MAINSTREAMING RESPONSIBLE TRADE IN TROPICAL AGRICULTURAL GLOBAL SUPPLY CHAINS

Obstacles and Opportunities for Scaling up Responsible Trading Linkages between Transnational Corporations and (Smallholder) Farmers in Cocoa, Coffee and Tea

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25 September, 2009

Project carried out as part of the MSc Development Management at the London School of Economics and Political Science (LSE), and as background research for the "Farmers in Business" business plan competition of the BiD Network.

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

BiD NETWORK

ABSTRACT

This research investigates the conditions under which (brands of) Transnational Companies from the North and cocoa, coffee and tea (smallholder) farmers in the South can scale up responsible trading linkages through the supply chain. Through literature on Value Chain Analysis, agribusiness and responsible trade, the author arrives at a framework of relevant issues. Building upon this framework and the insights gained through 15 interviews, five case studies are presented and scrutinised. The argument developed is twofold. First, for the advantages of responsible trade to be enjoyed by more than a small minority of cocoa, coffee and tea (smallholder) farmers, we must study the operational obstacles and drivers that (brands of) TNCs face when scaling up the purchasing of produce through certification NGOs. Second, smallholder farmer inclusion is possible only if certification NGOs and individual TNC-level sustainability initiatives are capable of matching the scale-related needs of (brands of) TNCs with smallholder farmer capacities.

ACKNOWLEDGEMENTS

Without the input and openness of the interviewees, this research would not have been such an interesting enterprise. Insights would not have been comprehensive. Many thanks go out to them for spending their precious time to collaborate. Thanks also go out to Thierry Sanders for helpful conversations. Special gratitude is extended to an anonymous reviewer for highly valuable comments on an earlier draft.

DISCLAIMER

The findings, interpretations and conclusions expressed in this research are those of the author and do not necessarily reflect the views of the London School of Economics and Political Science or the Business in Development Network. Any errors are the individual responsibility of the author.

LIST OF ACRONYMS

C.A.F.E.	Coffee and Farmer Equity
DfID	Department for International Development (UK)
FTO	Fair Trade Organisation
GlobalGAP	Global Good Agricultural Practices
GVC	Global Value Chain
KTDA	Kenya Tea Development Agency
NGO	Non Governmental Organisation
RA	Rainforest Alliance
TCC	Tropical Commodity Coalition
TNC	Transnational Corporation
UNDP	United Nations Development Programme
UTK	Unilever Tea Kenya

CONTENTS

INTRODUCTION

Enlightened businesses realise that long term success is uncertain if profit margins rely on environmental harm and labour exploitation. Indeed, as HRH The Prince of Wales notes, 'no business can survive for long as an island of wealth in a sea of poverty' (qt. in Jenkins et al. 2007:5). Contrary to this view, Martin Wolf claims that the responsibility of companies is to be profitable, not to save the earth (qt. in Raynard & Forstater 2002:13). Wolf's warning that we must not confuse these two priorities is rooted in Milton Friedman's argument that the only social responsibility of businesses is to increase profits (1970). The pursuit of profits on one hand, and responsible engagement with society on the other, are considered two mutually exclusive and isolated phenomena.

This perception is challenged by the emergence of the 'inclusive business' (WBCSD & SNV 2007). Inclusive businesses involve poor people from developing countries at diverse points in their value chains in a financially viable way, for example as distributors, customers, or suppliers (Jenkins et al. 2008:6, UNDP 2008:2). The rationale for securing future access to quality crops is matched on the demand side. Northern consumers are increasingly willing to pay premiums for responsibly traded goods (Pfitzer & Krishnaswamy 2007:9) while in countries with growing middle classes, such as Brazil, China and Chile, such products are increasingly in demand, too (Forstater et al 2006:35).

Supporting the inclusive business approach, this research is specifically interested in the following question:

- *Under what conditions can (brands of) Transnational Companies from the North and cocoa, coffee and tea (smallholder) farmers in the South scale up responsible trading linkages through the supply chain?*

The focus is on overcoming *operational* obstacles to (1) scaling up[1] responsible trade, and (2) including smallholder farmers in this process. The subject is crucial for unleashing the potential of delivering impact at scale. Currently, the majority of certified cocoa, coffee and tea is sold at the conventional market. Not enough buyers are willing or able to purchase it at the terms established by the certification scheme. This significantly reduces the incentives of farmers to practice sustainable agriculture. This study thus fills a gap in the existing literature by investigating the roots of this problem.

[1] In this research, "scaling up responsible trade" is defined as "significantly increasing the proportion of cocoa, coffee and tea traded through certification schemes such as Fair Trade, Rainforest Alliance and UTZ". In practice this involves companies shifting from trading a small proportion of total purchasing responsibly (for a "niche" consumer market, e.g. less than 5%) to a larger proportion (for the "mainstream" consumer market, e.g. > 25%).

The argument developed in this research is twofold:

- (1) *For the advantages of responsible trade to be enjoyed by more than a small minority of cocoa, coffee and tea (smallholder) farmers, we must study the obstacles that (brands of) TNCs face when scaling up the purchasing of produce through certification NGOs.*
- (2) *Smallholder farmer inclusion is possible only if certification NGOs and individual TNC-level sustainability initiatives*[2] *are capable of matching the scale-related needs of (brands of) TNCs with smallholder farmer capacities.*

The two components are intertwined: component (2) involves costs for farmers, but these can be absorbed if certified cocoa, coffee and tea (carrying higher value added than non-certified produce) are indeed purchased by TNCs at the terms specified by the certification scheme, which is the point of component (1).

The first section shortly clarifies the research methodology. Global Value Chain analysis is used to theoretically situate the actors and power relations within the chains discussed (see section 2). The third section considers the position of smallholder farmers within broader trends occurring in global agribusiness. In section four, specific attention is paid to key actors and fundamental issues within responsible trade. Next, preliminary conclusions are drawn. Fifth and sixth, the author presents and discusses case studies based on 15 qualitative research interviews with experts involved in responsible trading of cocoa, coffee and tea. The last section draws conclusions.

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[2] This refers to initiatives of individual (brands of) TNCs in sustainable agriculture practices. Examples: Cadbury Cocoa Partnership, Starbucks' C.A.F.E Practices or Unilever's Sustainable Tea Initiative.

1. METHODOLOGY

This study integrates the results of primary and desk research:

- Desk research involved the review of a wealthy range of literature (books, journal articles, websites, think tank papers, policy reports and UN documents) in diverse disciplines, including international development, agribusiness, Value Chain Analysis, and corporate citizenship. To the author's knowledge, the specific central question of this dissertation is unaddressed in the existing literature. The main purpose of sections 2, 3 and 4 is therefore not to answer the research question, but to arrive at preliminary conclusions that "set the stage" for the discussion in section 6.
- Primary research consisted of 9 face-to-face interviews held in London and the Netherlands and 5 e-mail/telephone interviews. Interviews were held with experts mostly representing certification NGOs and (brands of) TNCs. For a detailed list, please see Appendix 1. Questions were designed for each interview separately, as the initiatives and professional functions of the interviewees differed. The average length of interviews was 45 to 60 minutes. Out of 15 interviews, 14 interviews were exclusively focused on initiatives in traditional agriculture[3].

Given limited time and resources, it was impossible to interview smallholders from developing countries. The author is aware of the consequences of this limitation and has attempted to gain insights into the views of smallholder farmers as much as possible through conversations with representatives of certification NGOs.

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[3] The exception is the interview with SAB Miller, whose primary inputs are staple food crops, not traditional tropical agriculture. The author interviewed this company because of its extensive involvement in (and unusual commitment to) smallholder farmer programmes in the developing world.

2. GLOBAL VALUE CHAIN ANALYSIS

Global Value Chain theory offers a useful entry point for analysing the power relations within global production networks, although certain elements seem inappropriate for application in (traditional) agriculture. This section discusses the origins and usefulness of GVC analysis, addresses the role of international traders and examines the tendency for traditional agriculture to be vertically coordinated. Appendix 2 presents simplified overviews of conventional coffee, cocoa and tea chains.

