

CENTRAL EUROPEAN UNIVERSITY

**LIMITS TO FAIR TRADE – AN ANTICIPATED DIALOG**

A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE DEGREE MASTER  
OF ARTS IN INTERNATIONAL RELATIONS AND EUROPEAN STUDIES

INTERNATIONAL RELATIONS AND EUROPEAN STUDIES DEPARTMENT

BY

ESZTER FÜGEDI

SUPERVISOR: PROFESSOR THOMAS FETZER

BUDAPEST, HUNGARY

4 JUNE 2009

14022 WORDS

## **Abstract**

The inclusion of corporations into the Fair Trade network and the move towards supermarket shelves led to a division in the Fair Trade movement. Through the discussion of major issues along the value chain, such as production, certification, pricing and retailing, this paper shows that ideological assumptions determine the assessment of concrete issues. Radicals, based on their Marxist beliefs advocate the maintenance of the historic ATOs network. Reformist are influenced by liberal thought and do not believe that the capitalist world order is inherently unjust. In their view, the current trading rules and practices need to be improved and regulated, and argue that FLO and the Fair Trade network are the right organizations for that. Reformists aim to increase Fairtrade products' market share, therefore are concerned with managerial issues. In contrast, radicals are highly critical of the current functioning of the Fair Trade network.

## Acknowledgements

First and foremost I would like to thank my supervisor, Thomas Fetzner for his detailed feedback, intellectual encouragement, and all the time and energy he spent on guiding me. My special thanks to Robin Bellers for leading me through the mysteries of English language. Valamint külön köszönet Anyukámnak a türelméért, biztatásáért, a fanasztikus ebédekért és süteményekért, amik nélkül soha nem értem volna a végére.

Obviously, all remaining mistakes are mine.

# Table of contents

Abstract .....	i
Acknowledgements .....	ii
Table of contents .....	iii
List of abbreviations.....	iv
Introduction .....	1
Chapter 1: Setting the context.....	10
Historical Background.....	10
How the Fair Trade network functions.....	11
Fair Trade value chains.....	12
Production.....	13
Certification .....	14
Pricing.....	17
Retailing.....	18
Chapter 2: The identity dilemma .....	19
The Fair Trade debate in the broader global political economy debate .....	19
Radicals based on critical thought.....	19
Reformists based on liberal ideology .....	21
The history of Fair Trade? .....	22
The future of Fair Trade?.....	23
Radical view.....	23
Reformist view .....	26
Chapter 3: Concrete issues from different perspectives.....	29
The production process.....	29
Certification .....	31
Pricing.....	36
Retailing.....	39
Conclusions .....	45
Appendix 1 – Timeline of Fair Trade history .....	47
Appendix 2 – Most Recent FLO graphs.....	48
Appendix 3 – Coffee prices in a historic perspective .....	49
Appendix 4 – 10 Principles of Fair Trade .....	50
Appendix 5 – Price Setting procedure in FLO .....	51
Bibliography .....	52

## **List of abbreviations**

AFN	African Fairtrade Network
ATO	Alternative Trading Organization
CLAC	Coordination of Fairtrade Latin America and the Caribbean
EFTA	European Fair Trade Association – formed in 1990
FINE	umbrella network of FLO, IFAT, NEWS!, and EFTA – established in 1998
FLO	Fair Trade Organization, headquartered in Bonn, Germany
FTO	Fair Trade Organization Mark
IFAT	International Federation for Alternative Trade – formed in 1989
NAP	Network of Asian Producers
NEWS!	Network of European World Shops – formed in 1994
WFTO	World Fair Trade Organization (previously IFAT)

## Introduction

In the past years, Fair Trade has witnessed an unprecedented growth in its sales, “on an average of 40% per year in the last five years. In 2007, Fairtrade certified sales amounted to approximately €2.3 billion worldwide, a 47% year-to-year increase.”<sup>1</sup> Fair Trade has become an important part of the market, which makes it an interesting and relevant topic for research. Fair Trade has evolved through a complex history and has taken up many different forms since its creation in the 1940s. However, today Fair Trade is considered to be part of a wider new social movement: political consumerism. Expanding globalization, the growing wealth of some, disenchantment with democracy and the hegemonic situation of capitalism has caused the commodification of politics and political consumerism has emerged as a response to this trend. Lately, political consumerism has been intensively spreading, which makes it both an interesting and relevant topic for discussion. This is a type of new social movement, and as such can clearly be distinguished from 'old' social movements. Classical social movements, for example, the labour movement, aimed at appropriating state power. In contrast, new social movements aim at gaining indirect influence over the political sphere through the market.<sup>2</sup> At the same time, new social movements are not necessarily class or identity based, they are rather focused on concrete issues that unite people,<sup>3</sup> “Political consumerism means doing politics *through* the market.”<sup>4</sup> Therefore, the movement aims to interpret political preferences in the market setting, and to achieve that, it aims to unite individual choices to gain collective influence. However, the aim of the movement is not to politicize the economic sphere, but to combine consumerism with

---

1 See appendix 2, Fairtrade Labelling Organizations International (FLO). <http://www.fairtrade.net/>

2 Boris Holzer, “Political consumerism between individual choice and collective action: social movements, role mobilization and signaling,” *International Journal of Consumer Studies* 30 (2006), 409.

3 Nick Clive Barnett, Paul Cloke Clarke and Alice Malpass, “The political ethics of consumerism,” *Consumer Policy Review* 15, no. 2 (2008), 46.

4 Holzer, 406.

ideological motivations.<sup>5</sup> Political consumerism can take many forms, which include certain types of products, or boycotting others, growing one's own produce, or choosing specific financial services.<sup>6</sup> However, often the tools of political consumerism are oversimplifying. It is important to remember that the abstract issues that these movements are concentrated on – such as global inequality, unjust trade rules or social justice – are hard to translate into a specific, numerical set of labeling criteria.<sup>7</sup>

The most well-known forms of political consumerism include ethical trade, Fair Trade, purchasing organic, local or national products, and using local currency. Fair Trade is often compared to the other types of political consumerism; however, it is important to distinguish Fair Trade from these social movements.<sup>8</sup> Even though Fair Trade is also concerned about the production standards of its products, the main focus is on the terms of trade.<sup>9</sup> Fair Trade aims to build trust and a long lasting relationship between its trading partners.<sup>10</sup> It is an integral part of the movement to create and maintain ties between the trading partners, in order to promote stability and partnership.<sup>11</sup>

Growing out of the Alternative Trading Organizations (ATOs) network, Fair Trade has become a key component in political consumerism. The ATOs movement is an NGO-based, mission-driven business that aims to establish an alternative trading system, in which the focus is not on profit-generation for the middlemen and retailers, but focuses on the benefits of the producers. The movement started as sporadic individual initiatives in the 1940s, and has grown into a well-integrated global network. Originally, ATOs were based on the belief that the

---

5 Holzer, 407.

6 Clive Barnett, Clarke and Malpass, 47.

7 Mikael Klintman, "Ambiguous framings of political consumerism: means or end, product or process orientation?" *International Journal of Consumer Studies* 30 (2006), 428.

8 For example, Barrientos-Smith, Witkowski, Bacon.

9 Stephanie Barrientos and Sally Smith, "Fair Trade and Ethical Trade: Are There Moves Towards Convergence?" *Sustainable Development* 13 (2005), 191.

10 Terrence H. Witkowski, "Fair Trade Marketing: An Alternative System for Globalization and Development," *Journal of Marketing* (Fall 2005), 25.

11 Barrientos – Smith, 193.

capitalist system is unfair, and could not be reformed, but needed to be challenged.

The term Fair Trade is deceptive and needs to be distinguished from fair trade and Fairtrade. The term fair trade is generally used in discussions about the global terms of trade and promotion of more just trade rules. The term has been widely used since the early 2000s when Joseph Stiglitz<sup>12</sup> started to argue that globalization and the current trading rules behold Southern development. In contrast, Fairtrade refers to the certification and labeling system run by the Fairtrade Labeling Organizations International (FLO),<sup>13</sup> and as such is part of the wider Fair Trade movement, which is the focus of this paper. FLO was founded in 1997, and established the universal labeling system in 2001. The Fair Trade movement has been evolving since the 1940s, but only initiated the first labels for certification in 1988. The definition of Fair Trade, which became universally accepted, was adopted in October 2001 by FINE.<sup>14</sup> According to this definition:

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.<sup>15</sup>

The definition combines the three major aspects of Fair Trade. It “is at once a social movement, an alternative form of trade, and a development intervention.”<sup>16</sup> As a social movement, Fair Trade promotes gender equality, human rights and environmental protection.<sup>17</sup> Fair Trade is also an alternative form of trade as Fair Trade prices are not set by the mainstream

---

12 For example, see Joseph E. Stiglitz, and Andrew Charlton, *Fair Trade for All: How Trade Can Promote Development*, (Oxford: Oxford University Press, 2007)

13 Fairtrade Labelling Organizations International (FLO). <http://www.fairtrade.net/>

14 FINE is the umbrella organization of FLO, IFAT, NEWS!, and EFTA – Marie-Christine Renard, “Fair Trade: Quality, Market and Conventions,” *Journal of Rural Studies* 19 (2003), 90-91.

15 A Charter of Fair Trade Principles. World Fair Trade Organization and Fairtrade Labelling Organizations International, 2009.

16 Elisabeth Paul, “Evaluating Fair Trade as a Development Project: Methodological Considerations,” *Development in Practice* 15, no. 2 (2005), 134.

17 Witkowski, 22.



world market, but by FLO, and are established in order to provide a minimum living standard for the producers. Furthermore, a Fair Trade Premium is also incorporated into the price, which is to be set aside for community developments. Finally, Fair Trade is a development project, which aims to enable Southern producers to improve their situation through 'trade not aid'. It is estimated that trade restrictions imposed by Northern countries “cost developing countries twice as much as they receive in aid.”<sup>18</sup> Therefore, by trying to create an alternative market, Fair Trade not only promotes development, but also challenges the dominant neo-liberal world order.<sup>19</sup> In addition, Fair Trade aims to raise consumer awareness.<sup>20</sup> As the Fair Trade network and its success depend on consumers, it is essential to spread awareness of the issues related to world trade and the unequal relationships that characterize the neo-liberal trading system.

As Fair Trade has been achieving constant growth, attention paid to the movement has been growing too. Most of the literature on Fair Trade is engaged in assessing Fair Trade as a success story and as a development project and looks at case studies to show its impacts. For example, Leonardo Becchetti and Marco Costantino found that Fair Trade resulted in higher incomes and living standards for those farmers that participate in the network, however, the human capital impacts could be improved.<sup>21</sup> Elisabeth Paul highlights economic, technical and infrastructural benefits gained through participation in the Fair Trade network.<sup>22</sup> Raynolds *et al.* argue that Fair Trade has resulted in both material and non-material benefits for producers. However, successful participation in the network is based on not only political and economic circumstances, but also on cultural and social characteristics of a producer group, as well as on

---

18 Len Tiu Wright and Simon Heaton, “Fair Trade Marketing: An Exploration through Qualitative Research,” *Journal of Strategic Marketing* 14 (2006), 412.

19 Laura T. Raynolds, Douglas Murray and Peter Leigh Taylor, “Fair Trade Coffee: Building Producer Capacity via Global Networks,” *Journal of International Development* 16 (2004), 1109.

20 Witkowski, 24.

21 Leonardo Becchetti and Marco Constantino, “The Effects of Fair Trade on Affiliated Producers: An Impact Analysis on Kenyan Farmers,” *World Development* 36 (2008), 839.

22 Paul, 134.

its organizational characteristics.<sup>23</sup>

On the side of the increasing literature, there is a growing debate over the mainstreaming of Fair Trade, which will be the focus of this paper. In this debate mainstreaming refers to the inclusion of corporations and the move into supermarket shelves. This move has apparently divided the movement into two main schools: radicals and reformists. The main difference between radicals and reformists is in their motivation for pursuing Fair Trade. Radicals believe in keeping the ATOs structure and urge for the creation of an alternative market. They aim at transforming the global trading system, and believe in the viability of an alternative trading system. Reformists see Fair Trade as a development project, as a means to alleviating poverty in the Third World, therefore aim to increase volumes of sale. However, through a detailed discussion of their concerns, this paper will argue that the two schools share more concerns that they seem to admit.

The radical side criticize the mainstreaming of Fair Trade, and argue that it leads to the degrading of the historical values. The three most important authors on the radical side are: Max Havelaar-founding Francisco VanderHoff Boersma, Marie-Christine Renard and Gavin Fridell. VanderHoff argues that the alternativeness of Fair Trade derives from its non-paternalistic and non-transitional nature. However, the current mainstreaming of Fair Trade has limited its prospects in establishing an alternative market and moving away from paternalistic development projects.<sup>24</sup> Similarly, Renard argues that the mainstreaming of Fair Trade leads to compromising ethical principles.<sup>25</sup> Taking the most radical view, Fridell argues that the growth of the Fair Trade network marks the simultaneous decline of the wider, more radical Fair Trade movement.<sup>26</sup>

In contrast, reformists look at Fair Trade as a means to development in the global South.

---

23 Raynolds, Murray and Taylor (2004), 1118.

24 VanderHoff 58

25 Renard (2003), 92.

26 Gavin Fridell, "The Fair Trade Network in Historical Perspective," *Canadian Journal of Development Studies* 25 (2004), 426.

