

*Mainstreaming Fair Trade:  
Fair trade brands & the problem of ownership*

Fair trade has undergone exponential growth in recent years, thanks largely to the expansion of Fairtrade certified food products in mainstream distribution and retail channels. However mainstreaming-as-product certification has provoked considerable controversy. For some, major firms represent an unbeatable opportunity for market growth and producer-level impact, and, so long as the product undergoes certification, any firm – whether a Nestle or a Fair Trade Organisation (FTO) – can and should be encouraged to promote fair trade. For others, mainstream food companies' participation in the Fairtrade certification system is 'bastardising' fair trade principles (Barrientos, Conroy & Jones, 2007) and jeopardising the market's long term sustainability. Out of this latter camp has emerged an alternative strategy for mainstreaming fair trade: fair trade brands. Fair trade brands are among a few distinct FTOs set up to compete in highly concentrated, branded (mainly food) markets. Located within the context of global agricultural markets this chapter analyses empirical data drawn from the author's doctoral fieldwork<sup>i</sup> and argues that farmer-owned fair trade brands empower producers more effectively than certification by giving producers greater ownership in international food companies and trading. These businesses also offer a more sustainable and strategic approach to realising social change in global agri-food markets.

*Evolution in global food industry: from commodity based to brand based markets*

Agriculture is vital for development (IFAD, 2001; Mellor, 2001). It is the backbone of survival for 1.2 billion living in poverty who are based in rural areas and work as either small-scale farmers or workers (UNDP, 2005: 129). Acknowledging the contribution of rural agriculture to alleviating rural poverty, Robert Zoellick, Head of the World Bank, notes that 'growth in agriculture is 4 times more effective at raising incomes of the extreme poor than growth in any other sector' (Japan Today, 22 October, 2007). Despite its potential the modern history of global agriculture tells a story of increasing poverty and disempowerment for small-scale rural producers. The first two thirds of the 20<sup>th</sup> century were dominated by a system of agro-industrial development based on Fordist mass production of undifferentiated products for mass consumption in Western markets. Processes of globalisation in the global food industry have encouraged increasing corporate concentration which has strengthened the influence of global retailers and brand manufacturers over producers in global supply chains (Vorley, 2003; Heffernan, 1999).

This transition to 'post-Fordist' markets has produced new forms of social organisation; producer-driven<sup>ii</sup> markets have been replaced by global 'buyer-driven'<sup>iii</sup> supply chains in which buyers lead centrally coordinated but internationally dispersed production networks, setting the terms and conditions of production (e.g. geographical source, market price and production timeframes) (Gereffi, 1994)<sup>iv</sup>. It has also led to a migration of the value of international trade away from tangible assets towards intangible assets (ibid., 1994; see also Piore & Sabel, 1984).

For much of the twentieth century, the vast majority of a company's assets were tangible – real estate, plant, facilities, equipment, inventory, stock investments and cash... Today, the intangible assets of the firm are frequently

the most valuable... particularly the company's trademarks or brands... brands are now among a company's most valuable assets and represent the 'engines' of corporate growth, future success and ongoing profitability... (Interbrand, 1997, cited in Pritchard, 1999).

Brands are indeed 'engines' of corporate profitability, especially so in the food industry. By comparison, agricultural commodity production has steeply declined in market value (Robbins, 2003). In the cocoa industry for instance, despite the rising value of chocolate in a global market worth \$US75 billion in sales a year, the world market price for cocoa has fallen by 50 per cent since 2003 (Vorley, 2003: 50). Similarly in the coffee sector, between 1975 and 1993, the world market price for coffee dropped by 18 per cent but the consumer price increased by 240 per cent (Morissett, 1997). Global commodity chain (GCC) analysis, now global *value* chain (GVC) analysis accounts for the shifting distribution of fortunes and organisational processes that have characterised post-Fordist markets. GVCs refer to the entire cluster of productive units in commodity production networks, each one commanding a value that is indirectly proportional to the level of competition at that stage of production. Highlighting issues of market coordination and entry barriers, GVCs offer a useful framework for considering the modern political economy of international trade as shaped heavily by lead firms' organisational strategies for market governance (Gibbon & Ponte, 2005).

It also provides something of a directive for market actors at low-value ends of the production chain to improve their position by 'upgrading' to high-value units of production where fewer competitors exist (see for example Kaplinsky 2006). Upgrading involves establishing 'rents' which enable firms to 'insulate themselves from competition by taking advantage of, or creating, barriers to the entry of competitors' (Kaplinsky, 2006: 357). To improve their competitiveness, firms seek out ways to protect rents from competition. Intellectual property offers a powerful legal tool for rent-protection. In particular, own-brand manufacturing is the most lucrative form of (functional) upgrading in the competitive process because the trade mark rights that underpin brands offer *ongoing* protection from imitation<sup>v</sup>. This poses a decisive barrier to entry for would-be competitors and contributes to anti-competitive markets (Lunney, 1999; Bain, 1956; Economides, 1988)<sup>vi</sup>.

