

Fair and Ethical Trade: An Explanation¹

It appears natural that the concern for the distribution of benefits and costs from economic activity is as old as the economy itself. However, during the restructuring of the international system in the aftermath of the Second World War, considerable attention was paid to the distributional issues arising from what was, by then, a significantly internationalized economic system. While governments came together to provide for international institutions which would better help manage this situation – with the development of the International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBIRD)² and the World Trade Organization (WTO) – various groups in civil society became specifically concerned with the outcomes of international trade.

Specifically, the Alternative Trade movement was a loose and often unconnected group of organizations that for various reasons, entered functions of international trade with the specific commitment to assist people normally marginalized from its benefits. In some cases organizations were faith-based and secular international relief agencies (e.g. Mennonite Central Committee, SERRV and Oxfam) that helped those who had seen their livelihoods impacted by the war. In others instances, Alternative Trade Organisations in the North began importing and retailing goods (primarily handcrafts and then increasingly food items) produced by small and marginalized groups in the South as a means to facilitate community development (Kocken 2003). Irrespective of these differences, these grass roots social movements established the important idea that consumers have a responsibility not just towards their own utility, but also for the ways in which their choices impact on wider stakeholders such as producers and even the environment.

As the Alternative Trade movement expanded and developed, informal and differentiated practices slowly coalesced, and in some cases, formalized: the most influential example of which is the Third Party certification system administered by the Fairtrade Labelling

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² Which later became the World Bank.

Organizations International. However, this is not to say that this is only approach to what is now termed as the wider Fair Trade movement.

In the mean time, the consumer interest that Alternative/Fair Trade drove in the conditions of production and trade has also had wider effects. In response to the rise of ‘ethical’ or “conscious” consumerism, a considerable number of other non-governmental initiatives to improve the outcomes from commerce have also developed. From the 1980s, a whole variety of schemes and organizations have arisen to comprise what is referred to as the Ethical Trade movement.

Despite their common origins in the Alternative Trade movement, it is possible to draw significant distinctions between the concepts and practices of Fair and Ethical Trade – and indeed, between the practices of different approaches within the two categories. This paper offers an explanation of both the Fair and Ethical Trade movements; identifies significant breakthroughs and existing limitations; discusses the major players in each sector; and finally, provides insight into the opportunities that such governance might offer for improving the situation of informal workers.

Fair Trade

Fair Trade is primarily designed to offer a “response to the failure of conventional trade to deliver sustainable livelihoods and development opportunities to people in the poorest countries of the world” (World Fair Trade Organization 2010a). The method by which this is achieved is through the re-orientation of economic and trade practices around the aim of making international supply chains more beneficial to southern producers. Having said this, and despite some academic efforts to define Fair Trade (Hira and Ferrie 2006; Moore 2004), a single, technical and universally accepted definition of Fair Trade has been slow to emerge (Freidberg 2003; Hira and Ferrie 2006). Indeed it was only in 2001 that some of the major players in the Fair Trade movement came together to agree that Fair Trade should be more specifically defined as:

Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair Trade Organizations, backed by

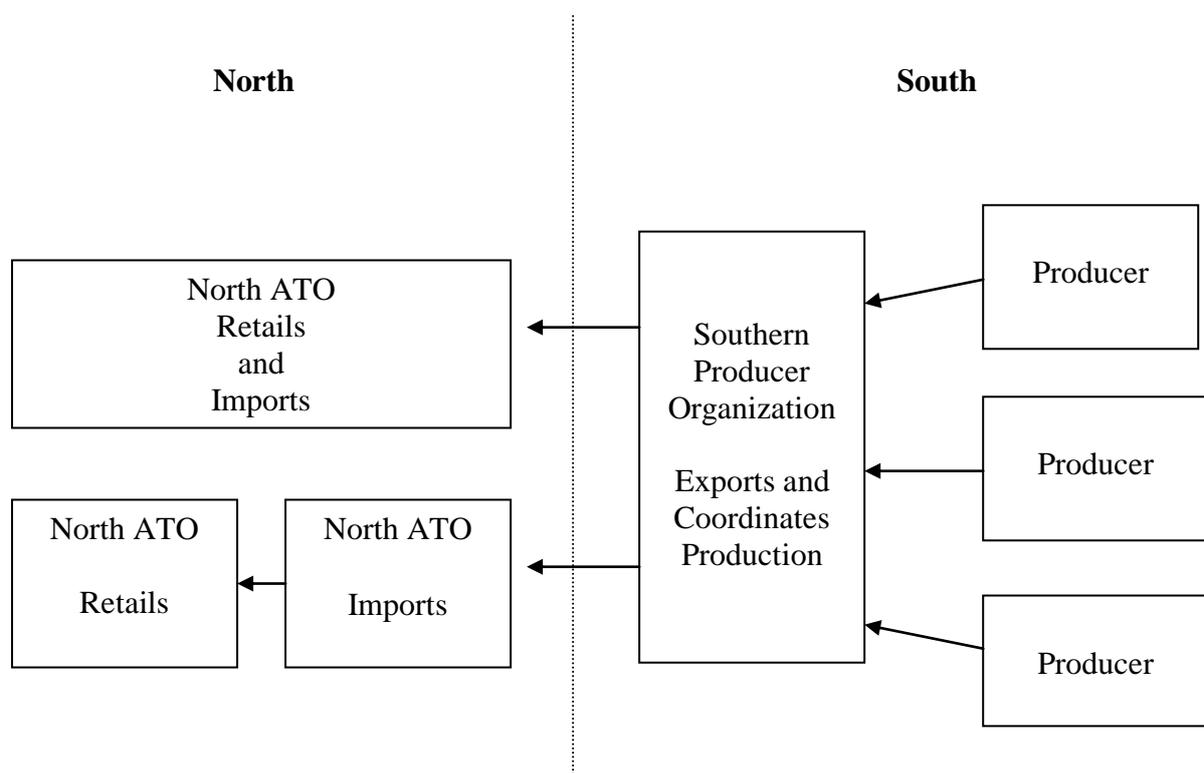
consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade. (F.I.N.E. 2001)

However, despite this definition, the term Fair Trade has encompassed a great diversity of practical activities and programmes which have been more structured around the specific needs of the targeted group, rather than any central definition (World Fair Trade Organization 2010a; also see Redfern and Snedker 2002). For this reason, perhaps the best way to build an operational understanding of Fair Trade is through a consideration of its historical development as a movement.

Alternative Trade: The Origins of Fair Trade

While previous historical precedents have been identified (Trentmann 2007), Fair Trade is largely understood to have first emerged under the label of “Alternative Trade” shortly after the Second World War. Intellectually, Alternative Trade was grounded in the analysis presented by writers such as Wallenstein (1974), Prebisch (1950) and Frank (1966), who saw the world economy as subject to structural power systems and thus distributional inequalities in the gains, costs and benefits of the international economy. Indeed, Barratt Brown (1993) explains that the need for Alternative Trade stemmed from structural isolation of southern producers from wealthy western markets, as well as the “monopsonistic” and “oligopsonistic” structure of interactions that did exist. In other terminology, north-south trade was largely structured by “captive governance” as a large number of southern producers were “captured” by the interests of a limited group of northern who could play one off against another in order to drive down the price of purchase (Barratt Brown 1993; Frank 1966; Nicholls and Opal 2005). This is a pattern of operation that many commentators have labelled as outright “exploitation” (Barratt Brown 1993; Shreck 2005) as, while great percentages of the retail price are held by actors higher in the supply chain, poor producers derive only limited benefit. A further implication of this structure is that as producer organizations seek to compensate through greater efficiencies, pressure is often translated into social and environmental externalities – for example, passing on low prices to those who supply them with raw materials and degrading environmental capital through over-exploitation of natural resources.

In order to compensate for this situation, a number of different organizations from both the north and south took the decision to suspend such “captive governance” and instead organize interactions along a more “relational” model (Smith and Barrientos 2005). In this way, Alternative Trade was based on the idea of a “partnership” (Tallontire 2000) between socially orientated northern Alternative Trade Organizations (ATOs)³ – responsible for the import and retail of goods – and southern producer organizations – which coordinated the production and export of items, as well as the provision of supportive services to individual producers such as marketing, product development and financing (LeClair 2002).



Both southern and northern stakeholders based their interactions not on the outcome of power relations (such as those contained in captive governance), but on a series of predefined internal operating norms. In particular northern buyers would structure their operations according to the primary principle of returning as much benefit to the developing world producers as was commercially possible. These principles were then used as part of the retail identity of the final product, the “alternative” nature of which was legitimized by the social reputation of northern actors (which were often linked to religious, charity or development

³ Examples include Oxfam (UK), TWIN (UK), SERRV (US), Bridgehead (Canada) and Nepali Bazar (Japan).

organizations) in a “brand approach” to legitimacy and marketing (Tran-Nguyen and Zampetti 2004: 391).

In terms of the operational norms that were applied by Alternative Trade Organizations, the primary element was to reject the legitimacy of market prices, and instead strive to pay a “fair price” as set by a process of transparent negotiation (Barratt Brown 1993; Littrell and Dickson 1999: 275). Furthermore, ATOs aimed to trade directly with producers and only take minimal operational costs instead of maximum profit (Littrell and Dickson 1999). In this way it was hoped that northern partners were able to return “as much as possible, rather than as little as possible” (Barratt Brown 1993: 163) to the producers based in the poorer south. Governance was also “alternative” in that it expressly aimed to offer stability to producers by spreading orders across time (Bennet 2001), and offering credit up front so that supplier did not need to forgo consumption in meeting production costs (Barratt Brown 1993: 163). It was for these reasons that Barratt Brown (1993) was able to describe Alternative Trade as working “both in and against the market.” This is because while governance did seek to maximize returns to producers (thus working against market outcomes), these were ultimately confined by the maximum retail price that could be attained in open markets, and of course the cost of producer inputs (and hence subject to market imperatives).

The principles employed by ATOs also worked against the conventional market in two other ways. Firstly, Alternative Trade was not just seen as a means of raising the immediate consumption possibilities of poor producers by paying more for their goods, but was specifically “developmental.” With the broader aim to facilitate the “autonomous development of producer partners and their communities” (Barratt Brown 1993; Littrell and Dickson 1997), Alternative Trade worked to help producers develop their livelihood activities so as to capture more profit in the future. For this reason, great emphasis was placed on providing information “about prices, markets, styling, packaging, quality control, health and safety standards, new uses for old products, transport and shipping, and tools, machines and plant for processing, all on an open and fair basis” (Barratt Brown 1993: 163). ATOs also provided material inputs to assist with business and community development such as the provision of new technologies in production and communication (Littrell and Dickson 1999). Linked to this function of capacity building was also the prior involvement by helping to

organize individual producers into collective associations, often cooperatives, in order to concentrate their power against other interests and act as an organizational entity for trade.

The role of intensifying the flow of information beyond the usual outcome of market governance was also practiced in the opposite direction as ATOs also provided the *consumer* with information about the production conditions of their goods as well as the producers themselves (Barratt Brown 1993). Commenting on the sale of handicrafts, Littrell and Dickson (1998: 184) note that along with products often comes information that helps “customers cross a philosophical bridge where meaning is attached to something someone has made.” Others have noted that ATOs transferred this knowledge by infusing both products and retail spaces with information about “the people, places and cultures engaged in the production for particular commodities” (Raynolds 2002: 410). Such practices had two functions, the first of which was to generate solidarity among consumers for the cause of helping others. As Marsden et al. point out:

It is not the number of times that a product has been handled or the distance over which it is ultimately transported which is necessarily critical, but the fact that the product reaches the consumer embedded with information...It is this which enables the consumer to confidently make connections and associations with the place/space of production and potentially, the values of the people involved and the production methods employed.

