Achieving fairness in trading between supermarkets and their agrifood supply chains

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Preface

This paper reviews the opportunities and risks in incorporating fairness into mainstream trading between supermarkets and their agrifood supply chains. It was commissioned by the UK Food Group's Trans National Corporations Working Group to inform member organisations' research and campaigning strategies. The authors are grateful to members of the UK Food Group and external reviewers for valuable comments on earlier drafts.

What are the prospects for fair trade to become the norm rather than exception for trading between supermarkets, their suppliers, and farmers at home and round the world? That is the question asked in this paper, which comes at a time of widespread scrutiny of UK supermarkets and their influence on the livelihoods of food producers and suppliers.

Prime Minister Blair has twice described farmers' relationships with supermarkets as an "armlock", first in March 2001, when he promised action, and almost exactly four years later in March 2005.[1] Over the space of those four years, Tesco's profits doubled from £1 billion[2] to just over £2 billion,[3] and the company extended its lead over its rivals, with a market share increasing to very close to 30%. Tesco and Asda, which together account for nearly half of UK supermarket spending, are squeezing hundreds of millions of pounds from their suppliers every year in a permanent price war to deliver these kinds of profits and growth rates to their investors year after year.

The cost of this financial success in rural livelihoods is clear, but there has been very little regulatory action in those four years, despite much scrutiny from the competition authorities. Those charged with regulating supermarket power seem to asking the wrong questions, as demonstrated by a recent Office of Fair Trading report which gave supermarkets a qualified clean bill of health in their relationships with suppliers (OFT, 2005). And competition policy seems incapable of looking beyond narrowly defined economic efficiency and consumer interest in prices, but not their wider interests.

Despite the increasing cost-price squeeze which supermarkets are placing on their suppliers, the government has high expectations from supermarkets as engines of rural development in Africa. Making markets "work for the poor" is a cornerstone of the development policy of the UK and many other donor countries. Long-term business relationships with small enterprises in Africa are, as the Commission for Africa states "one of the most important ways in which larger companies can promote the participation of poor people in growth".[4] This paper shows that, based on experience to date, governments' faith in the beneficial effects on poverty of large companies may be misplaced.

Summary

Fairness and equity in trading relations between supermarkets and their supply chains is a hot topic, both in the development debate (about smallholder access to markets) and the domestic farming debate (on the crisis in family farming).

But the topic is largely absent from current approaches to Corporate Social Responsibility (CSR). 'Fair trade', with its origins in the trade justice movement, is largely treated in the marketplace as a high-end niche, in the form of an extra cost to consumers for Fairtrade labelled produce. And 'ethical trade', with more recent roots in CSR, is treated as a cost to suppliers in the form of imposed standards and codes. 'Ethical' codes make little mention of producer price despite huge imbalances of market power between producers and retailers. In fact, the current trading environment is characterised by both a proliferation of standards for ethics and sustainability *and* the abuse of market power by powerful buyers, leading to a classic cost-price squeeze for producers.

The marketplace is about to get even more confusing, with a proliferation of 'sustainable',

'ethical' and 'responsible' claims with varying degrees of rigour.

In order to bring fairness and justice into mainstream trading relationships, innovative retailers can start to bridge this arbitrary and artificial gap between 'fair' and 'ethical' trade. This briefing paper proposes the development of a set of guidelines for retailers that wish to incorporate fairness and justice into their trading relations, learning from the Fairtrade experience, to expand rather than constrain opportunities for small and family scale producers. By this corporate standard (rather than a brand or mark), customers could be assured that their purchases across the board have not contributed to the exploitation of producers and misuse of market power. The potential opportunities and risks associated with introducing such guidelines are highlighted in this paper.

But the room for manoeuvre for innovative companies is severely constrained by the current structure and governance of agrifood markets, which reward 'economies of scale' (i.e. squeezing suppliers) while failing to provide a public policy environment which would curtail the abuse of market power. This paper concludes with a series of public policies - especially competition policy - that would be required to underpin fairness and equity in companies' mainstream trading practices.

The challenge

Fairness in trading is at the cutting edge of efforts to secure a more just and sustainable agrifood system. Many businesses have implemented programmes to reduce the damage to the environment and animal welfare of food production and transportation. But there has been much more reluctance to put policies in place which reassure consumers that their purchases have not resulted in the exploitation and economic marginalisation of primary producers - the farmers and workers who grow and harvest our food.

Meanwhile there is a crisis in family-based farming, both in the North and South. The historically low farm-gate prices paid for coffee are an extreme example, but the crisis is global, extending from the hill farms of Wales, to the banana plantations of Ecuador and across the prairies of Iowa.

Fairness and justice in trading is partly about price, which for commodities is influenced partly by the balance of supply and demand. But price is not the only ingredient of fair trading practices. Other trading practices reflect gross imbalances in market power between producers and their customers, especially the large retail chains. These include a lack of any commitment to long-term trading relations, or demands for fees, discounts and credit terms, or compliance with costly standards without a price premium, all of which favour suppliers with deep pockets.

For a range of tropical commodities such as coffee, cocoa and bananas, consumers can seek out labelled produce with embedded fair trade criteria that have passed along dedicated supply chains. The fair trade criteria defined by certification and labelling organisations include a minimum producer price and 'social premium' (an extra payment made to the producer group usually for investment in group or community projects, the use of which is monitored). Experience with mainstream retail of Fairtrade product lines however demonstrates the limitations of extending the concept of fairness in trade to the wider corporate policy. Moreover, ethical purchasing policies are restricted in scope and may actually pose barriers to smaller producers, especially in poorer countries.[5]

The challenge is to integrate fairness into mainstream trading. Oxford Policy Management and IIED (2000) list three main routes by which the scale and impact of fair trade[6] can be increased: (a) Rapid expansion of Fairtrade labelling, (b) encouraging large processors (Cadbury, Nestlé, Unilever etc.) to develop Fairtrade labels on branded lines; and (c) using experiences gained within fair trade more widely for producers to engage more effectively with the broader market. This paper is focusing on (c). But incorporating fair trade into the mainstream is a minefield. If done badly, it can erode progress to date. False or misleading ethical claims, like the experience of "greenwash" with supposedly environmentally friendly products, may both confuse and alienate consumers and leave farmers worse off.

But the most serious obstacle lies in the structure of markets and the imbalance of market power between producers and retailers, with its inherent risk of entrenching unjust trading practices.

This briefing paper begins by discussing the limitations of fair trade and ethical purchasing in the current retail context. This is followed by a discussion of some recent attempts to incorporate fairness into mainstream trading relationships, especially in terms of broadening the market and integrating fairness into its buying and contracting policies. The ingredients of a fair trade retailer are proposed, based on key elements of current fair trade standards, and going beyond the simple issue of price. Before setting out recommendations and a framework for research, relevant essential public policy interventions are suggested to support such a transition. However, there are important risks in this approach too; so this area will continue to require careful research.

The emphasis is on supermarkets, though it is appreciated that there are other ways of developing fair trade structures that bypass major retailers, which deserve more widespread attention.

1 The retail context

What makes the issue of fairness and justice in trading increasingly topical and urgent is the process of consolidation in UK food retailing, which is partly driven by corporate expectations that larger buyers can extract more favourable terms[7] from suppliers. The loss of Safeway from the UK retail scenery has increased the four-firm concentration ratio (CR4) to around 75%; in other words, three-quarters of the country's supermarket food shopping is done in just four firms-Tesco, Asda, Sainsbury's and Morrisons. A strong oligopsony (i.e. a market dominated by a few buyers) is considered to occur when the CR4 rises above 50%. Bearing down on suppliers and passing savings onto customers has been one of the pillars of the Wal-Mart strategy.[8]

The Competition Commission 2000 report on UK supermarkets concluded there was evidence that supermarkets were abusing their position of power and engaging in practices that adversely affected the competitiveness of suppliers. To address these adverse effects it was recommended that a *code of practice* be introduced to govern supermarket-supplier relationships. Competition lawyer Michael Hutchings points to the annexes of the 2000 report which show a clear relationship between a supermarket's share of the market and their ability to extract more favourable terms from their suppliers. Tesco, then with 25% market share and now over 29%[9] can extract 4% better terms from suppliers for their top five lines.

