

# The Roles of Cooperatives in Stabilizing Coffee Prices in Disruptive Era

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## ABSTRACT

This article examines the involvement of coffee cooperatives in the Gayo highlands in price stabilization in the era of the covid-19 pandemic. In fact, in the last two years coffee cooperatives have played a central role in bringing together supply and demand for Gayo coffee needs at a global level when world coffee prices are falling. In addition, another fact shows that when coffee producers in other provinces decline, coffee production at the smallholder coffee producer level in Gayo actually increases. In general, the dependence of smallholder coffee producer on the global market cannot be denied anymore, especially with the implementation of an increasingly stringent code of conduct. With such conditions, in the last two years coffee prices at the farm level have even become more stable so that the level of smallholder coffee producer' welfare has increased. The author uses a descriptive qualitative approach with data collection techniques through observation and in-depth interviews with cooperatives in Central Aceh and Bener Meriah. The results showed that cooperatives had a significant role in stabilizing coffee prices. At the same time, cooperatives also play a constant role as distributors at the buyer level. And this is what is alleged to have stabilized the coffee price factor during the pandemic. With such a pattern, smallholder coffee producer are in an advantageous position because the surge in production during the harvest season does not affect selling prices at the farm level.

**Keywords:** The Role of Cooperatives, Coffee Gayo, Smallholder, Disruption Era.

## 1. INTRODUCTION

As one of the world's coffee producers with a production level of 686,921 tons of dry beans, Indonesia is the 4th largest coffee exporter in the world after Brazil, Vietnam and India. The number of Indonesian coffee production from the latest data obtained reached 686,921 tons of dry beans with the aim of exporting to several countries such as the United States, Italy, Egypt, Malaysia and Japan.

The increasing demand for Indonesian coffee in the global market for both robusta and arabica is caused by the increasing trend of coffee drinkers, even though the number is almost 70% for both men and women. The number of exports shows a fantastic number, as released by Indonesian SMEs, export commodities consisting of raw beans and roasted coffee beans reached 98%.

With a very large number of export production values, it can be understood that coffee is a primadonna commodity to promote economic growth in line with improving the welfare of smallholder coffee producer' lives [1]. Especially with Indonesia, where coffee production is dominated by household-scale coffee

producers. In the context of Aceh, coffee production continues to increase every year, even reaching 2.65% per year from 2017-2021. The trend of increasing Aceh's coffee production is extraordinary compared to other regions and nationally. Some coffee-producing areas such as West Sumatra, Riau, South Sumatra and East Java experienced a decline in some even reaching double digits. The decline was not only caused by a decrease in the number of production, but also due to the Covid-19 pandemic that emerged in Indonesia since March 2, 2020.

The decline in world coffee demand in mid-March 2020 was also felt by coffee smallholder coffee producer in the Gayo highlands. In fact, various rescue efforts to help Gayo smallholder coffee producer continue to be carried out, one of which is by activating warehouse receipts. However, these efforts did not cause the level of smallholder coffee producer' welfare to increase. This means that the relationship between the level of income and the value of world coffee exports is not symmetrical between statistical data and facts on the

ground. Based on the initial observations that have been made, coffee smallholder coffee producer continue to increase their production from harvest to harvest, but their welfare level does not match the world coffee export value.

There are several reasons that underlie the level of smallholder coffee producer' welfare that has not arrived, namely, inappropriate farming practices, the insistence on the application of good agricultural practice (GAP), the length of the coffee trading commodity chain at the smallholder coffee producer level. In fact, the long chain of export-based coffee trading commodities makes it difficult for smallholder coffee producer to get out of this non-beneficial production relationship.

The above phenomenon has inspired several coffee smallholder coffee producer to establish smallholder coffee producer associations as an answer to the development of free trade which they suspect will only benefit a handful of investors. According to [2], this phenomenon is the result of the Global Private Regulation which forces smallholder coffee producer to adapt with their social institutions to changes in the world coffee trade.

