee farmer cooperative and credit union. Farmer finance for farm rehabilitation; attention to seedlings and market access.
Aceh Partnership for Economic Development	UNDP	<ul style="list-style-type: none"> Established and supported an Aceh Coffee Forum. Created an Aceh Coffee Manual. Strengthening of Gajah Mountain Coffee Cooperative. Research and report generation.
Strengthening Sustainable Peace and Development in Aceh	UNDP	<ul style="list-style-type: none"> Agriculture, peace-building, and reintegration initiative.
Reconstruction and Rehabilitation of Housing and Settlement in Aceh	Forestry Work and Technology funded, implemented by local NGO Mamamia	<ul style="list-style-type: none"> House construction, land rehabilitation.
	Food and Agriculture Organization of the United Nations	<ul style="list-style-type: none"> Seedling distribution.
Agribusiness and Market Support Activity (an Indonesia wide program)	USAID	<ul style="list-style-type: none"> Strengthen Gajah Mountain Coffee Cooperative; provided processing machinery, cupping lab equipment, pest traps, and training.
BRA		<ul style="list-style-type: none"> House construction.
	Department of Estate Crops, Aceh Tengah	<ul style="list-style-type: none"> Seedling distribution.
	Department of Estate Crops, Berner Meriah	<ul style="list-style-type: none"> Seedling distribution.
Adapted from (Marsh, 2008)		

Private, for-profit businesses have also contributed to assistance efforts in several ways. Caribou Coffee, the second largest specialty coffee and espresso retailer

in the US, donated \$USD 106,000 in 2005 to the Coffee Kids Sumatra Relief Fund, an organization focused on improving the lives of children in coffee growing communities, this fund earmarked for Aceh families (Anonymous, 2005). Additional to charitable donations, there are presently a large presence of “export focused companies” who are beginning to conduct coffee extension and production activities in Aceh, and many are linked to certification programs (Marsh, n.d. p. 26). As many of these commercial companies are secretive about their programming it is possible that activities publically considered developmental are mixed with commercial interests (*ibid*).

5.3.3 Fairtrade in Aceh

Fairtrade certification effectively reached Aceh through aid agencies. The National Cooperative Business Association (NCBA), working as part of a USAID program, aided in establishing a coffee cooperative, and later, assisting the cooperative with Fairtrade certification, the first in Aceh (USAID, 2007). As of June 2014 there were 15 Fairtrade certified cooperatives in Aceh and 3 more cooperatives with applications pending. All of these cooperatives produce Arabica coffee, and all are located in Central Aceh and Berner Meriah; in fact, only one Fairtrade coffee cooperative in Indonesia is not located in these two regencies, and is in Nusa Tenggara Timor. In 2010, these cooperatives produced 5% of world’s Fairtrade coffee, approximately 4,100 tons (Fairtrade Foundation, 2012). Correspondingly, 7.3% of Aceh’s exports are Fairtrade certificated.

Werkander and Wondollek (2009) research, the only research conducted to date on fair trade in Gayo, and one of few studies on fair trade in Asia and Asian coffee production, examined profit distribution in the fair trade commodity chain, and concluded that fair trade had not improved the income or economic position of the coffee farmers involved. The two cooperative’s included in the study did not consistently receive the Fairtrade minimum price from their exporter, suggesting no difference between fair trade and uncertified farmers’ income. Moreover, they found all farmers needed income outside of coffee in order to meet their livelihood needs (*ibid*). Further, the study argues that there is very little transparency in Fairtrade cooperatives in Gayo, a result of few Annual General Meetings (AGM), and important

information is not discussed at meetings that do occur (*ibid*). The authors were concerned with farmers' attitudes regarding transparency; farmers were not bothered by the lack of transparency, simply satisfied by receiving something from the Fairtrade premium, although they were not aware of the amount of the total premium (*ibid*). Overall, this research is not optimistic about fair trade's implementation in Gayo, unconvinced that the principles are fully practiced or that it offers much difference from conventional trade chains.

Although not examining Fairtrade specifically, Marsh (n.d.), an industry consultant, did identify some current limitations regarding farmers and cooperatives that speaks to the implementation of fair trade in Aceh. He contends that farmer groups have not been initiated by farmers themselves, and have been "formed by exporting companies and are linked directly and financially to trading and export companies," (*ibid*, p. 28). Instead of acting as independent representative groups, cooperatives have been established as "a useful conduit" for farmers' coffee and a means to secure their supply chain (*ibid*, p. 28). Marsh (2008) further criticizes these cooperatives as weak, involved in "few other activities apart from coffee certification processes and coffee purchasing," and "farmer participation and awareness in these cooperatives is very low," (*ibid*, p. 8)

5.4 Summary

This chapter has identified key factors present in Indonesian and Acehnese coffee production. Although there was a brief period of plantation production, coffee has predominantly been farmed by smallholders in Indonesia, who have recently exited an era where political activity was suppressed. As suggested in this chapter, although cooperatives and farmer organizations are forming, perhaps due to political reform or possibly industry requirements, these organizations are not yet effectively operating. Furthermore, specialty coffees earn a premium in Aceh, a location recently a focus of aid and development activities.

Chapter Six: Archetype of an Aceh Fairtrade Cooperative

Formatted to reflect the organizational structure of an archetypal Fairtrade cooperative in Aceh, this chapter, the first of two analyzing primary data, has 10 sections, one for each layer in a cooperative. Arranged to resemble a pyramid, the layer with the fewest number of persons, cooperative leadership, is presented first, and farmers, who are largest in number, conclude the chapter. Within each layer there is a discussion of any context specific dynamics to the implementation of fair trade or any practices that potentially conflict with fair trade's principles and aims. However, this chapter begins with a profile of participating cooperatives and a series of photos of the cooperatives and the Gayo Highlands.

6.1 Cooperative Profiles

The participating cooperatives are the largest and most prosperous Fairtrade cooperatives in Aceh, as discussed in section 2.2.3.2; the fifth cooperative is in the application process. A profile of all five is provided in Figure 30.

Figure 30

Profile of Fairtrade Cooperatives Participating in This Research				
Cooperative	Founded	Year of Fairtrade Certification	Number of Members	Regency Where Members are Located
Cooperative Gayo Linge Organic Coffee (GLOC)	2008	2010	2,600	Berner Meriah
Koperasi Baitul Qiradh Baburrayyan (KBQB)	2005	2007	7,000 (5,600 are Fairtrade members)	Berner Meriah, Aceh Tengah
Koperasi KOPEPI Ketara	2009	2011	2,000	Berner Meriah, Aceh Tengah
Koperasi Serra Usama Arinagata	2006	2008	1,600	Berner Meriah
MJM	2013	Application pending	499	Berner Meriah
Created by Author (2015)				

6.2 Leadership and Elected Management

There are roughly three sets of positions occupying top leadership in Gayo Fairtrade cooperatives: the chairman; the secretary and treasurer; and the supervisory board, advisory board, and Premium Committee (RP-OS1)¹⁰. Supervisory board positions are often occupied by figures prominent in the early establishment of the cooperative, whereas the advisory board generally features successful business entrepreneurs and at least one local government official (RP-EM6). Advisory board members and the committee responsible for overseeing the use of the social premium are typically appointed into their roles by upper-level cooperative management, whereas supervisory board members are elected positions. Those who hold board and committee positions do not need to be members of the cooperative, whereas the cooperative chairman, secretary, and treasurer must be members, and therefore also coffee farmers. The chairman, secretary, treasurer, and supervisory board must also be elected into their positions, “in a democratic way,” (RP-EM4) which typically occurs during the AGM.

One participant described the nomination and election of leadership positions as occurring every three years, twice since the cooperative had been founded and gained Fairtrade certification (RP-EM2). Nominations and elections occur at the cooperative’s AGM, and it is farmer delegates who vote. RP-EM2 stated that the same leadership was elected for both of the terms that have occurred; this leads to unanswered questions about the competitiveness and rigor of the elections. However, participants from other cooperatives have reported that different individuals have been elected into leadership positions (RP-EM1) although at one cooperative it was only so after the cooperative came close to bankruptcy (RP-LE2; RP-EM5). One possible explanation for why there is a slight hesitance around changing the elected leadership involves the potential for instability;

*RP-EM5: It is best if the chairman gets re-elected. Buyers and other partners will be skeptical, won't yet trust a new chairman. They may hold back awhile. Plus, new leaders always want to implement new things. Get rid of the old development plans. They always think their way is better.*¹¹

¹⁰ See Section 2.2.3.2 for a description of the system used to assign participant pseudonyms.

¹¹ Participant quotes are generally presented as indented block quotes in italicized font.

This participant's opinion is that consistency is most important for the cooperative. The chairman would have built relationships with international buyers, and that if the chairman were to leave the buyers may not have the same level of trust with a new chairman. Further, this participant felt that the transition between former leadership and newly elected leadership does not have an effective handover; each new chairman takes the cooperative in a different direction.

The cooperative leadership interviewed generally identified two primary responsibilities for their positions. The responsibilities are well summed up by the following statement during an interview with a cooperative secretary;

RP-EM6: *Our mandate is that we must be able to sell their coffee. And must manage the cooperative in a good and transparent way.*

Challenges related to the two elements described above—facilitating sales and transparently managing the cooperative—will be discussed in turn below.

6.2.1 Pressure from Fair Trade USA and Fairtrade International for Exclusive Certification

The Gayo fair trade industry is currently facing a political challenge in selling their members coffee. The US National Initiative broke away from Fairtrade International in 2012 to create a distinct certification body, Fair Trade USA; although also certifying producers, Fair Trade USA recognizes the certification obtained from Fairtrade International as valid. In the recent months Gayo cooperatives have perceived an increasing tension between the two organizations, and many participants reflected on experiences where one organization was maneuvering to have a cooperative deal exclusively with one or the other.

RP-EM6: *Fair Trade USA always asks, try to woo the cooperative. Sends lots of emails. Fairtrade International has sent a warning. The cooperative must make a choice between the two.*

Demands have also been made by one organization that cooperatives were not allowed to send any information regarding contracts, sales, or the social premium to the other (RP-LE5; RP-EM6). Fairtrade International has even stated that they may potentially disqualify cooperatives if they choose to become certified with Fair Trade USA (RP-EM7). Cooperative leadership have asked the organizations to settle their

disputes and come to a state of “harmony” (RP-EM7), but most participants are concerned that they will be forced to choose between the two networks.

The choice will not be an easy one for the cooperatives. On the one hand, the cooperatives interviewed sell 70-85% of their coffee to US buyers. Further, they feel they receive more trainings and technical assistance from Fair Trade USA, while they only receive auditing visits from Fairtrade International (RP-EM7). However, Fair Trade USA has not released any specific certification standards, and the cooperatives are still working off the standards of Fairtrade International. Some participants reported preferring the standards of Fairtrade International, believing the inspection system is better (RP-EM7), and further, that buyers have expressed similar;

RP-EM6: It's funny. When the cooperative asked US buyers "who would you choose?" they said International. Buyers want Fairtrade International standards.

Overall, participants in this research felt reluctant to engaging in the conflict.

RP-EM7: There's a negative feeling here. Do you know that phrase, "damned if I do, damned if I don't"?

Participants explained that cooperative leadership was “confused” (RP-EM7) and unsure about the future (RP-EM6), and that the tension between the organizations was the biggest challenge the local industry faced (RP-LE4). Participants were uncertain what decision they would make, as they felt it was unclear what the repercussions would be, both for their certification status and the future sales of their coffee.

6.2.2 Financial Transparency: Present at the AGM

The cooperative leadership interviewed upholds transparency to be a valuable asset. When asked during interviews to describe what they liked about being involved in Fairtrade, it was extremely common for cooperative leadership to mention transparency. For example,

RP-EM2: Fairtrade is really different, but good. We can learn much. It is about the people, the money. Specifically, transparency about money. Very professional.

PR: What does the cooperative believe they can gain from Fairtrade?

