Fair Trade Mainstreaming: An Innovative Response
to the Challenges of Hegemonic Neoliberalism

by

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Abstract

The objective of my thesis is to challenge the historical materialist account of Fair Trade, which sees the participation of mainstream market actors in the movement as inimical to its revolutionary potential. I first examine the content of this perspective, then draw on qualitative interviews with 12 Canadian Fair Trade companies to construct an alternative theory of the movement based on a Polanyian account of the economy as an instituted process. Through providing a more complete picture of the motivations that lead conventional corporations to participate in progressive forms of supply chain governance, this thesis provides an answer to the impasse between reformist and revolutionary Fair Traders that has characterized the movement since the outset.

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1. Introduction

The predominant political trend under neoliberalism has been the contraction of the state and the expansion of semi-public and private forms of regulation. This trend has been spearheaded by market based certification initiatives in the forest, apparel and agro-food industries. Certification is “a procedure by which a third party provides [consumers] written assurance that a product, process or service conforms to specified standards, on the basis of an audit conducted to agreed procedures” (Bass et al 2001 p. 2 in Taylor 2004 p. 132). Fair Trade is a certification initiative that was created to counteract the insecurity faced by producers in developing countries. Aimee Shreck (2005) defines Fair Trade as a “social movement that contests the conventional agro-food system and rejects the exploitative social and environmental relations of production that characterize it” (pp. 18-19). Fair Trade contributes to sustainable development by guaranteeing consumers better trading conditions for disadvantaged producers and workers. The market value of Fair Trade proves that it is a force to be reckoned with. The Canadian Fair Trade network is a microcosm of what has happened globally. From 2006 to 2007, Fair Trade sales in Canada rose from 85 million to 120 million, and sales are expected to nearly double to 200 million by 2008 (TransFair Canada)¹.

Fair Trade’s rapid market growth has created quite the stir among activists and academics. This growth has largely been achieved via its integration with conventional distribution and retail outlets, a strategy which is commonly referred to as mainstreaming. While some feel that this is a positive development, others believe that the inclusion of

¹ The participants in this research project were guaranteed anonymity for themselves and their organizations and as such cannot be identified in the text. However, because TransFair Canada is the only Fair Trade labeling organization in Canada, participants from TransFair Canada could not be guaranteed organizational anonymity. As such, their contributions are simply referenced as “(TransFair Canada)”. For a list of interview dates and locations, please see Appendix II.

conventional companies in Fair Trade will obstruct the movement's goals in the long run. This is because rather than sharing the allegiance of original movement actors to a more equitable global trading system, the only allegiance capitalist companies feel is to the almighty dollar. Fair Trade is viewed as little more than a convenient way to increase their profits. By investing a minimal amount in Fair Trade, corporations can appeal to more enlightened consumers while resisting a more substantial redistribution of profits. Because this perspective views Fair Trade as nothing more than a modern form of "opium for the masses" (Shreck 2005), I will refer to it as the opium perspective.

The purpose of this thesis is to determine whether the goals of the original Fair Trade actors are in fact irreconcilable with a mainstreaming approach to Fair Trade. In order to assess the merits of the opium thesis, it draws on relevant literature from the fields of political economy, economic sociology, development studies, and innovation studies, as well as 12 interviews with Canadian Fair Trade companies and an interview with the Canadian Fair Trade licensing organization TransFair Canada. In contrast to the opium perspective, this thesis interprets the predominant trends in the global economy according to a Polanyian theory of the economy as an *instituted process* – or what I have termed the social economy perspective. This analytic construct views the economy as a structure that is at once grafted with certain rules and subject to struggle over how and in whose interests those rules function.

Because the economy is a contested process, even as the predicament of Southern producers has worsened under neoliberalism, transnational networks of firms and more traditional agents of civil society have emerged to take up the cause of disadvantaged Southern producers. The interest of firms in the fate of Southern producers reflects the

integration of quality into their strategic calculations. As described by Renard (2005), quality refers to the various socially derived sources of “economic value” found in a product. It includes intrinsic characteristics or internal qualities like nutritional content, hygiene, and organoleptic ‘taste’ as well as extrinsic characteristics or external qualities such as production processes and working conditions. Due to its social character, quality engages firms in the production of social values. Transnational networks have emerged as the most efficient way to organize the production of quality. These networks represent an innovative response to evolving market imperatives. In the forest and apparel industries, unholy alliances of activists and commercial interests have taken significant steps towards creating a more socially and environmentally sustainable global economy.

Given preliminary achievements in the forest and apparel industries, I was tentative to accept the notion that Fair Trade was doomed to fail so long as the dominant economic players had a seat at the bargaining table. But I did not have any evidence to counteract this claim. The existing literature on Fair Trade was replete with speculation. However, most of the existing evaluative studies looked at the impacts of participation in Fair Trade on producers and their communities. Nobody was really talking about how participation was affecting the actors at the other end of the supply chain, perhaps because of the lingering tendency to view “First World” actors as the subjects and “Third World” actors are the objects of development. It was therefore necessary to do some qualitative research of my own. The data collection method I chose was the in-depth, semi-structured interview. I felt that this particular method was the best way to capitalize on the familiarization of Fair Traders with the complexity of the global marketplace, and gain a full appreciation of the various dimensions of my topic.

1.1 Methodology

In conducting my research, I relied extensively on the basic research principles outlined by Ritchie and Lewis (2003). My interview questions were designed to capture *what* – if anything – *was different about* how original movement actors and conventional corporations were engaging Fair Trade. Could the outsiders be said to be Fair Trade companies in name only – as the skeptics suggested – or were they making a sincere effort to integrate the principles and practices of Fair Trade into their approaches to supply chain management? In developing my topic guide I drew heavily on Hughes' (2005; 2006) discussion of management strategies under the European Ethical Trading Initiative in order to get a sense of what best practices might look like in the case of Fair Trade. The interviews were constructed in a manner that allowed me to move from particular, concrete questions to more general, philosophical questions. Beyond that, I tried to order the questions in a way that made sense chronologically, while keeping thematically similar questions grouped together.

My research sample consisted of 12 Canadian Fair Trade companies and the Canadian Fair Trade labeling organization, TransFair Canada. In order to capture the diversity within the Fair Trade movement, the companies were chosen based on how they corresponded to three variables: percentage of Fair Trade products carried; economic activity; and size. The participants varied according to the proportion of their overall product that was Fair Trade. Movement *insiders* allocated between 98 and 100 per cent of their merchandise to Fair Trade wherever possible – if a product or input into production was available in a Fair Trade variety, they chose the Fair Trade option. Movement *outsiders* devoted a much smaller proportion of their overall product to Fair Trade –

around five percent. Of the 12 participants, exactly six were insiders and exactly six were outsiders. The terms insider and outsider were chosen to highlight the link between a company's proportion of Fair Trade products and its original differentiation strategy. The 100 percent Fair Trade companies had been Fair Trade since the outset, whereas the remaining companies had started out as *conventional companies*. The reader should be advised against reading more than is warranted into these terms, as a company's original designation is not necessarily indicative of its commitment to the principles of Fair Trade more broadly.

The participating companies also occupied different niches in the supply chain. Each was involved in one of three types of economic activity: *distribution*, *wholesale* or *retail*. The companies were spread evenly across the three categories: there were four distributors, four wholesalers, and four retailers. Each of the retailers catered to the specialty food and beverage service industry, with the main product being coffee. Of the wholesalers, three dealt primarily in coffee and one specialized in sugar- and cocoa-based products. Of the distributors, two were involved in coffee, one was involved in flowers and one was part of a large international holding of processing and distribution companies that catered to the grocery market. In each category there were two insiders and two outsiders.

We can further break down the companies according to their size. As several of the companies declined to share their sales figures, the only available information from which to determine size was distribution range. On this basis we can devise two rough categories. *Small companies* catered to the local market. Their sales were regional, provincial or national in scope. *Large companies* had much wider distribution ranges. All

of the large companies had international sales. In total there were five small companies and seven large companies. All of the small companies were insiders. One was a distributor, two were wholesalers, and two were retailers. In the large company category, there was one insider and six outsiders. Three of the large companies were distributors, two were wholesalers and two were retailers. A final point worth noting is that of the 12 companies, only one was publicly traded. The others were either privately owned companies or cooperatives.

Finding a representative sample was not difficult, as there were multiple organizations within Canada that met each of my criteria. Obtaining the prospective participants' consent to participate proved to be more challenging. My initial attempt at contact was made by e-mail, and was followed up with a round of phone calls for each of the organizations that did not respond. I was able to arrange four interviews with insiders and one interview with an outsider using these methods. Two additional outsiders informed me at this stage that they could not participate due either to a company policy or time constraints. After making several follow up phone calls with the remaining companies, and receiving no replies, I resorted to approaching the various organizations in person. I managed to obtain four of my five Vancouver interviews this way, as well as the remaining interviews I needed to round out my sample.

On the whole, the outsiders seemed less receptive to being interviewed than the insiders. This could have been due to a perceived bias against them on the part of commentators, and their fear of attracting negative publicity. Whatever the reason, the initial resistance I encountered was replaced by a sincere desire to share their experiences once I explained to them in person that I wanted to report on the *progress* they had made

and the *challenges* they had encountered with Fair Trade, rather than discuss the limitations of their participation. On average, the interviews I conducted with the outsiders lasted much longer than those I did with the insiders, which can mostly be attributed to the fact that the outsiders had a lot more to say. This may have been because they had never been asked for their opinions on the subject before, and were therefore more eager to share. One outsider commented on how encouraging it was that someone had taken the time to ask him about his experience with Fair Trade (O-2). Three of the outsiders invited me to tour their facilities after the interviews were concluded, and all of them asked me for copies of my finished thesis. The level of co-operation I received from the outsiders was the most illuminating part of the whole research process for me. It fundamentally challenged my long-held assumptions about the average white male corporate executive.

The analysis stage of the research process proceeded as follows. First I merged the topics from my interview guide with the additional themes that had come up in the course of my interviews to create an index of themes. The topics that I ultimately chose to discuss in my thesis were those that the participants had connected to their efforts in the realm of sustainability, whether they involved formal Fair Trade principles and practices or not, as well as the challenges associated with those efforts. I then coded my data according to the various themes. The process of data synthesizing took place as I was writing out my findings. In addressing each piece of the research question, I reviewed each participant's response, and selected quotes that were representative of the various dimensions of each theme. I did this for both the insiders and the outsiders as well as the remaining categories where it made sense to do so. I described the resulting

information based on the conceptual tools I had derived from my theoretical framework, making reference throughout to how my findings challenged the opium perspective.

1.2 Synopsis

The thesis is organized into five chapters. Chapter Two gives an historical account of the Fair Trade movement, from its origins, to its present constellation. It highlights the concerns that have been raised in conjunction with mainstreaming. My own theoretical perspective is introduced as an alternative framework for understanding the changes that have taken place within the Fair Trade movement, along with some initial evidence supporting it. Chapters Three and Four present the findings of the thesis, as well as some initial analysis. Chapter Three deals with the participating companies' motivations for participating in Fair Trade. It reveals the complexity of the decision-making process involved in Fair Trade and challenges the assumption that mainstream market actors are interested in Fair Trade because of the added profits it can generate. Chapter Four looks at how the various companies in this thesis have met the challenge of Fair Trade. It examines the concrete steps they have taken to adjust to changing market incentives, and the impact this has had on the conventional model of supply chain organization. The thesis concludes by discussing the future trajectory of Fair Trade's socially instituted economy.

2. What Happens When a Grassroots Movement Goes Mainstream

The purpose of this chapter is to provide an historical and theoretical context for the discussion of Fair Trade mainstreaming that follows. In order to understand the significance of the modern Fair Trade movement, it is necessary to understand the history of the network. Although it initially represented a spontaneous grassroots response to the political-economic inequalities faced by producers in the developing world, the movement's organizational structure has become more bureaucratic and its membership has grown over time. The evolution of the movement represents both a response to and an impetus for the rising influence of the Fair Trade concept among a growing segment of the private sector. Fair Trade has become increasingly popular among conventional companies, a development which some movement actors have protested due to the enmeshment of these companies in the global capitalist economic system. Critics argue that these companies are only interested in Fair Trade on a superficial level. In reality the capitalist imperative of price competition prevents mainstream companies from sharing profits more fairly with producers, and the movement's alignment with these actors will only bring about a reversal of its hard-fought gains. In this chapter I present the evidence in favour of this position, followed by an alternative theoretical framework for interpreting the Fair Trade movement. In particular, I draw on Polanyi's theory of the market as an instituted process to highlight the difficulty with interpreting market behaviour in such essentialist terms. Polanyi's insights allow us to realize the potential that exists to use the economy, which is socially constituted and by extension fraught with tension, as a force for social justice.

In order to determine the potential of Fair Trade to bring about a more egalitarian global economic system, it is necessary to situate it in its broader historical political-economic context. Fair Trade was a response to the highly unequal division of labour that emerged under colonialism, at which time the global South became a supplier of raw materials for Northern industry on the strength of the imperialist powers' military might. In its contemporary guise, economic imperialism is legitimated by the ideology of neoliberalism espoused by the World Bank, the International Monetary Fund, and the World Trading Organization. The neoliberalization project set in motion by these institutions has further enmeshed developing countries in primary commodity production. However, by capitalizing on the progressive *opportunities* created by hegemonic neoliberalism, movements like Fair Trade can alter the global balance of power in favour of marginalized producers. A theoretical justification for including mainstream market actors in the Fair Trade movement can be found in the writings of Schumpeter and the Global Value Chain literature. Taken together, these contributions suggest that the imperative of innovation compels corporations to foster stronger capabilities at the site of production, making conventional supply chains particularly fertile grounds for the proliferation of Fair Trade values and practices. That significant efforts at progressive supply chain governance have already taken hold in the forest and apparel industries is indicative of the breadth of the change that is taking place in the structure and function of the global economy.

This chapter is organized into four sections. The first section talks about the historical evolution of Fair Trade, from a grassroots movement for social change to a more broad-based site of negotiation over the means and ends of a more just global

trading system. The second section introduces two contrasting theories on the emergence of the contemporary Fair Trade movement, both of which acknowledge the influence of economic imperatives on Fair Trade's alternative vision of the economy, but only one of which sees these as compatible with the social justice orientation of the Fair Trade network. The third section gives an account of the wider political-economic context in which Fair Trade emerged, and looks at the specific developments that have made Fair Trade and like movements possible. It briefly discusses the status of counter-hegemonic globalization movements in the forest and apparel industries. The last section offers some concluding remarks.

2.1 The Historical Evolution of Fair Trade

In the past decade, Fair Trade has exploded into mainstream consciousness. For all its popularity, the term is more of a catchword than a specific proposal for organizing global trade. Among Fair Trade activists, there are widely divergent views as to what, exactly, the main components of Fair Trade are. As noted by Low and Davenport (2005), “[d]espite being considered a movement, the...organizations that comprise [Fair Trade] are far from homogenous, having evolved in different countries over different time periods and reflecting local political, social and economic conditions” (p. 144). Since it emerged at the end of the Second World War, the movement has been divided between two broad camps. The ideological orientations of the original Fair Trade organizations ranged from revolutionary to reformist, a divide which has persisted through to the present day. In recent years, however, this unresolved tension has reached a breaking point, as a shift in the balance of power within the movement has pushed it down the path of reforming the current economic system, leaving behind the bolder proposals of the

revolutionary camp. In the process, even the reformers have been forced to relinquish some of their more ambitious goals in order to strike a balance between their overarching vision and the outcome that makes the most sense for everyone involved in the short term.

Keeping the ideological differences between the various actors in mind, it is possible to trace some broad features of the Fair Trade movement¹ over time. When the concept of Fair Trade first emerged, there was no organized movement as such. Rather, Fair Trade consisted of a loose network of religious organizations in Europe and North America. The network soon expanded to include small-scale retail outlets such as non-governmental organizations and specialty shops (collectively referred to as Alternative Trade Organizations or ATOs) which either operated on a non-profit basis or turned a small profit. These organizations were created in response to the perceived inadequacies of the dominant trading system, which continues to be characterized by global conditions of oversupply and unstable prices for primary commodities, on which the livelihoods of millions of small-scale producers and their families depend (Fridell 2004). While the movement's main focus is on producers in postcolonial countries, there is a range of trading initiatives based entirely in the global North that bear a close resemblance to the relationships involved in North-South Fair Trade (Jaffee et al 2004). The emergence of

¹ The first thing that should be noted is that, for the purposes of this thesis, the term "Fair Trade movement" will be used interchangeably with the term "Fair Trade network". This usage is significant because elsewhere the terms are used to characterize what are held to be conceptually different phases of the movement. Fridell (2006), for example, uses the term movement to describe the earliest stages of Fair Trade, at which time many actors saw Fair Trade as the civil society component of a broader New International Economic Order. Fridell uses the term network to denote the transition that took place within the movement from an emphasis on an alternative economic order to an acceptance of the principles of neo-liberal capitalism. My decision to use the terms movement and network interchangeably is therefore a strategic choice that reflects my own belief that the civil society and market relationships of the Fair Trade movement cannot easily be separated. Rather, it is my contention that such a separation has never fully existed, and is neither necessary nor even desirable for achieving the broader aims of the movement.

these initiatives speaks to the penetration of Northern agricultural production by the same destabilizing conditions that have produced a livelihood crisis and resulting movement for change among Southern producers and their allies.

While the ideological orientations of Alternative Trading Organizations ranged from revolutionary to reformist, as a group they were motivated by the goals of self-help, development and social justice (Low and Davenport 2005). ATOs tried to achieve these goals by marketing handicrafts to Northern consumers at prices that allowed producers to cover the costs of production and reproduction. Other ATO activities included support for producer cooperatives and development projects in producer communities (Renard 2003). A big part of the emphasis of the founding ATOs was on bridging the gap in knowledge between consumers in the North and producers in the South. It was hoped that by exposing consumers to the plight of small-scale farmers on the other side of the globe they would be compelled to boycott conventional markets in favour of more ethical alternatives (Shreck 2005). One of the ways in which consumers and other movement actors were educated about the conditions affecting Southern producers was through organized visits to producer co-operatives.

With the expansion of the Fair Trade movement came a wider variety of Fair Trade products. From an initial focus on handicrafts, the Fair Trade movement branched out into commodities such as coffee, tea and cocoa. Today there are thousands of Fair Trade products around the globe. In Canada alone there are fourteen *types* of Fair Trade products: shea butter, honey, fruit, sports balls, rice, tea, spices, cotton, wine, flowers, coffee, quinoa, sugar and cocoa (TransFair Canada). The inclusion of an ever-expanding range of products reflects the movement's ongoing commitment to helping as many

Southern producers as possible. However, it has had serious implications for how the movement is organized. In order to enable continuous growth in the Fair Trade market, a group of movement actors consisting of the Mexican coffee cooperative Unión de Comunidades Indígenas de la Región del Istmo (Union of Indigenous Communities of the Isthmus Region) and the Dutch ecumenical foundation Solidaridad introduced the practice of Fair Trade labeling in the Netherlands in 1988. The Fair Trade label was created as a tool to solidify and promote the concept of Fair Trade among consumers (Fridell 2007). It was hoped that by increasing consumer awareness of Fair Trade, mainstream companies would be enticed to start selling Fair Trade products.