Global Value Chain Theory

Building upon Wallerstein's world system's theory, Gereffi and his colleagues developed the Global Commodity Chain (GCC) literature in the 1990s, which in turn provided the intellectual roots for Global Value Chain analysis. Enriched by work of scholars like Humphrey and Schmitz, GVC analysis is more inclusive of business literature, while GCC analysis tends to be informed more by sociology[4]. GVC analysis explores how global consumption, distribution and consumption networks are linked and how economic rent is shared by different actors along the value chain.

A key concept in GVC theory is "value chain governance", which refers to the type of between-firm power balances and institutional dynamics through which non-market activities are coordinated in the chain (Humphrey & Schmitz 2001:5). Important parameters specifying governance dynamics are arrangements on (1) what, (2) how much, (3) when and (4) *how* things must be produced. The fourth parameter refers to "process standards", which encompasses standards related to safety, health, authenticity and issues of environment- and labour-friendly production. Because actors along the chain cannot physically see or taste these characteristics, these qualities are also referred to as 'credence goods' (Reardon et al. 2001:424). Although the first three parameters are addressed throughout this study, it is this fourth parameter that is central.

Literature distinguishes *buyer-driven* from *producer-driven* chain governance. Buyer-driven chains tend to have low barriers to entry (Gibbon and Ponte 2005:79) and are usually dominated by big retailers, brand-name companies and merchandisers who mainly involve in the coordination and outsourcing of labour-intensive production to the Global South (Kaplinsky 2005:101, Thun 2008:356). Producer-driven chains are governed by multinational manufacturers in charge of capital- and technology-intensive industries such as airplanes and cars. Logically, this entails physical ownership of production facilities, making barriers to entry much higher than in buyer-driven chains (Gerreffi and Memedovic 2003:5,

[4] For a clear and insightful comparative analysis of world system's theory, GCC and VC analyses, see Bair (2005:160)

Gerreffi 1994:97). Contemporary GVC studies tend to cover buyer-driven chains, mostly in apparel and footwear, horticulture, fruit and vegetables.

The role of global traders

The cocoa, coffee and tea sectors do not represent the typical buyer-driven GVC models[5]. The 'crude dichotomy' between these two chains dominating conventional GVC theory has been criticised by Fold, for failing to recognise the complexity of power relationships among lead firms in agribusiness (2001:230).

Furthermore, Northern manufacturers do not necessarily enjoy most power: global commodity traders and processors are often equally (or more) influential (Blowfield 2003:18, Humphrey & Memedovic 2006:8). This suggests that in order for GVC analysis to be applicable to traditional agriculture, more attention must be paid to the role of traders. Gibbon (2001) has therefore proposed the inclusion of *trader-driven* chain analyses, which focuses on large transnational traders who loosely and indirectly govern their suppliers (Talbot 2002:704). Profits are made on the basis of maximising volumes of commodities at generally unstable and low per-unit prices (ibid, Gibbon 2001:351).

A limitation of the concept of trader-driven value chains is that traders, although important drivers, do not necessarily occupy the manufacturing or final sales of crops. As section 3 will reveal, product and process standards are driven by a diminishing amount of TNCs.

Private vertical coordination

Conventional GVC analysis allows for insights into the private vertical coordination within traditional agricultural chains. Before the worldwide privatisation reforms of the 80s, vertical coordination occurred through state-controlled systems. Today, modern chains tend to be vertically coordinated through *private* mechanisms. Smallholder farmers are increasingly growing their crops through outgrower schemes and other contract farming arrangements (Swinnen & Maertens 2006:57, Swinnen 2007:6, McCullough et al 2008:27). Characteristics such as tight quality controls, time of delivery and volumes are agreed upon in advance between farmers and their sponsors (the latter being TNCs, smaller companies, individual businesses, parastatal firms or possibly, cooperatives). In return, farmers may be provided with technologies, inputs, extension services and credits.

Contract farming is controversial because agro-industrial firms and food TNCs may exploit the asymmetrical power relationships with producers, and can thus potentially extract disproportionate economic rent. However, whether contract farming leads to marginalisation and exploitation ultimately depends on the sizes and types of farmers that companies trade with, the related opportunities for financial access and efficient transaction cost management, the degree of dependence of producers on a single buyer, and whether or not smallholders represent a large share of the supply base (Swinnen 2007:9).

An example of vertically coordinated contract farming used in traditional agriculture is the outgrower (or "centralised") scheme. In this model, a sponsor purchases from (sometimes tens of thousands of) small producers for further processing and trading. Sponsor involvement in production itself can vary strongly (Eaton & Shepherd 2001:47). For example, in a variant of this scheme, the nucleus estate model, the sponsor may in fact be the owner of an estate and may be involved in the provision of (non)material inputs (ibid: 45).

The increasing tendency for agricultural chains to be vertically coordinated is rooted in the broader transformations in global agribusiness, which is the focus of the next section.

3. ACTORS IN AGRIBUSINESS

This section contextualises the actors in the chains within the rapidly transforming world of global agribusiness. Before moving into this subject, it is useful to take a step back and question the usefulness of focusing on traditional agriculture and smallholder farmers in the first place. After this is established, a couple of key trends in global agribusiness are identified.

Why the focus on traditional agriculture? Why studying smallholder farmers?

First, *smallholder farmers in traditional agriculture suffer from few and unstable gains from global trade*. As a proportion of total export value of developing countries, traditional agriculture[6] has dropped from nearly 40% in 1980, to 19% in 2001, while higher value non-traditional crops went up from 21% to 41% in the same period (Humphrey & Memedovic 2006:2, Aksoy 2005:28). Price depressions (see Appendix 3) in tropical export crops have been triggered by various complex factors (see Koning & Robbins 2005). Since the late 1980s, developing countries' producers have been exposed to global volatile markets (Kaplinsky 2004:2). With the exception of Ghana, Structural Adjustment Programmes removed various regulatory mechanisms that had previously linked cocoa and coffee farmers to markets more indirectly – for example, through marketing boards (ibid).

Second, *smallholder farmers constitute the 'structural backbone of the rural economy'* as they are central to interactions with traders, processors, banks, hired workers and extension workers (McCullough et al. 2008:23). Research by DfID has indicated that rural poverty reduction tends to be greater when agricultural growth is driven by small and medium sized farmers. Larger producers tend to use additional income for imported or capital-intensive purchases and services (DfID 2002:5). This tends to prevent desirable multiplier effects in local rural economies from happening.

There is no universal definition of "smallholder farmer"; this varies per country and sector. Table 1 provides a rough overview of smallholder farmers in cocoa, tea, and coffee. The author uses the term *producer* interchangeably with *smallholder farmer.*

[6] To clarify: trade in traditional (tropical) agriculture encompasses crops like coffee, cocoa, tea, cotton, sugar, nuts and spices. This is to be distinguished from trade in temperate products (such as meats, maize, dairy, and grain) and non-traditional crops (such as seafood, fruit, flowers and vegetables).

Table 1: Production of Cocoa, Coffee and Tea

	Cocoa	**Coffee**	**Tea**
Origin of Production	70% in West Africa	80 countries, worldwide	35 countries. China, India, Kenya & Sri Lanka account for 75%
Percentage of production by smallholders	> 90%	≈70%	Small proportion, but rising. Kenya & Sri Lanka: > 65%
Size of smallholders	majority < 5 ha	< 5 hectares	< 12-15 hectares

Sources: combination of TCC (2009a), TCC (2009b) Van der Wal (2008), Tallontire & Greenhalgh (2005)

Trends in Global Agribusiness

A comprehensive investigation into the various transformations in agribusiness goes beyond the limited scope of this research, (see for example McCullough et al. 2008). However, knowledge about the following three trends is relevant to this study: (1) market power concentration, (2) the shift from product to process standards, and (3) the rise of private process standards.

First, in the cocoa, coffee and tea value chains, *market power is increasingly concentrated* with a diminishing amount of TNCs (Kaplinsky 2004:2, Talbot 2002:702).

