Issue: Fair Trade

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Executive Summary

The issue of (un)fair trade is addressed by many different societal groups ranging from political parties, to multinational enterprises, to NGOs, and to lobby groups. Subsidies, access to markets, transparency, trading conditions, (un)fair pricing, community development, and environmental sustainability are among the many dimensions of fair trade according to different definitions.

The start of fair trade can be traced back to the late 1940’s. In 1988 the first certification mark was established. Other certification marks followed and by 2004 432 organisations were certified. Organisations are certified when certain minimum requirements are met.

Rising consumer awareness resulted in positive developments of the fair trade movement. Fair trade is also expanding to the mainstream distribution channels. Governments have passed legislation on the issue, but governments are also often criticised for not being actively involved. Europe represents most of the fair trade market.

Critics of fair trade say that the market share is much too small, changing quota restrictions would be more beneficial, value-adding activities have more potential, and extra profits from eliminating middlemen is not fully transferred to the producers.

The primary stakeholders are (a) government, (b) companies, (c) consumers, (d) primary producers, and (e) NGOs. Current issue ownership lies with NGOs in the North and the primary producers in the South.

Not all uncertified companies trade unfair but still almost all trade is unfair. Companies are part of this problem because of unfair behaviour concerning the dimension and because of the shareholder wealth maximisation model that forgoes ethical behaviour. Solutions can be found in the way a company measures its success, in managing societal expectations proactively, doing business in a sustainable way, involving stakeholders, and by increasing transparency.

The international companies Illy and Ben & Jerry’s are used to give an illustration of successful fair trading companies.
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>SP</td>
<td>Socialistische Partij</td>
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<td>UN</td>
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<td>WBCSD</td>
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1 Introduction

Fair trade can be traced back to the late 1940’s. Projects were set-up by churches in North America and Europe to provide relief to communities that were suffering from poverty. These were known as Alternative Trade Organisations (ATOs), which, through direct trade and fair prices, offered higher returns to producers in the developing world (Fair trade certified, 1 November 2005).

Fair trade came into existence due to low market prices, which negatively influenced the income of producers. However, it was also a way to sidestep middlemen and gain a direct access to Northern markets (Fairtrade Labelling Organisation (FLO), 2006).

As a global ecological issue, unfair trade has thus far been tackled mostly by NGOs that have been trying to make a real difference to the livelihoods of some of the poorest farmers in the world. Although governments are starting to support the aims of fair trade, strict regulatory mechanisms such as government regulation, intervention and strong corporate lobbying still regulate market prices and protect domestic industries from third world country exports (Fair Trade Resource Network, 2002).

Similarly, agricultural subsidies, such as the 350 billion dollars the U.S., Europe and Japan spend on subsidies every year, are said to be six times the amount that those countries donate in development aid (Fair Trade Resource Network, 2002). Another issue arises when large amounts of subsidies cause food surpluses that are in turn dumped on world markets affecting prices and primary producers in developing countries. Such existing policies that are a result of state intervention make (un)fair trade a complex issue that is directly affected by government regulation and for which there is no simple solution.

Fig. 1 The societal triangle
Nowadays governments, especially those in Western Europe, are increasingly encouraging the fair trade movement by raising business and consumer awareness and by making fair trade a part of a wider program that is primarily designed to promote socially responsible practices in the corporate sector. This however, is currently happening on a very small scale. Nevertheless, governments play a significant role in the development of the fair trade movement and are therefore directly related to the issue as can be seen in figure 1 which shows how fair trade is positioned as a global issue in terms of /when looking at the three dimensions state, market and civil society.

Other than the state, businesses that form the market are realising more and more that they must be more transparent, sustainable, responsible and accountable in order to have a long-term future. Fair trade is one of the many issues that interest groups are becoming increasingly concerned about and the business world is starting to recognise the need to engage with these groups (civil society, NGOs, other action groups etc) in order to make ethical investments and decisions. The fair trade movement, backed up by NGOs, has been criticising trading organisations for decades because of their methods and lack of transparency when it comes to their business practices (Fair Trade Resource Network, 2002). Businesses are now more powerful than ever before which means that they can have a significant influence on the fair trade movement. (Un)fair trade largely remains a market issue because although the market share of fair trade products is growing, prices of these products are still higher and many businesses have not yet been able to identify ‘win-win strategies’ in which they can successfully turn fair trade into their own business opportunities.

1.1 Definitions

There are many definitions of (un)fair trade from different spheres of society. Firstly, the definition from the political agendas of the Dutch political parties ‘Christen Unie’ (Christian Union) and ‘Socialistische Partij’ (Socialist Party) it follows that trade is unfair because (a) there are export subsidies on sugar, rice, dairy products, beef and grains, (b) subsidised agricultural products are dumped, (c) there are tariffs on intermediate and end products which are too high, (d) the poorest countries do not have free access to European markets. Changing this would make trade fairer (Christen Unie, 30 September 2006; SP Standpunten, 1996-2008).

Secondly, the definition of fair trade by FINE, which is an informal network of the four main fair trade networks (Fair Trade Labelling Organisations International, International Fair Trade Association, Network of European Worldshops and European Fair Trade Association) is:

“Fair Trade is a trading partnership, based on dialogue, transparency and respect, which seek greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers - especially in the South. Fair Trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.”

Fair trade according to the market sector is defined by companies that highlight the issue of fair trade. Fair trade is about (a) paying fair prices for the ingredients from developing countries (Verkade), (b) improving living and working conditions of employees, (c) community
development (Simon Lévelt 2007), and (d) improving the conditions of farmers and producers who do not have a chance to do that by themselves (Fair Trade Original).

The authors of the Human Development Report (HDR) call trade unfair because (a) international trade policies skew the benefits of globalisation in favour of rich countries, (b) industrial countries apply very low tariffs in their trade with each other and have high import barriers for the world’s poorest countries, (c) tariffs are higher for intermediate or final products and very low for raw commodities (called tariff escalation, which prevents developing countries from adding value to their exports), and (d) subsidies of rich countries (Denny 2005, pg 113-129).