The emergence of smallholder coffee producer associations who joined the cooperative forum began to be seen by increasing the selling value of coffee products which resulted in their income and shortened the distance of the coffee commodity chain itself. However, as a new variant in the world of coffee business, coffee producers (small smallholder coffee producer) are faced with various obstacles related to the products they produce. These obstacles are finally felt by them where they are like being chased by efforts to produce coffee productivity within a certain period so that the coffee they produce can be exported. Not to mention the issue of the stereotype of GAP (Good Agricultural Practice) which creates a binary opposition at the smallholder coffee producer level with a prosustainability pole and an exploitative pole. Based on the above phenomenon, the author would like to describe in detail related to the trajectory of cooperatives as a business strategy for coffee smallholder coffee producer in the Gayo Highlands, Central Aceh.

Studies related to the restructuring of the coffee commodity chain have become one of the important issues of this decade. This is related to market pressure after free trade is no longer inevitable. Neilson (2008) states that the market pressure to fulfill consumer needs has forced smallholder coffee producer to apply farming ethics and environmental standards for their gardens. This has restructured the management of coffee commodities to small smallholder coffee producer. The movement is like a tit for tat between the interests of big companies and the collaboration of civil society members who join Non-Government Organizations (NGOs). Finally, the fair trade movement was born in order to provide an alternative to free trade. Coffee smallholder coffee producer have finally adopted the

Fair Trade certification as an effort to harmonize market demands and compete with sustainable farming methods.

Cooperatives as smallholder coffee producer institutions in Indonesia play an important role in the current coffee trade process. Various academic studies related to coffee cooperatives are always related to the variable of smallholder coffee producer welfare. On a micro basis, these studies see that the role of cooperatives is at the level of providing smallholder coffee producer input, mentoring, providing equipment and information to increase coffee production. In addition to smallholder coffee producer' welfare, studies related to coffee are also shown differently by [3] who show the dual function of protective trees that contribute to smallholder coffee producer' political bargaining power on the basis of forming institutions such as cooperatives. Likewise by [4] who showed one of the strategies of coffee smallholder coffee producer to apply their local knowledge to respond to the challenges of global climate change.

## **2. METHODS**

This study uses a qualitative method with a descriptive type, which seeks to understand (*verstehen*) the narrative and dialectic of coffee smallholder coffee producer cooperatives in the Gayo Highlands. This approach is used with the aim of the intensity of interaction between researchers and members of the community under study. Through intense interaction, efforts to capture meaning from the point of view and appreciation of the business actors of coffee processing coffee smallholder coffee producer on their motives and choices of actions in managing coffee agricultural products through cooperatives can be revealed. All narratives that have been successfully revealed are described as an event that is directly related to the research theme. This is in line with the definition of descriptive research, namely "research present a picture of the specific details of the situation, social setting, or relationship. The outcome of a descriptive study is a detailed picture of the subject." [5].

This research was conducted in the Gayo Highlands which includes the districts of Central Aceh and Bener Meriah. The selection of the location was based on the fact that the two districts are producers of Gayo Arabica coffee for export purposes. Although there are several business models that are implemented, in general the coffee smallholder coffee producer there are bound by cooperatives both in the Fair Trade certification process and coffee sales with export targets.

Researchers used 3 data collection techniques, namely participatory observation interviews, in-depth interviews and focus group discussions. Of the 14 coffee smallholder coffee producer cooperatives in Central Aceh and 5 in Central Aceh, the researchers selected by purposive sampling several cooperatives that met the criteria by informants. These criteria were developed based on the length of establishment of the cooperative, the number of assisted smallholder coffee producer, and the application of a code of conduct, both organic certification and fair trade certification.