*A contemporary history of 'mainstreaming' fair trade in consumer markets: product-certification and fair trade brand companies*

Within the context of this evolving market structure in agriculture, the fair trade movement has sought to offer market access to the most disadvantaged producers in developing countries on terms that favour their interests. Pioneered by Oxfam and other alternative trading organisations in Europe and the US until the 1980s, fair trade has since become a much broader and more complex market phenomenon in its pursuit of larger 'mainstream' markets for small-scale producers (Tallontire, 2000, 2006; Kocken, 2003; Low & Davenport, 2005; Litrell & Dickson, 1999; Raynolds et al., 2007).

Formalised by the organisation 'Max Havelaar' in 1989, the Fairtrade certification system quickly spread among sister organisations across Europe under the name of Max Havelaar and 'Transfair'. In 1997, this organisational cluster established the

Fairtrade Labelling Organisations International (FLO) and in 2002 created an independent auditing arm FLO Cert.

Today, FLO is the worldwide standard-setting and certification organisation for labelled Fairtrade. FLO’s mission is to ‘improve the position of the poor and disadvantaged producers in the developing world, by setting the Fairtrade standards and by creating a framework that enables trade to take place at conditions respecting their interest’ (FLO 2006a). The Fairtrade system offers producers a ‘fair wage’ together with a social premium for development projects. Consisting of FLO e.V. and FLO Cert., FLO has 3 responsibilities: setting the international Fairtrade standards (see Box 1), product certification and trade auditing, and producer support services.

<b>Trader Criteria:</b>
A price covering the cost of production
A social premium for development purposes
Advance payments to assist farmers during pre-harvest periods
Long-term contracts with producers to enable long-term production planning
Long-term trading relations to allow stable and sustainable production and planning

Box 1: Fairtrade labelling criteria (criteria for producers not shown)

The growth of Fairtrade certified product markets internationally has been rapid. Global sales are valued at over \$US1.4 billion, a small share of market trade made remarkable by a growth rate of 50 per cent (Murray & Reynolds, 2007: 8; see also Krier, 2005: 7). In mainstream distribution channels, sympathetic cooperative retailers and health food stores such as the UK’s ‘Fresh and Wild’ and The Cooperative Group (‘the Co-op’) were the first to offer Fairtrade products in mainstream distribution channels. The Co-op converted all of its own-label coffee and chocolate to Fairtrade in 2002 and 2003 respectively. Similarly the US retailer ‘Wild Oats’ converted all of its own-label coffee to Fairtrade in 2002 and now stocks a range of other Fairtrade products (Nicholls & Opal, 2005: 193, 146).

The involvement of more traditional corporate retailers in national markets has fast-tracked the growth and variety of Fairtrade product markets<sup>vii</sup>, providing the fair trade movement with significant market access. Supermarkets in fact account for 56,700 of the 78,900 ‘points of sale’ for Fairtrade products in 25 European countries (Krier, 2005). In Switzerland, the two national retailers, Migros and the Co-op offer own-label Fairtrade products in 10 and 9 different own-label product groups respectively (Nicholls & Opal, 2005: 196). Migros’ turnover of Fairtrade products accounted for 40 per cent of the total sales of Fairtrade in Switzerland in 2002 (Nicholls & Opal, 2005: 196). In a more recalcitrant and minimalist fashion, brand manufacturers such as Nestle, Procter & Gamble, Kraft, Starbucks, Dole, and Chiquita have more recently begun to move into the Fairtrade system.

This corporate-buyer model of fair trade contrasts Fair Trade Organisations, the first-movers in fair trade markets, who see conventional traders selling a few Fairtrade products – largely in response to consumer pressure – as falling well short of fair trade’s broader principles and ethos. FTOs share a more expansive vision of fair trade encapsulated in the International Fair Trade Association’s (IFAT) standards for Fair Trade Organisations. Throughout the Fairtrade certification system’s institutional development, FTOs have remained a vital force and undergone their own regional and

international institutional development (Nicholls & Opal, 2005; Raynolds & Long, 2007)<sup>viii</sup>.

### Standards for Fair Trade Organisations (FTOs)

1. Creating opportunities for economically disadvantaged producers; supporting the poorest producers
2. Transparency and accountability; dealing fairly and openly with trading partners
3. Capacity building; developing the skills of producers and creating opportunities for trading their products
4. Promoting Fair Trade; telling as many people as possible about Fair Trade and informing customers where products have come from
5. Payment of a fair price; ensuring that producers receive a fair price for their products
6. Gender Equity; providing equal pay and opportunities for women and men
7. Working Conditions; ensuring that producers are working in a healthy and safe place
8. Child Labour; ensuring that the UN Convention on the Rights of the Child is respected
9. The Environment; ensuring that materials used in production and packing do not damage the environment (IFAT, 2006).

While FTOs are traditionally resigned to alternative/niche markets, in the 1990s a number of pioneers within the FTO community developed an alternative approach to 'mainstreaming' fair trade with a 'new' FTO that transformed the traditional non-profit FTO into a for-profit company structure. Exploiting commercial and legal tools of marketing and branding the FTO brand model effectively transported the 'expansionist' version of fair trade into a *mainstream* commercial setting in a form capable of competing successfully with other firms. More importantly, the FTO brand pushes the FTO model of fair trade to new limits by providing small-scale farmers greater ownership over the process of international trading and in the company structure.