Oxfam calls trade unfair because the world trade rules, which have been developed by the rich and powerful on the basis of their narrow commercial interests, benefit rich countries and powerful corporations more than developing countries and poor people. Trade is furthermore unfair because the trade rules are not judged upon their contribution to poverty reduction, respect for human rights and environmental sustainability, which should, according to Oxfam’s philosophy be the factors to judge trade rules on (Oxfam International 2008). Because of the following rules, Oxfam calls trade unfair:

1. **Dumping:** “The rich world tells the poor world to get rid of subsidies, but continues to spend $1 billion a day subsidising its own farming enterprises.

   Rich countries dump subsidised produce on developing countries, driving down the price of local produce - with devastating effects on the local economy. This unbalanced playing field has made many poor farmers even poorer, or forced them off their land completely (Oxfam International 2008).”

2. **Market Access:** “Rich countries limit and control poor countries' share of the world market by charging high taxes on imported goods. As a result, many poor countries can only afford to export raw materials, which give far lower returns than finished products. For example, the rich world buys cheap cotton and cocoa and turns them into expensive clothes and chocolate - reaping all of the profit. At the same time, poor countries are threatened with having loans withheld unless they open their markets to rich countries' exports (Oxfam International 2008).”

3. **Forced liberalisation:** “Rich countries have long used the IMF and World Bank, and aggressive bilateral trade deals, to push open the door of poor countries’ markets to a flood of cheap products but now rich countries plan to use the binding rules of the WTO to kick that door down altogether (Oxfam International 2008).”

4. **Free trade agreements:** “Regional Trade Agreements between equal partners can be beneficial to both – but between a rich and a poor economy, the stronger economy always comes out on top (Oxfam International 2008).” This is so because in this way poor economies cannot protect their new, future and established industries, a right used by rich European countries over many years to build their developed economies. Poor countries would prefer trade agreements that take into account their particular development needs (Oxfam International 2008).
The U.S. International Trade Commission and the Department of Commerce receive complaints, mostly from large capital-intensive industries, about unfair trade. Those industries, especially those facing employment losses and rising import shares, file complaints about antidumping and countervailing duty. A complaint is filed because the domestic markets are perceived to be protected insufficiently, which generates extra competition from dumped goods, which is unfair, according to the industries (Feinberg and Hirsch 1989).

The multinational corporation Unilever believes that business is an important generator of wealth and jobs and can be a good force in local economies. The 2007 Sustainable Development Report of Unilever writes: “Employees, governments, investors and many others in the communities where we operate benefit economically from our activities.” Unilever conducted studies in cooperation with Oxfam and Professor Ethan Kapstein of INSEAD to understand their wider impacts on developing countries. Furthermore, Unilever pays attention to local issues in countries they trade with, for example their project to fight hunger in Kenya (Unilever 2008).

Sara Lee, another multinational corporation, also is committed to supporting sustainable, economic and social improvements in the global communities where they do business (Sara Lee, 2008). Douwe Egberts, one of Sara Lee’s brands, is also Utz Kapeh certified. Utz Kapeh is a certification mark, but different from Max Havelaar. Unlike Max Havelaar it is not focused on small coffee farmers and cooperatives, it has lower social and environmental standards, and no minimum prices. With the Utz Kapeh certification more of the coffee trade should be reached in order to achieve the goal of fair trade, because only a very small number of coffee producer want to produce according to the Max Havelaar rules (Solidaridad 2008).

Tesco, a mass-merchandise retailer, has a separate section in their corporate responsibility report called ‘ethical trading’. Tesco wants to treat people in a way they, as people behind the company, like to be treated. Trading with developed as well as less-developed countries is believed to bring benefits to these countries and the people that work in them (Tesco plc 2008).

The American Agricultural Movement, an agricultural lobby group in the United States, believes that imports of agricultural products which are also produced domestically must be limited to the amount that American producers cannot supply and strive in this way to full parity for all domestic and foreign agriculture products (AAM 2008).

1.2 Dimensions
Several (un)fair trade dimensions follow from the different definitions. Subsidies, access to markets, transparency, respect, equity, trading conditions, rights of marginalised producers and workers, paying fair prices, community development, international trade policies, industrial countries’ trade barriers, tariff escalation, contribution to poverty reduction and environmental sustainability, and dumping, are these dimensions.
1.3  Fair trade: links to other issues

The greatest link of fair trade is with the issue of poverty. Fair trade ensures that producers in the third world receive a ‘fair’ price for their products. According to Sachs (2005, pg 19) families and governments in the ‘poverty trap’ do not have the finances to invest in solutions (e.g. bed nets or new farming techniques) that could be life-saving. Fair trade gives local communities funds through the premium in the price paid to local producers for their produce to invest in such solutions (Hira and Ferrie 2006).

Fair trade can be linked to health/disease and lack of education. Through the premium, the local community can be developed. This entails the development of schools and hospitals which increase education and help fight diseases.

Lack of education can also be linked to fair trade from the perspective of the North. In the North it is about a lack of education into the reasoning behind buying fair trade. Consumers need to be aware to make an informed decision about the products that they buy.

Fair trade also promotes biological agriculture which is linked with the bio industry. The FLO would prefer all producers to become biological to as high an extent as possible (FLO international 2007, pg 7).

Fair trade is also closely linked with lack of water/energy supply. Products like coffee need vast amounts of water in order to be successful and be of good quality (Drent 2003). Therefore, a lack of this can greatly influence the amount of fair trade.
2 Development of fair trade

2.1 Timeline
In appendix 1 the timeline of how fair trade has developed can be found. A brief explanation will be given of the development of fair trade with an indication of the number of fair trade certified organisations at several of the stages (FLO 2007, pg 8). A pictogram of the developments of fair trade certified organisations can be seen in appendix 2.

In the late 1940’s and early 1950’s fair trade started very small with the first attempt by churches in North to commercialise fair trade goods, at that time mainly handicrafts (Fair trade certified, 1 November 2005).

In 1965 the first ATO was created. This is a non-governmental organisation (NGO) supported with fair trade. It “contributes to the alleviation of poverty in developing regions of the world by establishing a system of trade that allows marginalised producers in developing regions to gain access to developed markets” (European Fair Trade Association 1998, pg 23 & 25).