RP-OS10: Transparency. Environmental plan. Premium money. The three above are the positive aspects of Fairtrade.

Emphasized is the cooperative's financial transparency; specifically contracts and sale prices, and the profits earned.

How accountable the cooperative leadership is for financial management, or how successful the cooperative leadership is in being transparent, is not a main focus of this research. There was some evidence in both directions; both that the cooperatives had better accounting of financial dealings, but also "that in the coffee business sometimes profits get lost," (RP-EM1). However, what is key is the policies cooperative leadership believes attains financial transparency. In this regard, most participants perceive the disclosure that occurs at the cooperative's AGM to be sufficient.

RP-EM6: Many things get discussed at the AGM. First, the chairman should give a talk on what they are responsible: how much coffee sold, total sales, administration, staff, management, expenditure. Second, the boards will give talk on their responsibilities: how much the premium, profits, loans, and if any new members... Premium committee will also give a report.

PR: Where do any profits go?

RP-EM3: Back to the cooperative, sharing profits. Rule in the state constitution, the chairman must inform about sharing profits, how much received, going where. This is all informed back at the AGM by the board.

It is highly likely that there are also paper records of cooperative financials.

Nevertheless, for the research participants the verbal disclosure during the AGM is held to be the most effective and most important manner of doing so.

6.3 Office Staff

Each cooperative interviewed housed many of their business activities in an office on the outskirts of Takengon or the city of Berner Meriah. The cooperative in the application stage occupied several rooms in an office block, but all other cooperatives located their offices within sight of their warehouses and processing facilities, often in an enclosed and gated compound. Within the cooperative offices a range of office employees conducted their work, and it at this level where there is perhaps the largest diversity between all of the participating cooperatives, both in the number and assortment of positions. Figure 31 outlines office employees in Gayo cooperatives provides a brief overview of typical staff in an office.

Figure 31

Overview of Cooperative Office Staff			
<i>Position</i>	<i>Description of Role</i>	<i>Approximate Number of Employees</i>	<i>Employed at Every Cooperative?</i>
General Manager	<ul style="list-style-type: none"> Oversees day-to-day operation of the cooperative. Supervisor for all staff. Liaison between staff and board. Final approval for reports going to the board. 	1	Yes
Environmental Specialist/Manager	<ul style="list-style-type: none"> Planning and organizing environmental trainings for staff and farmers. Managing cooperative environmental programs. Maintaining knowledge of and compliance with Organic regulations. 	1	Yes
Public Relations Manager/Business Development Liaison	<ul style="list-style-type: none"> Facilitates visits from international guests: buyers, certification auditors, INGOs. Email communication with current buyers via email. Outreach to buyers. 	1	Yes
Quality Control Manager	<ul style="list-style-type: none"> Performs regular roasting and cupping tests for coffee quality. Hosts tasting sessions for visiting buyers. Final check of coffee before sent to port for export. 	1	No
Processing/Warehouse Manager	<ul style="list-style-type: none"> Supervising warehouse and processing staff. Managing processing and storage of green coffee. Facilitating transfer of coffee from warehouse to port. 	1	No
Internal Control Staff (ICS) Coordinator	<ul style="list-style-type: none"> Supervisor of entire ICS staff. Plans schedule of ICS visits. Facilitates trainer-of-trainer sessions for ICS staff. 	1	Yes
Administrative and Accounting Functionaries	<ul style="list-style-type: none"> Day-to-day administrative and accounting tasks. Human resources, payroll. Preparing and monitoring budget and accounts. 	3-20	Yes
Created by Author (2015)			

Employees of the cooperative are not required to be members of the cooperative; therefore, office staff is one of the three levels discussed in this chapter who are not members, along with internal control staff, and warehouse staff. This is not to imply that office employees are not coffee farmers, as many interviewed identified as coffee farmers who tended their trees on the weekend (RP-OS1), or hired others to do so (RP-OS6). There are remaining questions regarding where employees who farm are selling their coffee; one participant, when asked if he sold coffee to his cooperative, replied “when the price is good,” implying that, although not an official member of the cooperative, he may sell coffee to it, and further, when the local conventional trader is offering higher prices, he is likely to sell his coffee to the conventional market (RP-OS6).

6.3.1 The Social Premium: Used Primarily for Salaries and Infrastructure

Although not members of the cooperative, office employees possibly benefit most from Fairtrade. The funds received by the cooperative from the Fairtrade social premium are generally split in three ways—between farmer and community development, environmental activities, and funds for the cooperative (RP-LE2)—although it was difficult to obtain specifics related to the total Rupiah received and the percent allocated to each. However, when discussing cooperative development plans and how profits are spent, the research suggests that a substantial portion of the social premium is dedicated to increasing the number of staff, as well as funding improvements and expansions of cooperative facilities. For example, a participant detailed a cooperative’s plan for the social premium funds;

RP-EM1: The first priority, money will be used for human resources. Staff to get training for their position and increase their capacity. Second, buy land. New buildings: a processing center and office. Third, pay back the loan. Applying for FTO certification took a lot of money and the cooperative had no capital. Also needed to cover operating costs at this time.

It is clear from this interview that much of the premium allocated to cooperative management’s use is spent related to office staff, specifically on salaries for new and existing employees, as well on trainings aimed at improving staff skills and cooperative operations. Cooperative are reliant on the social premium to cover

human resource costs, suggested that staff salaries are one of the larger expenses for the cooperative.

A second category of premium spending common to the cooperatives participating in this research was for purchasing and expanding office and cooperative infrastructure. Many of the participants described the “improvements to the cooperative,” (RP-EM2) the social premium would be used for. For example;

RP-EM2: *There is a problem, the rain during the harvest season. We need to make a cover for drying the coffee, which we built with money from the Fairtrade premium.*

RP-EM3: *It is a plan of [the cooperative] to use premium to buy land on the lakefront for demonstration plot; there we can demonstrate proper farmer practice. The cooperative has also bought processing center for hulling and grading. Will also to buy lab for cup test. Members can be shown how to cup test to create good quality coffee for buyers. The land will be used for tourism; on the lakeside will build bungalows from premium.*

Most of the interviewees described premium spending that went towards either: a.) Improving current operations, such as creating a dry space to process the coffee or a kitchen and roaster to taste test coffee; b.) Expanding the cooperative’s activities, for example by entering into tourism, or gaining an export license. Plans for the premium were a combination of activities that needing funding for continuation of the cooperative as well as those that supported prospects for future revenue streams.

6.4 Warehouse and Processing Staff

As mentioned above, each of the cooperatives participating in this research, except the cooperative that is still applying for Fairtrade certification, had a warehouse facility, and often several other spaces dedicated to processing the cooperative’s coffee. Several cooperatives mentioned a warehouse to be built by the Indonesian government, and their intention is to use it for coffee storage. In processing centers, employees sort through dried coffee, handpicking out damaged beans. Once the damage-free beans are sorted, they are put in burlap sacks and transported to the warehouse, later transported to Medan for export.

Employees of the warehouse, like the office staff and the Internal Control Staff (ICS), are not required to be members of the cooperative. Unlike office staff and ICS,

processing staff are not paid salaries, but are paid by the amount of coffee they sort. The sorting staff is made up of entirely women; the only place women have such a presence at the cooperative, although there are a number of female employees working in administration and accounting, and several cooperative board members are women. Typically, a women working for the cooperative in sorting coffee will live in the areas immediately surrounding the cooperative's office or processing center, and these women are often single women, or women with many young children (RP-LE3, RP-OS5).

One research participant shared that the processing and warehouse staff at their cooperative have unionized (RP-OS5). The union is highly active, and had asked cooperative management, via their union representative, to supply masks for them while they work, to protect them from the dust that is in the air during the mechanical sorting of the dried beans. Their request was successful.

6.5 Internal Control Staff

Of the cooperatives interviewed, the number of ICS employed ranged from 5 (GLOC) to 13 (KBQB). Each ICS member will work with several villages; in one cooperative ICS are responsible for 50 villages (RP-OS2-GI), another 10 villages (RG-OS7-GI). At a maximum, ICS are allowed to work with 500 farmers (RP-OS7-GI) or 500 ha (RP-EM4). ICS at one cooperative estimated that they visit about 5-10 farms on average in a week (RP-OS4-GI). At another cooperative, ICS aim to visit each village at least monthly (RP-EM2).

The ICS of Gayo Fairtrade cooperatives occupy a fluid space in the cooperative, operating in a space between the office and the villages. ICS base themselves at the cooperative's office, having their own desks or room for their collective use. It is there where they plan and coordinate their activities, create their reports, and receive information relevant to them. Most of their time is spent in the villages, interacting with the cooperative's coffee farmers. One focus group describes the role of the ICS;

PR: What jobs does the ICS do for the cooperative?

RP-OS7-GI: Bring information of the cooperative to farmers. Information about the premium, contracts, and prices. And information about trainings that are coming, host the trainings.

There are two central responsibilities for the ICS: embodying a communication system between cooperative and village, and organizing farmer trainings.

ICS travel to villages to deliver a variety of news, such as mentioned in the above quote, information regarding the premium, contracts, and prices. This communication system is considered by cooperative staff to be working well and liked by farmers.

RP-OS5: ICS goes to the village everyday. The farmers are happy, they don't want to come in to town. If there is a problem, farmers will call ICS. Then they can call [management].

In effect, the ICS is one layer, working with collectors and farmer delegates, to transfer information to farmers.

6.5.1 Farmer Trainings Prioritize Environmental Over Social

Nearly all participants, in a wide range of positions, mentioned the trainings organized by the ICS in interviews. Often, trainings were identified as a major benefit, second to the Fairtrade minimum price, that they saw as a result of belonging to Fairtrade. An example:

PR: What do you like about participating in Fairtrade?

RP-OS3: Certification is profitable. Education about how to keep a good environmental system. Harmony between farmers and the environment.

PR: What do you think is the purpose of Fairtrade?

RP-VL3C: An improved economic situation for the members, from better prices and the premium. Also, the trainings and environmental improvements.

PR: What [do you] like about being part of Fairtrade?

RP-VL4D: A good price. And the environmental trainings.

Trainings occur for board members and office staff as well, but the majority of trainings occurring at cooperatives are directed towards farmers. Images of farmer trainings, obtained from a cooperative's promotional material, are presented in Figure 32.

Trainings are most often environmentally focused. Fairtrade standards stipulate that a portion of the social premium goes towards environmental trainings;

RP-EM7: Environmental standards say that when there is a good premium, the money is invested in promoting the environment. Fairtrade not only about the Fairtrade price, but is also about the social premium and trainings.

Figure 32

Cooperative Member Trainings, Aceh

Photos sourced from KBQB promotional material.

For training topics, ICS go “door to door” to ask farmers for their training needs (RP-OS6), and most relate to improved production techniques and environmental care:

RP-OS7-GI: Trainings are environmentally focused. On compost, soil, sewage. Also sometimes on administration about the farmer meetings, and family financial budgeting.

RP-OS6: Members want trainings on pruning, composting, and increasing harvest.

RP-EM5: Waste and synthetic plastic bags is a big challenge here. When you go to shop, the goods are put in plastic bags. No place to put the bags. Knowledge for farmers still lower on this topic. The bags take hundreds of years to compost. The cooperative, through ICS, is continually training on this.

ICS staff typically facilitates trainings, but a cooperative may hire an expert from a government department (RP-OS6). Farmers may occasionally train each other, for they have received trainings from INGOS (RP-OS2-GI). ICS receive some training in preparation for the trainings they give from a Fairtrade International consultant based in Indonesia, but many research topics online (RP-OS4-GI).

Trainings are priority among the Fairtrade cooperatives participating in this research, and much energy is dedicated towards planning and implementing them. However, there were several other environmental projects mentioned during interviews that use those same social premium funds. For example, there are greenhouse plans for seedlings of both coffee plants and other fruit trees (RP-OS6). Several cooperatives are also involved in a clean cities campaign; trashcans are visible in front of homes nearby cooperative offices and several of the farmer villages, often bearing a cooperative's name and logo.