They aim to reform the Fair Trade network to increase the products' market share. Therefore, the literature on the reformist side of the debate is concerned with the practical problems the network needs to resolve in order to become a more influential player in the market. For example, Hira and Ferrie offer solutions to improving Fair Trade's conventional market share through raising awareness and availability. At the same time, they believe that Fair Trade will never be able to change the wider world trading system.<sup>27</sup> Len Tiu Wright and Simon Heaton advocate improvements in marketing and awareness-raising.<sup>28</sup> Finally, proposals for the simplification of labels is offered by Hyung-Jong Lee and Lea Vihinen who argue that the abundance of Fair Trade and other alternative trading labels leads to consumer confusion. In their proposal they promote the simplification of labels, transparency of producer cooperatives and two-way information channels.<sup>29</sup>

Interestingly, all authors in the Fair Trade literature seem to agree that Fair Trade is at a cross roads, each side offering their own suggestion to improve the movement or the network. However, there has been a lack of dialog between the two schools. At the same, there are actually a number of issues that concern both trends in Fair Trade, and also, a number of recommendations that are shared by the two sides. For example, the FINE definition of Fair Trade is not only used by reformists and advocates of mainstreaming, but also by ATOs.<sup>30</sup>

Therefore, the aim of this paper will be to analyze to what extent ideological background affects outlooks on Fair Trade and its current problems. In order to evaluate this I will contrast their views on a theoretical and a practical level. First, I look at the debate at an ideological level and place it into the broader global political economy debate, then turn to specific issues that concern the two schools of Fair Trade. By examining the detailed concerns of both radicals and

27 Anil Hira and Jared Ferrie, "Fair Trade: Three Key Challenges for Reaching the Mainstream," *Journal of Business Ethics* 63 (2006), 114.

28 Wright – Heaton, 416.

29 Hyung-Jong Lee and Lea Vihinen, "Fair Trade and the Multilateral Trading System," *OECD Papers* 5, no. 2 (2005), 10.

30 NEWS! Network of European Worldshops. <http://www.worldshops.org/>

reformist, I am arguing that ideological beliefs and assumptions have a significant impact on the practical concerns, leading reformists to focus on managerial issues and radicals to advocate for most abstract solutions. The contribution of my work is that while there is an abundant and growing literature on Fair Trade, there is a lack of systematic assessments of the similarities and differences between the two schools. In order to contrast the two sides of the debate, I will focus only on problems, because the problems considered reflect the ideological differences, the proposed solutions to them illustrate the relevance of these differences.

While there is a growing range of Fairtrade products, I will focus on coffee, as it is the most successful product of the movement, therefore most of the literature is concerned with issues regarding coffee. In 2007, the sales volumes of Fairtrade coffee increased by 19% and reached a total of 62.209 metric tons,<sup>31</sup> making it the backbone of Fair Trade. Coffee was first certified in 1988 by the Max Havelaar label, and since then its sale has been increasing by 20 per cent annually. In 2007, 256 producer organizations participated, and an estimated 700.000 small coffee farmers benefited directly from Fair Trade.<sup>32</sup> As coffee is the most discussed Fairtrade product, therefore by showing the similarities in radical and reformist concern regarding coffee, general conclusions regarding the whole movement can be drawn. However, there are certain specificities that are not generalizable. For example, coffee is grown by small producers, while tea and bananas are produced on large estates, using hired labour. Therefore, when necessary, these differences will be highlighted and contrasted.

In order to investigate both sides and the issues of interest, my research has focused on secondary literature. As this is fast growing and constantly evolving literature I have focused on academic work in the 2000s, with special attention to most recent articles. As radicals and reformists are concerned with different issues, the examined literature is also widely distributed.

---

31 Pérez Sueiro, Verónica, Jennifer Stapper and Julia Powell, ed. *Annual Report 2007 An Inspiration for Change*. (Fairtrade Labelling Organizations International, 2008), 10.

32 Ibid. 19.

In order to avoid any biases, a wide range of journals have been used. Radical, leftist journals, such as *Historical Materialism* and the *New Left Review* have been looked at, as well as business journals, such as *The Journal of Strategic Marketing* or the *Journal of Business Ethics*. Furthermore, as it is a rather interdisciplinary topic, sociological, developmental, rural studies and agricultural journals have also been used. However, in order to be able to provide background information and the most up-to-date data, I have also accessed the official websites of the network. Furthermore, in order to provide a clear structure, this paper draws on the global value chain analysis. The global value chain analysis has been developed to enable a better understanding of how commodities are produced in the closely integrated global economy. The analysis that is most often used in the Fair Trade literature was developed by Gary Gereffi, who originally distinguished between two different types of value chains: producer-driven and buyer-driven.<sup>33</sup> Later, this approach was combined with a distinction based on organizing principles. In the new analysis five new categories emerged, out of which the Fair Trade literature draws on the modular – in which suppliers produce to the customer's specifications – and relational – which is characterized by mutual dependence.<sup>34</sup>

The thesis will be structured as follows. First, an introduction to Fair Trade will be given. A brief history will be followed by a discussion of the current structure of the Fair Trade network. Moving along the value chain, production, certification, pricing and retailing will be discussed. Chapter 2 will examine the two schools, first relating them to the broader global political economy debate, then contrasting their views on the history and future of Fair Trade. Chapter 3 will examine the concrete issues that Fair Trade is facing from both the radical and reformist point of view. Using the same four stages of the value chain, this section will show the

---

33 For details see Darryl Reed, "What do Corporations have to do with Fair Trade? Positive and Normative Analysis from a Value Chain Perspective," *Journal of Business Ethics* 86 (2009), 7.

34 For details see Gary Gereffi and Timothy Sturgeon, "The governance of global value chains," *Review of International Political Economy* 12, no. 1 (2005), 83.

differences and similarities between the approaches. Finally, it will be concluded that ideological assumptions determine the focus of the two schools and their outlook on the future of Fair Trade.

# Chapter 1: Setting the context

## *Historical Background*

The history of Fair Trade is often distinguished into four main phases: 'goodwill selling,' 'solidarity trade,' 'mutually beneficial trade' and 'trading partnerships.'<sup>35</sup> From the mid-1950s to the early 1970s, the network was characterized by 'goodwill selling', more like a form of charity. In this period mainly Christian-based NGOs sold handicrafts from the developing countries. The focus was on the notion of 'helping the poor' and the quality of products was not controlled.<sup>36</sup> In this early period of the Fair Trade movement, initiatives emerged separately in North America and Europe through a loose network of ATOs. The story of Fair Trade began with Puerto Rican embroidery that Edna Ruth Byler, a Mennonite started selling in her house.<sup>37</sup> (This initiative later grew into the Ten Thousand Villages store chain.) In Europe, Oxfam shops started selling handicrafts made by Chinese refugees in the late 1950s.<sup>38</sup> The '50s and '60s witnessed the mushrooming of ATOs, and the first World Shop was opened in 1969.<sup>39</sup>

From the 1970s until the late 1980s Fair Trade was characterized by 'solidarity trade'. Partnership started to develop between Southern producers and Northern traders. At the same time, changes in the broader political economy led to the evolution of a political aspect of the movement. As development initiatives grew critical of the unfair international trading rules, Fair Trade became a channel for showing political solidarity with more state-led development initiatives, such as in Tanzania and Nicaragua.<sup>40</sup> In the 1980s agricultural products also entered the alternative market that was concentrated on handicrafts before.

---

35 Anne Tallontire, "Partnerships in Fair Trade: Reflections from a Case Study of Cafédirect." *Development in Practice* 10, no. 2 (2000), 167.

36 Reed, 4.

37 Witkowski, 22.

38 Ibid.

39 For a detailed timeline, see appendix 1, NEWS! Network of European Worldshops.

<http://www.worldshops.org/>

40 Reed, 4.

The turning point in the history of Fair Trade came in 1988 when the first Fair Trade label, Max Havelaar was introduced in Europe. In the following decade six other labels emerged, creating some confusion but symbolizing the still loose network structure. The 1990s was characterized by mutually beneficial trade and an increasing focus on the consumer.<sup>41</sup> Fair Trade was no longer a vehicle for showing solidarity, but became a more regulated form of trade. The launching of labels was accompanied by setting standards and broadening the scope of Fair Trade to include corporations. Most organizations related to Fair Trade were founded in this period.

Finally, the 2000s are characterized by trading partnerships. Partnership refers to the changing relationship with both consumers and producers. Now, all actors involved with the Fair Trade movement are seen as 'partners'.<sup>42</sup> Partners need to fulfill their own roles in a responsible way, while treating the trading partner as equal. The importance of partnership is in removing the relationship from its paternalistic origins (ie. the notion of 'helping the poor'), and basing on the notions of respect<sup>43</sup> and trust.<sup>44</sup>

### ***How the Fair Trade network functions***

The basic trading structure of Fair Trade includes the producer organizations – small farmers and artisans organized into cooperatives and unionized plantation workers – in the developing world, the importers, processors and the retailers mostly in the developed world. Currently, there are 632 certified producer organizations in 58 countries of three continents.<sup>45</sup> Through these organizations, Fairtrade reaches out to around 7.5 million people – farmers,

---

<sup>41</sup> Tallontire, 168.

<sup>42</sup> Tallontire, 168.

<sup>43</sup> Oxford Dictionary definition for respects is: “due regard for the feelings or rights of others” Ask Oxford. <http://www.askoxford.com/>

<sup>44</sup> Dictionary definition for trust is: “firm belief in the reliability, truth, ability, or strength of someone or something” Ask Oxford. <http://www.askoxford.com/>

<sup>45</sup> For the growing number of certified producers see Appendix 2



workers and their families. Fairtrade products are sold in 50 countries by more than 1900 certified retailers.<sup>46</sup>

## **Fair Trade value chains**

Within the Fair Trade movement four different types of value chains can be distinguished.<sup>47</sup> Firstly, there is the historic ATOs network, a value chain without corporate participation, in which all actors (from producers to retailers) are social economy actors. In this chain the focus is on supporting Southern producers through profit, technical assistance and capacity building based on long-term relationships.<sup>48</sup> Furthermore, this value chain is characterized by relational governance: based on frequent personal contacts and the notions of solidarity and trust.<sup>49</sup>

Secondly, there is a value chain that involves corporations as retailers. The emergence of this value chain was enabled by the launching of the Max Havelaar label. Corporations purchase Fair Trade products from ATOs, therefore do not alter the relational governance characteristic of the chain.<sup>50</sup>

Thirdly, corporations also participate as licensees, which means that they take part both in licensing and retailing. This chain is greatly influenced by market interests, as corporations take an active role in defining the trading relationship. Corporations only fulfill the basic FLO criteria and are not keen on partnership and long-term relationships. Based on quality requirements they often switch between producers. The most well-known FLO licensee is Starbucks.<sup>51</sup>

Finally, there is the value chain involving plantations that is fully characterized by

---

46 Fairtrade Labelling Organizations International (FLO). <http://www.fairtrade.net/>

47 Reed, 8.

48 Ibid.

49 Stephanie Barrientos and Sally Smith, "Mainstreaming Fair Trade in Global Production Networks: Own Brand Fruit and Chocolate in UK supermarkets," in *Fair Trade – The challenges of transforming globalization*, edited by Laura T. Reynolds, Douglas L Murray and John Wilkinson (New York: Routledge, 2007), 109

50 Reed, 10.

51 Ibid. 12.

corporate participation – from production to retailing.<sup>52</sup>

## Production

Originally, all Fair Trade producers needed to be small producers (artisans and farmers) organized into cooperatives. Cooperatives exist on different levels. First, producers are organized into primary cooperatives that coordinate production and transportation. In turn, these primary cooperatives are organized into second and third level federations that are responsible for product collection, sometimes processing as well as exporting.<sup>53</sup> Cooperatives offer a wide range of services to their members, such as sharing knowledge and transportation. Cooperatives are also responsible for setting the price received at the farm level.<sup>54</sup> Since the late 1980s, an increasing number of plantations have also been certified and allowed to participate in the Fair Trade movement. At first, these were plantations in agricultural sectors in which small producers did not participate historically, such as banana and tea.<sup>55</sup>

All agricultural Fair Trade products are primary commodities that carry certain inherent difficulties. First, there is a wide of range of risks that arise from agricultural production, such as weather conditions and pests. This also means that annual production volumes are volatile, which makes the world market price generally volatile.<sup>56</sup> For example, a drought in Brazil can double world market prices for coffee beans. Secondly, many primary commodities are demand inelastic, therefore Fair Trade can only gain a wider market share against conventional products.<sup>57</sup> The third major issue follows from the oligopsonic nature of the processing markets – for example, in the case of coffee and banana – which prescribes the power relations and

---

52 Ibid. 15.

53 Reed, 20.

54 Karla Utting-Chamorro, “Does Fair Trade Make a Difference? The Case of Small Coffee Producers in Nicaragua,” *Development in Practice* 15, no. 3/4 (2005), 589.

55 Reed, 14.

56 Hira – Ferrie, 112.

57 Hira – Ferrie. 112.

marginalizes producers. In these circumstances, Fair Trade means stability and survival. Despite the spread of the Fair Trade network, small producers continue to sell to different markets. For example, Nicaraguan cooperatives that participate in both Fair Trade and organic markets, still sell up to 60 per cent of their coffee to conventional markets.<sup>58</sup>

## Certification

Aside from the trading chain, independent labeling initiatives are responsible for the accreditation of producers and traders, and also for monitoring all Fair Trade partners' compliance with the standards. FLO-CERT, owned by FLO, is responsible for the certification process. "Certified Fairtrade is a product certification system where social, economic and environmental aspects of production are certified against Fairtrade Standards for Producers and buying and selling is certified against Fairtrade Standards for Trade."<sup>59</sup> FLO-CERT is responsible for certification until the packaging and labeling of a product.