(Marsden et al. 2000: 425)

The second function of such information, a corollary of the first, is that it provides a clear justification for the higher price requested from consumer. In this way, Alternative Trade is seen to have “begun to create new networks of exchange that escape the bonds of simple price competition” (Raynolds 2000: 306) and the evaluation of goods of their physical characteristics alone.

Such flows of information helped the already social reputations of ATO which tended to be linked to religious values, poverty relief and development intervention. For example, prominent members of the Alternative Trade movement included organizations such as Oxfam in the UK, which had a well established record for relief work (then called The Oxford Committee for Famine Relief), and started to sell crafts made by Chinese refugees in its shops in the late 1950s. Likewise in the USA, SELFHELP Crafts of the World (now called

Ten Thousand Villages), which began buying needlework from Puerto Rico in 1946, was also an official program of the Mennonite Central Committee.⁴

Despite the diversity of the Alternative Trade movement, the defining characteristic of these organizations was that they engaged in trade as a means to improve lives in the developing world; and on this basis individual organizations have slowly connected in a variety of informal and then more formal networks of cooperation. For example, in 1987 the European Fair Trade Association (EFTA), a network of the 11 largest importing organizations in Europe, was created (World Fair Trade Organization 2009) – and indeed, this organization was one of the first to employ the term “fair” in its name as part of this shift in discourse which occurred in the late 1980s and early 1990s (discussed below). Also of significance was the launch of the International Federation for Alternative Trade (IFAT) in 1989, which was the first umbrella organization to link producers in developing countries with retailers operating in northern markets (World Fair Trade Organization 2009).

From Alternative to Fair Trade: The Development of Independent Certification

Despite successful expansion until the 1980s, the impact of Alternative Trade was viewed as limited given the relatively modest size of the ATO market (Hira and Ferrie 2006). This was because in order to maintain legitimacy, products had to be sold through retailers with recognized socially orientated credentials. In fact, impact even began to contract when similar handicraft styled goods started to enter northern markets via conventionally governed firms which, trading with conventional governance, were able to offer goods for a much lower price and higher quality (LeClair 2002; Littrell and Dickson 1997). A further problem was that although such organizations “did reach a committed band of alternative consumers, it had some internal limitations, and as the international political climate changed, the solidarity message became less tenable” (Tallontire 2000: 167). Perhaps it was these factors that led socially committed consumers to become more discerning and begin to request information that backed the claims of retailers selling alternatively traded goods (Low and Davenport 2006).

It was these problems that produced what has been arguably the most significant initiative in the development of what is now referred to as “Fair Trade”: the development of an

⁴ For a more comprehensive list of dedicated Fair Trade Organizations see below.

independent and formal system of private governance which encourages changes in behaviour by certifying⁵ that production and trade is structured with concern for the interests of southern producers. The origin of this development was a partnership between Dutch non-governmental organization (NGO) *Solidaridad* and a Mexican coffee farmers organization, UCIRI,⁶ established in order to solve the problem of a limited market share for Alternatively Traded coffee (Fridell 2007). The response was to develop a third party auditing system that would provide independent certification and a guarantee that the norms at the heart of Alternative/Fair Trade were being applied. It was this idea that led to the launch of the Max Havelaar label in 1988 and that provided the first independent guarantee that coffee had been produced and traded in line with certain social and environmental concerns – and as such was one of the first social auditing schemes to operate at the international level (Courville 2003). The Max Havelaar mark was largely based on the principles of *SOS Wereldhandel*, a Dutch ATO which first bought wooden carvings from Kerkrade to sell in Holland under the name of *Stichting SOS* in 1967 (Fair Trade Original n.d.). These principles guaranteed that coffee had been bought by importers direct from cooperatives for a bottom line price (of up to 10% higher than world market price); that importers had underwritten legitimate additional costs and provided pre-financing of up to 60 per cent of the final price; and were attempting to operate inside long-term relationships with producer communities (Barratt Brown 1993).

The important facet of this new “labelling” or certified approach to governance was that it derived legitimacy from an independent body that set and audited standards (Nguyen and Zampetti 2004). This granted external legitimacy to the claims made by ATOs and was communicated in visual form through the application of a certification mark displayed on the actual product packaging. A further benefit of this system was that only the production and initial purchase conditions of goods were subject to governance; because regulations only applied to conditions on individual farms and demanded that these be organized in cooperatives as a means to try and promote social justice within the producer organisations. In this way, all the coffee from such groups was certifiable as long as it was bought under certain conditions by initial exporters/importers. The consequence of this was that through the use of the product certification mark, coffee could be presented to the consumer as non-exploitative and beneficial to the initial producers, but could still be sold in mainstream retail

⁵ Certification is written assurance by a third party that a product, process or service conforms to specified standards, on the basis of an audit conducted to agreed procedures (Hall and Biersteker 2002).

⁶ Union de Comunidades Indigenas del Regoin del Istmo.

spaces – as opposed to being confined to sale through a retailer specifically associated with trade that promoted social justice. By 1993 the Max Havelaar mark had a 3 per cent share of the Dutch coffee market and was sold by 24 brands; five through mainstream supermarkets and the rest through ATOs (Barratt Brown 1993).

The success of this certification resulted in the reproduction of the model in other European Countries and of significance was the creation of the Fairtrade Foundation in the UK in 1992 (formed by ATOs Oxfam and Traidcraft as well as CAFOD, Christian Aid, New Consumer, and the World Development Movement) (Barratt Brown 1993; Nicholls and Opal 2005) and Transfair in the United States in 1998 (Moberg 2005). Similar developments in other countries have led to the expansion of governance systems to 21 other northern countries in 2009 (FLO). While these formal systems of private governance were independent, international coordination began in 1993 when an International Registry Commission was created (Renard 2005) to define buying conditions and criteria under which products were bought and also to maintain a register of certified producer organizations. This move was followed in 1997 with a “higher stage of institutionalisation” (Renard 2005: 425) as the various national organizations formed the Fairtrade Labelling Organizations (FLO) – subsequently renamed the Fairtrade Labelling Organizations International (still abbreviated to the “FLO”). This institution has subsequently been responsible for reconciling the differences between national labelling initiatives under the unitary certification brand of *Fairtrade* (Raynolds 2000) – which became a legally registered trade mark belonging to FLO. In this way, national bodies became mainly responsible for monitoring the supply chains and licensing buyers to use the Fairtrade Mark, while the FLO set and audited standards for producer organisations (Courville 2003).

The move was further consolidated in 2002 with the introduction of a universal certification mark to be used by all national affiliates. In an attempt to differentiate themselves from other social certification,⁷ FLO moved to obtain recognition that its operations met another independent set of standards encapsulated in the ISO65 and EN45011 (Renard 2005). In order to meet the criteria laid down by this broader system of governance, which *inter alia* ensures that inspectors are trained and skilled, it was necessary to establish a certification unit independent of FLO’s administration known as FLO-cert GmbH (Renard 2005). As such, the

⁷ Such as Ethical Trade mark which are discussed below.

certification unit transformed into a separate legal entity in 2003 (FLO 2004),⁸ and while FLO is now responsible for setting the Fairtrade standards, FLO-cert GmbH takes on the role of their interpretation and the auditing of producer organizations accordingly.

The development of such a certification system is seen to have overcome both of the original problems identified with Alternative Trade (Nicholls and Opal 2005). Firstly, third party certification has granted external legitimacy to northern retailers to help overcome the problems of consumer confidence. Secondly, FLO certification has also allowed the use of conventional trade circuits to expand the sales of goods produced and traded in compliance with alternative norms. In this way, FLO Fairtrade is seen to have expanded the generation of market access for developing world producers (Milford 2004).

Along with the introduction of FLO certification, what is considered Fair Trade governance has also expanded its concern for the conditions of production within conventional systems such as plantations in the south. While Fair Trade has always been to some extent concerned with issues of social justice in southern economies, FLO certification has increasingly required southern producers to meet labour and environmental standards as part of the certification process. An additional element in this convergence with Ethical Trade governance (discussed below) is that FLO certification has also expanded beyond supply chains starting with small independent farmers' organizations, to also certify plantation style production.

FLO Fairtrade Certification⁹

FLO Fairtrade provides the possibility for certain commodity agricultural goods¹⁰ originating in developing countries to be certified against a set of third party requirements and as such, offers a voluntary system of private governance which also helps to structure the production and trade – arguably to increase the activities' contribution to local and global sustainable development (Smith 2008a; Strong 1997). The aim of the system is to increase market access for poor producers and increase the returns where trade does occur. However, FLO

⁸ The main reasons for the foundation of FLO-Cert were to make Fairtrade certification operations more transparent, to fully comply with ISO 65 (the worldwide quality standard for certification organizations) and to limit the liability of FLO e.V' (Fairtrade Foundation 2006).

⁹ Visit <http://www.fairtrade.net/> for more information.

¹⁰ FLO also provides certification for one manufactured item which is sports balls, as well as gold, timber, flowers and plants.

certification is seen by many as incredibly complex; particularly for producer groups with limited administrative and financial capacity (Sidwell 2008).

The Structure of FLO Certification

In order for a product to be FLO Fairtrade certified, three separate stages of accreditation are required: the organization producing the product must obtain accreditation against a set of Generic and Product Specific Standards; and the initial buyer must meet criteria specified in the Generic Standards for Traders. From here, individual products are FLO certified and can be passed through any form of subsequent supply chain; although all actors in the chain are then subject to audit.

Generic Standards for Producer Organizations

Producer groups can be accredited by the FLO under two possible categories: 1) those applicable to Small Farmers' Organisations and; 2) those applicable to organizations such as plantations, which are *more* structurally dependent on Hired Labour.

Unfortunately, the differentiation between Small Farmer and Hired Labour accreditation has led numerous commentators to suggest that this precludes certification for small farmers who require the use of hired labour (Chambers 2009; Henderson 2008; Sidwell 2008). However, according to FLO, the definition of a Small Farmer is one where “the producer’s labour and that of their family members constitutes a *significant proportion* of the total agricultural labour undertaken on their farm” (FLO 2009c). Indeed, FLO standards allow for the accreditation of two categories of Small Farmers’ Organisations. The first provides for organizations where farmers are *not* (highly) wage labour dependent,¹¹ and thus “those that are not structurally dependent on *permanent* hired labour and that are managing their farm mainly with their own and their family’s labour” (FLO 2009d: 4). The second possibility is to be accredited as a small farmer organization where farmers are (highly) labour dependent¹² and thus where “The number of *permanent* hired workers does not exceed a specific factor

¹¹ As explained below, not all certification is available for all product types covered by the FLO system, and producer groups accredited under the first category of Small Farmers are only able to obtain certification for the production of: cocoa, coffee, herbs and spices, honey, nuts and oilseeds, quinoa, rice, seed cotton, soybeans and pulses.

¹² As explained below, not all certification is available for all product types covered by the FLO system, and producer groups accredited under the first category of Small Farmers are only able to obtain certification for the production of: bananas, cane sugar, dried fruit, fresh fruit, fresh vegetables, fruit juices, tea, and wine grapes.

per hectare per crop, as defined by the certification body in its compliance criteria” (FLO 2009d: 4). Furthermore, according to FLO, “Of every Fairtrade-certified product sold by the [Small Farmers’] organization, [only] more than 50% of the volume must be produced by small producers” (FLO 2007b: 5): this implies that a possible 49 per cent of production can be sourced from other means of production (Smith 2010b). For all those organizations which are structurally dependent on hired labour, it is possible to be accredited by meeting those standards specifically designed for these organizations for certain product categories (see below for an explanation on the varying availability of some certification types).

