

The Fair Trade Movement: Parameters, Issues and Future Research

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ABSTRACT. Although Fair Trade has been in existence for more than 40 years, discussion in the business and business ethics literature of this unique trading and campaigning movement between Southern producers and Northern buyers and consumers has been limited. This paper seeks to redress this deficit by providing a description of the characteristics of Fair Trade, including definitional issues, market size and segmentation and the key organizations. It discusses Fair Trade from Southern producer and Northern trader and consumer perspectives and highlights the key issues that currently face the Fair Trade movement. It then identifies an initial research agenda to be followed up in subsequent papers.

KEY WORDS: Fair Trade, North-South, empowerment

Introduction

The Fair Trade movement can, in one sense, trace its origins back to the development of the co-operative movement in the late nineteenth century. In the form in which it is recognizable today, however, it began with the Mennonite Central Committee trading with poor communities in the South in the 1940s (IFAT, 2003) but only began to expand and become a “movement” in the 1960s and 1970s. It

has grown significantly since that time but still remains relatively small in trading terms. Despite this, it has attracted attention in the academic literature from a wide range of disciplines including economics, marketing, design, agriculture, rural studies, development studies and theology. However, the exposure within the business and management literature in general and the business ethics literature in particular has been limited.

This paper seeks to begin the redress this deficiency and proceeds as follows. The defining characteristics of Fair Trade are covered first followed by a brief summary of the foundational issues that emerge from this. A Southern producer perspective is then adopted to review the issues that Fair Trade raises principally for producer organizations, and this is followed by an equivalent section that adopts a Northern trader/consumer perspective. The issues that confront the Fair Trade movement at present are addressed within these two sections and from this an initial research agenda is identified.

Defining characteristics of Fair Trade

Definitions

Over its history there have been many and varied definitions of Fair Trade. However, in an attempt to produce a widely accepted definition, FINE¹ has developed the following:

Fair Trade is a trading partnership, based on dialogue, transparency and respect, which 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 cam-

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paigining for changes in the rules and practice of conventional international trade. (FINE, 2001)

The goals of Fair Trade that flow from this definition are:

1. To improve the livelihoods and well-being of producers by improving market access, strengthening producer organizations, paying a better price and providing continuity in the trading relationship.
2. To promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process.
3. To raise awareness among consumers of the negative effects on producers of international trade so that they exercise their purchasing power positively.
4. To set an example of partnership in trade through dialogue, transparency and respect.
5. To campaign for changes in the rules and practice of conventional international trade.
6. To protect human rights by promoting social justice, sound environmental practices and economic security (Redfern and Snedker, 2002, p. 11).

This definition and set of goals indicate that Fair Trade has, in essence, two basic components or visions. The first is to provide a working model of international trade that makes a difference to the producers and consumers that engage in it. In this, Fair Trade exemplifies principles (for example, the need to internalize externalities into pricing) and develops consumer consciousness. The second and more radical is to challenge orthodoxy in business practice and to do so not simply by campaigning but by being a “tool for modifying the dominant economic model” (see Renard, 2003, p. 91).

Market characteristics

Attempting to quantify Fair Trade in terms of market size and market segmentation is problematic because of the lack of an overarching trade body (see below) and because its size and geographical dispersion is such as not to warrant the attention of

market intelligence agencies. Nonetheless, some approximations that help to frame the size and shape of Fair Trade can be made.

Redfern and Snedker (2002, p. 22) gave an (undated but presumably contemporary) estimate of the Fair Trade worldwide as US\$500 million, although they claim that this is likely to be an underestimate. EFTA² (2001, p. 14) estimated that the annual aggregate net retail value of Fair Trade products (labeled and non-labeled) sold in Europe through alternative channels and supermarkets exceeded 260 million euros (again, the date is not clear but can be assumed to be 2000). Assuming rough dollar/euro parity means that the market for Fair Trade in the rest of the world excluding Europe is about US\$240 million. The Fair Trade Federation (2002) in North America estimated that the gross sales by Fair Trade Federation companies, combined with sales of certified Fair Trade coffee sold by conventional companies, neared US\$100 million in the U.S. and Canada in 2000. Hence, this would leave a market of approximately US\$140 million in other developed countries such as Australia, New Zealand and Japan. This seems slightly optimistic for these particular countries, but overall the figures seem to confirm the US\$500 million as a reasonable estimate of the market size throughout the world. By comparison, Tesco, the largest of the U.K. food retailers, had a turnover in 2003 of £28.6 billion or roughly US\$45 billion. This is 90 times the worldwide turnover of Fair Trade.

In terms of market segmentation, one division that can be made is into labeled and non-labeled goods (see below). FLO³ estimates that 260 million euros of FairTrade labeled products were sold to consumers in 17 countries in Europe, North America and Japan in 2002 (FLO, 2003). These are almost entirely food products and suggests that the non-food products such as crafts, jewellery, clothes and textiles amount to roughly the same amount in value terms. The European Commission (1999) estimated that in the EU food products represented around 60% of retail turnover of which approximately 50% was from coffee sales. However, that seems to be an underestimate of the food sales, with EFTA (2001, p. 14) estimating that of the 260 million euros approximately 210 million euros or 80% was food in 2000. In the U.S. and Canada, coffee sales represented 66% of total Fair Trade sales

in 2000 (Fair Trade Federation, 2002). For comparative purposes, these figures represent between 0.1% (France) and 3.3% (Luxembourg) market shares in coffee (EFTA, 2001), although figures for Cafedirect indicate that it had obtained 7.2% of the U.K.'s roast and ground coffee (Mintel, 2001, cited in Nicholls, 2002, p. 8).