A major establishment was the set-up of Max Havelaar in 1988 as the first Fair trade certification initiative. Today Max Havelaar has developed to become a “seal of approval for products obtained through fair trade according to the criteria of the FLO” (McDonald’s Switzerland Environmental Report 2006).

In 1997 the FLO was established, bringing together all Fairtrade Labelling Initiatives under one umbrella and introducing worldwide standards and certification.

In 1998 FINE was established. However, as of December 2001, FINE laid out three main purposes of fair trade, namely:
- Deliberately to work with marginalised producers and workers in order to help them move from a position of vulnerability to security and economic self-sufficiency.
- To empower producers and workers as stakeholders in their own organisations;
- Actively to play a wider role in the global arena to achieve greater equity in international trade.

In 2001 the number of fair trade certified organisations was already 224.

In 2002 the international FAIRTRADE Certification Mark was launched. The Mark would eventually replace the different national labels and facilitate cross-border trade. At this point the number of fair trade certified organisations had grown to 303. The Fair Trade brand has experienced an enormous growth. Since it was founded as an umbrella brand, which covers different fair trade initiatives from all over the world, the FAIRTRADE brand has been growing with some 30-40% in sales annually each year. The brand has experienced its highest growth in 2007 with the impressive 47% (FLO 2006).

Finally in 2004 the FLO split into two organisations to separate the role of certification from the setting of standards and support services. FLO-CERT carries out inspections and audits, while
the FLO develops standards and supports the producers and member organisations. By 2004 the number of fair trade certified organisations had almost doubled from the 2001 level to a value of 432.

### 2.2 From Free Trade to Fair Trade

In order for a product to be considered ‘fair trade’ it has to incorporate several standards. The price of the product has to cover cost of production and include a social premium to provide funding for development projects. A partial payment has to be made beforehand to avoid small producer organisations from falling into debt. The contract has to tolerate long-term production planning and proper planning and sustainable production practices. Producers have to be part of a democratic cooperative and take part in sustainable environmental practices (Hira and Ferrie 2006).

According to international trade theories, all those involved should benefit (Nicholls and Opal 2005, pg 18). In reality however, it seems that the benefits of increased free trade are not evenly spread because some key conditions on which these trade theories are based are not applicable or even absent to the rural agricultural societies in many developing countries. In fact, market conditions or market imperfections in developing countries often make it questionable whether local agricultural producers are really better off through trade. At the same time it is therefore questionable if free trade will lift them out of poverty. (Micro) Economic conditions such as (1) lack of market access, (2) imperfect information, (3) lack of access to financial markets, (4) lack of access to credit, (5) inability to switch to other sources of income generation and (6) weak legal systems as well as enforcement of law are all realistic market imperfections that are common in developing countries and which often result in no potential gains to local farmers at all.

“Fair trade offers a sustainable market-based solution to such global trade failures by providing a profitable relationship to all those in the supply chain- producers, exporters, importers, manufacturers, and retailers-” (Nicholls and Opal 2005, pg 19). Moreover, fair trade attempts to address producers’ and consumers’ needs as well as those of big corporations and stakeholders by addressing some of the key problems we face in this increasingly deregulated global marketplace. Fair trade stands for a new way of doing business that focuses on the entire supply chain to address market failures and their social impacts at source while at the same time acknowledging the need for profitability. It is important to state that fair trade is not about aid; it is not about charity nor is it about just doing good. “Fair trade is about recognising the global community as having rights and responsibilities that extend across all of its stakeholders” (Nicholls and Opal 2005, pg 5)
3 Perceptions and Predictions

3.1 Fair Trade Scenario’s

Over the past decades the fair trade movement has seen positive developments around the world due to rising consumer awareness through education and communication campaigns. Fair trade was originally perceived as an ‘alternative choice’, mostly by politically active minorities, but today this perception has evolved into much broader and more accessible terms. “Supporters around the world are now registering themselves as ‘fair trade’ towns, cities, schools and universities” (Australian National University 2008).

Not only are these supporters, or so called ‘fair-traders’, aware of the fact that primary producers earn a descent living by gaining necessary skills, knowledge, access to credit and experience in exporting, but also that better prices for farmers do not have to increase consumer costs. These development advantages together with an educational tool for promoting consumerism are highly valued for those in favour of fair trade (Hulm 2006).

Consequently, the impact of fair trade products is more than just about market share; “Fair trade has become much more than a niche market for socially-aware and middle-class Northern consumers. It is expanding into mainstream distribution channels and is increasingly being recognised by consumers, public authorities and even private companies as an efficient tool for poverty eradication and sustainable development.” As stated by fair trade organisers in a report called Fair Trade in Europe 2005 (Hulm 2006).

In addition, growing public awareness and pressure from NGOs have resulted in a number of governments passing legislation on fair trade and governmental aid agencies. Examples are the United Kingdom’s Department for International Development and New Zealand’s NZAID that provide Fair Trade Organisations (FTO) as well as Fair Trade labelling bodies with industry assistance and promotion (Australian National University 2008).

Although fair trade has been promoted by NGOs since the beginning, it is now increasingly endorsed by consumers, private enterprises and even governments. Although many argue that governments are still not actively involved, the European Commission (EC) for example, is working on a communication on fair trade. During the first panel of the ‘briefing on fair trade’ the importance of the commitment of the European Parliament (EP) to fair trade was stressed. In addition, the EP can help to ensure that consumers will not be misled and that primary producers will be assured of fair prices. Consequently, the EP is currently discussing whether or not they should have some control over fair trade standards (McAvan 2008).

At the moment Europe represents most, about 60 to 70 %, of the fair trade market. “Trade importing organisations say that 26% of their sales come from Africa, 40% from Asia and 34% from Latin America” according to the International Trade Centre (Hulm 2006). Overall, fair trade sales in Europe have been growing fast with an average of 20% per year since 2000. This translates into an annual (net) retail value that exceeds 600 million euro’s which is more than double the figure it was about five years ago according to the FLO.
Fair trade products are now sold in over 55,000 supermarkets in all of Europe and have a significant market share in countries such as the U.K and Switzerland. For example, 47% of all bananas sold in Switzerland are fair labelled as well as 20% of all ground coffee consumed in the U.K. (a market with eight times the population of Switzerland) as pointed out by The European-centred FLO (Hulm 2006). Since then, sales of fair trade products have only increased, especially in the U.K, where sales increased by 55% from April to June this year alone. Consequently, the premiums for primary producer groups that are spend on community development projects like clinics and education increased by 42% in food alone (Fair trade Foundation 2008).