The fact that retail consolidation unquestionably leaves a declining share of value for other parts of the chain-workers on the retail shop floor and processing sector, primary producers and farm or plantation labour-means that attention to trading fairness and justice is of paramount importance. Though these supply end problems are not visible to customers, they have been described in the case of bananas as anti-development and regressive and a "perverse transfer of wealth, by some of the supermarkets, from farmers and farm workers of developing countries to the consumers of developed countries".[10]

As modern retailing spreads to mid- and low-income countries, this becomes a global issue rather than one of exports from the South to the North.

1.1 Fair trade-successes and limitations of fair trade labels

Retailers will point to a commitment to FAIRTRADE labelled (FT) goods that are certified against Fairtrade standards (Box 1) as a sign of commitment to fairness and justice in their trading relationships.

'Getting' Fairtrade has been part of a trend since the mid-1990s in which supermarkets and food companies have sought to de-commodify their mainstream lines, with organic, Fairtrade and 'local' branding offering both reputational and profit benefits. Major supermarket chains not only stock Fairtrade products but have introduced Fairtrade lines amongst their own brands in products such as coffee, tea and chocolate, contributing to both the growth in sales and increased public awareness of the concept of Fairtrade. Similarly, some major branded food companies, both processors and food service, offer the consumer a fair trade choice.

In northern Europe the range of fair trade products available continues to expand and more conventional companies offer a product with a fair trade label. In Europe alone the annual retail sales of fair trade products amounts to EUR 260 million,[11] with an additional $183m in North America and the Pacific Rim.[12] In the UK market, Fairtrade is becoming more widespread; there are now 140 products with the FAIRTRADE mark.

However, Fairtrade labelling alone is not a strong proxy for a retail company's commitment to fairness and justice in trading.

The first problem is that for most retailers it tends to be 'salad on the plate' (Ruano, 2003) and does not affect their core business operations. It is "one of the tools in the CSR [Corporate Social Responsibly] armament rather than a basis for doing business" (Young 2003). This is underlined by the fact that many retailers have positioned FT as an up-market niche. In effect retailers have made fairness and justice in trading a consumer choice-a test of their customers' willingness to pay for non-exploitative trading with primary producers-rather than a *corporate standard* and a means to transform their mainstream businesses.

And as a high-value niche, there has been evidence that retailers are extracting more of that price premium than the producers. Some of this increased retailer mark-up may be justified to cover the increased costs of handling small volume products. But clearly when Fairtrade meets processor and retail power, price distortions are an inevitable consequence. In coffee, retailers and especially roasters benefit disproportionately from product differentiation (Ponte, pers comm.). For bananas, a common tactic is to price Fairtrade bananas per pack, while dollar bananas are priced per kg.[13] A survey in June 2003 by Connect Global[14] reported that of the Fairtrade mark-up on bananas of £0.78-0.90/kg in the three largest supermarkets surveyed, around £0.35-0.65/kg was retained by supermarkets and £0.24 passed to farmers.[15] Producers do of course have a minimum price guarantee, but due to niche rather than mainstream positioning, retailers are missing the opportunity to grow the market, though there are some exceptions (see The Co-operative Group in section 2).

So if fair trade does not break out of its niche position or rapidly increase the range of labelled products, including those bought from the North, there is always the risk of it being used as a fig leaf over socially destructive relations within mainstream trading relations. Examples include retailers using Fairtrade bananas from the Caribbean as an 'alternative consumer choice' to their mainstream business of 'dollar' bananas from the plantations of Latin America.

Even within the fair trade movement, questions are being asked about whether the purchase of certified fair trade goods is an effective a way of achieving systemic fairness in trade (Vallely 2003). Some groups are investing in other approaches such as schemes to facilitate improved access to conventional markets for marginalized producers, and lobbying on codes of practice on retailer-supplier trade relations.[16]

The second and related problem is of market size. Over the 10-year life of the FAIRTRADE mark, sales of FAIRTRADE labelled products in the UK have grown rapidly, with good shares of some tropical commodities such as coffee, tea and bananas. The volume of sales of FAIRTRADE marked products grew by 90% between 2000 and 2002 (Fairtrade Foundation

Box 1: Fairtrade standards

The FAIRTRADE labelling Organisation (FLO) stipulates two sets of generic producer standards, one for small farmers and one for workers on plantations and in factories. The first set applies to smallholders organised in cooperatives or other organisations with a democratic, participative structure. The second set applies to organised workers, whose employers pay decent wages, guarantee the right to join trade unions and provide good housing where relevant. On plantations and in factories, minimum health and safety as well as environmental standards must be complied with, and no child or forced labour may occur.

As Fairtrade is also about development, the generic standards distinguish between *minimum* requirements, which producers must meet to be certified Fairtrade, and *progress* requirements that encourage producer organisations continuously to improve working conditions and product quality, to increase the environmental sustainability of their activities and to invest in the development of the organisations and their producers/workers.

Trading standards stipulate that traders have to:

- pay a price to producers that covers the costs of sustainable production and living;
- pay a premium that producers can invest in development
- partially pay in advance, when producers ask for it;
- sign contracts that allow for long-term planning and sustainable production practices.

Finally, there are a few product-specific Fairtrade standards for each product that determine such things as minimum quality, price, and processing requirements that have to be complied with.

Source: FLO

2003).[17] The FAIRTRADE mark has been rigorously protected and now has high consumer recognition, and has encouraged a debate about 'third world' farmers way beyond its market presence.

But at around £130 million, FT sales account for only 0.17% of the £76bn spent on food and drink in the UK in 2003, or 0.09 % of the £144bn total consumer expenditure on food, drink and catering services. Despite high current rates of growth, the FT market is likely to hit a ceiling, in the same way as the UK organic market, which now seems likely to plateau close to its current value. A recent World Bank report on coffee (Lewin *et al*, 2004) raises the question of whether some FT coffee markets in Europe may be maturing in this way.

A third issue is that the FAIRTRADE mark is positioned to try to tackle poverty in the Third World and is recognised by consumers as such. There has been no way for consumers to seek out large portions of their purchases which have been grown in the North-meat, dairy, non-tropical fresh produce or processed food-from fairly traded sources, other than via direct markets such as farm shops. An attempt by the Soil Association to expand FAIRTRADE labelling to UK produce failed because of serious unease in the Fairtrade movement about brand equity being diluted and consumers becoming confused. Instead, an 'ethical trade pilot scheme' was recently launched by the Soil Association, in which selected suppliers of UK produced primary products are applying standards for (a) fairer treatment of workers, (b) a fairer return for

Figure 1
Soil Association co-labelling for ethically traded produce

© Soil Association

farmers, and (c) a positive contribution to the local community. Compliance with these standards will be demonstrated through co-labelling (see Figure 1) with the first product(s) carrying the symbol due to appear in Spring 2005.[18] Interest from suppliers seems to have been limited.