Fair Trade products are sold through three main channels: dedicated retail outlets, supermarkets and mail order. In Europe there are approximately 2700 "world shops" – the name conventionally adopted by these dedicated retail outlets. Fair Trade products are also available in 43,000 supermarkets throughout Europe. In the U.S. and Canada in 2001 there are at least 7000 retail outlets for Fair Trade products (Fair Trade Federation, 2002). Mail order generally accounts for less than 10% of an importing organization's turnover, although on-line retailing facilities may affect this channel in future. In addition to these three main channels there are other retail channels such as solidarity groups, wholefood shops, and independent commercial stores (EFTA, 2001).

Industry structure

The organizations that make up the Fair Trade movement can be divided into four main groups. First, there are the producer organizations in developing or Southern countries, which supply the products. Second, there are the buying organizations in developed or Northern countries, which act as importers, wholesalers and retailers of the products purchased from the Southern producer organizations. These have, in the past, been known as Alternative Trading Organizations (ATOs) a name stemming from the early days of Fair Trade where "fair" seemed too weak a description of the common vision that forged these companies into a movement. Further details of producer and buyer organizations are given in other sections below.

Third, there are the umbrella bodies, which consist of the following six organizations. IFAT⁴ was established in 1989 and is a worldwide membership organization that brings together both producers and buyers. It consists of approximately 110 producer organizations and 50 buying organizations, although its membership is expanding (IFAT, 2003).

FLO was established in 1997 and is the worldwide Fair Trade standard setting and certification organization. "It permits more than 800,000 producers and their dependents in more than 40 countries to benefit from labeled Fairtrade. FLO guarantees that products sold anywhere in the world with a Fairtrade label . . . conform to Fairtrade Standards. . ." (FLO, 2003). FLO currently sets standards for the following products: bananas, cocoa, coffee, fresh fruit, honey, juices, rice, sugar, tea and sports balls, with standards for more tropical fruit, wines and other tropical products under development. It also has two sets of generic producer standards, one for small farmers, which applies to smallholders organized in co-operatives or other organizations with a democratic, participative structure, and the other for workers in plantations and factories. FLO estimates (FLO, 2003) that, as of June 2003, it is working with 315 certified producer organizations, representing almost 500 first level producer structures, and around 900,000 families of farmers and workers, coming from over 40 countries in Africa, Asia and Latin America; 249 registered traders, consisting of exporters, importers, processors and manufacturers, from over 61 countries; and 443 licensees, authorized by FLO's member organizations (the National Initiatives which use labeling schemes such as FairTrade Mark in the U.K. and Ireland, Max Havelaar (seven European countries), Transfair (four countries including the U.S. and Canada), Reilun kauppa (Finland) and Rattvisemarkt (Sweden) (EFTA, 2001). FLO has recently introduced a common label to be applied across all products in all countries; something that has both clear packaging and marketing advantages.

The other four umbrella bodies are as follows. NEWS!⁵ established in 1994, acts as the umbrella body for the "world shops" that retail predominantly Fair Trade goods across Europe (EFTA, 2001, p. 10). EFTA, established in 1990, is an association of 12 importing organizations in nine European countries (*ibid.*, p. 10). Fair Trade Federation is an association of fair trade wholesalers, retailers and producers with 84 members in 2000, covering the U.S. and Canada and promoting products, which bear the TransFair label (see above under FLO). Finally, there is an organization called Shared Interest which, while not a trade association organization in the same way as the other umbrella

bodies with the exception of FLO, provides trade finance to the Fair Trade movement largely via a “Clearing House” promoted jointly with IFAT but also serving producers certified by FLO.

Fourth, there are a wide range of mostly conventional organizations, typically supermarkets that engage in some way in Fair Trade. As indicated above, 43,000 supermarkets across Europe and a further 7000 in the U.S. and Canada stock Fair Trade products. While in one sense these could rightly be regarded as being outside the Fair Trade movement, they are becoming increasingly important players in the retailing of Fair Trade products, and as Fair Trade becomes more mainstream, this trend is likely to increase. Many of the supermarkets sell products sourced from the Fair Trade movement. However, a number are beginning to sell “own brand” Fair Trade products sourced directly from producers without involving the ATOs as middlemen. In the U.K. the Co-operative supermarket group is in the forefront of this development.

Foundational issues

Before going into further detail of Fair Trade by considering the perspectives from South and North, it is worthwhile at this point drawing out some of the foundational issues that arise from the defining characteristics of Fair Trade outlined above.