FLO standards for producers incorporate all the basic ILO standards, while adding democratic criteria. The basic ILO criteria refer to "(a) freedom of association and the effective recognition of the right to collective bargaining; (b) the elimination of all forms of forced or compulsory labour; (c) the effective abolition of child labour; and (d) the elimination of discrimination in respect of employment and occupation."<sup>60</sup> The democratic criteria adds that small producer cooperatives need to be run by a General Assembly, in which all families are equally represented, and plantation workers need to be unionized and democratically represented to decide on how to spend the social premium.<sup>61</sup> Furthermore, producers need to pursue environmentally friendly measures. The producers who fulfill the requirements set by FLO are

---

58 Christopher Bacon, "Confronting the Coffee Crisis: Can Fair Trade, Organic, and Specialty Coffees Reduce Small-Scale Farmer Vulnerability in Northern Nicaragua?" *World Development* 33, no. 3 (2005), 505.

59 FLO-CERT. <http://www.flo-cert.net/flo-cert/index.php>

60 ILO Declaration on Fundamental Principles and Rights at Work 1998. International Labour Organization. Available at: <http://www.ilo.org/public/english/standards/relm/ilc/ilc86/com-dtxt.htm>

61 Fridell (2004), 420.

marked by the FLO Fairtrade or the North American Fair Trade Certified labels, which the national labeling initiatives license.

The Fair Trade movement started with the selling of handicrafts, however, today FLO only certifies commodities, out of which agricultural products dominate the Fair Trade market. There are thirteen types of agricultural products certified, these are: banana, cocoa, coffee, cotton, flowers, fresh fruit, honey, juices, rice, spices and herbs, sugar, tea, wine. There is also a labeling system set up for composite products, for example chocolate or energy bars. In case of composite products, at least 50 per cent of the volume or 20 per cent of the product's dry weight must be Fairtrade certified, and all ingredients for which a Fairtrade alternative exists has to be certified.<sup>62</sup> Meanwhile, the trade in handicrafts continues, these currently include sport balls, toys, glass and paper products, music instruments, and clothing.<sup>63</sup>

FLO standards for trade state that companies trading Fairtrade products need to purchase their products directly from certified producer or exporting organizations, pay the Fair Trade minimum price and the Fair Trade Premium (which vary according to the product), pay in advance up to 60 per cent on request and sign long-term contracts that enable “planning and sustainable production practices.”<sup>64</sup>

FLO consists of national labeling initiatives and producer networks. National labeling initiatives were the founders of FLO and they license the processors and importers. This means that there is a clear division of labour between FLO and the national initiatives. FLO is responsible for certifying and monitoring, while national initiatives in turn license the producers and traders that FLO-CERT certified. Currently there are 19 national labeling initiatives in 23 countries. There are three Producers Networks – in Africa (AFN), Asia (NAP), and in Latin America and the Caribbean (CLAC) that represent small-scale producers, workers and other

---

62 Fairtrade Labelling Organizations International (FLO). <http://www.fairtrade.net/>

63 Lee – Vihinen, 4.

64 Fairtrade Labelling Organizations International (FLO). <http://www.fairtrade.net/>

producer stakeholders.<sup>65</sup> There are currently 96 certified members in NAP, 164 in AFN and almost 300 in CLAC.<sup>66</sup>

FLO is governed by a Board of directors, which is elected by the General Assembly. The Board consists of five representatives from the labeling initiatives and four representatives from the producer organizations (at least one representative from each region), two representatives from certified traders and three external independent experts.<sup>67</sup> Producer representatives have only been included in the board since May 2007 due to constant pressure from the producers. While, having producer representatives in FLO is already considered as a major step forward, FLO is still criticized for only allowing a minority position to its producers.<sup>68</sup> The General Assembly holds annual meetings to decide on membership issues, approve the annual accounts, and ratify the new Board directors.<sup>69</sup> Furthermore, FLO has three committees that are responsible for specific issues. The Standards Committee is responsible for setting and reviewing the standards. The Finance Committee is responsible for FLO's finances, while the Nominations Committee is responsible for nominations to the Board and the Committees, as well as for defining the roles and responsibilities of these bodies and their supervision.<sup>70</sup>

As a response to the recent inclusion of multinationals in the network, in 2004, IFAT (now WFTO) launched its own label, the Fair Trade Organization Mark (FTO). The aim of this label is to separate out those organizations that are mission-driven Fair Traders from those market-driven big business that were only pressured into participating in the network.<sup>71</sup> Only those traders are certified who comply with the ten Fair Trade principles.<sup>72</sup>

---

65 Ibid.

66 Ibid.

67 Ibid.

68 Eric Holt-Giménez Ian Bailey, and Devon Sampson, ed. *Fair to the Last Drop: The Corporate Challenges to Fair Trade Coffee*. Development Report 17. (Food First. Available at: <http://www.foodfirst.org/en/node/1794>) 3.

69 Fairtrade Labelling Organizations International (FLO). <http://www.fairtrade.net/>

70 Ibid.

71 Holt-Gimenez, Bailey and Sampson, 2.

72 See appendix 4 – WFTO. <http://www.wfto.com/>

## Pricing

Fairtrade minimum prices and Fairtrade Premiums are set by the FLO Standards committee through a lengthy and bureaucratic process (see Appendix 5).<sup>73</sup> Basically, there is a Fairtrade price set for most Fairtrade products. The aim of the Fairtrade prices is to cover production costs and enable sustainable production. The main role of the Fairtrade price is to serve as a safety net in case of low world prices.

Some Fairtrade prices are country-specific (for example, banana), others are applicable world-wide (for example, coffee). Fairtrade Premium is paid in addition to the Fairtrade price. The Fairtrade Premium is to be spent on social, economic and environmental development. The way in which the Fairtrade Premium is to be spent is to be decided democratically in the producer cooperatives and hired workers' unions. Fairtrade Premiums are standardized for each product type.<sup>74</sup>

The aim of the Fairtrade minimum prices is to ensure stability for farmers. For example, world market coffee prices are very volatile: in 2002, it reached a 100-year low of 41 cents/lb,<sup>75</sup> while in October 2007, it surpassed the Fair Trade minimum price.<sup>76</sup> Currently, the Fairtrade minimum price is set at \$1.25/lb for washed Arabica,<sup>77</sup> regardless of the world market price. However, if the world market price exceeds the Fair Trade minimum price, Fair Trade importers are expected to pay 5 cents above that.<sup>78</sup> Above this price, a Fair Trade Premium (10 cent s/lb) needs to be paid, which is to be spent on community and social developments. There is also an organic differential set by FLO, which is increased to 20 cents/lb. Therefore, the total price to be

---

73 Fairtrade Labelling Organizations International (FLO). <http://www.fairtrade.net/>

74 Ibid.

75 Holt-Gimenez, Bailey and Sampson, 3.

76 Tomas Konecny and Jan Myslivecek, "Fair Trade - Is It Really Fair?," [CERGE-EI Working Papers](#) wp367, (The Center for Economic Research and Graduate Education - Economic Institute, Prague, 2009), 4.

77 The Fair Trade minimum price increased on June 1<sup>st</sup>, 2008.

78 Fairtrade Labelling Organizations International (FLO). <http://www.fairtrade.net/>

paid to the producers for Fair Trade organic coffee is 151 cents/lb.<sup>79</sup>

## Retailing

Currently, there are four types of Fair Trade retailers. First, there are corporations that take part in the network only as retailers. They purchase Fair Trade products from ATOs. Secondly, there are corporations that participate in the network as licensees. These corporations have their own trading network parallel to the Fair Trade trading network.<sup>80</sup> Thirdly, there are ATOs that only sell Fair Trade products, which also include Fairtrade certified products. These ATOs accept the FINE definition of Fair Trade and certification by FLO. Currently, there are more than two hundred such ATOs in Europe. The eleven largest founded the network of EFTA, the majority of the others are members of WFTO. The NEWS! Network is comprised of more than 3000 World Shops in eleven European countries.<sup>81</sup> In North America, Ten Thousand Villages operates 155 retail shops throughout the United States and Canada.<sup>82</sup> Finally, there are a limited number of ATOs that do not conform to the FLO labeling. These ATOs use their own certification systems, and generally base their trading relationships on personal contact. Finally, an increasing number of ATOs have started to sell to “out-of-home markets”, such as restaurant, cafés, cafeteria and companies, where the Fairtrade products can be consumed on the spot.<sup>83</sup>

---

79 Ibid.

80 Reed-Cromwell 152

81 NEWS! Network of European Worldshops. <http://www.worldshops.org/>

82 Ten Thousand Villages. A Fair Trade Retailer of Handmade Jewelry, Home Decor, Gifts, and more. <http://www.tenthousandvillages.com/>

83 Jean-Marie Krier, Fair Trade 2007: New Facts and Figures from an ongoing Success Story. A Report on Fair Trade in 33 Consumer Countries, Dutch Association of Worldshops (2008), 27

## Chapter 2: The identity dilemma

The universal adoption of the Fairtrade label has enabled Fair Trade products to enter into the mainstream market and gain access to a wider range of consumers.<sup>84</sup> However, this shift in the distributional structure has led to a division amongst Fair Trade academics and activists. In order to investigate the underlying ideological assumptions, the Fair Trade debate will be placed into the broader global political economy debate. The different approaches will be contrasted based on their views on the capitalist system and the role of different actors, and then narrowing down to their understanding of Fair Trade, its history and its future.

### ***The Fair Trade debate in the broader global political economy debate***

The different views of the two schools on the role and aim of Fair Trade can be related to their ideological beliefs and basic assumptions regarding the capitalists system. The radicals in the Fair Trade debate correspond to the critical side in the broader global political economy debate<sup>85</sup>, while the reformist side resembles the liberals of the broader debate.<sup>86</sup>

### **Radicals based on critical thought**

Radicals are inherently Marxists, and have been influenced by the constantly emerging new theories in the field. As Marxists, they believe that the capitalist world is based on class interests and the class struggle between workers and the bourgeoisie. The classes are defined in their relations to the means of production – the bourgeoisie owns them, while the workers sell their labour power to the bourgeoisie for a wage, which is below its value. Marxists argue that the capitalist mode of production is based on exploitation, as profit is generated from the unpaid

---

84 Barrientos – Smith, 193.

85 Robert O'Brien and Marc Williams, *Global Political Economy – Evolution and Dynamics*. 2<sup>nd</sup> edition. (New York: Palgrave Macmillan, 2007), 21.

86 Ibid. 18



labour.<sup>87</sup> In the 1950s the Fair Trade radicals were influenced by Raul Prebisch, who, drawing on Marx, “challenged the Ricardian notion of comparative advantage,”<sup>88</sup> and argued that the maintenance of the trading system, in which Southern countries export primary goods and Northern countries export manufactured goods was an “unequal exchange” due to the relative income inelasticity of primary goods.<sup>89</sup> This idea of “unequal exchange” was taken up by dependency theorists in the 1960s and 1970s, who also influenced the Fair Trade movement. Dependency theorists argued that the global capitalist system led to the exploitation and underdevelopment of Third World countries by the First World. In their view, “Third World nations were reduced to a state of dependence on First World countries for technology, capital, and markets”<sup>90</sup> and therefore were restricted in their development. Dependency theorist advocated for de-linking from the capitalist world order.<sup>91</sup> In the 1980s Fair Trade radicals were influenced by the work of Immanuel Wallerstein and Antonio Gramsci. Drawing on dependency theory, Wallerstein articulated his world system theory, in which he categorized the countries of the world into core, semi-periphery and periphery countries, based on a global division of labour. In his view, the core exploits the dependent periphery countries.<sup>92</sup> Gramsci, drawing on Foucault's discussion of discourse and the power-knowledge paradigm,<sup>93</sup> expanded the idea of hegemony and argued that in the capitalist system, workers were not economically but also culturally subordinated. In his view, the bourgeoisie were in a position to define culture and values, and the framework for thinking.<sup>94</sup> Influenced by these schools, radical Fair Traders believe that in order to improve the situation of small farmers in the global South, it is necessary

---

87 For selected works by Marx and Engels, see for example Robert C Tucker, ed. *The Marx-Engels Reader*, 2<sup>nd</sup> Edition. (New York: W.W. Norton & Co, 1978)

88 Fridell (2004), 415.

89 Ibid.

90 Ibid.

91 Ibid.

92 For background see Immanuel Wallerstein *The Modern World System: Capitalist Agriculture and the Origins of the European World Economy in the Sixteenth Century*. (New York: Academic Press, 1974)

93 For background see Michel Foucault, *The History of Sexuality*, (Harmondsworth: Penguin, 1981)

94 For background see Antonio Gramsci, *Selections from the Prison Notebooks*, Edited and translated by Quintin Hoare and Geoffrey Noweel Smith, (London: Lawrence & Wishart, 1971)

to replace the whole capitalist system.<sup>95</sup> Therefore, radicals believe in the maintenance of the ATOs network in order to change the current capitalist order from outside.

## **Reformists based on liberal ideology**

On the side of the debate, reformists have been influenced by liberal thought, the cooperative and NGO movements. As liberals, reformists see the market as the sphere of cooperation, therefore advocate for a limited role of the state.<sup>96</sup> Therefore, reformists do not believe that the market is inherently unjust; however, argue that it needs to be regulated, and see the Fair Trade network and FLO as the right agent to prescribe the rules. As liberals, reformists see consumers (individuals) as rational actors who have the power to transform the imperfect trading system.

Secondly, as reformists believe that the aim of Fair Trade is to empower Southern producers and to function as a long-term development project, they have been influenced by the general development discourse. For example, when the 1980s were characterized by a move away from the state towards NGOs, the Fair Trade network also entered into a new phase with the creation of the Max Havelaar label. In the current area, when development discourse has moved beyond ‘helping the poor’ to more interactive measures, reformists are also more receptive to the ‘partnership discourse’ that has been the catch phrase of radical thought throughout the decades.