Fourth, the Fairtrade markets, as niches, are easily saturated. Renard (2004) reports that in some Fairtrade markets there is a situation of oversupply, because the niche has not grown fast enough to meet the expectations of farmer organisations that want to escape from poor commodity prices, especially in coffee. Because entry barriers are low and price premiums are high, this gap between FT registered production and actual sales is likely to worsen. This is not a fault of Fairtrade per se; it is unsurprising that Fairtrade registers would be full, as any supplier would prefer to sell at the better terms which FT offers. As long as sales of each product line continue to grow, it will be possible to sell products from more producers on the registers.

Fifth, the 'alternative' credentials of Fairtrade, that has defined itself as an oppositional movement, are constantly disputed as the brand attracts the interest of the largest agribusinesses. The FT niche is big enough to draw attention of the main retailers and some processors, especially from an image perspective. Kraft, for example, has acknowledged that the demand for Fairtrade, while only minor in business scale, has nevertheless created "major image problems for the traditional coffee industry as a whole" (Vallely 2003). And in some markets such as bananas in Switzerland, with a 15% market share for FT that is soon projected to grow to 30%, "neither Chiquita nor Dole will be able to continue ignoring this new competitor in the market."[19] The amendment to FT standards in January 2002 has made it possible to certify agricultural estates, so far for bananas and tea. Dole has teamed up with FLO to certify as Fairtrade some bananas it sells in Europe, and the company is exploring "the feasibility of further collaboration with the Fair Trade movement."[20] Similarly, Procter and Gamble launched a Fairtrade coffee line in the US under the Millstone brand to a great fanfare (Box 2).[21] The question is, whether this is this appropriation or a sign of FT success? For many large companies, Fairtrade accounts for an insignificant proportion of their overall purchases and may be simply a defensive move to counter hostile lobbying. Until the fair trade movement resolves these smallholder vs. plantation tensions, perhaps with a clear definition of 'disadvantaged producers and workers' based on access to markets as well as income, then these threats to the credibility of the brand are likely to become more serious.[22]

Meanwhile, there is no doubt that unfairness in conventional trading is continuing to squeeze profits and people out of farming worldwide, and even in those niches where Fairtrade is succeeding, the continuing price deflation in conventional food is undermining the Fairtrade

Box 2: Procter and Gamble go Fairtrade

In September 2003, Procter and Gamble announced that it would introduce Fairtrade coffee products through its specialty coffee division, Millstone. Fairtrade purchases will start at around 1% of imports, and will eventually amount to 2-3 million pounds per year or 6% of coffee imports. This is equivalent to the current annual Fairtrade purchases of the small coffee company Equal Exchange. One response to the announcement was for NGO and humanitarian groups to drop their campaigns against the company, including a shareholder resolution filed in April 2003 complaining about the company's purchasing practices and calling for the company to take steps to address the crisis in the coffee market.

Source: Oxfam America press release; SustainAbility

brand by widening the price gap between the two-the so-called 'spillover price effect.' There is a risk of a mini 'race to the bottom' within FT, with buyers scouring the world for the cheapest FT produce.

At the same time, there has been something of a backlash against the Fairtrade movement from advocates of neo-liberal market reforms, from Nestlé to the Adam Smith Institute.[23] They see Fairtrade's minimum prices as sending market signals to continue overproduction, and delaying the inevitable need for producers to move into higher-value production. Nestlé "do not believe that the fair-trade approach is a solution for the present coffee crisis" because it would "encourage those farmers to increase coffee production, further distorting the imbalance between supply and demand and, therefore, depressing prices for green coffee." Nestlé claim that their purchase of 14 % of beans directly from farmers "enables the farmer to retain a greater portion of the price paid by Nestlé, therefore improving his income."[24] The Fairtrade Foundation stressed, however, that due to domination by the roasters, the current market is itself far from competitive. Also, supply is not so price elastic as the orthodox economists would have us believe; low price has not led to lowering of production due to the dependence of farmers on the crop and limited alternative production opportunities; actually there are perverse effects when prices fall, whereby farmers in some contexts actually increase production to compensate for lost income.[25]

1.2 The limitations of ethical trade

Another existing set of internationally recognised standards that relate to fairness and justice in trading is rooted in CSR and is aimed at improving working conditions and human rights in the workplace. In the UK the most prominent of these ethical trade standards is the Ethical Trading Initiative's Base Code, developed by a consortium of companies, trade unions and NGOs in response to public concern and some rumblings from government. This set of minimum standards (hence 'base' code) is applied by member companies in a wide range of retail and wholesaling sectors, including supermarkets and major clothing outlets.

The ETI and similar initiatives elsewhere in Europe and North America have had undoubted success in raising awareness within participating companies of labour standards along supply chains. Nevertheless, it is increasingly recognised that codes have a limited scope and the way in which they are implemented may actually undermine good working conditions.

A first limitation is the fact that codes have tended to focus on formalised workers in largely industrial-type employment but rarely informal workers or own account producers such as home-workers or out-growers and smallholders.[26] However, the ILO definition of a worker is anyone who substantially contributes their labour to making a product, which means that their core conventions now do cover informal workers.

A second limitation of ethical trading codes is that they focus on working conditions and worker rights but say very little about trading relations and put all the responsibility for compliance on the supplier.[27] The ETI's Principles of Implementation do require that "the code and the implementation process is integrated into the core business relationship and culture…Negotiations with suppliers shall take into account the costs of observing the code."[28] But this requirement is a subject of debate amongst ETI members rather than something that is considered by all corporate members or rigorously enforced by the ETI Board. ETI is now focusing more on purchasing contracts. But in most retail companies there is a wide structural, management and cultural gap between the people who develop and monitor codes and those who make purchasing decisions. Some supermarkets have recognised that buyers need to be made more aware of working conditions and link purchasing decisions to compliance with codes, and have instituted training for their buyers on codes so that they reward good practice rather than just best prices and quality, but by and large there has been little done to change buyer incentives.

Oxfam's recent report *Trading Away our Rights* (2004a) highlighted the way in which ethical trading standards, including labour rights, are being undermined by the way in which the supply chain is managed and by the business model of global supply chains adopted by powerful retail and brand firms. "Global supply chains have created new opportunities for labour-intensive exports from low cost locations…A dramatic growth in the number of producers heightening competition for a place at the bottom of the chain. At the top end, however, market share has tended to consolidate among a few leading retailers and brand names…Through the contracts they negotiate and the conditions they demand, they can capture much of the gain generated by trade" (Oxfam 2004: 34). This is echoed by Bendell (2004) who, referring to sweatshop practices, writes "The power of Northern actors in these processes meant that the cause of the problem was largely defined as the practices of Southern country suppliers, rather than regarding this as a symptom of the problem of one-sided buyer-supplier relations between Northern and Southern companies and countries."

The application of codes in supply chains raises a number of challenges for smaller scale producers:

- Logistics and the sheer number and traceability of smaller producers involved in export supply chains
- The potential of codes to exclude small producers from the supply chain, especially given the investment needed to meet the standards and demonstrate compliance
- The appropriateness of standards (especially the indicators used to measure them)
- The cost of monitoring large numbers of scattered producers.

These concerns are particularly acute in sectors where small producers compete with larger producers for the same market and where buyers can choose whether to buy from large producers or small producers. In export horticulture there have been trends towards supply chain consolidation, which inappropriate application of

Box 3: EUREPGAP standards

EUREPGAP began in 1997 as an initiative of the Euro-Retailer Produce Working Group (EUREP, which now has 23 members in10 countries, including the major supermarkets and McDonald's Europe) with the laudable goal of harmonising supply chain standards worldwide for good agricultural practice (GAP). In 2003 there were 445,000 ha certified in 41 different countries, with 13,040 growers registered, 11,000 of which are in Europe.