The success of labeling in the Netherlands prompted the Fair Trade movement as a whole to adopt this strategy. Set against the backdrop of a burgeoning market for ethical products in general, the Fair Trade label was viewed as a way to shore up Fair Trade's own brand of ethics in the eyes of consumers (Renard 2005). The Fair Trade label is a universal symbol that guarantees consumers that certain extrinsic qualities pertaining to the social, economic and ecological effects of production and exchange have been met by Fair Trade producers and intermediaries (Renard 1999; Goodman 2004). In order to ensure harmony between the various actors in the Fair Trade network, a common set of standards was devised that captured the various dimensions of Fair Trade as understood by key stakeholders. While these standards vary slightly from commodity to commodity, reflecting the unique labour processes that go into each commodity, all Fair Trade producers and purchasers are expected to honour a number of general commitments. The general criteria for growers are: participation in democratic organizations (trade unions, in the case of plantation workers); prohibition of child labour; and programs to improve

environmental sustainability. For their part, buyers are required to: purchase commodities directly from producers; pay a price that covers the cost of production and a social premium that goes towards community development projects; provide pre-financing of up to 60 per cent; and establish long-term contracts in collaboration with producers that outline production and sustainability targets.

To ensure compliance with Fair Trade standards among producers, an international umbrella body, the Fair Trade Labeling Organizations (FLO), was set up to audit producer cooperatives in accordance with ISO norms. National labeling organizations in Europe, North America and Japan were given the responsibility of policing upstream market actors licensed to import products carrying the Fair Trade logo. Licensed importers pay an annual fee which covers the operating expenses of the Fair Trade labeling organizations as well as their education and promotion activities. The organization responsible for overseeing Fair Trade in Canada is TransFair Canada. A representative of TransFair Canada described the organization's mission as follows "To alleviate poverty and improve the livelihood of developing world farmers and workers by building markets throughout Canada for Fair Trade Certified products and building trust in the Fair Trade Certified logo through a rigorous certification and licensing process" (TransFair Canada).

The success of the mainstreaming strategy has led Fair Trade to be commonly identified with the FLO system. However, to reduce Fair Trade to the official, FLO arm of the movement is to ignore a small but dynamic portion of the movement that practices a different version of Fair Trade. As noted by Dergousoff (2004), the informal Fair Trade network makes a significant contribution to the overall success of the Fair Trade market,

and should be taken all the more seriously on account of its growing size. Informal Fair Trade organizations can be classified on the basis of the following characteristics: a commitment to the concept and goals of FT expressed by the FLO and its associated bodies; opposition to textualized standards as well as the outside agencies that set and enforce those standards; the transmission of knowledge on a person-to-person basis; awareness of industry/consumer expectations; and innovative alternatives to the dominant model (Dergousoff 2004). In their more grassroots and laissez faire approach to Fair Trade, informal Fair Trade organizations have much in common with the Alternative Trade Organizations that founded the contemporary Fair Trade movement. Indeed, one of the outcomes of the rapid market expansion of Fair Trade labeled goods has been the defection of a number of the founding Fair Trade organizations from the FLO network on the grounds that it has become out of touch with their specific needs and aspirations (Fridell 2004; Jaffee 2007).

Fair Trade labeling was envisioned as a way to bring mainstream distributors and retailers into the Fair Trade network. These organizations were considered valuable allies due to their dominant position in conventional supply chains. Conventional products are typically valued for their internal qualities, which are determined by distributors and retailers at the point of consumption (MacDonald 2007). The conventional agriculture industry is dominated by a small number of large distributors and retailers that have achieved the status of household names. Attaching the Fair Trade label to these companies' products allowed activists to take advantage of their extensive quality controls and marketing resources (Renard 2005 p. 423), making it possible for Fair Trade products to gain entry into previously inaccessible markets (Raynolds 2002) and

maximizing the benefit of the movement for producers. Because of its association with conventional distributors and retailers, the labeling strategy is commonly referred to in the literature as mainstreaming.

While mainstreaming has generated a lot of controversy, there is no denying that the strategy has been a boon for a movement that was previously restricted to distributing its products through alternative retail channels. After the consolidation of the FLO in 1997, Fair Trade sales underwent several rounds of expansion in North America. According to a 2002 report by the Fair Trade Federation (FTF), the Fair Trade industry in North America grossed almost \$100 million in sales in the year 2000, which marked a major increase over previous years. The FTF attributed this increase to rapidly growing sales of Fair Trade coffee by mainstream retail outlets. Because it is the second most heavily traded commodity next to oil, coffee is a particularly useful indicator of trends in the Fair Trade market. In Canada and the US growth in the Fair Trade coffee market has been astronomical. Between 2003 and 2004, the value of certified coffee sales increased by 77% in the US and by 51% in Canada, representing a total of \$382.4 million (Webb 2007).

If the Fair Trade movement has benefited from its association with conventional companies, these companies have received important benefits from the network in return. Thanks to the proliferation of movements like Fair Trade, consumer awareness of corporate activities is at an all time high. The greater availability of information has put pressure on companies to address the issues in their supply chains. In order to demonstrate a commitment to responsible supply chain management to their consumers, companies have looked to voluntary governance initiatives such as Fair Trade. Such

initiatives are appealing because they allow companies to pre-empt what are seen as excessive government actions. As noted by Busch and Bain (2004) “retailers are eager for government-imposed standards...to remain minimal by demonstrating to both the public and government bodies that they are capable of policing themselves” (p. 234). The win-win scenario made possible by Fair Trade labeling has led it to become activists’ favoured approach for expanding the Fair Trade network.

2.2. Theorizing the Contemporary Fair Trade Movement

Despite its impact on the size of the Fair Trade market, the FLO’s mainstreaming strategy has been criticized by original movement actors and their sympathizers from the revolutionary camp. The critics question the loyalty of conventional distributors and retailers – whose exploitative practices gave rise to the Fair Trade movement in the first place – to the goals of Fair Trade. Most commentators acknowledge that conventional companies are involved in Fair Trade not out of a commitment to fairness or solidarity, but because it is economically advantageous (Gereffi et al 2001; Renard 2005; Fridell 2007). In the words of Renard (2005), large-scale corporations do not “participate in the network...from any ideological conviction, but because it is convenient and profitable (p. 92). The problem with this from the critics’ standpoint, is that their singular focus on profit compels conventional corporations to engage Fair Trade in principle, in order to boost improve their images, while evading its requirements in practice, in order to limit costly adjustments to their procurement procedures. This problem is only compounded by the FLO’s non-statist focus, which leaves movement actors at the mercy of disproportionately powerful corporate interests.

The manipulative techniques they attribute to conventional corporations are taken by the critics to be symptomatic of a more fundamental contradiction at the heart the labeling strategy. As Moberg (2005) puts it: “Ultimately, the movement is based on a paradox in its attempt to marshal the forces of the market against the market’s own logic of global price competition” (p. 5). Gavin Fridell (2004; 2006; 2007) is the most prominent critic of Fair Trade’s strategy of working both within and against the market. Writing from an historical materialist perspective, he argues that Fair Trade’s dependence on mainstream market actors drastically limits what it is capable of achieving. In its quest to give Southern producers more favourable access to Northern Markets, Fair Trade is constrained by the logic of capitalist competition, according to which, “If [companies] do not exploit the poor, grab land and resources...and act in environmentally destructive ways, they will not persevere...” (McNally quoted in Fridell 2007 p. 15). The imperative of competition is endemic to capitalism because, as with the Southern producers Fair Trade tries to help, shareholders of Northern corporations need to make a profit in order to survive. As Jaffee (2007) points out “publicly traded companies in particular are structurally and legally prevented from undertaking actions that would cut into...shareholder return” (p. 213). The unrelenting urge to protect the corporate bottom line works to counteract the redistributive mechanisms of Fair Trade on two levels. It *directly* affects the prospects of producers by putting downwards pressure on prices and wages for farmers. Not only do unreasonable rates of return affect producers’ chances of short-term survival, they also affect their long-term prospects for poverty alleviation by preventing them from moving into more gainful forms of employment. The imperative of profit-maximization also *indirectly* affects producers’ efforts to create more beneficial

alternatives by putting downwards pressure on income at the site of consumption. This prevents workers-cum-consumers from acquiring the necessary spending power to purchase certified Fair Trade products in meaningful quantities.

Fridell argues that given their singular focus on profit, conventional companies will resist the changes necessary to make Fair Trade work at all costs. As such, Fair Trade will continue to be relegated to a market niche, and the majority of Southern producers will remain locked into unproductive economic. The implication of this is that Fair Trade will not reach the producers with the greatest need. Shreck (2005) argues that the formal Fair Trade movement is a top-down structure controlled by Northern actors who are concerned above all else to satisfy the product standards of Northern corporations and consumers. This structure has the effect of excluding the most vulnerable segments of society – producers who lack sufficient organizational capacity and technical expertise – from the benefits of Fair Trade. Fridell (2007) contends that the system's extensive quality controls contribute to a loss of producer agency over the production process-perpetuating what Marx described as alienation in the labour process.

For Fridell the state-led New International Economic Order (NIEO) represented the most viable historical solution to the unequal global division of labour. However, the NIEO was defeated at the hands of the international trading regime of the World Bank (WB) the World Trade Organization (WTO) and the International Monetary Fund (IMF). Together these institutions function to restrict the ability of Southern states to intervene in their economies to enhance the position of their productive classes relative to powerful corporate interests. Rather than providing a sustained challenge to this regime, the Fair Trade movement has succumbed to its nonstatist focus, with producer groups and their

allies turning to voluntary agreements with major market actors in order to bring about the goal of producer empowerment. However, far from empowering producers, this move threatens to put downward pressure on the social and environmental benefits of Fair Trade. Aimee Shreck (2005) describes the predicament faced by the modern Fair Trade movement as follows:

by committing to work ‘in the market,’ Fair Trade initiatives embrace a political economy of food and agriculture that grew out of colonial relations, which today are only partially masked as free trade and globalization. Without the vision or means for emancipation from the system...Fair Trade [is nothing more than] a postmodern form of opium for the masses...(p. 26).

Because it draws on Marx’s depiction of religion as the “opium for the masses” to describe the present Fair Trade movement, the critical perspective will be referred to as the “opium thesis”.

As bleak as it is, the opium thesis should not be dismissed out of hand. A number of studies provide tacit support for the theory that corporate involvement in Fair Trade exposes it to increased negotiation over its agenda (Busch and Bain 2004; Giovannucci & Ponte 2005; Mutersbaugh 2005; Renard 2005; Raynolds et al 2007) There are two main tactics that can be used by corporations to take advantage of Fair Trade’s positive publicity while at the same time circumventing it’s intended effects. One strategy, which is referred to as “fairwashing” (Jaffee 2007), involves carrying just enough Fair Trade products to hold oneself out as a “Fair Trade” company, while continuing to use exploitative practices for the remainder of the production process. Fairwashing poses a particularly serious threat to the Fair Trade movement because fairwashed product lines can theoretically be subsidized by the ongoing use of cheap labour in conventional

production, allowing conventional companies to undercut more committed movement actors.

A second strategy entails signing on to related, less comprehensive initiatives. Such arrangements can take the shape of first-party (firm), second-party (industry) or third-party (NGO) operating principles or certification schemes. While these initiatives are better than doing nothing at all, schemes that take place at the firm level, although often based on established codes of conduct or the purchasing guidelines of NGOs or industry associations, are nearly always diluted versions of Fair Trade standards in terms of both content and methods of verification (Giovannucci and Ponte 2005). The same can be said of competing third-party initiatives, which are generally more business friendly due to their closer ties to industry (Fridell 2007). All three types of initiatives have the potential to crowd more genuine efforts at ethical trade out of the marketplace. In the words of Giovannucci and Ponte (2005) “The...danger lies in the possibility that [corporations’] considerable marketing clout could generate consumer acceptance of modest or cosmetic standards, and subsequently erode more stringent (and internationally accepted) standards” (p. 292). Hudson and Hudson (2003) define as the problem as one of “informational legitimacy.” Consumers today are faced with a proliferation of quality labels, many from less authentic organizations that nonetheless claim to stand for the same ideals as Fair Trade. Their exposure to competing claims could cause consumers “to distrust the production information that defines the [Fair Trade] movement as it becomes indistinguishable from the claims made by a wide variety of other organizations, making people less willing to participate” (Hudson and Hudson 2003 p. 425).

In the case of Fair Trade coffee, there is evidence of both of the above trends. Unlike ATOs, which adhere to the principles of Fair Trade for all of their trading relationships, whether they carry certified Fair Trade products or not, mainstream businesses generally devote only the minimum required percentage of their merchandise to Fair Trade (Jaffee 2007; Fridell 2007). Starbucks, for example, whose participation in the movement was hailed as a major victory by Fair Trade activists, devotes a meager six percent of its coffee to Fair Trade (Fridell 2007). However, the bulk of its practices arguably do not meet Fair Trade standards (Fridell 2004, 2007; Jaffee 2007). In an even more alarming trend, industry heavyweights such as Starbucks, Proctor and Gamble, and Sara Lee, have successfully lobbied the American Fair Trade labeling organization, TransFair USA, to relax purchasing requirements or agree to other questionable side-deals for Fair Trade products (Jaffee 2007; Renard 2005). These types of arrangements are instances of what Mutersbaugh (2005) refers to as “captive certification.”

The coffee sector has also recently experienced a proliferation of competing ethical trading initiatives. A number of lead industry players have ventured outside the FLO network in search of ethically sourced products. Starbucks, Neumann and Carrefour have all negotiated independent purchasing guidelines with producers (Taylor et al 2005). These initiatives can be classified as “direct trade” in contrast to Fair Trade due to their emphasis on working directly with producers outside of the FLO network. While such partnerships signal greater maturity on the part of grower organizations, and are a rational response to the limitations of niche markets, the agreed upon standards generally fall far short of those required by the FLO (Taylor et al 2005; Murray et al 2006). Still other companies have flexed their ethical muscles by adopting third-party

certifications other than Fair Trade. For example, the world's largest banana distributor, Chiquita Brands International, had certified its entire network of Latin American banana plantations under the Rainforest Alliance's "Better Banana" program by 2000 (Murray and Raynolds 2000). While some of these initiatives represent complementary approaches to ethical supply chain management, others are more geared towards holding the bar on ethical trade than raising it (Murray and Raynolds 2000; Raynolds et al 2007).

It is clear that the participation of conventional companies in Fair Trade poses challenges to the expansion of the network. Mainstream companies have employed a variety of techniques to resist the large-scale changes desired by Fair Trade activists. A related and arguably more fundamental obstacle to increasing the size of the Fair Trade market is that of consumer demand. As Renard (1999) points out, Fair Trade commodities represent high-end products in their respective markets. The resultant inaccessibility of Fair Trade products to low-income consumers – including the producers that grow those commodities – is a major impediment to the success of Fair Trade, not to mention a serious social justice issue.

When it comes to the question of demand, the numbers speak for themselves. Although it is the largest Fair Trade commodity, Fair Trade coffee still accounts for less than 3% of the global coffee market (Webb 2007). What is more, recent trends in the North American Fair Trade coffee market have not been copied elsewhere. Rather, growth in Europe has begun to level off after an initial period of rapid growth. As it currently stands, the average FT coffee producer co-op sells only about 20% of its production on FT channels (Renard 2005). According to Renard (2005) "[o]nly some of the earliest co-ops to adopt fair trade practices, the best organized, and those that have

developed strong trust relations with...importers manage to sell more than half of their harvest [on] fair trade markets” (p. 427). According to Murray et al (2006) the capacity of eligible small-scale coffee producers worldwide is roughly seven times the actual volume exported through FT channels. The majority of producers are thus forced to sell a substantial portion of their stock on conventional markets, which counteracts the benefits of Fair Trade. Even ardent supporters of Fair Trade labeling acknowledge that “[o]ne of the principle problems in the fair trading system now is...oversupply, whereby there is not enough effective demand for the fair trade coffee that can be produced. Thus a number of fair trading networks have limited expansion” (Hira and Ferrie 2006 p. 108)

If the current trends in the Fair Trade coffee market are an accurate indication of the limits of the FLO’s labeling strategy, then we are forced to accept Fridell’s contention that Fair Trade’s alternative vision for the economy is doomed to failure at the hands of the profit-seeking logic of the market. The image that this scenario conjures up of an unbounded market that subjects all economic activity to the logic of price competition is reminiscent of an earlier state of affairs described by Karl Polanyi. Polanyi’s name for this entity was the self-regulating market, and his lasting contribution to the debate that is still taking place around it was that the self-regulating market did not actually exist, at least not in the sense that it has come to be understood in “formal” accounts of the economy as a self-contained system which determines the social organization of production according to the imperatives of trade, money and price-setting. Rather, a substantive or empirical account of the economy demonstrates the economy has always been a socially *instituted process* (Randles 2007). Understanding the economy as a social *process* means recognizing that the market as a mode of allocation, like all systems of

social provisioning that preceded it, is contingent on historically specific spatial and societal forms which amount to “a tissue of relationships between man as a biological entity and the unique structure of symbols and techniques that results in maintaining his existence” (Polanyi et al 1957 p. 239 quoted in Randles 2007 p. 415). This interpretation recognizes both the material *and* the social dimension of the market. The way in which the market is structured according to social norms is captured in the concept of the embedded economy. It follows from the social character of the market that, far from being internally consistent across time and space, the market and its institutions are fluid and open to contestation and change. As the material and symbolic relationships between individuals in society change, so too is the economy reorganized to reflect the new social arrangement.

By exposing the diversity and contingency of real-world market institutions, Polanyi set the stage for economic sociologists half a century later. Guthman (2007), for example, applies Polanyi’s insights to the current phase of neoliberalism, commonly referred to as “roll-out” neo-liberalism. Pointing to the opportunities for progressive governance made possible by the contested character of the earlier, “roll-back” phase of neo-liberalism, she invests Polanyi’s distinction between the formal and substantive economy with new force, saying of the current global economic landscape “the fact that ‘actually existing neoliberalisms’ do not emerge lock step with the neoliberal project – that aspects have spatially variable historical precedents and path dependencies – makes the character of things that emerge in the process of neoliberalization highly complex and even contradictory” (p. 466). As such, the “institutions that emerge are necessarily undetermined and thus variable” (p. 465).

While the economy and the specific form of the economy that we call the market is a socially contested process, it is also a socially instituted process. Understanding the market as *instituted* is what allows us to view market institutions as fixed across time and space, and what has allowed some people to draw the tenuous conclusion that the market operates according to its own timeless, universal principles. Polanyi describes the instituted nature of the economy as follows:

The instituting of the economic process vests that process with unity and stability; it produces a structure with a definite function in society, thus adding significance to its history; it centres interest on values, motives and policy. Unity and stability, structure and function, history and policy spell out operationally the content of our assertion that the human economy is an instituted process” (Polanyi 1957 p. 250 quoted in Randles 2007 p. 416).

Polanyi’s depiction of how societal forces converge to consciously, if not harmoniously, produce a framework of motives and incentives to guide economic behaviour belies the notion, which Arrighi et al come uncomfortably close to endorsing, of a self-regulating market with an insatiable appetite for profit. Such a market would surely be at odds with the purpose of the economy, which Polanyi reminds us, is brought into being to serve “a definite function in society” and requires institutions to provide it with this mandate. It is through the construction of such institutions out of the existing social fabric that the economy can be said to be embedded in a concrete sense. While embedding in this sense gives the dominant economic order a more entrenched presence in society, it is important to remember that the market remains a sphere of contestation. In recognition of its essential social character, the Polanyian theory of the economy adopted in this thesis will be referred to as the social economy perspective.

2.3 Fair Trade Meets the Global Governance Institutions

2.3.1. The Economy as an Exercise in Imperialism

The social economy perspective exposes the myth of the self-regulating market.

However, critical theorists can hardly be blamed for having such cynical attitudes about markets. Throughout history, the workings of the dominant economic system have never been far removed from power. At the global level, the shifting geo-political balance of power has created clear winners and losers:

For much of history, trade has been an exercise in exploitation. The world's richest countries have used it as a means of transferring wealth from the world's poorest countries, whether through outright plunder or unequal exchange. Mass poverty in developing countries inevitably accompanied the growth of their exports" (Oxfam 2002 p. 21).