Finally, the reformist network of Fair Trade also draws on the cooperative movement’s history of involvement in development projects. In 1960s the focus of cooperative campaigning shifted from development aid to long-term development. For example, Oxfam and the British Cooperative Movement launched a campaign to raise funds for the establishment of a self-

---

95 Holt-Gimenez, Bailey and Sampson, 19.

96 O’Brien – Williams, 18.

sufficient consumer cooperative in Botswana.<sup>97</sup> In the 1980s and 1990s the British Cooperative movement turned towards an ethical approach and reestablished international cooperative relationships.<sup>98</sup>

Influenced by liberal thought, NGO and cooperative history, reformists believe that the current shortcomings of the international market can be managed through new trading rules, such as those provided by Fairtrade. Reformists see the consumers as the key actor who has the power to reform trading practices. Reformists do not aim to change the whole world order, but see a potential for 'capitalism with human face' and to achieve that, in their view, only slight modifications are necessary, such as the FLO criteria for trading relationships.<sup>99</sup>

### ***The history of Fair Trade?***

Based on their different ideological backgrounds, radicals and reformists take a different view on the history of Fair Trade. On the radical side, Fridell, distinguishes between the Fair Trade movement and the network.<sup>100</sup> In his view, the original aim of the movement was to create an alternative market to the neo-liberal orthodoxy. In contrast, the Fair Trade network has become part of the neo-liberal trading system in order to reach a wider range of consumers. Therefore, he also distinguishes between the history of the movement and of the network. According to Fridell, the movement began in the inter-war period with the attempts to control primary commodity prices.<sup>101</sup> However, in his view, the history of the Fair Trade network can be divided into two main parts. The first phase of the Fair Trade network started with the first ATOs and lasted until the creation of the Max Havelaar label in 1988. This period was characterized by

---

97 Matthew Anderson (forthcoming), "Cost of Cup of Tea": Fair Trade and the British Co-operative Movement, c. 1960-2000," in *Consumerism and the Co-operative movement in modern British history: Taking Stock*, edited by Lawrence Black and Nicole Robertson (Manchester: Manchester University Press, 2009), 12.

98 Ibid. 13.

99 Holt-Gimenez, Bailey and Sampson, 18.

100 Fridell (2004), 412.

101 Fridell (2004), 413.

the quest for establishing an alternative trading system.<sup>102</sup> However, the label enabled the Fair Trade network to depart from the ATOs infrastructure and to take part in the mainstream market. In Fridell's view the spread of the Fair Trade network is intertwined with the defeat of the greater, unofficial, more radical Fair Trade movement.<sup>103</sup>

In contrast, from the reformist point of view, the real history of Fair Trade only started with the launching of the Max Havelaar label. Reformists do not deny the previous decades, however, do not consider it as an important part of the network's history. In their view, the Fair Trade movement and network have coexisted since the beginning, and the creation of the first label allowed the movement to take a crystallized form. In their view, the move into the mainstream market has enabled the network to increase its sales volumes and to be able to educate an even wider range of consumers, and therefore to realize the potential of Fair Trade.<sup>104</sup>

### ***The future of Fair Trade?***

With the institutionalization of Fair Trade and the mainstreaming of its products, the tensions between radicals and reformists became more apparent. Now the definition of Fair Trade is almost written into stone, while the retailing has evolved into two separate channels, symbolizing the clashes between the more militant, traditional ATOs promoters, and the more conventional market oriented reformists.<sup>105</sup>

### **Radical view**

Radicals argue that in order to empower Southern producers, Fair Trade needs to maintain an alternative trading order, otherwise it is used as a 'band-aid'<sup>106</sup> and reinforces the existing false

---

102 Fridell (2004), 416.

103 Fridell, (2004), 426.

104 Hira – Ferrie, 108.

105 Corinne Gendron, Veronique Bisailon and Ana Isabel Otero Rance, "The Institutionalization of Fair Trade: More than Just a Degraded Form of Social Action," *Journal of Business Ethics* 86 (2009), 64.

106 Holt-Gimenez, Bailey and Sampson, 10.

consciousness of both producers and ethical consumers. Therefore, in its current form, Fair Trade can only pose a symbolic challenge to the capitalist world order.<sup>107</sup> Radicals worry about losing authenticity and control by moving into the mainstream.<sup>108</sup> While, currently Fair Trade is experiencing unprecedented success and market shares, radicals are concerned over the movement becoming part of the conventional market, and losing its “transformative potential.”<sup>109</sup>

First, radicals see an inherent problem in Northern initiatives establishing the rules of the 'alternative' trading system, as well as selecting who can participate in it. They criticize the Fair Trade network for accepting the cultural hegemony of the capitalist order, such as the consumer sovereignty. Fridell argues that by accepting consumer sovereignty, Fair Trade subordinates producers' needs to consumers' willingness to pay.<sup>110</sup> Furthermore, by relying on Northern consumers, Fair Trade actually is promoting fair trade rules using the existing unfair, socially unacceptable trading relationships.<sup>111</sup> Also, while Fair Trade promotes itself as bringing consumers and producers together to enable the de-commodification of production, Fridell argues that the mainstreaming of Fair Trade has led to the “commodification of social justice.”<sup>112</sup> The main problem with relying on consumers is that they remain separated individuals and do not become accountable members of the movement who share responsibility with producers for the success of the whole movement and its goals. However, this is hard to achieve as long as consumers' knowledge about how these products are produced is mediated through the market.<sup>113</sup> In foucaultian terms, knowledge generates power, while power enables the reconstruction of knowledge. Therefore, as long as the market dictates the knowledge that consumers are able to

---

107 Gavin Fridell, "Fair-Trade Coffee and Commodity Fetishism: The Limits of Market-Driven Social Justice," *Historical Materialism* 15 (2007), 80.

108 Holt-Gimenez, Bailey and Sampson, 17.

109 Gendron, Bisailon and Otero Rance, 67.

110 Fridell (2007,) 87.

111 Ibid. 88.

112 Ibid.

113 Ibid. 90-91

obtain, they will not be able to realize the underlying injustices of the system. Radicals see the ATOs network as a solution this problem. ATOs only sell Fair Trade products, their employees are in direct relationship with Southern producers, they raise awareness by public lectures and personal conversations in their stores, and also organize trips for producers to their store to be able to meet with consumers and workers.<sup>114</sup> These personal relationships enable the consumers not to think of Fair Trade products as having their own life, but to relate them to producers, individuals, life stories – that are not read on the packaging but personally heard. In turn, real international bonds can be built that enable real partnership and a shared struggle for fair(er) trade.<sup>115</sup>

Secondly, radicals criticize the move towards mainstreaming, as they argue that in the process of institutionalization power relations have shifted, and producers have lost their central position.<sup>116</sup> Also, as the network relies on the capitalist framework, it is important to realize that most of the profits generated from Fair Trade do not reach the producers. Therefore, by only increasing sales volumes, producers will not be lifted out of poverty, while middlemen (eg. roasters, retailers, importers) generate increasing profits.<sup>117</sup> At the same time, the burden of proof lies with the producer to show that they fulfill all the FLO criteria and are able to pay for certification. In contrast, retailers do not need to comply with such a strict set of rules; for example, their employees do not need to be able to unionize (think of Starbucks).<sup>118</sup>

Finally, radicals also criticize the reformists for creating a new, more marketable image for Fair Trade. In order to reach a wider range of consumers, the name of the trading system was changed from 'alternative' to 'fair'. As 'alternative' has the strong connotation of being different, of aiming to establish another market system, it was less marketable. In contrast, the label 'fair'

---

114 Ibid. 91

115 Ibid. 93

116 Marie-Christine Renard, "Quality Certification, Regulation and Power in Fair Tradem," *Journal of Rural Studies* 20 (2005), 430.

117 Holt-Gimenez, Bailey and Sampson, 10.

118 Holt-Gimenez, Bailey and Sampson, 7.

has enabled the network to reach out to increasing numbers of consumers and to appeal to their solidaristic, humanitarian, ethical feelings, instead of their political beliefs. Radicals argue that this led to the emergence of an “apolitical, ethical consumption” that fails to challenge the hegemony of capitalism.<sup>119</sup> Radicals focus on the origins of the movement that grew out of the cooperation of NGOs. They see the alternativeness of the NGO-based movement in that while it involved consumers, it was not consumer-led.<sup>120</sup> In the radical view building the Fairtrade brand also means that the network abandons its NGO origins and that FLO builds its own identity separate from that of the movement.<sup>121</sup>

## Reformist view

In contrast, reformists see the Fairtrade network as a means to achieving long-term development in the global South, and see the shortcomings of the network in not delivering to these promises. Therefore, they focus on increasing the sales volumes to be able to reach growing numbers of producers. Therefore they promote the mainstreaming of Fair Trade in order to attract more consumers and increase demand for Fair Trade products.

First, reformists argue that the ATOs structure will never be able to reach all the producers in one sector, and therefore leads to the creation a world of advantaged insiders and disadvantaged outsiders.<sup>122</sup> This, however, is contrary to the network's developmental mission. Secondly, the ATOs structure reinforced the dependency on distinguished consumers and their willingness to spare effort and money to purchase Fair Trade products.<sup>123</sup> On the other hand, retailing through supermarkets enabled the network to reach out to a wider population and

---

119 Gendron, Bisaillon and Otero Rance, 70.

120 Matthew Anderson, “NGOs and Fair Trade: The Social Movement Behind the Label,” in *NGOs in Contemporary Britain: Non-state Actors in Society and Politics since 1945*, edited by Nick Crowson, Matthew Hilton and James McKay (Hampshire: Palgrave Macmillan, 2009), 14.

121 Ibid. 14.

122 Mark S. Leclair, “Fighting the Tide: Alternative Trade Organizations in the Era of Global Free Trade,” *World Development* 30, no. 6 (2002), 955.

123 Ibid. 957.

therefore to raise demand.<sup>124</sup> Another main problem reformists see for the network is that small producers still need to sell most of their produce on conventional markets as demand is too low, while quality requirements are too high for small producers to comply with.<sup>125</sup>

Secondly, reformists do not believe that Fair Trade can resolve the bigger problems regarding unjust trade rule.<sup>126</sup> Therefore, reformists believe in evolutionary change from within, and the promotion of the alternative trading ethics within the system in order to normalize this form of partnership in the mainstream market.<sup>127</sup> Reformists argue that the Fair Trade network is achieving its goals of development and transforming the market. Moreover, reformists believe that the network poses a counter-hegemonic challenge to the mainstream market.<sup>128</sup> For reformists, the Fair Trade price minimum, the elimination of unnecessary middlemen, the slow but proceeding transformation of corporate conducts, the focus on environmental and social causes are already showing the great importance and transformative power of the network. Furthermore, they consider consumers to be partners of producers who build an alliance together for the shared cause.<sup>129</sup> Also, reformists see a great potential in Fair Trade for setting a good example of how trade can be done and then pressuring big business to follow suit.<sup>130</sup> In their view, Fair Trade has been a great example of how the distance between producers and consumers can be shortened,<sup>131</sup> therefore making the trading relationship more personal. Moreover, reformists believe that the Fair Trade network and the FLO criteria enable the re-embedding of economics into social processes.<sup>132</sup> Drawing on Polányi,<sup>133</sup> this argument clearly shows that

---

124 Stefano Ponte, "Behind the Coffee Crisis," *Economic and Political Weekly* 36 (2001), 4414.

125 Konecny – Myslivecek, 14.

126 Hira – Ferrie, 114.

127 Hira – Ferrie, 108.

128 Will Low and Eileen Davenport, "Mainstreaming fair trade: adoption, assimilation, appropriation," *Journal of Strategic Management* 14 (2006), 315-316.

129 Laura T. Reynolds Douglas Murray and Peter Leigh Taylor, *One Cup at a Time. Poverty Alleviation and Fair Trade Coffee in Latin America*, (Colorado State University: Fair Trade Research Group, 2003), 27.

130 Ibid. 28.

131 Laura T. Reynolds, "Consumer/Producer Links in Fair Trade Coffee Networks," *Sociologia Ruralis* 42 (2002), 420.

132 Laura T Reynolds, "Re-embedding global agriculture: The international organic and fair trade movements,"



reformists do not consider the capitalist system to be the root of poverty in the global South, but believe that corrections need to be implemented to enable the capitalist system to fulfill its role in lifting people out of poverty.

Reformists also argue that by moving into the mainstream market, Fair Trade has not only been able to attract new consumers but also to have a greater impact on conventional retailers. In their view, Fair Trade has been able to pressure retailers through direct competition.<sup>134</sup> This can be most obviously seen in the launching of alternative brands that try to challenge the FLO labels.

Reformists see a great potential in moving into the mainstream market. This move has enabled the increasing of sales volumes, which in turn enabled the incorporation of growing numbers of producers. At the same time, the Fair Trade ideals have also reached wider communities. And most importantly, this move has strengthened Fair Trade's position in the market, thereby making it a stronger, pressuring force.<sup>135</sup> As reformists believe in the forces of the market, they argue that the potential of Fair Trade can only be realized by the consumers. Therefore, it is crucial to raise awareness, as business will only move as forward in their fairness as consumers demand.<sup>136</sup>

---

*Agriculture and Human Values* 17 (2000), 306.

133 For background see Karl Polányi, *The Great Transformation*, 3<sup>rd</sup> edition. (Boston: Beacon Press, 2001).

134 Raynolds (2002), 419.

135 Low – Davenport, 319.

136 Ibid. 325

## Chapter 3: Concrete issues from different perspectives

Limits to the Fair Trade movement and network will be discussed thematically, moving along the value chain; and the views of the two schools will be contrasted with each other in order to enable a dialog between reformists and radicals. The same four main themes will be discussed as in the context chapter to show on which issues radicals and reformist agree on and which they hold very different views.