### **3. THE ROLE OF COOPERATIVE IN DISRUPTIVE ERA**

The emergence of socio-economic institutions such as cooperatives in Central Aceh and Bener Meriah shows that there is a long dynamic associated with free trade versus fair trade. Free trade has long been one of the elements in human life in this era related to how humans in all parts of the world meet their needs. Classical economists such as Adam Smith assumed that everyone had the same opportunity so that in practice free trade was characterized by a cooperative relationship between two countries related to the exchange of goods by minimizing additional costs that could lead to rising prices. If on a macro level, countries face each other as producers of specific goods ([6], then on a micro scale, small producers like those in the south, in this context, are coffee smallholder coffee producer who also deal with global buyers alone. So that the household-scale production they produce sometimes they will not understand how the best price standard is from the outpouring of work they have spent [7].

The isolation of smallholder coffee producer who are faced with global trade norms has finally received a lot of criticism from academics in particular, as was done by [8], Mark Vicol et al [9]. They intend to help smallholder coffee producer so that their production is not arbitrarily valued in accordance with global laws that they do not understand even though they have local wisdom on the principle of sustainability [3]. Some of these criticisms are related to the double standard that the market is trying to play on the principle of sustainability that actually already exists in Arabica Gayo coffee smallholder coffee producer in Central Aceh and Bener Meriah. However, at this time, in order to maintain the sustainability agenda, both production methods and ecological wealth, the free trade agenda is a logical choice. In particular, the contextual free trade agenda in Aceh Tengah and Bener Meriah was marked by the emergence of the coffee certification movement led by Non-Government Organizations. One of them is Oxfam, which seeks to connect smallholder coffee producer groups with direct buyers with the aim of adding value to the production of household scale smallholder coffee producer.

In 2005, after the tsunami which was marked by the many international level NGOs entering Aceh, the sustainability agenda began to be echoed in line with the aim of increasing the selling value of smallholder coffee producer for the coffee products they produce. In general, Arabica coffee produced from the Gayo highlands characteristically has a strong aroma. So that in the global coffee business strategy, Gayo coffee can boost the popularity of other Sumatran coffees. At that time, in order to answer the needs of smallholder coffee producer related to their welfare and position in the coffee market, several NGOs that were concerned with

environmental issues facilitated several smallholder coffee producer groups under the auspices of the Cooperative to be able to access organic certificates from coffee plantations and fair trade certificates.

After the cooperative came into existence as a socio-economic institution for smallholder coffee producer in the Gayo highlands, various sustainability schemes and agendas were implemented well. One of them is the application of Good Agricultural Practice (GAP) for smallholder coffee producer in terms of maintaining the environment and gardens so that organic products can be produced and are suitable for consumption. Decades of these efforts have been running as they should, coffee smallholder coffee producer such as Mrs. Maliah and Mr. Anwar who are household-scale coffee smallholder coffee producer enjoy purchasing their coffee above the average price, both because of returns in the form of premium fees and because of the efforts of the cooperative where they are sheltered. even though at that time world coffee prices were falling [7].

Over time, coffee cooperatives in Central Aceh and Bener Meriah have grown. This is because of the owners of capital who want to make smallholder coffee producer prosperous by establishing cooperatives. For cooperatives that are still newly established, they usually employ people who already understand the cooperative system. So understand the direction of sales. Because it already has a marketing link in the previous cooperative.

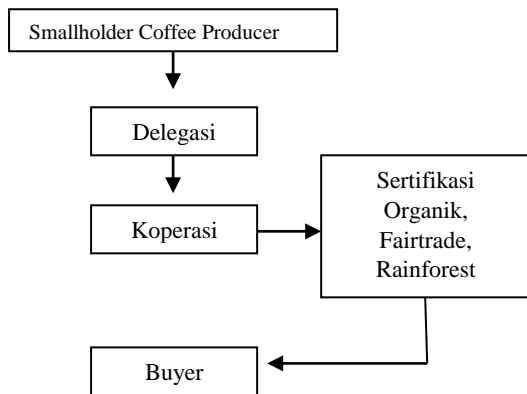
Efforts to bring comfort to small smallholder coffee producer did not last long. Covid-19 then stunned everyone with its pandemic nature, growing and spreading to all cities and villages in the world, both highlands and islands. Various dimensions of life are disrupted, as is market access for coffee smallholder coffee producer in the Gayo Highlands. Apart from disrupting the coffee trade chain, they were also nervous about prices, because at that time, all countries were closing themselves off from both the flow of goods and the flow of people for the common good.