Far from marking a break with history, the current global trading regime has reinforced the patterns set in place by colonialism. The global governance institutions have used their financial clout to promote policies in poor countries that have in effect further undermined their economic and political position. The tenants of neoliberalism were put in place in the global South primarily through Structural Adjustment Programs (SAPs). SAPs had two main components: the reduction of government expenditures to achieve stabilization, and privatization and liberalization of the economy to initiate economic growth (Kristiansen and Mbawambo 2003). As a result of SAPs, the power of states in the global South to direct the development of the economy was curtailed at the same time as more parts of the world than ever before became exposed to competition from the advanced economies of the global North.

One policy that has been vigorously promoted in conjunction with SAPs is export production. This policy has caused developing countries to become increasingly reliant on exports as a source of income – exports presently account for more than one-quarter of their combined GDP, a proportion which exceeds that of rich countries (Oxfam 2002).

However, export promotion does not always make sense for developing countries. While colonial governments used the wealth they amassed from their colonies to expand their manufacturing bases at home, their colonies' economic infrastructures were geared almost exclusively towards primary commodity production. When they gained independence, the ex-colonies were confronted by a scarcity of domestic resources with which to establish thriving manufacturing sectors. The imposition of escalating tariff rates by Northern countries made it even more difficult for Southern states to compete in the value-added, processing stages of production. Many newly independent countries subsequently faltered in their attempts to reorient their economies towards more productive economic activities. With the exception of a few low-skill, low-wage manufacturing activities, their economies are still dominated by agricultural and subsistence production. Faced with the absence of alternative livelihood options, these countries intensified their agricultural production in response to the neoliberal policy directives of the IMF and the World Bank, in effect flooding already depressed markets even further. In the case of coffee, for example, output nearly doubled between 1997 and 2002, as Vietnam, acting on the advice of the World Bank, emerged as the world's second largest exporter of coffee (Oxfam 2002). The decision to increase coffee exports was made despite already "chronically depressed" price levels (Oxfam 2002 p. 160).

In terms of allocating the benefits of economic activity, markets do not have a very good track record. However, just because markets have historically worked to the disadvantage of Southern producers does not mean, as Fridell argues, that we should abandon them altogether. To the contrary, to isolate the developing countries from the global marketplace would actually *worsen* the situation of the world's most vulnerable

populations. As indicated by Oxfam, one of the founding Fair Trade organizations:

“Whatever problems may be associated with the expansion of exports, their contraction would *destroy* the livelihoods of millions of women workers and small farmers [emphasis added]” (Oxfam 2002 p. 23). In searching for ways forward, therefore, it is important to keep in mind that the market is by nature an indeterminate process: “[i]n itself, trade is not inherently opposed to the interests of poor people” (Oxfam 2002 p. 24). Rather:

International trade can act as a force for good, or for bad. Trade rules can be designed to disadvantage the poor and concentrate benefits in the hands of the rich, or they can be designed to create an enabling environment in which poor countries can catch up with the rest of the world... The outcomes are not pre-determined. They are shaped by the way in which international trade relations are managed...(Oxfam 2002 p. 24).

The problem when talking about fixing global trade, of course, is that the institutions at the helm are backed by the financial and military might of the world’s most powerful states. As the primary beneficiaries of existing trade relations, these states have a high stake in maintaining business as usual. Going up against the WB, the IMF and the WTO is therefore no small task: “To be sure contemporary transnational capitalism and the political apparatus that supports it are endowed with unimaginable material resources, ideological hegemony, and the exceptional flexibility that comes from interconnected global operations” (Evans 2000 p 237). However, the very existence of Fair Trade’s alternative structure of economic organization suggests that even formal political power has its limitations.

2.3.2. Chipping Away at the Cracks

For all their tenacity, the global governance institutions are not as invincible as they may appear. To the contrary, the neoliberalization project that they have embarked on is riddled with “contradictions” and “dialectical possibilities” which provide challengers

with several openings through which to alter the dominant rules of the game (Guthman 2007). As Guthman (2007) illustrates, “even though neoliberal philosophy argues for deregulation, in practice neoliberalization has produced significant re-regulation: new rules, new rule-making bodies, and new spheres of rule-making, one consequence of which is that scalar politics have become a key feature of contestation around neoliberalism” (p. 465). For Guthman, the most notable feature of the new institutional patterns that have sprung up in the era of neoliberalization is the shift they mark from government to governance, where government refers to centralized, bureaucratic rule-making, and governance refers to non-state mechanisms of regulation, the most pervasive examples of which are the new “self-organizing networks” at the centre of global trade, of which Fair Trade is one example (Rose 1999 in Guthman 2007 p. 466).

There are a number of features of hegemonic neoliberalization that have acted as catalysts for the emergence of new patterns of regulation. One factor is the growing concentration of retail firms. Firms have taken advantage of neoliberal deregulation policies by increasing their market share through mergers and acquisitions. The size and presence of these firms has increased as a result, giving them greater leverage within their industries, but also making them easier targets for activists who also have an interest in regulating economic activity. A second enabling factor is the retrenchment of government regulations pertaining to labour and the environment. This trend is a direct result of the failure of the ILO to insert labour and environmental norms directly into WTO-sponsored international trade agreements, particularly the GATT, but also Trade-Related Intellectual Property Rights and Trade-Related Investment Measures. Without such protections individual states have been prevented from enacting progressive labour and

environmental standards (Mutersbaugh 2005). The absence of government standards allows civil society groups and private actors to take the lead in developing standards.

This leads to a third factor behind the rise of alternative forms of regulation, namely, the emergence of product quality as an important consideration for economic agents. For Polanyi, the ever-changing needs of society give the economy a dual nature as a patterned yet *variable* set of institutions and behaviours. Another prominent political economist, Joseph Schumpeter, theorized the specific mechanism by which changes to the organization of the economy take place. While Schumpeter was discussing processes and mechanisms specific to capitalism, I believe that his insights can be used to understand the whole history of economic development, wherever it has taken place. Writing at the same time as Polanyi, Schumpeter was also keenly aware of the dynamism of capitalism, which he believed was fundamentally an *evolutionary* process (Schumpeter 1954 p. 82). While it may have displayed predominant characteristics at given points in time, historically speaking, capitalism was marked by moments of discontinuity and change that give rise to a new and improved balance of forces. This was because human ingenuity was constantly being applied to some new product, production process or mode of organization that had a scientific and therefore competitive advantage over the existing system. As noted by Freeman and Soete (1997),

“[Schumpeter] believed that the task of economic theory was to...analyse those features of the system’s behavior which could generate fluctuations...The most important of such features in his view was innovation, which, despite its great specific variety, he saw as the main engine of capitalist growth and the source of entrepreneurial profit” (p. 18).

Because it was a distinctly *human* activity, innovation was propelled by the natural progression of the human race, and in this sense could be said to be aimed at its betterment.

Schumpeter's insight that innovation is the source of profit in the long-term belies the assumption that price competition is the impetus behind capitalism. As Schumpeter explained, far from generating a decisive competitive advantage, price competition represents little other than a means for large, oligopolistic companies to cling to whatever technological or organizational advantage they presently have. If you take into account that prices can only drop so far before it becomes impossible to squeeze any more value out of workers or the environment, then this interpretation is patently the case. I would venture so far as to say that the same goes for any draconian form of economic organization – wherever the propensity for human creativity is stifled, it can only be a matter of time before the existing configuration is replaced by one that is more attuned to the needs of society. It is only through Schumpeter's process of creative destruction – by imitating and improving upon existing products, processes and methods of organization (Freeman and Soete 1997) – that economic agents can retain their competitive advantage over time. It is the perpetual threat of change posed by this process that makes the market an intimidating place, even for large, oligopolistic companies. In the words of Schumpeter (1954):

competition of the kind we have in mind acts not only when in being but also when it is merely an ever-present threat. It disciplines before it attacks. The businessman feels himself to be in a competitive situation even if he is alone in his field or if, though not alone, he holds a position such that investigating government experts fail to see any effective competition between him and any other firms in the same or a neighboring field and in consequence conclude that his talk, under examination, about his competitive sorrows is all make-believe (p. 85).

The threat of competition is particularly acute in the context of neo-liberal globalization. As a result of neoliberal policies, companies can no longer rely on blatant protectionist measures (excluding those which are ostensibly being phased out under international agreements) to insulate themselves from outside competition. Neoliberalization has thus invigorated the pace of technological change with the result that increasing the skill content of production or *improving upon product quality* is now widely recognized as the only realistic means of beating impossible overseas competition (Humphrey and Schmitz 2002).

The precise definitions of quality that have emerged are tied to two different yet overlapping sets of actors. On the one hand, firms have seized upon the new possibilities in the marketplace to tap into new sources of competitive advantage. As noted by Renard (2005), quality “allows firms to evade price-based competition between identical products while also responding to the increasingly differentiated demand structure associated with a post-Fordist global economy” (p. 421). On the other hand, civil society groups have utilized the new economic opportunities to compel consumers to take a more active interest in the ethical dimensions of production.

The trend towards quality has had implications for how economic activity is organized and conducted. The global value chain literature attempts to understand how lead firms in global supply chains use their leverage within the supply chain to coordinate activities between suppliers in order to respond to the imperatives of the global marketplace. Given the centrality of knowledge sharing to innovation, the way firms manage this activity forms the crux of the analysis. In particular, the focus is on the way firms manage three variables: the complexity of information and knowledge transfer, the

potential for knowledge codification and the capabilities of suppliers to utilize knowledge (Taylor 2005). Lead firms take an active role in managing these variables in order to compensate for a lack of local business networks and institutions in the developing world capable of meeting the stringent and rapidly changing demands of the global market place. As noted by Humphrey and Schmitz (2002) business networks are preferable to arms-length transactions for maximizing the returns of knowledge sharing to innovation in global supply chains. This is due to the potential sunk costs associated with arms-length relationships. As the task complexity, and therefore level of skill, involved in the production of a given commodity increases, it becomes more costly for firms to switch from one supplier to another, giving firms a greater stake in maintaining their existing trading relationships. The structured and persistent nature of supply chain relationships under neoliberalism is what gives them their network character (Humphrey and Schmitz 2002).

Just as companies have repositioned themselves to take advantage of the new openings in the marketplace, activists have used these new opportunities to achieve their own goals. Advances in communication and transportation technology have allowed activists to disseminate knowledge at an unprecedented rate (Moberg 2005). Advocacy campaigns involving collaboration between NGOs and social institutions at the point of consumption such as schools, universities and churches have given consumers unprecedented access to information regarding the adverse practices of increasingly visible corporations. This has led to a surge in demand for novel product qualities – a situation Renard (1999) describes as the “intrusion of demand into the sphere of production” (p. 489; see also Busch and Bain 2004) – with nutrition, hygiene, safety,

ecology, authenticity, and solidarity becoming new watchwords for consumers (Renard 1999; Busch and Bain 2004). In the mainstream agro-food sector, quality concerns have been met by a proliferation of services geared towards product information (Renard 1999). In the case of extrinsic product qualities, such as production processes and working conditions, a parallel set of private or semi-public actors has emerged at each point in the supply chain to “bind quality labor into certified commodities” (Mutersbaugh 2005 p. 393) through auditing and verification procedures. Certification amounts to a consumer guarantee that certain extrinsic product qualities pertaining to the social and ecological aspects of production have been met.

Fair Trade is not the only civil-society initiative that has seized on the possibilities of hegemonic neoliberalization to construct a more equitable global economy. Evans (2000) points to three broad countertrends to the current international order: transnational consumer/labor networks (of which Fair Trade is an example) transnational advocacy networks and the global labour movement (Evans 2000). Collectively, these movements seek to re-regulate global trade in the interests of society as a whole, and can be said to constitute a form of “counter-hegemonic globalization” or “globalization from below” (Evans 2000; Webb 2007). While each movement has a distinct cause and objective, they are all united behind the goals of participative democracy, social justice, equality, pacifism and environmental sustainability (Webb 2007).

The networks that have sprung up around quality verification have in some cases become highly formalized. Their official status can be attributed to the WTO’s efforts to restrict non-tariff barriers to trade by harmonizing standards across countries (Busch and Bain 2004). The WTO’s harmonization efforts have led to the development of specific

protocols for labels and certification agencies. In the case of Fair Trade, the main certification body, the FLO, has obtained accreditation under the existing protocol for certification agencies. Because its standards are voluntary and do not discriminate by country of origin, they cannot be classified as barriers to trade in violation of the international free trade agreements (Raynolds 2000). Given its synchronization with international norms, Busch and Bain (2004) conclude that Fair Trade “cannot be dismissed as [a] merely objective technical or economic device...Rather, [it] play[s] a fundamental role in reconfiguring social relations” (p. 341).

As part of a larger movement for more socially and environmentally responsible corporate practices, transnational consumer/labour networks such as Fair Trade are a relatively novel form of regulation. However, the progressive effects of these initiatives on global supply chains have already been felt in a number of industries. In the North American context, developments in the forest and apparel industries are particularly noteworthy. In the case of forest certification, the Forest Stewardship Council, a nonprofit organization comprised of many different stakeholders including representatives from environmental organizations and the forest industry, sets guidelines for sustainable forest management and accredits and audits third-party certification agencies (Taylor 2004). While big industry players initially tried to bypass its stringent regulations – which emphasize both the social and environmental aspects of sustainable forest management – by enacting much more lenient industry guidelines, FSC certification is increasingly becoming a requirement for entry into the forest products industry (Gereffi et al 2001; Taylor 2004). This is largely due to the success of massive NGO-led campaigns against retailers such as the Home Depot and Lowe’s Home

Improvement Warehouse (Gereffi et al). Faced with the growing consumer awareness stimulated by these campaigns, upstream market actors have embraced certification as a way to manage risk (Taylor 2004). In the words of Gereffi et al (2001) “[t]he battles over forest-product certification show that consumers and NGOs can quickly delegitimize weak standards and inadequate enforcement mechanisms, and they can also mobilize effectively for more stringent codes of conduct and more reliable monitoring” (p. 64).

Labour standards have also begun to catch on in the apparel industry. However, in the case of apparels, there are a number of major standard-setting organizations with more or less comprehensive codes of conduct and auditing systems currently vying for control of the American market. Despite the incoherent state of private governance in this sphere, some positive developments have already occurred. Industry leader Gap Inc. adopted a well-publicized code of conduct and agreed to independent monitoring (Gereffi et al 2001). Private governance in the European apparel industry has progressed much further. A number of prominent food and clothing retailers have signed onto the Ethical Trading Initiative (ETI), a government sponsored initiative which has adopted all of the core ILO conventions. Although it remains a voluntary initiative, Hughes (2006) concludes that the ETI is an example of “responsible capitalism” in action (p. 1019). Gereffi et al (2001) have reached a similar conclusion regarding the North American forest and apparel experiences, which “underscore the growing power of NGOs to compel corporations to adopt new environmental and labor standards” (Gereffi et al 2001 p. 64).

For all their promise, certification initiatives are far from a catch-all solution to entrenched corporate behaviours and practices in the spheres of production and trade. As

Evans (2000) reminds us, “corporations, like most of us, are prisoners of past practice and entrenched attitudes...Without intense political pressure and sustained threat to the corporate image, standard operating procedures don’t change” (p. 234) As such, profitability based on price competition continues to be an important economic strategy. At least for now, whether or not certification represents an effective solution to the power imbalance in global supply chains appears to depend on the particular industry, the ability of NGOs to mobilize effectively, and the unique interests of the groups involved (Gereffi et al 2001 p. 60). What developments in the forest and apparel industries make clear, however, is that far from being monolithic, the market as a set of institutions is an evolving entity vulnerable to cooption and transformation by dissident groups within society.

Progressive governance frameworks such as the Forest Stewardship Council and the Ethical Trading Initiative constitute significant exceptions to the opium thesis. However, the proponents of the opium thesis have largely overlooked trends towards progressive supply chain regulation in other industries. Likewise, they simply assume that conventional Fair Traders’ relatively modest commitments to certified Fair Trade mean that on balance they are a threat to the movement. However, the claim that conventional market actors have different priorities from that of committed Fair Traders has not been substantiated. In fact, with the exception of a lone case study on Starbucks by MacDonald (2007), no qualitative assessment of conventional companies’ approaches to Fair Trade management has been attempted. MacDonald’s findings, however, give us reason to question the opium thesis. For a company that has taken a lot of slack from activists for not doing more to support Fair Trade, Starbucks’ own processing and trading

standards are found to “[interact with] Fair Trade...in largely complementary ways to diffuse principles of ‘social sustainability’ across conventional coffee supply chains...” (p. 806). In what must come as a shock to the proponents of the opium thesis, these standards are also backed by extensive compliance measures including self-evaluations and independent verification by the NGO Scientific Certification Systems. These findings suggest that there is more to the story of corporate involvement in Fair Trade than meets the eye. This point will be taken up in the following chapter.

2.4. Conclusion

This chapter has outlined the evolution of Fair Trade from a movement consisting of small Alternative Trade Organizations to one that incorporates mainstream market actors side-by-side with ATOs in an uneasy alliance. The reorientation of the movement towards mainstream market actors occurred at the behest of producer organizations that wished to expand the markets for their products, and has succeeded in acquainting an even larger cohort of consumers with Fair Trade products. At the same time as it has expanded the market for Fair Trade, however, mainstreaming has plunged the movement into a divisive debate over whether or not the aspirations of committed Fair Traders can be reconciled with the dominant model of economic organization. The main objections to mainstreaming are summarized in the opium thesis. Proponents of this thesis argue that because the survival of capitalist firms is contingent on their ability to keep producer profits and working conditions to a minimum, mainstream companies cannot reasonably be expected to participate in Fair Trade honestly. The opponents cite existing cases of corporate malfeasance to substantiate their claim that capitalist firms are only interested in Fair Trade for its public relations benefits.

This chapter has also presented an alternative theoretical framework for understanding the Fair Trade network. In contrast to the opium thesis, the social economy perspective views the market as a socially mediated set of imperatives. Because the economy is embedded in social norms and institutions, its material outcomes are always contingent upon the existing configuration of power within society, expressed in terms of the discourse and structures that animate the economy.

One of the perks of hegemonic neoliberalization is the opportunities it has presented for dissident groups to impart an *alternative* discourse and structure on the economy. Schumpeter reminded us a long time ago that it is through innovation or *improving upon product quality* that the market meets the ever-changing needs of society. Neoliberalism has increased the premium placed on quality by speeding up the rate of technological change. Enhanced competition over the intrinsic qualities of products requires corporations to take a more co-operative approach towards their relationships with their suppliers in order to maximize the returns of knowledge sharing to innovation. However, as civil society groups have taken up the slack left behind by the state in the areas of labour and environmental regulation, neoliberalism has also increased the vulnerability of oligopolistic firms to negotiation over the normative or extrinsic dimensions of quality. The Fair Trade system is but one component of a larger movement for globalization from below that has created new supply chain relationships to satisfy consumers' demands for a greater say over how corporations impact the lives of people and the environment throughout the production process. Certification initiatives in the forest and apparel industries suggest that the new rules created by the convergence of top-

down neoliberalization and globalization from below and are having a significant impact on the dominant model of supply chain co-ordination.

The next two chapters seek to overcome the dearth of qualitative evidence on the effects of Fair Trade mainstreaming by providing a first-hand account of the calculations that have informed and the concrete measures that have arisen from conventional companies' participation in the formal Fair Trade network. The outsiders' accounts are intertwined with those of more committed movement actors in order to give a sense of how the two sets of actors have fared in relation to one another in the discharge of their responsibilities under Fair Trade. In comparing how the different groups have reacted to Fair Trade, it will be possible to arrive at a more definitive conclusion regarding the prospects for Fair Trade's alternative vision for the economy under mainstreaming.