### ***The production process***

Radicals and reformist share the concern that the Fair Trade production system needs to be improved, however, the two schools are concerned with different aspects of the current system, and therefore have different proposals for the future. Radicals argue that the current criteria on the inclusion of producers advantage larger cooperatives whose organizational capabilities are more developed. Many small farmers have not been incorporated, because they have not been able to organize into cooperatives.<sup>137</sup> Secondly, in order to be certified, small farmers need to be organized into cooperatives, which impose new costs for the producers. Radicals argue that more productive cooperatives – with probably better management skill and expertise – will be more able to comply with the organizational criteria.<sup>138</sup> Thirdly, radicals criticize that the Fairtrade price and premium do not lead to higher income for the farmers. Cooperatives set the internal prices to be paid to the producers, and the cooperative not only has to spend on organizational cost, but also on certification fees, and on repaying previous debts.<sup>139</sup> As the certification fees have an annual flat rate, cooperatives with more members will be in a better position as the per capita costs will be lower for their members.<sup>140</sup> Finally, radicals

---

137 Utting-Chamorro, 589.

138 Konecny – Myslivecek, 12.

139 Utting-Chamorro, 589.

140 Bacon, 505.

criticize that production costs and therefore, profit levels are determined by farmer's experience, family size, technology, and soil fertility, and that Fairtrade does not alter the pre-existent conditions, therefore those cooperatives will gain the most from Fairtrade that were in the best condition before joining.<sup>141</sup> Furthermore, radicals warn that cooperatives are limited in their outreach by their dependence on Northern consumers.<sup>142</sup> Therefore, while it would be necessary to expand the cooperatives, they are limited by the insufficient demand for their product, which in turn leads to discrimination of smaller producers. At the same time, the limited scope of Fair Trade leads to competition between producers, which endanger the solidarity principle of the movement.<sup>143</sup>

In contrast, while reformists also argue for the inclusion of less advantaged producers,<sup>144</sup> it is based on their understanding of Fair Trade as a development project. Secondly, reformists highlight that successful participation in the Fairtrade network requires cooperatives to balance compliance with the democratic requirements and maintaining competitiveness in the world market.<sup>145</sup> They argue that growing demand for Fairtrade products would enable producer cooperatives to focus on the Fairtrade network and abandon the commercial markets. Finally, reformists argue that the limited range of available Fairtrade products is a clear shortcoming for the network. They argue that broadening the range of products would enable greater marketing and draw more attention to Fair Trade products. Composite products are a first step in this direction. A good example is Traidcraft's Geobar, which contains Fairtrade honey and raisins, while the rest of the ingredients are non-Fairtrade.<sup>146</sup> Composite products are also advantageous,

---

141 Konecny – Myslivecek, 12.

142 Utting-Chamorro, 596.

143 Fridell (2007), 98.

144 Raynolds, Murray and Taylor (2004), 1115.

145 Ibid. 1116.

146 Alex Nicholls, "Fair Trade New Product Development," *The Service Industries Journal* 24, no.2 (2004), 108.

because the Fair Trade premium can be hidden in the retail price.<sup>147</sup> Finally, composite products enable consumers to turn their willingness to pay into real purchases if a wider range of products exist.<sup>148</sup> Therefore, reformists promote the broadening of the Fair Trade spectrum and the certification of more composite products.

In sum, radicals and reformists agree that the current system of production is imperfect, however, they are concerned with different issues. Radicals criticize the current system for creating a competitive environment and advantaging the already better-off. In contrast, reformists are concerned with improving the current system by the introduction of further composite products and advocating managerial solutions.

## **Certification**

Certification is clearly an issue on which reformists and radicals are generally divided. Reformists are concerned with the managerial problems of the current system, such as the problem of high certification fees, which limits small procedure groups' ability to join the system. They also see a problem with FLO's limited ability to monitor traders. Currently FLO can only monitor if the minimum price and the premium are paid, however, they are unable to check if a long-term partnership is created and maintained. And if supermarkets can avoid the extra costs of 'relational governance', will do so.<sup>149</sup> However, in their view, broadening the range of Fair Trade retailers does not necessarily weaken the network. Drawing on Gereffi's value chain analysis, Raynolds distinguishes three types of buyers, based on their motivations: mission-driven, quality-driven and market-driven. In her view, only market-driven buyers can impose a threat to the Fair Trade principles, as they tend to opt for one-year contracts and avoid

---

147 Ibid.

148 Ibid. 102.

149 Barrientos – Smith, 196.

pre-financing.<sup>150</sup> For example, Starbucks' Commitment to Origins program has paid an average of \$1.20/ lb for coffee in 2004, but did not pay the Fairtrade premium. Furthermore, this program does not offer pre-financing, only a credit with a 3 per cent interest rate.<sup>151</sup> Moreover, corporate buyers also undermine the transparency of the Fair Trade network. For example, Starbucks is often criticized for its secrecy in product assessment, which in turn undermines the credibility of the whole network.<sup>152</sup> However, other buyers use the Fair Trade label not only to gain access to new markets, but also to enhance the traceability of these products.<sup>153</sup>

Another major issue that reformists see is that not all Fair Trade products go through the official FLO certification system. There are a number of other fair trade labels that follow similar, but not always the same criteria as FLO. There are also voluntary initiatives. Both radicals and reformists agree that the abundance of these labels undermines the uniqueness and power of the official FLO label.<sup>154</sup> Furthermore, supermarkets and processing companies started to create their own labels that resemble the Fairtrade label, however do not uphold such strict and specific criteria. These labels enable consumers to compromise their ethical concerns at a lower price.<sup>155</sup> At the same time, these labels also enable big businesses to “greenwash their image at a low cost.”<sup>156</sup> For example, the Co-Operative Group supermarket has created its own label for “fair trade coffee, chocolate, bananas, mangoes and chocolate cake, while J Sainsbury’s has own brand fair trade tea, coffee, bananas, chocolate and drinking chocolate.”<sup>157</sup> On the other hand, there is a greater volume of products that could be certified, but are kept out of the Fair Trade market due to low demand, or due to the most radical ATOs' reluctance to the FLO certification

---

150 Laura T Raynolds, “Mainstreaming Fair Trade Coffee: From Partnership to Traceability,” *World Development* 37, no. 6 (2009), 1089.

151 Starbucks Coffee Company Canada, “Social Responsibility.” <http://www.starbucks.ca/en-ca/Social+Responsibility/>

152 Raynolds (2009), 1090.

153 Ibid.

154 Lee – Vihinen, 9.

155 Witkowski, 28.

156 Renard (2005), 429.

157 Barrientos – Smith, 194.

system.<sup>158</sup> Probably, this is the most confusing aspect for consumers – that there are some Fair Trade products, which do not carry the Fairtrade label, however, comply with much higher standards. Reformists see the solution in creating universal criteria for production and trade, which then could be applied to all product types, and not only those that already exist.<sup>159</sup> Furthermore, they argue that while Fair Trade by itself might not change the corporate strategies of supermarkets, in cooperation with civic coordination and changing ethical conventions can lead to the spreading and normalization of its values.<sup>160</sup>

In contrast, radicals, based on their Marxist understanding of corporate interests, argue that the competing labels harm both producers and consumers by misleading them. In their view, competing labels harm the producers by not providing as high standards as Fairtrade, and harm the consumers by charging them for the ethical value, which is actually not included – leaving the corporation with greater profits. Therefore, radicals argue that having a Fair Trade label is important; however, the certification and licensing processes should be revised. By certifying certain products, FLO ensures the consumers that they are produced in a certain way that consumers would not be able to assess. Therefore, labeling resolves the asymmetry of information problem.<sup>161</sup> Moreover, FLO certifies a quality that consumers are not able to observe (ie. it is not the quality or the taste of coffee but the terms of trade and the circumstances of production), which reinforces mutual trust.<sup>162</sup> However, a major problem of the system is that it only monitors producers and traders in fulfilling the criteria relating to their interaction with Southern partners. However, FLO does not monitor if Northern partners are building long-term relationships based on dialog and mutual trust.<sup>163</sup> Therefore, in the radical view, there is potential

---

158 Fairtrade Labelling Organizations International (FLO). <http://www.fairtrade.net/>

159 Hira – Ferrie ,115.

160 Barrientos – Smith, 196-197.

161 Konecny – Myslivecek, 17.

162 Ibid.

163 Gavin Fridell, “The Co-Operative and the Corporation: Competing Visions of the Future of Fair Trade,” *Journal of Business Ethics* 86 (2009), 81-82.

in a central label, however, it should be managed differently.

Secondly, radicals argue that through involvement in supermarket chains, Fair Trade can easily be degraded to a label, a symbol, without maintaining a control over production or access to this niche market.<sup>164</sup> Radicals fear that growing consumer and corporate demand will lead to the loosening of the Fair Trade criteria,<sup>165</sup> which would mean the loss of the original values not only in the trading relations, but might even in the production conditions. They see a great danger in the mainstreaming of the label. They argue that it has enabled businesses to buy into the network, without actively participating, or committing to it. The label has enabled corporations to use Fair Trade as another opt out for social responsibility programs.<sup>166</sup> While radicals acknowledge that Starbucks can offer higher sales volumes, they believe that this relationship will threaten the long-term prospects of the movement.<sup>167</sup> As big businesses incorporate Fair Trade products into their corporate strategy, they take away the radical edge of the movement to create an alternative market. Some radicals argue that a solution might be to design criteria for the Northern retailers as well, and not only in their relationships with Southern partners. For example, a minimum requirement could be unionized work force, and limitations on promoting non-Fair Trade products by abusing the availability of Fair Trade. They see Starbucks not only as the greatest partner of Fair Trade in North America, but also as the greatest competitor.<sup>168</sup> Finally, radicals warn that the Fairtrade label has enabled big businesses to use the image to promote themselves as ethical retailers, while only selling a small portion of their products as Fair Trade, and do not always conform to all criteria.<sup>169</sup> Therefore, the mainstreaming does not only undermine the Fair Trade movement, but also strengthens the corporate sector.

Finally, radicals see great problems regarding the governance of FLO, which is the hearth

---

164 Renard (2003), 95.

165 Nicholls, 112.

166 Fridell (2009), 83.

167 Ibid. 92.

168 Ibid.

169 Renard (2005), 420.

of the certification machine. They argue that these problems have emerged during the restructuring, institutionalization and mainstreaming of the movement. In their view, the turn towards the conventional market has led to a shift in power relations.<sup>170</sup> Originally the movement aimed to promote democratic relations and partnership. However, radicals argue that Fair Trade has grown to be characterized by paternalistic relationships, in which Northern experts “help” Southern farmers to improve their production and organizational techniques. Prices are set by FLO, dominated by representatives of labeling initiatives; producers are certified and monitored by FLO-CERT, by Northern experts. Quality requirements are also set by FLO, and FLO is the responsible organization for deciding who should be included in the Fair Trade network. Setting the quality requirements is an important issue as (drawing on Foucault<sup>171</sup>) by having the power to define what consists of Fair Trade quality; FLO has the power to determine who takes part in the movement, and which values are to be promoted.<sup>172</sup> For example, in 2002, when FLO estimated that supply was seven times higher than demand, temporarily rejected applications not to worsen the situation.<sup>173</sup> This is problematic, as reflects the non-democratic nature of the network, as well as the unequal power relationships that undermine the notion of partnership.

Radicals argue that Fair Trade should be reorganized by treating Southern partners as equals and by listening to their experiences and expertise.<sup>174</sup> The current paternalistic relationships are also contrary to Fair Trade's historic notion of social interactions, because these power relations enable the Northern experts to control them and to impose their visions of quality on the Southern producers.<sup>175</sup> Therefore, radicals promote the reorganization of the movement based on more dialog between producers and FLO decision makers to ensure that Fair

---

170 Ibid. 430.

171 For details on the power-knowledge paradigm see Foucault, 92-102.

172 Renard (2005), 420.

173 Konecny – Myslivecek, 14.

174 Francisco VanderHoff Boersma, “The Urgency and Necessity of a Different Type of Market: The Perspective of Producers Organized Within the Fair Trade Market,” *Journal of Business Ethics* 86 (2009), 58.

175 Renard (2003), 96.



Trade really works to treat the issues faced by producers.<sup>176</sup> From the radical point of view, if Fair trade is to be an alternative trading system, it is essential to make it more democratic, to reorganize it into a system in which consumers and producers together can define the rules and regulations of their trading partnership.<sup>177</sup>

In sum, the issues connected to certification are viewed differently by reformists and radicals. However, this is not surprising as these concerns are related to the mainstreaming of the movement. Reformists are interested in making Fair Trade work better in the conventional market, therefore are concerned with attacks against the FLO label and the unity of the network. In contrast, radicals are concerned over the degrading of the label into an empty symbol. At the same time, they emphasize that if Fair Trade is to be built on partnership and democratic relations, all actors should be regulated by FLO criteria and not only in their relationship with Southern partners. Furthermore, radicals argue that the creation of FLO and the turn towards corporations has led to a shift in power relations to the disadvantage of producers.