However, in the midst of a pandemic, coffee smallholder coffee producer in the Gayo highlands can feel the blessings of the presence of the cooperative. Cooperatives, apart from being an economic institution, also function socially. And it also functions economically as an alternative to the global coffee business strategy. This means that Cooperatives have an important role in the welfare of the smallholder coffee producer they support. Efforts made are socialization based on an agreement with the buyer stated in the Fairtrade, Organic, and Rainforest certificate agreement. As well as the distribution of basic necessities and also facilitating the wishes of the smallholder coffee producer represented by the delegates in each of the cooperative assisted villages.

In addition, the existence of cooperatives is an important component in marketing Gayo coffee. Coffee prices are increasing and it can be said that cooperatives are the actors that stabilize prices. If there is no

cooperative, the price can be played by certain elements in the field. Especially when the harvest season and holidays arrive, then sometimes prices can drop drastically. Because if that happens, smallholder coffee producer have no choice but to sell their coffee production because of the pressure of economic needs.

Efforts to maintain the stability of coffee prices at the farm level are strongly influenced by the coffee commodity chain. In general, cooperatives in the Gayo Highlands, both Central Aceh and Bener Meriah, have the same coffee distribution channels. As can be seen in the image below, smallholder coffee producer have several alternatives in order to distribute their products.



**Picture 1. Coffee Distribution Flow and Role of Cooperative**

The picture above shows that cooperatives are the most logical reason for a group of smallholder coffee producer to come together and respond to global challenges through the application of good farming practices by maintaining their production and farming methods that meet the elements of sustainability. In addition, the cooperative also facilitates smallholder coffee producer in order to ensure the existence of organic certificates and fair trade certificates for smallholder coffee producer both in empowering smallholder coffee producer through socializing good agricultural practices, implementing a sustainable agricultural code of ethics.

Cooperatives are the most logical answer so that smallholder coffee producer have the opportunity to compete in the free market for the sake of increasing welfare. This logic is based on the opportunity to be certified in groups to share the burden of meeting the sustainability principles determined by the certification party.

In an effort to keep prices stable, cooperatives that have received export quotas from buyers in America carry out their activities in the form of monitoring and evaluation of their assisted smallholder coffee producer groups to ensure that the smallholder coffee producer' land has the criteria that have been set in farming practices; ensure the amount of production from each smallholder coffee producer who is included in the smallholder coffee producer list; Purchase coffee

harvested by cooperative members at standard prices in the global market; Maintain circulation and stock of coffee for price negotiation with buyers; distribute premium fees obtained from the certification committee.

**4. CONCLUSION**

Coffee remains the mainstay of Gayo smallholder coffee producer, who incidentally are household-scale coffee producers. Apart from being a contributor to foreign exchange for the country, coffee production in Gayo is of particular concern because data shows that coffee production in Gayo lands increased during the COVID-19 pandemic in early March 2020 compared to other coffee-producing areas such as northern and southern Sumatra. and Sulawesi.

The existence of socio-economic institutions such as cooperatives in Central Aceh and Bener Meriah shows that there are changes at the local level as an effort to adapt to the coffee commodity sales chain at the world level. Field data shows that the increasing number of cooperatives in the Gayo highlands is a strategy carried out by actors who already understand the world's coffee trade routes. This strategy was chosen as a logical answer to the market's pressure on the fulfillment of sustainability principles that must be carried out by smallholder coffee producer if they want to enter the global commodity chain.

**AUTHORS' CONTRIBUTIONS**

Muhammad Nazaruddin, Abdullah Akhyar NST and Ade Ikhsan Kamil have made substantial contributions to the conception, acquisition of data, and analysis of data. Iromi Ilham has been involved in drafting the manuscript and revised critically for important intellectual content. and Rizki Yunanda with Richa Meliza has given final approval of the version to be published.

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