The main focus of the EUREPGAP Protocol 2000 is standards for food safety and traceability designed to meet consumer concerns about pesticides and food hygiene, with environment and worker welfare issues as a secondary concern. Growers receive EUREPGAP approval through independent verification from an approved certification body. But representatives of poorer country producers have expressed alarm at the 'imposition' of EUREPGAP standards by retailers without due consideration of local conditions. There are two main objections:

1) The current standards favour large-scale producers and threaten the livelihoods of 'hundreds of thousands of people' in exporting countries. In a study in the Sao Francisco Valley in Brazil, it was found that large and integrated suppliers are best equipped to deal with EUREPGAP.

2) The standard is in effect a barrier to market entry. EUREPGAP requires growers to have an annual farm audit. An audit costs about 450 Euros; for a grower in Ghana for example, this will absorb perhaps 70% of their profit.

Sources: *Fresh Produce Journal* 19 Sept 03; Banana Link; van der Grijp et al. (2004)

codes amongst smallholders may only accelerate, especially with the dominance of the EUREPGAP code (Box 3). Pushing small producers out of the supply chain may be less likely in beverage crops such as tea, coffee and cocoa where smallholders may, in some regions, dominate production. However, the insensitive application of codes may unduly increase the costs borne by smaller producers reducing their returns and leading to further impoverishment and marginalisation.

The limitations of codes of practice and performance standards alone as a way of improving worker and supplier conditions are increasingly recognised. Codes say very little about the responsibilities of purchasing companies; the onus is on the producer to comply, and ethical standards audits at farm and factory 'focus on documenting labour problems that exist, without asking why those problems persist' (Oxfam 2004a: 7). Moreover, codes have been implemented in an ad hoc way across sectors and countries with limited collaboration with stakeholders, including government.

In summary, standards for ethical procurement have not addressed the issues of inequitable and unjust trading relationships that underlie poor conditions for workers in the farms, plantations and packing plants that supply our food retailers and processors. It is therefore important to look at other ways to bring fairness and equity in trading into the mainstream.

2 Integrating fairness into trading

2.1 Experiments in integrating fairness into trading

Apart from stocking niche FAIRTRADE labelled products, or implementing codes for ethical procurement, what have innovative companies attempted to integrate fairness and justice into their mainstream supply chains? And do these efforts point to types of best practice which could be recommended for food manufacturers and retailers?

A new approach to FT own brands

The decisions by the Cooperative Group-ranked fifth in UK supermarket retailing-to buy its entire own-brand block chocolate through FT sources in 2002, followed by own-brand coffee in 2003, were important milestones for FT in the UK. The decision represented a significant risk for the retailer. Rather than going for low volume at a high price, the Co-op decided to take a hit to its margins, gambling on a compensatory increase in volume. This gamble has paid off, and the Co-op has actually grown the FT market in a difficult retail sector. Whilst Tesco may now stock more FAIRTRADE marked products than the Co-op,[29] it has not taken the same leap of faith into Fairtrade supplies. Other initiatives for comprehensive rather than niche marketing of FT are the AMT chain of coffee outlets, whose coffee is 100% FT, and Marks and Spencer which converted all its High Street coffee shops to Fairtrade.

Similarly, the success of the Max Havelaar Fairtrade bananas in Switzerland is due to deliberate policies by the leading retailers Coop and Migros, which are engaged in an ethical 'race to the top'. Since February 2004 the Coop is selling all its bananas with the Max Havelaar label.[30]

Introducing Trading Terms into the Guidelines on Implementing the ETI Base Code with Smallholders

As discussed earlier, the ETI Base Code and other 'ethical' codes of practice focus on the rights and needs of workers. As such, trading terms are not explicitly covered in their criteria or recommendations. However, the ETI is now investigating the special situation of smallholders in member supply chains and is considering how certain clauses may need re-interpretation in recognition of the smallholder position as worker and employer. For example, what does the living wage requirement (ETI Base Code 5.1) mean for prices paid along the supply chain? How do prices relate to the costs of production? What sort of contract should the smallholder receive? What does the requirement for security of employment mean for a smallholder? Does it mean a long-term commitment from buyers?

The ETI recommendations for its Base Code with respect to smallholders are currently being field-tested and are subject to final approval by the ETI board. However, it is significant-that the particular challenges of smaller producers with regard to labour standards and how these may relate to trading relationship-are now coming onto the agenda.

Preferred supplier and quality premiums

In the coffee sector, some companies have begun to reward producers for supplying quality coffee through offering longer term contracts and above-market prices. Most significant among these is the price incentives pilot project by Starbucks and the Utz Kapeh scheme which encourages participating buyers to pay a 'sustainability differential'. In contrast to FT, neither of these schemes implements a floor price (as in Fairtrade), but their contracts offer some stability for preferred suppliers.

● *Starbucks Preferred Supplier Programme* [31]

Starbucks began a pilot programme to link preferred supplier status with social and environmental performance in November 2001 and is starting to spread this programme to its suppliers around the world. Price incentives, offering a healthy premium over the market price, are offered based on a points system for environmental (50%), social (30%) and economic criteria (20%), which are assessed by a third party. In addition, the programme offers long-term contracts which offer some stability for producers. Only those suppliers gaining full marks are awarded preferred supplier status. It is not clear if the price differential is sufficient to cover the costs of production; moreover, the price differential is discretionary on the part of Starbucks.

● *Utz Kapeh* [32]

The Utz Kapeh code for 'Certified Responsible Coffee' was developed by a Foundation with headquarters in both the Netherlands and Guatemala, set up with the support of the global retailer Ahold. The code is based on EUREPGAP and is thus a baseline assurance of good agricultural practices in coffee production, but is more detailed and onerous than the normal EUREPGAP standards as regards worker welfare. The Foundation aims to "bring social and environmental performance to the mainstream"; the proposed code for good practice is intended to be "a ticket to entry to an emerging market for mainstream certified responsible coffee". Utz Kapeh sets out to support existing brands rather than stake itself in the market as a separate brand. Ahold's *Albert Heijn* chain of supermarkets in the Netherlands now uses Utz Kapeh certified coffee in all of its own-brand "Perla" coffees.

Utz Kapeh aligns itself with CSR, and strongly differentiates itself from FT, which it sees as niche. Like other codes of conduct, it does not specify a floor price or a 'living wage' but the code includes a commitment to long-term commercial relationships between buyers and producers. Utz Kapeh certifies large estates as well as cooperatives of smallholders (Ponte, 2004). The Foundation recommends that buyers pay a Sustainability Differential to producers when market prices are low. These are not fixed and at present it is not clear if this is monitored. List prices paid by Utz Kapeh buyers cited by Renard (2004) were above market prices (US$ 0.70-0.77/lb compared to US$ 0.60/lb) but significantly below the FLO price of US$ 1.26/lb.

Representatives of the Max Havelaar FAIRTRADE label have expressed concern that Utz Kapeh represents a threat in the form of 'Fairtrade-Lite'. But Utz Kapeh counter that "For these cooperatives and others that are not able to join the Fair Trade register, the Utz Kapeh certification offers them new possibilities for selling their coffees and for adding value to their member farmers. We have received positive feedback from these producers about the extra value that the Utz Kapeh program is bringing to them. One point of difference from Fair Trade: Utz Kapeh is open to all kinds of producers and producer groups, large and small, cooperative and estate. And while some would want to focus almost exclusively on the issue of price, Utz

Kapeh takes a broad approach to create access to mainstream markets and to increase the competitiveness of participating producers over time." [33]

Socially responsible trade as key performance indicator

The world number two food retailer Carrefour (sales EUR 81 billion in 29 countries) is addressing the issue of "fair, long-term relationships with our suppliers" within its strategy for sustainable development, under its 'economic and social responsibilities' (Table 1). The performance indicator-the "number of products sourced through socially responsible and fair trade" is encouraging, but terms are not defined other than that "Responsible trade products are own-brand and retail-banner products" while "Fair trade products are certified national brand-name products (e.g. Max Havelaar)." The company also lists the defence of customers' purchasing power among its sustainability strategies, which is optimised through "rationalisation, massification and the shortening of channels" - which graphically demonstrates the Janus-faced position of major retailer in trying to generate consumer value while conducting "socially responsible trade".