That being said, “fair trade sales still represent less than 0.1% of all goods traded internationally” according to the United States-based Fair Trade Federation which means that this trade does not yet have a major impact and that it is very questionable whether it will withstand the competition from bigger players (Hulm 2006).

Future predictions, made by the Fair Trade Foundation, on how the fair trade movement will further develop say that fair trade should become the norm rather than the exception as stated in their five year strategy called Tipping the Balance. These predictions are in line with the 2015 millennium development goals (MDGs) that require renewed government and business commitments called into action by the UN (Fair trade Foundation 2008).

### 3.2 Fair Trade Critics

Critics of fair trade often treat it as a comprehensive solution to development problems according to the International Trade Centre. Opponents of fair trade methods argue that the market share is much too small to have a significant influence on general living standards in most developing countries. They back this up by saying that even if fair trade would expand significantly, merely 20% of consumers are ready and willing to pay more for such products. This negatively impacts possible expansion.

Secondly, they argue that Northern or developed countries can simply do more for Southern or developing countries by allowing larger quantities of normally priced products into their markets.

Thirdly, critics claim that the production of more low-priced commodities for over-supplied markets are merely a way of postponing what is really needed for development which in their opinion is diversifying exports and adding value instead of depending on just commodities and handicrafts.

Another argument by those who oppose fair trade is that while current labelling organisations are cutting out intermediaries (middle traders) they are not returning the full savings back to the primary producers (e.g. farmers). They argue that fair trade remains an expensive niche market because it still requires constant promotion and educated consumers. In addition, they blame high marketing costs as the main reason why not all premiums are returned back to the producers.
Tim Harford, a World Bank economist, concluded in The Undercover Economist that “charging an extra ten pence gave a misleading impression of how much it really cost to get hold of that fair trade coffee. Doubling a producer’s family income should add less than one penny to the price of a cup in a UK coffee shop, he observes” (International Trade Centre 2006). Shortly after, the coffee shop dropped the price difference. This confirms another critical argument against fair trade which says that retailers may very well be taking advantage of consumers’ social conscience.

Finally, those sceptical about fair trade say that although there are many different standards and criteria, there is little discussion outside the organisations themselves. This means that consumers will not be able to decide whether fair trade is really fair. Because not all ‘fair-traders’ are members of the FLO (e.g. Rugmark & Clean Clothes Campaign) the standards might or might not cover working conditions and environmental measures as well as stable pricing (Hulm 2006).

Although such arguments can mislead strategists who are actually considering whether fair traders will make good partners for their future development efforts, they are compelling ones.

### 3.3 Fair Trade Challenges

It seems that the issues mentioned above bring on new challenges for fair traders that on the one hand predict a bright future but on the other hand agree that there are loads of improvements to be made.

Current challenges they face have mainly to do with fair trade organisations that should identify further sources of growth while at the same time gaining credibility with consumers through better quality monitoring. A key success factor will be finding the balance between business and advocacy in their operations.

Secondly, brand loyalty is another key success factor when it comes to competition and importing companies need to build greater brand loyalty. In addition, according to the International Trade Centre, companies should cooperate more with each other and identify new sources of growth outside of supermarkets.

Finally, when it comes to labelling organisations, it is important that they manage their fast growth seeing how it is likely to continue. Not only do they need to find innovative ways to cooperate with multinationals says Hulm (2006) but they need to focus on these companies’ close interest when it comes to fair trade labelling while still remaining critical about standard trading practices. “Most importantly they also need to find a balance between the standardisation and over-regulation by fair trade’s official bodies” (Hulm 2006)
4 Stakeholders

4.1 Analysis

Just like every other societal issue the issue of fair trade does not only concern one party or group of people, but it has larger impact involving different stakeholders. Therefore in order to analyse the issue the following stakeholder map is prepared, displaying all the stakeholders involved. Furthermore, analysis will be performed in order to find out how different stakeholders are involved and are part of the problem and also how can they be a part of the solution.

Figure 2: Stakeholder Map

4.1.1 Government

Governments are the ones that set the trade rules. Therefore, they largely influence the trade between countries. The government can decide whether to impose certain import tariffs or liberalise trade with certain countries. Therefore the government is a stakeholder, which has a lot of power in this issue (Denny, 2005).

4.1.2 Companies

Companies are the ones, which purchase raw materials, create goods and bring the products to the market. Furthermore, they make purchasing decision and choose their own suppliers. Most retailers have considerable power in the supply chain therefore they could pressure suppliers to change or choose other suppliers who adhere to certain ethical standards. Therefore retailers can be a part of the solution by taking responsibility for their own supply chain and work only with suppliers who pay fair prices to the farmers (Tesco Plc. 2008).
4.1.3 Consumers
Our current free market economic system is driven by demand. Businesses provide goods and services, which are in demand by customers. Therefore customers determine what will be sold at retail shops. In that position customers have a lot of power to influence retailers to provide one product or the other. One way customers can be a part of the solution is by buying fair trade products. If the demand increases more and more companies and retailers will get involved in the fair trade programme, which will lead to increase of the installed base of farmers and therefore more farmers could be helped through the fair trade programme.

4.1.4 Primary producers
The primary producers are the main beneficiary of the fair trade programme and the main reason for the existence of the programme. Due to the current trading system they are the most disadvantaged at the moment. The purpose of the fair trade programme is to help them receive fair price for their produced goods and also improve their living and working conditions.