- In cocoa, the five largest grinders control more than half of global grinding and production of liquid chocolate (TCC 2009a:9). Around a quarter of manufacturers is expected to outsource production of liquid chocolate to grinders by 2012, which is likely to boost the market share of the largest grinder, Barry Callebaut, up to around 50% (ibid: 8). Although nearly 10% of global grinding volume is done in Ivory Coast, roughly three quarters of this is executed by three transnational firms ADM, Barry Callebaut and Cargill (ibid: 8). In manufacturing, six TNCs (Mars, Nestle, Hershey's, Kraft, Cadbury and Ferrero) dominate nearly 60% of the global market.
- Coffee trading is controlled by five large firms (Neuman, Volcafe, Cargill, Kraft's Taloca and Sara Lee's Decotrade). Almost 45% of coffee roasting is dominated by a handful of firms (Nestle, Kraft, Sara Lee, Tchibo and Proctor & Gamble) (TCC 2009b).
- The trading, blending, marketing and packaging of tea is mainly carried out by four TNCs: Unilever, Van Rees, James Finlay and Tata Tetley/Standand (Van der Wal 2008:25-26). They are of high influence in setting the price of tea at auctions in India, Sri Lanka and Kenya, where about 70% of tea is traded (ibid: 24). Although estate divestment and increased small farmer production are visible, TNC ownership of estates and processing factories remains significant (ibid: 23).

These degrees of market power concentration demonstrate that a handful of companies are in a strong position to use their power to their own and the collective benefit. It confirms once more that for responsible trade to scale up, efforts must be focused on such players.

A second significant trend is the *rapid rise of tight high-standard regimes*, which specify how products must be cultivated, harvested, manufactured and transported (Humphrey & Memedovic 2006:4). This is clearly related to the vertical coordination of chains discussed in section 2; tight monitoring of health and safety standards is necessary for TNCs to reduce risks. An example of such a business-to-business standard is the Global Good Agricultural Practices (GlobalGAP, previously EurepGAP) standard, which since 2008 also applies to tea and coffee. Set up by an association of 26 European importers and retailers in fresh fruits and vegetables, GlobalGAP addresses issues ranging from Hazard Analysis and Critical Control Points (HACCP), worker health issues, pesticide controls, animal welfare, sustainable farm management, to worker safety (GlobalGAP 2009). As it is required by the majority of European buyers, it has effectively become a market barrier in high-value crops (Ellis & Keane 2008:29). As Uhlig explains, this is not (yet) the case in coffee and tea: 'although GlobalGAP has expanded to those two crops, its application is not as widely used as in fresh fruit and vegetables. This is related to the fact that many manufacturers are looking into certifications that have some communication value to the end consumer, such as Rainforest Alliance and other schemes' (2009).

This brings us to a third major trend in agribusiness, namely the *broadening of the <u>scope</u> of high standards into the business-to-consumer domain*. In coffee, cocoa and tea, the most significant standards are Organic, Fair Trade, Rainforest Alliance, and UTZ Certified. This third trend can be perceived as both a threat and an opportunity. On one hand, responsible trading offers a way to "brand from below" and extract more rent from the value chain. Certification may provide smallholder producers with a 'global trade passport' (Giovanucci et al. qt in Millard 2007:361) and can help to off-set the market power of TNCs discussed above.

It must be borne in mind, however, that small farmers' social and environmental performance represents just *one* of the factors of importance to TNCs, and by no means guarantees a strong business case. For TNCs to scale up responsible trading linkages, it is essential that small producers overcome efficiency and productivity related problems and that their economic capacities regarding quality, flexibility, volume and speed reach the necessary level. At the same time, smallholders may be marginalised or excluded if compliance is just not possible; an issue addressed in section 4. As will become clear in the following sections, certification NGOs and TNCs both have a role to play in overcoming these issues. In short, this section has demonstrated that it is premature to discuss responsible trade without first taking into account the general trends and challenges generated by modern agribusiness.

4. RESPONSIBLE TRADE

Responsible trade 'covers the broad range of market-mediated approaches, which aim to improve the social and environmental impacts of international production and trade by concentrating on global supply chains' (Forstater et al. 2006:1). Initiatives seem to progress from individual companies voluntarily formulating codes of conduct operated through self-regulation (e.g. Nike), to multi-stakeholder initiatives committed to externally defined standards such as the Ethical Trading Initiative (for a useful typology of generations of standards, see Nadvi and Wältring (2002:23). This study focuses on third-party certification schemes of NGOs.

Given the complexities of agribusiness, as discussed in section 3, farmers have no guarantee that their certified produce will be sold at the "responsible trading" terms. For example, of all UTZ certified coffee, just 27% is purchased by buyers at UTZ terms (Ellis & Keane 2008:39). Heavy criticism of the Fair Trade system is voiced by Sidwell, who argues that the unsold proportion of Fair Trade produce is 80 percent (2008:3), a figure confirmed by the Fair Trade Organisation in the UK (2007). Sidwell uses this statistic to support his anti-fair trade argument. It is more constructive to respond to these figures by questioning *why* buyers are not fully putting this abundance of certified produce to their own and the collective advantage; a question that is the main concern of this research.

This section examines key issues confronting smallholder farmers, certification NGOs and (brands of) TNCs involved with responsible trading. First, the differences between Fair Trade, Rainforest Alliance and UTZ Certified are highlighted. Next, the merits of requiring farmers to organise into cooperatives are discussed. Last, this section addresses the issue of (demonstrating) compliance with social and environmental standards, and how this is informed by the level of farmer participation in the design of these standards.

Certification Schemes

In coffee, tea and cocoa, three certification schemes are particularly relevant in the current rise of responsible trading practice of TNCs: Rainforest Alliance, Fair Trade and UTZ Certified. All three certify both plantations and smallholder cooperatives in the tea sector, but Fair Trade certification of coffee and cocoa is restricted to smallholder cooperatives. Fair Trade pioneered as Max Havelaar in the Netherlands, where the first Fair Trade coffee from Mexican farmers was launched in 1988. Different from other schemes, Fair Trade facilitates access to finance, establishes a price floor guaranteeing a minimum income as well as a price premium for developmental objectives such as education or health infrastructure.

Rainforest Alliance, launched in the USA in 1987, distinguishes itself by explicitly focusing on the Sustainable Agriculture Network (SAN) principles. Issues addressed range from water pollution, biodiversity, soil and waste management, wildlife protection to pesticide use. UTZ has proven to be the most market-driven of all three. It was set up in Guatemala in 1999, and has been headquartered in the Netherlands since 2002. Prices are negotiated by farmers, not UTZ, and premiums are not specified. It aims to increase the bargaining position of farmers by improving farmer access to market information. UTZ started off with certification of coffee but is currently moving into the tea and cocoa sector, too. Like Rainforest Alliance, UTZ focuses on sustainable farm management, although with less rigorous requirements on wildlife protection and biodiversity (Ellis & Keane 2008:19). The UTZ standards are based on GlobalGAP, with extra standards regarding labour conditions as laid down in the International Labour Organisation.

Fair Trade, the most radical of the three, presents an alternative or 'parallel supply chain' (Ellis & Keane 2008:51) in its attempts to circumvent exploitative intermediary traders and to link producers and consumers more directly (Young & Utting 2005:139). Fair Trade, contrary to UTZ and Rainforest Alliance, alters the terms and conditions of trading, challenging today's neo-liberal trading system (Hughes 2007:180, Low & Davenpoort 2006:323). In this light, it is not surprising that critics have dubbed UTZ and Rainforest Alliance as 'Fair Trade Lite' (see e.g. Barrientos & Dolan 2006:19). In short, all three guarantee a mix of social and environmental objectives to be met, but the balance and rigidity varies.

Farmer organisation

An important criterion for Fair Trade certification is that farmers organise themselves into cooperatives or other forms of association. The pooling of production, knowledge, marketing activities and negotiation capacities can achieve greater economies of scale, a better bargaining position and enhanced service levels to buyers in terms of delivery times and volumes (McCullough et al 2008:29). Cooperatives gain from improved access to pre-finance and bank loans at more favourable rates, which better equips them to make investments that might be required by buyers. The Fair Trade philosophy behind this requirement is that altogether, this results in greater farmer empowerment (Lamb 2007).