The first point to note is the challenge to international or, more pertinently, “free” trade that is inherent both in the name (“Fair Trade”) and in the definition and goals of Fair Trade. The two visions of Fair Trade (a working model and the challenge to orthodoxy) inevitably create an element of tension, with Fair Trade operating simultaneously “inside and outside” (Renard, 2003, p. 92) or “in and against” (Raynolds, 2000, p. 299) the market. This tension is felt not only within the Fair Trade movement but more particularly outside it. Comparisons between fair and free trade are evident in the economics literature (see, for example, Leclair, 2002; Maseland and De Vaal, 2002), where Fair Trade is sometimes characterized as being a “third way” between free trade on the one hand and protectionism on the other. Unfortunately, protectionism has also been termed “Fair Trade” where this refers to “calls for protectionist measures by

developed countries against products that have been produced in poorer countries at prices developed countries cannot compete with because of their different economic circumstances” (Maseland and De Vaal, 2002, p. 252). The demand is for compliance with environmental and labor standards by developing countries and is motivated by the desire to protect jobs at home. Defined in this way, most free traders “view many fair traders as charlatans (protectionists masquerading as moralists)” (Howse and Trebilcock, 1996, p. 61).

Positioning “Fair Trade”, as defined by the Fair Trade movement, between free trade and protectionism, the economics literature asks penetrating questions: What is a “fair” price for the exports of developing countries? Does paying a higher price make it fair? Would a straight donation, rather than paying a higher price, be more efficient? Is Fair Trade always better than free trade and protectionism or does it depend upon conditions? Is the reliance on the largesse of the developed world sustainable through periods of economic uncertainty? Does the higher price lead to over-supply and delay a move to the development by producer organizations of higher added value products? Does it lead to dependency on the part of producers? Does it disadvantage those producers, which do not engage in Fair Trade compared with those, which do? While generally Leclair (2002) and Maseland and De Vaal (2002) find in favor of Fair Trade in answer to these questions, this is by no means unequivocally so; under certain conditions, it seems, both free trade and protectionism work better than Fair Trade, and direct donation is also claimed to be superior to Fair Trade.

There are related questions to do with scale. Does Fair Trade “work” because it is marginal in scale, since the distortions it produces (e.g. overproduction) are minimal and the consumers opting to pay more for the intangible benefits are generally making informed choices. Would either of these hold at a larger scale?⁶ Both these and the questions above invite further work in this area.

Maseland and De Vaal (2002) raise another issue – that of the moral basis of fair trade. “The moral obligation to act in this fair trade manner stems from an idea of justice that lies underneath the fair trade concept. The conduct called fair trade, in other words, is an operationalization of an idea of what just

trade would be” (*ibid.*, p. 253). They categorize fair trade arguments in terms of “arguments that relate to certain conditions under which trade, and the production of traded goods, should minimally take place” and secondly “arguments that deal with the consequences of trade” (*ibid.*, p. 254). Clearly, the concept of justice underlies many of the principles on which Fair Trade is established and the assertion of injustice in conventional international trade is never far from the surface. In Boda’s analysis of free and fair trade, and the ethical principles that underlie each, he discusses Nozickian concepts of procedural justice that underpin free trade, Rawlsian concepts of distributional justice in relation to “equitable” trade, Fair Trade as an application of the ancient fairness principle “to each his own”, together with the challenge of intergenerational justice evoked by the concept of sustainable development (Boda, 2001). These papers provide a good starting point from which a fully worked-through theory of justice in relation to Fair Trade might be produced. Fair Trade would also seem to be an ideal working model on which to test the practicalities of any theoretical approach.

Related to this, a more general theory of Fair Trade again seems to be absent. Some work in the theological area has been done (see, for example, Johnson and Sugden, 2001; Sugden, 1999), and the concepts of networks and partnership have been explored in the sociology and development literatures (Raynolds, 2002 and Tallontire, 2000 respectively), but in general Fair Trade has remained a practical and campaigning response to the perceived and observed injustices of the capitalist system. There is clearly work to be done in developing and articulating theoretical perspectives within which Fair Trade makes sense and while economic theory, moral philosophy, theology, sociology and development studies have been identified, there may well be other disciplines that could contribute to a broad-based theory of Fair Trade.

Three further preliminary issues can be identified. First, the difficulty of getting consistent data for Fair Trade is a barrier to further analysis of trends. There is clearly a need, both for the Fair Trade movement itself and for the research that could be undertaken into Fair Trade, for the establishment of a comprehensive database. Second, the definition of and associated standards for Fair Trade are of critical

importance to the movement itself. This point is addressed further below. Third, as standards for Fair Trade are further refined, the contrast with other “ethical” trade becomes more stark. Again, this point is developed below.

Fair Trade from a Southern producer perspective

The characteristics of Fair Trade

What does Fair Trade “feel like” from a Southern perspective? The essence of the Fair Trade relationship is one of partnership (Tallontire, 2000) in which the “deal” as far as Southern producers is concerned offers:

- An emphasis on direct relationships between buyer and producer organizations.
- The provision of some level of support against price fluctuations.
- The payment of either a premium passed directly to the producer or a social premium to be used for the benefit of the community rather than individual producers.
- The provision of pre-financing (often 50% or 60% of the final value of the order) to producers as part of a stable, long-term business relationship.
- Provision of information to producers on design, demand, rules and regulations, and prices (Oxford Policy Management, 2000, p. 10 with additions).

This is clearly an unusual business relationship, with producers as the primary stakeholders. It is also a relationship, which requires Southern producers to keep to their side of the bargain. Producers must explicitly aim to provide safe and healthy working conditions and other social benefits to their workers and are usually organized as producer-controlled co-operatives, NGOs or community groups that are trading to support social and development programmes. In addition to social provision, producers are expected to conduct their production and trade in such a way as to cause the least possible environmental damage (IFAT, 2003). A further emphasis is on cultural identity in product development and

market promotion where, particularly with craft goods, artisans are encouraged to draw on traditional materials, designs and skills.