Some of the [fair trade] companies - like Divine Chocolate Ltd. and Equal Exchange - those are great models, but that's not the norm in the fair trade world...(fieldwork interview notes).

...our [companies'] success comes quite heavily down to the fact that we've taken a *branded* route, so the Fairtrade products from Cafédirect and Divine Chocolate are coming from companies that specialize in the commodity that they're dealing in and are coming to the market with a *brand*...that's quite distinct from...[FTOs that are] coming to the market with a *chocolate*...[which] is...much harder to crack. You get your initial core supporters - obviously people interested in development are Oxfam supporters - but if you actually want to break it wider than that [market], then you actually need to have something that communicates something with the broadest range of the population...(fieldwork interview notes).

An example of an FTO brand company is AgroFair, a farmer-owned banana and fresh fruits company. Spread across Ghana, Ecuador and Costa Rica, AgroFair fruit farmers and cooperatives own 50 per cent of AgroFair's shares and profits, the other half held by its NGO and ethical investor partners (AgroFair, 2006a, 2006b)<sup>ix</sup>. New growers are offered company shares after a period of 12 months of trading with AgroFair. AgroFair producers gain direct experience and skills in value-added activities such as sales and marketing<sup>x</sup>. This novel enterprise has had much success in the banana sector in particular (its first product) with the Swiss retailer, *Coop*, which sells 100 per cent of its bananas as Fairtrade (to sell more Fairtrade bananas than any

other supermarket retailer worldwide) (AgroFair, 2004: 4, 24). In 2004, AgroFair's turnover increased by 47 per cent to €37.6 million, up from €25.6 million in 2003. In 2006, the company grew a further 40 per cent, with a turnover of €62 million and a share dividend of €236,000 (half of which has gone to producers).

Cafédirect is another FTO brand. Founded in 1991 in the UK, Cafedirect is the UK's leading Fairtrade hot drinks company and 4<sup>th</sup> largest coffee company, with a growth rate of 20 per cent. Cafédirect's mission is to be the 'leading brand which strengthens the influence, income and security of producer partners in the south and links them directly to the consumer' (Cafédirect, 2006). The company works with thirty-three fair trade producer organisations in eleven countries, which represent over a quarter of a million tea, cocoa and coffee producers. To date the company has pursued its mission with remarkable success. From offering one coffee product in 1991 to now 41 products ranging from drinking chocolate to gourmet and specialty coffees and teas, Cafédirect's turnover was £13.6 million in 2004 (Twin Trading, 2006). As part of a reorganisation of Cafédirect's ownership structure and capital venture, since 2003 Cafédirect producers have held 5 per cent of the company's shares and have Board representation (Cafédirect, 2004)<sup>xi</sup>.

A final example is Divine Chocolate Ltd., set up in 1997 primarily between Twin Trading and the Ghanaian cocoa cooperative, Kuapa Kokoo<sup>xii</sup>. Kuapa Kokoo producers have Board representation and co-own the brand: 33 per cent since 1997 and 45 per cent since 2006<sup>xiii</sup>. Divine's mission is multi-form: to 'take a quality affordable range of Fair Trade chocolate bars into the mainstream chocolate market'; and to 'pay a Fair Trade price for all the cocoa used in the products'. Positioned consciously among other normal 'mainstream' chocolate bars in terms of price, quality and availability, Divine aims to 'raise awareness of Fair Trade issues amongst UK retailers and consumers of all ages' and 'be highly visible and vocal in the chocolate industry and thereby act as a catalyst for change'. Competing directly with major firms in the UK chocolate industry such as Cadbury and M&M/Mars Divine Chocolate is available in 5,000 stores in the UK, including Sainsbury's, the Co-op and Tesco supermarkets. It has also experimented with private own-label ventures with the UK's Co-op (for its entire own-brand chocolate) as well as Starbucks for all its own-brand chocolate. In 2003, the company reached profitability, and has continued to do so year on year. In 2006, with 18 per cent growth, the company received a post-tax profit of over £450,000, and after 10 years of business, in 2007 the company made its first dividend of £500/share (Martyn, 2007).

Diagram 1 below identifies on the one hand a spectrum of trader-commitment and participation to fair trade principles while on the other hand this spectrum is further defined by the two tools for mainstreaming fair trade - the Fairtrade certification model and farmer-owned FT brand model. Certification and fair trade company branding is not necessarily mutually exclusive; product certification is common to all companies, yet brands co-owned by small-scale farmers is unique to FTO brand companies<sup>xiv</sup>.

