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## **2008 Supply Chain Report:** *interrupcion\* Fair Trade Apples and Pears*

**Four Producer Cooperatives:**  
*Cooperativa de Los Pioneros, Cooperativa Frutícola Neuquén, Cooperativa Frutioro*

### **Supply Chain Details**

Supply Chain Role: Cultivate Fresh Apples and Pears

Producing Communities: General Roca & Cipolletti, Rio Negro Province, Argentina; Neuquén, Neuquén Province - Argentina

Community Members: 1040

Producers: 55

Farm Size: 3 - 60 has, average size of 14.7 has

Farm Workers: 119 permanent, 205 temporary

Processing Facilities: Two packing facilities owned, one packing facility rented

Workers employed in Processing Facilities: 16 permanent, 218 temporary

### **Fair Trade Aspects: Cooperative-produced Apples and Pears**

In Argentina's 2001 economic collapse, over 50% of the population found themselves suddenly living below the poverty line. Years later, many of those impacted are still struggling to recover –the International Monetary Fund estimates that the Argentine poverty rate remains at 34%, amounting to roughly 13 million people. Though the crisis affected all of Argentina, its rural population was hit particularly hard - in 2005, the World Bank estimated that 40% of Argentina's rural population was living in 'extreme' income poverty. While Argentina is rich in natural resources and is benefiting on a macro-level from increased investment and newfound export competitiveness, the benefits of economic recovery are not reaching small-agricultural producers.

Much of the value now being generated in the Argentine economy is benefiting a small number of business owners, international commodity traders and financial organizations. This is especially true in the agricultural sector, where consolidated ownership of export processes and ports has created an extremely unbalanced trade



situation for small producers in the apple and pear trade – the descendents of the European immigrants (primarily Italian, German and French) who arrived and began to cultivate the land at the turn of the 20<sup>th</sup> century. Fruit cultivation in the Rio Negro “Alto Valle” region has its roots with this first generation of immigrants who brought their farming tradition from overseas to the rich, fertile valley soil. Since then, family farms have grown and proliferated, and the farming culture has been passed from one generation to the next with the farms themselves – until the entry of large corporate entities began to create a harsher commercial climate for these small producers.

Argentina’s Rio Negro province in northern Patagonia currently accounts for nearly 70% of Argentina’s lucrative apple and pear production, 50% of which is grown by 3,200 small producers. In order to export fruit, small-producers must sell to one of the six large fruit traders in the region. These traders own the nearest port, most of the packing facilities and control 90% of the region’s exports. As the majority of these large exporters are foreign companies, their respective profits also have overseas destinations and therefore do not stay in the Rio Negro region to help revitalize local economies. Although the Rio Negro fruit trade was originally born with small family farmers, a little over a century later, this tradition is quickly disappearing as farmers are forced to deal with a growing, consolidated export front that is making maintaining their land less and less profitable.

The dramatic concentration of buying power and commercial resources leaves the region’s small producers with limited opportunities to commercialize their fruit and without the ability to negotiate for transparent, beneficial trading relationships. Without access to their own packing facilities, farmers must sell their fruit to one of the local packing facilities (typically owned by one of the six dominant exporters), where there is often an overt lack of transparency in the quality classification procedure and producers receive unfavorable trading conditions. The value of a producer’s harvest is determined through quality classification and fruit is frequently classified much lower than its actual value, thus increasing the profit margin of the buyer and decreasing that of the producers. Losing money through quality mis-classification can be avoided by cooperativization – that is, working with other producers to share the costs of transparently classifying and packing the fruit for sale. Two of the cooperatives we



are working with own their own packing facilities, so they are able to properly classify their members' fruit (members are invited to watch the process), and the third, Cooperativa Los Pioneros, is renting a packing facility to handle all of their members' fruit. Ensuring that producers receive the deserved value for their fruit is not easy for individual unorganized farmers, and being part of a cooperative is instrumental in accessing the resources needed to do this.