3. Obstacles and Opportunities in the Official Fair Trade Network

Having considered the arguments for and against mainstreaming, it is necessary to more fully investigate the claim that conventional companies (movement outsiders) are interested in Fair Trade solely for its image-enhancing effects. As this chapter reveals, the priorities of the outsiders in fact differ from those of 100 percent Fair Traders (movement insiders). Social justice is generally not as high on the outsiders' list of priorities as the need to adjust to the changing attitudes of consumers. However, it does not follow from this that the outsiders simply view their commitments to Fair Trade as a way to fairwash the rest of their products (the first prong of the opium thesis). The opium thesis simply assumes this without considering the merits of such a strategy. A second objective of this chapter, therefore, is to uncover the feasibility of using Fair Trade to generate greater acceptance of existing corporate practices. As it turns out carrying one or two Fair Trade products does not give conventional companies a free pass to continue with business as usual in the remainder of the production process. This, coupled with the perceived costs of implementing Fair Trade on a wider scale, has prevented mainstream market actors from totally embracing the Fair Trade concept. Of course, the surest way to test the fairwashing argument is to examine the outsiders' approaches to Fair Trade advertising. If conventional companies are really interested in free riding on the Fair Trade logo, then advertising Fair Trade should be high on their agendas. However, this chapter demonstrates that this is not the case. If anything, the outsiders preferred to stay out of Fair Trade advertising as much as possible. One possible reason for this is that they wished to avoid creating greater demand for Fair Trade products. Not only would this force them to make costly adjustments to their practices, it would also jeopardize their

own brands. Whatever the reason, the findings in this chapter present a significant challenge to the fairwashing argument. The second plank of the opium thesis – that conventional companies try to capitalize on the positive image associated with Fair Trade by adopting similar initiatives with less teeth – is taken up in the second chapter.

This chapter is organized into five sections. Section one provides an account of the insiders' and outsiders' rationales for participating in Fair Trade. Second two looks at the reasons for the outsiders' failure to adopt Fair Trade on a wider scale. The third section looks at how the two groups of companies have approached Fair Trade advertising, both in terms of a portion of their overall advertising budget, and in terms of their specific advertising activities. The chapter ends with a concluding section.

3.1. Motivating Factors

3.1.1 Fair Trade as a Movement for Social Justice

The opium thesis suggests that unlike 100 percent Fair Traders, who are motivated by political objectives, conventional companies participate in Fair Trade because it is convenient profitable. In order to test this theory, it was necessary to determine the value proposition of Fair Trade for the two sets of actors. Among the insiders, there appeared to be unanimity regarding the primary motivation for engaging in Fair Trade. Changing the way trade worked was high on the agenda. In the words of one insider “[the] spirit of FT is trying to change [the] mechanisms of trade...” (I-1)¹. As for the type of change that was needed, the organizations in this group resoundingly expressed their objective as creating a more inclusive international trading system. As they saw it, Fair Trade was about giving historically marginalized communities a greater stake in the economy. In the

¹ Because the participants in this thesis were guaranteed full anonymity, their contributions are simply referenced with a prefix (I- or O-), to designate them as an insider or an outsider, followed by a number (1-6), which was assigned randomly. For a list of interview dates and locations, please see Appendix II.

words of one insider: “The whole motivation for me was to engage myself in business in North America that would directly benefit people in the South” (I-4). This broad based concern often extended to the environment as well as Southern producers. The inclusive orientation of Fair Trade was captured in terms like “community”, “partnership” and “solidarity”. One insider, for example, described her organization’s mandate as “[eliminating] some of this us and them” (I-1). About half of the insiders saw themselves as leaders in the push for a more inclusive global trading system. As one commented “we’ll often say to people that...we’re more committed to FT than our customers are” (I-5).

3.1.2 Fair Trade as a Market Niche

The insiders had a very different explanation for why the outsiders had chosen to participate in Fair Trade. About half of were highly skeptical of the outsiders’ motivations. As one saw it, the outsiders’ involvement in Fair Trade was purely self-interested:

“Shareholders at a big company [think] making money is what’s successful and [they] see an opportunity in Fair Trade thanks to all the hardworking, small companies that have laid the groundwork. So now [they’re] going to go and take their market share...They probably won’t tell you that, but that’s what’s happening” (I-4).

Some outsiders felt that the profit motive of large corporations was antagonistic to the goals of Fair Trade. Their biggest fear was that a singular emphasis on profits would lead conventional companies to adopt Fair Trade in principle while evading its standards in practice. A number of insiders accused the outsiders of fairwashing. As noted by a second insider: “The common issue with corporations [is] that they’ll do the minimalist amount in Fair Trade and then in their marketing and outreach – and Starbucks is great at this –

they...present themselves as...Fair Trade [companies]" (I-1). A third insider expressed a great deal of disdain for this tactic, "That's just spin. That's politics – lying to the consumer" (I-2).

According to these insiders, the problem with the outsiders was not only that they threatened to slow down the progress of the movement, but, more critically, that they had the potential to halt it altogether. If conventional companies continued to relegate Fair Trade to only a few meager products, those products could be sold at virtually "any price", pushing higher-priced – and more socially progressive – goods out of the market. Despite her reservations, one of the insiders had not completely ruled out the possibility of working with mainstream corporations: "I would love to see corporations get more involved with Fair Trade if they did it honestly...I [would] sit at the table with anyone" (I-1).

While half of the insiders resented the outsiders' involvement in Fair Trade, the remainder were either neutral or supportive of this development. When asked about the possible repercussions of Starbucks' involvement, one exclaimed "I'm not worried...at all! I would love to suddenly see Starbucks [go] 100% Fair Trade, even though I know that it would be for their own agenda...[I]t would still be Fair Trade" (I-6). Another insider expanded on this theme:

"You know, [Starbucks] gets criticized a lot. And I'm not so sure whether that's really accurate to criticize them that much. I think they actually do a pretty good job of balancing it...Will their commitment last? I'm always a little bit skeptical...But...their volumes are huge. That's great for growers" (I-5).

Aside from the immediate benefit to growers of increased volumes, this insider felt that conventional companies benefited the movement in another way. Commenting on the case of WalMart, she explained that "someone who picks up the Fair Trade product at

WalMart...might come into our coffee house one day...It [could] provide what they call a gateway experience” (I-5). One of the outsiders corroborated this statement:

“The [single] biggest thing that’s helped stimulate [Fair Trade] and [give it] momentum I think would be Starbucks...They are probably one of the most ethical buyers of coffee. They pay more than anybody else...They’re really focused on sustainability. But [they had to buy Fair Trade] to satisfy the demands of people who think Fair Trade is the be all and end all...[And] it got great press and helped add...credibility to the movement” (O-4).

One of the insiders conceded that the decision to adopt Fair Trade was not a straightforward one for conventional companies. It appears that such companies face some unique challenges when trying to implement the requirements of Fair Trade into their existing supply relationships:

[Starbucks] did one Central American blend...But really they didn’t want to diversify their [entire] supply chain...That would have been a massive thing for them to do and probably not a prudent thing for them to do. So instead they tried to see whether or not [the] FLO would expand its model [to recognize plantations and estates]. And...they weren’t successful at doing that. So...they ended up developing their Café Practices program, taking [Fair Trade] even a few steps beyond” (I-5).

TransFair Canada confirmed that it was not really realistic for the insiders to expect companies like Starbucks to go 100 percent Fair Trade overnight.

“[Some larger coffee companies have] one Fair Trade Certified blend available...And that’s where [it] starts. To expect...one of the biggest coffee players to be 100 percent Fair Trade right away is a little bit like trying to jump over a mountain...The market wouldn’t be able to give that supply right from the get-go. You have to build...your production markets. Once that supply is guaranteed then you can start to up your percentages...But to...assume that if [a company’s] not 100 per cent Fair Trade it’s not...doing all it can for the movement...could be self-serving unto itself” (TransFair Canada).

The more dedicated movement actors were clearly divided over whether outsiders were helpful or harmful to the long-term goals of the Fair Trade movement. While they all felt as though mainstream businesses had self-serving motives for getting involved, some felt

that on balance the inclusion of these companies was a positive development. No matter where exactly they came down on the subject, we should take the insiders' remarks about the outsiders with a grain of salt. Several insiders expressed a concern that competition from mainstream companies would negatively affect their own market share because conventional corporations have greater advertising resources and certifying them could attract consumers away from insiders' brands. This may help to explain why 100 percent Fair Traders are opposed to certifying conventional companies.

When asked to discuss the value proposition of Fair Trade from their own standpoint, the outsiders demonstrated a level of complexity that is only partially captured in the insiders' accounts. In line with the insiders' expectations, market trends had a big influence on the outsiders' decisions to implement Fair Trade. Customer – and in the case of the publicly traded company shareholder – demand came up over and over again in their explanations for why they had introduced Fair Trade into their lineups (only one organization did not explicitly include this variable amongst its driving factors). One retailer explained the decision-making process as follows: “Usually [customers] ask us to carry Fair Trade. And if it’s viable and we can make it happen we usually listen to our customer...That’s how Fair Trade came to be” (O-5). One coffee wholesaler put it bluntly: “If there’s [a] demand for a certain product then as a responsible manufacturer you meet that demand” (O-3). For one outsider the increased availability of Fair Trade coffee was a logical outflow of the growing segmentation of the coffee market:

“Different demographics – different people – like different roasts of coffee...[Coffee’s] become a niche [market]. Coffee’s become – I don’t want to say more complicated – almost like a wine...Some people like origin coffee,

some people like dark roasts and some people like light roasts...So I think that's been key" (O-3).

According to a couple of the outsiders, the existing demand for Fair Trade coffee was made up largely of young people, in particular students. One described the market for Fair Trade coffee as follows:

"I think consumer focus is starting to turn. And it starts with the ground movements – all the younger people. All the university [and] college campuses [and] student unions mandate that all [they] want sold is Fair Trade- organic-type products..." (O-4).

The outsiders attributed the growing demand for Fair Trade coffee to the marketing efforts of TransFair Canada. As indicated by one "[TransFair] does some good work at promoting [Fair Trade]...That's what consumers know about" (O-1). One of the insiders reiterated this theme:

"[T]here's no other game in town at this point...When it's not Fair Trade certified...then you have the challenge of explaining to every customer why [it's] okay when there are other claims out there. The burden falls upon [your] capacity to do outreach and to explain [and] to be convincing...That's a lot of work..." (I-1).

A second outsider expressed frustration at the influence Fair Trade had among consumers:

"[I]f the general public or our...customers don't understand how [our] system works and all they...think [is] that unless it says Fair Trade the farmers are not being treated fairly then it creates frustration...for us. I mean, for quite awhile now we have been paying substantially more [than the market price]" (O-4).

The success of TransFair Canada's marketing strategy is evinced by the higher than average consumer conversion rate for Fair Trade products. According to statistics from the Canadian Coffee Association (2008), the conversion rate for people who hear about Fair Trade and start buying it is much higher than that for organics, the next most popular certification among the participating companies. Its preliminary success led a majority of

outsiders to predict that the market for Fair Trade was only going to continue to grow. As one outsider put it “it’s just going to be a part of doing business in coffee and tea” (O-5). A second outsider equated Fair Trade with “a paradigm shift” (I-5).

Insofar as it was market driven, Fair Trade could hardly be viewed as an isolated trend. It became evident through the course of the interviews that the growth in the Fair Trade market was part of a broader shift in thinking towards “sustainability” in the marketplace. The other most important component of this trend was organic certification. The majority of outsiders saw Fair Trade and organics as connected in the eyes of customers. As one outsider indicated “It’s gotten to a point where people [who] generally want [a product organic] will want it Fair Trade as well” (O-4). His colleague added that that “[our] emphasis [is] on expanding the whole sustainable movement...[I]f the option’s there to have both organic and Fair Trade certification, that’s the one we’ll chose” (O-4). This emphasis extended to the rest of the outsiders as well. Five of the six outsiders interviewed carried certified organic products in addition to Fair Trade, and there was hardly ever mention of Fair Trade without mention of organics. The lone exception was the flower distributor, who noted that the logistics of his business were such that it was not possible to sell organic products at the quality his customers demanded.

As with Fair Trade, the outsiders generally agreed that *sustainability* was much more than a passing fad. While one noted that Fair Trade and organics together were “still a very small percentage of the entire market” he also revealed that they were “certainly the fastest growing [percentage]” noting that “[s]pecialty stores are selling more and more Fair Trade-organic and less and less ...regular coffees” (O-4). Reflecting

the magnitude of the change taking place, another outsider described her company's focus on Fair Trade and organics and "a whole bunch of issues beyond Fair Trade and organics" as a "long-term strategy..." (O-1).

The prominence of market trends among the outsiders' reasons for adopting Fair Trade products supports the notion that conventional companies have self-interested reasons for participating in the movement. However, to get from this conclusion to the one that conventional companies hope to profit from Fair Trade by presenting themselves as "Fair Trade companies" is a bit of a jump. If TransFair Canada had succeeded in familiarizing a growing cohort of consumers with the concept of Fair Trade, the main selling point appeared to be its third party certification system. As a TransFair Canada representative put it: "[our] very rigorous certification system [is] why we've built trust" (TransFair Canada). A second representative expanded on this theme:

"the independent third party auditing [system] is the strength of [Fair Trade] from A to Z...Producer groups are audited on a yearly basis – socially [and] financially...If they're not keeping up with the standards they're out². And in Canada it's the same way. If people are not doing their reports [or] not respecting their contracts [with producers] they're out. [We have] very strong controls" (TransFair Canada).

The licensees seemed to agree with this explanation. One confirmed that although there were several certifications in his industry to choose from "nothing even [comes] close to...the monitoring [and] satisfaction level that we get from certified Fair Trade" (O-2). It was obvious that Fair Trade had set the standard for transparency in the industry. As an insider revealed: "There's a bottom line impact [from]...not...being a Fair Trade organization with the driving principle of transparency being one of the key features..."

² A second TransFair Canada representative clarified this point, noting that decertification does not happen immediately, but after a trial period during which the organization in question has the opportunity to correct its discrepancies.

(I-3). This revelation does not come as a surprise. According to Raynolds, it is the ability of Fair Trade to foster “personal relationships...*trust* and security in socially responsible value claims...[emphasis added]” (p. 415) that is the source of its value for stakeholders.

Fair Trade’s accountability work goes beyond merely monitoring the practices of licensees. According to MacDonald (2007), the goal of Fair Trade is to make the large distributors and retailers who wield power in global supply chains accept a corresponding degree of responsibility by disseminating information about their “power- and value-laden relationships” with other actors in the supply chain to the consuming public. This facet of Fair Trade has been key to overcoming the problem of informational legitimacy identified in chapter One. As noted by Goodman (2004) “the label texts of fair trade would ring somewhat more silent without the overtly politicized activist discourses proffered and performed by the organizations engaged in [the] campaign...” (p. 901). This suggests that consumer trust in Fair Trade derives from its ability to lay bare the conditions of production and exchange and disentangle itself from the web of exploitative supply chain relationships that characterize the conventional agricultural sector. If this is the case, conventional companies do not stand to increase their sales of conventional products by simply converting one or two of their products to Fair Trade. As one outsider pointed out, consumers identify Fair Trade with the FLO label:

“[The] direct trade coffee that we have...we [only] sell a fraction of. If [we] had a Fair Trade certification on that product, I bet you we could sell 10 times more if it because people recognize that and they’ll pay for that. But it’s not [Fair Trade] people kind of stay away from it” (O-4).

This particular outsider equated the Fair Trade logo with “a symbol of legitimacy” (O-4). Given the centrality of the FLO logo to the Fair Trade brand of ethics, the argument that mainstream companies view their association with Fair Trade as a way dupe consumers

into purchasing more of their conventional products lacks merit. If Fair Trade's growing market penetration was a factor in the outsiders' decision to adopt Fair Trade, therefore, they could hardly be accused of opportunism. Looked at in terms of cost-benefit analysis, the cost of not adopting Fair Trade appeared to be a stronger incentive than the benefit of doing so. As such, the outsiders planned on growing only so far as the market required. As one noted: "it really depends on consumer demand... We're not going to push Fair Trade" (O-1).

3.2 The Economics of Fair Trade

The majority of companies in this thesis believed that Fair Trade was the wave of the future. However, not all of the companies saw this development as unproblematic. The economic feasibility of practicing Fair Trade on a bigger scale was something that the outsiders questioned. As it turned out, the prospect of selling even a small quantity of Fair Trade products at a loss in order to undercut the competition was not something that the outsiders entertained. This strategy simply did not make sense to them. As one outsider explained, "We're a supplier to large chains. It's a competitive economic business. It's a dollar and cents business. If you have to pay the [Fair Trade] premium and you can't get that premium back from your consuming public, then you [can't afford to] pay it" (O-4). If this was true on a small scale, then it was even truer on a bigger one. The feeling that they would not be able to recoup the costs of a larger commitment Fair Trade was a major disincentive for a number of outsiders. One stated flatly that: "...there is just too much shrink involved" (O-1). Another suggested that from a financial standpoint Fair Trade did not benefit his business at all. :

"...we as a group decided to do this based on the program and what we felt it offered to the people and to the world. Not based on...gee this is our ticket to

living on the big hill up there or anything like that. We recognized going into it that it wasn't going to be like that at all...It was the program itself that we were interested in developing" (O-2).

This rationale challenges the assumption that conventional Fair Traders always have more selfish reasons for participating in Fair Trade than more committed movement actors.

There were two main factors that directly impacted the profitability of Fair Trade.

A number of outsiders reiterated the theme, raised numerous times in the literature, that Fair Trade did not guarantee quality. As one outsider related:

"[T]he Fair Trade designation on the coffee has no relation to the quality of the coffee...Initially we had difficulty trying to find Fair Trade coffees that met the high standards of quality that we had. While we supported the whole movement...it didn't really...fit with our image and our goals of high-grade coffees" (O-4).

Even one of the insiders admitted that he had reservations about the quality of Fair Trade:

"Fair Trade is really important. But it doesn't mean you're going to get quality" (I-2).

The companies' quality concerns, it seemed well founded. One outsider relayed the following anecdote about his organization's past experience with organic coffee:

"One of the organic brokers we dealt with [was] developing coffee produced in Bolivia. And they produced beautiful looking coffee but the flavour was just terrible...So we went down there to see what they were doing...We [said] okay, where's your wet mill and your fermentation tank? And they [didn't] have any of that stuff. They had dug a big hole in the ground and...filled it [with] water and then they [had] dumped the cherries into this...big pit [of] muddy water. That muddy water carried through right to the finished taste of the coffee" (O-4).

Due to past quality problems with coffee, quality was an issue that outsiders were particularly sensitive to. This made sense considering that quality was the number one factor they linked to the success of their brands. It came before Fair Trade and even before price. One outsider expressed the matter frankly "if it doesn't measure up in the

cup I don't care what kind of a certification it has" (O-4). A second outsider was equally adamant about the importance of quality: "You can give it to me for free, I don't want to deplete our brand because I'm offering an inferior product..." (O-5). However, the outsiders' focus on quality did not negate their commitments to sustainability. To the contrary, they considered quality a necessary pre-condition for sustainability. As one outsider put it: "We pay [the] C market price plus a premium [for] better-prepared...higher quality coffee...Our focus has always been on quality and quality generally implies sustainability" (O-4). A second outsider expanded on the connection between quality and sustainability:

"[There are] three pillars [to sustainability]: environmental protection...Fair Trade and...quality. And quality stands at the centre...Suppose everything's Fair Trade but the quality is so low that our customers refuse to buy it. The farmers will lose out...One component cannot sustain itself...Everything has to [be there] in order for [sustainability] to work properly" (O-5).