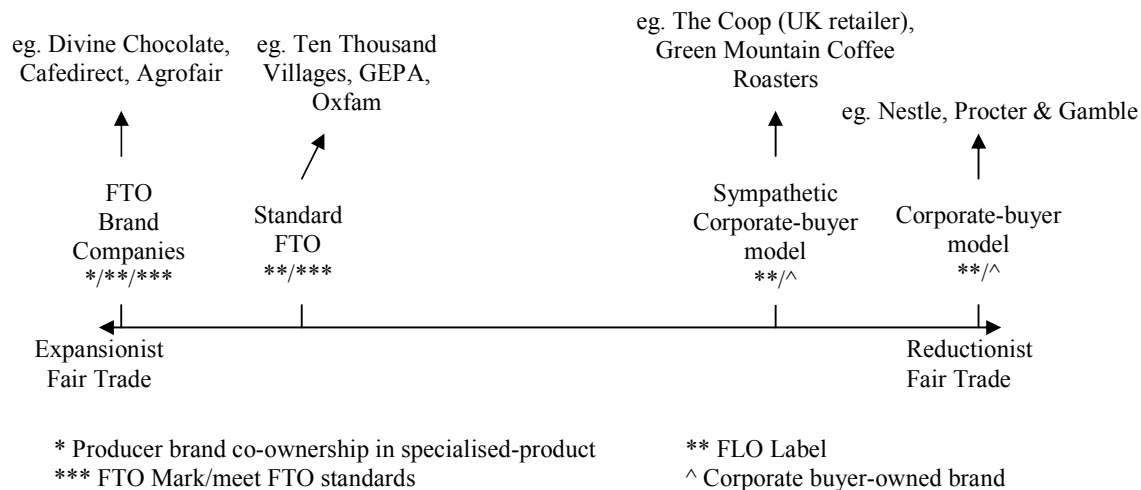


Diagram 1: Typology of trader-participation in fair trade/Fairtrade markets

Based on the movement's experience with expanding fair trade in European and the US food markets via certification and FTO brands, how effectively does each empower producers and move conventional firms towards a more expansive model of fair trade?

#### *Mainstreaming fair trade: product certification*

Noted above, the Fairtrade system requires higher-than-market commodity prices and a social premium be paid to Fairtrade producers. On the one hand, and assuming Fairtrade-registered producers actually have a trader to sell to (Doppler & Gonzalez Cabanas, 2006), these sources of revenue provide some degree of financial security – especially in the volatile markets of tropical agriculture. The premiums provide for investment in community development projects such as housing, schools, roads, health clinics and medicines. On the other hand, however, producers' remuneration and status remains tied to *commodity* production – a low-value activity in the context of post-Fordist agricultural trade.

...for cocoa farmers...the dollar value of cocoa in a bar of chocolate that costs 1 dollar is about *eight cents*. So you can be paying a cocoa grower a fair wage with respect to the local market, but [the producer] is not actually able to capture the value that their labour has directly and indirectly generated because all the value happens further down in the supply chain - it's in the brand (fieldwork interview notes).

The point here is that while the price and premium may make for a 'fair' wage for producers, it remains a very low share of the overall value that is being captured within the chain. In the context of declining commodity prices for primary commodities, the potential for development and poverty-reduction through production of primary commodities is limited, or as Wilkinson and Mascarenhas (2007: 129-30) propose, '[r]ather than maintaining colonial-based practices of simply exporting raw material, producers must be able to increase their technical and marketing knowledge and strengthen their position in alternative and conventional markets if Fair Trade movement goals are to be achieved'.

This weakness in the certification system is difficult for FLO and the NIs to rectify for the seldom written about issue of FLO's funding model<sup>xv</sup>, which has based its funding and growth strategy on conventional market power structures. FLO's national administrators, the National Initiatives (NIs), award licenses to firms to use the Fairtrade label provided those firms make and maintain a contractual commitment to abide by trader criteria (see above). License fees are paid to NIs and are a key revenue source for them and for FLO - particularly in their attempt to achieve financial independence and sustainability - and are calculated as a percentage of a firm's market share, sales or volumes (depending on the NI's particular fee structure). Thus, by virtue of their enormous market share, volumes traded and sales made, the largest mainstream firms such as Starbucks or Chiquita represent NIs' largest revenue-raisers regardless of how little Fairtrade volume they stock or sell. Dependent on the largest market players for mainstream market access and funding, NIs are both encouraged to collaborate with these traders – who have a dominant commercial-orientation rather than a Fairtrade one – and are rewarded for increasing market volumes rather than addressing market value returned to producers<sup>xvi</sup>.

...one of the major problems with the 'greenwashing question' is that FLO and Transfair USA refuse to address it publicly. Their...reasoning is obvious: these companies doing the damage provide most of the cash for their operating budgets... (Earley, February 11, 2005).

...it's not all about volume and signing up more MNCs, there's something else. Signing up more companies doesn't address ideological issues...FLO needs to push companies not just to address the price issue, but fundamental issues of inequality in the supply chain...that's tough because it's easy to ask a company to write a cheque, but to hand over power, I think that's where the challenge lies...(fieldwork interview notes).