In addition to helping producers receive better prices for their fruit, cooperatives also play an important role in enabling farmers to maintain their land and invest in the quality of their harvest. It is common for the large traders to delay payment in full for up to 250 days after delivery to port. As farmers have to pay the cost of their inputs and labor leading up to the harvest, access to capital during this long waiting period is important in ensuring a good quality harvest and decent return. Cooperativa Frutioro, for example, manages its cash flow so that they are able to pay their members throughout the year. They estimate how much will be owed to each producer at the end of the harvest (based on varieties, quality and projected prices), and pay producers a percentage of this monthly, with a final payment/reconciliation made after the entire harvest has been sold. Strengthening cooperatives and their ability to provide financing for their members is thus essential in helping producers maintain the quality of their harvest in the short-term, and empowering them to seek better market opportunities and bargain for better trade conditions in the long-term.

While cooperative organization *does* help farmers gain access to resources and bargaining strength/protection that they would not have on their own, even organized groups are still currently largely bound to selling to one of the six major traders in the area. Cooperative organization helps producers obtain a *better* price for their fruit and guarantee that they will get paid at all, but without third-party involvement, producers are still at a significant disadvantage in terms of negotiating favorable payment terms or demanding a higher level of transparency from their buyers. The most common payment method is "consignation", which means that producers deliver their fruit to exporters and then their payment is later calculated by subtracting the exporter's costs and profit margin from sale price in the destination market. In conventional commercial transactions, exporter costs and margins are virtually impossible to verify and exporters are able to



report inflated export costs with no consequence - the 'calculation' conducted by most exporters often leaves producers with little more than the cost of production in earnings, and with so few export options, cooperatives and individual producers have no room to negotiate for better prices or payment terms. Third-party verification of the costs and evaluation of the price paid would provide much-needed transparency and fairness to this system, and empower farmers to demand the prices they deserve. As the consolidation of the export industry continues, farmers are desperately in need of new trade channels.

Due to the effects of export consolidation, maintaining agriculture as a profitable endeavor for small producers in the region is becoming more and more difficult, and the number of small producers in Rio Negro has decreased dramatically in the last 10 years as it has become necessary to sell land in order to stay out of debt. For financial and empowerment reasons, cooperatives are essential for the survival of small producers, but unfortunately are not common in the region. Interrupcion\* is currently working with three apple and pear cooperatives to provide them with a new market opportunity, a more transparent trade relationship and social capital to invest in the well-being of their cooperatives and their workers.

### **Producer Overviews**

**Cooperativa Frutícola de Neuquén** (*19 members*) is one of the oldest cooperatives in the Valley. Having endured for so many years, this cooperative has set an example of what it means to pool farmer resources to access needed capital and negotiate better terms with industry traders for its members. Their work is helping preserve small and medium farms, which are disappearing due to consolidation by foreign-owned companies that move benefits from trade out of the local area.

Even before beginning the path toward Fair Trade Certification, Cooperativa Frutícola de Neuquén was actively demonstrating Fair Trade values and a commitment to sustainability. As policy, Cooperativa Frutícola de Neuquén pays workers 30% over Argentina's national minimum wage and has a goal of converting their entire production to organic in the next 10 years. Access to the Fair Trade market will allow members of Cooperativa Frutícola Neuquén to better



compete against corporate consolidation, continue improving working conditions on their farms and support progress toward their ambitious goal of 100% organic.

**Cooperativa Frutioro** (*27 members*) is a well-established cooperative in the Valley that is actively seeking new trade channels so that they can break from their dependence on one exporter and ensure a future for their cooperative and for their future generations. Many members of this cooperative voice a problem that all small producers face: the ability of their farms to generate a profit has declined so greatly that their children do not have the choice to continue the farming tradition – they must migrate to cities to find jobs. Members recognize that now is the time to strengthen their cooperative, or it will only be a matter of time before they are all forced to sell their land. The general manager of this cooperative is the son of the president, and is as equally concerned as his elders about making agriculture profitable so that his generation does not abandon the tradition that those before it created.

Although the cooperative has never formalized socially responsible practices, they have always done what they can to give back to the community. They currently donate money to the local public services, such as the firefighters, police and hospitals, and also sponsor an annual art exhibition in honor of a girl from the community who died several years ago. In addition to improving the lives of their workers (in the packing facility and on the farms), the cooperative could greatly benefit from investing in upgrading their packing facility (which has very old equipment) or working towards achieving another certification, such as GlobalGap. Nearly all of the members meet Eurepgap standards, but the exporter holds the certificate so, although compliant, they are not able to use this certification to export freely on their own.