To summarise, innovative companies have experimented with the concept of 'socially responsible trade' within their CSR and sustainability agendas. These initiatives may incorporate elements found within certified Fairtrade production, such as direct and/or long-term contracts with producers. But they do not necessarily share the objectives of fair trade with regard to either a floor price or enabling market access for disadvantaged producers. Some of these initiatives have been accused of confusing the consumer, devaluing the fair trade standard, or 'greenwashing' to provide a fig leaf over injustices in mainstream business operations.

It is necessary, therefore, to spell out what are the potential ingredients of a 'fair trade retailer', and what public and private policies would be

Table 1: Extract from Carrefour's 2003 Sustainable Development Report
(emphasis added)

Our economic and social responsibility

Our commitments in 2001
- Respecting our suppliers
- Getting involved in the local economy
- Motivating our staff
- Satisfying our customers

Our 2002-2005 action plan
Strengthen our partnerships with local business in every country and *promote fair, long-term relationships with our suppliers*

Key performance indicators
- Percentage of total food sales achieved using local suppliers (in-country products)
- *Number of products sourced through socially responsible trade and fair trade*

Our main advances in 2003
Creation of a Supplier Relations Monitoring Committee at the group level (p.20)/conclusion of agreements with local organizations (p.40)/organization of commercial and communications events (pp.20 and 40)

Source: www.carrefour.com/english/nosengagements/telechargement.jsp

necessary to create a facilitating environment for those initiatives to succeed.

2.2 Ingredients of a fair trade retailer

The challenge is to take fairness in trading into the mainstream, learning from the successes and challenges of Fairtrade, while avoiding (a) dilution and 'greenwash' and (b) undermining the FAIRTRADE mark.

As mentioned in the introduction, Fairtrade has four key elements: (1) direct purchase, (2) long term relationships, (3) guaranteed minimum price and price premiums (the 'Social Premium', and (4) payment in advance. The question is, can a retailer take key elements of FT and introduce those elements into all of a company's dealings with primary producers and intermediaries, as a corporate standard (rather than a brand), so that customers can be assured that their purchases have not contributed to the exploitation of producers and workers?

Procurement from small-scale producers and family farmers, and their organisations

An essential component of any shift to integrating fairness into mainstream trading must be a reversal of the trend towards a narrow supply base of a few large-scale suppliers.

Through effective organisation, smaller scale producers can overcome the higher transaction costs associated with dispersed production. Fairtrade procurement encourages the formation and effective working of co-operatives, which then have positive effects on the wider rural economy (Milford, 2004). Learning from FT, supermarkets and their suppliers have a role in assisting in the development of economic organisations of smaller producers, ensuring that supermarket business supports national policies for broad-based rural development.

A persistent challenge is the demonstration of compliance with standards and 'due diligence' across so many smaller producers. Tesco frankly acknowledge the difficulties of incorporating smallholders into their fresh produce supply chains without (presumably public sector) project support. In 1994 Tesco established a scheme for small growers in Kenya supplying beans and peas, with a "simple farm assurance standard." But within 12 months the scheme was closed, as "to manage 'due diligence' consistently proved difficult for local managers." The company has concluded that "Schemes for fresh produce involving small growers will require substantial support." [34]

Such barriers to the participation of small producers and suppliers will have to be addressed by a retailer that is serious about equitable trading relationships, both in the application of current standards and the design of new ones. This was echoed by the Africa Commission who, in their recent report (Commission for Africa, 2005), complained that inadequate account is taken of poorer country perspectives in standards: "Prescriptive codes - reflecting concerns of developed country stakeholders - can have unintended consequences on small-scale suppliers, excluding them from market opportunities if they are inappropriate or costly." [Ch 7 para 134]. They conclude that "Supermarkets should assess the development impact of their procurement and standard setting practices on smallholders and help them integrate into the supply chain [Ch 8 para.]"

Long-term and direct relationships with producers

A cornerstone of fair trade is the long-term trading relationship between producer and buyer that lasts longer than a season, and which creates a more stable environment for producers to plan and re-invest in the farm. A longer term mutually beneficial relationship built around information and training empowers the farmers' organisation to link to the market. It allows smallholders and family farmers to adapt to meeting a buyer's requirements, whether it is a code or quality specifications. Fairtrade's focus on enabling producers to comply with standards over time is in contrast to many performance standards in which "standards have to be fulfilled before you can label the product" (Cierpka 2000).

Minimum price, 'Cost Plus' and its limitations
The price element of fairness in trading can be achieved in theory by basing prices on the so-called 'cost plus' methods, calculating production costs and building on a margin which covers a reasonable return on labour and investment. Fairtrade pricing for tea is set in this way-price is negotiated between buyer and seller to cover production costs as a minimum, unlike coffee where a futures mark*et al*lows a minimum 'fair' price to be set. Some supermarkets also profess to use cost-plus; Asda/Wal-mart claim to be "working to create ways of paying farmers that are based more on what a crop costs to grow rather than the dropping market price." [35]

But some farmers complain that 'cost plus' is just another exercise in market power, a way of ratcheting down farmgate prices by forcing growers to open their books and "share efficiencies" with their buyers, and this certainly seems to have been the experience of suppliers to Asda/Wal-Mart.[36] One east Anglian farmer reported the experience of having to submit minimum costings in order to remain a supplier and was then forced down to the costings supplied.[37] Since then costs have risen but "no account has been taken of that" by the customer. There are also risks of price agreements and minimum pricing encountering objections from national and EU competition authorities (Box 4); competition concerns have also been raised about crisis agreements between UK retailers and dairy farmers to raise farm income by passing payments back up the supply chain.[38]

Box 4: Minimum prices and farmer protests in France

Falling revenues sparked angry protests from French farmers recently with fruit and vegetables being dumped outside government buildings. Tonnes of tomatoes, peaches, nectarines and melons were left outside offices in the south-western towns of Perpignan and Montauban. The farmers claim that many big supermarket chains are underpaying them and over-charging consumers to drive up profit margins.

France's economy and finance minister, Nicolas Sarkozy, has suggested imposing a minimum price for producers on wholesalers and supermarket groups. However the head of the union representing tomato farmers, Pierre Diot, warned such a move would be "suicidal" without state subsidies for unsold stocks.

Sarkozy has suggested tomato farmers be paid 85 euro cents a kilo instead of the 30 euro cents currently obtained on the market. But Diot said buyers were unhappy with that price, particularly when Belgian and Dutch grown tomatoes could be had much cheaper. Other fruit and vegetable farmers have yet to strike a deal with the supermarket chains.

There were also questions over whether any price agreements would pass scrutiny by both the French and European competition authorities.

Source: *French farmers protest.* Freshinfo News 22 August 2004

Advance payments
Access to pre-shipment finance is a significant barrier to the participation of many small and medium size enterprises in high value markets. Producers' access is generally limited due to factors such as lack of collateral, limited trading experience and complex banking procedures, as well as the semi-formal or informal nature of many producer enterprises. Where artisans have previously only sold small quantities (the proceeds from which they use to buy raw materials for the next order) they have no working capital when a big order arrives. In agriculture where crops are sold seasonally and farmers receive payment long after delivery, there is often a shortfall in cash to purchase inputs for the next season's production.