The outsiders were not alone in their commitment to quality. The insiders may have had additional motives for participating in Fair Trade, but every single company that participated in this thesis used "quality" to describe its differentiation strategy. As one insider illustrated, the value of Fair Trade did not solely rest on its morals: "Our feeling was FT-organic is great...in terms of values around justice and values around [the] environment. But it was also that quality and differentiation in the long-run are going to be what serve farmers best" (I-5). Another insider capitalized on this theme:

"It has to be the quality...first. There are a lot of organizations out there that have really good hearts [and] do really good work...But if you don't have [a] quality product people are only going to be so receptive to...you. Because in the end they actually consume part of your message" (I-3).

As one insider relayed, even Fair Trade producers had started to become quality-minded:

Bolivia's a country that has not had a good reputation for stability of quality. And [that has] a lot...to do with how the commercial...industry was set up in Bolivia...We were on a fact-finding mission [in Bolivia]. We visited maybe six or eight co-ops. And I asked the farmers 'why are you in a co-op'? Usually everyone always says 'because we think we can get a better price'. [Bolivia] is the only country I've ever been to where every single time the farmer said, 'you know, [we put] all [this] work...into trying to maintain our coffee...[But] the commercial processing plants...mix it in with all this crap. And we end up having really bad reputations as coffee farmers on the international market. So we want to be able to control this process. We want to be able to control our quality. We want to [be seen] as producers of quality coffee'" (I-1)

As with the outsiders', the insiders' were heavily influenced by quality considerations. Both the outsiders and the insiders acknowledged that quality was a necessary pre-condition for social progress. Indeed, the recognition that it had to have better quality products was a main reason the Fair Trade network had adopted the labeling strategy in the first place. The opium thesis suggests that an increased emphasis on quality has subjected Fair Trade producers to the whims of mainstream market actors, to the detriment of its alternative vision. However, as the above quote demonstrates, the quality expectations of Northern buyers are not necessarily something that producers resent. To the contrary, producers *wanted* to be recognized as "producers of high quality coffee" (I-1) indicating that quality was a source of pride for them. If this is true, then Fair Trade's reorientation towards quality may offer a solution to Marx's theory of labour alienation, whereby the detachment of producers from their production leads to a loss of the individuality that gives enjoyment to their work.

Despite the movement's best intentions, the quality problems that had affected Fair Trade since the beginning still weighed on Fair Traders' minds. The outsiders' ongoing reservations about quality revealed that there was a significant learning curve involved in Fair Trade production. However, it had become evident to the outsiders that,

despite some initial setbacks, the quality of Fair Trade had drastically improved. Most felt that at least a portion of Fair Trade producers had managed to attain the same level of quality as the rest of the industry, and at least half believed that the *lead* producers had even managed to *surpass* conventional standards, with the result that Fair Trade now offered some of the highest quality products on the market. The following quote comes from the same coffee importer who had initially had misgivings about the quality of Fair Trade coffee:

“Now it’s kind of the reverse scenario. Now higher elevation plantations are involved and we’re seeing cooperatives...put more care into the processing and the grading and that sort of thing. So the Fair Trade-organic coffees we’re buying now are the premium quality out of anything that’s available to us for the most part because they go that nth degree. And you can justify [the premiums] to the consumer...The proof comes out in the cup” (O-4).

Another participant indicated that the same was also true of Fair Trade flowers: “I have been in this business my whole life [and] I have never, ever, seen – and I’ll just pick one – roses that are as vibrant, and that last as long as certified – FT roses” (O-2)

Clearly poor quality was not endemic to Fair Trade. However, quality was not the only factor behind the outsiders’ reluctance to make the transition to Fair Trade. Rather, the participants’ responses suggested that quality was but one aspect of a more profound lack of trust in producers. Both insiders and outsiders questioned the loyalty of producers. One insider felt that they were “not loyal at all to anybody [because] they had been burned so badly so many times over the past 50 years” (I-2). The unreliability of producers was viewed as an obstacle to doing business directly with Southern farmers. One outsider confirmed that, “[i]f you’re dealing...with [producers] in Third World countries strange things can happen” (O-4). He discussed one of his own experiences with Fair Trade producers:

“We recently...booked a shipment of coffee [in El Salvador]...The container was loaded at the mill site and the truck came along to pick it up. The truck took off with the container and then disappeared. They found the truck a week later with an empty container.” (O-4).

One of the insiders felt that the problem of producer loyalty was exacerbated by the existing FLO system:

“One of the problems with the system...is that...a certified Fair Trade farm in Columbia does not have to sell to a [licensed] distributor in Canada...[It] can sell the product to [any company]...Is that bad? No. It’s an open market. But is it helpful? No. It’s not helpful...[Fair Trade] needs to be between certified [organizations]” (O-2).

While this situation in itself did not put Fair Trade at a particular disadvantage to the conventional marketplace, there were other features of the system that exacerbated the problem of producer loyalty. A substantial portion of both insiders and outsiders felt that some producer groups were arbitrarily precluded from participating in Fair Trade due to the high cost of certification. According to one insider, the Fair Trade fee structure had evolved from something that was positive for producers into something that was limiting the potential of Fair Trade:

“when the proposal was put out...the producers...considered it [to be] buying into partial ownership of this whole system. And that seemed attractive to the producers. But what happened [was] the cost of certification just skyrocketed...The next step [beyond] the initial certification fee...was a...maintenance fee...Now it’s an annual quite expensive fee...For a small co-op it could be all of their extra income” (I-1).

The high cost of certification was directly connected to the issue of producer loyalty. Three companies felt that the financial burden on producers prompted them to leave the movement when the market price rose above the Fair Trade floor price. The idea was that even though Fair Trade producers received the market price plus a premium, the premium was not big enough to convince them to continue paying the cost

of certification and completing the necessary paperwork when they could make at least as much money selling their products outside the network with less hassle. As one outsider noted “growers...will take the path of least resistance” (O-4). His colleague predicted that as a result of this dynamic “we’re going to have trouble this year trying...to satisfy the request from customers who demand the Fair Trade designation” (O-4).

The unreliability of producers explains why Fair Trade did not always seem like a good substitute for conventional trading relationships, especially for the large companies that dominate those relationships. These companies’ operating models differ significantly from those of the small businesses that have historically been affiliated with Fair Trade.

As a TransFair Canada representative clarified

If you’re a small [one-product] business your profit margin is way higher than any large company’s...Many [small businesses] sell stuff at a...100 percent mark up. There’s no way a large company will have that high of a profit margin on that same product...It’s the volume where [they] get their income from. It’s the diversification” (TransFair Canada).

A greater emphasis on volume and diversification amplifies the challenges involved in transacting with Southern producers. In order to contend with the greater degree of risk, conventional supply chains have become highly differentiated. In the case of the coffee industry, the back end of the supply chain is organized into an extensive network of brokers. As one coffee wholesaler explained:

“The...importer network has quality control specialists in the field that...select [the coffee]. It has logistics people that manage the transportation of the coffee from the country of origin to our port...The whole system [is managed] along the way...” (O-4).

The supply chain is organized the same way at the importing end. Importing companies “sell to a large volume user who then sells to a small [volume] user who then sells to the consumer” (O-2). This type of arrangement allows risk to be broken down

into manageable steps. However, it also poses a dilemma for companies that would like to devote a larger share of their product to Fair Trade. The reason Fair Trade importers are able to pay Fair Trade prices and still remain competitive is because they buy directly from producers. However, for buyers in conventional supply chains “the margins in between would eliminate the success story, period” (O-2). But, shortening their supply chains to make Fair Trade more profitable would require conventional companies to adopt a greater degree of vertical integration, which would in turn require them to sacrifice some of the flexibility associated with specialization. Fair Trade buyers would have to take on an extra tier of responsibility and contend with any additional risk such an arrangement entailed. For this reason, going one hundred percent Fair Trade seemed like an unreasonable proposition. As one outsider noted “If...TransFair wants to grow [it’s] effect...[it] will have to...evolve into something that’s maybe a little easier to administer and a little less cumbersome” (O-4). One outsider did not mince words when asked about the challenges with Fair Trade: “[The] much higher costs to purchase raw products result in lower margins” (O-6).

The problem with Fair Trade supply went beyond the issue of producer loyalty. Because the FLO requires the production of certain commodities to be organized into small-scale cooperatives, buyers also cannot always take advantage of the economies of scale associated with plantation production. As the Fair Trade flower distributor explained:

“[A] small grower...is not necessarily an economical business partner for anybody. There are [small flower farmers] in trouble but they cannot produce economically, they cannot ship economically, and they cannot function as a part of the industry...[A] small producer is normally tied to the local market and the local market only” (O-2).

Although plantations were permitted for Fair Trade flowers, the flower distributor felt that his business was also limited by diseconomies of scale. It turned out that the flower company was in a unique situation due to the relative novelty of Fair Trade flowers in North America. As one representative explained, farms set up to export Fair Trade flowers to North America could not find enough steady buyers to allocate their entire operation to Fair Trade production. In order to manage the risk inherent in the Fair Trade market, they developed trading relationships with both conventional and Fair Trade buyers. If the Canadian market for Fair Trade flowers were suddenly to take off, the Canadian distributor would have difficulty adjusting to the change in demand, as the flower producers it worked with would not be able to increase their volume due to their existing agreements with conventional suppliers. As small, one-product businesses, the insiders did not face the same governance challenge as the outsiders. However, they still mentioned that financing their growth was a challenge. Only, they attributed this problem to their own values and commitments, rather than to the inadequacies of the trading model. As one insider noted, “We would have liked to see growth faster and had we compromised on certain...values that we had we would have grown faster. But we refused to do that” (I-2). A second insider explained how his company’s approach to business affected its financing capacity: “one of the main reasons that...I own 100 percent of the shares is so I can give away as much money as I want. Shareholders would have a problem with that” (I-4).

Given their slim operating margins, the need to operate efficiently was at the forefront of insiders’ minds. As one wholesaler indicated: “The challenge is on us just to manage [growth] and...be...efficient in what we do” (I-3). Another insider revealed that

price was an important consideration for his business: “[We have to] focus on selling the best product we can at a competitive price” (I-2). A third insider (I-1) extended this theme:

“We have to be realistic. We have our feet on the ground in a very competitive market up here...So we can’t just go in and say we’re going to give you five bucks a pound and put our coffee on the shelf at 20. [W]e’ve got to stay within a range [where] yes we can push some...[But] our objective is to always be the most expensive...Paying the highest prices is kind of like a little badge of pride for us” (I-1).

The same insider revealed that in order to compensate for the money it spent on premiums and other expenditures, it kept its infrastructure to a minimum:

“The idea is not that I’m going to go look for a fancy office and I’m going to have a secretary...We want...to be at the co-op level an infrastructure beefed up enough that it can manage our volumes and give good service, but not [so much that] we’re adding [unnecessary] cost into the process of moving coffee from the producer country to the roasters...I often call [us] a thin piece of cheese between two big pieces of bread...How to do [that] is a big discussion...[The question is] what can we really tackle...and what should we leave to somebody else?” (I-1).

The insiders’ revelations demonstrate that the higher costs of Fair Trade, if not insurmountable, were nevertheless prohibitive. Even the most committed companies were forced to walk a fine line between efficiency and ethics.

The interviewees highlighted a number of more minor inefficiencies that contributed to the overall inefficiency of Fair Trade. One issue that was raised by both insiders and outsiders was the size of the Fair Trade bureaucracy and the unnecessary diversion of income away from producer cooperatives to TransFair and the FLO. One outsider posed the question: “Why can’t the FLO focus on being less bureaucratic and be more...focused on...getting more into the growers pockets?” (I-5). She made a direct link between the size of producer premiums and the quality of Fair Trade coffee:

“The specialty [companies] will say Fair Trade doesn’t really cut it...because there’s not enough incentive for quality there. They talk about the ripeness of cherries. Well, it takes three times as long to...just pick ripe cherries. And then it may even [involve] one or two more [harvesting] passes through your farm...If it’s adding three times more cost that might suggest the farmers should be getting three-fifty a pound for really good quality ripe cherries. Well, there’s no way for Fair Trade to recognize that” (I-5).

Another outsider felt that although the license fee structure was seen by some as being inadequate, it was not as though the fees were not being put to good use:

“There is...the controversy about...Fair Trade...unfortunately having become too top-heavy and not enough money going back to the producers [and] back to the community. [But] it’s a difficult one because it’s hard to expand the market for Fair Trade without proper advertising and consumer/customer education. And that costs money” (O-1).

A third outsider agreed that “the little money we pay to TransFair...is a necessity”. He explained that without the license fees TransFair would not be able to keep its monitoring system in place and “the logo would be worthless” (O-2).

Another issue mentioned by one of the outsiders was the FLO’s format for payments to producers. This participant felt as though paying the premium in a lump sum defied sound economic logic:

“The 80/20 rule applies to everything. [If] you have 10 different farms...maybe two of them [will] do an exceptional job and through TransFair...sell all their coffee. And...the rest of the coffee [in the co-operative] goes to the general market. [But] when the money comes in from TransFair...it gets distributed evenly amongst all the farmers. So farmers that are doing a great job say ‘geez, [we] do a great job but these other guys don’t know what the hell they’re doing and we’re all sharing [the premium]. This is not really fair.’ [But] if those two farmers want to split off...then [they] lose their Fair Trade certification. So it’s not really the fairest thing” (O-4).

The incongruity between Fair Trade and alternative certification schemes (e.g. organics) was a third factor that was seen as impacting the cost effectiveness of Fair Trade. While customers were increasingly demanding multiple ethical designations, for a

company to participate in multiple programs required it to pay multiple fees and undergo multiple auditing processes. This was much more costly than having one, comprehensive set of standards. In the words of an outsider:

“One of the limitations of...Fair Trade is it’s kind of a single focus certification...It’s not quality [focused] and it’s not organics [focused]...[It’s] more concerned about...financial sustainability as opposed to [environmental sustainability]...So if you want one that’s more...comprehensive...the Rainforest [Alliance] certification really is much more meaningful...The chances of Fair Trade becoming a totally global thing are probably not great because it’s more single focus and it needs to be a more comprehensive sustainability focus like some of the other organizations” (O-4).

Finally, two of the outsiders mentioned that integrating Fair Trade into their existing production processes was a challenge. As one explained:

“[F]or both [Fair Trade and organics] before you produce you have to clean everything out – get any trace of any other coffees out of the system...When you’re looking at a facility such as ours across the street that [does] a lot of volume...there’s a lot of down time [involved in] cleaning out [everything] from your green receiving right through the whole process to packaging...[Before] we had to do it on weekends when we weren’t running [other] stuff” (O-3).

Her company had since addressed this problem by building a new facility exclusively devoted to Fair Trade and organic processing.

Aside from the associated costs, both insiders and outsiders mentioned that, its rapid market expansion notwithstanding, the size of the market influenced the extent to which they were able to support Fair Trade. As one outsider informed me “[i]f we pick up...say [Fair Trade] coffee, we’re not going to pick up a whole bunch of suppliers that we’re going to represent because we can’t do them all justice” (O-1). As the participants saw it, the size of the Fair Trade market was determined both by the spending power and initiative of consumers. In the words of one outsider “it really depends on how the economy’s looking and everything else. Some years are better than others” (O-1). A

second outsider added to this explanation: “It’s all based on people’s attitudes...To this point it’s still to a large degree a price market. People are still fixated on cost” (O-4). One insider was extremely pessimistic about customers’ willingness to change their spending habits:

“I think people like themselves too much to want to give to other people. That’s the society we have. I think there’s going to have to be a big break down in our society – particularly financially – before people start to think about something other than just themselves” (I-4).

The findings in this section suggest that as a business model Fair Trade has a number of deficiencies that still need to be worked out. These appear to become more salient the larger a company gets, making Fair Trade a particularly costly strategy for market leaders, who face the difficult dilemma of having to choose between appeasing the demands of their ethical consumers and adhering to sound business practices. Exactly how conventional corporations deal with this conundrum is the subject of Chapter Four. However, what I believe it is important to take from this section is an appreciation of the very real tension that exists between the Fair Trade model and the conventional one. The compromise involved in transitioning to Fair Trade does not simply entail abandoning a more profitable business strategy for a less profitable one, as the opium thesis would have us believe. Rather, as one outsider revealed, the danger with Fair Trade is that it has the potential to “eliminate the success story, period.” By failing to appreciate this, the opium thesis prematurely writes off mainstream market actors as useful allies, when instead activists could be working with these actors to find constructive solutions to the deficiencies of the Fair Trade model.

3.3. Marketing and Promotion

In order to put to rest any lingering doubts about conventional companies' motives for adopting Fair Trade, it is useful to look at their approaches to advertising. If fairwashing was really their main objective, then it follows that the outsiders would have been spending a disproportionate amount of resources on Fair Trade advertising. However, considered as a proportion of overall advertising, there was no evidence that the outsiders were spending more on Fair Trade than any other product. Because four of the outsiders were either distributors or private label wholesalers, advertising was not a major priority for them. They all offered marketing support and education to their Fair Trade customers, but their involvement was largely determined by their customers' needs. They had been invited to participate in a number of events, from green trade shows to conferences. However they relied extensively on the promotional resources provided by TransFair Canada to get the word out about Fair Trade. As one outsider put it: "When it comes to [promoting] Fair Trade, TransFair does a good job. They've got their representatives, they've got their materials...and they're very [supportive] in terms of giving [those] out and working with us" (O-1). One of the distributors had developed a Fair Trade information package of its own. However, this was mainly because its product was the first of its kind to be certified Fair Trade in Canada and there was not a pre-existing advertising infrastructure to draw on. At any rate, it was clear that this outsider did not relish taking such an active role in Fair Trade advertising:

"...At some point we hope there is a leap [and] that we don't have to keep educating the public and [doing] awareness-raising programs and...marketing and all those kinds of things...That's not what we're really set up to do. But we recognize that's what we have to do. There's no other choice right now because nobody else will do it" (O-2).

While the retail companies were the final face to consumers, their more direct focus on advertising did not appear to translate into a more pronounced emphasis on *Fair Trade* advertising. One retailer revealed that his company's advertising budget for Fair Trade was less than five percent – a percentage that was roughly proportionate to his overall percentage of Fair Trade products. The other retailer indicated that his company's Fair Trade advertising was done entirely in-store, although he did not go into a specific comparison of the importance placed on Fair Trade versus non-Fair Trade products. On the whole, the outsiders did not seem keen on “marketing the hell” out of Fair Trade. Rather, both the decision to adopt Fair Trade and the subsequent decision to market it seemed to take place mainly at the behest of customers, and a large portion of that advertising was facilitated by TransFair Canada.

There are a number of possible explanations for why the outsiders were not actively promoting Fair Trade. The explanation offered by proponents of the opium thesis is that mainstream market actors do not want to draw unnecessary attention to Fair Trade at the risk of inadvertently generating more demand for Fair Trade products (Fridell 2007; Jaffee 2007). This could increase pressure on them to alter their business practices, leading to lower profits. While this explanation sits uneasily alongside the contention that mainstream companies are interested in Fair Trade because of its image-enhancing benefits, it is true that there are practical limitations to practicing Fair Trade on a large scale that may prevent conventional companies from publicly supporting the movement. The large volume users I spoke with felt that Fair Trade supply could not be managed as efficiently as their conventional trading relationships. As such they were adopting only so much Fair Trade as the market required. However, it does not follow from this that the

insiders were bent on undermining Fair Trade. Rather, this simply means that in a sink or swim environment large-scale companies simply could not afford to invest everything in a highly risky venture like Fair Trade overnight. For even one insider to do this would be a challenge in light of the current market price for conventional commodities which had prompted many producers to sell their coffee outside of the Fair Trade network, and led several outsiders to conclude that Fair Trade supply could no longer keep pace with demand. For all of the outsiders to fully convert their operations to Fair Trade overnight would put far too much strain on the network, and would ultimately hurt the reputation of Fair Trade, which has already been accused of unreliability.