However, there is no consensus that cooperatives are indeed beneficial to farmers. They can be expensive to start and maintain while collective decision-making can be cost-inefficient, heavily reliant on good and transparent leadership of a few individuals (McCullough et al 2008:9) and sensitive to elite capture (Shepherd 2007:26). Successful cooperatives tend to be relatively homogenous and capable of making financial transactions (Shepherd 2007:25-26). Ideally, group size is 'big enough to exploit economies of scale and market potential without causing conflicts and where the benefits achieved by individual farmers outweigh the costs of compliance with collective rules and norms' (Shepherd 2007:26). To be sure, it must be questioned whether one advocates the creation of cooperatives for the sake of the smallholder farmers, or for furthering the interests of buyers who simply seek an easy entry point to certify social and environmental performance.

Compliance costs and audits

Analysis of (1) the costs and benefits of compliance with social and environmental standards, (2) by whom these costs are borne and (3) who developed the parameters of performance is a fundamental element that distinguishes conventional GVC analysis from analysis capturing an understanding of responsible trade. Compliance with social and environmental performance of smallholder farmers can be costly for both producer and buyer, although this may vary per scheme[7]. In coffee and cocoa, the barriers faced by responsible sourcing standards tend to be me more of a marginalising nature (as opposed to exclusionary nature), because of the dominant position smallholders have in overall production of these crops, e.g. in West and East Africa (Tallontire & Greenhalgh 2005:18).

The extent to which "responsible standards" result in impoverishment and marginalisation depends on their degree of sensitivity and the practical possibility of implementing them. Bedford et al. stress the mismatch between the priorities of tea and cocoa smallholders about issues such as payment structures, their insecurity of land tenure, and access to health care, and the Western-driven standards prioritising labour conditions and child labour (2001). Indeed, as Blowfield argues, standards are intrinsically ideational, and compliance will be more likely if Southern organisations have a stake in defining what constitutes responsible performance (2003:20). Participatory Social Auditing has been developed to improve on 'fly-in-snap-shot auditing' of labour standards (see for example Auret & Barrientos 2004:4), although the application of this approach in smallholder traditional agriculture seems underdeveloped to date.

[7] Ellis & Keane note that smallholders face higher compliance costs in the Rainforest Alliance and UTZ certification, than in Fair Trade, while the compliance costs of the former two schemes are generally lower for buyers (2008:18-19, 39). Producer costs for UTZ standards compliance may be significantly reduced if farmers already have a GlobalGAP certification.

PRELIMINARY FINDINGS

Combining the findings in the literature discussed in sections 2, 3 and 4, the following set of considerations can be established:

These findings….	**…raise the following questions with regard to mainstreaming responsible trade:**
• Market power is concentrated. Efforts to scale up responsible trade must be focused on the large players dominating the coffee, tea and cocoa sectors. (section 3)	• What proportions in each sector are actually covered by the responsible trading initiatives discussed in section 5? • If one compares initiatives of small (brands of) TNCs, do these indeed have a competitive disadvantage when engaging in responsible trade?
• Rainforest Alliance, Fair Trade and UTZ Certified each aim to increase responsible trading, but with different strategies and objectives. (section 4)	• Is convergence of the three schemes an option?

These findings….	**…raise the following questions with regard to smallholder inclusion in this process:**
• Private vertical coordination of chains can involve alternative connections between smallholder farmers and markets, e.g. contract farming. (section 3) • There is no consensus about the merits of focusing exclusively on trading with smallholder cooperatives. (section 4)	• Does contract farming provide an opportunity to be more inclusive of smallholders in the upscaling of responsible trade? • What are the implications of Fair Trade's focus on smallholder cooperatives for the upscaling of responsible trade?
• Responsible trade is captured in "value chain governance" in terms of *how* products are produced, but remains just one of four parameters. (section 2) • Within the rise of a "high standard regime", the scope of standards is broadening to capture responsible trade practices, but this does not guarantee a good business case: quality, efficiency, etc. continue to matter. (section 3)	• What explicit actions do (brands of) TNCs undertake to ensure that the producers they trade with meet all necessary requirements? • What sort of investments are made by (brands of) TNCs to lower the smallholder farmer barrier to responsible trading linkages?
• When standards are insensitive to the priorities of producers that must meet them, and when audits are costly, responsible trade can have a negative effect on farmers. (section 4)	• Do the standards of UTZ, Fair Trade and RA result in inclusion or exclusion of certain farmers? Are there examples of specific standards hampering progress? • How can audits become more efficient and affordable?

In section 6, the questions in the right-hand column will return to the discussion.

5. CASE STUDIES

This section summarises the main findings of five case studies, each of which exemplify partnerships between certification NGOs and (brands of) TNCs to scale up responsible sourcing. These cases offer in-depth insights into the operational dilemmas that must be overcome to unleash the commercial and developmental potential of sourcing responsibly, and to include small producers.

Cases were selected on the basis of four criteria:

(1) *The responsible trading initiative involves a partnership between a certification NGO and a (brand of a) TNC, preferably (but not exclusively) with a significant market share in the coffee, cocoa or tea sector*. Focusing on individual companies explicitly working with certification NGOs allows for estimates of progress made in the three sectors.

(2) *The first certified products were launched on the market before or during mid-2009. Certification targets are either in the phase of up-scaling, or are already completed.* Various initiatives are currently in the start-up phase. For example, Mars' commitment is to source exclusively through UTZ Certified and Rainforest Alliance by 2020. Although Mars is the largest purchaser of cocoa in the world (market share of 15%), no physical products are on the market yet. It is therefore not possible to identify obstacles or solutions of this initiative in the near future, which is why the Mars case is excluded.

(3) *At least a part of the supplier base consists of smallholder farmers*. Smallholder participation varies per sector (tea/cocoa/coffee) and also per certification scheme. This means that the cases selected do not necessarily each involve responsible trading exclusively with smallholder farmers. In order to clarify, estimates on this participation level are provided as much as possible.

(4) Rainforest Alliance, UTZ Certified and Fair Trade systems each appear at least once in the cases. These are the three leading certification NGOs; it is thus useful to be inclusive of all three.

It must be highlighted once more that inclusion of Southern farmer perspectives in this study is limited to insights gained from NGO representatives of certification schemes. Therefore, the case studies mainly reflect the obstacles to up-scaling responsible trading *from a buyer's or certifier's perspective.*

CADBURY DAIRY MILK & FAIR TRADE

Interview: Anna Swaithes (Cadbury Cocoa Partnership).

Company

- Purchases 7.3% of global cocoa (TCC 2009a:11)
- Manufactures and sells chocolate through, for example, Green & Black's, Cadbury Crème Egg and Dairy Milk.
- Supply base for the standard Dairy Milk bar: smallholder farmers part of Kuapa Kokoo, Ghana.
- Consumer market: mostly UK and Ireland, but also Canada, New Zealand and Australia.

Magnitude of Commitment to Responsible Trade

- The standard Dairy Milk chocolate bar has completed full Fair Trade certification. Procurement of Fair Trade cocoa from Ghana will consequently increase from 5,000 tons to 15,000 metric tons annually.
- Result: +/- 25% of the cocoa used for Dairy Milk bars will be Fair Trade in 2010.

Company-level Involvement in Sustainable Cocoa Farming, Prior to Certification:

- 2005: Cadbury purchased the niche organic chocolate brand Green & Black's, the Maya Gold bars of which are Fair Trade certified.
- 2008: Cadbury partnered with UNDP and various (non)governmental stakeholders in the "Cocoa Partnership". Focus: enhancing smallholder productivity and sustainability in Ghana, India, Indonesia and the Caribbean.
- 2008-2018: total investment of GBP 45 million, 70% of which in Ghanaian smallholder farms and villages.

Strategic Choice for Fair Trade

- 2009: first Fair Trade Dairy Milk bars were for sale.
- Motivation for partnership with Fair Trade:
    - In Ghana, cocoa smallholder farmer population is aging, which threatens future of supply base. It is unattractive to youth because annual production 'is well below its potential capacity, with productivity (output per hectare) at 40% of its estimated potential' (Barrientos and Asenso-Okyere 2007:10).

Scaling Up Responsible Trade

Thanks to the abundant capacities of a large Ghanaian cooperative, Kuapa Kokoo, a major supplier of Fair Trade cocoa representing > 40,000 small producers, Cadbury's obstacles to upscale responsible trade are more to do with broader issues.