Despite the category under which the producer group applies for certification, both Generic Standards for Small Farmers’ Organisations and Hired Labour situations require compliance with a number of minimum economic/business, social and environmental standards; all of which are designed to promote social justice, ensure labour conditions meet International Labour Standards and environmental sustainability. For example, organizations must be commercially viable and able to deliver a product ready for export. While small producers are required to form democratic cooperatives for organizing production and distributing returns, producers who rely on hired labour are required to allow democratic worker organization (FLO 2007a, 2007b). Previous analysis might have been accurate in suggesting that FLO views labour conditions in Small Farmers’ Organisations Standards as “unnecessary ‘because the majority of their labour is considered to be family labour’” (Luetchford 2008: 147). However, this situation has now changed to some degree. Both types of FLO Generic Standards make requirements for “fair wages” and certain labour conditions such as Employment Policy, Freedom from Discrimination and Freedom of Labour¹³ Finally in terms of environmental protection, producer groups are required to:

- Develop impact assessment, planning and monitoring
- Avoid prohibited agro chemicals and take precautions in their use
- Deal appropriately with waste
- Take measures to conserve soil and water
- Maintain fire precautions
- Avoid the use of Genetically Modified Organisms (GMO)
- Comply with product specific requirements.

¹³ Although it can be noted that in Standards for Small Farmers’ Organisations, Freedom of Association and Collective Bargaining, Conditions of Employment and Occupational Health and Safety are only applicable where a significant number of workers are employed by the organization or a member of the organization and where these workers are involved in producing a Fairtrade product (e.g. in a processing facility) (FLO 2009d: 24).

As well as the minimum requirements, Generic Standards for both Small Farmers' Organisations and Hired Labour contain so-called "Process Requirements." While it is thus possible to obtain certification by meeting the basic standards, continued certification relies on continual change and development (Courville 2003). These Process Requirements are more intensive objectives that seek to heighten developmental, social justice and environmental commitments. As FLO standards have been in constant flux since their development, a notable inclusion in the 2009 version of the Generic Standards for Small Farmers' Organisation (FLO 2009d) has been the addition of a section concerned with the "Economic Strengthening of the Organization." Here it is required that "The organization should take gradual steps to assume more control over the entire trading process, which will involve increasing their knowledge of the supply chain, shortening links to the export function and 'establishing processing facilities and/or shared ownership with other producer organizations (horizontal integration)." As a result a further expectation is that organizations "maximise the return to the members" through a combination of:

More Fairtrade sales, more Fairtrade buyers (or non-Fairtrade buyers), more benefits to members, reduced cost in operations, increasingly skilled management and staff, the building up of working capital, implementation of quality control, training/education and risk management systems and collaboration or even shared ownership (horizontal integration) with other produce organizations.

(FLO 2009d: 11-12)

Product Specific Standards

At the current time, the products which are eligible for FLO certification are listed in the table below. Product Standards make additional requirement about the conditions of production specific to the particular product, as well as identifying conditions which must be met by initial buyers of the product, including a Minimum Price and a Social Premium (explained below).

Generic Trade Standards

Once a producer organization is accredited under the FLO system they are listed on a register from which buyers seeking to purchase Fairtrade certified goods can select potential supply partners (Smith 2007). Once a trade partner is identified, buyers must then purchase the goods under conditions laid out in the Generic Trade Standard. While the specific details of

each product Standard are different, depending on the product being purchased, there are a number of standard conditions which apply across most of the product categories:

- Minimum Prices** A Minimum Price is set for each product at a level which is considered to at least cover the cost of sustainable production, and means that producers will always be guaranteed that price even if the market price is below that level. Where the world price is higher than the minimum price, buyers are required to pay whichever is higher. For a list of all minimum prices, visit <http://www.fairtrade.net/793.html>.
- Social Premium** The Social Premium must be paid in addition to the Minimum Price and is set as a percentage of the unit price. This component of the remuneration must be spent by the producer group on developmental projects which enhance the capacity of the organization and/or the surrounding community. As such FLO issues guidelines on what is considered to be appropriate investment of these funds.
- Up-front Credit** On request by the producer, buyers are required to extend up to 60 per cent of the final price as up-front working credit so that producer organizations can alleviate cash flow problems typical of the sectors in which Fairtrade certification is available.

A further requirement of FLO governance is that buyers establish stable relationships with producer organizations: and this is a factor seen by many as “perhaps most important” as “the labels have historically testified to long-term relations of solidarity between groups of producers, consumers and intermediaries” (Freidberg 2003: 30). However, the technical specification of this element of FLO governance is not particularly detailed and the table below demonstrates that the expected levels of transparency are still rather short term (and in some Product Categories remain unspecified). Furthermore, while FLO currently audits licensees and traders for their payment of minimum price and social premium have been paid, the formation of long-term relationship based on dialogue and respect (which is linked to relational governance) are not monitored (Smith and Barrientos 2005). Empirically, this lack of requirement on the part of northern actors has in some cases translated into problems for southern producers as FLO certified sales fluctuate with the changing demands from northern retailers and have even led to buyers registering estimated volumes of required goods but then not purchasing these items, either in part or the entirety of the order (Smith 2008c: 8).

Table 1
FLO Requirements to Promote Stable Trading Relationships in
Small Holder Farmer and Hired Labour Standards

Product	Binding Arrangements			Estimation
	Other	6 months	12 months	
Bananas	Weekly order or quarterly sourcing plan (no notice)		Max vol/week (2 weeks)	Quarterly (2 weeks)
Cocoa			Binding Letter of Intent (3 months)	None
Coffee	First half of the season (no notice)			Second half of the season (no notice)
Dried Fruit	Standard purchasing agreements: min and max vol. No duration specified (none)			Seasonal Plan (none)
Fresh Fruit	Standard purchasing agreements: min and max vol. No duration specified (none)			Quarterly or seasonal plan (no notice)
Fruit Juices			Binding Letter of Intent (3 months)	None
Herbs and Spices	At the beginning of the season (no notice)			None
Honey			Minimum order	None
Nuts and Oil Seeds	First half of the season (no notice)			second half of the season (none)
Quinoa			Binding Letter of Intent (3 month notice)	None
Rice	At the beginning of the season (no notice)			None
Cane Sugar			Binding Letter of Intent (3 month notice)	None
Tea	None Specified			Quarterly plan
Wine Grapes	At the beginning of the season (no notice)			None
Seed Cotton	At the beginning of the season (no notice)			None
Flowers		(25% margin of error fixed max and min vol)		6 month plan
Sports Balls	None Specified			None Specified

(Synthesized from Product Standards)

The Availability of FLO Certification

As has been pointed out above, FLO certification is available for a range of products and new certification is being continuously developed: for example recent additions include Gold and Timber. However, this is not to say that all categories of certification are available for both Small Farmers' Organisations and Hired Labour situations. Indeed, with the introduction of the latter category there was considerable concern that the possibility to certify plantation style production would pose a threat to the very small farmers that the FLO system was intended to help. For this reason, certification in some product categories is reserved for Small Farmers' Organisation only; and thus cannot be applied to situations where production is structurally reliant on hired labour. See Table 2 below for details.

Table 2
Product Categories and Certification

Product Standard	Applicable to:	
	Small Farmers' Organisations	Hired Labour
Bananas	X	X
Cocoa	X	
Coffee	X	
Dried Fruit	X	
Fresh Fruit	X	X
Fresh Vegetables	X	X
Honey	X	X
Fruit Juices	X	
Nuts/Oil Seeds/Oil	X	
Quinoa	X	
Rice	X	
Herbs & Spices	X	
Soya Bean/Pulses	X	
Sugar	X	
Tea	X	X
Timber	X	
Wine Grapes	X	X
Non-food Products		
Beauty Products		
Seed Cotton	X	
Flowers & Plants		X
Gold	X	
Sports Balls		X

Another restriction on the applicability of FLO certification is geographical. Firstly, while the general availability of FLO certification is wide, it is limited to a specified number of countries which are considered to require such assistance; FLO certification is thus not available to countries considered to be “industrially developed.” Furthermore, within this broad applicability, some product categories are currently only available for certain countries (and again, restricted to certain types of Generic Standards). The availability of all certification types can be found on the FLO website, but as an example, in 2010 only rice from Benin, Egypt, India, Laos, Sri Lanka and Thailand is eligible for FLO certification; the reason for this being that Minimum Prices and Social Premiums need to be set at an appropriate level for each individual country.¹⁴ While formal mechanisms are in place through which Product Standards can be extended to new countries, this does present risk to those already certified under the system as wider access to the scheme might well result in lower minimum prices elsewhere; a trend that could potentially see buyers switch to obtain the same product for a low price elsewhere (Smith 2008c).

For information on which Product Standards are appropriate for which type of producer organizations in which countries, and what Minimum Prices and Social Premiums apply, please see the FLO website at http://www.fairtrade.net/list.html?&no_cache=1.

FLO Certification: Problems and Issues

While much of the public criticism directed against FLO Fairtrade certification (Chambers 2009; Henderson 2008; Sidwell 2008) has largely relied on rhetoric over substance (Smith 2009a), there is widespread recognition that the system does have its shortfalls (Smith 2008a, 2010a); as has been hinted at above.

Continuing on from the geographical limitations on access to the system, there is evidence that the costs of FLO accreditation are a significant barrier to entry for many producer organizations; particularly as separate fees have to be paid for each and every product that a group wishes to sell as Fairtrade certified. One particular problem identified by producers and commentators alike is that even when certification fees have been paid, operation within the

¹⁴ Please note that there are established procedures for the extension of product categories to new countries, information on which can be found on the FLO website: <http://www.fairtrade.net/>.

market system means that there are no guarantees that produce will be sold under Fairtrade conditions (Sidwell 2008). Indeed, while some producer groups have been fortunate to secure significant sales of Fairtrade goods, others have only made limited sales for which they have received Minimum Prices and a Social Premium (Lamb 2008). Indeed, it has been noted in coffee sector that while some of the first entrants have been able to secure high volumes of FLO certified sales, more recently certified producer groups have found it difficult to locate premium markets (Lockie and Goodman 2006; Taylor 1997; Valkila and Nygren Forthcoming) In some cases, Fairtrade sales have not yet generated adequate additional income to compensate for the expense of certification (although it is important to note that those involved in these groups do not necessarily take this to mean that Fairtrade certification does not bring other commercial and organizational advantages). This might be particularly true in the short-term where the costs of meeting initial requirements might consume some or all of the financial benefit expected by producer groups; for example, through the need to comply with certain environmental standards (Moberg 2005), although this can also be seen as a short-term investment, after which both financial returns and environmental capital will benefit.

Having said this, FLO has been responsive to these and other issues (Smith 2010b) – and this could be attributed to the feedback mechanisms that FLO has now established¹⁵ through the on-going development of producer networks¹⁶ in southern countries. In order to help facilitate the entry of groups with low initial capacity, a Producer Certification Fund¹⁷ has been made available to help Small Farmers' Organisations with a portion to initial certification or renewal costs. Furthermore, a new category of certification, the Contract Standard, is available where producer groups are able to obtain mentoring and sponsorship from external organizations that assist in the development of their capacity until they are ready and able to administer the certification independently.

An issue on which arguably FLO have been less responsive is the recalculation of Minimum Prices to reflect the true costs of sustainable production. Indeed, producers have complained that the mechanism for arriving at minimum prices has failed to respond appropriately to

¹⁵ For information, read the article at http://www.coopcoffees.com/all_news/media/articles/flo-reviews-business-model.

¹⁶ For more information, visit http://www.fairtrade.net/services_and_relations.html.