4.1.5 NGOs
There is a number of NGOs involved in the fair trade issue. Their activities range from campaigning for fairer trade rules to having actual fair trade shops and trading with fair trade products. The two major NGOs involved in the fair trade issue are Oxfam and FLO (Fairtrade Labelling Organisation):

Oxfam
Oxfam is involved in the fair trade issue mainly through its “Make trade fair” campaign. Through its campaigns Oxfam tries to put pressure on companies and governments to adopt rules and practices, which make trade fairer. One example is their campaign pressuring Starbucks to honour its commitment to the Ethiopian farmers for the ownership of their fine coffee brands. That campaign was eventually crowned with success and the farmers received the right to brand ownership (Oxfam America 2007).

FLO
The Fairtrade Labelling Organisation is an umbrella organisation uniting different fair trade initiatives all around the world. Through its certification programme FLO wants to ensure that farmers receive fair price for their products. This is being done by certifying every link in the supply chain. That way the FLO ensures that the products with the label fair trade we buy in the super market are traded under fair conditions and the producers have received fair price as well as fair working conditions. Furthermore, the fair trade scheme ensures minimum fixed price, which helps protect farmers from the negative fluctuations of market prices (FLO 2008).
4.2 Issue ownership
NGO’s have endorsed fair trade since the beginning (Scientific community, 29 April 2008). Organisations like Oxfam and the FLO have been active in developing the fair trade mark and certifications. This is why ownership of fair trade in the North lies with NGOs at present. However, it is a different story in the South. Here the primary producers carry ownership of fair trade. They actively look for ways to get a ‘fair’ price for their produce and bring it onto the market in the North.

With regard to who should take responsibility for the fair trade issue and take ownership the following statement is of interest:

“According to the Latin aphorism ‘sibi quisque peccat’ (which means: ‘each person is responsible for their own sins’) those who are the cause of a problem bear primary responsibility for solving it” (van Tulder and van der Zwart 2006, pg 171).

If the logic of this statement is followed then companies have the primary responsibility for the issue of fair trade. This can be related to the fact that they look for the cheapest possible sources of labour to ensure that they have the highest possible profits. In doing this, they do not look at the interests of small local producers in the countries that they operate in.

Another perspective is that governments are responsible for unfair trade. Lack of regulations with regard to the abuse of labour by companies operating in the South and ‘dumping’ has lead to unfair trading. Therefore, it may be up to governments to step up and take responsibility for fair trade.

To conclude, the current ownership of fair trade lies with NGOs in the North and the primary producers in the South. This ownership needs to shift to companies and governments who can be seen as the catalysers of unfair trade.

However, in today’s world where consumer awareness, through campaigns and education, has increased tremendously, ‘buying ethical’ has become more and more common. Namely in Western Europe, consumers are choosing ‘greener’ and ‘fairer’ trade products. This change in buying behavior gives them more influential power over companies by simply demanding a different type of product. Although consumers believe that it is the duty of the WTO and multinational corporations to ensure that suppliers get fair prices for commodities according to a special CSR Pulse web survey (CSR Magazine 2003), they themselves can make a powerful statement and impact on the development of the fair trade movement.

4.3 Expectational gaps
An expectational gap exists when views of stakeholders differ on what “acceptable corporate conduct is and/or should be with regard to societal issues” (van Tulder and van der Zwart 2006, pg 158). According to van Tulder and van der Zwart (2006) there are three types of gaps, namely factual, conformance, and ideals. Related to the issue of fair trade one of the types of gaps is applicable: a conformance gap.
A conformance gap exists when stakeholders see eye to eye on the facts, but have different views on the consequences for conduct (van Tulder and van der Zwart 2006, pg 158). With fair trade this is clearly the case. An example of the conformance gap is Unilever which did a study in association with Oxfam to look at the impact on less developed countries (LDCs) of doing business there (Unilever 2008). This shows that they are aware of the issues; however, they do not have set policies of dealing with the issues.

Another example of the conformance gap is with governments. Intergovernmental organisations like the UN and WTO acknowledge that there is an issue of ‘unfair’ trade like in the HDR. However, national government support is lagging. For instance, in Europe and the United States governments heavily subsidise agriculture which favour the richer countries (Bad Press 2000).

### 4.4 Regulation possibilities

Lack of market access and depressed agricultural world market prices due to rich countries’ agricultural subsidies are the two most important components that caused concern and frustration in developing countries. Because of these concerns the World Trade Organisation (WTO) initiated a new negotiations round, the Doha round. Direct and indirect producer support for agricultural exporters in the North and forgone production, employment, and trading opportunities for farmers in the South are among the most important issues on the agenda (Beghin et al. 2002).

Suggested conditions for international trade resulting from these negotiations could stimulate human development in especially developing countries. In 2005 the trade conditions appeared to have worsened for developing countries (Denny 2005, pg 113) and even in 2008 nothing of substance has been achieved (Gow 2008).

The Doha development round could have been a success for the issue of fair trade if many agreements on a different trade policy were made. These trade policies are mostly regulation possibilities:

- Deep cuts in rich country government support for agriculture and a prohibition on export subsidies
- Deep cuts in barriers to developing country exports.
- Compensation for countries losing preferences.
- Protection of the policy space for human development.
- A commitment to avoid “WTO plus” arrangements in regional trade agreements.
- Refocusing of services negotiations on temporary movements of labour (Denny 2005, pg 11)

The rules would have to result in better market access for poor countries, reduce agricultural subsidies, and revisited agreements and negotiations that limit the policy space available to developing countries.
5 The issue life cycle

The issue life cycle describes the development of an issue as going through four phases: (1) birth, (2) growth, (3) development and (4) maturity.

![Issue life cycle diagram](image)

Figure 3: Issue life cycle (van Tulder 2008)

Fair trade as an issue is in the bottleneck. It is moving from the growth phase to the development phase. However, not each party has moved to the next phase of the issue life cycle. Public interest in the issue of fair trade is on the rise. Fair trade products are becoming more widely available and purchasing behaviour is also on the rise (FLO 2007).

Below the three members of the societal pyramid will be individually discussed and the phase they are in will be mentioned. Arguments will be given to support why it is believed that each is in the phase it is in.