In general, this more-than-business relationship seems to work well – although Tallontire (2000, p. 176) documents a problematic example between a coffee producer in Tanzania and Cafedirect in the U.K. in which the producer seemed to hold a “weak commitment to the developmental as opposed to market dimensions of the partnership”. Littrell and Dickson (1998), however, provide positive examples of the appropriateness of the kind of work that artisan workers, in particular, engage in: the maintenance and development of traditional skills; the way in which work meshed well with the daily life patterns of artisans; and the benefits of the additional income. The fact that “requests for more work were consistently and strongly voiced” and that, “[l]arger FTOs (Fair Trade Organizations) receive requests for employment from new producer groups on a near-daily basis” (Littrell and Dickson, 1998, p. 181) is evidence of the success of the basic business model and was echoed by delegates at the recent biennial IFAT conference⁷. Access to markets is clearly *the* key element for Southern producers and the one that they value above all else⁸.

The “fair” price is, of course, also one of the other fundamental elements of Fair Trade and is one of the reasons that producers are attracted to the Fair Trade model. Littrell and Dickson (1998, p. 177) cite evidence that the financial return to artisan producers averages 40% of the retail price as compared to 10% from mainstream retailers, although Traidcraft’s 2002 accounts, for example, show an equivalent figure of 23% (Traidcraft, 2002a). Reynolds (2002, pp. 416–417) gives details of the minimum coffee prices (for example, US\$1.26 per pound for arabica coffee which includes a US\$0.05 social premium – about twice the world price) and comments that, “Fair Trade prices thus follow market trends, but they are consistently higher and fairer. What most reflects alternative norms of fairness is that these prices are guaranteed”.

However, within the Fair Trade movement itself it is acknowledged that the definition of a fair price is problematic. Kocken (2002) notes that for many producer organizations the payment of a fair price is less important than the long-term relationship, the advance payment and the certainty of the price once

fixed. She concludes that, “[i]t might be better to give up the image of paying a fair price, particularly for handicrafts. It would be closer to reality to say that Fair Trade pays the maximum amount that is feasible on the market”.

However, as noted above, the advantageous price can have the disadvantage of producing dependency, whereas one of the goals of Fair Trade is to enable producers to “become sustainable businesses in the local, regional and international marketplaces” (Littrell and Dickson, 1998, p. 181). Aware of this issue, Traidcraft, for example, is developing a new policy: “For each partner or producer organization with whom we work, Traidcraft will develop and agree a clearer set of development objectives and timescales. Whilst looking for long-term relationships, we shall also plan for ‘exit strategies’ that encourage our suppliers and partners to avoid becoming dependent upon Traidcraft” (Traidcraft, 2002b, p. 4). This point is reinforced by Kocken who, in commenting on a number of Fair Trade impact studies, states, “...many studies point out the need to gradually terminate current relationships with successful producer groups. This may offer opportunities for supporting new groups. This would allow a greater number of producers to benefit from Fair Trade” (Kocken, 2002).

Dependency, however, is probably less of a problem for producers of food products where there are other, mainstream outlets and the Fair Trade products are often in direct competition with branded products and so need to be of sufficient quality to compete. Hudson and Hudson (2003, p. 3–4) cite evidence that in 1999 only 50% of the worldwide production of Fair Trade coffee was sold through Fair Trade channels, the remaining 50% being sold on the regular market. Renard (2003, p. 92) similarly cites the example of Mexican co-operatives approaching Carrefour and negotiating a 10-year contract to sell their organic coffee directly and without the Max Havelaar Fair Trade label. The issue of mainstreaming will be covered in more detail below, but the Fair Trade movement can clearly find itself in a dilemma with buying organizations criticizing this kind of unilateral action on the part of producers while at the same time recognizing that they may have helped in creating an over-supply in the first place and recognizing that part of the goal of Fair Trade is to encourage pre-

cisely this ability on the part of producers to enter the mainstream.

Standards and certification

Standard setting is a major industry in its own right within the Fair Trade movement. Essentially there are two standard setting agencies: IFAT and FLO. IFAT has traditionally worked with craft producers, which have sold their product through the ATO channels. As such, the guarantee of a product being fairly traded was usually through the “name” of the ATO selling the goods. Thus, IFAT has only recently felt the need to introduce standards for its members. These standards, approved at the 2002 AGM, operate on a biennial self-assessment basis and cover:

1. Creating opportunities for economically disadvantaged producers;
2. Transparency and accountability;
3. Capacity building;
4. Promoting Fair Trade;
5. Payment of a fair price;
6. Gender equity;
7. Working conditions;
8. Child labor;
9. The environment (IFAT, 2003).

The certification associated with these standards is the authorization to carry the IFAT “Accreditation Mark” on the organization’s promotional literature.