## **Pricing**

The question of the minimum price and issues regarding supply and demand are really interesting aspects, as while reformists and radicals agree that there are problems with the current system of pricing and with oversupply, however, the two schools offer different critiques and promote different solutions related to these fields. Reformists take a managerial view to perfect the system, and argue that as primary commodities have inelastic demands and do not change over time, in order to increase demand, Fair Trade needs to attract consumers away from conventional products.<sup>178</sup> Reformists promote awareness-raising initiatives and better product availability. In their view, mainstreaming is beneficial for all, as producers gain higher demand

---

176 VanderHoff, 58.

177 Ibid. 59

178 Hira – Ferrie, 112.

for their products, and corporations are able to reach new markets for the network. Furthermore, these relationships are not necessarily dictated by the businesses, but can be negotiated between the partners.<sup>179</sup> At the same time, reformists believe that it is important for Fair Trade to be sold on a mass scale and to achieve that, the network must “respond to specific product-driven consumer demands as well as focusing on producer driven agendas.”<sup>180</sup> For example, reformists believe that the premium price of Fair Trade products should be accompanied by premium quality.<sup>181</sup>

For reformists the minimum price signals the alternative nature of the network.<sup>182</sup> As a minimum price goes against the basic rules of regulating supply and demand, it is a good measure not only to provide stability but also to reinforce the alternative nature of Fair Trade. However, reformists see an alternative in setting the minimum price as a percentage of the final price of the product, which would enable flexibility and efficiency, while also reflecting the relations of supply and demand.<sup>183</sup>

In contrast, radicals are critical of the current system, and as Marxist, cannot accept the minimum price as a solution to producers’ problems. For example, as the world coffee price fluctuates, the difference between the conventional and Fair Trade price can become quite marginal.<sup>184</sup> The minimum price has ensured stability and survival in case of devastatingly low world market prices; however, it does not offer a real alternative in cases of high conventional prices. At the same time, fulfilling FLO production criteria is quite costly, which can scare away producers in times of high prices. In their view, such a tendency could undermine the whole Fair Trade system.<sup>185</sup> They further criticize that as the minimum price is not set based on producers’

---

179 Raynolds (2009), 1091.

180 Nicholls, 105.

181 Ibid. 110.

182 Hira – Ferrie, 114.

183 Ibid.

184 Holt-Gimenez, Bailey and Sampson, 11.

185 Ibid. 12

needs and costs, but in relation to consumers' willingness to pay, it does not respond to the real concerns of producers. At the same time, this also means that prices cannot be too high to scare away consumers, therefore radicals argue that Fair Trade is still not charging a 'fair price', only an 'as fair as possible' price.<sup>186</sup> Moreover, as the minimum price is based on Northern markets, it does not respond to inflation in the producing countries either. Some argue that the Fair Trade minimum price is no longer efficient to cover production costs, therefore producers lose even if they participate in Fair Trade, just that they lose less than through the conventional market.<sup>187</sup> Therefore, radicals argue that prices should be determined by need and not centrally, and that prices should cover product costs and a margin for social and environmental costs and developments.<sup>188</sup> At the time, radicals highlight that living standard vary across producing countries, therefore a universal minimum price (for example, in the case of coffee) means different levels of premium in different countries.<sup>189</sup> This obviously works against the solidarity and equality principles.

Furthermore, radicals see a great problem with the Fair Trade premium not only enabling producers to improve their communities, but also enabling retailers to increase their profits.<sup>190</sup> Middlemen can use their monopsony position to increase their own share even from Fair Trading interactions.<sup>191</sup> To resolve this problem, radicals argue that ethical value should be added at every stage of the commodity chain, and that each actor – from production to distribution – should comply with the same criteria (such as unionization).<sup>192</sup> Finally, radicals see a great danger in depending on the industrialized world, and consumers' willingness to pay, as it can easily fluctuate with the economy and create oversupply and a competitive environment for Fair Trade

---

186 Fridell (2007), 96.

187 Holt-Gimenez, Bailey and Sampson, 12-13.

188 Stefan Mann, "Analysing fair trade in economic terms," *The Journal of Socio-Economics* 37 (2008), 2037.

189 Ibid. 2039.

190 Lee – Vihinen, 6.

191 Konecny – Myslivecek, 34.

192 J. J. McMurtry, "Ethical Value-Added: Fair Trade and the Case of Cafe' Femenino," *Journal of Business Ethics* 86 (2009), 43.

producers.<sup>193</sup>

In sum, a clear opposition can be seen in the case of Fair Trade minimum price. Reformists see the price floor as the central element of Fair Trade, which enables just social relations and the rethinking of market rules. Some reformists advocate for price setting in relation to the final price of the product to reflect the relations of supply and demand. In sharp contrast, radicals argue that the minimum price is not just and does not promote equality. They argue for the Fair Trade price to be based on production costs and producer needs and not to be set centrally, based on consumers' willingness to pay. Therefore, radicals push for a restructuring of the pricing system, and advocate for a minimum price as a percentage of production costs, totally independent from fluctuations in market prices.

## ***Retailing***

The move towards including corporations in the Fairtrade network has clearly been one that led to division in the movement. Radicals see the loss of their traditional values, while reformists are strongly pushing for moving away from the ATOs system. Reformists argue that consumers have the power to transform the current trading system by changing their demands, therefore pressuring retailers to change their products. In their view, consumer power can be used to change the current trading system.<sup>194</sup>

First, reformists see the ATOs network as a clear limiting factor to increasing sales volumes. In the reformists view, purchasing through ATOs requires too much effort from the consumer's side, and limits Fair Trade's scope to those who have access to ATOs or online purchasing.<sup>195</sup> Reformists argue that if Fair Trade products remain in the alternative market

---

193     Leclair, 956.

194     Raynolds (2009), 1091

195     Hira – Ferrie, 108.

sphere, then it will never reach its potential market share.<sup>196</sup> Secondly, they argue that if Fair Trade was to become a significant factor in world trade, it needs to conquer North American markets,<sup>197</sup> which will not work only through ATOs. In their view, to raise interest and demand, Fair Trade products need to be visible and accessible to make purchasing more attractive even to mainstream, less committed consumers, therefore need to be sold in supermarkets.<sup>198</sup> Reformists argue that visibility is a key factor in raising both awareness and sales volumes.<sup>199</sup> However, some reformists also warn that parallel to the outreach to supermarkets, there is also a need for developments in production to be able to produce the required volumes even in case of a sudden increase of demand. They see the non-transferability of product source and limited production volumes as a limiting factor to fully engaging with the supermarket retailing opportunities.<sup>200</sup> However, this does not seem to be a fundamental problem at the moment when Fair Trade is characterized by oversupply.

Furthermore, reformists see an issue in the limited variety of Fair Trade products and argue for new product development,<sup>201</sup> as it would not only enable outreach to a wider range of producers, but would also strengthen the label itself. Also, currently Fair Trade products are only a compliment to the mainly “non-ethical” purchases of consumers, which is partially due to the lack of variety in Fair Trade products. In order to really engage consumers there is need to offer a wider range of products.<sup>202</sup> Moreover, the lack of products also translates into difficulties in transferring consumers' willingness-to-pay into actual purchases. In Nicholls' view this problem is only not due to marketing limitations but also to operational issues, such as the lack of product

---

196 Nicholls, 114.

197 Hira – Ferrie, 111.

198 Wright – Heaton, 415.

199 Ibid. 416.

200 Nicholls, 115.

201 Ibid. 105.

202 Wright – Heaton, 416.

variety.<sup>203</sup>

In order to increase market shares, reformists promote the development of Fair Trade brands. They see many problems with the current marketing and branding management. First of all, there are still too many Fair Trade labels, which lead to confusion and undermine efforts to build a stronger image.<sup>204</sup> Secondly, many consumers still do not recognize the label or cannot relate it to specific outcomes.<sup>205</sup> Some reformists suggest that there should be more information on the packaging to enable shoppers to learn about the impact they can make.<sup>206</sup> This issue is linked to that of a credibility gap. Fair Traders face challenges as there is not information on the concrete impact Fair Trade has had on people's life; therefore it is difficult to campaign with such arguments.<sup>207</sup> Also, there is difficulty in promoting the transparency of production and the network, while the relevant criteria are not always fulfilled.<sup>208</sup> Consumers still cannot see where exactly the Fair Trade premium goes to, which reinforces the credibility issue. Finally, some reformists argue that because Fair Trade started as a church movement, the label still carries that connotation with it.<sup>209</sup> However, this only seems to apply for those consumers who are aware of the historic, religious background of Fair Trade.

Finally, reformists argue that radicals behold the brand building process and the spreading of Fair Trade. Reformists highlight the issue of little synergy within the network and in the branding and marketing efforts. Different agencies within the network act on their own, without cooperation with the other actor. This is itself problem; however, radicals' reluctance to mainstreaming makes these efforts even more difficult. Unlike the radicals, reformists do not see a problem with Fair Trade functioning as a business model in order to deliver benefits to

---

203 Nicholls 102

204 Lee – Vihinen, 10.

205 Wright – Heaton, 420.

206 Ibid. 424.

207 Karla Utting, "Assessing the Impact of Fair Trade Coffee: Towards an Integrative Framework," *Journal of Business Ethics* 86 (2009), 145.

208 Nicholls, 114.

209 Wright – Heaton, 423.

producers.<sup>210</sup> In the reformists' view maintaining the alternative discourse of Fair Trade limits its potentials in merging into the conventional market.<sup>211</sup> Finally, they criticize radicals for their reluctance to any charity image, which could bring further consumers.<sup>212</sup> Therefore, reformists consider the building of a strong image for Fair Trade as a central issue for the future, which also needs to be accompanied by awareness raising campaigns.<sup>213</sup>

In contrast, radicals are critical of the creation of a Fair Trade brand. In their view, the perception of Fair Trade products is greatly influenced by consumer perceptions of the retailer where they purchase it. Therefore, they argue that buying certified products in supermarkets or in Starbucks does not carry the same meaning to the consumer as purchasing it in an ATO.<sup>214</sup> Thus, radicals do not aim to create a stronger image for Fair Trade products just to make them more marketable. Furthermore, ATOs retain their alternativeness by not selling non-certified products.<sup>215</sup> ATOs still aim to reach out to committed consumers who make socially conscious decisions in their purchases.<sup>216</sup> At the same time, these stores still focus on raising consumer awareness, unlike supermarket chains. Also, many ATOs see Fairtrade criteria as a bottom line and maintain alternative trading relations with their Southern partners that are of much higher quality.<sup>217</sup> ATOs can be clearly differentiated from mainstream retailers. ATOs are characterized by transparency, long-term commitment to their trading partners, and by localizing the profits generated through Fair Trade in the producing area.<sup>218</sup> The great advantage of the ATOs network is that, unlike aid programs, it enables the direct reach of specific producer groups, who therefore

---

210 Ibid.

211 Michael K Goodman, "Reading Fair Trade: Political Ecological Imaginary and the Moral Economy of Fair Trade Foods," *Political Geography* 23 (2004), 908.

212 Wright – Heaton, 425.

213 Nicholls, 113.

214 Fridell (2009), 83

215 Gendron, Bisailon and Otero Rance, 68.

216 Holt-Gimenez, Bailey and Sampson, 4.

217 Holt-Gimenez, Bailey and Sampson, 15.

218 Ibid. 14-15

can meaningfully benefit from this trading relationship.<sup>219</sup>

Secondly, radicals argue that consumers lack efficient knowledge both about the production practices in the world and about the difference Fair Trade makes. Drawing on Michael Dawson,<sup>220</sup> Fridell argues that big corporations have the power to influence what knowledge consumers obtain.<sup>221</sup> Furthermore, while Fair Trade promotes itself as based on partnership between producers and consumers, radicals argue that this relationship is limited by the commercial implications, which reiterate the alienation of consumers from Fair Trade products, and through that from producers.<sup>222</sup>

Finally, both radicals and reformists argue that it is essential to raise consumer awareness. Since knowledge is power, it is crucial to empower the consumers in order to fulfill their meaningful role in Fair Trade. A clear challenge that Fair Trade still has to face is that most consumers either are unaware of what Fair Trade is or do not have a clear understanding of the whole movement.<sup>223</sup> However, in order to convince consumers that they are willing to pay the Fair Trade premium, they need to understand the importance of their purchases. Raising awareness is important for reformists to enable the spread of the network and the increasing market shares.<sup>224</sup> In contrast, educating consumers is essential for radicals in order to create an alternative market, based on partnership and personal relationships. However, both reformists and radicals recognize that the viability of Fair Trade is based on educating people and raising consumer awareness. For example, if Starbucks stopped selling Fair Trade coffee, the North American movement would almost disappear. In contrast, in Europe, where the spread of the network has been accompanied by continuous campaigns, Fair Trade has a wider base and more

---

219 Leclair, 956.

220 Michael Dawson, *The Consumer Trap: Big Business Marketing in American Life* (Chicago: University of Illinois Press, 2005)

221 Fridell (2009), 83.

222 Renard (2003), 92.

223 Wright – Heaton, 424.

224 Ibid. 418.



committed consumers linked to it.<sup>225</sup>

The issue of mainstreaming is central to the division between radicals and reformists. Radicals argue that mainstreaming leads to the degrading of the movements, its values, and even its label. In contrast, reformists are concern over how to make Fair Trade a better player in the conventional market. They promote the building of strong Fair Trade brands, as well as growing availability. They believe that the more Fair Trade products are sold, the better off producers will be; therefore, it is crucial to gain growing market shares.

---

225 Renard (2003), 93.

## Conclusions

The inclusion of corporations into the Fair Trade network and the move towards supermarket shelves led to a division in the Fair Trade movement. Radicals, based on their Marxist beliefs advocate the maintenance of the historic ATOs network. They believe in order to empower Third World producers, it is crucial to abandon the capitalist system; therefore Fair Trade should not compromise its original values. In contrast, reformist are influenced by liberal thought and do not believe that the capitalist world order is inherently unjust. In their view, the current trading rules and practices need to be improved and regulated, and argue that FLO and the Fair Trade network are the right organizations for that.

These ideological differences translate into different views on the practical issues that Fair Trade needs to face. Reformists aim to increase Fairtrade products' market share, therefore are concerned with managerial issues, such as building a strong Fairtrade brand, introducing new products and composite products, setting up universal trading rules. In contrast, radicals are highly critical of the current functioning of the Fair Trade network. They argue that there are serious problems with the FLO, for example, the unequal power relations maintained by Northern experts; serious problems with the inclusion of corporation and selling out of the ideals. Being so strongly critical of the network, radicals generally only offer their critiques and not their solutions to the problems – as they see the inherent solution in the return to the ATOs network, based on personal relationships, trust, respect and dialog. Their most practical proposal is to certify and monitor Northern trading partners the same way as Southern producers.