First, companies will be discussed. At present, more different fair trade labels are entering the market. It started in 1988 with one fair trade certification mark for products with the Max Havelaar label (Fair Trade Certified 2005). Now fair trade certification marks have developed in the several other countries including: United States under the name TransFair USA; in England under the name Fair Trade Foundation. This proves that companies are active on the issue of fair trade, which puts them in the development phase of the fair trade life cycle.
At present, NGOs are forming alliances, like for example the FLO. FINE was created to promote trade justice in debates on trade and development. It “runs the Fairtrade Advocacy Office in Brussels, which co-ordinates the advocacy activities of the international Fair Trade movement at both the European and the international levels” (FLO 2006). This shows that they are appealing for more regulation for fair trade. Here NGOs are cooperative to the issue of fair trade. However, they are also still so called ‘watchdogs’ that ensure that the issue of fair trade remains on the program. Therefore, NGOs are truly in the bottleneck of the fair trade life cycle. They are between the growth and the development phase of the fair trade life cycle.

Laws and treaties have been initiated but not ratified. Examples include the Doha ‘development round that was started by the WTO in 2001. The main aim of this was to gain better and fairer trade conditions (Denny 2005). According to the HDR even though rich countries promised practical measures to achieve a fairer distribution of benefits from globalisation, trade barriers have remained intact, agricultural subsidies have been increased, and rich countries have aggressively pursued rules on investment, services and intellectual property (Denny 2005). In 2008 there is still no breakthrough in the negotiations. Claire Melamed said: "Over the last eight years every single trade promise to the poor has been broken and development issues never take centre stage. In fact, they have been progressively marginalised" (Gow 2008). This shows that governments are still reactive to the fair trade issue, which puts them in the growth phase of the fair trade life cycle.
6 Companies

6.1 As part of the problem

Unfair trade is defined and characterised by different dimensions as can be read in the first part of this paper. Among those dimensions are transparency, respect, rights of marginalised producers and workers, paying fair prices, community development, and contribution to poverty reduction and environmental sustainability. Through the years different organisations were founded which would certify companies with a certain certification mark if they traded according to some principles. An example is the Max Havelaar certification mark. A company or brand will only be certified if it meets the following minimum requirements:

- Organisations of small farmers must meet certain criteria concerning democracy and transparency, so that farmers together can assure empowerment.
- At fields it is about the position of workers. Their rights must be assured, like labour union liberty, no discrimination, sufficient pay, no forced child labour, and safe and healthy working conditions.
- Production should be environmentally friendly according to certain rules
- A solid minimum price has to be paid to producers.
- When the market price is higher than the minimum price, producers receive the market price. Next to that, producers always receive a premium to catch up or to use it for social programmes.
- Farmers can already receive sixty percent of the sales price of their product at the beginning of the harvest.
- The cooperation with Max Havelaar is, where possible, for a long term (Max Havelaar 2008).

Companies can also start up their own certification mark. An example is Utz Kapeh which was founded by Ahold Coffee Company. This certification mark is appointed under less strict conditions but has the aim of fair trade (Solidaridad 2008).

Less than 0.1% of all goods traded internationally are traded fair according to the certification requirements of the FLO (Hulm 2006). Almost all products are thus not traded fair according to their definition, or are at least not certified. That products are not certified does not necessarily mean that the products, or its ingredients, are traded unfairly. An example is the juices of the brand CoolBest of the company Friesland Foods. This brand is not fair trade certified, but according to the international campaigning and lobbying organisation Fair Food, which goal is to fight hunger and poverty by striving to make the food industry sustainable (Fair Food I 2008), CoolBest is a fair trade product (Fair Food II 2008). Friesland Foods does not mention trading fair in their Corporate Citizenship Report. The reports’ focus is on the quality and taste of their fruit products and not about the way the company trades (Friesland Foods 2008). The reason CoolBest is not certified might be that it does not meet all the minimum requirements to become certified, but it might also be because of the brand image. It might be that they do not want to give customers the idea that they, for example, pay too much.
Although there is no information about the proportion of uncertified fair trade, still a huge part is probably unfair. For the matter of simplicity all uncertified trade is assumed to be unfair according to the FLO standard, meaning more than 99.9 percent of all trade is unfair. This in turn means the entities behind trade, in this case companies, do trade in an unfair manner, and almost all companies do participate in unfair trade. Huge global brands like Coca-Cola (Coca-Cola 2008), Mars (Mars 2008), and Nike (Nike 2008), do not have a fair trade certification, implying these companies trade unfair.

Morisset (1997) found that consumer prices in industrial countries for many commodities have increased a lot over the period 1970-1997, while the market prices declined. Because of this, commodity-exporting developing countries may have lost $100 billion a year. International trading companies appear to have caused this largely because of their behaviour.

The Oxfam International website also gives examples of how companies are part of the problem of unfair trade. Although Chile has signed free trade agreements with 47 countries and has an overall growth in its economy, women that work in the agricultural sector still get paid below minimum wage and are denied their labour rights. The money ends up “in the pockets of the transnational companies” (Oxfam International 2008). In Colombia, which is the second largest exporter of flowers, many women work in greenhouses. The flowers are sprayed with pesticides and the women have to come back into the greenhouses immediately after that happens. Some of the women get dizzy or have problems with their blood pressure, and some of their children having been born with lung problems (Oxfam International 2008).

Another problem exists in the existence and use of so-called middlemen. International traders and retailers do not purchase directly from producers. Instead they buy products and materials from middlemen, who, in their turn, have bought it from the producers. Middlemen, this way, receive the highest profits, and producers only receive a small amount of money (FLO 2008).

The shareholder wealth maximisation model has resulted in unethical behaviour of corporate entities. The model caused corporate managers and shareholders to enrich themselves and in the process have failed to consider the interests of all stakeholders. Managers and shareholders have abdicated to recognise and deal with business ethical-social responsibility effectively. The shareholder wealth maximisation model is found to rationalise the commission of unethical and socially irresponsible behaviour (Dufrene and Wong 1996).

There is a large number of quality marks and research of the OECD indicated that because of that the instrument of quality marks is losing its force. Another research conducted in The Netherlands found that consumers also did not know what labels actually meant (Van Tulder and Van Der Zwart 2006, pg 243). Although most certification marks are independent and not founded by companies, certified businesses need to have a knowledgeable market and apparently or possibly they did not sufficiently make clear to customers the meaning and importance of buying fairly traded products.
6.2 As part of the solution

The critical first step for measuring business performance is a clear understanding of how a firm defines its success. As described earlier, common indicators of business performance are usually sales figures, market share, and shareholder return which are all financial measures (Littrell and Dickson 1999).