Smallholder Inclusion Challenges

Obstacles, risks and threats:	**Approach to solve issues:**
Need for capacity and entrepreneurial training for smallholder farmers	Farmers partially pay for services but only the basis of what is of value to them. Examples: agricultural inputs such as fertiliser.

Broader Challenges

Obstacles, risks and threats:	**Approach to solve issues:**
Not just cocoa but also Fair Trade ingredients such as nuts, raisins and fruits will be necessary to continue certification for Dairy Milk variants.	Issue is being investigated; no solution found yet.
Consumer demand must not diminish for operations to continue.	Retail price is left unchanged.
Fair Trade sourcing is currently exclusively through the Kuapa Kokoo cooperative; this creates a degree of dependence.	Cadbury is investing in other areas within its Cocoa Partnership to, on the long term, have other farmers reach Fair Trade certification, too.

VERKADE & FAIR TRADE

Interviews: Bert Jongert (Fair Trade) and Bart Merkus (Verkade).

Company

- Verkade is one of the brands of TNC “United Biscuits”.
- Purchases < 0.5% of global cocoa production or 2,000 metric tons annually (Olthuis 2009:17).
- First mainstream-priced chocolate brand to source 100% Fair Trade.
- Supplier base: farmer cooperatives in Ghana and Ivory Coast.
- Consumer market: Dutch confectionery market (2nd largest player).

Magnitude of Commitment to Responsible Trade

- 2008: 100% of cocoa for the chocolate bars on a Fair Trade basis.

Company-level Involvement in Sustainable Cocoa Farming, Prior to Certification:

- None.

Strategic Choice for Fair Trade / Max Havelaar

- Lack of internal knowledge on sustainable sourcing. Sought input from Oxfam to map out value chain.
- Max Havelaar logo is well known among, and trusted by, Dutch consumers. Consumer research demonstrated a strong fit between the brand and Fair Trade initiatives.

Scaling up Responsible Trade

The low volumes required were easy to source, due to abundant supply of high quality Fair Trade cocoa (partly from Kuapa Kokoo cooperative, from which Cadbury sources as well). However, various broader challenges were faced at the start-up phase:

Obstacles, risks and threats:	**Approach to solve issues:**
Fair Trade’s requirement to use certified cane sugar instead of non-certified sugar beet proved difficult and costly to implement. Taste testing of new melanges took months before the process could continue.	Consultations with consumer panels to test quality and taste of chocolate prepared with cane sugar.
Inefficiencies related to segregated traceability at the stage of grinding, as opposed to buying in bulk.	Works with grinder (Barry Callebaut) capable of catering Fair Trade specific needs at acceptable price. To reduce price charged by grinder, Verkade approaches third parties (e.g. Ben & Jerry’s) to purchase the Fair Trade cocoa powder left.
High transport costs because beans must remain isolated from bulk cocoa.	No solution found to date. Possibly link up with trading routes of other cocoa Fair Trade purchasers competing in other markets (e.g. Cadbury).
Significant cost increases due to inefficiencies described above.	Partial shift of costs to consumer: retail price increase from 80 to 95 eurocent per bar.

UNILEVER & RAINFOREST ALLIANCE

Interviews: Jan-Kees Vis, Michiel Leijnse and Ian Neathercoat (Unilever) and Edward Millard (Rainforest Alliance).

Company

- Largest buyer of black tea: 12% of global supply in 2008.
- Unilever sells tea through two main brands in Western Europe; PG Tips and Lipton. Unilever sells tea through a number of other brands worldwide.
- Supply base: 500,000 suppliers, varying from independently owned estates, own estates in Kenya, and smallholder farms. Smallholder farmer tea is mostly purchased in Kenya but also in India, Rwanda, Uganda, Vietnam and Turkey.
- Consumer market: worldwide.

Magnitude of Commitment to Responsible Trade

- 2010 - 100% of PG Tips & Lipton (Yellow Label only) in Western Europe sourced from Rainforest Alliance certified estates.
- 2015 - 100% of Lipton tea worldwide to be sourced from Rainforest Alliance certified estates.

Company-level Involvement in Sustainable Tea Farming, Prior to Certification:

- 1999: Unilever's Sustainable Tea Initiative started with pilot projects in Kenya, mostly on own estates. Unilever Tea Kenya (UTK) developed good agricultural and economic practice guidelines for both large-scale estates and smaller growers.
- 2006: UTK partnered with the Kenyan Tea Development Agency (KTDA), a cooperative of roughly 450,000 farmers growing 60% of Kenya's tea (Jenkins et al 2007: 58) and the single largest supplier of Unilever. Output of smallholder farmers was 40% lower than that of large estates, due to expensive farm inputs, poor farm management and a low degree of entrepreneurialism (SustainAbility et al 2008:15). Farmer Field Schools were set up to increase the productivity of smallholder farms and implement the sustainability guidelines.

Strategic Choice for Rainforest Alliance (RA)

- 2007: Certification started.
- Why RA? At the point of considering various certification schemes, the global amount of Fair Trade certified tea was +/- 3,000 tonnes. Given the sheer volumes of tea purchased by Unilever (requiring 30,000 tonnes to be certified within two years after starting the certifications), inclusion of large plantations was vital. RA had a proven track record in certification of both

large-scale plantations and small farmers. Furthermore, the RA system offers a market-based premium for farmers. This was considered to be preferable to fixed premiums (as is the case in Fair Trade) because the latter tends to trigger over-supply; a broader structural problem in the tea industry.

Scaling up Responsible Trade

Due to the existing engagement of UTK with the KTDA, certification by Rainforest Alliance proved relatively easy at the start. Around 10% of Unilevers total tea purchases have been certified by RA to date. Roughly 10% of certified tea is produced by smallholders, although this is difficult to estimate. The following obstacles were identified by the interviewees.

Smallholder Inclusion Challenges

Obstacles, risks and threats:	Approach to solve issues:
Smallholders sometimes find it expensive to participate in RA scheme.	Start-up costs mostly covered by Unilever. Producers achieving certification status before 2010 receive a special premium.
Remote smallholders excluded from RA scheme due to bad economic practices and inefficiencies. Extension workers of KTDA who were supposed to assist them in these tasks were unorganised, paid poorly and unmotivated.	Inclusion of KTDA's 57 extension workers in the Farmer Field Schools. By increasing their usefulness to the farmers, the latter become more productive. Smallholders demand from KTDA management that extension workers receive higher rewards to ensure their long term involvement.
Farmer Field Schools too expensive to (fully) finance for Unilever on top of the premiums.	Public donors were attracted to invest in training projects.
Difficult to increase smallholder participation of 10% because of unsteady volumes produced. Therefore, still reliant on larger estates to continue operations at scale.	Smallholder farms not part of a cooperative can be included through "outgrower systems" (see page 10 for explanation).

Broader Challenges

Obstacles, risks and threats:	Approach to solve issues:
Blends usually consist of 20 different teas. Difficult to maintain quality of blends when having to certify all 20 teas.	RA requires > 30% of content to be certified tea in order to carry the label; Unilever applies a minimum of 50% certified content. Most of certified content is from Kenya. To meet 50% content guarantee, blenders sometimes mix < 20 teas.
Consumer demand for certified tea must rise.	Retail price unchanged.

STARBUCKS & FAIR TRADE

Interviews: Paul Rice (Transfair USA) and Hans van Bochove (Starbucks).

Company

- Purchases 2% of global coffee or +/- 180,000 metric tons annually.
- Supply base: in 28 countries, buys from farmer cooperatives, watermills, larger estates, traders, an unknown proportion of which is covered by *indirect* trading with smallholder producers.
- The vast majority (78%) of Starbucks coffee is grown in Latin America, 9% is produced in Africa/Arabia and 13% is sourced from Asia. Fair Trade coffee, *directly* traded with smallholder producers, is mostly purchased in Guatemala and Colombia.
- Consumer market: 50 countries; more than two-thirds of its 16,000 coffee houses is in United States.

Magnitude of Commitment to Responsible Trade

- 2008: increase Fair Trade purchasing from 5% (9,000 metric tons) to 10% (18,000 metric tons). September 2009: all espresso-based beverages in UK and Ireland coffeehouses are Fair Trade certified. As of March 2010, all espresso-based beverages in European coffee houses will be Fair Trade Certified.
- Starbucks is Fair Trade's largest purchaser of coffee.

