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Is fairtrade labeling fair? A perspective through the relationships between producers, third- party certifiers and consumers

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Abstract:

How actors are in a broad sense able managing their actions within the global fairtrade system? That means what is fair and what is not fair in the relationship and why? To tackle these questions we mobilize literature about the fairtrade system to define and characterize this concept, and delineate its consequences. We use researches focused on inter organizational relationships and governance mechanisms to analyze fair actions between producers, third party certifiers and their partners in the fairtrade market. We analyze consumers' perceptions about fair and non fair actions in the fairtrade market. We show that the fairtrade system is not in itself outside the picture; the fairtrade principles should be viewed and analyzed also from the concrete situations in place. So it is important to consider practices and strategies of people and organizations that implement the system.

Keywords: actors, fairness, fairtrade, governance, relationships

Introduction

People are social in their live and in their business, so they need connections to others to be performing (Asch, 1952). According to Asch people interact in social networks to create value. Competition in markets oblige them to consider their environment, i.e. natural environments, social settings, built environments, informational environments and learning environments (Mayo, Pastor and Wapner 1995; Uhrich and Koenigstorfer 2009). By considering this conception of the environment, it is important for partners in a relationship to share profit equally (between employees and stakeholders) to create value in the long run (Bouinot, 2001). In other way, the loyalty of consumers for their firm can be affected when this one is not responsible (Lewis and Mackenzie, 2000).

In this context, fairtrade is also considered through social and environment actions between producers in developing countries and actors in developed countries (consumers, distributors, third party certifiers, etc.). How do fairtrade actors themselves develop their activities and strategy by using fairtrade standards? It is important to understand all of the responsibilities (corporate social responsibility) of actors in a fairtrade market.

In a fairtrade market, producers and others actors must respect some standards linked to the fairtrade system. At the same time, some actors in the relationship must make profit and reach their own interests even if they are involved in fair actions. So we want to understand how actors in a broad sense manage their actions within the global fairtrade system. That means what is fair and what is not fair in the relationship and why? To answer our research question we will investigate relationships in a fairtrade market to explain why exchange happens in this market and to present the global setting of the exchange. Mainly theoretical, our paper presents results of some case studies in the fairtrade market that stressed fair and non fair practices.

In the first part, we mobilize literature about the fairtrade system (Renard, 2005, FINE, 2001) to define and characterize this concept, and delineate the consequences. In a second part, we use research focused on inter organizational relationships and governance mechanisms to analyze fair actions between producers, third party certifier and their partners in the fairtrade market (Araujo, Kjellberg and Spencer, 2008; Getz and Shreck, 2006; Hanataka et al. 2006; Renard, 2003). In the last part we analyze consumers' perceptions about fair and non fair actions in the fairtrade market (Zhang, 2011; Pedregal and Toulouse, 2011).

I. The fairtrade context: definitions, characteristics and consequences

The fairtrade network has emerged as a counter power against free trade since a few decades. According to FINE (2001), fairtrade consists to some actions: i) To work with marginalized producers and workers in order to help them move from a position of vulnerability to security and economic self-sufficiency. ii) To empower producers and workers as stakeholders in their own organizations. iii) To play a more substantial role in the global arena when it comes to achieving greater equity in international trade (Boonman and al. 2010: 4). Fairtrade aim also to address global challenges, such as accelerating climate change and worsening environmental conditions. In this context, the Sustainable Fairtrade Management System (SFTMS) has been implemented by The WFTO to transform any business in its entirety, including all products and services, into a sustainable fair trading business. So fairtrade has other objectives and mobilizes other resources that people in the industry (Boonman and al. 2010).