¹⁷ For more information, visit http://www.fairtrade.net/producer_certification_fund.html.

local inflation which drives up the cost of production (Smith 2008a). On the other side of the discussion, it is noted that prices must take into account the ability and willingness of northern consumers to pay a “premium price” for FLO certified goods – and that large scale discrepancies between consumer spending power and producer input costs is something that such private regulation has little chance of compensating for. One outstanding issue is the percentage of the final retail price that is captured by northern links in the supply chains. More specifically, while the benefits and involvement of retailers in the supply of Fairtrade certified goods is found to vary (Smith 2008c) based on their internal values and culture (Smith and Barrientos 2005), some suggest that it is value lost at this stage of the supply chain that reduces the remuneration afforded to producers (Sidwell 2008). It is for this reason that in developing their own domestic Fair Trade, or Comercio Justo governance, Mexican stakeholders have placed a limit on the profit margins which retailers can take on the price of certified goods (Smith 2008b).

A final issue with the development of FLO certification is that while it has certainly facilitated the uptake of such governance by mainstream commercial players (the so-called process of mainstreaming), there is a concern that this has involved the “appropriation of the more convenient elements of Fair Trade by the commercial sector,” and the “loss of the more radical edges” (Low and Davenport 2005: 143). This can be seen in the nullification of responsibility for buyers to compensate for problems of conventional governance by supplying information to producers (beyond some estimation of future demand), as well as the necessity to maximize returns to producers with prices set through mutual agreement. As part of this problem supermarkets have been keen to develop their own in-house brands produced and traded under FLO governance and certification. However, while the commitment of supermarkets to Fair Trade principles certainly varies (Smith 2008c), those making lower commitments (and perhaps just doing enough to obtain certification) are able to undercut other independent (FLO certified) brands that go beyond FLO requirements (as FLO certification only indicates compliance and not the extent of support given to producers). For this reason there has been concern that commercial interests are able to secure ethical credentials in the views of consumers, undercut more stringent social initiatives on price, and thus undermine a more politically radical and socially beneficial model of trade (Fridell et al. 2008).

Having said this, some independent brands motivated by social justice and development agendas have experienced considerable success in competing with supermarket-own brands (Doherty and Tranchell 2007), despite going further than FLO standards. The most famous and significant of these dedicated Fair Trade brands in the UK has been Cafédirect¹⁸ - founded in 1991 by Oxfam, Traidcraft, Equal Exchange Trading and Twin Trading – and Divine Chocolate¹⁹ – started in 1998 as a partnership between the Kuapa Kokoo²⁰ cocoa growers’ collective and the ATO Twin Trading and supported by The Body Shop, Christian Aid and Comic Relief. Indeed, according to Wright (2004: 669) the second product in the UK market certified by the Fairtrade Foundation, Cafédirect Coffee, specifically noted how its practices went “beyond” those required by external governance, and the company now strives to meet what it describes as its own Gold Standards. As in the case of the Day Chocolate Company (which owns the Divine Chocolate and Dubble brands), as well as being offered better terms of interaction (Doherty and Tranchell 2005; Rhonchi 2002), producer groups are also encouraged to develop a stake in the retail brand; thus permitting them to “upgrade” their position in the value chain to capture more of the final retail price paid by the consumer. In February 2004, Cafédirect launched the largest ever ethical public share issue resulting in 4.9 per cent of the company being owned by the producers themselves; furthermore, 34 of its 40 grower partners are members of Cafédirect Producers Ltd (CPL), which itself owns 110,000 shares and provides producers with a direct voice in the overall management of the supply chain. Likewise, the Day Chocolate Company Day Chocolate is 45 per cent owned by the producer cooperative Kuapa Kokoo that supplies the cocoa (Ronchi 2002).

Having said this, with increasing pressure on supermarkets to compete on their own brand Fair Trade products, prices for these lines are being compressed to leave larger margins between these and those of dedicated Fair Trade companies. Given the current economic climate, it can be hypothesized that dedicated brands will find it increasingly difficult to compete with cheaper options (of both certified²¹ and non-certified goods²²) unless they can

¹⁸ Visit <http://www.cafedirect.co.uk/index.cfm>.

¹⁹ Divine Chocolate changed its name from the Day Chocolate Company in January 2007 as a means to more closely align the company name with that of the leading brand; visit <http://www.divinechocolate.com/about/default.aspx>.

²⁰ Visit <http://www.kuapakokoo.com/>.

²¹ For more on this topic, read “Cafédirect plans to bring its brand of fair trade to wider audience at home and abroad” by Carol Lewis in *The Times (Sunday Times edition)*, June 19, 2009. Available at http://business.timesonline.co.uk/tol/business/industry_sectors/article6531246.ece.

prominently establish the reason for this difference in the minds of committed ethical consumers. Indeed, while the market for FLO certified goods has continued to increase despite the recession (Fairtrade Foundation 2009; Oxford Analytica 2010), this does not account for the possible substitution of more expensive dedicated Fair Trade companies and brands, for cheaper and arguably less social beneficial own brands.

Fair Trade for Handicraft & Organizational Governance

One of the biggest issues in the Fair Trade movement has been that even though most Alternative Trade dealt with handicraft goods (Littrell and Dickson 1999), there has been only slow movement on the development of independent certification for this product category. While organizations such as Oxfam, Traidcraft and Ten Thousand Villages have begun to stock goods accredited by FLO and sourced from members of the World Fair Trade Organization (discussed below), they have also maintained product lines traded in-line with their own internally defined governance and used their association with the social justice, religious and development agendas to legitimize these as Fair Trade operations. In these cases, operation is similar to that of Alternative Trade described above and as standardization for such trade practices is almost impossible (given the variation in products types and characteristics) the “fair” element of relationships is claimed to emerge from transparent and negotiated nature of interactions which place the interests of producers first. Some of the most prominent Fair Trade Organizations include:

Dedicated Fair Trade Organizations

- **Traidcraft** (<http://www.traidcraft.co.uk/>) was established in 1979 as a Christian response to poverty and has subsequently become the UK’s largest independent Fair Trade organization. The organization has both a commercial trading arm (Traidcraft Plc) as well as a development charity (Traidcraft Foundation) component. The commercial arm now imports, wholesales and retails products including drinks; chocolate and snacks; cooking essentials such as rice, sugar and nuts; wine; handmade crafts; stationary; and clothes and accessories. Traidcraft is a member of the World Fair Trade Organization (WFTO) and stocks FLO certified goods as well as having its own Code of Practice for non-certified operations. Retailing occurs through a catalogue and church groups. Traidcraft was a co-founder of CaféDirect along with Equal Exchange, Twin and Oxfam.

²² For more on this topic, read “UK supermarkets warned over banana price war” by Jamie Doward in *The Observer* [UK], October 11, 2009. Available at <http://www.guardian.co.uk/environment/2009/oct/11/banana-price-war-supermarkets>.

- **Equal Exchange** (<http://www.equalexchange.co.uk/index.asp>) was established in 1979 when three voluntary workers returned to Edinburgh (UK), after working on aid projects in various parts of Africa, and started buying instant coffee from Bukoba on Lake Victoria in Tanzania. After years of growth the workers' co-operative is still dedicated to the promotion of Fairtrade and Organic production methods, ensuring a fair deal for farmers and the environment. Equal Exchange works with partner producer groups in Africa, Asia, Latin America, and the Middle East to source products such as honey, oils, coffee, nuts and nut based butter, tea, sugar and cocoa. The organization is a member of the WFTO and stocks FLO certified goods.
- **Twin Trading** (<http://www.twin.org.uk/>) is the commercial trading wing of Twin, a producer-owned membership organization based in London (UK) and dedicated to developing the fair trade supply chain for coffee, nuts, cocoa, and sugar and fruit farmers. Twin Trading also offers supply chain management service for partners in the areas of planning & forecasting, contract administration, logistics and shipping, quality control, price risk management, market analysis and pre-finance. Twin also recognizes the importance of positioning producers as close to consumers as possible and as such facilitates the development leading Fairtrade brands in the UK. These include Divine Chocolate (<http://www.divinechocolate.com>), CaféDirect (<http://www.cafedirect.co.uk/index.cfm>), and Liberation Nuts (<http://www.chooseliberation.com>).
- **People Tree** (<http://www.peopletree.com>) partners some 50 Fair Trade groups in 15 countries and operates in line with the principles of the WFTO in an attempt to promote sustainable livelihoods for southern stakeholders involved at all stages of the garment supply chain. Most of the cotton that is used is both organic and FLO certified. People Tree also undertakes regular social reviews in which producers are asked for their views on how things might be improved.
- **Pachacuti** (<http://www.panamas.co.uk>) is the first company to be accredited with the WFTO's Sustainable Fair Trade Management System certification. The company was founded in 1992 and although it initially worked with producer partners in Ecuador to source Panama hats, aims to diversify into other areas such as leather bags and sheepskin/alpaca slippers.
- **Oxfam** (<http://www.oxfam.org.uk>) has a long standing involvement in the Fair Trade movement. Through shops and mail order retail, Oxfam sells both FLO certified products as well as those sourced for WFTO accredited organizations. Product ranges include foods such as tea, coffee and chocolate; stationary; jewellery and clothes.
- **Shared Earth** (<http://www.sharedearth.co.uk>) started as a small shop in York in the north of England in 1986 selling a wide mix of products, often made out of recycled materials, from Africa, Asia and South America. Shared Earth has slowly introduced its own brand of products to be sold in its expanding network of shops and via wholesale to other retailers.

- **Gepa** (<http://www.sharedearth.co.uk>), or ‘Gesellschaft zur Förderung der Partnerschaft mit der Dritten Welt mbH’ (meaning Society for the Promotion of Partnership with the Third World), has operated for around 35 years and is Europe’s largest Fair Trade organization. The organization sources both food and non-food products from around 150 cooperatives, marketing organizations and committed private enterprises in roughly 40 countries in Africa, Asia and Latin America. Gepa is a member of WFTO and sources FLO certified products as well those from other WFTO members, as well as having its own internal trading policy to prioritize those most in need, etc. The organization retails via mail order and through a network of some 800 shops worldwide and roughly 6,000 action groups, as well as wholesale to numerous supermarkets and food retailers.
- **Ten Thousand Villages** (<http://www.tenthousandvillages.com>) is non-profit Fair Trade organization operating in Canada and the United States of America to import, wholesale and retail (via some 80 shops and online) handicraft products made by disadvantaged artisans from more than 120 artisan groups in 35 countries. Founded more than 60 years ago, the organisation is now one of the world’s largest fair trade organizations and was a founding member of International Fair Trade Association (IFAT) – now the WFTO. The organization is also a certified member of the Fair Trade Federation (FTF).
- **Shared Interest** (<http://www.shared-interest.com>) is not a trading organization, but an ethical investment cooperative formed in 1990. The organization lends money to Fair Trade producer organizations and exporters in the developing world, as well as retailers and importers throughout the world by operating a clearing house. Shared Interest also encompasses the Shared Interest Foundation which provides business and financial management training for Fair Trade organizations and grants to support organizations and the Fair Trade movement as a whole. To date, the Foundation’s work has been funded largely by donations from the Society’s members.

For some commentators, these Fair Trade practices are more radical and fundamental interpretations of the Fair Trade concept. Indeed, OXFAM Fair Trade, one of the original ATOs, specifically states that it aims to go beyond other definitions of Fair Trade, such as the one used by the FLO, to “reflect more precisely Oxfam’s vision of how Fair Trade may function as a tool in development” (Mayoux and Williams 2001: 3). In this way OXFAM also explicitly states that they see “the proper function of fair trade is for producers to learn to compete on open markets” (Mayoux and Williams 2001: 3). However, on the other side of the argument, Alternative Trade Organisations have continued to be concerned with their ability to generate legitimacy; especially in the absence of product certification for craft and artisan goods. For this reason, another approach to structure and recognise Fair Trade governance has been through various membership organizations discussed below.