...[fair trade] is something that has been boiled down to 'Fairtrade means producers get a fair price'. But in actuality, it's about almost everything *but* that...[fair trade] is actually not about what you're paying so much as the fact that you are engaged in direct, long-term relations with producers, where the objective is to maximize benefits going back to the most vulnerable people in the supply chain in ways that challenge the existing terms of trade. So it's really process-oriented, it's really a long-term project...that's not something that you can easily do by saying 'yep here's your seal and put it on your bag and pay 1.26 and be done with it'. ...Even though you can get people to pay a better price when you get these large corporations on board...what you *lose* is...the *power* of what *could* come if they really understood what they were buying into... if you could really get Procter & Gamble to understand that it's not just about paying a Fairtrade price, it's about developing long-term relationships, it's about really investing in these communities, it's about seeing the sustainability of *your* business being tied to the sustainability of *their* business...[then] we'd have a much different story to tell...(fieldwork interview notes).

The cost of this incentive structure is a political one and has manifested in the hollowing out of FLO's requirements for traders. Research notes the certification

system's diminishing focus on market access for marginalised small-producers as well as principles of *direct* trader-producer relations, investment in capacity-building (which enables producers to upgrade beyond commodity production), *long-term* business partnerships, and political advocacy for trade justice (see Bezencon & Bili, 2006). FLO's decision to begin certifying large-scale commercial farms and plantations has enabled MNCs to maintain their standard supply chain structures (Renard & Perez-Grovas, 2007: 150)<sup>xvii</sup>, even though MNCs' existing suppliers are not the most exploited or marginalised producers nor in greatest need of capacity-building and technical assistance<sup>xviii</sup>. This aside, it is only companies that actually put the Fairtrade label on the product who are required to make contractual commitments to Fairtrade. This means that retailers, whose own-label Fairtrade goods represent a significant portion of Fairtrade sales but who outsource packing and labelling functions are free to pursue a largely commercial agenda in Fairtrade production networks. Some have reported suggestions that some retailers are switching between Fairtrade producers, abandoning relationships with producer groups, buying the cheapest Fairtrade produce available and in so doing threatening the system's capacity to offer developmental benefits to producers (Barrientos & Dolan, 2006: 18; see especially Barrientos & Smith, 2007).

While a few 'sympathetic' retailers and businesses participating in the Fairtrade system have sought to distinguish themselves from more opportunistic MNCs by making demonstrable commitments to Fairtrade markets and producers (albeit circumscribed by dominant market prerogatives and principles) (Barrientos & Smith, 2007; Reynolds & Murray, 2007), they are an exception to the norm<sup>xix</sup>. Moreover, they gain no competitive advantage by doing so and may even be pushed out of the market since FLO's move towards ISO 65 accreditation binds FLO to a principle of non-discrimination for traders or producers irrespective of their motives and practices in the Fairtrade system (Barrientos & Smith, 2007). While not the only limitations for empowering small-producers<sup>xx</sup>, the certification system is not only limited in scope for producer empowerment in global agricultural markets, but also having largely limited effect on the 'business as usual' practices of dominant traders. These shortcomings can be seen to derive from both the system's *neglect* of the sources of political inequality in brand-based markets, and its *dependence* on this power structure for market access and scale.

#### *Mainstreaming fair trade: fair trade brands*

Unlike conventional traders in FLO's system whose 'commitment' to fair trading in many cases amounts to paying a Fairtrade price and social premium, fair trade brand companies, as FTOs, preserve the integrity of trading principles such as direct and short supply chain relations, a focus on small-scale producers, and capacity-building and technical assistance in high-value areas of international business. A unique feature of the FTO brand is the corporate governance structure. Producers are not only the growers/suppliers for fair trade brand companies, but also company Directors and shareholders. Greater economic security flows from this in terms of gaining not only Fairtrade minimum prices and premiums for commodity production, but also the added-value derived from greater ownership in business and trading processes and (legally) in brand equity. For example, Divine Chocolate's farmer cooperative 'Kuapa Kokoo' received £1,025,000 in Fairtrade premiums between 1993 and 2001. This has been a valuable income stream for community and business investment but

more secure financial gains have come from an additional source: their 45 per cent ownership share of the company (Kyere, 2006). At current market prices, Divine Chocolate is worth some £1,833,333 million, which, in 2007, returned to Kuapa Kokoo a dividend of £47,352 (incl. ordinary shares and interest on preference shares) (Martyn, 2007). Fair trade brands were in fact developed to offer greater control and value to producers in international business partnerships – in other words, to address the ‘limits’ of the certification system.

...[the brands] were designed to achieve a few things. One was - when we started Cafédirect, it was designed to give small-scale producers who had really worked *hard* to learn how to access the market, somebody to sell to, someone to call their own...Because you know that old adage ‘you can lead a horse to water but you can’t make it drink’? The thing about Transfair and the trade-marking models –...[is that] the [Fairtrade] label made it possible for conventional companies to buy directly from small farmers and get some kind of reward for that...but it didn’t make [conventional companies] *do* [fair trade] with many small-farmer organizations, especially the weaker ones with which they just didn’t want to get involved. They tended to pick the ones that were more capable, more able. And that’s not very developmental...And I realized quite early on that [the brand] was where you made money...(fieldwork interview notes).