Today, societal perceptions of the role of companies have shifted considerably. Although innovation, technology development, capital investment and wealth creation through management practices remain amongst the core functions of businesses, companies are now being looked upon as the ones that should also bring solutions to global problems (World Business Council for Sustainable Development 2008).

According to the World Business Council for Sustainable Development (WBCSD) stakeholders in the 21st century agree that businesses should continually provide goods and services at affordable prices for increasing numbers of people around the world. Furthermore they agree that leading global companies should be those that reach new customers in ways that address the world’s major challenges by taking substantial and sustainable action that addresses the issues while still remaining profitable. As the WBCSD (2008) states; “businesses now need to define the appropriate boundaries of their new role, and manage societal expectations proactively.”

The difficult question that arises however is what companies’ roles and responsibilities to society should be and whether they should take the lead. Businesses primarily make key contributions to society by creating wealth, jobs, paying taxes, innovation and providing goods and services. However, there are limitations and constrains when it comes to the role of businesses; they cannot provide goods and services that are not competitive. They cannot pay salaries that are not aligned with the marketplace. They are also not able to replace individual responsibility and cannot be held accountable for replacing the rules governments have failed to provide (WBCSD 2006)

Consensus on what the role of businesses is according to ‘tomorrow’s leaders group’ (comprising senior representatives of eight companies), of the WBCSD (2006) is; “To ensure business models that are robust enough to withstand the impacts of emerging global challenges by developing sustainable products, goods and services; Engage, share knowledge and coordinate efforts with stakeholder groups to address global challenges collectively; Contribute to development in less developed regions via innovative and inclusive business models; Work towards more transparent global governance structures; Play a leading role in advocating consumer awareness; Bring laggards further along the sustainable development awareness and performance curve and enable and practice responsible lobbying so as not to undermine more long-term sustainability thinking”

The activities and business models as described above are a part of corporate social responsibilities policies and practices. Today, companies are being encouraged and pressured to adopt or increase CSR efforts by their customers, suppliers, employees, communities, action groups and even investors. As a result CSR practices have grown dramatically in recent years throughout companies of all sizes and sectors. Empirical studies have indicated that companies are recognising the business benefits of CSR policies and practices that have demonstrated to
have a positive impact on economic performance. Consequently, these practices are not harmful to shareholder value. Improved financial performance, greater employee commitment and motivation as well as enhanced customer loyalty, brand image and reputation are amongst the major benefits of CSR practices (Schiebel and Pochtrager 2003).

Businesses can become part of the solution to global issues such as fair trade by making the conscious choice to position their business in such a way that it can assist sustainable development. “Business is part of the solution to sustainability issues, but the degree to which it fulfills its potential is largely driven by the nature of its engagement with others” states the WBCSD (2006) because of the fact that businesses are merely another actor alongside governments and civil society. Businesses are a motor of growth but alone they cannot take the lead and succeed in a society that doesn’t contribute. Collaboration between all actors involved, including government and society, can guide businesses towards new forms of development, both sustainable and equitable, while at the same time the full potential of all those involved can be reached (World Business Council for Sustainable Development 2008).

Other than trade companies, non-trading companies are also taking responsibility towards the fair trade movement. One step that they are currently taking to stimulate the sales of fair trade products is simply by making fair trade products such as beverages (coffee, tea and hot chocolate) and fruit available to their employees and customers through staff restaurants and vending machines (FairTrade Foundation 2006). A good example of such a company is the Triodos Bank N.V, a bank that is fully dedicated to sustainability and development that serve only fair trade products in their offices (Triodos Bank N.V. 2008).

6.2.1 Supply chain responsibility
One of the problems with the current trading system is the uneven profit distribution within the supply chain (FLO 2008). Due to long supply chains and middlemen who make profits the farmers receive only very small share of the retail value of the product. Therefore, in order to deal with that problem companies should take responsibility about what is happening upstream in their supply chain and try to influence it. Since large retailers have a lot of power they can pressure suppliers to adhere to certain ethical standards, such as minimum working wages, or working standards. Furthermore, supplier monitoring management systems need to be put in place in order to monitor supplier performance. Those systems need to promote transparency and include such elements as a hotline, where abuses can be reported. A good example in the retailing industry is Tesco Plc. The company has set ethical standards for its suppliers in the form of a code of conduct and does business only with suppliers who adhere to those standards. Last year the company ruled out eight of its suppliers of jute bags from India due to insufficient confidence that they would meet Tesco’s standards (Tesco 2008). Furthermore, the company conducts audits in order to ensure supplier’s compliance to the Code. Tesco is a good example of how a company can take responsibility for its suppliers and implement good ethical standards in its supply chain.

If companies in the similar industries, such as rice and coffee, follow that example and take responsibility for their own supply chain they could eliminate the current unfairness in the trading system and improve farmers’ wages.
6.2.2 CSR as an opportunity for brand building
Supplier monitoring is a form of good corporate citizenship and leads to improved corporate image. Furthermore, it could be an opportunity for brand image building for a company. If the issue of fair trade keeps on following the current trend of growth it will soon become an issue that consumers will be much more aware of it. Therefore, it provides an opportunity for a company to make use of it to gain first mover advantage and build strong brand based on its social responsibility.

6.2.3 Dangers with implementation
If a company decides to implement ethical codes of conduct for its suppliers it really needs to “walk the talk”, because otherwise failing to live up to its commitments could be perceived as “green washing” and lead to negative corporate image.

6.2.4 Backward integration
Another way for companies to improve the transparency in their supply chain is by backward integration. If a coffee roaster integrates backward and surpasses the middlemen and starts buying from the coffee producers themselves it will lead to increase of the farmer’s income. Furthermore roasters could develop long term relationship with the coffee farmers by agreeing to pay them higher than market price in exchange for the certainty that they will deliver high quality product. Furthermore the company could help farmers with farming know how and help them produce higher quality crops. Such is the case with Illy coffee (Illy 2008). Such integrated approach can be the basis for a sustainable development for the company since that way it will decrease its operating risks.