The emphasis of environmental topics in the trainings provided to farmers suggests an emphasis of the environmental over the social at Fairtrade cooperatives in Gayo. As will be discussed in relation to farmer delegates, farmers may gather yearly to create their proposals for the use of their villages' portion of the social premium, but they will attend disproportionately more meetings regarding environmental trainings. Information regarding environmental improvements and standards dominate outreach, as they are, after the contract price for the coffee, the most frequent message a farmer will hear from the cooperative. Further, as no cooperative in Gayo is exclusively Fairtrade, and most are also Organic (RP-LE2), cooperative farmers and staff are also receiving a high amount of regulations and trainings related to Organic certification as well.

That environmental considerations receive earmarked funding ensures the continuation of environmentally focused programming, and it can be argued that ICS are employed primarily to facilitate environmental trainings. Farmers and the cooperative do inherently benefit from the environmental trainings, as many of the trainings work to increase coffee output, farming efficiency, and coffee quality. However, environmental considerations are at the forefront of farmer, and ICS, experience with Fairtrade, overshadowing social or economic principles of the movement.

6.6 Collectors

Critical to the physical transactions of coffee and money in Gayo Fairtrade cooperatives are collectors. In each village that a cooperative buys coffee from there

is one collector, regardless of the village's size (RP-EM5; RP-OS1; RP-OS5), and this collector's role is to gather coffee from the farmers, transport the coffee to the cooperative's warehouse, and facilitate the payments from the cooperative to the farmer.

RP-VL1C: The farmers will bring the coffee to his house, he has a storage area. Sometimes he'll pick it up. Holds onto the coffee until he gets a call that a contract has been signed.

The collector is in good communication with cooperative staff and the board. When a cooperative wants to buy coffee, because a new contract has come in or they have savings to create stock of green beans, the cooperative staff will get in touch with the collector to ask them to bring coffee to the cooperative's warehouse. Several participants explained how collectors know to bring coffee to the cooperative:

RP-EM3: The cooperative will call the collector once the contract is signed. Collector will inform members. Every month, when contract signed, info will go to members.

RP-OS5: [We have] a list of all the phone number of collectors. Will call them and let them know the price. Price changes weekly, daily. Also tells them the amount the cooperative wants to buy.

PR: How do you hear of contracts?

RP-VL3C: Through the ICS staff... ICS will tell the collector of the contract and price, and then the collector will travel to confirm the price with the Chairman.

Collectors do not independently decide to bring coffee in from the village to the cooperative's warehouse; they will wait to first hear from the cooperative that they are now buying coffee.

Before the collector can bring the coffee into the cooperative's warehouse, and before they can keep their coffee in storage, there is a level of processing that must be done first. The coffee brought to the collector from the farmers is bought as a cherry—the coffee bean is still inside the raw coffee fruit—and must be turned into parchment.

RP-OS1: Farmers pick cherries. The collector picks up berries, processes to parchment. Then the coffee goes to the cooperative.

The collector is responsible for the early stages of coffee processing, turning the cherry into parchment coffee.

Processing coffee into parchment requires a fair amount of equipment. Having the capacity and facilities to process the coffee cherries—owning this equipment, having a space for storage, means to transport—is a prerequisite to becoming a fair trade coffee collector.

RP-OS1: Collectors must have own processing facility for hulling and drying. Hulling and drying is lots of work, they may hire a family

RP-OS10: Requirements for a collector are that they must be a farmer. And they must have a processing facility in the village: pulping siri machinery and a place to dry coffee.

Collectors are not provided this equipment from the cooperative; they must acquire it independently. Consequently, collectors tend to be some of the wealthiest men in the village (RP-LE2).

Collectors must also have the financial ability to pay the farmers upfront. In a sense, collectors are also trading in their own coffee business, buying and storing coffee as needed in advance, and then, as one participant put it, “selling” the coffee to the cooperative (RP-EM2). The policy of the majority of cooperatives interviewed is for the collectors to first purchase coffee from the farmers at their own expense, to be reimbursed from the cooperative when they deliver the coffee to the warehouse.

RP-OS5: Collectors pay farmers in cash first, keep a farmer list with their name and amount purchased.

RP-VL1C: I buy the coffee from the farmers and then am paid by the cooperative afterwards.

However, there was one cooperative participating in this research that had a different practice. This cooperative, instead of having collectors show receipts to be reimbursed, does not make the collector pay farmers upfront, but rather provides pre-financing to the collector for buying farmers’ coffee (RP-VL3C). In both systems, the collector earns a fee for their work gathering and transporting the coffee (RP-VL3C).

It should be noted that collectors also exist in Indonesia’s conventional coffee trade chain. However, it is assumed that collectors working with conventional coffee traders are not required to offer a minimum price to farmers, and are not typically subject to inquiry from auditors about their purchase prices in gathering the coffee.

6.6.1 Transparency in the Cooperative Hinges on Collectors

Transparency on prices hinges upon the collector in at these Fairtrade cooperatives. The system relies on the collector to accurately communicate the price the cooperative is buying at, and then the collector paying such. Two participants provide good examples of this rationalization of increased transparency within a Fairtrade cooperative;

RP-VL3C: Transparency. Farmers know what the price is, are aware of what the contract price is, what the collector is buying.

RP-EM4: A transparent way, for price especially. Farmers can call and ask about contract prices. Therefore cannot be cheated by other businessmen.

Farmers knowing the price the cooperative is offering, and being paid that price, is held to be a great improvement over the conventional coffee trade in Gayo, as it reduces the risk that collectors will be able to make large profits from buying at a low price from the farmers and selling at a high price to the cooperative. Many cooperatives have created a policy that provides an additional layer to ensure transparency: collectors writing receipts. As described by one participant;

RP-EM2: Collectors give price information to farmers. Make receipts for what they buy from farmers. Collector brings the coffee to the cooperative, and the cooperative will first check the quality of the coffee, and then if good quality will buy the coffee.

The farmer can rely on documentation if they ever feel they have not received an appropriate price.

Documentation, and availability of contract information from the cooperatives, does increase the likelihood of transparency. However, farmers still need to have a degree of trust in their collector to be honest in their price communication. A collector elected by the farmers of that village can bring a certain amount of trust. Several participants who occupy management level positions did explain in their interviews that the collectors should be elected (RP-EM5). However, in practice village collectors are not always elected. One participant mentioned that collectors are chosen by the cooperative staff and leadership (RP-EM4), another reported that the ICS play a large part in selecting the collector;

RP-OS5: ICS goes to the village everyday, knows the village. When choosing the collector, ICS chooses.

Information such as this calls into question whether it is cooperative policy to have elected collectors, and profoundly suggests that cooperative management and leadership have a heavy hand organizing personnel when establishing the cooperative, and consequently that the upper-levels of the cooperative are the members active in shaping and creating the cooperative.

It must be noted that requiring that a collector own all of the necessary processing equipment, as in most cases, and be able to buy from farmers in advance of receiving payment from the cooperative, creates a barrier to who can become the collector. Likely, this dynamic leads to established collectors in the conventional and organic coffee networks becoming Fairtrade collectors.

6.8 Farmer Delegates

Fairtrade cooperatives in Gayo have taken a representational approach, centered upon farmer delegates, to participation and ownership by their members. Farmers engage with the cooperative on governance matters through an elected village representative, referred to as a farmer delegate. Rarely will one delegate represent an entire village; many villages have several farmer groups who are members of different cooperatives. However, this research estimates that each farmer delegate will typically represent about 50 farmers; there is a range from 35 farmers (RP-VL4D) to 40 (RP-EM4) to 80 farmers represented by one delegate (RP-OS1).

The total number of delegates in the cooperative does vary according to the size of the cooperative. Of the cooperatives participating in this research, the number of delegates ranged from 10-140. Two cooperatives did state the total number of farmer delegates: 40 at Arinagata (RP-EM4), and 25 at GLOC (RP-OS11).

Delegates explained two main responsibilities when describing their role: holding village meetings, and relaying information related to the AGM between the farmers and the cooperative. Village meetings would be held with the purpose of discussing and deciding what the group would like to propose their portion of the social premium be used for. The process of gathering for meetings to agree upon how the social premium will be used, and deliberate upon their needs, has potentially

brought more attention towards community development, demonstrated in one group's reflection:

RP-VL2D-GI: *We never met to discuss development plans before, or even community shared problems. It has changed in the way they think, greater awareness. They feel more together as a village. Bonded. United.*

Correspondingly, delegates mentioned that cooperatives require them to take attendance at farmer meetings, and that there must be a 50% attendance rate in order for the meeting to take place (RP-VL2D-GI). When asked to estimate what proportion of the farmer group attends meetings, the focus group came to a consensus that approximately 80% of farmers will regularly attend (RP-VL2D-GI).

6.8.1 Democracy as Practiced by Delegates

Village meetings are considered representational of democratic processes, initiated by Fairtrade regulations;

RP-EM4: *Before Fairtrade, the way of democratic system lower. No village meetings. With Fairtrade, standards say you must make village meetings and decisions must be properly weighed.*

This interviewee implies delegates are catalysts for democracy; by organizing village meetings and creating the opportunity for participation. The delegates' role in this democratic process is focused primarily on facilitating discussion.

PR: *How do proposals for the premium come to the AGM?*

RP-EM6: *First, members of the village sit together, have a meeting, take meeting minutes. Discuss, make decision on what their needs are. Second, delegate brings to board at AGM, discuss it there.*

Voting does not appear to be a common practice to decision making in these meetings, nor a cultural practice;

RP-EM2: *Voting is from your country; the U.S. and Europe. In Indonesia voting is second. First is discussion. FLO application, must discuss as a group, but not everyone has time to attend. FLO requires 60% attendance at meetings. If cannot discuss, cannot work. The process takes too long.*

By how the village meetings are described, discussion is emphasized as the process to come to agreement, and therefore a decision.

Cooperative leadership also views delegates as connectors, who have a central task of relaying the conclusions of the village meetings to the board via the

cooperative-wide AGM. This responsibility was clearly felt by the delegates, who identified instigating the meetings as well as bringing the premium proposals to the AGM and their key responsibilities.

PR: *What are your responsibilities?*

RP-VL4D: *Organizing farmer, village meetings. And bringing information to and from the AGM.*

PR: *What kind of information do you bring back to the village?*

RP-VL4D: *Speeches from board members on their responsibilities.*

PR: *What are the responsibilities of a farmer delegate?*

RP-VL2D-GI: *To bring back information from the Annual General Meeting.*

PR: *What kind of information?*

RP-VL2D-GI: *Premium information.*

Interesting and noteworthy, is how the delegates described their role at AGMs as a connector in two ways. Both that they bring the proposals from the villages on how to use the premium, but also to bring back a synopsis of the events at the AGM; namely, the AGM decisions on how the premium will be spent, as well as reports from the board on how the cooperative is functioning. Cooperative leadership also remarked on this dualistic charge of the delegates;

RP-EM6: *[At the AGM] chairman should give talk on what they are responsible for. How much coffee sold, total sales, administration, staff, management, expenditure. Second, the three boards will give talk on their responsibilities. How much the premium, profits, loans, and if any new members. Supervisory board will also give report. Premium committee, all of the committees.*

PR: *What do delegates do with this information?*

RP-EM6: *A must that delegates bring AGM notes back to the village.*

Responsibility to re-inform, for transparency. Sometimes members of the board will come directly to the village to re-inform.

Via the delegates, important information regarding the cooperative is to flow back and forth between farmer members and cooperative leadership.

What seems to be missing from the delegates' account of their roles and responsibilities is their participation in board elections. Multiple research participants who held board and staff positions explained that delegates nominate and elect the cooperative board members during the AGM.