...you can be paying a cocoa grower a fair wage with respect to the local market, but [the producer] is not actually able to capture the value...because all the value happens further in the supply chain - it’s in the brand. Companies like the Day Chocolate Company [Divine Chocolate Inc.] in the UK which sells Divine Chocolate is one third owned by the farmers that grow it. So they get the value from the Fairtrade premium and they get the value of the *brand*...Fairtrade will only be successful and sustainable if it can adapt and respond to [these] *emerging* difficulties that producers face...(fieldwork interview notes).

Because of their co-ownership models, FTO brands prioritise producer capacity-building as an important investment. In fact, the challenge fair trade brands pose to conventional firms in highly concentrated markets – including those selling Fairtrade certified products – is a capacity to operate thriving commercial enterprises that explicitly strengthen small producers’ market capacity in the market. For instance, as part of its ‘Gold Standard Fair Trade policy’, Cafedirect invested 86 per cent of its working capital in 2006 into producer support ventures (£574,000 in 2004-2005) (Cafedirect, 2006). Similarly, Divine Chocolate has invested an increasing amount of its revenues into technical assistance, from £23,876 in 2002 to £331,486 in 2006 (Martyn, 2007).

With the traditional players you can see a trend: western companies are integrating the supply chain, getting closer and closer to the global South. They do not focus only on selling bananas – they also dominate production and logistics. What AgroFair is doing can be called ‘reverse supply chain integration’: the Third World producer is integrating the supply chain in his own interest. The producer is dedicated not only to growing product, but to organising logistics, and having at the same time a voice and vote in the sales

strategy. In contrast to normal opinion, AgroFair has shown that involving Third World producers in business structures, making them co-responsible for the marketing strategy, is a viable aspiration (cited in Nicholls & Opal, 2005: 91).

The entry of these business model innovations into their respective industries has demonstrated indeed the ‘viability’ of operating competitive commercial enterprises that explicitly hand market power, skills, revenues and ownership to small-producers. These organisational principles and practices for farmer-empowerment remain unique to fair trade brands within the fair trade market - and are forms of competitive advantage – which fair trade brand companies are deliberately using to engage in direct competition with established brands to catalyse industry transformation (see Diagram 2). This has forced conventional industry members to address the issue of fair trade in their own operations, albeit not to the same radical extent as farmer-owned fair trade brand companies.

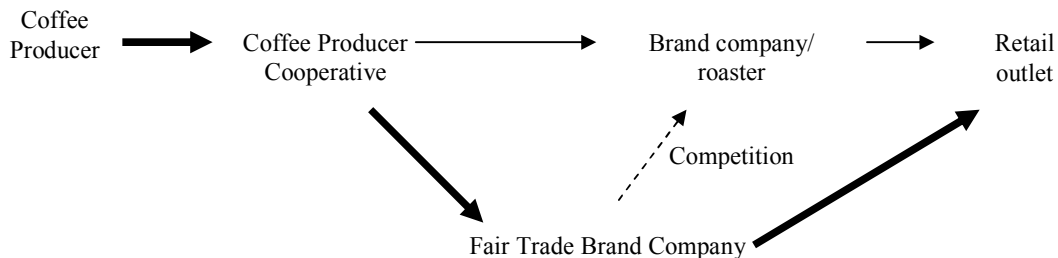


Diagram 2 (adapted from Hutchens, 2007).

### *Certification and brands as modes of market engagement: the prospects for social change*

Fair trade brands have clear advantages over Fairtrade product certification for enabling producer empowerment and poverty alleviation in mainstream markets. How do they compare in their capacity to bring about systemic change? This question involves recasting each model as a different type of institutional engagement and understanding its institutional effects. Regulatory scholars tell us that different social actors engage in different ways with institutions when seeking change (Braithwaite, forthcoming), two relevant types of institutional engagement to the fair trade movement being ‘resistance’ and ‘game-playing’ (Hutchens, 2007). Resisters are located within capitalist institutions and discourses and seek to change the regulatory system for the better. Their role in the process of social change is to take innovative yet marginal ideas of others and work to institutionalise them by collaborating with institutional actors. This makes resistance vulnerable to institutional ‘capture’ (Ayres & Braithwaite, 1992). By contrast with resistance, game-players ignore and transcend existing regulatory codes, inventing new rules and institutions in order to radically transform the prevailing system. They can never be captured. Rather, when resisters become captured game-players re-innovate to continue their aim for structural freedom.

Portrayed in this way, FLO/NIs identify with the role of resistance. They are seeking to institutionalise Fairtrade certification by enrolling the support of their institutional allies – dominant retailers and manufacturers, adapting and compromising the model to do so. While seeming ‘allies’ for Fairtrade growth, MNCs are engaged in ‘symbolic’ imitation of Fairtrade - stocking minimal/‘niche’ amounts of Fairtrade to associate the company with Fairtrade’s value. This gives the pretence of having changed but actually functions to subvert the Fairtrade logo to a subsidiary brand of the MNC and control Fairtrade’s market development in their interests. This strategy ensures that the Fairtrade symbol does not eclipse their own brand logo in consumers’ purchasing decisions (Hutchens, 2007)<sup>xxi</sup>.

