



The Centre For Business Relationships,  
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## Comment and Analysis

Fair Trade in the 'Periphery':  
The development of Comercio Justo México  
and potential lessons for FLO Fairtrade



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## **Fair Trade in the 'Periphery': The development of Comercio Justo México and potential lessons for FLO Fairtrade**

**Alastair Smith**

Fair Trade has been claimed as one of the success stories in relation to developing more sustainable approaches to production and consumption. However, has one of the largest players, the Fair Trade Labelling Organisations International (FLO), got it right? While they have certainly facilitated the expansion of Fair Trade by encouraging mainstream players, will the system end up benefiting the types of company that Fair Trade was originally established to challenge? This is certainly the view of Mexican Fair Trade supporters who, in drawing up their own national Fair Trade initiative, Comercio Justo México (CJM), have expanded on the FLO's approach in an effort to prevent such a tendency in their own system. Does this adapted framework echo the future of Fair Trade or is it a regulatory step too far for a system that works both 'within and against the market'? This comment seeks to establish the suggestion that whatever the ultimate outcome, European Fair Traders would do well to play close attention to the outcomes in México. After all, if Fair Trade is about empowering the marginalised to participate, it would surely be wrong to then ignore their voice when they speak.

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The concept of Fair Trade emerged after the Second World War as a way of providing poverty relief and development assistance to small scale producers in the developing world. Recognising that leaving trade to free negotiation was likely to result in disproportional benefits for the more powerful, an ad hoc Alternative Trade movement sought to negotiate within a set of norms that shifted the benefit to more marginalised actors. While working within the free markets of entry into and purchase from these 'alternative trade circuits', exchange within the system was geared to benefit less capable southern producers at the cost of more powerful actors in the value chain i.e. northern consumers and retailers, and

international and local intermediaries. In this light, the prices paid to producers were not determined by the balance of supply and demand, but the norm of returning a maximum price in order to strengthen weaker trading 'partners'. Equally, in place of delaying payment in the interests of buyers, funds were transferred promptly with even the option of an upfront payment of some or the entire final price in order to improve the stability of producer cash flows.

In the initial stages of the movement, these norms of operation were decided internally by buying organisation and motivated and guaranteed by their social orientation. However, in 1989 a partnership between a group of Mexican coffee farmers and a Dutch NGO produced the idea of developing a system of norms, the observation of which would be certified by an third party organisation. This organisation was Max Havelaar and it offered a set of rules for the production and trade of coffee based closely on the norms of the preceding Alternative Trade Movement. For the first time, alternatively/fairly traded coffee was available in mainstream retailers and outlets.

Largely due to this development, the idea that production and trade can (and should) be governed by such a privately determined system of certifiable governance has taken off in a big way. Organisations in other countries developed similar initiatives such as the Fairtrade Foundation in the UK, and in 1997 these separate national systems were integrated into one universal set of norms administered by the Fair Trade Labelling Organisations International (FLO).

Thanks to FLO Fairtrade the broader concept of Fair Trade is now a formidable phenomenon, and the retail sales of goods bearing the FLO Fairtrade mark have increased exponentially. For example, by 2007 the value of Fairtrade sales in the UK alone reached nearly £500 million (Morgan 2008, p. 13). However, with growth of Fairtrade has come considerable change, not just in the organisation of governance but also in the norms that provide its foundation. For this reason, some supporters of the original Alternative Trade system have raised criticism with what they see as the inappropriate manipulation of the concept of

Alternative/Fair Trade. The overall message of this criticism is that the approach of the FLO has allowed the concept of Fair Trade to be manipulated by powerful organisations for their own ends. As a consequence it is argued, the original idea of such actors making sacrifices to raise the capabilities of the disenfranchised has been diluted.

A specific controversy has been the extension of certification beyond small producer organisations with the introduction of certification standards for goods produced on plantations. While this no doubt improves the lives of southern workers, it has opened up the perception that powerful multinational companies can also make considerable gains from Fair Trade. While they also receive guaranteed minimum prices, a primary concern is that widespread social irresponsibility can be offset by a limited commitment to Fair Trade, and thus potentially disproportional gains in a market that increasingly values ethical operations. Furthermore, instead of taking on the principle of trying to return a higher *percentage* of the retail price to the producers, FLO Fairtrade guarantees the payment of minimum prices at the farm gate—with prices thereafter being set by self-interested commercial operation. Such a system has led to the accusation that Fairtrade is no longer about ‘fair’ prices for producers or customers, as it is noted that in some cases consumers are paying significant price premiums, little of which is being returned to initial producers<sup>1</sup>. A further charge might be that the development of the *Fairtrade* brand has led to the dilution of its message, with customers buying into a fashion rather than understanding the issues that underlie it.