The FLO standards operate in a quite different manner, acting mainly as a product (as opposed to organization) standard. The basic standards, which apply almost exclusively to food products, were covered above where both producer and product standards were discussed. The certification of these standards is carried out by an autonomous unit within FLO which operates independently from any other Fair Trade interests and follows, as appropriate, the ISO 65 standards for certification bodies. Because these products are traded through mainstream as well as ATO channels, the need for a recognized trademark became evident. However, unlike the “trust, respect and partnership” (Raynolds, 2002, p. 410) approach of non-food products, FLO standards can be criticized for “destabilizing notions of ‘trust’

and ‘partnership’” (*ibid.*, p. 418). While this may be the case, clearly the mainstream market would be hardly accessible without such a guarantee – although, as Hudson and Hudson (2003, p. 4) note, with such a “proliferation of labels, from ‘dolphin friendly’ to organic to GM free, it is scarcely surprising that consumers are a little skeptical about the informational legitimacy of a label stuck on a package”.

An important point to note, however, about both IFAT and FLO standards is the involvement of Southern producers in their development. While, according to Raynolds (2002, p. 418), “FLO certification represents a form of control, linked to formal standards and inspections”, she acknowledges that producer involvement mitigates this problematic aspect of standards and certification.

As the quotation from Hudson and Hudson above notes, Fair Trade labels are in competition with many others. From the Southern food producers’ perspective, the main alternative or complementary form of certification is organic. Organic certification, however, is extremely risky. It may take 3 years to convert to organic status, during which time there may be reduced yields and no additional revenue. Certification costs are high, with producers often having to pay as much as 5% of their sales value, and since these products are then sold in highly volatile world markets and in competition with conventional products, the guarantee of a return from the investment is limited. Potentially higher prices than those offered by Fair Trade, however, mean that small coffee producers, for example, limit their market exposure by dividing their sales between the Fair Trade market and the open organic market (Raynolds, 2000, p. 302). However Raynolds also notes the more fundamentally problematic aspect of organic standards. Despite their environmental advantages, “[a]t the level of the producer, one finds that marginal organic farmers in the South are likely to be as dependent on exploitative middlemen, corporate buyers, and volatile prices as conventional producers, unless they enter fair trade networks” (*ibid.*, p. 305) and she concludes that “[f]rom both a theoretical and empirical perspective, the fair trade movement appears to be creating a stronger alternative [than organic production] to our conventional corporate dominated world agro-food system” (*ibid.*, p. 306).

Murray and Raynolds (2000) make similar points about organic food's detachment from social justice issues, and in their example of Chiquita's agreement with the largest Danish retailer FDB to sell Rain-forest Alliance certified bananas, and the subsequent reduction of Fair Trade certified bananas from 8000 to 400 boxes per week (*ibid.*, p. 71), they provide a dramatic illustration both of the confusion in consumers' minds and the potential impact upon Fair Trade products of alternative "ethical" products.

Empowerment

Two further points are worth making from the Southern perspective both related to the issue of empowerment. Empowerment has become a fundamental element of Fair Trade not only in its own right, but also as a means of enabling producers to deal directly with mainstream buyers. Oxford Policy Management (2000, p. 11) speaks of Fair Trade organizations as "agents of empowerment", while Redfern and Snedker (2002, p. 23) note the different ways in which this is approached, from producers owning the means of production at one end of the spectrum through to producers having some degree of representation but not necessarily control, at the other. An unusual example is that of the Kuapa Kokoo company in Ghana and Day Chocolate Company in the U.K. where Kuapa Kokoo provided 33% of the equity in Day Chocolate and receives 66% of the profits (Redfern and Snedker, 2002, p. 24 and see also Tiffin, 2002). This kind of arrangement, however, can give rise to its own kinds of difficulty. With a "captive" market, producers can feel loyalty ties, which undermine the free market that otherwise, operates within Fair Trade. Paradoxically, such ownership can dis-empower.

A more critical note is struck by John (2001) with reference to labor standards. He makes the distinction between standards and rights and is concerned at the exogenous determination of standards from outside of the developing countries to which they are then applied – sometimes with the threat of trade sanctions to enforce them. A labor-rights perspective, he contends, would be endogenous to the developing country and a programme to enable them would necessarily originate in the country of origin. This is a powerful reminder of the dangers of

Northern organizations seeing themselves as "agents of empowerment" but being too preoccupied with their own agendas to recognize that empowerment is, by definition, not something that can be imposed. Tallontire's identification of four periods of development in the ATO partnership model – goodwill selling (mid-1950s to early 1970s); solidarity trade (1970s to late 1980s); mutually beneficial trade (1990s); and trading partnerships (1990s and the emerging trend) (Tallontire, 2000, pp. 167–169) – perhaps indicates that this is becoming better understood within Northern Fair Trade organizations.

Other issues

From a Southern perspective, perhaps the other key issue, is the impact of Fair Trade. Impact studies were mentioned only briefly above and the evidence of the desire to participate in Fair Trade would seem to offer a definitive answer to any questions concerning the benefits. However, it is clear that the impact of Fair Trade, and the methodologies that are employed to assess it, are important. The importance is not just to the producers themselves but also to the Northern ATOs in assessing their strategies, particularly in relation to mature producers, and to Northern markets in terms of the credibility of the "informational" element in the Fair Trade offering. An important aspect within impact studies is monitoring the degree of empowerment of the producer organizations.