...I really think it is important what companies say: they see the value of their product in their *brand*, not in the [Fairtrade] label. But the certification schemes of the niche markets, Rainforest and Utz Kapeh and Fairtrade...they are building their marketing aspects on labelling a *product*...I mean, imagine you go to a supermarket shelf and you see the product of Sara Lee and Nestlé and Kraft...all standing close to each other, and they all have the [Fairtrade] label on the product...[from the consumer’s viewpoint] there’s no credibility in the brand then...consumers will assume that a product that has been labelled has a very high value...[and that the label] is *the value* of the product...This is important to understand why the companies did not go for certification and labelling, and why they do not have an interest to transfer one of the existing certification systems to the mainstream...(fieldwork interview notes).

...if you have three coffee roasters - all of whom deliver Max Havelaar coffee - but you cannot as a consumer distinguish the three from each other, then those roasters are not [going to be] interested at all in the Max Havelaar brand because they’re investing in their competitor...(fieldwork interview notes).

The frontrunners of the fair trade brand movement identify with the role of game-playing. They are responding to the structural and administrative weaknesses in FLO – and MNCs’ capture of Fairtrade - with new business models that offer more independent and genuine pathways of empowerment for small producers. Farmer-owned brand companies in fact have posed a more challenging threat than the certification model to the traditional business power structure defined by Northern corporate ownership. Democratising this power structure in favour of small-producers represents a paradigmatic shift for conventional corporate organisation and philosophy. Not surprisingly conservative brand companies have promoted the view that farmer-owned fair trade brands are ‘unviable’ for mainstream business. This is the political battle that remains on the movement’s horizon: influencing to restructure conventional ownership models in international business and assets around the principle of producer co-ownership. While MNCs can evade this political challenge within FLO’s system and simply pay a marginally higher price to agricultural producers, fair trade brands’ increasing success with consumers will make business model evolution necessary for conventional MNCs to survive in the market.

The future I see...is with these new ways of doing business that we’re creating in the fair trade movement and with farmers, with new ownership structures of getting value back to poor farmers and poor communities and workers. ... Are

[conventional] companies going to genuinely change because [fair trade] is the way to do business, or are they going to become the dinosaurs of the future? Are they part of the new way of doing business...or do we slowly...*push* the boundaries and take consumers with us...In that situation, the *market* forces people to change or to exit (fieldwork interview notes).

#### *Conclusion: mainstreaming producer ownership*

Several lessons can be taken from the international experience in mainstreaming fair trade within the context of post-Fordist agricultural markets. First, the Fairtrade certification system is in urgent need of strengthening in particular in its operational and strategic management of corporate-buyer participation. Second, and the key insight in this paper, is that farmer-owned fair trade brands offer greater scope for producer empowerment and reward in global value-chain structures. As an approach to influencing conventional institutions, this tool is also more sustainable and strategic than certification, and a model that conventional traders should arguably aim to replicate so that Fairtrade standards are ratcheted up, not down. However, very few brands exist within the fair trade movement (especially outside of Europe) and, relative to public awareness about Fairtrade certified products, their added-value is inadequately recognised. If the movement is to prove commercially sustainable and have political integrity in the process of ‘mainstreaming’ in the future, fair trade brands need to both assume a greater place in fair trade research, capacity-building and public education/marketing, and will depend on giving greater space in the movement’s leadership to its entrepreneurial pioneers.

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<sup>i</sup> The qualitative data cited as 'fieldwork interview notes' was collected during fieldwork conducted in April-July 2005 as part of the author's doctoral research (see Hutchens, 2007). Data were gathered in over 60 semi-structured interviews (either face-to-face or by phone) with practitioners in the fair trade movement. Interviewees were based primarily in Europe and the US and included individual FTOs, IFAT Executive Committee members, NI/FLO staff and board members, conventional traders and global brand companies, politicians and policy-makers, producers as well as civil society network members. All other quotes and references included in the analysis derive from existing research and are cited as such.

<sup>ii</sup> Producer-driven chains are coordinated by large transnational manufacturers and predominate in capital- and technology- intensive industries such as the automobile and airline industries (Gereffi, 1994).

<sup>iii</sup> Buyer-driven commodity chains predominate in labour-intensive sectors where production functions are typically outsourced and market information, product design and marketing/advertising costs set the barriers to entry for would-be lead firms (Gereffi, 1994).

<sup>iv</sup> A variety of forms of governance exist in value-chains, not only buyer-driven and producer-driven but also modular, relational and captive chains (Gereffi et al., 2005). *Modular* chains involve codification, enabling the segmentation of production chains, relatively independent suppliers and frequent transactions. *Relational* chains are characterised by solidarity, trust and cooperation and even power distribution throughout the chain. In *captive* chains, producers are closely controlled by retailers and processors through contractual agreements.

<sup>v</sup> This is unlike other forms of intellectual property such as copyright and patents that offer only temporary monopoly.

<sup>vi</sup> For instance, of the 16,000 products that are launched on the US market each year, 95 percent are launched as brand extensions of existing brands (Murphy cited in Lury, 2004: 71).