RP-EM2: *I am one of three board members and I was nominated during the second session of the board. There is an election from the delegates at the AGM to elect the board.*

RP-EM4: *All higher-ranking officials in the cooperative should be elected in democratic system.*

However, no delegate commented on this process, suggesting perhaps they do not see board elections as a large part of their duties as delegates, and possibly speaks to the extent and thoroughness of board elections. The AGM, for delegates, is primarily about proposing their village's desired use of the social premium.

Worrying is the lack of real opportunities for the delegates to express concerns of their village's farmers. There is only one yearly meeting of all of the delegates, the AGM, and the agenda is packed with activities, including management giving reports on the status of the cooperative, electing leadership, and presenting and approving proposals for the use of the social premium. There is little time for delegates to express additional concerns of those they represent, and the AGM appears to be the only formalized opportunity for delegates to interact with cooperative leadership.

Another critical insight gathered from this research is the possibility that farmers do not elect delegates. One participant, a high level board member of a cooperative disclosed that the cooperative had selected or nominated delegates and collectors;

RP-OS10: When getting certified we appointed names for who wants to be collectors and delegates. The cooperative nominated them. It was an order that these nominees come to visit the cooperative office. After the visit, they know the staff, the office. People from office go to village to have farmers' level meeting. Staff can witness vote and discussion regarding delegates and collectors... Sometimes farmers have their own nominees.

In this case, it was nearly an assumption that the delegates and collectors chosen by the cooperative would take on those positions; that they would be unchallenged or that elections would be perfunctory, and that only sometimes would farmers bring their own candidates. Other questionable practices around becoming a delegate occur when villages themselves approach a cooperative asking to join the cooperative. Below, a description of one cooperative's policy regarding farmers who independently approach the cooperative is enlightening;

PR: How does the cooperative recruit new villages?

RP-EM6: Five new villages have applied to become members. The system is that they go through the head of village, and the head of village will approach [the cooperative].

By requiring that the head of the village initiate the process of becoming members of the cooperative, the cooperative will act through the village head when establishing the farmer groups, in effect, already regarding them as the farmer delegate. The

established systems of power in the village are recreated. Further, there was no mention by any research participant of any subsequent elections for delegates or a term period. Many cooperatives are young, and the delegates in their positions often less than five years, but it is questionable if there are plans for transition to new delegates; rather there is an assumption that the first will remain.

6.9 Farmers

2005-2008, early in the growth of fair trade in Gayo, most cooperatives approached villages and farmers to propose that they join their cooperative. However, now that Fairtrade cooperatives have an established presence many of the cooperatives interviewed have enough members to meet the demand of their Fairtrade buyers, it is now the case that farmers and village groups will themselves request to become members. One participant described a waitlist system for new farmer members:

RP-EM6: Currently our system for recruitment is a waiting list. If more want to join, the space is based on demand. Increasing the number of members is based on demand. There is no discrimination.

As for why farmers may want to join a cooperative;

RP-EM4: New members see the development of old members and the management system of old members... New members have seen the sharing of the premium and the training done by ICS, and that is part of the attraction.

The benefits accrued by current cooperative members are visible to other farmer in the villages, and neighboring villages often request to join the cooperative to gain those benefits themselves.

Before a farmer can become a member of a cooperative, it is required by the cooperatives that farmers first become Organic certified.

RP-EM6: New members must pass organic certification first to become members. Organic certification audits happen twice a year. The cooperative is still waiting to hear the announcement if these new members have passed. When they pass then they are truly members. Then the cooperative will report the new members to Fairtrade.

RP-EM4: Last May, 1,000 members added. They are in the process of organic inspection, can become members once have passed Organic. After Organic, will contact Fairtrade to let them know of new members

PR: *What did you have to do to apply for Fairtrade?*

RP-OS10: *First we applied for Organic certification. Lots of Socialization with the farmers so they have more knowledge of Organic standards.... after farmers agree to join the cooperative we check the farmer's plots, and make a label for the plot, so that they can be certified by Organic.*

None of the cooperatives participating in this research are exclusively Fairtrade certified; many hold other certifications such as Utz and CAFÉ, and all are Organic certified.

Once there is space available in a cooperative for new members, the qualities needed of the coffee farmer are straightforward. Mandatory for several of the cooperatives is a new member entrance and a monthly membership fee (EM6; OS5); some reported that the fee is deducted in small portions from each coffee sale (OS5). Additional qualifications include;

RP-EM6: *The requirements to be a member are: first, the new applicant must have coffee farm; second, a member must agree to rules of the cooperative, i.e., Organic, Fairtrade standards. Once the agreement is signed by each new member, then can become member.*

The credentials for membership are described similarly by participants from other cooperatives, nearly all requirements include having their own farm, and the ability to sign a farmer-cooperative agreement acknowledging adherence to the cooperative's certifications.

PR: *What are the responsibilities of a member?*

RP-EM6: *Obligations: entrance fee and monthly fee, should obey co-op rules, obey the agreement. Example, no pesticides, herbicides.*

RP-OS10: *The farmer agreement states that farmers will get premium money later, not as part of the coffee sales. Farmers will maintain farms for organic certification. Farmers will follow FTO standards. No child labor, very strict. Farmers will be disqualified if use pesticide; removed, no longer part of the co-op. Even if used only once, very strict.*

Membership to a Fairtrade cooperative is almost entirely dependent on adhering to Fairtrade regulations, suggesting compliance orientation. Additionally present in many of the agreements is a statement that the farmer will only belong to one cooperative, and that their membership will not overlap with any other Fairtrade coffee cooperative (RP-EM2); some agreements going further to state that if the farmer wishes to switch cooperatives, they must wait three years after leaving before they can join another cooperative (RP-OS5).

6.9.1 Farmers Selling to Traders Outside the Cooperative

Although cooperative's farmer agreements disallow members from belonging, or selling, to other Fairtrade cooperatives, most management acknowledges that farmers do not always sell their harvest to the cooperative, and often selling their coffee to the conventional market. Gayo coffee is of high quality, with a unique and desirable flavor profile, that often receives some of the highest prices worldwide, as described in 5.3.1; this premium price recognized by producers;

RP-EM2: Aceh coffee is \$USD 2 higher than Brazil, because the quality and characteristics are like nowhere else in the world.

Consequently, the price Gayo farmers can earn from selling their coffee to Organic or conventional trading networks is sometimes close to the Fairtrade minimum price, and occasionally higher. It is not an unusual occurrence in Gayo for farmers sell their harvest not to their cooperative, but to Organic or conventional coffee traders, referred to typically as the 'local market'. Several participants remarked on this situation;

RP-EM5: Cooperative will go to farmers and collectors when the contract price is better than the local price. The cooperative knows farmers will sell to local buyers if the local buyer's price is better than that offered by the cooperative.

RP-EM2: When price in cooperative is not good, farmers will sell to another group.

Due to the circumstances of the local market the cooperatives are located in, the ability for farmers to selectively sell their coffee limits the ability for belonging to a cooperative to instill a sense of unity or common purpose amongst members.

6.9.2 Fragmented Community Development

Also related to the potential for collective action amongst Fairtrade cooperatives in Gayo, the dynamics of having a large number of Fairtrade cooperatives in a small geographical area has significant impact. At the time of this research, there were 15 Fairtrade certified cooperatives between the two districts of Aceh Tengah and Berner Meriah, and three new cooperatives were in the process of applying for Fairtrade certification. With a large number of cooperatives in the area it

is rare for a cooperative to have exclusive access to one village in the region, and there is much overlap of the cooperatives in villages.

RP-OS1: One village may have two to three representatives from different cooperatives.

RP-OS5: Sometimes there are up to four cooperatives sourcing from the same village.

Having multiple cooperatives active in one village does allow for farmers to compare prices and policies of cooperatives against each other, which limits the likelihood of predatory practices by a cooperative and keeps the prices competitive. However, a significant drawback of having a village split between several cooperatives relates to the social premium; projects implemented with funds from the social premium are typically not coordinated across the village or between cooperatives, but are rather created for exclusive use of a specific cooperative's membership. One cooperative member described his village's use of the premium one year to purchase hulling machines to assist in processing the ripe coffee, to be used only by his cooperative's members, and further, that the members of other cooperatives in the village had their own hulling machines (RP-VL1C). It is clear that there is much potential for harmonization of premium-funded projects. With more coordination there could be less identical projects occurring across the village, and development funds could be more efficiently and effectively directed.

However, it is questionable whether village-wide, community development is the priority for farmers of these Fairtrade cooperatives. Amongst the cooperatives involved in this research, a substantial number of them reported that farmers would most often ask for cash payouts with the social premium instead of proposing a project or activities to be funded with that money.

PR: The social premium, what has the cooperative wanted to use it for?

RP-EM6: In 2012-3, as a result of selling coffee, \$USD 40,000 in premium money. Villages asked for cash. Gave out about 150,00Rp per person, about \$USD 15. That was a decision of the members.

RP-OS11: The premium in the past has been given out as cash, and has also bought tools for farms.

Only one cooperative has policy that did not allow for the premium to be dispersed as cash.

RP-EM3: *Standard here different that other cooperatives; farmers cannot ask for cash money, must be improvements to infrastructure so can be enjoyed sustainably.*

RP-EM5: *Early in certification farmers asked for cash, especially during Ramadan. The committee explained that it's not proper to use the premium for cash or rice. Rice because it is something they need everyday. The committee tried to change the mindset of farmers to think beyond their daily necessities, things that are more important than rice, etc. Before farmers join, premium committee will visit perspective new members and awareness given before becoming members.*

Outside of one cooperative, this research suggests that most farmers consider the Fairtrade social premium as a bonus to their coffee sales at the end of the year, rather than as a means to consolidate funds for larger, community oriented projects.

6.10 Summary

Working off an archetypical structure of fair trade cooperatives in the Gayo Highlands, this chapter gave a brief description of each layer of the organization, detailing what participants hold to be the critical responsibilities of each role. Alongside these descriptions, each subsection included an examination of the context specific implementation and challenges to empowering fair trade cooperatives that are in practice at each level.

The next chapter will analyze what motivated Aceh producers to become certified, influences in establishing a cooperative, and the implications of these factors for fair trade in Aceh.

Chapter Seven: Producer Attentiveness to Compliance: An Outcome of Buyer-Driven Demand for Fairtrade Coffee?

After presenting a thorough portrayal of Fairtrade cooperatives in Aceh in the previous chapter, this chapter will turn focus towards how and why fair trade was initiated in Aceh and how that has impacted its implementation and current operation. This chapter describes how demand for Fairtrade certification was created by buyers and facilitated by national government and INGOs. Further, producers in Aceh are primarily concerned with Fairtrade compliance in their organization, and perceive consumers as priorities within Fairtrade.

7.1 Buyer Demand for Fairtrade Coffee in Aceh

The fair trade market in Aceh is growing. New buyers are coming to Gayo with an increasing number of contracts for fair trade product. A local industry representative commented on the increasing demand for fair trade coffee worldwide;

RP-LE5: Fair trade is also a bigger market. More buyers are coming and wanting Fairtrade Organic.

Also, existing buyers with previous relationships in Gayo are making a higher proportion of their purchases fair trade. Often these buyers have directly asked their current coffee supplier to become certified; this was the case for two cooperatives interviewed. One cooperative described the request by the buyer as the primary motivation for embarking on the certification process.

PR: Why had the co-op decided to get Fairtrade certification?

RP-EM4: First, the demand of the buyer. The buyer wanted the cooperative to have FTO.

The cooperative in the application process of Fairtrade certification also stated that their current buyer requested that they become certified, as the buyer wanted to make more Fairtrade purchases.

RP-OS10: *Before [deciding to become Fairtrade] had same connection, relation with that buyer. Were selling conventional coffee before. That buyer wanted more fair trade coffee.*

Current and new buyers asking their current producers to gain Fairtrade certification is likely common to the other cooperatives in Gayo. A local industry representative explained that it would be rare for a cooperative to embark on the certification process if there wasn't assurance that there would be a buyer for certified coffee.