Recognising this constraint, a key element of fair trade systems is the pre-financing of production. The details of a mechanism for pre-financing are the subject for a separate paper. But in the FLO coffee criteria, producers may request up to 60% of the price as an advance. This may create severe cash flow problems for some importers and a study of North American importers of fair trade coffee indicated that the vast majority did not provide advances and would not be able to do so if requested (cited in May *et al* 2004).

A first step in better business practices is payment within 30 days, rather than the 60 or even 90 day payment terms which present such an obstacle to smaller scale producer engagement with supermarket supply chains.

Coherence between corporate policies and procurement practices

There is a serious issue in most retailers of double standards, between the policies of corporate responsibility and sustainable development, and targets and incentives given to buyers. It is the buying departments that are the interface between retailers and their supply chains, and yet very few retailers have actually changed buyers' incentives to incorporate ethical standards. A *Financial Times* special report[39] summed this up as "One part of the company could be attempting to ensure contractors' employees are not exploited, while the buying department is pressing for lower prices. This forces contractors' margins down, which makes it more difficult for them to raise wages or give staff time off." Some retailers have begun to train their buyers on the codes that their technical colleagues are implementing, and the Co-operative Group is introducing targets for buyers based on co-operative values as well as commercial sales targets. This may ease some pressures on suppliers but does not go so far as incorporating buyer responsibilities or trading terms into codes.

Independent scrutiny and accountability

Retailers' performance on fairness and equity in trading must be subject to external scrutiny and verification, which requires comparative measurement tools. Ground-breaking work at Imperial College for the Race to the Top project[40] led to the design of a quantitative survey of suppliers, asking supermarkets' first tier suppliers to evaluate their UK supermarket customers on the aspects of integrity of supermarkets' trading relationship with suppliers and ultimately farmers/growers. The survey design was based on extensive qualitative research with the apple and pear, milk, potato, red meat, poultry and pork chains, and was grounded both in organisational theory (Kumar's concepts of distributive and procedural justice[41]) and the Competition Commission's findings. The survey rightly starts from the premise that *price* is not the only driver of supplier satisfaction or dissatisfaction, compared to process issues such as sharing information, adequate notice of changes, and rapid turnover and poor knowledge of supermarket buyers (see Fearne *et al*., 2004).

2.3 Risks

Expanding the concept of fairness and equity in trade also carries some serious risks, especially to the integrity of the FAIRTRADE mark and the brand reputation of Fair Trade companies.

Consumer confusion

Representatives of FAIRTRADE labelling organisations have expressed concern that the proliferation of ethical claims will cause consumer confusion and represents a threat in the form of "Fairtrade-Lite." The FAIRTRADE mark has very high brand recognition-around 50% of consumers surveyed by the Fairtrade Foundation knew the symbol. There are risks of consumer confusion arising from a surfeit of labels and claims from both businesses (in retail, manufacture or distribution) and other ethical or sustainability labels. A recent Guardian article pointed to the experience with ecolabels in the 1990s-when retailers developed their own labels and on-packet claims-as an example of undermining a market through consumer confusion; a point borne out by a recent

Consumers International report on 'green claims' (Consumers International, 2004).

The two largest coffee companies, Nestlé (which has been a harsh critic of Fairtrade) and Kraft Foods (now part of Altria), are both planning to launch 'ethical' coffee brands in 2005, including a 'Kenco Sustainable Development' brand from coffee certified by the Rainforest Alliance.[42] Kraft is proposing to pay farmers who adhere to its ethical criteria a 20% premium on the price of coffee beans on the world market. And the 'Ethical Tea Partnership', which includes Tetley, Sara Lee, Twinings and Unilever, are starting an on-pack campaign to demonstrate 'ethical sourcing'-primarily around labour standards-though again there is no guarantee of minimum price and the aim is not much more than complying with national legislation.

There is also risk of confusion with the new certification offered by IFAT (the International Fair Trade Association)[43] which certifies member organisations in relation to their overall policies and objectives rather than the purchasing of any particular product. An FTO (Fair Trade Organisation) Mark is awarded to trading members of IFAT in relation to nine standards, which are concerned with reaching the economically disadvantaged, transparency and accountability, capacity building, promoting Fair Trade, improving the situation of women, child labour, working conditions, the environment and the payment of a fair price.

Greenwash

Some businesses would be tempted to boost the equity of their own brands through some form of co-branding, declaring themselves a 'Fair Trade Retailer'. If these claims have a weak underpinning and companies have simply jumped on the fair trade bandwagon, then fair trade will encounter criticisms of being hijacked for the purpose of greenwash, leading to declining consumer confidence and a net loss in benefits for small farmers.

But greenwash is already a feature of fair trade, through no fault of its own; retailers when challenged will point to their Fairtrade products as their main contribution to fairness and justice in trading relationships, despite accounting for only a small element of their total food and drink turnover.

Distraction from the policy agenda

Last but not least, the 'privatisation' of fairness and justice in trading can be a distraction from the serious public policy agenda of regulations which must underpin the fair and efficient working of markets.

3 A supportive policy environment

For supermarkets to improve the equity and fairness in their trading relationships with the world's farmers, there are a number of policy areas which need reform in both the public and private sector to ensure a supportive and coherent policy environment for companies to do the right thing. This is an area which needs a concerted programme of action research, so the proposals presented here are tentative.

3.1 Public sector policy

Reform of the international trading system.

Trade justice is an essential cornerstone of fair trade. Fairness and equity in trading requires complementary reforms of the international trading system, to ensure - among other things - the end of dumping products on world markets below the cost of production, and re-regulation of commodity markets to reduce volatility and chronic oversupply. This key theme has been well covered in many other publications (e.g. Einarsson, 2000).

Recognising the problem, and the limits of self-regulation

The first step for national public policy is recognising the problem of severe imbalances of market power in agrifood. And yet there is plenty of evidence that policy makers are unable to situate the problem in a policy context, and therefore unable to regulate around fair deal criteria between producers and consumers. The recent draft UK Food Industry Sustainability Strategy,[44] for instance, only addresses 'ethical trade' (as identified within the ETI), and this is handled primarily as an issue of social rather than economic sustainability. Incredibly, there is no mention of supplier or producer welfare or problems of price in the section on 'economic' sustainability.

Another area of policy myopia is the belief that voluntary self-regulation can deliver a sustainable agrifood system without supporting legislation. The failure of the Race to the Top project showed that in such a relentlessly consumer-oriented industry as food retail, self-regulation and voluntary initiatives are only likely to be appropriate for concerns that are aligned with the mainstream consumer interest. Creating incentives for supermarkets to drive positive change on other aspects of sustainable development implies a more robust role for the state (Fox and Vorley, 2004).

Competition policy that recognises buyer power

Competition policy traditionally equates social benefits with consumer benefits rather than fairness to suppliers. But in order for competition policy to also protect suppliers and primary producers in an era of extreme imbalance in market power, buyer power needs to be examined in the development of national competition policy on its own terms.

A number of European countries have introduced laws intended to curtail supermarket power, mainly to protect small retailers rather than suppliers and primary producers (Vorley, 2003). In France, the 1996 'Loi Galland' forbids selling at a loss and 'excessively low prices.' More transparency now exists in how buying prices are declared, because non-goods related conditions (for example payments for promotions) now have to be separately invoiced to the suppliers. This regulation has somewhat backfired. The main area of negotiations between suppliers and retailers has moved away from price to services such as promotions and payment terms. Consequently, the Galland law unintentionally favours the large well-capitalised suppliers, and the largest food retailers, which can force such payments without return benefits.[45] The law is now being reformed, but to benefit consumers rather than producers.