The logic of fairtrade is to be found in the guaranty to consumers that the product sold will have ethical properties. Among other properties, the idea is that of “justice, exchange equity,

solidarity and opposition to the dominant relations within the conventional market” (Renard, 2005). To take an example, the demand of Mexican cooperative of coffee producers to help them to market their product in Europe and the influence of NGO has allowed the creation of the first fair label Max Havelaar are the origin (Renard, 2003). From a first initiative in the fifties with a concept of “unequal exchange” (Fridell, 2004), the fairtrade rapidly grew and diversified. According to Renard (2005), “it exists today in 14 countries of Europe, the United States, Canada and Japan, principally under the names and labels of Max Havelaar, TransFair and Fair-trade” (Renard, 2005). Nowadays more than one hundred of products are sold under the label fairtrade.

Fairtrade is based on some principles around a “Fairtrade Minimum Price” and a “Fair-trade Premium”. Through a “Fairtrade Minimum Price”, fairtrade allows to ensure that farmers get a fair price for the sustainable production of their traded goods (FLO: Annual Report, 2010). So farmers should increase their business profitability and in turn their individual income. ‘The Fair-trade Premium’ is invested in community development (education and health care); it is charged on top of the minimum price (Boonman et al. 2010: 11).

By applying these main principles, the Fairtrade movement has addressed the issue of poverty among marginalized producers in the South : paying a ‘fair price’, creating better trading conditions and promoting sustainability enables producers to enhance social and environmental standards. So the quality of life in the most disadvantaged villages in the world has improved. Others actions are oriented towards children (to protect them, to get education) and producers (to help them to invest in machines, new cultivation and environmentally friendly production techniques) (Boonman et al. 2010).

The higher price received by producers helps them to reduce poverty, to increase their well-being, and the quality of life. Fairtrade principles include also equal treatment of both genders, and take the environment into account. An example of the environmental consideration is the development of the Sustainable Fairtrade Management System (SFTMS), aimed at making the entire company more sustainable. This report shows the hard numbers to support these claims (Boonman et al. 2010: 44).

Through the application of the principles, fairtrade provides access to (export) markets, creates jobs, and ensures fair working conditions.

To enter in this system, each actor involved must found its interests. Often view as a marketing niche, fairtrade products have to satisfy specific objectives of the stakeholders. For instance, it has to provide better prices for farmers, sufficient margins and access to new market for intermediaries, a positive and credible ethical image for consumers, and an efficient market price for third party certifiers.

It is important to acknowledge the fairtrade system is itself inclusive of a specific social order, i.e. that it will established a symbolic order between consumers (usually from Northern countries) and producers (from Southern countries). But this symbolic relationship comes along with a complete set of organizations and individuals which are necessary to support the exchange: to name few intermediaries such as retailers, communication agencies, brokers, certifying organizations, public bodies.

Then the first part of the analysis developed by the communication is to question the concrete situations of each stakeholder and each participant, including consumers, and to identify how these situations may affect (or may be affected by) their interests and/or strategies within the fairtrade system.

II. Relationships between fairtrade organizations and their partners: how are standards applied?

The core question of the fairtrade system is the fairtrade standards. So firstly it is important to understand the foundations of a market and market practices before to identify fair actions (or not fair) in a fairtrade market.

Several researches (Araujo, Kjellberg and Spencer, 2008; Kjellberg and Helgesson, 2006, 2007a, 2007b) have identified different market practices: *normalizing practices* that involved a set of rules by issuing standards, codes of conduct, certification criteria (used for example to address how the chemical markets is shaped by actors); *representational practices* dealing with drawing images of the market structure (for example help describe how chemical markets work); *exchange practices* telling the relationship and interaction between buyer and seller (can help to explain how chemical business actors involve in market exchange), (Zhang, 2011: 4-5).

We note that organizational practices in a relationship can be influenced by some norms or standards but also by the structure and the context of the exchange, the impact of some partners inside and outside the relation. Indeed, some aspects can impact relationship in a market: location, government policies, environmental change, etc. It is the case for “local food” when firms and government must make efforts to localize food system (Hinrichs, 2003). By studied food system localization efforts in Iowa (USA), this author show us the complexity of “local” food is linked to contradictory politics of food system localization. So standards definition and implementation are not ‘pure’ objects but should be contextualized by different market practices.