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<sup>vii</sup> Products include not only coffee but also tea, rice, sugar, cocoa, fresh fruit, juices, honey, spices and nuts, sports balls, wine and flowers.

<sup>viii</sup> In 1989, the International Fair Trade Association (IFAT) was established to represent the global association of FTOs. Further development of regional networks then occurred (especially in the North), including in 1990 the European Fair Trade Association (EFTA) (a network of 11 fair trade importers across Europe); and in 1994 both the US Fair Trade Federation (FTF) (a national association for fair traders), and the Network of European World Shops (NEWS!) (a network of 15 national World Shop associations across 15 European countries).

<sup>ix</sup> AgroFair's NGO and ethical investor partners include TWIN, CTM Altromercato, Solidaridad, VIVA Trust and Triodos Innovation Fund (AgroFair, 2006).

<sup>x</sup> AgroFair's FTO partners take responsibility for the day-to-day operation of sales and marketing in European, UK/Ireland and Italian markets. In 2006, AgroFair's Oké-labelled bananas gained access to marketing and distribution in the US through a new fair trade company called Oké USA. Oké USA is owned by AgroFair, Equal Exchange (US pioneer in fair trade coffee) and Red Tomato (Boston-based non-profit organization that helps family farmers in New England to access markets, founded by co-founder of Equal Exchange). AgroFair farmers benefit from this ownership structure through ownership of company equity in addition to fair trade minimum prices and premiums.

<sup>xi</sup> In Cafedirect's recent restructure of its corporate governance model producers own 5 per cent of shares, 40 per cent are 'guardian shares' divided among Cafedirect's founders (Equal Exchange, Twin Trading, Oxfam and Traidcraft), and the rest are owned by the public (whose ownership is limited to no more than 3 per cent of shares and who have limited voting rights) (see Cafedirect, 2004; see also Nicholls & Opal, 2005).

<sup>xii</sup> Other investors and/or partners included The Body Shop, SNV, Comic Relief, DFID, the International Cocoa Organisation and Christian Aid (Tiffen et al., 2004: 24). Until July 2006, The Body Shop held ownership of 14 per cent of shares, and Kuapa Kokoo 33 per cent. The Body Shop donated its shares to Kuapa Kokoo which now owns 47 per cent of the company.

<sup>xiii</sup> In 2006 The Body Shop, a founding partner and shareholder in Divine, decided to donate its shares to Kuapa Kokoo.

<sup>xiv</sup> Some suggest that the certification logo itself is a 'brand' in that it adds value to a product. While true, the certification label does not offer exclusivity of ownership and disproportionate remuneration to producers in the way that farmer-owned brands do. In fact, the value of the Fairtrade 'logo' is severely diluted by MNCs' subversion of it to no more than one of their subsidiary brands, and as this paper shows, the remuneration of 'value' in the Fairtrade value chain remains disproportionately in the hands of corporate buyers.

<sup>xv</sup> An extended and complete version of FLO's funding model is analysed in Hutchens (2007), in which the issue of producer certification fees is addressed.

<sup>xvi</sup> For instance, Max Havelaar Switzerland's total revenue derives from license fees, or 85 per cent in the case of the Fairtrade Foundation UK.

<sup>xvii</sup> Despite an agreement with FLO producer-members that certification of plantations would be exclusive to plantation-only commodities and not for commodities produced by small-producers (such as tea), FLO has begun doing so and in increasing amounts, such as has been the case with bananas and tropical fruits (see Reynolds, 2007; Wilkinson & Mascarenhas, 2007; Renard & Perez-Grovas, 2007).

<sup>xviii</sup> Vorley (2003: 14-15) notes three types of 'rural world': the 'globally competitive' world of producers who work within consolidated supply chains; the 'shrinking middle' sector, who provide residual supply to global buyers on diminishing terms of trade; and the population of 'fragile livelihoods' who are unskilled, low-waged, uneducated labourers (often migrant) who work as urban and rural casual labour. Suppliers of large MNCs can be located the first tier of producers in rural agriculture, hence certification of their operations comes at the cost of the second and third tier suppliers who suffer continued marginalisation and poverty.

<sup>xix</sup> Barrientos and Smith's (2007: 118, 120) research on retailers' participation in the Fairtrade system shows significant differences between retailers in their levels of commitment and contribution to Fairtrade principles. They also highlight that FLO Cert. will be unable to discriminate in favour of 'best' practice amongst traders if it seeks ISO 65 certification (international standards for product certification bodies).

<sup>xx</sup> An additional problem or barrier to entry into the Fairtrade system for small-scale producers is the certification fees they are now required to pay to FLO Cert. to become part of the system. FLO's governance structure has historically posed significant obstacles to producers' attempts to exercise greater influence over the market processes affecting them (see especially Chapter 6 in Hutchens, 2007).

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<sup>xxi</sup> A popular example of symbolic imitation to capture the Fairtrade system is Nestlé's 'Partner's Blend' (launched in the UK in 2004), which amounts to less than one-tenth of 1 per cent of Nestlé's total volume (see North, February 10, 2006).