Fair Trade from a Northern trader and consumer perspective

Marketing and strategy

A cursory glance at Fair Trade from an experienced business person who knew little about it, might lead that person to question how it manages to exist at all. Products that, certainly in the past if no longer, were substandard compared with others on the market, marketed in a rather amateurish manner and priced above comparable products, would not look to be a sound business proposition. The fact that worldwide sales are now around US\$500 million suggests that

something rather longer than a glance is required. However, the fact that, after 40 years of concerted activity, sales are not US\$5 billion (even then, only 11% of Tesco's 2003 turnover) might also require some explanation (see Watson, 2001).

A starting point is to consider the type of consumers that might purchase Fair Trade goods. Bird and Hughes (1997), drawing on Mintel reports published in 1994, divide consumers into three main groups: ethical consumers (23%); semi-ethical (56%); and selfish (17%). In the 4 years since the previous Mintel study on ethical consumerism in 1990 both the ethical and semi-ethical groups had increased at the expense of the selfish group. Of the 23% in the ethical group 5% "always/nearly always buy/use" ethical products while 18% "try as far as possible to buy/use" them. Some consumers were prepared to pay a premium (of between 10% and 18%) and those most willing to pay were women, those in socio-economic classifications ABC₁, and those under 35 years old. As the authors comment, "[t]hese groups form the prime targets for 'Fair Trade' products" (Bird and Hughes, 1997, p. 160).

In up-dating this study, Nicholls, drawing on a range of surveys, notes that, "Ethically sensitive consumers are no longer a small, if vocal, pressure group: rather, a third of the public now see themselves as 'strongly ethical' (Co-op, 2000). Furthermore, the main ethical issue of the 1980s – 'green' environmentalism – has now been broadened from a product focus into a more general concern over the entire production process, particularly highlighting the human/social element" (Nicholls, 2002, p. 9).

Both of these are U.K.-based studies, but the extrapolation of these broad trends to Europe is straightforward. The report by EFTA (2001) entitled "Fair Trade in Europe" covers 18 countries including the U.K. and catalogues a vibrant Fair Trade market in each of these countries. Murray and Reynolds (2000, p. 67) make the observation that, generally speaking, Europe leads on "ethical consumption", whereas in the U.S. environmental interests are more prominent; but there is clearly a Fair Trade market in the U.S. and Canada, as the US\$100 million estimate from the Fair Trade Federation (2002), cited above, demonstrates. The existence of Fair Trade organizations in Australia, New Zealand and Japan further illustrates that consumers, prepared to pay higher prices for products

that meet "ethical" criteria, are present in most developed countries.

What, then, is it about these products that meet the requirements of these consumers? Apart from the basic utility of the product itself – be it a jute angel, silver earrings, ground coffee or a bottle of wine – the consistent message is that it is the "ethnic" and associated "informational" elements in the product that provide the differentiating factor. Littrell and Dickson, from a U.S. perspective and with largely craft products in mind, comment, "FTO emphasis on high quality, ethnic products that can be worn or used on a daily basis and that exhibit handmade qualities provides a competitive strategy of 'differentiation' that fits consumers' motivations and demands..." (Littrell and Dickson, 1998, p. 183). Associated with this is the information often provided with the product that helps "customers cross a philosophical bridge where meaning is attached to something someone has made" (*ibid.*, p. 184). This information is often in the form of stories about the individuals who make or grow the product or about their communities and the benefits of Fair Trade in particular or community development in general.

In commenting on food products, Reynolds notes that, "[i]f alternative products enter existing market circuits, their environmental and social qualities become subordinated to their price, as occurs with other commodities. Friedmann (1993) suggests that the way to counter this market discipline is to reduce the huge social distance that exists between producers and consumers" (Reynolds, 2000, p. 299). She reinforces this point by arguing that "theoretically it is in the process of capitalist exchange that commodities become abstracted from their human and natural roots, so that price becomes their dominant characteristic" and hence contends that Fair Trade initiatives "have begun to create new networks of exchange that escape the bonds of simple price competition" (*ibid.*, p. 306).

This concept – of networks reducing social distance – is discussed further in Reynolds' subsequent article in which she investigates "how the huge social and spatial distances between Northern consumers and Southern producers might be 'shortened' within Fair Trade networks" (Reynolds, 2002, p. 404).

From a marketing perspective it is therefore important to transmit to consumers what Strong (1997, p. 36) described as the "communication of

the human element of sustainability". Nicholls (2002, p. 13), in operationalizing Strong's framework, suggests that brand building and information dissemination are required in order to achieve this. However, as Nicholls notes, "[t]here is currently little or no coherence across fair trade brands in the U.K. The only consistent feature on several – but not all – products is the FairTrade Foundation certification mark. However, this has limited public recognition and is never the prominent brand statement on any of these lines. Therefore, one strategic approach to increasing the fair trade market share is to develop some strong brands within it." (*ibid.*, p. 14). (This approach would be in contrast to that in The Netherlands where the certification mark is being seen as the brand, with individual companies acting almost as franchisees.⁹) The issue of branding will be dealt with further below under mainstreaming. For now it is worth emphasizing, as mentioned above, that the branding of traditional craft goods in the U.K. at least, has occurred through the "name" of the ATOs (e.g. Traidcraft or Tearcraft) which has provided the guarantee of quality and authenticity.