RP-LE5: *Co-ops will only become certified if the demand is there, a buyer.*

However, now that some cooperatives have been Fairtrade for several years, and increasingly more cooperatives are becoming certified, Fairtrade certification is arguably becoming a market necessity in Gayo; many fear missing out on the growing number of contracts and being outcompeted by other firms. One cooperative recognized that Fairtrade cooperatives were receiving higher prices for their coffee, and were in turn able to pay their farmers higher prices, assuring that farmers would sell more coffee to these cooperatives over others. In order for this cooperative to retain its supply chain, and continue to purchase from farmers in the area, this cooperative felt that they had to become certified.

RP-EM6: *In 2010 a big change. Our chair observes prices, Fairtrade certified are getting higher prices non-certified. That was the motivation. At that time lots of competition between certified and non-certified cooperatives.*

In 2010, many are Fairtrade certified. KBQB, GLOC, Tunas Indah, Permata Gayo. They were buying coffee at a higher price. [Our cooperative] could not compete without fair trade certification. In 2011, the 30 founders sit and discuss: the co-op must have certification. Observing the price fluctuation. We wouldn't be sustainable or able to compete without fair trade certification. Board asked chairwoman to apply for the certification. Why can the other co-ops have certification and [our cooperative] cannot?

By 2010, Fairtrade certification for this cooperative had become an industry requirement, and the influx of Fairtrade contracts to Gayo altered the market in such a way as to make it almost necessary to become certified in order to remain viable.

In both scenarios, buyers directly asking organizations to become certified and organizations feeling market pressure to do so, the drive for Fairtrade did not start in Gayo, but originated elsewhere and implemented here by buyers. This is not to argue

that Fairtrade was forced upon Gayo coffee organizations, for they state repeatedly that they can earn higher prices with Fairtrade (RP-EM2). Nevertheless, because Gayo coffee is of such high quality, occasionally the Fairtrade minimum price is below the current market price for Gayo specialty coffee (RP-OS3). However, coffee organizations in Gayo are responding to a business opportunity, or a market necessity, rather than the movement growing out of Gayo's needs, or community leaders undertaking a fair trade model because of a belief in the principles of the movement, outside a minimum price. The ramifications of such will be discussed in Section 7.4.

7.1.2 High Proportion, but Not All of Coffee Sold to Fair Trade Buyers

Although the impression given by participants is that demand for Fairtrade coffee is exceedingly high and the market share is increasingly Fairtrade in Gayo, it should not be interpreted that all certified cooperatives are able to sell all of their farmers' harvest as Fairtrade. Similar to the findings of other research, discussed in Section 4.2.4.1, most cooperatives are not able to sell all of their coffee to Fairtrade buyers, for Fairtrade prices; a fraction is sold to the conventional market. One local industry representative, RP-LE5, estimated that on average about 60-70% of cooperatives' coffee is sold as Fairtrade. Of the cooperatives participating in the research, the figures varied. One cooperative reported that only about half of their member's harvests were sold as fair trade by the cooperative, while another cooperative only sold one shipping container out of 32 to an uncertified buyer, equaling about 97% of their coffee.

Buyers are purchasing a high proportion of the available Fairtrade coffee in Gayo, but cooperatives do have to find other markets for the remainder. Sometimes that is difficult and the cooperative is not able to purchase all of their farmers' harvest;

RP-OS11: [It is my desire for the cooperative] to sell more Fairtrade coffee and increase sales. Be able to buy more of our farmers' coffee. I would estimate that right now the cooperative only buys about 50% of our members' coffee, the other 50% the farmers have to sell to the conventional market, on their own. The main feedback we hear from members is, "why don't you buy more of our coffee?"

Although buyers may ask cooperatives to become certified, and although certification appears necessary to remain competitive, the actual demand might not be meeting expectation.

7.2 INGOS and the National Government: Other Actors Influencing Fairtrade's Establishment in Aceh

7.2.1 The Largest Cooperative in Gayo and NCBA's Assistance

Detailed in Chapter Five, INGOS have a presence in Aceh they did not have previous to 2004. INGOS and aid agencies, previously excluded from Aceh due to the violent 30-year separatist conflict, have gained access with peace agreements set in 2005. Much of the initial focus was upon humanitarian efforts related to the 2004 tsunami, but economic development of the province has begun to be the center of an increasing number of programs. Multiple INGOS and aid agencies have introduced projects involving specialty coffee production, those specific to Aceh outlined in Section 5.3.2.

One cooperative participating in this research had significant international assistance in the early stages of forming their cooperative. NCBA approached them in late 2004 to discuss collaboration; on this project NCBA was in joint partnership with USAID and Cooperative Business Association (USAID, 2007). NCBA and their partners have had a continued involvement with the cooperative, purchasing a warehouse unit and office space for the cooperative in 2005 (Cooperative's Promotional Material), and assisted with the Fairtrade certification process in 2007 (RP-EM2) (USAID, 2007, p. 15).

NCBA's initial assistance was related to developing the cooperative. The cooperative independently secured government licenses and was founded in 2002, however, they did not begin selling coffee until 2005, after their partnership with NCBA. Further, many participants from this cooperative recounted that the cooperative was established in 2005 and had their first members in 2006 (RP-EM2).

Fairtrade certification may not have been NCBA's primary objective in their partnership with the cooperative; it is possible it was to gain increased accessibility to

Gayo coffee for a large purchaser. In detailing the support the NCBA gives the cooperative, one participant stated:

RP-EM2: NCBA, American, Mr. Sam. He knows buyers, Starbucks. The marketing is done by NCBA.

It is possible that Starbucks was looking to increase their presence in Gayo, and NCBA facilitated the capacity building of a local coffee cooperative in order to provide Starbucks with easier purchasing: bulk quantities via one cooperative rather than through multitudes of farmers and collectors.

Ultimately, the partnership with NCBA was strongly beneficial for the cooperative.

RP-EM2: The board members decided they wanted to make the organization big again. NCBA, a US cooperative business association, assisted this co-op. Can buy an office and factory now. The cooperative went from zero to hero.

Currently, this cooperative is the largest and most successful cooperative in Gayo, and this has significant implications for the local industry and other cooperatives. As the largest cooperative, with the most members and the biggest contracts,

RP-LE2: They [KBQB] set the price for all the other cooperatives in Takengon.

Due to their size, which can be seen as a result of their partnership with NCBA and Starbucks, the other Fairtrade cooperatives in Gayo must pay attention to the price they purchase coffee from their members, as that becomes the benchmark farmers will compare their participation to. Although NCBA only has a direct relationship with one cooperative, all in the community are impacted by their involvement.

7.2.2 Koperasi and the National Government's Regulation on Cooperatives

Current commodity specific regulations for fair trade coffee require producers to be organized in democratically run, producer-owned cooperatives, as discussed in Section 4.2.2.1. Cooperatives have not been traditionally present in Indonesia or Aceh's coffee industry, which instead features a network of individualized trade chains, as discussed in Section 5.2.2. Therefore, when coffee producers decide to become Fairtrade certified, one of the initial steps necessary is to form a cooperative. The process, as discovered through this research, is highly stipulated by the Indonesian national government.

Cooperatives in Indonesia are governed and monitored by the Ministry of Cooperatives and Small and Medium Enterprises. The Ministry is responsible for establishing policies related to cooperatives and small and medium sized businesses in Indonesia, and creating a suitable business climate for these businesses to be independently successful in order to contribute to national development (Kementerian Sekretariat Negara Republik Indonesia, 2010). Further, the Ministry, via its Koperasi department, has created legal parameters for the formation of cooperatives in Indonesia, with specific policies related to how cooperatives are structured and governed; Koperasi's logo is presented in Figure 33.

Figure 33

Kementerian Sekretariat Negara Republik Indonesia (2010)

Heeding government regulations regarding cooperatives was forefront in producers' experience when forming a coffee cooperative. One participant explains that government regulations are the foundation for cooperative policies;

PR: What are the rules in the cooperative and who sets them?

RP-EM6: There are two sets of rules. The first is the constitution made by the government. After the constitution, some more points are added to make bylaws and guidelines, but agreeable by the cooperative. Board members give a speech at AGM to delegates.

In Indonesia, there is a government national cooperative department, Koperasi Indonesia, in the Department of Small, Medium Business Enterprise

and Cooperatives. For every kind of cooperative. [Our cooperative] is not changing rules, just adding more.

Government directives are the basis for the cooperatives' own constitution, to which the board and members do not modify, but elaborate upon for their specific needs.

Beyond prescribing organizational regulations and monitoring their adherence the government exerts its presence in more routine operations of cooperatives. One participant, RP-OS6, mentioned that government departments are often hired to lead trainings held by the cooperative. Trainings include environmental extension services, such as workshops led on composting, improving the quality of and increasing output, as well as trainings on improving the cooperatives' financial management. Further, government officials will often occupy integral positions within a cooperative's organizational structure, as government officials, acting as advisors, often sit on cooperatives' supervisory boards (RP-EM6).

7.3 An Eye for Compliance: Ramifications of Top-Down Pressure for Certification

7.3.1 "Staff Must Understand Standards:" Fairtrade and Compliance

In addition to the attention paid to meeting Koperasi regulations for Indonesian cooperatives, this research suggests Gayo cooperatives are primarily occupied with compliance of Fairtrade standards. The regularity that Fairtrade standards appeared in interviews, unprompted by the interviewer, was a surprise in the research, and discussion of the regulations of Fairtrade frequently dominated interviews. Particularly when asked to elaborate on cooperative policy and practices, participants most often would connect their response to the Fairtrade standards.

PR: How does the committee develop plans for the use of the premium?

RP-EM5: The cooperative must comply with the standards. The premium committee will go directly to village to identify needs of the members there. Talk directly with farmers.

The impression given was participants were eager to portray an image of complete compliance and present themselves as part of an organization that has observed and fulfilled all Fairtrade standards.

It is clear the cooperatives felt it imperative to be fully versed in the standards. When asked for advice and recommendations for cooperatives thinking of becoming certified, one participant responded:

PR: *What lessons would they want to share?*

RP-OS10: *Follow the rules and standards. Study and understand them.*

Another similar statement is particularly telling. When asked for possible recommendations to young cooperatives, one participant offered the following advice:

RP-OS3: *Staff must understand standards. Fairtrade will ask about them. A cooperative needs someone who can talk about each. Training will be given to staff.*

The Fairtrade standards are presented here as items that are important because they are audited, rather than an inherently worthwhile or something to strive for. For this participant, the emphasis is upon following the rules, for approval's sake. Further, it also suggests that implementing the standards in full is thought unnecessary, as long as the cooperative is able to demonstrate to an auditor that the cooperative is aware of each standard and are able to explain their operation in those terms.

Further, for cooperative management, ideal delegates and collectors are those than can speak to the cooperative's compliance. When discussing what qualities make a good delegate, one merit mentioned was that delegates understand Fairtrade standards (RP-OS10). Regarding collectors, one cooperative provided a binder of signed agreements; agreements that have collectors sign that they fully comprehend the Fairtrade standards. The imperative that all levels of cooperative representation are able to speak convincingly about the standards is highlighted particularly well in one experience during the research. During an interview with a collector, a question frequently asked throughout the fieldwork was phrased by the interviewer in a slightly different way; "what do you think is the purpose of fair trade?" became "what do you think is fair?" Immediately, the accompanying cooperative staff signaled to each other and began to have their own conversation. In the car ride following the interview, the translator explained "what do you think is fair?" is a question Fairtrade auditors will ask everyone during an audit, and that the cooperative staff were happy that the collector was getting the opportunity to practice his response during this research so to be more prepared for future audits.