Company-level Involvement in Sustainable Coffee Prior to Up-scaling of Fair Trade Certification:

- 2001: Coffee and Farmer Equity (C.A.F.E.) practices were launched (a traceability system designed jointly with Conservation International to monitor economic, environmental and social practices through third-party auditing).
- 2008: 77% of total approved under C.A.F.E. standards.
- Rainforest Alliance and Organic certification are each around 2% of total.

Strategic Choice for Fair Trade Certification

- 2000: start of Fair Trade certification
- Motivation for partnering with Fair Trade organisations:
    - Fair Trade's expertise in directly trading with smallholder farmers.

Scaling up Responsible Trade

One of the most significant challenges to scaling up Fair Trade purchasing is to make the existing Fair Trade supply base more "Starbucks eligible", and to apply the success achieved in Latin America in Africa/Arabia and Asia.

This presents the following issues:

Smallholder Inclusion Challenges

Obstacles, risks and threats:	**Approach to solve issues:**
Many Fair Trade certified cooperatives do not meet the quality standards and flavour profiles Starbucks is looking for. Particularly problematic in Africa.	• Farmer Support Centers are expanded to strengthen such Fair Trade certified cooperatives by providing technical support. • "Pipeline approach" – farmers can present samples by having them tested by Starbucks Coffee Trading Company. • Smallholder Farmer Sustainability Initiative: 20 million dollar loan programme managed by Rural Finance Institutes specifically targeted at Fair Trade certified cooperatives in Latin America and East Africa.
Majority of existing supply base is not directly sourced from smallholder cooperatives; yet the latter is a requirement by Fair Trade.	• Transfair USA: 'Need to look at existing smallholders meeting Starbucks standards and get them organised into cooperatives, to work towards Fair Trade practices. ' • Starbucks: 'Eventually, upscaling will require Fair Trade to be more flexible about farm type.'
Risk that farmers will use resources of Starbucks (loans through SFSI, support through Farmer Support Centres) but choose to not sell produce to Starbucks	Incentive: if farmers produce consistent high-quality supply, optional "preferred supplier status" can be obtained to shield from volatile coffee market prices.

Broader Challenges

Obstacles, risks and threats:	**Approach to solve issues:**
High transaction costs involved with Fair Trade partnerships: required individual agreements with 21 different Fair Trade organisations (FTOs) in all countries where Starbucks operates. Degree of commercial versus grass roots orientation tends to vary strongly across FTOs.	• Starbucks pushes for more internal harmonisation and organisational efficiency of all FTOs. • Development of one recognisable Fair Trade label for customers across the globe.
Inefficiency: farmers must attend (and pay for) field inspections by both C.A.F.E. Practices standards *and* Fair Trade.	Integration of inspections by Fair Trade and C.A.F.E. Practices, reducing audit expenses for farmers with up to 30%.

AHOLD COFFEE COMPANY & UTZ CERTIFIED

Interviews: Hans Perk (Solidaridad / UTZ), Henrike Offeringa (UTZ) and Ward de Groote (former Ahold Coffee Company).

Company

- Purchases < 0.5% of global coffee or 20,000 metric tons annually.
- Supply base: Origin of Ahold's coffee is sensitive information. Over one third of UTZ certified coffee comes from Brazil, but Vietnam, Colombia and Honduras are also major producing countries. Buys from smallholder cooperatives, plantations, traders and various other channels.
- Consumer market: brands of Ahold's retailers in Europe and the USA.

Magnitude of Commitment to Responsible Trade

- 97% UTZ certified coffee, 3% Fair Trade certified.

Company-level Involvement in Sustainable Coffee Prior to UTZ Certification:

- 1997: worked jointly with Guatemalan coffee producers to set up UTZ Kapeh[8] certification scheme.

Strategic Choice for UTZ Certified

- 2002: 100% shift from conventional bulk purchasing to UTZ Certified supply base.
- Motivation for working with UTZ Certified:
  - Direct involvement with creation of UTZ Certified.
  - Needed traceability system that was applicable to both large coffee estates and smallholder farmers, while staying close to free market dynamics (i.e. no price minimum).

Apart from a few start-up challenges, hardly any challenges were mentioned by the interviewees.

Obstacles, risks and threats:	Strategy to solve issues
Existing system of logistics of bulk purchasing in Rotterdam/Amsterdam had to be abandoned. At the start, company was uncertain about steady and timely supply of large amounts of UTZ certified beans.	Eventually found the right transport/logistics company, but at certain costs.
If additional types of quality or specific country-origin are needed for certain blends, this was not readily available within the UTZ supply base.	UTZ developed field network to assist farmers implementing sustainable agricultural practices, potentially resulting in inclusion in UTZ certified supply base on mid- to long-term.

[8] Since 2007, UTZ Kapeh has a new name: UTZ Certified.

6. DISCUSSION

The cases presented in the previous section allow for useful insights into how individual corporations in the coffee, cocoa and tea sectors might move from isolated pilot projects, towards mainstream responsible sourcing. First, the set of issues raised at the end of section 4 enter the analysis once more. These issues are categorised into (1) issues related to responsible trade more broadly, and (2) issues related to including smallholder farmers in this process. Second, "new issues" (subjects that were not obvious from the literature but came up during interviews) are discussed.

Issues raised in preliminary conclusions: scaling up responsible trade

- *How do the responsible trade case studies relate to the global purchasing of coffee, tea and cocoa?*

The proportional impact of an individual company in a single sector will be highest in the case of Unilever (12% of global tea market). However, even if Unilever achieves a 100% Rainforest Alliance certified tea supply base, the 50% content minimum implies that "just" half of Unilever's tea would be certified: meaning that "only" 6% of global tea would be responsibly traded. Currently, the Fair Trade and UTZ Certified sourcing practices of Cadbury, Verkade, Starbucks and Ahold Coffee Company each do not cover more than 1% of total produce in their sector. This suggests that we must put the "sector coverage" of individual company initiatives into perspective at all times.

- *Can large companies scale up responsible trade more efficiently than small ones, due to their larger market share and the resulting economies of scale?*

Apart from Verkade, none of the companies discussed had problems with scale inefficiencies. Volumes of certified produce were high enough for operations to remain financially viable. The case of Verkade illustrates that smaller companies may in fact have an interest in being joined by larger companies, to increase the possibility of "Fair Trade bulk purchasing" and thus reduce inefficiency costs.

- *Do the standards formulated by UTZ, Fair Trade and Rainforest Alliance have exclusionary effects because compliance with them is impossible or culturally insensitive, which in turn hampers the expansion of certification?*

In reality, preparedness for cooperative organisation is not universal. Perk notes that 'organisation into cooperatives in West Africa cocoa farming is culturally not as common as it is in, for example, Latin American coffee farming (interview). If you start advocating cooperative organisations in certain tribal villages of West Africa, you literally risk being lynched'. Some schemes, for example UTZ Certified, forbid hunting wildlife on plantations and in trees of forests. 'This happens in Peruvian coffee farms, for example, and it is difficult to monitor. To the farmer, it is meat they have always obtained that way', states de Groote (interview). Millard explains that Rainforest Alliance standards were designed by Latin American farmers themselves: 'The conditions in Africa, Latin America and Asia are socially and culturally very different, but agronomically, differences are small' (interview). It is difficult to determine the degree to which non-compliance with standards of different schemes result in exclusion of certain producers. At all times, it must be borne in mind that self-exclusion and marginalisation have the same observed outcome: non-participation (McCullough et al 2008:32).

- *To what extent can the various labels converge?*

All interviewees expressed a concern with how different certification schemes are, in a way, competing with one another. Karen and Ellis (2008) have suggested the creation of one "Good for Development Label" in which a diversity of certified products can score points on specified environmental, social and economic sustainability criteria and, accordingly, achieve a gold, silver or bronze status. All of eight interviewees who were asked about this idea considered it to be too simplistic and infeasible, because the priorities and philosophies embedded in the different certification schemes cannot be ranked as such. The government was frequently proposed to assume some role in informing consumers about the differences between them and avoiding further proliferation of additional labels. In sum, although there is some dialogue about convergence of the various standards and labels, it is unlikely that this will materialise in the near future.