The World Fair Trade Organization²³

While the development and success of the FLO certification system has been instrumental in the transformation of Alternative Trade into Fair Trade, this is by no means the only practical operationalization of the broad Fair Trade concept. As was noted above, the International Federation for Alternative Trade (IFAT) was founded in 1989, and inline with the discursive transition from Alternative to Fair Trade, was renamed to the World Fair Trade Organization (WFTO) in October 2008 (WFTO 2009).

WFTO Membership for 100% Fair Trade Organizations

Beginning its existence as a means to networking southern and northern trade organizations, in 1994 the WFTO launched “a monitoring system for Fair Trade Organizations...in order to strengthen the credibility of these organizations towards political decision-makers, mainstream business and consumers” (WFTO 2009). Operationally, the WFTO has in the past taken a very different approach to Fair Trade accreditation as compared to FLO. Instead of acting as a certifier of individual products, WFTO is a membership organization which requires that all the practices of members comply with Ten Fair Trade Principles. While a full description of The Ten Fair Trade Principles can be found on the WFTO website, Table 3 below provides a summary:

Table 3
IFAT/WFTO’s Ten Fair Trade Principles

Principles	Values	Concrete Requirements
Creating Opportunities for Economically Disadvantaged Producers	Poverty reduction through trade should be one of the primary aims of the organization, which should promote livelihood security and development of marginalized producers.	A plan of action for achieving this is maintained.
Transparency and Accountability	The organization is internally and externally transparent and participatory	Appropriate participatory mechanisms exist to involve employees, members and producers in decision making. Relevant information is passed to trading partners.
Trading Practices	Commercial practices consider the social, economic and environmental wellbeing of marginalized small producers and do not maximize profit at their expense.	Suppliers respect contracts and deliver products on time and to the desired quality and specifications. Orders are paid on receipt of documents and according IFAT guidelines.

²³ Visit <http://www.wfto.com/>.

Trading Practices (continued)		<p>A pre payment of at least 50% is made if requested (to be passed on to producers).</p> <p>Buyers consult with suppliers before cancelling or rejecting orders. Cancelled orders for work already done and not due to fault of producers or suppliers, are adequately compensated.</p> <p>Organizations seek to increase the volume, value and diversity of products traded.</p>
Payment of a Fair Price	Prices provide a fair wage for producers and can be sustained by the market.	<p>Price as mutually agreed through negotiation by stakeholders.</p> <p>Where Fair Trade pricing structures exist, these are used as a minimum.</p> <p>Fair Trade marketing and importing organizations support capacity building as required to producers, to enable them to set a fair price.</p>
Child Labour and Forced Labour		<p>The UN Convention on the Rights of the Child, and national/local law on the employment of children.</p> <p>No forced labour is used.</p>
Non Discrimination, Gender Equity and Freedom of Association		<p>There is no discrimination in hiring, remuneration, access to training, promotion, termination or retirement based on race, caste, national origin, religion, disability, gender, sexual orientation, union membership, political affiliation, HIV/Aids status or age.</p> <p>Employees are free to form and join trade unions of their choice and to bargain collectively.</p>
Working Conditions	The organization provides a safe and healthy working environment for employees and/or members.	At a minimum, national and local laws and ILO conventions on health and safety are observed.
Capacity Building	The organization seeks to increase positive developmental impacts for small, marginalized producers through Fair Trade.	<p>Producer organizations develop the skills and capabilities of its own employees or members.</p> <p>Fair Trade buyers assist these organizations to develop their capacity to support the marginalized producer groups that they work with.</p>
Promotion of Fair Trade	The organization raises awareness of the aim of Fair Trade and of the need for greater justice in world trade through Fair Trade.	Organizations provide customers with information about itself, products and members. Honest advertising and marketing techniques are always used.
Environment	The environmental impact of production and trade is minimized as much as possible.	Producers use as many materials from sustainably managed sources as possible, buying locally when possible. They seek to minimize energy consumption and waste emissions.

As WFTO membership is conditional on the general operation of an organisation, any entity wishing to be recognised as operating in-line with the Ten Fair Trade Principles is eligible to apply – and as such the WFTO includes producer groups making handicraft and growing food commodities, processing companies, exporters, importers, retailers and those offering services and support. WFTO membership is also open to individuals engaged in Fair Trade activities. Overall, the WFTO is constituted through regional Chapters²⁴ and while this means there is no geographical restriction on membership, it also offers a fundamental means by which representatives can represent the opinions and interests of producer in the system.

Members are entitled to signify their affiliation to the WFTO by displaying its branding on their associated literature, letterheads and vehicles, etc. However, an important point is that unlike the FLO certification mark, the WFTO does not licence members to use branding on product packaging (WFTO 2010b).

WFTO Launches Sustainable Fair Trade Management System

There has been a strong feeling among WFTO membership that the lack of a product mark has reduced the advantages that Fair Trade operation can bring in terms of market access and marketing. For this reason the WFTO has been developing a product certification system which will offer such accreditation. Specifically, it was noted that as FLO certification almost exclusively applies only to commodity food products, the traditional Alternative/ Fair Trade sector of handicraft products was still without an independent verification system. The Sustainable Fair Trade Management System (SFTMS) was expected to be made widely available in the closing months of 2010 and will be applicable to any product, including both handicrafts as well as commodity food goods. In contrast to the FLO system, the SFTMS will not have any minimum standards but instead require individual organizations to set their own targets for improvement based around the Ten Principles of Fair Trade; as well as the evidence required to prove adequate progression towards these. Another difference between the SFTMS and FLO accreditation will be that as the former certifies the organization as a whole, and not just a specific product, the signifying mark can be added to any product that the organization sells; and this is expected to reduce the cost of certification for producers (who currently have to pay for each product that they wish to sell as Fair Trade certified) and as such, facilitate diversification among a group's outputs more easily.

²⁴ For complete information on WFTO's structure, visit http://www.wfto.com/index.php?option=com_content&task=view&id=5&Itemid=294

WFTO Governance: Problems and issues

Unfortunately there is little independent analysis of WFTO governance available on which to base an evaluation of its merits and shortfalls. In many ways, the WFTO approach appears more radical in that it requires organizations to apply Fair Trade governance across the full range of their activities and not just to one product line. The process-orientated and participatory approach can also be taken as a more appropriate means of fostering sustainable development than externally proscribing standards for producers to meet. However, perhaps the biggest issue is that public recognition of the organization is currently significantly lower than that of the FLO certification. While consumers who have taken proactive steps to be involved in the Fair Trade movement are likely to recognize the organization, wider public understanding is more limited. Furthermore, government and institutional recognition of the organization is lower than knowledge of FLO; most probably as a result of the resources that FLO's national labelling initiatives have invested in building a profile. Having said this, with reference to WFTO membership and certification increasing among Fair Trade organizations, the WFTO looks to become an increasingly prominent player in the Fair Trade movement.

Fair Trade Federation (USA)²⁵

The Fair Trade Federation (FTF) traces its roots to the late 1970s when individual alternative trade organizations began holding yearly conferences for groups working in fair trade. In 1994, the group formally incorporated initially as the North American Alternative Trade Organization (NAATO), but then the next year as the Fair Trade Federation. Like the WFTO, of which FTF has been an active member for many years, the organization provides membership accreditation, which testifies to the 100 per cent commitment of companies to operate according to Fair Trade principles. The FTF Code of Practice²⁶ states that members must:

- Create Opportunities for Economically and Socially Marginalized Producers
- Develop Transparent and Accountable Relationships
- Build Producer Capacity
- Promote Fair Trade
- Pay Promptly and Fairly
- Support Safe and Empowering Working Conditions
- Ensure the Rights of Children
- Cultivate Environmental Stewardship
- Respect Cultural Identity.

²⁵ Visit <http://www.fairtradefederation.org>.

²⁶ For more on this topic, visit <http://www.fairtradefederation.org/ht/a/GetDocumentAction/i/12162>.

Membership is open to organizations dealing in all sectors of Fair Trade goods, and requires that entrants are subject to an initial evaluation process; after which reference can be made to membership on advertising, letter heads, etc. Once again, the FTF does not license a product mark as membership is only currently available for importers and retailers.

British Association of Fair Trade Shops (UK)²⁷

The British Association of Fair Trade Shops BAFTS is a membership organization for retailers, wholesalers and importers which, among numerous functions, attempts to provide customer with insurance that money is spent on Fair Trade goods. Accredited members retailers must place Fair Trade at the heart of their business. In doing so retailers are required to promote and encourage product quality either through the importers or directly to the producers and have an educational/campaigning aspect to the work in the shop. Furthermore, retailer members must buy at least 70 per cent of their stock from recognized Fair Trade sources by either buying FLO Fairtrade certified products, or from members of the WFTO and BAFTS recognized importers. BAFTS Importers must demonstrate that:

- All aspects of work are guided by principles of mutual respect, social justice and equal partnership.
- All products imported originate from producers that are committed to Fair Trade principles and this is appropriately monitored.
- ‘Fair prices’ are paid to producer partners, to reflect the true costs of production and to ensure that all those working in the producer organisation receive a fair income, enabling them to meet their basic needs and lead a decent life. It is recommended that the Fair Trade Calculator is used.²⁸
- Efforts are made to work with producer in order to promote high product quality and added value.
- Traditional crafts and encourage their development are respected and encouraged.
- Long term relationships are developed with producer partners.

BAFTS: Problems and Issues

BAFTS is currently a small organization with very limited administrative resources. Furthermore, knowledge of the BAFTS brand and governance system can be considered as limited to a relative small number of dedicated Fair Trade consumers in the UK. However, even though BAFTS helps to shape the practice of members through its membership requirements, there are no implications for producers.

²⁷ Visit <http://www.bafts.org.uk/>.

²⁸ Visit <http://www.fairtradecalculator.com/>.

Ethical Trade Governance

While Fair Trade, largely under the label of Alternative Trade, was a pioneer approach for structuring south-north trade more strongly in the interests of southern stakeholders, the popularity of such 'ethical' governance has resulted in other initiatives to improve returns to the south. This process was catalyzed in the latter decades of the twentieth century as the lower costs of labour in the developing world, (and arguably lower levels of social and environmental regulation), encouraged ever-greater levels of outsourcing of many manufacturing process in areas such as garments and apparel (Hale and Shaw 2001). However, with increasing competition between northern companies, the structural power relationships (generated by ever increasing numbers of southern producers competing for trade relationships with a limited number of northern buyers) were used to drive down the costs of supply. This cost cutting was also aided by the introduction of technologies which allowed "just in time" production in many sectors; a change which further reduced the stability of trading relationships between northern buyers and southern suppliers and manufacturers (Kabeer and Mahmud 2004).

Exposed to such pressures, southern based producers attempted to compensate by increasing the efficiency in ways that often passed on negative externalities to the labour force and also the environment (Alam and Hearson 2006). While wages are often squeezed, general working conditions might also deteriorate as less investment is made in health and safety. In many sectors one means of reducing costs for southern based producers is to increase the amount of part time, temporary and informal labourers used (CAFOD 1998); as this allows labour costs and social security contributions in periods of lower demand to be reduced. Even where employment is for longer periods of time, it is noted that the nature of contracts have become more typical of work in the informal economy than that of formal employment (Kabeer and Mahmud 2004). In manufacturing sectors, work is "put out" to homeworkers who are noted to be the lowest paid and some of the most exploited workers due to their very limited power to assert their needs and rights (Carr et al. 2000; Mehrotra and Biggeri 2005). Studying the effects of this situation in the garment sector in Bali, it was noted that social benefits are not granted, "wages are not even at the level of the minimum wage" and dependency is generated by the loaning of initial capital, goods and materials (Hassler 2005: 536). Finally, with lower profit margins, southern suppliers and manufacturers organizations make less

investment in environmentally sustainable practices and have less financing to cover the correct disposal of waste products.