**Cooperativa Los Pioneros** (*16 members*) is a very newly formed cooperative consisting of members that have historically been accustomed to selling to the same exporter, and have experienced the negative effects of these trading relationships first-hand. Having seen the economic viability of sustaining small/medium-scale agriculture decrease over the years to the point where it is sometimes difficult to cover production costs, the members of Los Pioneros remain strongly committed to continuing the farming tradition of their past



generations, and creating a brighter future for fruit producers in the Valley. Recognizing the need to work together and share resources/commercialization costs, they recently founded their cooperative to formalize their commitment to forging new economic opportunities in a landscape dominated by a handful of large corporations. Their spirit and mission are evident in their name, Los Pioneros (The Pioneers). Fair Trade is directly in line with their philosophy and goals, and they are excited to have a new trade channel and to use the social premium to invest in both establishing/strengthening the cooperative (they do not yet have an office and are collectively renting a packing facility for this year's harvest) and improving the well-being of their workers. Cooperativa Los Pioneros is committed to sharing the benefits of the Fair Trade premium with their workers and were the first to suggest including them in the decision-making process to invest the social premium.

### **Fair Trade Worker Aspects:**

Although the size of cooperative members' farms ranges greatly, the majority employ at least one permanent worker, and as many as nine. Additionally, they all require temporary workers for the harvest, between January and April. The two cooperatives that own packing facilities have several permanent employees through the year, but also receive an influx of temporary workers during the harvest. Because of this hired labor component, there exists a unique opportunity to channel Fair Trade benefits not only to the cooperatives themselves, but to the communities of these marginalized workers.

A large problem facing Argentina's economic recovery is the 45% of its workforce is working in 'negro' (i.e. employed without legal contracts earning an average salary of \$156 per month, or 40% below the national minimum wage – Instituto Nacional de Estadística y Censos, 2004). Complying with Fair Trade standards will guarantee that all employees are documented and earn the national minimum wage (\$267 per month), and that they receive all of the social benefits (medical, retirement, etc.) that legally-registered workers receive.

interrupcion\*'s original intention was to focus on producer development in what we considered to be 'small producer' cooperatives. After further analysis, it is clear that we must include



cooperative workers as primary beneficiaries of the Fair Trade relationship as these cooperatives are relatively advanced and with extra stability from Fair Trade will be able to invest in their workers. The packing facilities and the majority of the farms offer their workers good labor conditions – compliant with Argentina labor laws – but this does not mean that there are not improvements to be made. One immediate issue is ensuring that producers and workers are all fully aware of all legal labor requirements regarding overtime. From there we will need to begin discussion around improving worker conditions beyond legal requirements according to the workers needs and including worker in Social Premium decision making.

### **Fair Trade Target Groups**

The Fair Trade target groups for each of these cooperatives are:

- 1) The cooperative – premium money may be invested in projects that benefit the cooperative as a whole. As stated above, cooperatives are crucial in giving small and medium producers the means to continue farming their land, rather than selling it to one of the large exporters.
- 2) The workers – this includes workers on the farms and in the packing facilities, permanent and temporary.

### **Fair Trade Premium Action Plan**

Interrupcion\* plans to direct half of the social premium to the cooperative alone and the other half to the worker community. The cooperative members will democratically decide how they wish to invest their half of the premium, but it must be dedicated to an activity that will benefit the cooperative as a whole and/or the larger community.

Because of the strong hired labor component in these small – medium farms, the other half of the premium will be directed at the worker community. Interrupcion\* plans to first conduct a worker survey/assessment in **February/March 2008** to better understand the dynamics and needs of the worker communities. Then, together with permanent and temporary worker and cooperative



representatives, these issues will be discussed and addressed via social premium investment. These initial conversations will take place during the harvest in **March/April 2008**, but final decisions will not be made until the final amount of the social premiums can be determined (after final sales). As interrupcion\* will be present in all of these conversations, we will ensure that the temporary worker perspective is represented, even if the workers may have moved on by the time a decision is to be made.