In Germany the 1999 Restraints on Competition Act forbids retailers from setting prices permanently below purchase prices, allows firms to take action in the courts against the abuse of a dominant position without having to wait for the Cartel Office to take action, and allows suppliers who wish to complain about the abuse of purchasing power by a retail chain to remain anonymous during the Cartel Office investigations.

But as Dobson *et al*. (2001) concede, practices that exploit dependency relationships between retailers and suppliers are likely to continue even when codes are given legislative teeth, considering suppliers' reluctance to bring cases to court. In the UK, this has been borne out in the case of the Code of Practice proposed by the UK Competition Commission and introduced by the Department for Trade and Industry. No complaints have been brought forward to the DTI though supermarket abuse of market power is apparently still rife, and this has led to parliamentary and civil society calls for a strengthening of supermarket supply chain legislation (Box 5). Two proposals, though not mutually exclusive include an ombudsman providing a place where producers can air concerns confidentially, leading to specific action, and an independent regulator with authority to seek out and act on problems. The National Farmers Union (NFU) has proposed a buyers' charter, with a broader scope than the Code of Conduct, being (a) owned and administered by representatives of all major parties in the food supply chain, (b) applicable to all key aspects of trading relations, including the day-to-day relationships between suppliers and their customers, and (c) independently audited with an independent panel to consider complaints and disputes which cannot be resolved at company level.

However, consolidation of supermarket buyer power is at the root of many of these problems that make many trading relationships unfair. The decision by Sainsbury's to extract more from its suppliers through delaying payment terms from 3 weeks to 7 weeks[46] is yet another demonstration of potentially unfair trade behind the products on many of the shelves, around a few enclaves of labelled FT products.

More heretical policy approaches may be required to level this particular playing field, such as a *ceiling on supermarket market share* well below the 25% which currently triggers review by the UK competition authorities, in appreciation of the evidence that buyer power may affect farmers and suppliers at lower market shares than seller power affects consumer welfare (Vorley, 2003). Another public policy intervention could be a reversal of legislation which discriminates against the accumulation of countervailing market power by producer cooperatives and exposes poorly organised producers to very one-sided conditions of market power.

3.2 Private sector policy

It is a mistake to look only to public policy for a 'supportive policy environment'. Retailers themselves can do much to ensure that internal policies support a fair and just trading regime. We have already noted, for example, that serious mixed signals are generated in buying/procurement departments that link aggressive buying policies to individual financial rewards. There are also often stark differences between individual companies' policies and those adopted (and lobbied for) by industry trade associations.

But we must acknowledge that the stock market likes buyer power, seeing it as a measure of a 'sustainable business' that will generate competitiveness, profits and shareholder value. Thus voluntary self-regulation as a tool for improving agrifood companies' dealings with their suppliers and ultimately with small and family-scale producers will be limited both by shareholder pressure and company mindset. There are suspicions within food retailing of an inverse correlation between investments in higher social and environmental performance and financial performance of a supermarket - the 'negative synergy' hypothesis - and these in fact have some support in the literature (Moore, 2001).

Box 5: Strengthening the UK Supermarket Code Of Practice

Early Day Motion 817 sponsored by MPs Andrew George and David Drew, 11 March 2003. At August 2004, the EDM had 108 signatures.

"That this House notes the conclusions of the recent OFT review that the Supermarket Code of Practice has failed to protect suppliers to the biggest four supermarkets from unfair trading practices; notes that suppliers are too afraid to bring complaints forward under the existing mediation system; regrets that the OFT failed to recommend any firm action other than more investigations; notes the original findings of the Competition Commission that the trading practices of the four biggest supermarkets are leading to adverse effects including the loss of smaller suppliers and smaller retailers and the reduction of quality and choice to consumers; notes with concern that the adverse effects are felt most by small and family farmers in the UK and overseas, by independent shops and smaller retailers and by people without cars that rely on local shops; and calls on the Ministers to draw up a new strengthened and legally-binding code of practice with stricter terms and to appoint an independent supermarket watchdog pro-actively to monitor the effectiveness of the code, provide an independent mediation process between suppliers and supermarkets, monitor other aspects of the grocery market, and make its findings public."

Source: http://edm.ais.co.uk/weblink/html/motion.html/ref=817

Rethinking CSR

Equity and fairness in trading are almost entirely absent from the gamut of benchmarks, codes and standards for corporate social responsibility (CSR), even though these are features that much of society would expect to be included in measures of company performance. There is much work to be done on bringing trading relationships to the heart of CSR, and to bridge the arbitrary and artificial gap between 'fair' and 'ethical' trade. As we have stated, the use of FAIRTRADE labelling has a number of limitations where the principles are not integrated into the philosophy of the buyer. The challenges faced by small producers in complying with codes and other standards has been recognised for some time (e.g. NRI 2003), but the process of small producer marginalisation from mainstream supply chains continues, especially as industry standards such as EUREPGAP take centre stage. An expansion of the concept of CSR to fairness and equity in trading is an extension of the stakeholder accountability model of business (Fox and Vorley, 2004).

Customers and citizens

The supermarket sector prides itself on being consumer-oriented in the extreme. The focus on creating customer value has underpinned the business strategies of the most successful supermarkets. But this has reached a point at which it is in danger of crowding out the interests of some other stakeholder groups. For these companies, concerns about their social and environmental impact only become significant when they affect consumer trust. The issue of fairness and equity in trading will chime with only a small proportion of consumers; buyer power and fairness in trading are tricky issues to communicate to the public, especially when action may not be complementary to immediate consumer interests, such as convenience and lower prices. This logic of exclusive customer accountability bodes badly for other urgent areas where there are high expectations for self-regulation that potentially conflict with customer preferences, or at least (in the words of Carrefour), are not "a lever to create value." Carrefour's CEO states both that "Changing the world is not our primary task. Our first task is to serve customers well," *and* "Sustainable development is the intelligent and demanding choice."[47] It is this logic which markets ethics as a consumer choice rather than a corporate standard; fairness and justice in trading are put into a niche as FAIRTRADE labelled speciality products and not integrated into business practice. The false conflation of 'customer' and 'citizen', 'stakeholder accountability' and 'customer accountability', and 'public good' and 'customer value' has to be addressed for CSR in food retailing to mean anything.

4 Conclusions

Producers of food for supermarket shelves are facing the effects of unrelenting retail buyer power. This affects not only farmers but also their workers, the environment and wider rural livelihoods.

This paper is a call to incorporate fairness and equity into mainstream trading between supermarkets and their supply chains. It is also a call for some new thinking, at a time when it is easy for fairness and justice in trading relations to be niche-marketed, and easy for corporate social responsibility to be, in effect, a tax on suppliers in support of manufacturer or retailer brands. Why should CSR deal with 'ethical trade' with its emphasis on labour standards, and 'sustainable production' with its focus on farm management with costs and risks passed to suppliers, while fair pricing and a living wage for producers is the realm of Fairtrade, with extra costs borne by consumers?

But achieving integration is a lot easier said than done, in a market which is very distorted, and about to get a lot messier, with competing 'ethical', 'fair', 'sustainable' and 'responsible' claims which risk causing consumer confusion or cynicism.