Issues raised in preliminary conclusions: smallholder inclusion

- *How do (brands of) TNCs and certification NGOs enhance the capabilities of small producers, to ensure that the latter are included as viable trading partners?*

The case studies point out various practical answers to this challenge: for example, training (e.g. Unilever/RA's Farmer Field Schools, Starbucks/Fair Trade's Farmer Support Centers) and rural finance. Rural finance is extremely inadequate and practically non-existent for unorganised smallholder farmers. An unusual investment initiative was Starbuck's' Smallholder Farmer Sustainability Initiative, involving a $20 million fund, the large majority of which is specifically targeted at Fair Trade producer co-operatives. 'These are treasury dollars we literally take out of our balance. When supervised by our partnering rural finance organisations such as Root Capital, these farmers become entirely bankable. Starbucks expect the returns on the investment to be higher than if we set it aside to receive interest' (Bochove, interview).

- *What implications does Fair Trade's requirement to trade directly with smallholder cooperatives have for the possibility of upscaling Fair Trade (as opposed to other arrangements of farmer organisation)?*

This issue came up in all conversations – whether interviewees were working with/for Fair Trade, or not. Although all of the responsible trading initiatives involve a certain degree of sourcing from smallholders, it was noticeable that Fair Trade's strict requirement (in cocoa and coffee) to source exclusively from smallholder cooperatives makes it a problematic scheme for large scale responsible trading. Starbucks, Unilever and Ahold Coffee Company each indicated that it is not possible for them to source exclusively from smallholder farmers in their current state of capability. Volumes and qualities are not reliable enough; producers are generally less productive and frequently require investments that will not pay off even within years.

This implies that if Fair Trade purchasing in the three sectors is to scale up, a degree of flexibility regarding alternative forms of farmer organisation must apply. In practice this will be difficult. FTOs in different countries show highly variable degrees of hostility versus sympathy towards corporations appropriating the Fair Trade message in the first place (Bochove, interview). *Altering* the core principle of Fair Trade to focus on efforts on smallholder cooperatives[9] is unlikely to be embraced by all FTOs universally.

- *How can audits become more efficient and affordable for small producers, thereby increasing opportunities for upscaling responsible trade?*

From the interviews, it became clear that Fair Trade certification is operated by FLO Cert, a commercial but independent certification company. Certification of UTZ and Rainforest Alliance is similarly exercised by companies, e.g. Control Union, Sustainable Farm Certification International or AfriCert. In practice, farmers may choose to obtain multiple certifications to increase their trading opportunities. This means that farmers go through similar procedures (though with different degrees of thoroughness). Various interviewees suggested the idea of having one auditor visit a farm for multiple certifications: starting with basic procedures required by each scheme, and going in further depth for standards specific to individual schemes. In the case of Starbucks, significant efforts are being put into harmonising the audits of Fair Trade and C.A.F.E certifications. In short, it seems that there is scope to reduce audit-related costs for farmers provided that creative solutions are designed.

[9] This is the case for cocoa and coffee, not for tea, in which estates *can* be Fair Trade certified.

New issues

Interestingly, the interviews yielded various additional insights into key conditions and issues that affect the possibility of scaling up responsible trading linkages.

❖ *General observations*

- Apart from Verkade, there is a tendency for companies to actively engage in sustainable agriculture initiatives in the countries where it produces, before they move to large scale certification. This suggests that responsible sourcing of TNCs is unlikely to “kick off” without being able to build upon previous efforts, relationship management and investments in the countries where they source.
- In the cases of Cadbury, Verkade and Unilever, the successful and relatively fast start-up of certification relies heavily on single cooperatives: Kuapa Kokoo in Ghana, and the Kenya Tea Development Agency. Both of these institutions are entirely exceptional and not representative of the broader tea and cocoa sector. This implies that replication of responsible sourcing practices are likely to be more challenging when they are applied in countries where such institutions are absent.

❖ *Traceability*[10]

Perk emphasises that a fundamental dilemma in certification is the type of traceability required by the scheme, which can be “physical segregation”, “mass balance” and “book and claim” (interview). Physical segregation means that the certified produce is kept apart from non-certified produce at all stages in the supply chain, with the option of also fully tracking and tracing it to the origin. All cases discussed in this study apply segregation. In “mass balance”, companies may mix non-certified and certified produce together. Companies keep an account of the volume of “responsible produce” sourced versus sold, so that they can only sell as much responsible coffee, tea or cocoa as they sourced in reality. In “book and claim” traceability, or “certificate trading” (also applied in renewable energy), farms are licensed for a certain amount of responsibly sourced produce and sell this license to a buyer. The latter may claim that it is selling responsibly sourced produce as soon as it submits the license with a central Issuing Body.

In short, each of these mechanisms obviously has implications for (consumer) credibility and administrative efficiency, and requires different degrees of physical and logistic infrastructure. When managed in a transparent way, farmers are likely to benefit from mass balance and “book and claim”

[10] It should be noted that traceability in these three tree crops is driven by different types of information. In coffee, product origin and the specific grower location differentiate one coffee type from another. In cocoa, the most significant information is the country where it is grown, while in tea it is the estate or factory that matters (Blowfield 2003:18).

traceability systems as it is more cost-efficient for their buyers. However, if negative publicity emerges as a result from malpractices, customers might lose confidence in the “responsibly traded” good.
In sum, the choice for one type of mechanism rather than another presents considerable trade-offs.

- *Manufacturing & Blending*

An important point that came up is that responsible trading of cocoa is particularly challenging when companies choose for Fair Trade, because the latter also puts requirements on other ingredients used in the manufacturing of chocolate. This presents an additional hurdle for companies who are primarily concerned with sustainability issues in the cocoa sector. It raises the costs and, in the case of Verkade, nearly stopped the company from switching to Fair Trade at all because it had to switch from sugar beet to Fair Trade cane sugar, which significantly altered the flavour profiles. Similarly, Cadbury’s expansion of Fair Trade certification into variants of Dairy Milk bars is uncertain as this requires large volumes of certified nuts, fruits and sugar. In other words, the market opportunities of Fair Trade cocoa farmers can in some cases heavily rely on the capacities and certification statuses of Fair Trade farmers in other sectors.

7. CONCLUSION

This dissertation has offered thorough insights into the conditions under which responsible trading between (brands of) TNCs and (smallholder) farmers can be scaled up in the coffee, cocoa and tea sectors. First, Global Value Chain analysis was used to theoretically situate the position of powerful players in the three industries and to emphasise the tendency for chains to be vertically coordinated. Building upon this knowledge, this study continued to assess a few key trends and transformations in global agribusiness and in cocoa, coffee and tea specifically. To provide the appropriate contextual background to this research, the author clarified the specific concentration of market power at a couple of points along the three chains and shortly addressed the emergence of high standard regimes, which are broadening in scope. Captured in this high standard regime are the various social and environmental standards developed by certification NGOs. Core features of UTZ Certified, Fair Trade and Rainforest Alliance were discussed, which was followed by a short discussion of a fundamental issue in smallholder inclusion: Fair Trade's criterion to certify cooperatives only. After recognising the importance of taking into account the costs for farmers to comply with standards and to attend audits, a set of preliminary conclusions was formulated.

Original research was then presented to gain detailed knowledge about the operational challenges and trade-offs faced by (brands of) TNCs and the certification NGOs they partner with, in scaling up responsible trade while including smallholder farmers in the process. Through the lens of the questions framed in the preliminary findings, complemented with non-obvious obstacles that came up during the interviews, five case studies were scrutinised and discussed.

The findings support the sub-argument that *for the advantages of responsible trade to be enjoyed by more than a small minority of cocoa, coffee and tea (smallholder) farmers, we must study the obstacles that (brands of) TNCs face when scaling up the purchasing of produce through certification NGOs.* The study found that TNCs grapple with various complex obstacles simultaneously.
The challenges they face are shaped by, among other:

- efforts and investments made in sustainable agriculture prior to certification
- degree to which companies can maintain economies of scale
- type of traceability applied
- efficiency and internal harmony of the NGO they partner with
- availability of additional ingredients on a certified basis (mainly in chocolate manufacturing)
- flexibility of certification NGOs in altering/broadening their standards and criteria

To be sure, scaling up responsible trade requires innovative, creative approaches that alter "business as usual".