As the effect of these structural changes were highlighted more and more by the media and NGOs, northern companies sought to manage the risk to their brand names by developing Codes of Practice/Conduct to be applied by their suppliers – and hopefully reduce the damaging effects of downward price pressure and volatile demand cycles. Initially these codes of practice focused on incentivizing compliance with national regulations and laws. However, over time, the emphasis has increasingly shifted towards compliance with private sector Codes of Conduct (Locke and Romis 2006) and a move towards what has been coined as Ethical Trade (Blowfield 1999). Most commonly, Codes of Conduct (COC) establish and monitor the implementation of minimum requirements by producers in the supply chain (Hughes 2005), and have normally coalesced around core standards established by the International Labour Organization (ILO).

The garment industry was one of the first to develop labour standards (Hale and Shaw 2001) but such Ethical Trade governance has also been applied to other sectors such as the production of food commodities also covered by Fair Trade approaches (Smith et al. 2004). In the first instance labour conditions were often addressed as a bolt-on extra to current technical monitoring, and social auditing was carried out “in-house” (Pearson and Seyfang 2001: 55-56); and thus, classified as so-called First Party Auditing (see above). However, shortcomings were soon detected as the retail firms lacked the specialist skills needed for social auditing (Hughes 2005) and this saw the entrance of independent social auditors into global supply networks (Barrientos 2002). Another problem was that in-house governance did not afford great levels of consumer confidence and indeed, considerable variation between the rigour of different approaches has been observed (Hughes et al. 2007). For this reason many corporate entities have involved independent organizations, such as third party auditing firms and in a limited number of cases NGOs, in the setting and auditing of governance system. Perhaps the highest level of Ethical Trade Governance has been through the so-called “Multi-Stakeholder Initiatives” (MSI) which are said to “go beyond codes of conduct” (Smith and Barrientos 2005: 191).

While MSI's normally adopt ILO standards as their base (Hale and Shaw 2001) this approach is considered to "represent the highest evolution of efforts to improve conditions for garment factory workers, as they require companies, unions, NGOs, and factory managers to cooperate to address worker exploitation and create long-term change" (Quigley and Opal 2006: 22). Like FLO Fairtrade and WFTO governance, Ethical Trade schemes use external auditors to inspect individual production sites, and in some cases, such as Workers Rights Consortium²⁹ in the garments sector, initiatives have their own in-house auditing teams.

Ethical Trade then encompasses an exceptionally diverse range of schemes. Some governance is First Party Certification and set internally to the supply chain by the lead company (usually the owner of the brand whose reputation requires protection). Other approaches see the setting of standards and the organization of monitoring administered by independent entities and Third auditors. In terms of external governance systems, some specialize in agricultural goods, while others offer certification for a wider variety of producer organizations. Indeed, certification for everything from environmental friendliness to worker welfare have proliferated at an incredible rate – by one count, there are already more than 200 (du Toit 2001: 1). Given the diversity of Ethical Trade schemes available, just some of the most prominent systems are explained and discussed below.

Ethical Trading Initiative³⁰

The Ethical Trading Initiative (ETI) is a multi-stakeholder system of governance formed between retailers, trade unions and NGOs in 1998. All corporate members of ETI agree to

²⁹ For more on this topic, visit <http://www.workersrights.org/>.

³⁰ Visit <http://www.rainforest-alliance.org/certification.cfm?id=main>.

adopt the ETI Base Code of labour practice,³¹ which is based on the core standards of the ILO and requires that:

1. Employment is freely chosen
2. Freedom of association and the right to collective bargaining are respected
3. Working conditions are safe and hygienic
4. Child labour shall not be used
5. Living wages are paid³²
6. Working hours are not excessive
7. No discrimination is practised
8. Regular employment is provided
9. No harsh or inhumane treatment is allowed.

Working with various stakeholders the ETI provides a strategy by which “lead” companies can implement the Base Code in their supply chains and then share their learning with other members. As the ETI is targeted at retailers and their associated supply chains, this initiative has also encompassed workers based in the north as well as the south. The ETI does not provide a product mark or allow membership to be used as organizational accreditation, although companies do obviously refer to their membership at the general level in order to bolster their ethical credentials (Freidberg 2003).

The ETI Base Code aims to offer governance for supply chains dealing with any sort of product produced globally. Indeed, initial pilots focused on the clothing sector in China, ready-made garments in Sri Lanka, the banana industry in Costa Rica, horticulture in Zimbabwe, and the wine industry in South Africa. The ETI now has over 60 members including supermarkets, fashion retailers, department stores and stone sourcing companies, as well as major suppliers to retailers of food and drink, flowers, clothing, shoes, homewear, promotional and other products.

Problems and Issues with the Ethical Trade Initiative

In independent analysis of the impact achieved by the ETI (Barrientos and Smith 2006) concluded that there had been positive impacts on certain issues such as: health and safety – for example better fire safety, introduction of training on emergency procedures, and safer use of chemicals; working hours – reduced regular and overtime hours; wages, for example ensuring payment of the minimum wage and provision of state insurance and pensions; as

³¹ For more information on this code, visit <http://www.ethicaltrade.org/resources/key-eti-resources/eti-base-code>.

³² The ETI defines living wages as “enough to meet basic needs and to provide some discretionary income.”

well as less employment of children and young workers. Having said this, less impact was observed in the area of freedom of association, discrimination, regular employment and harsh treatment, where serious issues frequently remained. Furthermore, evidence as recent as 2010 reveals that despite being technically covered by the ETI, some production organizations admit to not being able to pay a “living wage” (Smith 2010c).

While the ETI’s observation that such complex issues will require time to remedy is certainly true, some commentators have suggested that without a change in the practices of buyers in lead firms, responding to intense price competition, compliance with Codes of Conduct is always likely to be problematic. This is because while Ethical Trade has traditionally stipulated requirements that suppliers and manufacturers must meet in the areas of labour standards in their production sites, it has done little to remedy the source of the pressure embedded in the relationship with northern buyers (Allen 2002; du Toit 2001; Hale 2000; Oxfam 2004; Smith et al. 2004). However, as a response to such criticisms, the ETI now openly acknowledges the tensions present in such supply chains.³³ For example, the 2002/3 Annual Report of the ETI stated that: “It is increasingly obvious that ethical trade personnel need to work more closely with their commercial colleagues to ensure that buying practices do not adversely affect the impact that code implementation can have” (p.1 cited by Smith and Barrientos 2005). Indeed, the ETI Principles of Implementation suggest that:

- The company ensures that the terms of agreements with its suppliers such as prices, lead times and quantities are consistent with the ability of the supplier to observe the provisions of the Base Code; and,
- Buying staff and other personnel whose decisions may affect working conditions and labour practices in the supply chain are made aware of the potential impact of such decisions. They are provided with training and guidelines that enable them to carry out company ethical trading policy and their performance is assessed and managed accordingly.

(ETI Principles of Implementation)³⁴

Having said this, the intensive price condition, particularly in the present economic climate, is likely to make such a trade-off difficult. On this issue it might be suggested that the internal culture and attitudes of management will play a large role in deciding the degree to which

³³ For more information, visit <http://www.ethicaltrade.org/in-action/projects/purchasing-practices-project>.

³⁴ Visit <http://www.ethicaltrade.org/resources/key-eti-resources/principles-implementation>.

such measures are adopted (Hemingway and Maclagan 2004)³⁵; although, one significant issue in large buyers is the degree to which the incentive structure for buyers militates against the embedding of ethical concerns.

Rainforest Alliance³⁶

The Rainforest Alliance was formed as a not-for-profit organization in 1986 as an extension of a small workshop on rainforests held in New York City. In 1989 the organization founded its first system of governance in launching the forestry certification program, SmartWood. These standards were designed to improve forest management by providing economic incentives to businesses that practice responsible forestry. Using the SmartWood standard as base, The Rainforest Alliance later developed certification for banana production in 1990 and has subsequently gone on to develop standards for a variety of agricultural commodities and now offers certification for the production of: cocoa, coffee, ferns and cut flowers, fruits and tea.

Agricultural Seal

The Rainforest Alliance works with Sustainable Agriculture Network³⁷ to audit and certify agricultural production against standards for protecting wildlife, wild lands, workers' rights and local communities. The standards development processes comply with the Code of Good Practice for Setting Social and Environmental Standards of the International Social and Environmental Accreditation and Labeling (ISEAL).³⁸ Certification is available to a variety of farm and processor sizes, and although certification was initially concentrated in large operations, the numbers of small farms accredited are now starting to overtake plantations (Raynolds et al. 2007).

As has been noted by other independent commentators (Murray and Reynolds 2000: 70), the Rainforest Alliance offers a “‘conservation certification’ program, with only secondary concern for social justice issues.” This can be seen in the emphasis placed by Rainforest Alliance in summarizing what its governance aims to achieve:

- Less water pollution
- Reduced threats to the environment and human

³⁵ For a discussion of ethical decision-making in Fair Trade organisations see Davies and Crane (2003).

³⁶ Visit <http://www.rainforest-alliance.org/certification.cfm?id=main>.

³⁷ Visit <http://www.rainforest-alliance.org/agriculture.cfm?id=san>.

³⁸ Visit <http://www.isealalliance.org/>.

- Protection of wildlife habitat
- Less waste
- Less water used
- More efficient farm management
- Improved conditions for farm workers
- Improved profitability and competitiveness for farmers
- More collaboration between farmers and conservationists.

While the prioritization of environmental issues is clear, it has been noted that “the only principles referring to social conditions suggested rather vaguely that producers must ‘ensure fair treatment and good conditions for workers and must maintain good community relations’” (Murray and Reynolds 2000: 70). Indeed, previous analysis has contrasted the FLO requirement to secure access to primary education for the children of all permanent workers within one year of certification, with the total lack of educational criteria in Rainforest Alliance standards (Smith 2008a). However, the Rainforest Alliance has since added the educational element to require that: “The farm must have mechanisms to guarantee access to education for the school-age children that live on the farm” (Rainforest Alliance 2009: 26); and this now contrasts preferably with the FLO requirement that “management ensures access to *primary* education for the children of all *permanent* resident workers” (FLO 2009b: 9, emphasis added). In consideration of wages the Rainforest Alliance is similar to FLO standards in requiring that: “Workers must receive pay in legal tender greater than or equal to the regional average or the legally established minimum wage, whichever is greater” (Rainforest Alliance 2009: 22). However, Progress Standards in FLO governance require that: “Salaries are gradually increased to ‘living wage’ levels above the regional average and official minimum” (FLO 2009b: 19-20).

Problems and Issues with Rainforest Alliance Governance

One of the largest issues identified with Rainforest Alliance governance has been that in order to be eligible to display the certification mark on a final product, only 30 per cent of the content needs to have come from Rainforest Alliance certified farms. As with many schemes of Ethical Trade, the concentration of standards is on on-site labour, social and environmental conditions. The Rainforest Alliance governance does not require the transfer of additional resources for farms to comply with standards (such as through the provision of credit, Minimum Prices or a Social Premium to cover costs). It is perhaps for this reason that independent analysis demonstrated that in the coffee sector, FLO certification produced

greater economic and social returns for producer groups when compared with four other systems of governance, including Rainforest Alliance (Raynolds et al. 2007: 155).