In this paper we focus on practices of the partners for fairtrade products. Raynolds (2000, 2002) presented two visions of the fairtrade label. In one way fairtrade label is viewed as a process that must make all exchanges fair (fairtrade as economy model), a tool of transition. In other way fairtrade consist to introduce products from the South under fair conditions in the markets of the North. So relationship in this market aims to introduce fair products in the North, to convince consumers and to strengthen the producer organizations of the South (Renard, 2003). The fairtrade product is based on the quality. In general quality is considered as social construct that contributes to coordinate the economic activity of the actors. It is represented through rules for quality (create by collective institutions) or through acknowledgement of forms of local ties among actors that allow them to communicate and negotiate.

In a fairtrade market organizations instituted certification of quality to guarantee the conformity of the product by using some standards. It is the fairtrade Labeling Organization International (FLO) which is responsible for securing certification of the fairtrade products: granting licenses for the use of the label to manufacturers and/or importers who comply with the conditions of Fairtrade (Renard, 2003).

The certification must allow local famers to sell local production at a fixed price which includes the normal price and a premium. So in a fairtrade market farmers and cooperatives produce commodities such as sugar cane, coffee, cocoa beans and tea, at a small scale (Matienzo, 2011).

Fairtrade certifications imply to think not only on the people who were producing any given good, but the customer who was buying fairtrade products in the market (Matienzo, 2011). “FLO had international fairtrade standards and labels for seven commodities: coffee, cocoa, honey, and cane sugar (all four of which are produced primarily by small producers organized into marketing and processing cooperatives); and tea, bananas, and orange juice (which are produced either by small producers or large plantations with hired labor)” (FLO

2001). FLO-certified goods are exchanged under the terms of a minimum guaranteed price and include “social premiums” paid by the buyer to producer communities for the development of social and physical infrastructure such as hospitals, schools, and roads (Fridell, 2004).

Following the work of Hanataka et al. (2006), Getz and Shreck (2006) stressed that the certification process is not neutral. So the question is to identify “How does the certification process intersect with and affects local spaces, cultures and community at the point of production.” (Getz and Shreck, 2006).

It is necessary to identify the real benefits and costs of third-party certification. It is suggested that the monitoring system that is a part of the certification process may disrupt local governance at the production level. For Getz and Shreck (2006), “the enactment of certification at the point of production creates a disconnection between expectations raised by the label and the ‘lived experience’ of production” (Getz and Shreck, 2006). Their case study about Fairtrade bananas in Guatemala showed that the role of the certification process in affecting production conditions is perceived at two levels:

- The level of understanding by producers of the meaning of Fairtrade: there is a lack of transparency in the rules and a purely top-down approach where exporters set up producer organizations only for the necessity of the Fairtrade system.
- An unequal access at the local level to the Fairtrade network

On the other hand, disagreement appears between producers in developing countries (Mexican cooperatives) and distributors in develop countries (the French Company “Carrefour”). The disagreement appears when the fairtrade product (coffee) is selling directly to consumer at a price that exceeds fairtrade price. Also the coffee can be marketed in Europe under the seal “Bio Mexique” without the Max Havelaar fair label (Renard, 2003).

We noted that relationship between producers, third-party certifier and their partners involved fair actions but caused also unfair results when these actors applied fairtrade standards. In this context how are consumers perceptions affected?

III. Relationships with consumers and perceptions about the fairtrade concept

Activities of the partners in a relationship can be influenced by habits, routines or beliefs. Beliefs are also considered as habits and routines of action (Zhang, 2011).

Fairtrade is a way to help people work their way out of this type of poverty, by means of trading according to fairtrade principles (Boonman, and al. 2010). But in a fairtrade market, sometimes, consumers perceived fairtrade initiatives for producers as negative actions (Renard, 2003, 2005). Indeed, in developing countries some producers accept the higher prices proposed by companies in develop countries (businessmen) just to survival not to produce and sell products that respect the fairtrade standards. Here ethical principles are not respected. Consequently the perception and loyalty of the consumers for these products can be affected.