The greater risk involved in direct trading relationships, in general, and Fair Trade, in particular, was undoubtedly a factor in outsiders' decisions to keep a low profile on Fair Trade. However, it was far from the only factor. The insiders' approaches to Fair Trade advertising suggest that there was also a more universal explanation for why conventional companies were reluctant to tow the Fair Trade line. All of the insiders were involved in some form of advertising. However, their advertising efforts were oriented towards what one insider described as "direct" or "educational" marketing, rather than the more traditional forms of advertising employed by conventional companies. The large distributor dealt primarily with retail customers. Since it was not "the final face to consumers", it did not advertise under its own brand (I-1). However, it had participated in a number of industry conferences and symposiums on Fair Trade. The remaining insiders used a variety of tactics ranging from in-store and other forms of face-to-face advertising (food and wine shows, community and school presentations and conferences), to radio talk shows, to newspaper and magazine articles. One wholesaler had even had his

products featured in a few leading industry magazines as well as the Associated Press. As part of its face-to-face component, one organization sponsored tours by members of producer cooperatives to Canada. Another insider featured a coffee school in its facility complete with courses on conventional versus sustainable production methods, roasting, brewing and cupping. Several of the insiders indicated that tastings were an important component of their promotional efforts.

The insiders' preference for more direct and educational forms of advertising was attributed to the difficulty of competing with conventional advertising methods. As one insider explained: "It's really hard to engage in [education] through [traditional] advertising because it's a high dollar's world and you're competing with very deep pockets...So our strategy really is to invest...at the grassroots level...That's where our networks are strong" (I-3). The second distributor felt that all the information already surrounding coffee made it difficult to compete on the basis of sound bites alone:

"There's nothing we can say – and we've tried – that everybody else doesn't say... 'Fresh', 'good to the last drop' – it's all nonsense from the consumer's perspective. They have no frame of reference to understand what a quality cup of coffee is...So we're active at events where we can put a sample into their hands – places where we know we're going to meet a mix of...social or environmental activists with your professional foodie" (I-2).

While they all had a significant outreach component, it did not follow that the insiders were more devoted to *Fair Trade* advertising than the outsiders. Despite being 100 percent Fair Trade, some of them were actually quite ambivalent towards the prospect of Fair Trade advertising. In an interesting twist, three of the insiders expressed concern about the possible association of their brands with the Fair Trade logo. One retailer indicated that her company's image was based on "paying above Fair Trade prices" (I-5). She felt that in order to maintain that reputation she had to be cautious in

her use of the Fair Trade logo. Several of the insiders believed that their products were also superior to those of conventional Fair Traders. One insider went so far as to equate Starbucks' coffee to "a hot cup of mud" (I-6). For this reason they felt that the intrusion of conventional companies into the Fair Trade market would be detrimental to their reputations. They linked this negative impact directly to the need to market their products on the strength of their own brands, rather than on that of the Fair Trade logo. As one opined:

"Big companies' can come in and basically put us out of business...because people think 'I tried this Fair Trade coffee and it's terrible.' It's almost getting to the point where I really need to define my [own] brand and add Fair Trade onto it because [I] have [a] higher quality product...than Fair Trade. And if I just hang my hat on the logo, I'm going to get pulled into this mass-market perspective of coffee that [isn't] as good...as what we put out" (I-4).

While none of the outsiders confirmed this one way or the other, one of the insiders suggested that the outsiders' reluctance to support Fair Trade was also connected to the fear of being associated with competing Fair Trade brands:

"They don't want to be beholden to somebody else's brand. They'd rather develop their own brand and have loyalty to that brand. If they get on the [Fair Trade] bandwagon...it means that someone can switch easily from one Fair Trade...bag to another. So [they develop] their own little twist on things. Ultimately...the farmer [gets] a better price. So I guess it's good" (I-5).

The interference of the Fair Trade logo with companies' own branding efforts was a second possible factor behind the reluctance of outsiders and insiders alike to engage in Fair Trade marketing. By joining the Fair Trade movement, companies were in effect tying their products to the Fair Trade message transmitted by TransFair Canada. While they recognized that this message was resonating with consumers – every single one of them acknowledged that Fair Trade was the only game in town as far as ethical consumers were concerned – it was still necessary to keep a safe distance from the

official Fair Trade movement lest their brands become completely interchangeable with the Fair Trade logo. If this were to happen, consumers would no longer be able to distinguish between competing Fair Trade brands, and brand loyalty would suffer as a result. As such, it made more sense for the companies to leave Fair Trade advertising up to TransFair Canada, and concentrate on promoting their own brands in order to continue to differentiate themselves from the competition, or as one insider put it, “[develop] their own little twist on things” (I-5). TransFair Canada confirmed the existence of this motivation:

“Everybody who is involved in whatever business always thinks theirs is the best, which I’m sure it is in a lot of different ways...And when you have 50 [companies] who are experts in everything trying to balance it all and have something national and cohesive come out of it is obviously quite a bit of a jump” (TransFair Canada).

The outsiders’ approaches to Fair Trade advertising put to rest once and for all the accusation that conventional companies see Fair Trade as little more than a way to give themselves an image boost. By advertising Fair Trade conventional corporations could wind up putting themselves in the position of having to increase their Fair Trade volumes, which not only did not make economic sense, but also threatened to jeopardize their existing brands.

3.4 Conclusion

This chapter has reviewed a central tenant of the opium thesis, namely, that conventional companies participate in Fair Trade in order to fairwash their corporate image. In order to determine whether this argument has any merit, it has dissected the various companies’ reasons for participating in Fair Trade. In line with what the opponents of mainstreaming suggest, the outsiders were influenced primarily by competitive considerations. This set

them apart from the insiders, who resoundingly expressed their mission as one of helping Southern producers achieve fairer terms of trade. However, rather than perceiving Fair Trade as an opportunity to appeal to a wider base of customers the outsiders' viewed it more as something they had to do to hang on to their *existing* customers, suggesting that they did not view their participation in Fair Trade as a way to sell more of their conventional products. To the contrary, the outsiders were experiencing difficulty finding markets for their alternative products among their existing Fair Trade customers, even though those products were also sourced along ethical guidelines.

The rapidly growing market share of Fair Trade, coupled with the difficulty of marketing the alternatives, would suggest that the conventional companies should adopt more certified Fair Trade products. However, the outsiders questioned the economic feasibility of this strategy. The administrative obstacles posed by trading directly with Southern producers on a wide scale coupled with the inefficiencies of the system at large made Fair Trade seem like an incredibly risky venture, even on a small scale. As such, the outsiders were highly ambivalent about their futures with Fair Trade.

The outsiders' approaches to Fair Trade advertising laid to rest once and for all any possibility that they were using Fair Trade to generate greater demand for their non-certified products. While their roles in advertising varied according to the place they occupied in the supply chain, none of the outsiders could be said to be actively promoting the Fair Trade concept. If anything the outsiders were trying to maintain a low profile on Fair Trade. While this is not surprising in light of the fact that they took exception to the Fair Trade model, the insiders, who had a much greater stake in the Fair Trade system, were equally unenthusiastic about marketing Fair Trade. This lack of enthusiasm can be

attributed to their desire to protect the authenticity of their brands, which is an equally plausible explanation for why the outsiders did not wish to associate themselves too closely with the Fair Trade logo. For all the Fair Traders' trepidation about Fair Trade, Fair Trade appears to be here more or less to stay. How companies have reacted to this fact is the subject of the next chapter. Faced with the difficult dilemma of having to choose between Fair Trade and sound business-making, a number of companies have opted for competing development initiatives and/or their own made-at-home alternatives to Fair Trade. A second claim put forward by proponents of the opium thesis is that these alternatives represent yet another attempt on the part of capitalist companies to undermine the Fair Trade system. The next chapter examines these alternatives in detail in order to determine whether this is in fact the case.

4. Reconciling Social Justice with the Market

The main aim of this chapter is to consider in detail the argument that conventional companies faced with declining market share due to the success of Fair Trade respond by implementing less stringent versions of Fair Trade. It is true that all of the participating companies had reservations about the official Fair Trade system were causing them to reevaluate their commitments to Fair Trade. At least half had either considered implementing or actually implemented alternative third party development projects and/or their own direct trading initiatives. It is also true that while some of these projects rivaled Fair Trade in substance, particularly when it came to the outsiders' internal initiatives, they typically fell short of the more exacting transparency requirements of Fair Trade.

Despite their failings, it would be shortsighted to write these developments off as instances of corporate window-dressing. This chapter draws on the theoretical insights from Schumpeter and the global value chain literature introduced in Chapter Two in order to shed new meaning on these initiatives. It argues that these initiatives should not be viewed simply as shortsighted responses to Fair Trade, but should be seen as part of a more fundamental shift towards quality. Viewed in this light, corporate-led sustainability initiatives represent a way for conventional corporations to adjust to the changing demands of the global marketplace.

This chapter is divided into four sections. The first and second sections are meant to present an overview of what has been going on behind the scenes as corporations have tried to adjust to changing market trends. The first section takes stock of the various external development initiatives supported by the participating companies, while the

second focuses on the insiders and outsiders internal sustainability programs. The fourth section takes up the theoretical discussion about the intersection of sustainability and quality left off in Chapter One, and is followed by a concluding section.

4.1 External Certification Schemes and Development Projects

The outsiders may have opposed certain aspects of the official Fair Trade system. However, this did not mean that they were not taking steps to incorporate more ethical practices into their supply chains. All of the companies interviewed for this thesis except one participated in at least one third party certification initiative or development project in addition to Fair Trade. Minus the one exception, all of the companies carried certified organic products, two were involved in the Café Feminino program, and two were partners of the World Wildlife Fund. The additional development initiatives that the companies supported were Bird Friendly®, Coffee Kids, the Ethical Tea Partnership, Grounds for Health, Growers First, the International Women's Coffee Alliance and the Rainforest Alliance. The movement outsiders accounted for the bulk of these additional programs. Excluding organic certification, the insiders as a group were involved in three initiatives in addition to Fair Trade, with one organization being responsible for two of these. The outsiders accounted for the remaining eight, although it should be noted that one organization alone was responsible for six of these. Still, while half of the outsiders participated in external certifications or development projects in addition to Fair Trade and organics, only a third of the insiders did. Of course, this does not say anything about the different groups' levels of support for the initiatives. If we look at organics, the commitments of the insiders as a percentage of their overall sales far surpassed those of the outsiders. For the companies that provided information, organics represented close to

100 percent of the insiders' total merchandise, but only about five percent of the outsiders'. The large grocery distributor was an exception because its main focus was on organic and natural foods. However, once again it was not possible to make definitive statements about the companies' commitments as five percent of a large company's turnover could represent a much larger total volume than 100 percent of a small company's.

Simply having additional certifications also does not say anything about the quality of those certifications. The critics contend that conventional companies will opt for scaled back alternatives in order to bypass the more exacting requirements of Fair Trade. Of the alternate certifications the outsiders supported, Café Feminino and arguably Growers First surpassed the requirements of Fair Trade, while the organic, Rainforest Alliance and Ethical Tea Partnership certifications had less comprehensive social provisions. This finding both challenges and confirms the notion that mainstream market players try to get around Fair Trade by choosing more flexible options. However, even if they opted for less exhaustive options more often than not, the existence of alternatives still gives Fair Trade producers a means to diversify their holdings – a valuable way to cope with the problem of oversupply identified in Chapter One. Suffice it to say that on the development front, so far the large companies were doing a pretty good job.

4.2 Internal Sustainability Policies and Programs

Each of the insiders carried out the bulk of their trading relationships in accordance with Fair Trade. Their internal policies thus departed from the “dominant” business model in predictable ways. However, some of the insiders went above and beyond the requirements of Fair Trade. One importer had a particularly ambitious set of internal

policies that addressed sustainability in the supply chain. He had launched a Sustainable Coffee Program in conjunction with Environment Canada that he characterized as a more comprehensive version of Fair Trade. Really the program was a combination of three existing certifications – Fair Trade, organics and Bird Friendly® – plus a final step called “eco-friendly processing” which was monitored by Environment Canada. The final stage focused on coffee processing, as opposed to just production, and involved the introduction of less energy intensive coffee drying procedures and detoxification processes. To help the producers implement these new technologies, the organization had set up a micro-loan facility in partnership with the Mezo-American Development Institute and the United Nations to allow farmers to access low-interest credit. As the producers passed through each tier of the program, the premium they received increased. Having all four stages in place was considered full sustainability. At this point Environment Canada became involved in the process to verify that all the criteria had been met. Fully sustainable producers were paid up to \$3.50 US/pound for their coffee beans (compare this to the Fair Trade minimum of \$1.26 US/pound).

The other importer in the insider category also paid a minimum price above the Fair Trade price. However, it did not require any extra commitments on the part of its producers in return. As the representative noted: “Our operating model...is to...buy high and sell low” (I-1). This mantra applied to all of its suppliers, including those who were in the process of transitioning to Fair Trade. In addition to paying a higher minimum price, it required its buyers to follow other conditions aimed at strengthening the market for Fair Trade producers. New buyers were required to become partial owners of the importing company, invest \$7500 in general stock in order to maintain a line of credit for

purchasing, and purchase a minimum of 80 bags of green coffee from the organization each year (for large buyers it was a minimum of half of their yearly supply). Buyers were also assessed for stability – only businesses with a six-month track record were considered eligible partners. In addition to these specific criteria, buyers had to be “in synch” with the organization’s broad approach to doing business. In part this meant not taking another member’s market share, although this rule was not strictly enforced since it was not really viewed as a pressing concern. As the representative explained, “the coffee business is big, but it’s not that big...People know each other.” It was felt that having inside knowledge of the competition made it possible to screen potential business partners for any unsavory practices. Prospective buyers were also assessed by a membership committee. After a one-year trial period, the committee could relinquish a buyer’s membership if it so chose. However, it had never felt obligated to do so. At the time of the interview, the organization had 24 members, including one of the other insiders. The three remaining insiders did not have any internal standards per se to govern their trading relationships, although one retailer indicated that her roaster also paid more than the Fair Trade network for its coffee. However, she indicated that this was necessitated by market trends: “In an up market...you have to” (I-5).

Aside from making additional guarantees, the insiders contributed more directly to enhancing the capacity of producers through sharing their business expertise. The two largest insiders assisted their suppliers with their production and marketing activities. One of the importers said that providing producers with feedback on quality was a regular feature of her work. Her organization had sponsored a Fair Trade quality competition for producers from Bolivia. The producers participated in a cupping contest, and then her

company bought the winning coffees at a premium price. Due to all the press the competition had received, the following year the international Cup of Excellence competition came to Bolivia. This insider had also recently sent some personnel to Nicaragua with a group of people from three different importing companies to assist some farmers who wanted to start custom blending their own coffee. The buyers had tasted the coffees and helped the farmers rework their blends. The participant spoke highly of this process:

“It was a really good experience for everyone. It was a relief [for the farmers] because they knew that we chose [the coffees] we wanted, and they could replicate those more easily. It was great for us because we actually got to see all the elements that went into our coffee blends. And then we went out and visited some of the coops where that coffee came from. It just made [for] a better connection” (I-1).

Another way in which this importer assisted its partners was by encouraging them to use the contracts it had supplied them with to leverage new contracts with other buyers. A second insider also provided its suppliers with commercialization support. It had financed and hosted a visit by the president of a Peruvian cocoa cooperative to Vancouver, where the president was “[given] a chance to learn about the market and [meet] some coffee contacts...to help generate some business for his cooperative” (I-3). It had also advised one of its new suppliers on the “technicalities of how to export” in addition to providing it with contacts to further assist it with its exporting capabilities.

A third insider supported its suppliers only indirectly through its sister organization. The CEO of the company had founded a non-governmental organization (NGO) in Kenya that was working to develop the country’s agricultural industry. The organization provided training to farmers on quality control and the global marketplace to help them develop their internal capacity and move into higher value-added activities.

While it was technically a legally separate organization, the owner's involvement in the NGO nonetheless exemplifies the development focus of several of the insiders. The remaining three insiders did not provide any technical or commercialization support to their suppliers.

Although the outsiders were not fully aligned with Fair Trade, several had also developed sustainability principles for their industries that either built on or tried to replicate certain elements of Fair Trade. These ranged from written guarantees to informal norms. One outsider had an extensive arsenal of sustainability pledges. It had developed mission statements on sustainability that included specific principles on natural resources, society and the economy. As part of its commitment to economic sustainability, it strove "to create sustainable relationships with all of our Supplier Partners" and to support the economic vitality of growers and farmers who are committed to environmentally-sound farming practices" (O-1). It had also produced a supplier partner code of conduct that far surpassed Fair Trade in terms of the breadth of issues it dealt with. The code included provisions on child labour; prison labour and forced labour; disciplinary practices; legal requirements; industry standards; ethical standards; traceability; working hours; wages and benefits; general labour practices and freedom of association; discrimination; community involvement; health and safety; the environment; privacy and confidentiality; product safety; and management systems. When it came to the content of these provisions, the code fell short of Fair Trade on some key issues but actually went further than it on others. With respect to wages, for example, the code specified that "Workers shall be paid at least the local minimum wage or a wage that meets local industry standards, or which ever is greater", a guarantee that falls short of

Fair Trade's universal price floor (O-1). On the topic of the environment, on the other hand, the code referred to an extensive environmental mission, an explicit recognition that a focus on social provisions alone does not adequately address sustainability in the agricultural sector.

The various stipulations in the code of conduct were coupled with what appeared to be a sincere if haphazard commitment to accountability. The company conducted a huge portion of its business in accordance with organic certification, and a much smaller amount in accordance with Fair Trade. However, for the remainder of its standards, it followed a more ad hoc approach to compliance. As the representative stated "if we find that there are...labour issues or whatever else [with our suppliers] we call them on that" (O-1). However, she also noted that the company had been debating doing an internal certification program for the past two years: "we're looking at...doing an internal program where we'll have a checklist of suppliers that we bring on [based on] how they compare to the whole fair trade concept" (O-1). She was careful to distinguish between her company's concept of Fair Trade and the existing Fair Trade system:

"We're finding more and more growers throughout the world are choosing not to go to certified Fair Trade [because] there are challenges with that...So we're working with agents that represent the farmers...to make sure the farmer gets...a greater portion of the premium than through the certified Fair Trade program and that the community benefits through [the] initiatives as well" (O-1).

To ensure that it did its own part to contribute to social and environmental sustainability, the outsider mandated that all its divisions report on their sustainability efforts on an annual basis and that these results be published in the employee newsletter and, beginning more recently, uploaded to the company website.

This company had gone further than any single outsider in terms of innovating around sustainability. However, the rest of the outsiders were not about to sit back and let someone else do all the work. A second company had also published a “promise” on sustainability in response to the increasing number of inquiries it was receiving from its customers. This document covered everything from its commitments to the environment to its commitments to its suppliers, employees and customers. As the participant noted, “I think you have to do it in your own facility before you can start pushing it back to your suppliers” (O-3). The most important piece of this promise from the standpoint of producers was the commitment to “consistency of demand”. As the publication noted

“[We] establish...long-term relationships with raw material producers who have consistently proven their commitment to producing the best quality product possible. The stability of these long-term relationships allows producers the opportunity to reinvest in their own infrastructure, technology and communities” (O-3).

The sustainability principles also included a broader commitment to communities and the environment: “communities and the environment are respected and enhanced economically, socially, culturally and physically” (O-3). While I was unable to determine whether the company took any steps to internally verify its sustainability principles, it currently had at least four third party certifications in place, demonstrating that a significant portion of its activities *were* in fact subject to verification.