From a Northern perspective, then, the way in which the ethical and semi-ethical consumer markets develop, their size, level of sophistication and desire for reliable product and producer information, and their interest in (and ability to distinguish between) different "ethical" products, perhaps through branding, is clearly key to the way Fair Trade develops. This is particularly so in relation to mainstreaming where unsophisticated consumers could easily be "won over" to products that fail to meet Fair Trade criteria.

Before considering the issue of mainstreaming, however, it is worth noting other approaches that have been adopted from a business perspective to an analysis of Fair Trade. Littrell and Dickson's work has already been cited above, but in their 1999 book they consider five scholarly perspectives from various academic fields that "provided a lens through which to consider the work of fair trade artisans, retailers and consumers" (Littrell and Dickson, 1999, p. 29). The five were: business organizational culture; business strategy; small business performance; artisan work and development; and cultural product meaning for consumers. Space here does not permit further consideration of these (though each has been

touched on or will be covered below in some form), but it is clear that each has the potential to contribute to further research into Fair Trade. Finally, one other approach that has been taken has been to consider the nature of ethical decision-making in Fair Trade companies (Davies and Crane, 2003).

Mainstreaming

One business strategy that has been actively pursued by the Fair Trade movement has been the mainstreaming of Fair Trade. This has been mentioned several times above in the context of other discussions, but deserves consideration in its own right. The history of Fair Trade indicates a movement that developed a close-knit set of producer-buyer relationships within a common framework of commercial practices, with emphasis on the producer as the key stakeholder. Starting from a product base largely in crafts, and with ATOs that found (and to some extent created) a market amongst a small group of ethical consumers, it was possible that Fair Trade would have remained a small, focused and "pure" commercial experiment. However, both its own vision of providing a critique of conventional international trade and a practical example of an alternative way of trading, and the introduction of food products that held out the possibility of entering mainstream markets, led to Fair Trade moving more into the mainstream. Associated with this move into the mainstream, of course, was the need to provide a consumer guarantee – hence the development of Fair Trade labels and, eventually, the establishment, in Europe for example, of FLO.

The potential for Fair Trade products in the mainstream is clear. Murray and Reynolds (2000, p. 68) cite a European Community study that estimated that in 1997 the annual European market for Fair Trade bananas was 300,000–400,000 tonnes, roughly 25 times the actual volume of Fair Trade bananas at that time. Cafedirect, as noted above, had obtained 7.2% of the U.K.'s roast and ground coffee market, and plans to attain 10% in this segment and 4% of the freeze dried market (Cafedirect, 2003). Other success stories in the U.K. include Traidcraft's Geobar and the Co-operative supermarket's decision to back Fair Trade with an anticipated turnover of £10 million in 2003.¹⁰ This compares with Traidcraft,

the biggest U.K. ATO, where the 2002/2003 turnover was £12 million – an indication of how quickly the mainstream could take over as the main channel through which Fair Trade products are sold.

Success in entering the mainstream, however, carries with it the risk of dilution. The Co-operative supermarket indicated that 9 of its best 10 Fair Trade lines in 2002 were own-brand products,¹¹ and while the authenticity of their products is not in doubt, it is not difficult to envisage a situation in which the mainstream seeks to co-opt Fair Trade to its own ends. Indeed, the concern has already been raised, with Renard, for example, citing an instance from Belgium involving Oxfam and one of the country's largest supermarkets in which the offer to sell Fair Trade products raised "the possibility of distributing products from the South on a large scale, thus benefiting more producers, but in exchange for granting these not-always-ethical corporations opportunities to engage in 'image-laundering'" (Renard, 2003, p. 93). Renard, similarly, cites the example of the benefit to Starbucks's image (under the threat of a campaign by ethical trade activists) of carrying one fairly traded coffee in its range. Taking Fair Trade at face value and benefiting by association is one thing that Fair Trade has had to become accustomed to from mainstream organizations.

One other risk is that "the space that exists for alternative trade will be subverted by profit seeking corporations" as they try "to bolster their legitimacy by adopting the rhetoric of environmental and/or social responsibility" (Raynolds, 2000, p. 299). This presents Fair Trade with a dilemma involving "the dilution of fair trade ideology by the market" in which the organizations find themselves either remaining "pure" but probably marginal, or aligning with the mainstream and "losing their soul" (Regnier, 2001; Renard, 2003, p. 92). Murray and Raynolds (2000, p. 72) speak of "transnational corporations... constantly seeking to capture these initiatives and redefine them in ways that advance not progressive agendas, but their own private profits". This is a more serious risk because the Fair Trade movement stands to lose by being "subverted", "diluted" or "redefined" in such a way that the original message and purpose is lost.

Perhaps lower risk, because it is easier to counter, are direct attacks by the mainstream against the concept of fairness in trade. Tiffin (2002, p. 390)

cites the example of Nestle and Cadbury taking very firm public positions in claiming that, for example, "Nestle cocoa is fairly traded" and "Yorkie and all our other chocolate products are produced fairly".