7.3.1.1 Compliance, A Large Labor and Financial Undertaking

Although the above suggests that Fairtrade cooperatives in Gayo are preoccupied by compliance, it would be unfair to suggest that cooperatives intend to only present a façade that they are a compliant organization. Rather, cooperatives spend a substantial amount of time and effort to ensure that they are in compliance, a clear organizational priority. On the large amount of effort to meet standards;

RP-OS5: Fairtrade is the most difficult of all of our certifications. It has the most complex standards. One line in the standards document creates so much work for the cooperative. We have five staff members in charge of Fairtrade compliance here.

The large amount of work that Fairtrade certification represents is well identified across the industry. A government official interviewed, who is responsible for assisting fair trade cooperatives in Takengon, raised the concern that becoming and maintaining certification is a substantial amount of work for cooperatives;

RP-LE4: One of the challenges for the cooperatives is the large amount of standards. There is so much to learn, so many new things to take into account.

The large amount of work made necessary by Fairtrade standards adds to the standards presence at forefront of cooperatives' attention.

Comments in reference to the amount of work created by Fairtrade were not exclusive to participants of new cooperatives; participants from older cooperatives also mentioned the challenge compliance presented. Many also mentioned that the standards were not static, but for every few years certified, cooperatives are required to meet additional standards.

RP-LE2: Once a co-op has been certified, the number of standards increase and become stricter.

RP-EM2: Every year there are more Fairtrade standards. None the first year, lots more at two, even more at six. Additional is the farmer knowledge and cooperative development.

There were participants who also expressed concern the possibility of new standards;

RP-EM4: The present standards fit. All sectors: democracy, environment, traceability. The cooperative can do all of this. I hope standards are not added to make it more complicated to achieve.

Overall there was a dualistic sentiment expressed by many of the interview participants; Fairtrade compliance was a huge task, but the process had positive results.

RP-EM3: *Standards are difficult for the cooperative. But, they raise awareness and education of the staff. This education had never been found before.*

RP-EM2: *Fairtrade is difficult. Standards are hard, but help. It is useful.*

RP-EM7: *Fairtrade International is difficult. The yearly audit needs lots of preparation work. It is inherently good: business development and transparency. But lots of work.*

Many participants, across multiple cooperatives, presented their opinion of the standards similarly: Fairtrade is demanding, but that they appreciate the end results.

The explanations given by participants for why Fairtrade is challenging fall roughly into three categories. First, as mentioned by RP-EM7 above, there is inherently a lot of paperwork related to increasing financial transparency and audit systems. Secondly, that the way Fairtrade has prescribed these cooperatives to operate is different than how conventional coffee entrepreneurs trade in Gayo. Establishing this new system requires many changes, most relating to organizational structure, as discussed in the previous chapter. A third explanation often given by participants was that there is a large foundational amount of work needed simply to learn and understand what it is the Fairtrade standards are stipulating.

7.3.1.1.a Understanding the English-Written Text

A major focal activity for the Fairtrade cooperatives in Gayo is to increase their understanding of the written content of the Fairtrade standards. At present, many feel unsure about their comprehension of the specifics, and have brought this to the representative body for Fairtrade coffee producers in Indonesia. This representative group has approved a schedule for their 2015 activities, and increasing the understanding of the standards for compliance is a high priority; a series of trainings are planned for the early 2015.

Additionally, cooperatives note that the standards disseminated are written entirely in English.

RP-EM2: *We cannot understand much of the standards. Different in writing and mind. Standards are in English. Reports must be written in English.*

Fairtrade does not provide any version of the standards in Bahasa Indonesia or any other local languages in Aceh. Currently, one participant, very familiar with the Fairtrade audit process and possessing strong English, has taken on the task of translating the standards into the local language, as well as tutoring several cooperatives' staff in English.

7.3.1.2 Child Labor and Islam: The Fair Trade Standards and Local Culture

One element of this research was to consider how fair trade responds to different cultures and contexts. In Aceh there was not a feeling that fair trade was inappropriate overall for the Gayo culture. There were, however, areas in which some felt that the standards was inconsistent with local culture, and as one participant, RP-EM3, insisted, the "standards should be in line with the situation."

Fair trade producers are not to employ children under 15 in physical or dangerous work, which often implies that family farmers cannot allow their children to assist them with tasks related to producing coffee. Several participants commented on regulation on child labor; one participant, RP-OS10, referred to child labor as a "hot issue," another, RP-OS4, mentioned child labor as a challenge trainers need to address. One participant, in two different places in the interview, discussed the issue of child labor on coffee farms;

RP-OS3: *The cooperative and members can't employ kids under the age of 15. The cooperative doesn't employ, but kids go to the farm with their parents after school to learn to be a skilled farmer. It is the culture here. Parents are not stopping school. Interpretation of the standard here, can work, but not hard body/physical work.*

And later,

RP-OS3: *Child employment. The culture here is not like that. Children will go anyway. If asked, people will say that they don't employ their children. Children should go. If they don't, how will they learn?*

In Gayo, there is a great pride in their coffee heritage and the coffee produced, and a large proportion of the community farm coffee. As the participant above describes, having children assist in tasks for the family is not considered harmful work, and contributes to a continuation of the community's legacy of quality coffee production.

However, during one interview, when discussing in what ways fair trade does and does not fit with the local culture, a participant made the argument that, in important ways, Fairtrade standards and Gayo culture do overlap.

RP-EM5: There is nothing contradictory between the standards and the culture. Standards are the same as Islamic teachings. Before Fairtrade, not implemented in daily life. Once read standards, realized this is what we should do, i.e. cleanliness: house clean from hazardous waste.

He describes cleanliness and keeping farms free of inorganic waste as one way in which Fairtrade and Islamic faith, a central feature to many Gayonese and Acehnese lives, have aspects in common, and perhaps support one another.

7.3.1.3 Industry Coordination

Addressed in Section 6.2.1, Fairtrade cooperatives across the industry meet monthly to discuss common challenges facing the industry. The content in Section 6.2.1 focused on the tension playing out between Fairtrade International and Fair Trade USA, however, a regular topic in these meetings are the Fairtrade Standards. Attendees discuss with each other their understanding of the specifics of any new standards, as well as share how their cooperative has achieved compliance with the standards (RP-OS1).

The openness that cooperative leadership exhibits with their counterparts in other cooperatives, as well as the tendency across the industry to focus on compliance discussed above, contributes much to the uniformity of cooperative structures across Gayo. As succinctly explained by one participant;

RP-EM5: There is no difference with other cooperatives. The Fairtrade standards are the same, and we are all part of Fairtrade.

All of the cooperatives visited in the course of this research, including the cooperative still in the application process for certification, exhibited nearly identical organizational structures and governance policies, which are presented in the previous chapter.

7.3.2 Fairtrade is for Customers

Arguably, to some degree buyers are increasing their Fairtrade purchases in Gayo either in response to consumer demand for Fairtrade product or because they

want to create a consuming market for Gayo Fairtrade coffee. A resultant dynamic/mentality exists among Gayo producers, that it is consumers who are the priority in the fair trade network. Insightful were interview responses to questions such as “what is the mission, or purpose, of fair trade?” It must first be acknowledged, that almost universally, participants would begin by mentioning the improved price and the social premium as a purpose of the fair trade system, aspects of fair trade that directly benefit Gayo coffee farmers. There was one interesting interview, however, that even described these two aspects of fair trade as ultimately intended for consumers.

RP-EM3: [Fairtrade] creates relationships between farmer and consumer, connects them: farmer as producer, drinker as consumer. Drinker will remember better the work of the farmer. Consumer would like to pay higher price; to feedback, farmer can have a better life. If coffee price keeps dropping, farmers wouldn't plant coffee anymore, consumers wouldn't have anything to drink.

Even the improved price, something that is typically framed as a cost to the consumer in order to help the producer, is rationalized here as something that ultimately benefits the consumer by maintaining their coffee supply.

Participants also see increased traceability as a goal of fair trade, intended benefits for the consumer. Traceability was brought up by participants to suggest the visibility of coffee production throughout the Fairtrade coffee supply chain;

RP-EM3: Something ultimately positive about Fairtrade is the traceability. The consumer knows where the coffee comes from. Never done before and not done outside of Fairtrade.

Traceability is seen as important by this participant because they believe consumers want to know where their coffee comes from, and Fairtrade assists to satisfy that need. Traceability within Fairtrade is, however, one way; consumers may enjoy being able to know more about the conditions of the production of their coffee, but participants have little conception of the final consumers of their product. From the same participant as the previous quotation, the relationship does not extend past the buyer:

RP-EM3: I would like to see, thank consumers who have bought or drank [our cooperative's] coffee. Would want to shake their hands and thank them. But don't know them, we just know that it goes to the US, etc. Not the individuals.

Producers are not granted the same sort of access that consumers are through fair trade. A consumer can look to the fair trade principles to know the conditions of production, and further, can trace their coffee back to the farm, as buyers will often specify a particular village the want the cooperative to source their purchase from (RP-OS9). However, the cooperatives cannot detail more than the country their coffee will be sold in.

Many participants named improved coffee quality as a primary goal of fair trade. Interviews often featured discussions around a cooperative's efforts to create better coffee. One research participant in their interview described high quality coffee as an integral component to a fair trade;

RP-EM3: There is a need for the cooperative and the farmers to create good quality coffee. The function of the chairman is to... create good quality coffee.

PR: What is the purpose or goal of fair trade?

RP-OS10: According to him, it is to teach farmers and the cooperative that they can sell improved coffee.

Trainings given by Fairtrade where also mentioned throughout interviews, such as by RP-OS3, who appreciated trainings on improving coffee quality, and saw as central to belonging to a Fairtrade cooperative. Further, the cooperatives recognize that quality is the priority for buyers, both conventional and Fairtrade;

RP-OS1: They ask about quality. Buyers ask about quality first, is most important.

Suggested is that buyers are focused on coffee quality rather than the social aims of fair trade. By prioritizing quality over all other characteristics of the cooperative suggests that buyers are interested first in the product, and consequently their relationship with their customer, and then secondarily their partnership with the cooperative.

7.4 Summary

Coffee producers in Gayo did not seek out Fairtrade certification, rather, aid agencies and INGOs assisted with the process or international buyers requested that coffee enterprise become certified. The Indonesian government stipulates

cooperative structure, an organizational form Fairtrade requires, further moving the implementation of fair trade out of the hands of producers themselves.

Consequently, cooperative leadership experiences fair trade as an exercise in compliance, focusing primarily on securing compliance rather than adapting fair trade to local or personal circumstance. This chapter ultimately suggests that as a result, participants felt that fair trade is an initiative aimed at others, and that it is consumers' experience that is the focus of fair trade.

Chapter Eight: Final Discussion and Conclusion

There are four components of this final chapter. First, the guiding research questions of this thesis are revisited, with a short discussion to address each. Secondly, the implications of the findings of this research are considered, followed by opportunities for future research. To finish this thesis a few personal comments are made.

8.1 Discussing the Research Questions

This thesis has explored fair trade's growth and expansion of production into new places by performing a case study of Fairtrade's entrance into Aceh coffee production. Informed by interviews, observation, and document review, this thesis has presented two chapters of data analysis in Chapter Six and Seven. In this chapter, what follows is a concise discussion of the results of this research as they relate to the questions posed by this thesis in Section 1.1. The following sections will be structured to first address the central research question, and then the four supporting questions.

8.1.1 Central Research Question

How has fair trade been applied in a new context, specifically in coffee production in Aceh, Indonesia?

In this case study of Fairtrade coffee cooperatives in Aceh, Indonesia, buyers and INGOs have driven the uptake of Fairtrade certification, and so for producers in Gayo, the focus has been on compliance. This prioritization of compliance has contributed to a standardized implementation of fair trade. Cooperatives, new to Gayo coffee and a prerequisite for certification, have been formed with almost identical organizational practices and governance structures. Cooperative leadership has taken an operational reading of Fairtrade regulations in order to create cooperatives that can meet and maintain certification. It is as if the standards are interpreted as blueprints for fair trade producer organizations, and coffee

entrepreneurs in Gayo are constructing cooperatives along those plans. Gayo producers are not creating fair trade, nor are they modifying the standards to best fit their context; they are forming cooperatives that can demonstrate compliance.

