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Costs of Organic and Fair Trade Group Certification

*A gross margin analysis in a cashew nut smallholder
association in Brazil*

submitted by

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Abstract

Small farmers in the Northeast of Brazil have no access to international markets due to their very low production and lack of resources. Organic Farming and Fairtrade systems tackle these problems since they are well adapted to the needs of small farmers and enable them to find a niche on the international market. A survey has been accomplished with twelve farmers and six processors in Barreira disclosing information about the profitability of cashew nut production and processing under three certification scenarios: Organic Farming, Fair Trade and both together. The study elaborates the benefits and challenges of each certification regarding profitability, social benefits and feasibility.

7 Summary

In the Northeast of Brazil, small scale farmers receive low prices for their agricultural produce and are strongly dependent on middlemen. Due to their small production and the lack of capital, infrastructure and information, they cannot compete efficiently on conventional markets. Organic Farming and Fair Trade are two agricultural production systems that have shown to be useful market niches for smallholders to overcome these diseconomies, as both systems are well adapted to low-input agriculture, fostering the use of labor and local resources instead of expensive inputs. Additionally, they allow for group certification which is cheaper than third-party certification, thus opening a niche for farmers to sell their products on high value international markets. This case study explores the economic potential of Fair Trade and organic certification in a Brazilian smallholder association that produces and processes conventional cashew nuts and wants to become certified.

Interviews with farmers and processors have been conducted to disclose data from the production and processing level. Using this data a profitability analysis has been conducted comparing the potential impact of organic certification, Fair Trade certification and the combination of both on the gross margin of producers and processors.

The results show that organic certification realizes the strongest increase of profits. The system is well suited for small farmers as it allows substituting expensive inputs by labor, already increasing the profit of farmers during the conversion period. The Fair Trade system has shown to be unprofitable, mainly due to very high cost of complying with labor standards. The combination of organic and Fair Trade certification showed a lower increase in the gross margin of farmers and processors compared to the organic system. Nevertheless, this scenario provides more social benefits. The salary of farm laborers and factory workers would be raised to the minimum salary and they would benefit from the provision of social security.

The major argument for group certification, namely lower certification fees could also be confirmed by this study. In the scenarios, group certification fees were 94.5% below third-party certification fees.

Moreover, the study looked at the challenges during the planning phase of group certification and found that the association is strongly dependent on the support of external partners and shows very little own initiative to become certified. The information flow from the top of the association to its farmers is disturbed causing delays in the certification process.