How does Fair Trade seek to minimize these risks while, at the same time, maximizing the amount of trade that is conducted on a Fair Trade basis, to the benefit of Southern producers? As noted above, branding, and the associated issues of standards, certification and labeling are key to preserving the uniqueness of Fair Trade, and Nicholls' (2002) critique of current branding, noted above, is pertinent here. An element of branding is, of course, to protect the brand from abuse by others and this will require the marketing and campaigning elements of Fair Trade in combination. Associated with this is the need to maintain and improve the informational element in Fair Trade products that provides the differentiating factor. In addition to direct marketing communications related to products, Nicholls highlights the need for "[b]road initiatives to increase consumer awareness and understanding of fair trade" and the use of tactics to "highlight other added benefits in fair trade products, such as the high quality of Cafedirect coffee, the low-fat profile of Traidcraft's Geobar, the organic/health aspect of Ridgway's tea, or the environmental credentials of fair trade bananas" (Nicholls, 2002, p. 15).

Despite these protective mechanisms, the "reabsorption (of Fair Trade) by the market is not idle speculation but rather is sustained by the growing interest of certain sectors of food production and distribution in fair trade" (Renard, 2003, p. 93). Perhaps the main threat is from own label products. Renard notes that "[i]n spite of their campaigns, the heads of European ATOs are aware that if the coffee roaster giants deployed all of their economic weight to promote their own label, they would win over the consumers" (*ibid.*, p. 93).

Within Northern ATOs, all of these issues will play out in relation to their business strategies, organizational cultures, marketing and campaigning. This places a demanding agenda on mostly small, under-capitalized organizations with limited funding to promote their products and the message that goes with them. Their ability to manage their way through the tests that the next few years will bring will largely determine the extent to which Fair Trade flourishes.

Associated with this, there is an issue for the Fair Trade movement in its entirety. The ability to “stick together”, to work to clear definitions and standards, agree and implement a strategy on mainstreaming while maintaining the purity of the concept, and its ability to campaign effectively to minimize the potential subversion, dilution or redefinition will also be key to the flourishing of Fair Trade.

An initial research agenda

Recognizing the work that has already been conducted in the business and business ethics fields (Bird and Hughes, 1997; Davies and Crane, 2003; Littrell and Dickson, 1998, 1999; Nicholls, 2002; Strong, 1997) but drawing on the issues that have been identified above, the following research agenda can be identified.¹²

- The mainstreaming of Fair Trade, and the associated issues of labeling and branding would be a clear priority as a discrete research project. This would potentially be of benefit to both Fair Trade and mainstream organizations and would also require that certain of the data requirements would, at least, be identified in more depth. This project could initially be conducted on a national basis with a comparative study at a subsequent date.
- A related research project would be to look in more depth at the definitional aspects, standard setting and certification of Fair Trade and would usefully make comparisons with other “ethical” products, particularly organic.
- A further related research project would be to conduct further work on the consumer aspects of Fair Trade, the trends in ethical consumerism, the requirements of the “informational element”, pricing, marketing and branding.
- An investigation into pricing within the Fair Trade movement would be useful from two perspectives. From a practical perspective the question of how prices are set and what costs both are and should be taken into account (capital and land values, wage levels, the costs of environmental standards, transportation, administration, marketing, and comparisons of

Fair Trade levels of efficiency with the mainstream, for example) would be valuable. From a theoretical perspective, this kind of analysis might inform philosophical considerations of justice within Fair Trade.

- Following from this, the impact of Fair Trade on the Southern producers and countries which are its *raison d'être*, including an in-depth review of the current methodologies for such studies, should lead to a greater understanding of the benefits of Fair Trade and would link with the way in which these are valued by consumers.
- Many of the above are empirical studies that would lead to a greater understanding of Fair Trade and allow greater clarification of whether the benefits it claims and the associated critique of conventional international trade are justified. To some extent these might answer or confirm the critique of Fair Trade leveled by the economics literature surveyed earlier. However, while empirical studies are clearly important, these need to be accompanied by associated conceptual and theoretical work, as identified earlier in the paper. These would include work in economics but would also need to explore a fully worked-through theory of justice in relation to Fair Trade, together with the development and articulation of other theoretical perspectives within which Fair Trade makes sense.

This is clearly a demanding research agenda, but one in which our understanding not only of Fair Trade, but also of business ethics, both in theory and in practice, should be enhanced. It is to that agenda that future papers will be addressed.

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Notes

¹ FINE is an informal network that involves the Fairtrade Labeling Organizations International (FLO), the International Federation for Alternative Trade (IFAT), the Network of European Shops (NEWS!) and the European Fair Trade Association (EFTA).

² EFTA – see note 1.

³ FLO – see note 1.

⁴ IFAT – see note 1, although at its Biennial conference in 2003 it agreed upon a “trading name” of the International Fair Trade Association.

⁵ NEWS! – see note 1.

⁶ I am grateful to Phil Wells for these points.

⁷ The 2003 biennial IFAT conference took place in Newcastle upon Tyne, U.K. from 23 to 27 June. References are based on personal involvement by the author in the event.

⁸ This is not to say that issues of market access for producers is the sole domain of Fair Trade – see Page, 2003.

⁹ I am grateful to Phil Wells for this information.

¹⁰ The figure of £10 million was quoted by Terry Hudgton, Head of Corporate Brand Management at the Co-op during a presentation at the IFAT biennial conference – see note 7.

¹¹ Also quoted by Terry Hudgton – see note 10.

¹² It might be argued that aspects of this agenda are purely “business” while others are “business ethics”. Whether such a clear distinction can be made is debatable. Rather than engage with the debate here, the research agenda is presented as a single list.

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