The study also confirms the sub-argument that *smallholder farmer inclusion is possible only if certification NGOs and individual TNC-level sustainability initiatives are capable of matching the scale-related needs of (brands of) TNCs with smallholder farmer capacities.* In concrete terms, the bridging of scale discrepancies was ultimately realised through:

- value chain financing programmes targeting to-be-certified (groups of) farmers
- trainings, technical assistance and various extension services aimed at improving quality, service levels, market knowledge and over-all productivity
- lowering entry barriers for farmers by making audits more efficient
- flexibility with regard to types market linkages (not exclusively cooperatives)

Where highly institutionalised (certified) cooperatives/agencies are already present in a sector prior to responsible trade initiatives, access to smallholders is significantly easier. However, Fair Trade's exclusive focus on smallholder cooperatives in some sectors, indirectly implies that there is a "smallholder participation ceiling", especially in coffee.

Where do all these initiatives leave the government? The focus in this study has been on partnerships between certification NGOs and TNCs, but donor agencies and Southern governments have an important role to play, too. Although few of the companies interviewed had attracted public funding, the interview with a representative of DfID's Business Linkage Challenge Fund revealed that farmers in traditional agriculture can benefit extensively from certain start-up investments that buyers are unwilling to make. Furthermore, Southern governments must encourage sustainable farming and approach responsible trading as an opportunity, not a threat. Governmental dynamics as such were not captured by this study, but provide scope for further research.

Last, it must be noted that scaling up responsible trade through certification must be a means, not an end, to sustainable agriculture. It is in the interest of neither (brands of) TNCs, nor (smallholder) farmers to obsess with increasing volumes of purchased certified produce. We must continuously bear in mind the underlying philosophy of "inclusive business". In the context of this study, this necessarily requires truly sustainable and productive farming practices which promote development, while securing buyers' long-term access to quality cocoa, coffee and tea.

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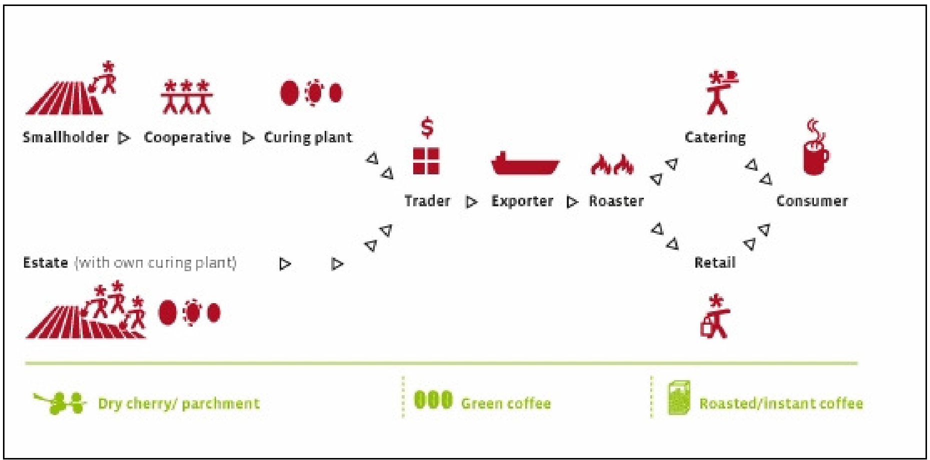
APPENDIX 1: LIST OF 15 INTERVIEWEES

Company / Organization	Sector	Commodity discussed	Interviewee	Position of Interviewee	Date and Location	Interview
Ahold Coffee Company, UTZ Certified	NGO / business	Coffee	Ward de Groote	CEO Ahold Coffee Company until 2008, Co-Founder of UTZ	August 3, 2009 Amsterdam, NL	face-to-face
Cadbury	business	Cocoa	Anna Swaithes	Head of Development Cadbury Cocoa Partnership	July 27, 2009 N.A.	phone
DfID Business Linkage Challenge Fund	government	Various	Jack Newnham	Project manager until 2008	July 16, 2009 London	face-to-face
Marks & Spencer	business	Cotton	Mike Barry	Head of Sustainable Business	July 9, 2009 N.A.	phone
Max Havelaar / Fair Trade Netherlands	NGO	Cocoa	Bert Jongert	Manager Retail	August 19, 2009 Utrecht, NL	face-to-face
Rainforest Alliance	NGO	Tea	Edward Millard	Director of Sustainable Landscapes, Sustainable Agriculture Division	July 8, 2009 London	face-to-face
SAB Miller	business	Beer	Andy Wales	Group Head of Sustainable Development	July 13, 2009 London	face-to-face
Solidaridad / UTZ Certified	NGO	Coffee	Hans Perk	Program Manager at Solidaridad, Board Member of UTZ until 2008	August 19, 2009 Utrecht, NL	face-to-face
Starbucks	business	Coffee	Hans van Bochove	Director Public Affairs, Communications and CSR	August 24, 2009	face-to-face
Transfair USA	NGO	Coffee	Paul Rice	President and CEO	August 10, 2009	phone
Unilever	business	Tea	Jan Kees Vis	Director Sustainable Agriculture	August 12, 2009 Rotterdam, NL	face-to-face
Unilever	business	Tea	Ian Neathercoat	Global Tea Supply Compliance Director	August 25, 2009	e-mail
Unilever	business	Tea	Michiel Leijnse	Global Brand Development Director Lipton	September 20, 2009	e-mail
UTZ Certified	NGO	Coffee	Henrike Offeringa	Key Account Manager Europe	August 31, 2009	e-mail
Verkade (United Biscuits)	business	Cocoa	Bart Merkus	General Manager	July 22, 2009 Zaandam, NL	face-to-face

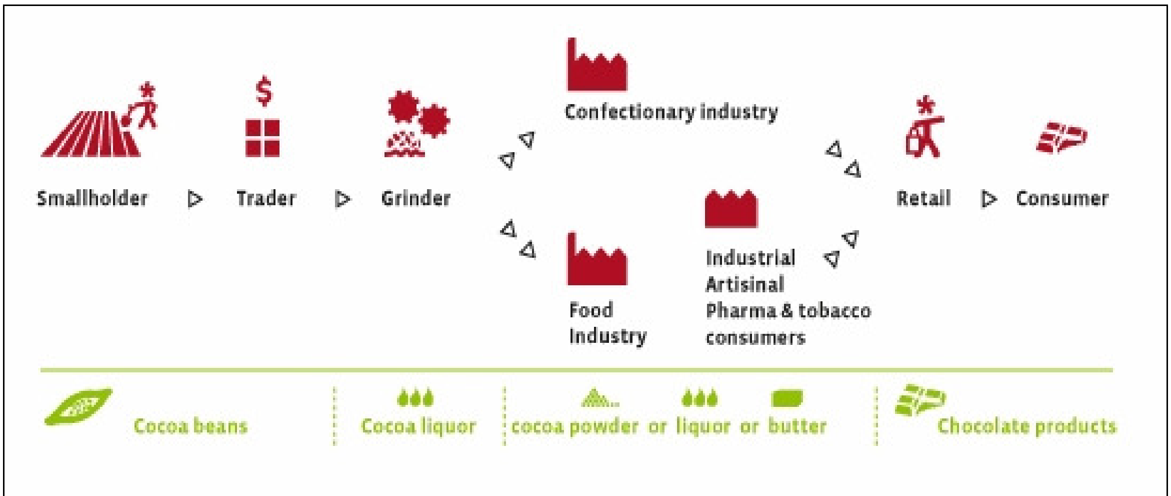
APPENDIX 2: VALUE CHAINS of TEA, COFFEE and COCOA

Source: TCC (2009b)

TEA (Link: http://www.teacoffeecocoa.org/tcc/Commodities/Tea/Value-Chain)



COFFEE (Link: http://www.teacoffeecocoa.org/tcc/Commodities/Coffee/Value-Chain)



COCOA (Link: http://www.teacoffeecocoa.org/tcc/Commodities/Cocoa/Value-Chain)

APPENDIX 3: Prices of Coffee, Cocoa and Tea 1995-2006

Source: FAO (2006: 33-34)