The first step has to be a re-evaluation of public policy to address the disparities of market power between producers and retailers, cognisant of the following:

- Voluntary self-regulation, whether in the name of 'ethical' or 'fair' trade, cannot in itself deliver a fair and just trading system, because market forces which reward buyer power and the hegemony of the largest retailers are pulling in a different direction
- FAIRTRADE marked products get neither policy makers nor retailers off the hook of dealing with unfairness in mainstream trading
- Good retailers need good regulations to avoid a 'race to the bottom'
- Competition policy is out of step with contemporary problems of abuse of buyer rather than seller power

But the absence of these new public policies is not an excuse for private inaction. Supermarkets can do much to improve fairness and justice in their trading relations at home and abroad. The real risks of such an improvement will be minimised if retailers:

- Avoid aggressively positioning or differentiating themselves in the marketplace as 'Fair Trade' retailers
- Focus on the implementation of corporate standards for fairness in trading within mainstream procurement. Incorporating the ingredients of fair trade retailing on a much wider scale as a corporate standard allows customers to be reassured that their main purchases have not been bought through the continued impoverishment or marginalisation of farmers, growers and workers.
- Emphasise accountability through subjecting their claims to external scrutiny.
- Continue investing heavily in products bearing the FAIRTRADE mark. Frances Scott of SustainAbility has raised the question of whether there should be a minimum threshold of Fairtrade purchased before a company can make Fairtrade claims about its business.[48]
- Build economic criteria in sustainability standards. Recent debates within the CSR and certification community have highlighted the dearth of economic criteria in sustainability standards. The environmental and social pillars are well covered by standards such those for organic agriculture, conservation agriculture and labour standards, but economic issues are often omitted.

One potential route would be to develop a set of guidelines for retailers that wish to incorporate fairness and justice into their trading relations in ways which expand rather than constrain opportunities for small scale producers. Any initiative must also face the challenge of accountability, ensuring that standards or guidelines are being upheld while at the same time ensuring that barriers to participation are not created. This would involve engagement with both mainstream retailers and Fair Trade organisations. Further research should be undertaken that would involve greater, in-depth investigation and comparison of current schemes for fair and ethical trading in the mainstream, exploration of supporting public policy options, and last but not least, further consideration of alternatives to mainstream food retail.

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Notes

1 'Farmers Still in an Armlock on Prices' *Western Morning News,* 9 March 2005

2 On 10 April 2001, Tesco, posted its first £1 billion profit

3 Tesco announced on 12 April 2005 that its annual profits had for the first time exceeded £2 billion

4 Commission for Africa (2005). Our common interest. Report of the Commission for Africa, Ch 7. www.commissionforafrica.org

5 The limited scope of ethical buying policies is particularly clear in relation to the neglect of gender issues (Barrientos, S., Dolan, C and Tallontire, A. (2003) 'A Gendered Value Chain Approach to Codes of Conduct in African Horticulture', *World Development* 31(9):1511-1526; Oxfam (2004a). Trading away our Rights, Oxfam International). The content of codes in particular tend to be written for larger producers, neglecting the particular concerns of smaller producer e.g. price, contractual terms. Smallholders may also lack the managerial capacity to implement codes and be unable to meet the associated financial costs of meeting, monitoring and being audited against codes, thereby excluding them from key export markets (Dolan, C. S. and Humphrey, J. (2000) - Governance and Trade in Fresh Vegetables: Impact of UK Supermarkets on the African Horticultural Industry. Journal of development Studies 37 (2): 147-77)

6 The FAIRTRADE Mark is already a Registered Trademark and therefore FAIRTRADE as in FAIRTRADE Mark is written as such in upper case. When referring to Fairtrade in the context of the labelling system of Fairtrade Labelling Organisations International (FLO), Fairtrade is written as one word with a capital 'F'. Therefore 'Fairtrade products' specifically refers to products that carry the FAIRTRADE Mark. When referring more generally to fairness in trading, fair trade is written as two words. The term 'Fairtrade' (one word, capitalised) refers to a certified process; 'fair trade' (two words, no capitals) refers to the general principal and does not imply a certification process.

7 Either through demanding lower merchandise prices, or demanding greater provision of services such as special packaging or third-party food safety certification, or demanding payment of fees.

8 Along with attention to managing labour costs and distribution logistics

9 *The Grocer,* 15 Jan 05

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11 EFTA 2001, EFTA Yearbook Brussels: European Fair Trade Association.

12 Figure for 2001 sales from Fairtrade Federation 2002; 2002 sales were significantly higher at $250m. The Fairtrade Federation report covers USA, Canada, Australia, New Zealand and Japan.

13 See At What Price Virtue. *Wall Street Journal,* 28 March 2004

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15 Legally, there is little that fair trade labellers can do about this as pricing guidelines at the retailer level are illegal under competition policy.

16 Eg Friends of the Earth Media Briefing "Alliance calls for new supermarket code and watchdog. www.foe.co.uk/resource/briefings/supermarket_code_media.pdf

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28 See www.eti.org.uk/publications/purprinc/en/index.shtml

29 By May 2004 Co-op carried 40 Fairtrade products, whereas Tesco Tesco carried 60.

30 Other Swiss retailers are starting to follow the Co-op's lead to try to purchase greater volumes of bananas on fair trade terms. But note that a declining proportion of FT bananas come from small scale producers.

31 From May *et al* (2004)

32 Adapted from Utz Kapeh website, www.utzkapeh.org and May et al (2004).

33 Letter from David Rosenberg, www.utzkapeh.org

34 Products from developing countries, coming to a store near you: Current developments, and a few predictions. Presentation by Chris Anstey, Product Integrity Manager, Tesco Stores Ltd. to session on Market Opportunities for Developing Countries at the 14th Annual World Food and Agribusiness Forum, Symposium and Case Conference, Montreux, Switzerland June 12-15, 2004. www.ifama.org/conferences/2004Conference/Forum/ForumPresentations.htm

35 *Daily Express* 23 November 2000

36 "Wal-Mart suppliers have learned quickly that it isn't business as usual. Wal-Mart requires that some suppliers work off a system called 'cost plus' which means producers must open their books. That's a kind of business relationship that exceeds the comfort level of many." Doing

Business by Wal-Mart's Rules. Top Producer magazine, November 2001.

37 See also "Asda asks suppliers to reveal all" *Sunday Times* 11 August 2002.

38 Industry reflects on OFT warning. *Farmers Weekly* 21 January 2005

39 Costs cuts and false economies. *Financial Times* 24 November 2003

40 www.racetothetop.org

41 It is widely appreciated within the industry that fairness and justice in trading is about more than price. Kumar's theory of justice (1996) states that fairness encompass two types of justice: (a) *Distributive justice* - the perceived fairness of the outcomes received in a relationship and deals with *how the costs and benefits are divided between trading partners,* and (b) *Procedural justice* deals - the fairness of one party's *procedures and policies* for dealing with its partner(s). In procedural justice, duration of contract is key. If, say, a horticulture contract is moved from East Africa to Central America at short notice to chase a small (and probably temporary) saving, then a procedural injustice has been committed.

42 Forget Maxwell House. Would you like a cup of Kenco Sustainable? Guardian, November 22, 2004. News release *"Kraft Foods launches Sustainable Coffee Initiatives in the UK"* Kraft Foods UK and Ireland, 30 June 2004.

43 Formerly known as the International Federation for Alternative Trade, hence the acronym, see www.ifat.org .

44 Draft DEFRA Food Industry Sustainability Strategy (FISS) www.defra.gov.uk/corporate/consult/fiss/index.htm

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46 Pay delay for Sainsbury's suppliers. *Guardian* 3 February 2005.

47 *The Grocer,* 31 August 2002

48 SustainAbility Radar Trends April/May 2004.

Achieving fairness in trading between supermarkets and their agrifood supply chains

UK Food Group Briefing: September 2005

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Other UK Food Group resources, available on www.ukfg.org.uk

'EU Competition Rules and Future Developments from the Perspective of Farmers and Small Suppliers' British Institute for International and Comparative Law, April 2005

'Food Inc: Corporate Concentration from Farm to Consumer', Bill Vorley, November, 2003

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