A third outsider had not articulated any of its own sustainability principles but *had* signed onto an industry code of conduct. The code dealt with “conditions of the sales for the international wholesale trade with cut flowers, fresh foliage and ornamental plants” (O-2) and was used in the company’s transactions with its supplier partners. As one representative noted, the code covered such specifics as “who is right and who is

wrong about not paying or partial paying or late paying” (O-2). To ensure that it was in compliance with the code, the company had built the stipulations right into its operating system. For example, its payments were made automatically on the 15th day of every month. However, it actually went beyond the provisions of the code in its dealings with its suppliers. As a second representative noted, “[we] always try to make the best of [a] situation from the vendor’s point of view, not [from] our point of view...” (O-2). While enforcement of the code was completely voluntary, the fact that it was not verified by an external agency did not appear to alter the significance of the company’s sustainability commitment in the eyes of other industry players. Apparently the company had earned itself quite the reputation as a trustworthy business partner:

“Everybody knows we’re operating within the rules. [Our international division] promotes that – says we work according to the Union Fleur rules. And that’s...very good [for our suppliers], specifically [in] developing countries. It’s nice to have a customer that guarantees you certain things [so] that you don’t have to send out your shipment [not knowing] if you’re going to get paid for it” (O-2).

The company appeared to take the issue of accountability very seriously. As the representative outlined, it took a very hands-on approach to its trading relationships:

“We like to know who the people are we’re dealing with. [The owner] has gone around the world to see farms all over the place. And if he comes back and says I don’t like the way they do things, we don’t deal with them...That’s the only way to...do it in our trade...There’s a lot of abuse going on around the world in the floral industry.” (O-2).

Two of the outsiders had explicitly outlined their commitments to sustainability and one had adopted an industry code of conduct. The remaining outsiders seemed to view ethical decision-making as something that took place more on an informal, day-to-day basis. Being ethical was often characterized as part of the culture of the organization, rather than as specific set of principles. As one outsider illustrated

“all of our franchisees are encouraged to support the environment [and] the community that they’re in...That’s the core of our business – giving back to the community...Not just Fair Trade and organic...but across the board. It’s never written...That’s just the way our culture is” (O-5).

The outsider continued: “projects [are] always judged on an individual basis. We don’t set aside certain terms or anything” (O-5).

The outsiders’ internal policies and programs were all at different stages of development. However, it was evident that no matter the precise content or degree of codification of their formal sustainability commitments, strengthening producer performance was a big priority for them. The vast majority of outsiders took steps to ensure the productivity of their suppliers, including supporting them with price premiums, steady demand, pre-financing, or all three. Several outsiders prided themselves on paying higher prices than their competitors. One of the outsiders did not know whether his company paid a higher price, and two were not specifically asked this question, but the remaining three indicated that they paid their conventional suppliers premiums over and above the market price. One of the wholesalers paid as much as 30 to 40 cents over the market price for non-Fair Trade coffee. However, he admitted that because he was a couple steps removed from producers, he did not know what percentage of that actually went to them. However, his company had also initiated a direct trading relationship with a non-Fair Trade cooperative that allowed it to more closely monitor the share of profit going to producers.

Providing regular business was another component of the outsiders’ commitment to producers. All but one acknowledged that this was a priority. Ironically, one outsider indicated that his company’s loyalty to its existing suppliers actually prevented it from doing more to support Fair Trade. While his company planned on sourcing all its future

products from Fair Trade-organic farms, he stated that “the past we can’t change because we don’t want to affect the farmers that we [buy from] just because they’re not Fair Trade...That would be against Fair Trade practices” (O-5).

Pre-financing was a third benefit that was mentioned by two of the companies. One outsider provided pre-financing to all of his non-Fair Trade suppliers. Even though this was also an FLO requirement, so far he had only had to make advance payments non-Fair Trade suppliers. As he explained:

“certified Fair Trade [is] such a consistent business and the payments are so structured and quick and well...monitored that nobody’s ever asked us to pre-finance. But other companies in Middle and South America have asked us to pre-finance because they just could not buy their fertilizers in...time. And [for] every request that we’ve had if we were financially able to do it we’ve done it” (O-2).

A second outsider indicated that while his organization did not personally make advance payments, its brokers provided producers with pre-financing when the market was depressed.

In addition to the above measures, the outsiders made a more targeted effort to enhance the productivity of their suppliers in the form of technical assistance. Two of the outsiders, representing one third of the total, were directly involved in the provision of technical support. One wholesaler indicated that both he and the brokers he dealt with provided the farmers with technical assistance where they needed it. The large grocery distributor also reported that this was an important component of her company’s operations, noting that “[t]here are programs all throughout [the organization] that work directly with growers [on commodity development]” (O-1).

While only two of the outsiders were involved in direct technical assistance, this was not really an accurate picture their overall technical support. Five of the outsiders

participated in multiple certification initiatives and development projects, several of which focused on improving producers' technical capacity. As discussed in Chapter One, the official Fair Trade movement has taken several steps to address the needs of producers in relation to production, trade and marketing. Like Fair Trade, the certification initiative Growers First provides farmers with crop improvement, export management and marketing assistance. While it does not provide interest free pre-financing, it does provide loans to small-holders at favourable rates. Café Feminino sells only certified Fair Trade coffee with an additional premium to support women's programs. As such, its producers receive all the same benefits as Fair Trade producers. The Ethical Tea Partnership, which is comprised of a number of lead industry players, engages in "partnership" and "capacity building" through the provision of "technical advice" and "assistance with...training requirements" (Ethical Tea Partnership 2008), and Coffee Kids has followed suit, creating "partnerships" with coffee growers and their families to "provide technical resources, training, and follow-through to communities to implement grass-roots projects" (Coffee Kids 2008). The outsiders' extensive participation in programs like these shows that external producer support was an important adjunct to their own development activities.

If the outsiders differed from the insiders in their levels of support for Fair Trade, it was harder to make the claim that they were not as committed to sustainability in general. As the preceding account suggests, sustainability was something that the outsiders took very seriously. They may not all have had definitive sustainability criteria but all but one indicated that their business practices were nonetheless guided by ethical considerations, a claim that was substantiated by the tangible measures they had taken to

improve the capacity of their suppliers. Some of the outsiders had criteria that went even further than Fair Trade, a finding that challenges the assumption that conventional companies try to evade Fair Trade standards by adopting alternatives with less substance and lends itself to the possibility that some mainstream market players were doing even more than Fair Trade to create a progressive and viable alternative to the conventional model of supply chain governance. The remaining companies had incorporated key elements of the Fair Trade into their business models, suggesting that if they were not yet on par with Fair Trade, they were at least moving in that direction.

Where the outsiders fell short of the insiders, was in their approaches to compliance. All of the insiders' practices were subject to verification by TransFair Canada. However, even though several participants recognized the value of transparency, not one outsider had adopted an independent monitoring process for its internal policies. The outsiders' own efforts at accountability paled in comparison to that of Fair Trade. One outsider required its divisions to report on their sustainability efforts to the general public, which represents an important step in the direction of accountability. And three of the outsiders made regular visits to producer cooperatives, which one specifically linked to accountability. However, none of the outsiders appeared to have any standardized verification procedures in place, which arguably made it much easier for them to defect on their commitments. If Fair Trade had set the standard for transparency in the industry, therefore, the outsiders had a lot of catching up to do. However, the fact remains that companies face significant pressure to subject their practices to increased public scrutiny. As noted in Chapter One, the danger in the proliferation of corporate-led sustainability initiatives is the potential effect on informational legitimacy. The previous chapter

demonstrates that if they are to avoid generating skepticism among consumers, corporate actors must take steps to ensure that the purely trade and marketing aspects of their programs are supplemented by activities designed to strengthen, by way of increased dialogue and openness, their relationship with their stakeholders. The risk of not becoming more transparent is the potential loss of business to more credible organizations. In the words of Busch and Bain (2005):

“Individual firms and private associations have adopted a variety of initiatives, since they recognize that the revelation that products sold by them...[involve] highly exploited adult labour...could easily result in a drop in retail sales throughout an entire supermarket chain. Given the fierce competition, loss of even a small percentage of customers can mean the difference between a positive and a negative bottom line” (p. 333).

Suffice it to say that, given the novelty of sustainability as a component of best practice, the outsiders can be forgiven for not having extensive verification measures in place at the time of this research.

If the outsiders’ initial efforts at sustainability blurred the line between themselves and the insiders, it was blurred even further by how some of the *insiders* *conceptualized* their roles in development. Consider the following quote from an insider:

“We’re not a development organization...We’ve always clearly...been a trading organization. We do some philanthropy, if you like. But...that’s not our thing. There’s a lot of organizations out there that are helping to do organizational development or...develop the technical capacity of grower organizations. Our job is to grow the market and give [the farmers] more orders [and] tell their story. That’s it” (I-5).

The ambiguity created by this depiction was reflected in a second insider’s conflicted sense of identity:

“There’s a tension point there between being a for-profit business – demonstrating that Fair Trade is a viable enterprise is a driving goal for us – and at the same time in a lot of ways [acting] like a not-for-profit in the kinds of partnerships and activities that we engage in” (I-3).

The above quotes reveal that the assumption that the original movement actors are more dedicated to traditional development projects than their more conventional counterparts cannot be taken for granted.

4.3. A Changing Economic Landscape

The outsiders may have lagged behind the 100 percent Fair Traders in terms of their methods of verification. However, as it turned out, the outsiders had even more important reasons to follow through on their sustainability commitments than the need to overcome consumer skepticism. Since the concept of Fair Trade was first introduced, two important changes had taken place in the global marketplace. Both of these changes have had implications for how lead firms in global supply chains approach their relationships with their suppliers. The first, and most important, change has already been discussed at some length, namely, the emergence of product quality as the most important factor in firms' competitive success.

All of the outsiders stated flatly that quality, not price, was the most important variable to their success. This confirms Schumpeter's theory that as conditions under capitalism move closer to perfect competition, innovation becomes more important for firms to retain their competitive advantage, exposing companies to intensified competition over the *intrinsic* attributes of their products. The global value chain approach predicts that the integration of quality and differentiation into the competitive strategies of lead firms has implications for how firms manage global supply chains. As described by Pérez Sáinz (2003), the trend towards corporate governance has been characterized by three interrelated activities:

First, as markets fail to compensate for the absence of state intervention – contrary to the initial expectation of neo-liberalism’s proponents – other actors, especially business organizations, have gained importance in the provision of semi-public [goods] as contributions of these organizations to general economic development that benefit[s] more than their own members. The second dimension is the provision of services by these associations that facilitate adaptation to changes and competition in the global market. Third, these organizations can contribute to the development of collective learning in small enterprises in the current conditions of accelerated technological change” (p. 220).

As this passage suggests, in an era of rapidly changing technology, lead firms must take greater responsibility for their relationships with their suppliers in an effort to bring producer capacity up to par with the quality expectations of the global marketplace.

Most of the outsiders admitted that Fair Trade quality had surpassed anything on the conventional market. This experience had taught them that the relationship between quality and sustainability did not simply work one way. Rather, if quality allowed buyers to pay farmers a more sustainable price, then strengthening producer capacity allowed farmers to provide importers with the quality they demanded. As one outsider put it “any industry has to be sustainable [in order to] maintain the quality for customers” (O-4). Efforts to ensure quality ranged from providing targeted technical advice to paying sustainable prices. As one outsider opined: “If they can get the extra money [from the premium] it makes sense to them to grow quality coffee” (O-4). One outsider felt that there was much more than material incentives at work in the production of quality products: “I’m a little bit...new agey...so I’m a big believer that it really is the [positive] energy of the people...It does affect the product itself” (O-2).

If these interpretations are correct, then the fact that the outsiders’ sustainability commitments were not all backed by a stamp of approval like Fair Trade is not as problematic as the critics suggest. Standards that target the production process like those

of Fair Trade are an extrinsic product attribute that cannot physically be detected in an item. The only way to guarantee that a product complies with them is to have someone examine corporate practices at the site of production. Quality, on the other hand, is an internal attribute that requires only that someone apply the product to its intended use to determine whether the claims made about it are true. Insofar as the fair treatment of producers relates directly to quality, fairness can actually be detected in every Fair Trade cup of coffee or bouquet of roses. The idea that you can taste fairness in a cup may be a slight exaggeration, but the fact of the matter is that the reorientation of conventional companies towards quality had caused them to reevaluate how they interacted with their suppliers, and that their relationships had become more cooperative as a result.

The turn towards quality implies more than short-term investments in producer capacity. The global value chain literature suggests that as the quality and task complexity of products increases, so too does the incentive for retaining existing suppliers (Humphrey and Schmitz 2002). This is because the more extensive investments in producer capacity make it costlier to switch from one supplier to another. As the large grocery distributor confirmed, “the bulk of [our] supply is really still managed by organizations and farmers that have been in [the trade] for a long time” (O-1). Given the incentive for retaining existing trading partners, quality requires firms to think about how they can build more reliable relationships with suppliers over time.

The need to develop stable relationships with suppliers has been heightened by a second change that had taken place in the global marketplace. The entry of the developing countries into the capitalist system and the emergence of a global middle class has led to a virtual leveling off of the systemic oversupply of agricultural

commodities that characterized the global South in the postwar era. As an insider explained:

“there are a lot of developing countries right now [whose] incomes are rising...There are middle classes developing. In coffee producing countries you’re starting to see [people] drinking more and more of [their own] coffee [and] exporting less. And you’re even starting to see some importation from other countries into developing countries that are doing coffee...So...quality coffee consumption is going up everywhere. And there are some real issues coming up in the next few years where demand is going to exceed supply. So I think we’ve got an up market for the next number of years and that systematically things are going to level out a bit” (I-5)

As a result of this trend, there is no longer any guarantee that if a company forfeits one trading partner, or if that partner goes out of business, it will easily be able to replace it with another. The growing precariousness of supply has created an added incentive for lead firms to cultivate more consistent trading relationships.

Their concern to generate more stable trading relationships explains why in addition to making targeted investments in producer capacity, the outsiders were also taking steps to ensure the productivity of their suppliers through measures such as price premiums, stable demand and pre-financing. As one of the insiders noted:

“There is a paradigm shift [starting] in the industry...I do see more and more...large industry players having to pick up their pants and...really start to look at their supply chain...[It has to do with] securing the supply chain because there are real issues. When the price goes really low – and we saw this in 2000 and 2001 – people leave their farms” (I-5).

Achieving a persistent source of supply is about more than just improving the economic performance of producers, however. Their need to secure their supply chains also requires conventional companies to confront the problem of producer loyalty head on. As it turned out, the discovery that producers would respond positively to enhanced incentives had also carried over into outsiders’ general attitudes towards their suppliers. It

influenced their thinking not only about the quality of Fair Trade products, but also about producer loyalty in general. As one outsider explained, “[b]ecause of doing [a service] you might get a phone call [from a producer] a year later saying... ‘we’re going to offer this out on the market but you’ve got first choice on it’... [T]hose benefits... always take place” (O-2). His colleague added that “everything you do in business, if you do it with both heart and soul, is going to come back to you” (O-2). The following quotes illustrate that for the outsiders providing superior guarantees went hand in hand with ensuring a loyal source of supply:

“A lot of the people that we do business with today our owner has had tight relationships with for the whole duration. He’s fiercely loyal to the people that he has business with – loyal to a fault in some cases... When the market price [crashes] we... make sure [they] keep [their] farms running [and] keep the coffee coming... Our strength is the fact that we have those relationships” (O-4).

The large grocery distributor had a similar mentality:

“We... make sure that our suppliers get a reasonable return. If... we think they can get a better price we’ll let them know. Because we want them to stay in business... [A]t times when supply is short, unless you have those strong relationships, [you’ll] have a very challenging year ahead of you” (O-1).

Clearly creating stronger relationships with suppliers was a way not only for companies to improve upon the quality of their products, but also to cope with the indeterminacy of market relations, which was currently at an all time high. In other words, their competitive calculations were causing firms to take steps to reinforce the primary tenants of Fair Trade, rather than to undermine them, as the opium thesis suggests. The pressure from activists to subject the social and environmental practices of firms to greater democratic control was simply giving a greater sense of urgency to this process. There some initial evidence to suggest that the changing mentality of mainstream market actors is affecting the *structure* of conventional supply chains. Conventional supply

relationships evolved out of a need to insulate large market actors from the risks associated with doing business in with Southern producers. In order to mediate the risk involved in these economic transactions, conventional supply chains became highly disaggregated. However, by creating greater stability and trust in trading relationships, the deepening co-dependence of producers and importers had offset the need for such an extensive division of labour. This means that large market players can now afford to absorb the cost of stronger ethical guarantees by eliminating the more redundant stages of the supply chain. As one insider pointed out:

“Canterbury [Coffee] could source all of the quality coffee [it] needed...through the Fair Trade network without worrying about...the volume not being there or the quality not being there. The question is are they willing to...be more involved [in] spending a little bit more time on the ground...” (I-2).

True to this statement, a number of outsiders had already upgraded their own functions to eliminate the need for middlemen. One outsider had initiated its own direct trading initiative, which it contrasted with Fair Trade:

We pay a license fee [but none of] the license fee goes to a farmer...If you're looking at [giving] a meaningful contribution to a farmer, maybe the best bang for your dollar isn't Fair Trade...Maybe it's direct trade. We have a cooperative in Nicaragua that...we trade with...directly...It's a very nice group of...people that are trying to help themselves and...don't have the resources to bring in...certifiers [like TransFair]. They're...very small...But the effect of it is the same. [Except] at the end of the day 100 percent of the money...goes directly towards [the cooperative]...That's something we can do [without] the help of...our brokers...But it's not something that we advertise or anything” (O-4).

A second outsider was at the beginning stages of developing a company-wide direct trading initiative, which it foresaw eventually replacing Fair Trade. A number of insiders were contemplating doing the same.

Another company had taken a different approach to facilitating more co-operative relationships with its suppliers. Rather than altering its importing network, it had taken

over some extra functions at the front end of the supply chain. As a representative explained “[we] only offer [Fair Trade flowers] to...the final retailer...And that way we [can] price the item [at] a level that is very competitive with anything else that is out there” (O-2). This restructuring of the supply chain had been made possible by some innovation on the part of the company along with a little bit of good will on the part of its existing business partners:

“We’d never...sold a retail ready item...We move products from A to B – use logistics to satisfy demand in one spot and to reduce supply in another and [to] fill the holes...And to concentrate on the retail end – which is a new type of customer to us – [has been] quite an experience. We’ve developed signage. We’ve developed packaging. We had to come up with different types of looks and sleeves and...bouquets – every customer’s different... We actually have [existing] customers helping us deliver [our Fair Trade products] because we don’t have a delivery system in place” (O-2).

While it seems counterintuitive for a company to cooperate with its competition in this manner, this company’s customers did not appear to resent being relegated to such a menial role: “Just with Fair Trade we’ve cut them out...and they understand...when we explain...to them [that] we really cannot utilize [them]. (O-2). When asked whether it would be possible to completely reorganize the industry along the lines of Fair Trade, the flower distributor conceded that while it would be difficult, it was not impossible:

“It would be...ideal...if we found a hundred companies around Canada...willing to offer it to their local retail chain, whatever that might be, and purchase it just like [conventional] products. And if the volumes are there I’m 100% sure it can be done competitively” (O-2).

There is no dearth of creative responses to the higher costs of ethical trade. One way the insiders kept their operating costs down was by forming buying groups with other companies in order to achieve economies of scale in importing. At least half of the insiders were part of such an arrangement. Another possible solution to the economies of

scale problem, which would admittedly be a huge concession for the original movement actors, is the certification of plantations in coffee and cocoa. This move would bring Fair Trade away from its original emphasis on small-scale, democratically run, co-operatives. However, not only is such a method of organization more expensive than the alternative, it may also be unrealistic on a large scale. As one of the insiders suggested, “You can’t possibly supply the coffee drinking population on this planet with a [fully] sustainable product...There are too many people” (I-2). In light of this fact, Fair Trade should reevaluate its decision not to certify coffee and cocoa plantations.