According to Renard (2003, 2005), legitimacy and governance mechanisms can involve problems in the fairtrade market. Legitimacy implies the problem of ethics actions: what is “ethical”? What is responsible? Legitimacy of the fairtrade products is analyzed via some actions of producers, consumers, distributors, etc. It is important for consumers to know if profits are shared equally among partners and used in the best way (investment in social actions).

Consumers of fairtrade products want to make sure that their money will be used properly and will support sustainable development. The first product traded with this label was coffee

from Mexico. Max Havelaar seeks that whenever a fairtrade product is sold, incomes are used properly (Max Havelaar, 2011 in Matienzo, 2011).

Fairtrade products are sometimes considered by consumers as products that follow sustainable development concept. For consumers, these products (sustainable products) must have some characteristic: made locally to further the development of local employment and reduce transport costs, to respect environment (during the production and the use), to respect the different actors (producers, salaries, etc.), (Pastore-Reiss, 2011).

Consumers search also quality evidence in the products. The studies realized by Ethicity¹ present this demand through some statistic in France: 60% of the population (executives and middle having between 25 years and 50 years) would more be convinced to buy more sustainable products if they had concrete proofs of their best quality (Pastore-Reiss (2011).

Consumers consider responsible consumption as a consumption based on local products, eco-labeled, less polluting, paid less products and not expensive, no change habits but consume more sustainable products. So in France, the tendency of consumption is focused on local products and packaging: 27% of French declare that they avoid regularly products that have more packaging; 24% prefer frequently local products, 32% avoid regularly products with individual packaging; 30% declare that they take attention to not buy brands of the company that they blame the behavior (Pastore-Reiss (2011). These authors showed that consumers remark products that are not identified clearly. For example in France, consumers noticed that : sustainable development products are not easy found and rapidly (62%); there are many labels for sustainable development products (61%); it is difficult to understand information about sustainable products (56%); they can be encourage to buy sustainable products in the stores if they have a good visibility (25%). So they demand more visibility and simplicity for sustainable products.

In general consumers have no trust in the quality of the sustainable product (54% having more than 65 years). For them it is important to have some information. Consumers want that hyper market inform them about products in their shore (80% of the population) because they think that companies do not give them enough information about the production conditions (77% of the population). So they need transparency about social and environmental engagement of the companies (48% of the population), (Pastore-Reiss (2011).

However, the consumers place a high importance on the sensory appeal of the food that they eat; they are engaging less often in price related buying behavior, being more willing to pay a higher price for a tasty product (Stancu, 2011).

Governance mechanisms focused on norms (standards) can help firms to answer consumers demand. However some norms can create rigidity and cause the domination of the actors. So social relations are affected and the socio-economic stratification within small farming communities can increase (Getz and Shreck, 2006).

Concluding comments

In sum, we show that interorganizational relationships between producers, third-party certifier and consumers in a fairtrade market favor fair actions if fairtrade principles are respected. On the other hand, we remark that it is not easy to apply some principles so consumers' perceptions can be affected negatively.

¹ Ethicity is a council office in development and independent sustainable marketing, created in 2001 to co-innovate the offer, and invent lifestyles for a desirable world. For it, the company helps and conducts the organizations by bringing them the vision and the tools to develop their offer of products and services.

It is necessary to communicate around the fairtrade concept, i.e. around the social, economic and environmental actions for consumers. That means partners in this market must be clear about the guarantee of the label (the quality and security of the products, to distinguish fairtrade products to organic products). It can be also profitable to explain actions of the fairtrade organizations in the world, actions that will legitimate the label.

In the fairtrade market partners must also review and adapt standards in order to create the conditions of real fairtrade actions and behaviors. Indeed, the fairtrade system beyond the respect of standards, does not guarantee the complete fulfillment of fair concrete situations. The union of farmers can allow them to have a strong position in their negotiations with companies and the government, and their knowledge increases. So producers that participate in the Fairtrade movement are able to take their future into their own hands (Boonman et al. 2010).

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