Fair trade in Gayo is presented as a set of qualifications that must be achieved in order to gain, or maintain, access to a potentially more profitable market. In this case, fair trade is more about market access than social change. As a result, prioritizing compliance with Fairtrade standards has led to less exposure to, or appreciation of, the larger principles guiding the fair trade movement. It is questionable how effectively the social premium is allocated, how fairly the delegate system works, and whether environmental awareness is prioritized over social change in cooperative facilitated trainings. Further, what appears to have been created in this case is a formalization of previous industry practice. A pressure for successful audits, and correspondingly traceability and accountability, has increased cooperative management's documentation practices. Cooperatives can now clearly identify all components of their organization as official members, and provide reports on activity, development plans, and financial accounts. However, it is questionable if cooperatives follow through with their assertions. There is not much evidence to say that any meaningful change has occurred, only that now a paper trail exists.

8.1.2 Supporting Question A

What are the factors behind the clustering of fair trade coffee cooperatives occurring in the Gayo Highlands of Aceh?

The specialty quality of Gayo coffee, and the high demand for it from the international market, is a primary factor in the clustering of Fairtrade certified coffee cooperatives in the Gayo Highlands. At the time of this research, 15 of the 16 Fairtrade certified coffee producers in Indonesia were located in two neighboring regencies in the Special Province of Aceh: Berner Meriah and Aceh Tengah. In the last several years, buyers who have been purchasing coffee from Gayo have increasingly asked their producers to become Fairtrade certified; this was the case in two of the cooperatives participating in this research, and local industry experts also commented on the frequency of this experience throughout the local industry. Further, for coffee

entrepreneurs in Gayo who had not been asked directly by a buyer to obtain certification, the rapid growth of fair trade among other cooperatives made certification a market necessity here and uncertified cooperatives felt certification necessary to remain competitive in Gayo.

One of the first cooperatives, and currently the largest in Gayo, had substantial assistance from INGOs and aid agencies to establish themselves and apply for Fairtrade certification. Aid agencies and INGOS had greater access to Aceh in the last 10 years; previously they were restricted during the violent 30-year separatist conflict. After the 2004 Indian Ocean tsunami and 2005 peace talks, however, international organizations were initially permitted to enter Aceh for humanitarian assistance, and later, reconstruction and rehabilitation projects. The Aceh Arabica industry became a focus of many economic development projects and it is extremely likely that greater access to Gayo post-conflict allowed more buyers to easily reach Gayo to purchase coffee.

This thesis suggests that Fairtrade is available only to high quality and specialty coffee producers. In this case, buyers who purchase specialty coffee are already paying high prices a premium product and the specialty price and Fairtrade minimum does not pose a risk to profit margin. And further, the Fairtrade minimum price does not represent as strong price increase for farmers in Gayo who currently earn high specialty prices, although the minimum price does provide stability. What does it suggest about fair trade consumers and their commitment to social improvement for all farmers if they are only willing to purchase fair trade coffee if it is high quality specialty coffee? More consideration on the implications of a fair trade available only for specialty producers is needed.

8.1.2 Supporting Question B

Focusing on fair trade's requirement for coffee producers be organized in democratically owned and governed cooperatives, how have these cooperatives developed in Aceh, Indonesia? What changes were made to achieve fair trade certification?

In Gayo, farmer cooperatives do not exist outside of Fairtrade certification. For the cooperatives participating in this research, each started as some other form of organization—ranging from a savings and loan group to conventional coffee trading

businesses—and established a cooperative with the goal of obtaining Fairtrade certification. Most changes that occurred were undertaken to secure Fairtrade compliance; consequently, there has been a similar approach taken by all of the cooperatives and the organizations are identically structured.

A change to producer organization was the creation of farmer delegates, which demonstrates compliance with fair trade regarding farmer participation in planning and decision-making. Within Fairtrade cooperatives, farmer delegates are chosen by a village's members to act as a representative for the farmers. This role is mainly performed by attending the cooperative's AGM, where they relay proposals for their village's use of the social premium and share with farmers the reports on cooperative operations given by cooperative leadership. The presence of delegates implies a voice for farmers and increased participation in the cooperative's activities and decision-making. However, interviews suggested low attendance at village meetings, and moreover delegates are only required to perform their representational duty once a year at the AGM. It is also concerning that delegates are often not elected by village members, and often are the head of the village or other established community elite. There is a strong possibility that the role of delegates is not performing as intended, that this practice crystalizes current power dynamics, and is not as participatory or inclusive as fair trade would desire.

Additional to farmer delegates, coffee producing fair trade organizations differ from the conventional in Gayo by employing ICS and an increased number of office staff. ICS are actors employed by the cooperative to facilitate trainings. Trainings are environmentally focused, and the purpose of the ICS is to promote improved coffee farming techniques and environmentally conscience practices, activities funded primarily from the Fairtrade social premium. Regarding increased office staff, although there is many employed by conventional coffee businesses in Gayo, there is significantly more office staff employed by Fairtrade organizations. The increased number of staffers is most likely related to the increased amount of paperwork required for accountability and compliance with Fairtrade, as well as the inclusion of processing activities that are typically outsourced by conventional businesses in Gayo. Further, participants shared that a large amount of the social premium is used to pay salaries, as well as infrastructure for the cooperative.

Overall, for the cooperatives involved in this research fair trade has resulted in only minimal changes to the productive structure. Farmer delegates have been put in place, but it is questionable how different those village meetings are than traditional village governance. ICS have increased the number of available trainings, but with the increased presence of aid agencies and NGOs post-conflict, farmer trainings are widely available.

8.1.3 Supporting Question C

What is the governance structure of fair trade coffee cooperatives in Aceh, Indonesia?

A critical finding is the near uniformity of cooperatives. Organizational structures, policies, and practices were close to identical across all participating cooperatives; each layer is described in detail in Chapter Six. When presenting a cooperatives' governance structure, representation and democratic decision-making were the central governance principles described by participants. The representational system utilizes village delegates; for each village, all farmer members interact in the cooperative's decision-making process through a village delegate. The foremost responsibility for the farmer delegate is to facilitate a discussion with the village regarding the social premium, and present a proposal to the cooperative during the AGM. The implementation of a delegate system is widely upheld as positive practice by the participants in this research, who promoted the system as an effective way for all members to participate in decision-making and an efficient communication system.

The second main component governing Gayo cooperatives are the cooperative supervisory boards and elected leadership. Supervisory boards and elected leadership create development plans for the cooperatives, with input from high-ranking office staff members. Development plans detail the direction the cooperative intends to progress, mainly what the priorities are for growth and profits, and how the cooperative will continue to build relationships with buyers to sell their members' coffee. After drafting the development plans, the board presents them to delegates during the AGM; delegates then vote to approve plans. Additionally at the AGM, the board, and other cooperative leadership, will give presentations on the cooperative's

activities for the past year, and it is these verbal reports that are held by participants as an accountability mechanism for the cooperative.

Both groups of actors, the board and the delegates, perform the majority of their governance duties at the AGM. Proposals for the farmers' portion of the premium are voted upon, operational reports and development plans are confirmed by voting, and high-ranking leadership is elected at the AGM. Participants are deliberate when they described these processes as occurring democratically, a possible effect of creating cooperative policies and practices with an eye for compliance; Fairtrade regulations explicitly mandate an AGM and democratic decision-making. It is potentially concerning that cooperatives only effectively provide one opportunity for governance activities and there is no mechanism for delegates to review information presented at the AGM, for voting to approve it occurs immediately. Participants did not discuss other structured opportunities for delegates to engage with the board or to provide feedback at other periods throughout the year. Furthermore, there is a clear emphasis on the social premium. The village meetings have the purpose of creating a proposal for the use of the social premium allocated to their community, and a large portion of the AGM is dedicated to hearing and deciding upon those proposals. An emphasis on the social premium leaves little space for oversight or engagement on other matters of governance of the cooperative, and it is questionable how involved and critical the delegates have the opportunity to be.

8.1.4 Supporting Question D

How does the leadership of fair trade coffee cooperatives in Aceh work to ensure collective action, democracy, and empowerment of the cooperatives' membership?

Many participants implied democratic processes in cooperative practices. Many positions are elected, such as the chairman, secretary, supervisory board, and village delegates. Moreover, voting is the means at which development plans, and use of the social premium, are approved and decided. Voting was often described as counting hands, and participants frequently emphasized discussion as more valuable and relevant.

Additionally, participants described transparency as a practice that can empower cooperative members. Many participants identified transparency, particularly in financial record keeping, as improved as a result of Fairtrade certification. Many participants also positively spoke of improved communication channels—ICS, collectors, and delegates—that provide farmers with more information on the current prices offered by the cooperative. However, in participant responses the promotion of increased transparency by cooperative leadership at times became interwoven with supply traceability language.

Collective action, democracy, and empowerment of members were not typically conceived as goals of Fairtrade; rather most participants increasing income, providing a better price, and improving the environment. As most experiences with fair trade in Gayo have been focused on securing compliance, there is little evidence to suggest that cooperative leadership are proactively going further for their members than is stipulated in the fair trade regulations, in terms of collective action, democracy, and empowerment. Absent from the interviews was discussion about increasing participation and providing a meaningful involvement with the cooperative.

It will be necessary to reevaluate the policies and practices of Fairtrade cooperatives in Gayo over time. Cooperatives are very young in Gayo, all having been founded within the last ten years, most closer to five. It is possible that once the cooperatives become more practiced and familiar with fair trade they might expand their activities beyond what securing compliance mandates. Contrastingly, it is also a possibility that fewer policies and practices regarding collective action, democracy, and empowerment will be upheld over time. It will be important to revisit cooperatives in Gayo to see which structures remain, are negotiated, or fall away.

8.2 Implications of this Study: The Mainstreaming Debate in Aceh

Fundamentally, this thesis sought to understand the implications of a rapidly growing fair trade movement. Mainstreaming fair trade, as discussed in Section 3.5, has been led by engagement with dominant industry actors and large corporations. Further, outlined in Section 3.5.1, many are concerned with corporates' capacity to dilute and coopt the movement. Ultimately, mainstreaming has contributed to the

increasing sales of fair trade products and the expansion of fair trade production into new countries.

Exploratory in nature, the central aim of this research was to examine how fair trade has been adopted and implemented in a new producer context, and therefore focused on the case study of the coffee production in Aceh, Indonesia. Details of the research findings have been presented in Chapters Six and Seven, and summarized in the preceding section of this chapter. Overall, the research indicates that buyers have driven adoption of fair trade in Aceh, assisted by aid agencies who've partnered with corporations, which has resulted in standardized cooperative formation and governance and producers that are oriented towards securing compliance over farmer empowerment or meaningful participatory or democratic governance.

Is fair trade producers' prioritization of compliance evidence of cooption or dilution? Potentially. A more thorough study of Aceh coffee cooperatives is needed, but this research suggests that compliance as preeminent has guaranteed that minimum practices are in place, but assures that further uptake of fair trade principles. The likelihood that cooperatives will genuinely, and independently, implement policies that encourage the principles of the wider movement is significantly reduced. A central finding in this research suggests that imposing a structure upon organizations with different goals and motivations does not lend easily to that organization adopting, or authentically practicing, the corresponding values. Certified cooperatives in Aceh are dedicated to democratic practice, collective action, and empowerment of their members only in so far as it demonstrates compliance with fair trade, their organization receives a successful audit, and they can remain certified. Imposing this organizational structure, top-down from buyer to cooperative leadership to farmers, rather than nurturing a grassroots formation initiated from community leaders, has led to disingenuous and/or misunderstood practices by cooperatives in Aceh. In Aceh, the focus is currently on receiving the Fairtrade minimum price and distributing the social premium, which reflects Doherty, Davies and Tranchell's (2013) study that found evidence of dilution in the international fair trade movement on every principle except those two.