4.4 Conclusion

This chapter has sought to test a second major hypothesis of the opium thesis, namely, that conventional companies try to cash in on the benefits while avoiding the costs of Fair Trade by introducing alternative, less authentic, development initiatives. The chapter has found some proof for this supposition. Although a greater percentage of outsiders than insiders supported external certification initiatives and development projects in addition to Fair Trade, most of these initiatives were not comparable to Fair Trade in terms of the breadth of issues they dealt with. However, when it came to their internal policies and programs, the vast majority of outsiders had made considerable efforts to implement key parts of the Fair Trade program into their operations, even if these were not always articulated in writing. The types of measures that came up most often were those related to producer technical capacity and productivity.

On their own, these measures do not seem like much. This is especially true considering that the outsiders did not have any standardized verification procedures in place to monitor their progress. However, viewed through the conceptual tools fashioned

by Schumpeter and the global value chain literature, these efforts take on a new meaning. Rather than representing isolated attempts to cash in on the Fair Trade market, these represent a logical response by market actors to the changing imperatives of the global marketplace. Social justice movements like Fair Trade challenge conventional companies to take greater responsibility for the material conditions of producers by educating consumers about the ethical dimensions of the production process. But mainstream market actors must also take a more proactive approach to their supply chain relationships in order to satisfy the evolving *intrinsic* quality expectations of the global marketplace. Integrating quality into their competitive strategies has required lead firms to make targeted investments in producer capacity and overall economic performance in order to improve the skill content of their production and maximize the returns on their investments over time. Investing in the long-term health of producer enterprises is also a way for lead firms to avert a looming supply crisis.

An unintended outcome of corporate sustainability initiatives has been the restructuring of the economic process. Through injecting trading relationships with greater trust, producer support programs have alleviated some of the risks inherent in trading with Southern producers, making progressive supply chain governance schemes easier to administer, and allowing corporations to recoup the costs of their investments through initiating more direct trading relationships. The concluding chapter examines the significance of all this for Fair Trade's alternative vision for the economy.

5. Conclusion

1997 marked a turning point in the Fair Trade movement. In a very short period of time, the network went from a loose collection of small Alternative Trading Organizations to a centralized system of production and exchange geared towards the mainstream market. The official arm of the Fair Trade movement has vigorously pursued the mainstreaming strategy. However, the original movement actors and their supporters from the revolutionary camp have largely come out against the unqualified approach to mainstreaming taken by the FLO and the national labeling initiatives, highlighting the ill fit between the values of Fair Trade and the practices of conventional corporations. The critics contend that despite Fair Trade's best efforts, the capitalist imperative of price competition inhibits mainstream market actors from making meaningful changes to the economy. This is a legitimate concern in light of past corporate practices, which have levied catastrophic social and environmental tolls in the name of price-competition. However, putting too much stock in the past obscures the potential that exists to use markets as a force for *positive* change.

The social economy perspective argues that, far from operating on the basis of an other-worldly, market logic, economic agents organize their behaviour in accordance with the imperatives of society. These demands are expressed at once in the ideological and organizational structures that animate the economy. As an alternative to the imperatives of hegemonic neo-liberalization, campaigns in the forest, apparel and agro-food industries have seized upon the increased vulnerability of oligopolistic firms to bring other dimensions of quality, such as the treatment of producers and the environment, to the attention of the consuming public. As an alternative to the

exploitative practices of conventional companies, social justice groups have created *innovative* models of supply chain co-ordination, which have allowed them to capitalize on the growing awareness of consumers. By awakening consumers' inner citizens, activists have generated "increasing market pressure...to respond to...issues in global supply chains" (MacDonald p. 806). The increased emphasis on extrinsic quality has led Busch and Bain (2004) to identify the current round of neoliberalization with a shift from price to non-price competition. That this shift has taken place within the larger context of global capitalism is evinces for us that the economy, and even the specific form of the economy that we call the market, is an instituted *process*.

Non-price competition has subjected conventional companies to increased negotiation over the social and environmental consequences of their operations. However, the opium thesis suggests that corporations will try to evade higher ethical standards in practice through public relations maneuvers designed to mask their underlying commitment to business as usual. There is some evidence to support this thesis. However, there are also a number of important counter trends to this tendency. For one thing, the sustained threat of losing market share to more transparent certification initiatives creates pressure on firms to adhere to their symbolic commitments. As auditing procedures are progressively adapted to best practice principles, cheating will only become more difficult. More important than the trend towards increased openness, however, is the additional economic incentive to create more co-operative supply chain relationships. Non-price competition is not just about extrinsic qualities such as labour and environmental standards. Rather, in the 21st century global economy the rapid pace of technological change has also subjected firms to intensified competition over the *intrinsic*

qualities of their products. The reorientation towards product quality has required firms to make greater investments in the long-term economic performance of their producers in order to generate the local technical capacity necessary to stay abreast of market trends and the stability of relations required to capitalize on their investments in the long run. This has led to the predominance of relationship-building or “partnerships” (Tallontire 2000) as a way to ensure competitive success. The outpacing of global agricultural supply by demand has simply increased the pressure on firms to create stronger relationships with suppliers. By creating greater trust on the part of both producers and buyers, partnerships reduce the complexity of economic transactions, making it possible for firms to make even more substantial investments in social capital over time.

5.1 Transnational Networks: The New Game in Town

The trend towards higher quality products, processes and procedures has significantly altered the modus operandi of the economy. Rather than encouraging economic actors to exploit producers and the environment as in the past, the rules of the game now require firms to enact progressive changes to their supply chains in order to remain profitable. In response, companies have begun laying the groundwork for broader producer development programs, at times producing “a sweeping reorganization of the relevant commodity chain” (Busch and Bain 2005 pp. 341-342). These developments challenge the opium thesis’ assumptions about the fate of Fair Trade’s socially instituted economy in the era of mainstreaming.

The findings in this thesis confirm that there are in fact several close parallels between the Alternative Trade Organizations that pioneered the Fair Trade movement and the mainstream market actors that have been steered towards Fair Trade due to

converging market forces. These similarities can be illuminated using Dergousoff's definition of informal Fair Trade organizations from Chapter One. Recall that informal Fair Trade organizations are defined by the following characteristics: a commitment to the concept and goals of FT expressed by the FLO and its associated bodies; opposition to textualized standards as well as the outside agencies that set and enforce those standards; the transmission of knowledge on a person-to-person basis; awareness of industry/consumer expectations; and innovative alternatives to the dominant model (Dergousoff 2004).

The outsiders possessed elements of all these key features. While they may not all have put it in writing, all but one articulated a commitment to sustainability that incorporated several of the FLO's main principles, and in some cases even went beyond them. Likewise, a number expressed opposition to the official Fair Trade model, which they saw as an inefficient way of organizing production. Their resistance to the official Fair Trade network also encompassed a concern to avoid the possibility of their brands being absorbed by the Fair Trade logo, which could impact their existing market share. Due to these issues, the outsiders had elected to find ways to make sustainability principles work in the context of their own corporate commitments and daily operations, rather than lending their full-fledged support to the Fair Trade concept. Like informal Fair Traders, the majority were pursuing their own creative and palpable alternatives to certified Fair Trade. In light of conventional companies' greater familiarization with industry and consumer expectations, these corporate-led initiatives represent particularly dynamic responses to the movement in the long run. One area in which the outsiders may have fallen short of the insiders was face-to-face communication. While a number of

them occasionally paid visits to producer communities, the very size of their operations made it impossible to engage in face to face contact with every single one of their stakeholders (although I'm not sure the insiders did this either). All in all, the outsiders were strikingly similar to the informal Fair Traders. Given that Dergousoff (2004) implores those concerned with Fair Trade to acknowledge informal Fair Traders' invaluable role in the network, the similarities between informal Fair Traders and conventional corporations begs the question: shouldn't conventional corporations be considered invaluable movement allies too?

It is my contention that they should. The social economy perspective tells us that, far from being purely self-interested entities, corporations are beholden to the needs of society. According to Schumpeter, the mechanism by which the economy fulfills its social function is innovation. Through improving upon the organization, processes and ultimately products of economic activity, economic agents contribute to the advancement of society over time. It follows that the structure which is best suited to the economy is the one that allows human ingenuity to be put to its most socially beneficial use. If the present economic structure does not meet this requirement, it will be replaced by one that is a better fit for society at its present stage of development. At the present historical juncture, where extrinsic and intrinsic product qualities represent the reconciliation of market with social objectives, *transnational networks* consisting of firms and more traditional agents of civil society have emerged as the best way to meet the needs of society. These networks can be contrasted with the formal global governance institutions of the IMF, the World Bank, and the WTO, which, due to their failure to incorporate the newly independent countries of the developing world into the global marketplace on

acceptable terms, have largely become redundant. Networks function to eliminate the discrepancy between the haves and the have-nots by raising the bar on established terms of trade between Northern economic agents and Southern producers. At the same time, they help economic agents position themselves to make a lasting contribution to society, or, put differently, meet the competitive challenges of the marketplace and guarantee their own survival in the long run. It therefore stands to reason that the more such regulatory initiatives there are, the better off society will be. Healthy competition between initiatives will allow the economy to capitalize on the ingenuity that exists in the human population far better than simply following one version of sustainability. As firms jockey with one another to take advantage of the direct and indirect economic benefits of partnerships, a social “race-to-the top” will be set in motion to reverse the “race-to-the bottom” initiated by hegemonic neoliberalization. In the words of MacDonald (2007):

As increasing volumes [are] sourced under the guidelines of [ethical] supply chain governance schemes, the principles shaping social practices at sites of production [will] gradually [be] ‘ratcheted up’, thus enabling the substance and scope of empowerment attained within conventional chains to be progressively increased” (MacDonald 2007 p. 808).

In this race-to-the top, the possibilities for what can be achieved in terms of human empowerment are limited only by the extent of the human imagination. The seeds of a sustained economic revolution, therefore, are not to be found in some wholly alternative economic structure, but are located squarely within the capitalist economy (although they take root by a radically different process than that which Marx imagined).

Of course, the ultimate test of whether informal Fair Traders are up to the challenge of revolutionizing the global trading system is whether they are able to offer developing country producers a route out of their historical dependence on primary

commodity production. In order to represent a substantive alternative to the current global trading regime, they must provide Southern farmers with the means to upgrade into the higher-value added economic activities currently dominated by Northern firms. It is widely agreed that participation in transnational business networks enables a process of collective learning to take place (Pérez Sáinz 2003). According to Humphrey and Schmitz (2002) producers “learn a great deal from global buyers about how to...attain consistent and high quality” (p. 1020). The pressure to comply with the standards imposed by the chains’ leaders often enhances *product* and *process* upgrading (Giuliani et al 2005). However, because the co-dependence of the partners to an exchange varies according to the initial situation of each in the international division of labour, knowledge flows in transnational business networks tend to be uni-directional – from buyers in advanced economies to producers in the developing world – and tightly controlled. As such, some commentators (Giuliani et al 2005; Humphrey and Schmitz 2002) have posited that upgrading will usually stop short of *functional* upgrading into higher value added activities - an outcome that would threaten lead firms’ positions in global supply chains.

While the path to functional upgrading may not be straightforward, the threshold is not completely unattainable. Humphrey and Schmitz identify two potential strategies for emerging enterprises to break out of quasi-hierarchical relationships. First, they can use the knowledge they have acquired from buyers to supply other markets with less powerful customers. Second, they can take over the functions that buyers are willing to relinquish. Several cases of functional upgrading have already been documented.

Gereffi’s (1999) research on an East Asian garment value chain found that participating

producers were able to progress from product assembly to increased local sourcing and production (product upgrading) and on to design, marketing and branding activities (functional upgrading). Similarly, Nadvi and Halder's (2005) study of two interlinked clusters in the global surgical instruments sector found that not only did firms in the Pakistani cluster make the successful transition from job processing to original equipment manufacturing (product upgrading), they were also able to establish their own trading groups in the German cluster (functional upgrading).

Examples of functional upgrading can also be found in the Fair Trade network. In Mexico, the birthplace of Fair Trade, secondary level organizations have taken over on a number of downstream activities normally monopolized by lead firms. The cooperatives of *Comercio Justo Agromercados* have collaborated with other organizations to develop a domestic fair trade system within Mexico. La Selva participated in the development of an independent chain of 18 coffee shops throughout Mexico the US and Europe. These shops exclusively purchase LA Selva members' coffee and dedicate a percentage of profits to community development. CEPCO and UCIRI have also established their own coffee shops, and La Selva and CEPCO are developing their own, *nombre de origin*, brands of coffee (Taylor et al 2005). Developments in Mexico indicate that Fair Trade has opened up significant opportunities for producers to overcome their dependence on primary commodity production. The range of existing experiences implies that the outcomes of participation in global value chains, even from an unfavourable starting position, are far from predetermined. Although lead firms have an interest in minimizing the access of upstream actors to higher value added activities, this does not mean that

those actors are destined to play a marginal role in the global marketplace forever.

Rather, as Humphrey and Schmitz (2002) remind us:

chain governance is a dynamic *process*...[I]n quasi-hierarchical chains...power is relational: the exercise of power by one party depends on the powerlessness of other parties in the chain. Existing producers, or their spin offs, may acquire new capabilities and explore new markets, and this changes power relationships (p. 1024; emphasis mine).

Given the results that it has already achieved, the mainstreaming strategy should continue to be pursued by the formal Fair Trade movement. The more Fair Trade activists are able to generate changes to corporate practice, the greater the impact of Fair Trade will be.

5.2 Unresolved Issues

For all their promise, ethical trading initiatives do not offer a complete solution to global economic inequality. The bulk of the companies interviewed for this thesis were located in the specialty segment of the market. When asked about the future potential of Fair Trade, they all indicated that it would eventually be a regular part of doing business. For the companies that catered to the non-specialty market, the continued growth of the Fair Trade was far from a sure thing. Rather, these participants defined Fair Trade as a “niche market” phenomenon. This brings us back to one of the primary challenges faced by ethical trading initiatives, namely, generating adequate consumer demand to help Southern producers on a meaningful scale. The fact of the matter is that not everyone can afford to be an ethical consumer. As has already been noted, demand for Fair Trade coffee in Europe, the birthplace of Fair Trade, has mostly leveled off. The expectation is that this will also happen down the road in North America. Inequality in access to Fair Trade products is a serious social justice issue that the Fair Trade movement has yet to satisfactorily address. However, as Hudson and Hudson (2003) remind us,

“this can be seen as a contradiction if we look only at fair trade in isolation (or if fair trade isolates itself in practice) from other progressive movements, particularly those that attempt to politicize productive relations in the North. If on the other hand, it is considered (and its proponents and practitioners consider it) as a single element in a broader movement to build a progressive transnational politics aimed at transforming the relations of production globally, fair trade can be understood as occupying a particularly strategic position” (p. 424).

The labour movement should be considered a key ally for the Fair Trade movement if it is serious about addressing inequalities at the point of consumption. As Evans (2000) points out, by advocating global core labour standards, the movement has the potential to equalize the purchasing power of consumers within and across countries and regions. As such, practical steps should be taken to create links between the formal Fair Trade and labour movements.

The flip side of the argument that Fair Trade is simply a niche market phenomenon is that it is limited in who it can help. There are a number of barriers to entry that Fair Trade producers must overcome in order to participate in the movement. Producers are required to implement organizational restructuring and production techniques geared towards enhancing democratic participation and environmental sustainability, respectively. However, the movement’s increasing reliance on established brands whose success is also built on the complex *intrinsic* quality attributes of their products brings a plethora of additional quality considerations into play (Raynolds 2002; Moberg 2005). Producers’ compliance with importers’ quality expectations is ensured through rigorous laboratory testing (Raynolds 2002). Producer groups therefore require access to training and support to overcome the lack of education with regard to production and trade expectations as well as international markets. A strong management team is also required in order to balance transparency and participation – central

components of democracy – with efficiency – a requirement of markets (Taylor et al 2005). Shreck (2005) argues that these substantial barriers to entry exclude the most vulnerable producers Fair Trade was designed to help from the movement.

The FLO has taken a number of steps to reduce the barriers to entry faced by producers. It recently created a Producer Support Network to address the needs of small-scale farmers and workers. Field liaison officers are present in numerous producer countries and there is a Product Management Team responsible for assisting producers with commercialization. Learning is also facilitated through the biannual FLO Fair Trade Forum, and regular Regional Producer Assemblies designed to strengthen producer involvement (Taylor 2005). However, further thought should be given to how the most politically and economically vulnerable groups can be integrated into the Fair Trade movement.

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Appendix I

Fair Trade: Assessing the Potential for Progressive Economic Regulation in the Era of Mainstreaming

INFORMATION SHEET/CONSENT TO PARTICIPATE

About the Research

My name is Kelly Pritchard and I am a graduate student in the Department of Political Science at Carleton University. For my Master's thesis, I will be conducting research on organizations involved in Fair Trade. The research project will be administered by a team consisting of a principle researcher, myself, and a project supervisor, Peter Andre. The choice of topic, as well as the specific research question, reflects my personal interest in finding solutions to the problems faced by rural producers in developing countries. It is my hope that through this research I will be able to contribute to the development of effective strategies for integrating poor rural producers into the global economy on favourable terms.

The Project

The research will examine the success of Fair Trade's multi-stakeholder approach from a distinctly North American vantage point. It will look at how the various organizations participating in Fair Trade incorporate the principles of Fair Trade, or, more broadly, ethical trade, into their business models. The focus will be on the concrete actions that have been taken, as well as the relationship between Fair Trade and past, present, and future strategies for growth. The research will also look at the push and pull factors behind decisions to move towards Fair Trade. Due to the technical nature of these matters, participants will take part in the project largely in their capacity as professionals, and will not be asked to respond to questions of a sensitive or controversial nature.

Invitation to Participate

I feel that my research would benefit greatly from your participation, and would like to invite you to take part in a one hour interview. I will be conducting interviews in the spring of 2008, and would be happy to meet with you at your convenience.

Confidentiality and Treatment of Information

Everything you say in the interview will be audio recorded and kept until the research project is finalized (in this case, until the Thesis is successfully defended). What (if any) questions you choose to answer during the course of the interview is completely up to you, and you will be free to verbally withdraw consent to participate in part or full at any time prior to the finalization of the research project. If you choose to withdraw consent,

you will also have the opportunity to request that any existing information you have provided be destroyed, at which time all electronic files and/or physical documents containing pertinent data will be deleted and/or destroyed. Outside of the research team, any information you provide will be treated as strictly confidential, and neither you nor your organization will be named in the final research document. All information will be kept by the principal researcher, and will be deleted upon completion of the research project.

Additional Information

All of the relevant aspects of the research project have been subject to formal approval by the by the Carleton University Research Ethics Committee. Any questions or concerns regarding this process may be directed to Professor Antonio Gualtieri, the Committee chair, at:

Carleton University Research Ethics Committee
Carleton University
1125 Colonel By Drive
Ottawa, Ontario
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Questions specific to the research may be directed to:

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Consent

Please indicate that you have read and fully understand all information pertaining to the research project, and that you voluntarily agree to participate.

I agree to the interview being audio-recorded: Yes: ☐ No: ☐

Signature: _____ Date: _____

Appendix II

List of Interview Dates and Locations

January 17, 2008, *Ottawa, Ontario*
January 25, 2008, *Montreal, Quebec*
February 1, 2008, *Almonte, Ontario*
February 14, 2008, *Vancouver, British Columbia*
February 20, 2008, *Vancouver, British Columbia*
February 20, 2008, *Vancouver, British Columbia*
February 21, 2008, *Vancouver, British Columbia*
February 22, 2008, *Vancouver, British Columbia*
February 27, 2008, *Toronto, Ontario*
February 28, 2008, *Toronto, Ontario*
February 29, 2008, *Mississauga, Ontario*
May 13, 2008, *Ottawa, Ontario*
May 23, 2008, *Ottawa, Ontario*