Having said this, the analysis also suggested that even though Rainforest Alliance concentrates on-site conditions of production, it is still inferior in the rigour of its requirements when compared to FLO certification. Indeed, while FLO certification was found to uphold 10 of the core conventions of the ILO, the Rainforest Alliance standard only mentions “key” conventions (Raynolds et al. 2007). Overall, while the Rainforest Alliance certification schemes were praised in promoting the “laudable goal” of upholding “minimum requirements,” it was concluded that, “private certifications can and should do more” (Raynolds et al. 2007: 159-160). If this initiative is going to make concrete steps to facilitate genuine empowerment among southern stakeholders it might be prudent to redress the current absence of coffee farmer cooperatives and coffee labour representatives from the SAN network – and hence provide a feedback mechanisms such as that embedded in the FLO or WFTO systems.

Utz Certified Good Inside³⁹

Utz Certified Good Inside is a certification program launched in 2002 by the Dutch food retailer Ahold⁴⁰ who partnered with working with Guatemalan coffee producers to meet the general agricultural guidelines developed by the Euro-Retailer Produce Working Group (EurepGAP). Though industry has largely set standards and procedures, the Utz Kapeh Foundation was established to transform the initiative into a third-party certification system (Raynolds et al. 2007). Utz Certified is now a program for the mainstream market which is open to all growers from all producing countries and to all traders, processors and retailers. Large corporate roasters and brand name retailers dominate sales with most of the coffee coming from plantations; though there are also a number of small producers (Raynolds et al. 2007: 154). While certification in theory has no geographical restriction, at present all UTZ CERTIFIED coffee, for example, is sourced from Brazil and Bolivia.

The program has a code of conduct which sets a standard for socially and environmentally responsible practices, traceability and professional farm management. Independent, third party certifiers inspect farms to ensure compliance and 10 per cent of certified producers are

³⁹ Visit <http://www.utzcertified.org>.

⁴⁰ Visit <http://www.ahold.com>.

inspected annually in unannounced on-site audits (Utz Certified 2010). While Utz started its governance for coffee, they now also offer certification for palm oil, cocoa and tea.

Utz standards are progressively being subdivided into two types of control points, mandatory and additional. In order to obtain certification, an organization has to comply with the mandatory control points and an indicated number of additional points in all three parts. As time passes (from initial to the fourth year of certification) producers are required to comply with an increasing number of mandatory points. While the majority of the control points refer to the physical production process, Chapter 10 carries requirements for Workers Rights, Health and Safety (Utz Certified 2009). Among other standards eight core ILO conventions are reaffirmed, including worker entitlement to freedom of association and collective bargaining; the prohibition of forced labour and no employment of children under 15 years of age (Utz Certified 2009: 23). On wage levels it is only required that “Workers (permanent and seasonal) are paid gross wages that comply with national legislation and sector agreements, whichever is higher” (Utz Certified 2009: 25); with no mentions of the requirement for a fair or living wage.

One unique element of the Utz certification is that the end products are traceable from farm or cooperative to factory via an on-line system; Farms are monitored and certified, but the coffee is not certified unless its sale is registered in Utz Kapeh’s tracking system (Raynolds et al. 2007). While this means that Utz Kapeh addresses the traceability concerns of the large retailers more than any system, independent comment⁴¹ suggests that data is not necessarily accessible and useful to consumers.

Utz Certification: Problems and Issues

Utz Certification is one of the fastest-growing certification programs in the world – although, it has been suggested that this is possibly due to popularity among commercial organizations that see the certification as providing ethical credentials for little change and expense. Indeed, independent analysis of the social and environmental standards of Utz certification has suggested that it is weak in comparison with other systems. For example, while Rainforest Alliance certification requires that all children of school age who live on site have access to

⁴¹ An article at Cooperative Coffee’s website, “Making Sense of Certification — Fair Trade, Direct Trade, Rainforest Alliance, UTZ, Whole Trade, and Organic,” dated March 30, 2008, is available at http://www.coopcoffees.com/all_news/media/articles/making-sense-of-certification-2014-fair-trade-direct-trade-rainforest-alliance-utz-whole-trade-and-organic/.

education, Utz standards only require that the certification holder “stimulate” the uptake of “primary education,” “through awareness raising meetings with...parents” (Smith 2008a: 66). It has also been noted by the Coffee & Conservation blogs⁴² that UTZ certification actually provides little protection for the environment.

Social Accountability International⁴³ & SA8000

Social Accountability International (SAI) was founded in 1997 and is a global standard-setting NGO concerned with the improvement of workplaces and communities. While the organization has corporate members, in 1998, it convened a multi-stakeholder Advisory Board (comprising of including representation from companies, trade unions, NGOs, suppliers, government agencies, certification bodies, social investment firms, and human rights activists) to develop SA8000, a global standard for human rights at work. This is a voluntary standard is designed to embed human rights in the supply chain or workplace governance structures and as such, the requirements of the standard are based on United Nations and ILO conventions and declarations, national law, and the International Organization for Standardization⁴⁴ (ISO) management systems. The standard is based on the eight human rights components:

- Child labour
- Forced labour
- Health and safety
- Freedom of association
- Discrimination
- Discipline
- Working hours
- Remuneration.

SAI contracts the oversight and licensing for the SA8000 to Social Accountability Accreditation Services (SAAS) who in turn audit organizations registered to certify companies against the standard. All of these organizations can be found on the SAAS website. Many types of companies are eligible for SA8000 accreditation, including those involved in agro-food production. Once a company is certified as complying with the SA8000 standard, it is permitted to advertise the fact as a means to contribute to its ethical identity.

⁴² For example, visit http://www.coffeehabitat.com/2007/02/utz_kapeh/.

⁴³ For more on this topic, visit http://en.wikipedia.org/wiki/Social_Accountability_International.

⁴⁴ For more information, visit <http://www.iso.org>.

Opportunities for Improving the Situation of Informal Workers?

Given the diversity of Fair and Ethical Trade governance, it is very difficult to draw firm conclusions about the extent to which practices have the potential to improve the situation of informal workers. Indeed, to date, empirical evaluation of how such schemes have affected the informal economy has been limited to focus on certain initiatives, at certain times in certain places. Having said this, suggestions can be drawn out from analysis of the standards themselves and the empirical understanding that does exist.

All in all, it appears that together Fair and Ethical Trade offer significant potential for informal workers as such governance offers to reinforce state provisions, which for one reason and another have not been complied with. For example, in southern countries suppliers and manufacturers of goods sold into northern markets have often been successful in avoiding labour and environmental requirements due to problems of national monitoring and enforcement; and this has also occurred to a significant degree in more developed economies. Obviously in some cases the state has been more directly complicit as labour and environmental laws have been weak even on paper. Indeed, inherent in the nature of the informal economy is a lack of state regulation. In this context, Fair and Ethical Trade offer to compensate for these inadequacies by either raising standards and/or providing additional mechanisms for monitoring and enforcement of standards within informal economic sectors.

To begin with, Fair and Ethical Trade governance systems have targeted sectors of production which have a long standing association with the informal economy. For example, Fair Trade has been increasingly focused on agriculture undertaken by small scale self-employed farmers, and now, larger units of production which regularly utilize temporary or seasonal informal labour. Likewise, some Ethical Trade initiatives have focused on this sector as well as suppliers and manufacturers of manufactured goods, for example garments, where again, there is significant contact with the informal economy.

Furthermore, examining the wording of various schemes reveals that governance is, in theory, often extendable to *all workers* associated with an encompassed organization. For example, FLO Hired Labour standards state that “The term ‘workers’ refers to all workers including migrant, temporary, seasonal, subcontracted and permanent workers” (FLO 2010:

5). Likewise some sections (Employment Policy, Freedom from Discrimination and Freedom of Labour) of the Standards for Small Farmers' Organisations apply to:

All waged employees of the producer organization and of its members. It includes migrant, temporary, seasonal, sub-contracted and permanent workers. Where family labour of members of the small producer organization is employed directly by the organization, the term "workers" also includes them.

(FLO 2009d: 24)

Although Rainforest Alliance Standards do not define "workers" it is implied that requirements extend to "all workers" (Rainforest Alliance 2009: 21). Utz specifies that standards apply to all workers defined as "a person who works on a farm or in a processing location, either permanent or temporary, and who is paid for the services provided" (Utz Certified 2009: 22). In this light, all the provisions of these standards are in theory applicable to any informal workers and thus have the potential to encourage the granting of rights where previously these were ignored. Likewise, the ETI states that members must require suppliers to comply with the Base Code as well as ensuring that all their own suppliers, throughout the supply chain, also comply (ETI 2009). More specifically, it is noted that "member companies should give special attention to the rights of workers most vulnerable to abusive labour practices, notably women, homeworkers, agency workers, temporary workers, migrant workers and smallholders" (ETI 2009: 1).

In some cases however, Fair and Ethical Trade governance fails to incorporate actors operating in the informal economy. For example, some sections of FLO standards for Small Farmers' Organisations concerned with Freedom of Association and Collective Bargaining, Conditions of Employment and Occupational Health and Safety refer only to where a "significant number of workers are employed by the organization" and where these workers are involved in producing a Fairtrade product (e.g. in a processing facility) (FLO 2009d: 25). Indeed, the standard notes that "The focus of the compliance criteria as set by the certifier will be on the permanent workers" (FLO 2009d: 24) and that "All permanent workers must have a legally binding written contract of employment" (FLO 2009d: 29). While these conditions might stimulate the formalization of some employment, it might also be considered that there is a regulatory gap through which more informal, temporary workers might fall. To take another example, Utz standards only require "permanent workers" to have "employment agreements/contracts" and only after the third year of certification (Utz

Certified 2009: 25). As these do less to encourage formalization, standards might not produce the same incentives to informal labour. However, at the same time, with limited formalization the ability to audit the conditions of informal workers is significantly reduced along with the incentive for organizations to so extend standards to the more informally employed – a situation which might be a significant oversight given the amount of temporary and informal labour often hired by certified small farmers (Luetchford 2008). Again, it can be hypothesized that the cultural and personal attitudes of management responsible for the implementation of governance will play a strong role in the benefits to more informal economic actors (Hemingway and Maclagan 2004), as well as the wider economic imperatives (du Toit 2001).

Where governance systems do technically include informal workers it can be hypothesized that this might lead to the extension of better working conditions and livelihoods – to be more on a par with more formal actors. Moreover, much of the Fair and Ethical Trade governance can be seen to potentially facilitate the increasing formalization of labour involved in production. For example, FLO Hired Labour standards similarly require that “All regular work is undertaken by permanent workers” who must have formal contracts; “time-limited contracts and any subcontracting are permitted only during peak periods, in the case of special tasks and under special circumstances”; and that “temporary workers who are employed for a period of 3 months or more of uninterrupted service must have a legally binding written contract of employment”(FLO 2009b: 16-19). The Rainforest Alliance standards, as those of FLO, require that formal contracts and records are kept for all workers and that the certified “farm must directly hire its workforce, except when contractor is able to provide specialized or temporary services under the same environmental, social and labour conditions required by this standard” (Rainforest Alliance 2009: 21). As a result of these requirements, producer organizations might be encouraged to increasingly formalize labour in order to comply with standards (although there is obviously no guarantee of compliance). Where organizations move to formalize labour, this could strengthen the possibility of labour rights and additional benefits embedded in governance (for example a living wage where it is applicable) being extended to this group. Alternatively, this process might also increasingly isolate currently informal employees unable to enter formal relationships. This could either be because individuals are not able to meet the conditions of formal employment (which

often explains their position in the informal sector in the first place) or because work is reallocated to existing formal workers.