6.3 Sustainable corporate story
In order to get a good idea of the successes of fair trade, two business cases will be looked at in depth. The first company that will be looked at is Illy which sells coffee worldwide and the second is Ben & Jerry’s, a multinational ice cream company.

6.3.1 Illy
At their website, Illy formulates their values as follows:
“Seeking perfection is our main value. It is expressed in two cornerstones: passion for excellence, meaning love for beauty and craftsmanship, and ethics, meaning the construction of value over time through sustainability, transparency and people development. We wish to improve our stakeholders’ quality of life, and are driven by our passion for everything we do” (Illycaffe 2008).

Illy works with the growers and buys directly from the growers (Davidson 2007) to improve the way the coffee is grown and cultivated. Growers are rewarded when they are committed to
providing Illy with the best possible quality. To ensure the best quality and sustainability, growers have to stick to pollution and environmental laws.

Illy is not a fair trade certified company. The company does not want a certification because “Fair Trade certifies the growers and their price policy but does not take into account the quality of the coffee produced. As a consequence, Illy caffe cannot be certified fair trade unless it buys coffee from fair trade coffee growers. To do so, it would mean to betray its own mission - to produce the finest quality espresso.” To show that the company does trade fair it invites journalists to the coffee farmers to show the close relationship (Smith 2007).

6.3.2 Ben & Jerry’s
The ice cream producing company Ben & Jerry’s has been writing a social and environmental performance report for 20 years. Ben & Jerry’s company is according to the company itself, a values-led company. The company believes that businesses can work to make the world a better place and wants to do business according to certain values, including: (a) environmental commitments, (b) Social vision, and (c) Third-party certifications. American consumers have also rated this company as the most socially responsible company in the United States in 2006 (Ben & Jerry’s 2008).

Since 2005 the sources for the coffee extract have been fair trade certified. In 2007, the vanilla extracts and the cocoa powder have been fair trade certified as well. Ben & Jerry’s also aims to trade ethically in the Western world. The company supports a unique franchise model, called PartnerShop, which is a shop that is owned and operated by a community-based nonprofit organisation that offers job training and paid work experience to youth who may face barriers to employment.

Ben & Jerry’s furthermore supports employees to participate in local community projects, gives away free ice cream on ‘Free Cone Day’ (the company’s birthday), while at the same time raising money for hundreds of local community partner organisations, reduces water use and CO₂ emission, and sent a team of seven employees to the Gulf Coast after the hurricane Katrina to help with the deconstruction and clean-up of storm-damaged houses for a week (Ben & Jerry’s). Although many of these activities are not part of fair trade, it shows the responsibility a company can take, including trading fair.

In an interview with the Dutch newspaper Trouw, Jerry, one of the founders, tells that the company wants to be a good neighbour more than just a profit-making company, but he also recognises that sustainability is very profitable. The newspaper quotes: “In the business world there is this prominent feeling that if you want to be a social and sustainable company, this will decrease your capabilities to make profits. They think this a huge expenditure. We, however, have experienced the opposite” (Bloemendal 2008).
7 Discussion and Conclusions

7.1 Discussion
Fair trade started in the 1940s and 1950s as small programmes by churches. This paper shows that the issue of fair trade is one that is on the rise. Even though the number of fair trade certified products on the market is minimal, an increasing amount of companies are integrating the issue into their CSR programmes. The problem with this is that not all of the companies that do something on the issue of unfair trade have been certified by, for example, the FLO. This makes it hard for consumers to know whether they are truly ‘fair’.

The main stakeholders of unfair trade that have been used in this paper are: consumers, NGOs, governments, companies, and primary producers. At present NGOs own the issue of fair trade in the North; however, this should shift to companies as they are the ones that are responsible for the issue. There are some good examples of companies that have been certified and can be seen as ‘best practice’ cases, like Ben & Jerry’s. Even governments need to get involved as they are also part of the reason that there is unfair trade.

This paper shows that fair trade is an issue of gaining importance for all members of the societal triangle. Since it is only moving to the development phase of the issue life cycle it is likely to continue to gain importance and awareness.

7.2 Limitations
One of the main limitations of this paper was that there was a time constraint. With more time it would have been possible to go into greater depth about the successes of fair trade and the why these cases are successes.

Another limitation is that there is often a lack of transparency within the entire supply chain of fair trade products. This made it hard to gain insights into the entire process, from production until retail.

Another limitation is that there are great cultural differences between countries. This means that one country may view ‘fair’ trade as being something completely different from another country. This made it hard to decide whether a product is truly a ‘fair’ product.

7.3 Further Research
This paper has been about descriptive research. The main aim was to look at what was already available on fair trade and build on that. Therefore, there is a lot more that other researchers can build on.
One interesting thing that was found is that many companies have their own standards for fair trade but have not been fair trade certified by the FLO. Therefore, it would be interesting to look at how many products are traded fairly and according to what standards.

Another interesting thing to look at is why consumers are not massively buying fair trade products. Fair trade products are becoming more widely available; however, adoption of these products is relatively slow. There is no real indication of why this is. Consumer research can be done to find out what the reasons for this lag are.

Furthermore, an interesting issue to look at in further research is what companies can do to increase the market awareness/knowledge of the importance of buying fair trade products. What came out of this paper is that consumers do not know what fair trade certification marks stand for. It is also unclear as to whose responsibility it is to make consumers aware of the certification marks: is it up to companies or of the certification givers?
Appendices
Appendix 1: Fair trade timeline

1940
- First attempt to commercialise fair trade goods

1963
- First ATO was created.

1968
- UNCTAD put emphasis on establishment of fair trade relations with the developing world.
- Max Havelaar was founded

1988
- FLO was established

1997
- FINE was established

1998
- The international FAIRTRADE Certification Mark was launched.

2002
- FLO split into two organisations to separate the role of certification from the setting of standards and support services.

2004
Appendix 2: Fair trade certified organisations

The growing number of Fairtrade certified producer organizations from 2001 to 2007

This encompasses an estimated 1.5 million farmers and workers.

FLO Annual report 2007, Pg. 8
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