In conclusion, this debate is a really good example of how ideological assumptions determine the assessment of concrete issues. Radicals and reformist use that same data to find often contradicting problems within Fair Trade. As Marxist, radical see the reformists' achievements as compromising with the exploitative, conventional market. Simultaneously,

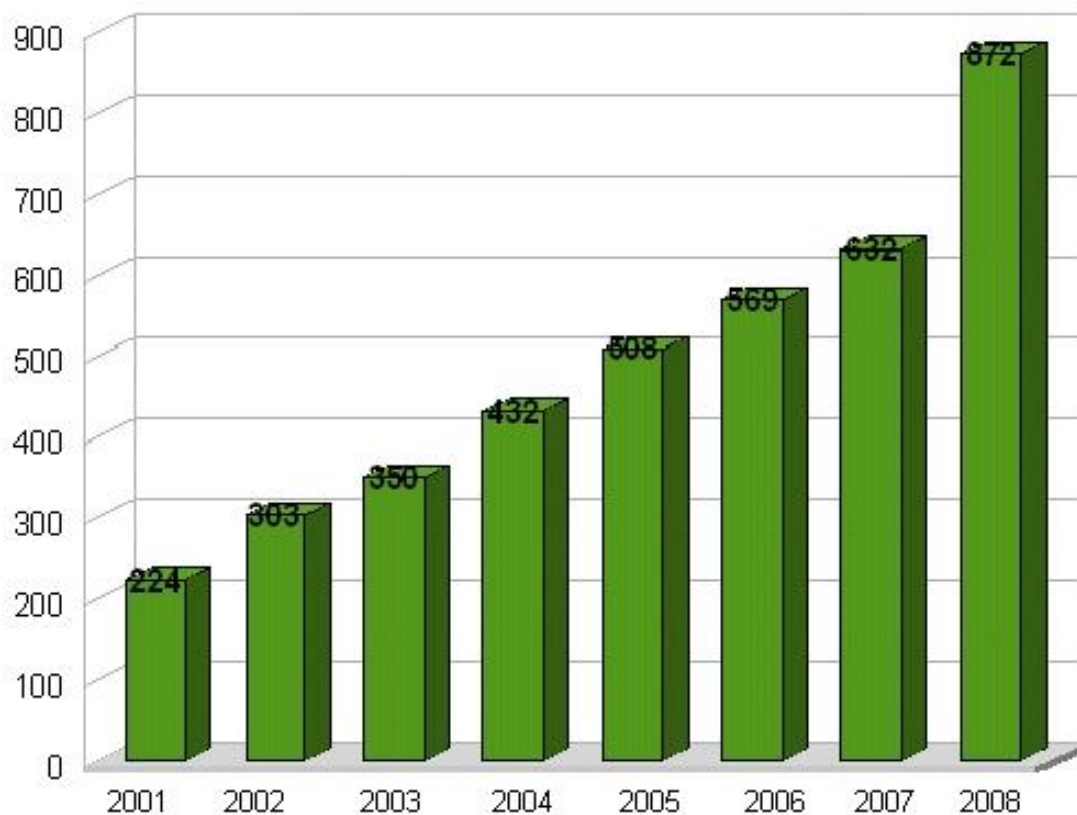
reformist critique radicals for their impracticability and not realizing the limited reach of their proposals. While, this discussion would suggest that there is a sharp division between radicals and reformists that would lead to the split of the movement and the network; that is not quite the case. The Fair Trade movement and network harmoniously coexist, and learn from each other. Reformists keep pressuring supermarkets and processors to follow suit and participate in Fair Trade. On the other hand, radical ATOs keep selling their not always FLO-certified products; organize trips for producers and lectures for consumers.

## Appendix 1 – Timeline of Fair Trade history

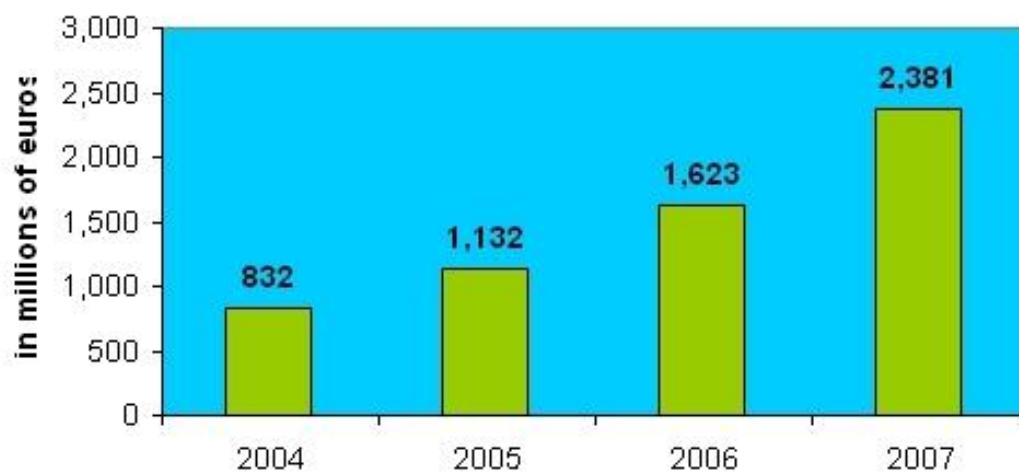
1946	The history of fair trade starts with Edna Ruth Byler in Pennsylvania
late 1950s	Oxfam shops in Britain started selling crafts made by Chinese refugees
1958	Fair Trade shops started to open in the United States
1962	The first International Coffee Agreement (ICA) was finally signed
1969	the first “World Shop” opened
1972	first SELFHELP shop in the United States
1973	Fair Trade Organisatie introduced coffee to the European fair trade markets in the Netherlands
1988	"Max Havelaar" became the first label to certify fair trade coffee
1989	International Coffee Agreement (ICA) breaks up
1989	founding the International Fair Trade Association, Netherlands
1990	European Fair Trade Association
1991	CafeDirect, UK.
1994	NEWS!, the Network of European World Shops, Mainz
1997	Fair Trade Labeling Organizations International, Bonn
1997	Fair Trade labeling was initiated in Canada
1998	foundation of FINE
1999	Fair Trade labeling was initiated in the United States
2000	Starbucks started to sell Fair Trade coffee
September 2001	FLO established an independent, autonomous organ of certification, FLO-CERT
October 2001	FINE established one single definition of Fair Trade, accepted by all actors in the movement
2001	FLO established international standards and labels for seven commodities: coffee, coca, honey, cane sugar, tea, bananas, and orange juice
2002	FLO launched the Fairtrade label

## Appendix 2 – Most Recent FLO graphs

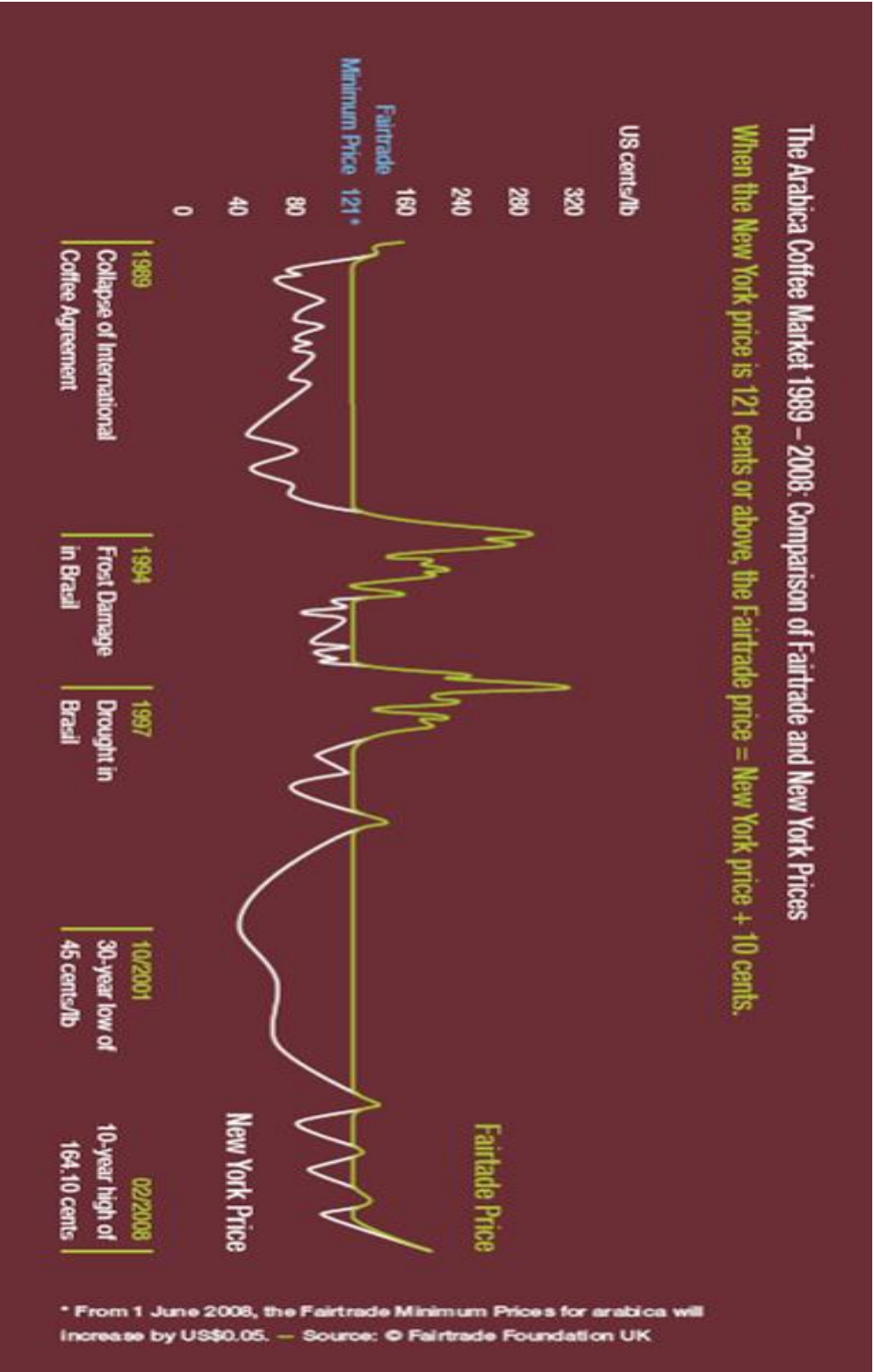
The growing number of Fairtrade certified producer organizations from 2001 to 2008



Estimated retail value of Fairtrade certified products



Appendix 3 – Coffee prices in a historic perspective



## Appendix 4 – 10 Principles of Fair Trade

### **Creating opportunities for economically disadvantaged producers**

Fair Trade is a strategy for poverty alleviation and sustainable development. Its purpose is to create opportunities for producers who have been economically disadvantaged or marginalized by the conventional trading system.

### **Transparency and accountability**

Fair Trade involves transparent management and commercial relations to deal fairly and respectfully with trading partners.

### **Capacity building**

Fair Trade is a means to develop producers' independence. Fair Trade relationships provide continuity, during which producers and their marketing organizations can improve their management skills and their access to new markets.

### **Promoting Fair Trade**

Fair Trade Organizations raise awareness of Fair Trade and the possibility of greater justice in world trade. They provide their customers with information about the organization, the products, and in what conditions they are made. They use honest advertising and marketing techniques and aim for the highest standards in product quality and packing.

### **Payment of a fair price**

A fair price in the regional or local context is one that has been agreed through dialogue and participation. It covers not only the costs of production but enables production which is socially just and environmentally sound. It provides fair pay to the producers and takes into account the principle of equal pay for equal work by women and men. Fair Traders ensure prompt payment to their partners and, whenever possible, help producers with access to pre-harvest or pre-production financing.

### **Gender Equity**

Fair Trade means that women's work is properly valued and rewarded. Women are always paid for their contribution to the production process and are empowered in their organizations.

### **Working conditions**

Fair Trade means a safe and healthy working environment for producers. The participation of children (if any) does not adversely affect their well-being, security, educational requirements and need for play and conforms to the UN Convention on the Rights of the Child as well as the law and norms in the local context.

### **Child Labour**

Fair Trade Organizations respect the UN Convention on the Rights of the Child, as well as local laws and social norms in order to ensure that the participation of children in production processes of fairly traded articles (if any) does not adversely affect their well-being, security, educational requirements and need for play. Organizations working directly with informally organised producers disclose the involvement of children in production.