Indeed, there should be legitimate concern that governance is leading to the increased exclusion of informal labour and less capable organizations as brands try to reduce risk of being associated with poor production conditions. For example, in the garments sector, lead firms have sought to manage the reputational risk emanating from having informal homeworkers in their supply chains by either: cancelling orders where subcontracted homeworkers have been used;⁴⁵ and/or concentrating production into larger scale, more formalized production sites. Indeed, the leading UK clothes brand George, sold in ASDA supermarkets (part of the Wal-Mart Group) and a member of the ETI, uses a traffic light system to rate suppliers. Those which are compliant with George's Code of Conduct are given green a light and continually invited to supply; critically non-compliment suppliers are given red and struck from the supply network; and moderately non-compliment firms are given the opportunity to improve to green, or also be struck from the supplier network. The result of this system has been a 36 per cent reduction in the number of suppliers over the last three years, and it is a stated aim of George to make a further 25 per cent reduction. The outcome of the scheme is the concentration of orders in production sites which can best implement and monitor appropriate production conditions (Wright 2009); and this is to the potential exclusion of homeworkers. Far from an isolated example, there is a conscious exclusion of homeworkers from the supply chain by some lead companies; a situation which is likely to little improve the livelihoods of informal workers.⁴⁶ Furthermore, the trend towards centralization of supply with certain suppliers who meet the appropriate standards can be seen in many sectors. In food for example, producers are increasingly required to hold a range of Fair and Ethical Trade certification to access markets in the northern. While this might raise the quality of livelihoods for some, there is also a possibility that others will lose out if they are not able to meet the new costs and requirements (Sidwell 2008).

⁴⁵ For example, after media investigations of homeworking conditions, Primark the UK clothes retailer, cancelled any future orders with three suppliers in Tiripur on the basis that they were carrying out unauthorized subcontracting (Homeworkers Worldwide 2008).

⁴⁶ Indeed, there is significant evidence that the loss of livelihood in one sector due to rising "ethical standards" can drive individuals to undertake work which is in even more detrimental to themselves and their families (Ranjan 1999).

Against this trend in the exclusion of workers operating in the informal sector, some stakeholders are making proactive attempts to maintain livelihoods while at the same time extending efforts to improve working conditions and livelihoods for these individuals. For example, members of the ETI have collaborated to produce guidelines designed to tackle homeworkers' poor conditions;⁴⁷ a move which seek to encourage companies to acknowledge homeworkers as a legitimate and vital part of their supply chain, and to take active steps to improve their conditions. Furthermore, individual companies, such as the UK clothing brand Monsoon, have specifically stated an intention to main maintain homeworker livelihoods of appropriately good standards.⁴⁸ Having said this, while the ETI allows companies to make a commitment to improve labour standards and livelihoods, it precipitates the contradictory position of advocating better labour conduction and thus more expensive production, and maximizing financial returns on commercial operations. Again, the importance of commercial culture is likely to play an important role in mediating the benefits of Fair and Ethical Trade governance to informal economic actors. It could well be the case that more beneficial returns to informal workers come from those organizations with development, social justice and livelihood development as their main reason for operation. Among these might be counted the 100 per cent Fair Trade clothing company People Tree, the chocolate marketing company Divine Chocolate Company, and intermediaries such as Traidcraft.

Empirical Understanding

While there are efforts to extend governance to informal workers, questions can be raised over how effective governance is translated into practice. In considering empirical impact it emerges that private and voluntary systems of governance can and do provide notable benefits for permanent and regular workers. However, previous research also suggests that Ethical Trade schemes, such as the ETI, have less impact on migrant and third party contract workers who often still experience poor working conditions (Barrientos and Smith 2006). For example, in the case of the application of the ETI to the Southern African wine industry it is noted “outsourced” workers have very different interests from those of regular employees, and are rarely positively impacted by standards based governance (du Toit 2001: 3). After an assessment of African horticulture it was concluded that “social codes have not necessarily

⁴⁷ For more information on these guidelines, visit <http://www.ethicaltrade.org/in-action/projects/homeworkers-project/guidelines>.

⁴⁸ For more information on this topic, visit <http://www.monsoon.co.uk/content/ebiz/monsoon/page/ethicaltrading/hp.pdf>

achieved better outcomes for women and informal workers, owing to the gendered economy” (Tallontire et al. 2005). Again, reviews of Ethical Trading schemes tend to conclude that while codes have led to improvements in outcome standards but little change in process rights for workers (Barrientos and Smith 2007). Having said this of course, such evidence appears to have had a significant impact on the operation of the ETI which, as has been noted above, has taken significant steps to extend the benefits of the system to informal workers. It now remains to be seen if these changes to governance systems will be able to expand the opportunities that they afford to informal workers.

As for Fair Trade initiatives, the majority of work has been concentrated around the impact of FLO certification; indeed, there is little or no independent published evidence on the empirical results of WFTO governance. Generally impact assessments of FLO governance suggest there is no reason to think that minimum prices are not paid to producer groups; and thus that this system represents increased opportunity for this component of the informal economy. Furthermore, consensus shows that net financial gains for individual farmers are usually higher and less variable for products sold through Fairtrade certified cooperatives (Bacon 2005). Those studies that have compared Fair Trade to the returns from involvement in other certification have found that FLO Fairtrade produces a preferable price return. One study from Nicaragua found that while organic certified coffee was sold at the farm gate in 2000-2001 for \$0.84/Lb, Fairtrade certified was more valuable at \$0.84/Lb (Raynolds et al. 2007: 155). Raynolds et al. found that FLO Fairtrade certified coffee returned a price higher than those certified under either the Utz, Rain Forest Alliance or Organic labels (2002: 422).

However, having said this, the Fair Trade price is only governed as far as the first order cooperatives (Utting-Chamorro 2005: 589). Thus, cooperatives have the ability to set their own “internal” price structure (Bacon 2005), and can potentially save money by sourcing from those willing to sell for less. If this is a wide spread occurrence, it questions Raynolds (2002: 418) argument that Fair Trade strengthens local civic values as internal governance is more reflective of market organization than “relational” and trust-based patterns that are often expected. Indeed, with the entry of supermarkets into FLO certified supply chains, there are other powers which might dictate the local way that FLO benefits are distributed. For example, when Tesco began to buy bananas from the Windward Islands they overrode internal decision to allocate island quotas equally by insisting on sourcing the majority of

fruit from Dominica (Smith 2008c: 8). This situation raises questions about the ability of FLO certification to guarantee opportunities to informal agricultural producers.

Having said this, studies do confirm that there is potential for individual producers to benefit from FLO governance. For example, Utting-Chamorro (2005) concludes that in the case of two cooperatives studied in Nicaragua, farmers can now provide their families with basic levels of nutrition, education, and healthcare; this is a superior level of capability than that experienced by control groups of farmers not certified by FLO. It is also shown by independent analysis that Social Premium payments have the potential to bring about improvements not only for the immediate contribution that they make to traditional measurements of living standards (such as nutrition, etc.), but also the way this expands future livelihood options. With this in mind it is notable that such inputs have included: improved access to clean water (Doherty and Tranchell 2005; Utting-Chamorro 2005) latrines and lozenge stoves (Raynolds et al. 2004); new schools (Doherty and Tranchell 2005: 170) and other educational inputs such as provisions and uniforms (Moberg 2005: 12; Raynolds et al. 2004: 1117; Ronchi 2002: 7-8; Utting-Chamorro 2005: 594); free medical care and prescriptions via mobile clinics (Doherty and Tranchell 2005: 174); community health services and medical supplies for members and non-members (Raynolds et al. 2004: 1117; Utting-Chamorro 2005: 594); electricity to local dispensaries to refrigerate medicines (Parrish et al. 2005: 184). However, it is important to note that the impacts of the Social Premium varies considerably with the volume of output which is sold under FLO certified conditions (Utting-Chamorro 2005: 594).

In terms of the potential offered to those informal stakeholders who interact with agricultural production as wage labour there has been very little independent analysis of the impact of FLO governance. The most comprehensive study of coffee workers in Nicaragua (Valkila and Nygren, Forthcoming) suggests that while great potential exists for FLO governance to contribute towards the situation of these stakeholders (as noted above), FLO certification alone might not be sufficient to facilitate this. Indeed, in this case FLO governance had been poorly embedded within the management of the producer organization and while advantages had come to the organization as a whole, the livelihoods of workers had been little improved.

One final issue which requires consideration of Fair Trade governance and indeed Ethical Trade governance has been raised around the extent to which these systems interact with wider economic development; specifically, that efforts to increase prices returned to the developing world have an impact on the process of diversification and structural change identified as central to overall development. From this perspective, some commentators have accused Fair Trade governance for acting against the long-term interests of southern development by distorting price signals (either through minimum prices or what is seen as charitable over payment) which incentivize diversification away from problematic sectors (Chambers 2009; Collier 2008; LeClair 2002; Sidwell 2008); and for this reason some have argued that Ethical Trade governance is a more effective means of assisting groups marginalized from the benefits of international trade (Griffiths 2010; Sidwell 2008). However, in response it has been argued that this position stems from a highly theoretical approach which does not translate well when the practicalities of the developing world are considered. Hayes (2008) draws attention to the inappropriate assumptions that labour in developed countries is fully employed (as opposed to the reality that the majority of countries have exceptionally higher rates of under- and un-employment). Likewise, Smith (2009b) highlights the empirical reality that the counterfactual to Fair Trade governance is very unlikely to be diversification into more profitable sectors given the overwhelming constraints of risk and lack of resources faced by poor producers. In this light, it is argued that “far from retarding diversification, Fair Trade might in fact actively contribute to this essential process by overcoming problems of risk and capability deprivation” (Smith 2009b: 459).

Conclusion

This paper has sought to provide an explanation of both the Fair and Ethical Trade movements; to identify significant breakthroughs and existing limitations; to discuss the major players in each sector; and finally, to provide insight into the opportunities that such governance might offer for improving the situation of informal workers.

Overall it has been demonstrated that the Fair Trade movement arose in the context of the Second World War as a social movement focused on improving the livelihoods of marginalized producers in poorer and less developed economies. The intention was to increasingly link producers with wealthier markets, and to do so under conditions which redistribute the costs, risks and benefits in a way which enhances the situation of southern stakeholders. Towards the end of the twentieth century, problems led to the increasing formalization of this approach and eventually Third Party certification was developed. This change allowed the principles of Fair Trade to be used in mainstream supply chains for the first time; has led to the increasing involvement of corporate players; and led to the significant expansion of the movement. This was again significantly influenced by the development of FLO certification for Hired Wage Labour, such as that employed on plantations, and in this respect the Fair Trade movement has borrowed from the Ethical Trade movement (Smith and Barrientos 2005).

Ethical Trade, on the other hand, emerged as a corporate response to the rise of ethical consumerism in the 1980s. In place of concentrating on the conditions of trade, this governance has focused on labour and environmental conditions (to varying degrees) in producer organizations, suppliers and manufacturers. Due to this focus, some Ethical Trade schemes have drawn criticism that while they have imposed additional requirements on producers and suppliers they have done little to alleviate some of the causes of these problems (Acona 2004; du Toit 2001). However, depending on the focus of the scheme, significant transitions have been seen to include other issues such as the practices of buyers and wider development issues in the country of production: and in this, sense Ethical Trade has also adopted some of the tenants of a Fair Trade approach.

In summarizing the possibility for Fair and Ethical Trade governance to expand the opportunities afforded to the informal economy, it is very difficult to generalize, either across

the categories or within them. However, perhaps one universal conclusion is that while any governance system (both the standards and its wider structure) might present opportunities for the improvement of informal workers, empirical outcomes are far from certain given the other variables necessary for positive impact. Particularly of note appear to be the importance of the wider economic environment in which schemes seek to operate, as well as the culture and attitude of management required to implement these practices.

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