For each cooperative, we hope to include in the process 5 permanent workers, 5 temporary workers, 2 – 3 cooperative members and interrupcion\* staff. The workers and cooperative members will be selected by interrupcion\* to be representative of the population.

### **2008 Fair Trade Price and Premiums:**

Cooperatives receive a Fair Trade price of 5% over the market price and an additional 5% premium. For additional information, please see the following interrupcion\* policy documents:

Fair Trade Price – Premium Management Policy.doc  
Fair Trade Price and Premiums 2007 – 08 Actual.xls

### **Building a Culture of Fair Trade:**

There is very little awareness of the Fair Trade concept in Argentina. Thus, there did not exist even a basic level of understanding of Fair Trade in the Valley before contact with interrupcion\*, although the three cooperatives undoubtedly exhibit progressive attitudes and commitments to sustainability in different manners. Currently, the cooperatives are committed to meeting all Fair Trade requirements, to sharing benefits with their communities and to seeing how Fair Trade works this first year. Two of the cooperatives have had very negative experiences with exporters and Eurepgap certification, and naturally they are full of questions about the benefits they hope to see.

In 2008, as benefits of Fair Trade begin to accumulate, interrupcion\* will initiate a more intensive training on the specific social requirements and benefits of Fair Trade with the cooperatives and workers. This work will culminate in the creation of a Fair Trade policy



with each cooperative in order to better internalize what Fair Trade means to them in their operations. We have elected to work with these three groups because of their commitment to improve the social, economic and environmental sustainability of their practices and look forward to deepening the principle of Fair Trade in this operation.

### **Medium-Term Working Conditions Goals:**

As a general rule, working conditions in the cooperative farms and packing facilities are fair to good. Complying with Argentine labor laws usually guarantees compliance with minimum Fair Trade standards, and all producers are operating inside of the law. Interrupcion\* 's medium-term goal is thus to clarify with producers that the spirit of Fair Trade goes beyond meeting these requirements – we will help producers understand how Fair Trade standards and Argentine labor laws overlap, and help define goals for labor conditions that go beyond the minimum set by law or the standards. As we advance in our work with the producers and workers, we will gain a better idea of not only larger social premium projects that will benefit the worker community, but also improvements that each producer should strive to make.

Interrupcion\* will be very involved with producers in determining labor condition goals for their farms, and will also be working with producers to implement an internal control system for monitoring social standards compliance and to ensure progress.

### **Support From interrupcion\*:**

One-percent of interrupcion\*'s gross revenue goes to fund Asociación Civil Interrupción\* (ACI), our Buenos Aires based NGO partner that works to assist producers in meeting Fair Trade Certification criteria and continually developing the social, economic and environmental sustainability of their production and community.

General Description of ACI's Work:

1. Identify South American producers / worker communities that can benefit from Fair Trade and are committed to collaborating for improvement along the Fair Trade\* Sustainable Development Path (Note: The 'Path' explained in more detail at [interrupcionfairtrade.com](http://interrupcionfairtrade.com))



2. Provide producers with technical assistance and guidance for meeting Fair Trade Certification social / environmental criteria and continually improving the social, economic and environmental sustainability of production
3. Coordinate and fund Fair Trade inspection and certification services
4. Seek grant funding to invest in the economic sustainability of small-producer production – including: quality improvement, capital investments and access to affordable loans
5. Collaborate with producers and worker committees to responsibly invest Social Premiums

interrupcion\* 2007 work

- Seek out remaining Apple and Pear cooperatives in the Rio Negro valley and initiate development relationship with interested / committed candidates
- Train cooperative leaders in the basic requirements of Fair Trade Certification
- Create questionnaires and guidance documents as well as make repeated trips to Rio Negro valley to train / guide producers into compliance with Fair Trade standards
- Conduct evaluation of business structure, labor conditions and opportunities for improving economic fortitude of cooperative
- Develop written commitment to advance toward compliance with Fair Trade standards and beyond
- Provide guidance and support in creating basic business plan and emergency procedures (as needed)
- Provide guidance and support in writing labor reports / Fair Trade profiles