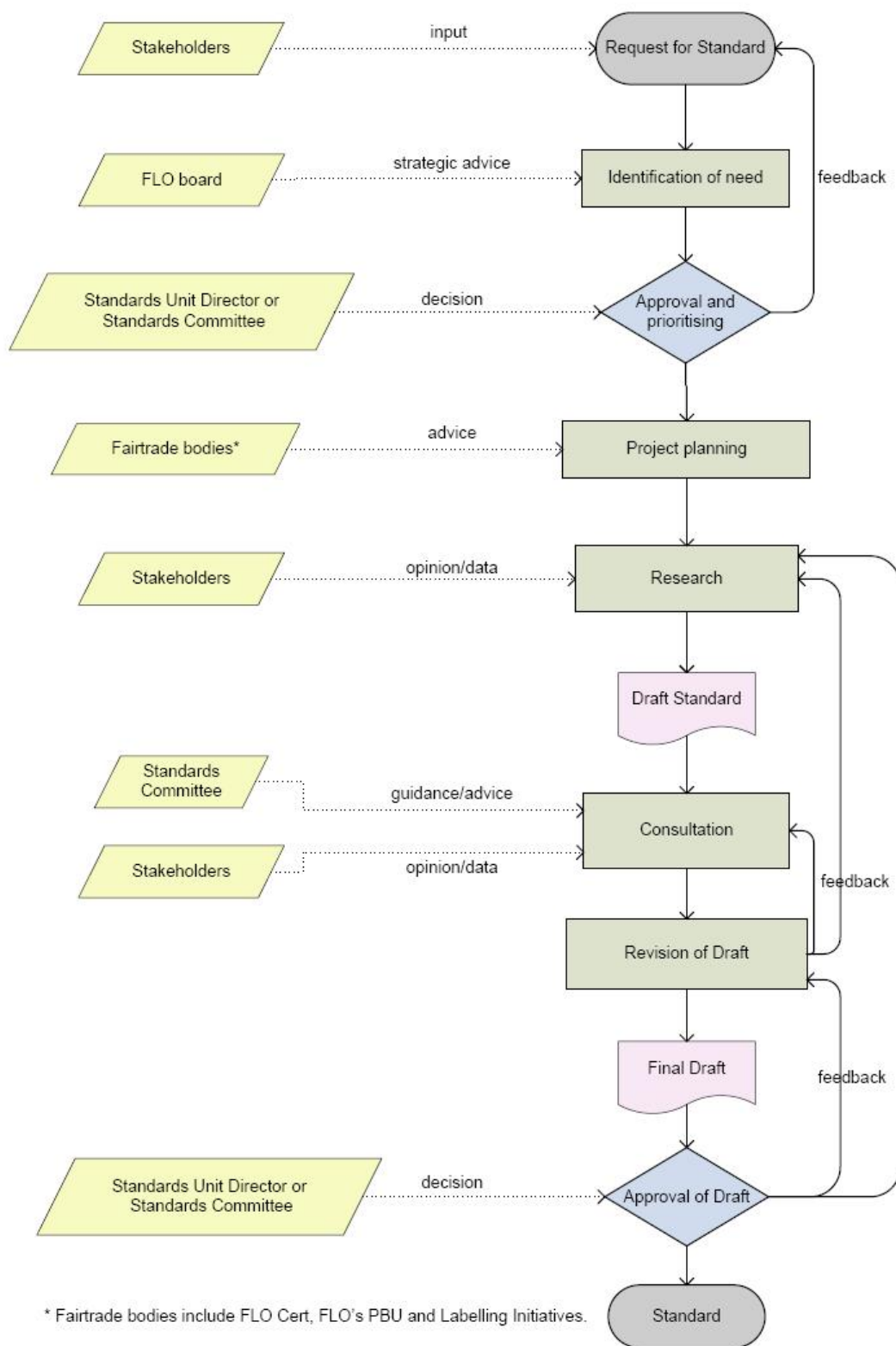
### **The environment**

Fair Trade actively encourages better environmental practices and the application of responsible methods of production.

### **Trade Relations**

Fair Trade Organizations trade with concern for the social, economic and environmental well-being of marginalized small producers and do not maximise profit at their expense. They maintain long-term relationships based on solidarity, trust and mutual respect that contribute to the promotion and growth of Fair Trade. An interest free pre payment of at least 50% is made if requested.

## Appendix 5 – Price Setting procedure in FLO





## Bibliography

A Charter of Fair Trade Principles. World Fair Trade Organization and Fairtrade Labelling Organizations International, 2009.

Anderson, Matthew. (forthcoming) "Cost of Cup of Tea": Fair Trade and the British Co-operative Movement, c. 1960-2000." In *Consumerism and the Co-operative movement in modern British history: Taking Stock*, edited by Lawrence Black and Nicole Robertson. Manchester: Manchester University Press, 2009.

Anderson, Matthew. "NGOs and Fair Trade: The Social Movement Behind the Label." In *NGOs in Contemporary Britain: Non-state Actors in Society and Politics since 1945*, edited by Nick Crowson, Matthew Hilton and James McKay. Hampshire: Palgrave Macmillan, 2009.

Bacon, Christopher. "Confronting the Coffee Crisis: Can Fair Trade, Organic, and Specialty Coffees Reduce Small-Scale Farmer Vulnerability in Northern Nicaragua?" *World Development* 33, no. 3 (2005): 497–511.

Barrientos, Stephanie and Sally Smith. "Fair Trade and Ethical Trade: Are There Moves Towards Convergence?" *Sustainable Development* 13 (2005): 190-198.

Barrientos, Stephanie and Sally Smith. "Mainstreaming Fair Trade in Global Production Networks: Own Brand Fruit and Chocolate in UK supermarkets." In *Fair Trade – The challenges of transforming globalization*, edited by Laura T. Raynolds, Douglas L Murray and John Wilkinson, 103-123. New York: Routledge, 2007.

Becchetti, Leonardo and Marco Constantino. "The Effects of Fair Trade on Affiliated Producers: An Impact Analysis on Kenyan Farmers." *World Development* 36 (2008): 823–842.

Clive Barnett, Nick, Paul Cloke Clarke and Alice Malpass. "The political ethics of consumerism." *Consumer Policy Review* 15, no. 2 (2008): 45-51.

Dawson, Michael. *The Consumer Trap: Big Business Marketing in American Life*. Chicago: University of Illinois Press, 2005.

Fairtrade Labelling Organizations International (FLO). <http://www.fairtrade.net/> (accessed May 30, 2009)

FLO-CERT. <http://www.flo-cert.net/flo-cert/index.php> (accessed May 30, 2009)

Foucault, Michel. *The History of Sexuality*. Harmondsworth: Penguin, 1981.

Fridell, Gavin. "Fair-Trade Coffee and Commodity Fetishism: The Limits of Market-Driven Social Justice." *Historical Materialism* 15 (2007): 79–104.

Fridell, Gavin. "The Co-Operative and the Corporation: Competing Visions of the Future of Fair Trade." *Journal of Business Ethics* 86 (2009): 81–95.

Fridell, Gavin. "The Fair Trade Network in Historical Perspective." *Canadian Journal of Development Studies* 25 (2004): 411-428.

Gendron, Corinne, Veronique Bisaillon and Ana Isabel Otero Rance. "The Institutionalization of Fair Trade: More than Just a Degraded Form of Social Action." *Journal of Business Ethics* 86 (2009): 63-79.

Gereffi, Gary and Timothy Sturgeon. "The governance of global value chains." *Review of International Political Economy* 12, no. 1 (2005): 78-104.

Goodman, Michael K. "Reading Fair Trade: Political Ecological Imaginary and the Moral Economy of Fair Trade Foods." *Political Geography* 23 (2004): 891-915.

Gramsci, Antonio. *Selections from the Prison Notebooks*. Edited and translated by Quintin Hoare and Geoffrey Nowell Smith. London: Lawrence & Wishart, 1971.

Hira, Anil and Jared Ferrie. "Fair Trade: Three Key Challenges for Reaching the Mainstream." *Journal of Business Ethics* 63 (2006): 107-118.

Holt-Giménez, Eric, Ian Bailey, and Devon Sampson, ed. *Fair to the Last Drop: The Corporate Challenges to Fair Trade Coffee*. Development Report 17. Food First. Available at: <http://www.foodfirst.org/en/node/1794> (accessed May 23, 2009)

Holzer, Boris. "Political consumerism between individual choice and collective action: social movements, role mobilization and signaling." *International Journal of Consumer Studies* 30 (2006): 405-415.

ILO Declaration on Fundamental Principles and Rights at Work 1998. International Labour Organization. Available at: <http://www.ilo.org/public/english/standards/relm/ilc/ilc86/com-dtxt.htm> (accessed May 29, 2009)

Klintman, Mikael. "Ambiguous framings of political consumerism: means or end, product or process orientation?" *International Journal of Consumer Studies* 30 (2006): 427-438.

Konecny, Tomas and Jan Myslivecek. "Fair Trade - Is It Really Fair?," *CERGE-EI Working Papers* wp367, The Center for Economic Research and Graduate Education - Economic Institute, Prague, 2009. Available at: <http://ideas.repec.org/p/cer/papers/wp367.html>

Kratz, Andreas. *Generic Fairtrade Standards*. Bonn: Fairtrade Labelling Organizations International, 2009.

Krier, Jean-Marie. *Fair Trade 2007: New Facts and Figures from an ongoing Success Story. A Report on Fair Trade in 33 Consumer Countries*. Dutch Association of Worldshops (2008).

Leclair, Mark S. "Fighting the Tide: Alternative Trade Organizations in the Era of Global Free Trade." *World Development* 30, no. 6 (2002): 949-958.

Lee, Hyung-Jong and Lea Vihinen. "Fair Trade and the Multilateral Trading System." *OECD Papers* 5, no. 2 (2005): 1-13.

Low, Will and Eileen Davenport. "Mainstreaming fair trade: adoption, assimilation, appropriation." *Journal of Strategic Management* 14 (2006): 315-327.

Mann, Stefan. "Analysing fair trade in economic terms." *The Journal of Socio-Economics* 37 (2008): 2034-2042.

McMurtry, J. J. "Ethical Value-Added: Fair Trade and the Case of Cafe´ Femenino." *Journal of Business Ethics* 86 (2009): 27-49.

NEWS! Network of European Worldshops. <http://www.worldshops.org/> (accessed on May 30, 2009)

Nicholls, Alex. "Fair Trade New Product Development." *The Service Industries Journal* 24, no.2 (2004): 102-117.

O'Brien, Robert and Marc Williams. *Global Political Economy – Evolution and Dynamics*. 2<sup>nd</sup> edition. New York: Palgrave Macmillan, 2007.

Oxford Dictionaries. Ask Oxford. <http://www.askoxford.com/> (accessed June 2, 2009)

Paul, Elisabeth. "Evaluating Fair Trade as a Development Project: Methodological Considerations." *Development in Practice* 15, no. 2 (2005): 134-150.

Pérez Sueiro, Verónica, Jennifer Stapper and Julia Powell, ed. *Annual Report 2007 An Inspiration for Change*. Fairtrade Labelling Organizations International, 2008. Available at <http://fairtrade.net>

Ponte, Stefano. "Behind the Coffee Crisis." *Economic and Political Weekly* 36 (2001): 4410-4417.

Polányi, Karl. *The Great Transformation*. 3<sup>rd</sup> edition. Boston: Beacon Press, 2001.

Raynolds, Laura T. "Consumer/Producer Links in Fair Trade Coffee Networks." *Sociologia Ruralis* 42 (2002): 404-424.

Raynolds, Laura T. "Mainstreaming Fair Trade Coffee: From Partnership to Traceability." *World Development* 37, no. 6 (2009): 1083-1093.

Raynolds, Laura T. "Re-embedding global agriculture: The international organic and fair trade movements." *Agriculture and Human Values* 17 (2000): 297-309.

Raynolds, Laura T., Douglas Murray and Peter Leigh Taylor. "Fair Trade Coffee: Building Producer Capacity via Global Networks." *Journal of International Development* 16 (2004): 1109-1121.

Raynolds, Laura T., Douglas Murray and Peter Leigh Taylor. *One Cup at a Time. Poverty Alleviation and Fair Trade Coffee in Latin America*. Colorado State University: Fair Trade Research Group, 2003. Available at:

<http://www.colostate.edu/Depts/Sociology/FairTradeResearchGroup/doc/fairtrade.pdf> (accessed May 24)

Reed, Darryl. "What do Corporations have to do with Fair Trade? Positive and Normative Analysis from a Value Chain Perspective." *Journal of Business Ethics* 86 (2009): 3–26.

Renard, Marie-Christine. "Fair Trade: Quality, Market and Conventions." *Journal of Rural Studies* 19 (2003): 87-96.

Renard, Marie-Christine. "Quality Certification, Regulation and Power in Fair Trade." *Journal of Rural Studies* 20 (2005): 419-431.

Starbucks Coffee Company Canada, "Social Responsibility." <http://www.starbucks.ca/en-ca/Social+Responsibility/> (accessed May 23, 2009)

Stiglitz, Joseph E. and Andrew Charlton. *Fair Trade for All: How Trade Can Promote Development*. Oxford: Oxford University Press, 2007.

Tallontire, Anne. "Partnerships in Fair Trade: Reflections from a Case Study of Cafédirect." *Development in Practice* 10, no. 2 (2000): 166-177.

Ten Thousand Villages. A Fair Trade Retailer of Handmade Jewelry, Home Decor, Gifts, and more. <http://www.tenthousandvillages.com/> (accessed May 23, 2009)

Tucker, Robert C, ed. *The Marx-Engels Reader*. 2<sup>nd</sup> Edition. New York: W.W. Norton & Co, 1978.

Utting, Karla. "Assessing the Impact of Fair Trade Coffee: Towards an Integrative Framework." *Journal of Business Ethics* 86 (2009): 127–149.

Utting-Chamorro, Karla. "Does Fair Trade Make a Difference? The Case of Small Coffee Producers in Nicaragua." *Development in Practice* 15, no. 3/4 (2005): 584-599.

VanderHoff Boersma, Francisco. "The Urgency and Necessity of a Different Type of Market: The Perspective of Producers Organized Within the Fair Trade Market." *Journal of Business Ethics* 86 (2009): 51–61.

Wallerstein, Immanuel *The Modern World System: Capitalist Agriculture and the Origins of the European World Economy in the Sixteenth Century*. New York: Academic Press, 1974.

WFTO. <http://www.wfto.com/> (accessed May 30, 2009)

Witkowski, Terrence H. "Fair Trade Marketing: An Alternative System for Globalization and Development." *Journal of Marketing* (Fall 2005): 22-33.

Wright, Len Tiu and Simon Heaton. "Fair Trade Marketing: An Exploration through Qualitative Research." *Journal of Strategic Marketing* 14 (2006): 411-426.