What does the presence of a diluted fair trade in Aceh mean for the movement's broader aims? Unfortunately, not many positive contributions to the

ideological goals of Fairtrade. As discussed in Section 3.3.4, Fairtrade has market-access (Section 3.3.1) and market-reform (Section 3.3.2) philosophical approach. In Aceh, the minimum price may provide stability in a volatile market, but as the region already earns high specialty prices for its coffee, the minimum price is unlikely to bring substantially increased earnings for farmers. The minimum price's inability to alone alleviate poverty has also been established by Bacon et al (2008) and Mendez et al (2008) and discussed further in Section 4.2.4.1. In regards to building capacity and sustainable businesses in developing countries, often considered a positive outcome of fair trade (Section 4.2.4.2), demonstrated by this research, and reported by Fairtrade International (2012), the social premium in Aceh is largely spent on salaries of cooperative employees, property and equipment, and general operations, suggesting unsustainable businesses that require the premium to operate. Lastly, regarding market reform, this thesis strongly questions fair trade's ability to embed social criteria into the market if fair trade is only available to high quality, specialty producers.

8.3 Future Research

One aspect of this research was its exploratory nature. Limited literature existed on fair trade coffee production in Indonesia and Asia prior to commencing. With this initial research completed, there is space for continued research on fair trade coffee in Aceh for a more in-depth and thorough exploration of the nature of fair trade cooperatives there. Further, as this research was missing the smaller, less-commercially successful cooperatives, research into their experience needs to be examined. Certified cooperatives in Aceh are young, most within five years since their founding, so it will be useful to return to Aceh for research on how the cooperatives develop over time, how their policies change, and how members engage with the cooperative and fair trade as they become increasingly familiar with the program.

Revisiting Aceh in several years time will also be enlightening in regards to the longevity of the fair trade industry in Gayo; and of fair trade coffee more generally. Fair trade may be a current trend in Gayo and the industry in five or ten years time will be an interesting future opportunity for research. Is fair trade a bubble that has

burst? Have cooperatives now become the standard form of farmer and market organization in Gayo?

At present, an interesting opportunity for research exists in a comparison of the Aceh coffee industry with its neighboring specialty and Arabica coffee producer, Sumut in North Sumatra. Sumut is producing high quality coffee with very similar taste qualities to Gayo, but, at present, no producers have become fair trade certified. It would be extremely insightful for research to explore a comparison between the two Arabica producing areas with the aim of describing the contexts and providing an understanding of why a booming fair trade industry has emerged in Gayo and has not yet reached Sumut.

8.4 Final Reflections

Throughout the twelve months I have been working on this thesis I have spent many moments paused in front of shelves of roasted coffee for sale. I have swayed in several directions, shopping at multiple outlets and buying a range of brands, as my own thinking shifted between whether my fair trade purchase was beneficial to the farmers who grew that coffee, and to what extent.

Although this research has shed light on the compliance oriented disposition of fair trade cooperatives in Aceh, and made me question the authenticity of farmer participation and decision-making in cooperatives in other regions, I have arrived at the belief that the intentions of fair trade are worthy, and the motivations pushing the movement justified. I hope that fair trade continues to evolve with farmers in mind, and does positively respond to the constructive criticism it faces. Fair trade may be far from flawless, but I feel it is the most promising ethical certification focused on social criteria, and the “least bad” option currently available on the wider market.

I plan to purchase fair trade coffee, and my future shopping will feature fewer pauses— well, at least pauses over whether to buy fair trade, as I will be torn forever between medium or dark roasts.

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Appendix A: Additional Participant Details

Research Participants: List of Pseudonyms and Interview Details			
<i>Pseudonym</i>	<i>Position Held</i>	<i>Number of Interviews</i>	<i>How Recorded</i>
<i>Primary Researcher</i>			
PR	Thesis Author	-	-
<i>Elected Cooperative Leadership, High-Ranking Management</i>			
RP-EM1	Treasurer	1	Taped audio
RP-EM2	Secretary	2	Notes taken during
RP-EM3	Chairman	1	Taped audio
RP-EM4	Secretary	1	Taped audio
RP-EM5	Member of the Premium Committee	2	Taped audio; notes taken after
RP-EM6	Secretary	1	Taped audio
RP-EM7	Chairman	1	Notes taken after
<i>Cooperative Office Staff</i>			
RP-OS1	Business Relations Manager	3	Notes taken after
RP-OS2-GI	Internal Control Staff, Group Interview	1	Notes taken after
RP-OS3	Environmental Manager	2	Taped audio; notes taken after
RP-OS4-GI	Internal Control Staff, Group Interview	1	Notes taken after
RP-OS5	Manager, Business Relations	2	Notes taken after
RP-OS6	Environmental Manager	2	Notes taken after
RP-OS7-GI	Internal Control Staff, Group Interview	1	Notes taken after
RP-OS8	Export Manager	1	Notes taken after
RP-OS9	Quality Control Manager	1	Notes taken after
RP-OS10	General Manager	1	Taped audio
RP-OS11	General Manager	1	Notes taken after

Research Participants: List of Pseudonyms and Interview Details, continued			
<i>Pseudonym</i>	<i>Position Held</i>	<i>Number of Interviews</i>	<i>How Recorded</i>
<i>Cooperative Village Level Participants</i>			
RP-VL1C	Collector	1	Notes taken after
RP-VL2D-GI	Delegates, Group Interview	1	Notes taken after
RP-VL3C	Collector	1	Notes taken after
RP-VL4D	Delegate	1	Notes taken after
RP-VL5	Coffee Picker	1	Notes taken after
<i>Local Experts</i>			
RP-LE1	Local Roaster and INGO Project Facilitator	1	Notes taken during
RP-LE2	Independent Consultant	3	Notes taken after; taped audio
RP-LE3	Local Independent Distributor	1	Notes taken after
RP-LE4	Government Official	1	Notes taken after
RP-LE5	Local Industry Representative	1	Notes taken during

Appendix B: Ethics Materials

Participant Information Sheet

Working Title of Project:

Fresh Grounds: Cooperatives, Certified Coffee and Fair Trade in Aceh, Indonesia

Heather Walker

School of Geography, Environment, and Earth Sciences

I am a Masters student in Development Studies at Victoria University of Wellington. As part of this degree I am undertaking a research project leading to a thesis. The project I am undertaking explores the nature of Fair Trade coffee cooperatives in Indonesia. This research project has received approval from the Victoria University Human Ethics Committee.

I am inviting those in Aceh who have experience participating in, managing, or are in a leadership role of a coffee producing Fair Trade cooperative to participate. Participants who are interviewed will be asked questions about their experience with Fair Trade cooperatives in Aceh: differences between certified and non-certified coffee production, the certification process, your cooperative's policies and practices, and expectations of cooperative members. Questions about the Fair Trade community in Aceh may also be asked.

Participants in this study will be interviewed over two different sessions by the researcher, and each session will last about an hour. A translator will assist the researcher, and interviews will be recorded. All recorded materials will be kept secure.

Participation is voluntary. You are free to withdraw from participation at any stage without having to declare any reason. Up to two weeks after the interview has taken place you can have the information you provided withdrawn from the research.

Responses will form the basis of my research project and will be put into a written report. Your identity will be kept confidential to the furthest extent possible; you may be identified by the position you hold within your organization, and it may be possible to recognize the organization you belong to. If you would like, you can elect to waive your confidentiality and your opinions attributed to you and your organization.

The thesis will be submitted for marking to the School of Geography, Environment, and Earth Sciences and deposited in the University Library. It is intended that one or more articles will be submitted for publication in scholarly journals. All recorded material will be kept secure and destroyed five years after the end of the project.

If you have any further questions or would like to receive further information about the project, please contact me at walkerheat@my.vuw.ac.nz or my supervisor, Warwick Murray, at the School of Geography, Environment, and Earth Sciences at Victoria University at Warwick.Murray@vuw.ac.nz.

Consent to Participate in Research

Project Working Title: Fresh Grounds: Cooperatives, Certified Coffee and Fair Trade in Aceh, Indonesia

I have been given and have understood an explanation of this research project. I have had an opportunity to ask questions and have them answered to my satisfaction.

I understand that participation is voluntary and I may withdraw myself from this project at any point without having to give reasons. Up to two weeks after the interview has taken place I can have the information I provided to be withdrawn from the research.

Recordings may be made of the interviews. These recordings will be kept in a private and secure location throughout the research, and will be destroyed 5 years after the thesis is completed.

Any information I provide will be kept confidential to the researcher, their translator, the supervisor, and the person who transcribes the tape recordings of our interview. Published results will not use my name, and no opinions will be attributed to me in any way that will identify me. I may be identified in the thesis by a pseudonym and by the position you hold within your organization; however I understand that there is still a possibility my organization and myself may be recognizable.

However, I can elect to waive my confidentiality, and have any information I provide attributed to me in written reports.

Lastly, an executive summary of the research project can be provided to me if I wish to receive one.

☐ I consent to information or opinions that I have given being attributed to me in any reports on this research.

☐ I want to receive an executive summary of this research. Address (post or email) to send the summary:

By signing below I agree to take part in this research.

Participant Name:

Signature:

Date:

Translating Confidentiality Agreement

Working Title of Project:

Fresh Grounds: Cooperatives, Certified Coffee and Fair Trade in Aceh, Indonesia

Heather Walker

School of Geography, Environment, and Earth Sciences

Participants in this student research project do so in the understanding that any information they provide will be kept confidential. In providing translation services for this project, I am aware that I will be given access to confidential information.

Confidential data includes all personal information (e.g., name, organization affiliation, job title, hometown, etc.) that may, in any manner, identify the individual. Further, the interviews represent privileged conversation, the content of which is also to be kept confidential.

I agree that I will not discuss the interviews with anyone except the principle investigator and their supervisor

I, _____, agree to ensure confidentiality for the participants of the translation services I provide.

Signature:

Date:

Interview Guide

Fresh Grounds: Cooperatives, Certified Coffee and Fair Trade in Aceh, Indonesia

Heather Walker

School of Geography, Environment, and Earth Sciences
Victoria University of Wellington

Achieving certification

1. When, and why, did the producers decide they wanted to become Fair Trade certified?
2. How did leaders convince others to support Fair Trade certification?
3. Was there a cooperative before producers began to seek certification?
 - a. What did it look like?
 - b. Or, how did farmers sell their coffee?
4. How have the producers had to demonstrate that they are a democratically organized cooperative?
 - a. What opinions do cooperative leadership have for the requirement for democratically organized cooperatives?
5. What is different between a Fair Trade cooperative and the previous way of selling coffee in Aceh?
6. How were those changes achieved? What was involved in the process of forming a Fair Trade certifiable cooperative?
 - a. How does cooperative leadership view that process?

Clustering

1. How did the community first hear about Fair Trade? How did this information spread?
2. Why is Fair Trade so popular in Aceh?
3. Why has Fair Trade certification been so successful here?
4. What advantages does Aceh have, compared to other Indonesian provinces, for Fair Trade certification?

Governance Structures

1. Who can be a cooperative member? Head of household, in a certain geographical area, age, volume of production, etc?
 - a. What does a member have to do to maintain membership?
 - b. What activities does a general cooperative member take part in?
2. How do leaders get elected?
3. How do managers get elected or hired?
4. How do daily policies come become established?
 - a. How are they reviewed?
 - b. What happens if they are not met?
5. What happens if there's a disagreement?
6. How were the founding principles, rules, etc established?

Ensuring collective action, democracy, empowerment of producers/members

1. How do decisions get made?
2. How is information transmitted within the cooperative?
3. Are there trainings available to members?

4. Can members access credit from the cooperative?
5. How does cooperative leadership define democracy? What do they believe are qualities of a democracy?
 - a. Empowerment?
 - b. Collective action?
6. What does cooperative leadership believe are positive outcomes of democracy?
 - a. Empowerment?
 - b. Collective action?