While not a complete list of criticisms from more traditional Alternative/Fair Traders, these arguments serve to suggest that there are still important questions about the current and future direction of Fair Trade as interpreted in the norms of the FLO. Perhaps the primary question is how and where to establish an appropriate balance between the contributions of powerful players and the returns that they can expect to derive from this contribution. After all, norms

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<sup>1</sup> It must be noted that Fair Trade products do not always carry a higher retail price than conventional alternatives. For a full discussion of price issues see Smith (2008a, pp. 27-29)

which allow the powerful to continue to gain exponentially with limited concessions to the less capable are surely likely to perpetuate inequality of opportunity, and go against the original intentions of the Alternative/Fair Trade movement.

While the first question must be about the desirability of these outcomes, a further related problem would be about finding ways to redirect such tendencies. However, while knowledge about the current outcomes is growing, how can alternatives be compared? While theory and thinking do so far, there is clearly no substitute for empirical testing. In this light, a recent development in the Mexican Fair Trade system might offer important insights into how alternative norms based on the concept of Fair Trade are likely to play out. In 1999 the Mexican groups who originally developed Fairtrade certification launched a parallel scheme which applied the principles of Fair Trade to the domestic market – i.e. certifying the trading relations between México producers and buyers who commercialise the products in the Mexican market. However, these original groups have also been some of the most vocal critics of FLO Fairtrade<sup>2</sup>, and for this reason, while there is significant overlap with international regulations, there are also some significant differences. While discourses hinged around the concept of Fair Trade are no doubt many, this is perhaps the best example of one emanating from the periphery.



The first major difference is that this certification is only available to small producers<sup>3</sup> – it is not possible for large producer organisation to obtain Comercio Justo México (CJM) certification. This specific concentration arises from the belief that the globalised system of free trade has had an especially large and

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<sup>2</sup> This view is based on personal interviews conducted with leaders of prominent Mexican Fair Trade organisations in the summer of 2006.

<sup>3</sup> According to CJM Small producers are defined as operating ‘their own labour and that of their family, community labour exchange and possibly, labour contracted for specific work’ (Comercio Justo Mexico 2007, p. 4). Spatial and financial limits also apply to the applicability of certification. It should also be noted that there are exceptions to these rules for applications from vulnerable individuals such as those over 65 years of age (Comercio Justo Mexico 2008). Further and more accurate analysis is ongoing.

negative impact on small producers, as it has failed to, 'take into account the inequality of strength between different competitors' (Comercio Justo México 2007, p. 4). In this light, CJM aims to build a mechanism through which more capable actors can assist producers deprived of the capability to help themselves. What CJM do not see as part of their role is to facilitate the distribution of extra gains to companies with the capacity, but not the will to do better by their employees.

Perhaps the most radical difference between FLO Fairtrade and CJM is that governance does not end with the sale of goods from the producing organisation. Instead, CJM state that:

'All of the commercial companies that hope to use the concept or the mark of "Comercio Justo México" for a product, must comply with the norms of Comercio Justo México, should be certified and should have signed the corresponding Comercio Justo Code of Commercial Ethics and the contract for the use of the Mark of Guarantee of Comercio Justo México' (Comercio Justo México 2008, p. 3)

Here, unlike at the producer level large and multinational firms are eligible to get involved and here lie some of most differences between FLO and CJM rules. Firstly, while there are only minimal standards that apply to small processing and commercialising firms<sup>4</sup> (such as the meeting national legal minimums for labour conditions), there are additional requirements for large and multinational companies<sup>5</sup> These include additional measures to ensure that such companies do not use the certification system to make disproportional gains for themselves. Instead, regulations aim to ensure that larger, more powerful and capable organisations contribute to the development of the wider economy and particularly that of rural agricultural production. In the first instance, all goods certified must originate in México (unless special agreements is obtained from

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<sup>4</sup> Processing is defined as 'The industrial process that refer to whatever collective activities that involve the selection, the processing, transformation, packing, shipping of primary material from Small Producer Organisations. Commercialisation is defined as 'the purchase and sale of primary material from Small Producer Organisations o the purchase and sale of semi-finished and finished goods' (Comercio Justo Mexico 2007, p. 4).

<sup>5</sup> Large firms are defined as those possessing more than 250 employees, and, according to their commercial activity a position in the national or international market.

CJM) and 'in the case that they require a process of transformation, this must be carried out by small producer organisations,' unless prior permission is obtained from CJM (Comercio Justo México 2008, p. 9). This seems to suggest that CJM is concerned with maximising the amount of value added operations that are carried out by initial producers, and is different from the FLO system that does little to mandate such a shift in the distribution of operations in the value chain (a transformation that is arguably central to the development process).

In line with Alternative Trade principles CJM also states that it is their intention to 'shorten the production chain between the producer and the consumer, eliminating excessive intermediately speculation...[as] only this measure can achieve fair/just prices for the small producers and the consumers' (Comercio Justo México 2007, p. 4). In this light, as part of the regulation for large and multinational processing/commercialising firms, it is stated that, 'companies that want to commercialise processed products of Comercio Justo México, buy them directly from the Small Producer Organisations certified by CJM' (Comercio Justo México 2008, p. 9), and thus not from intermediaries extracting an income.

Other norms aimed at reducing the extent to which large and multinational companies can use Comercio Justo for their own gain include the capping of profit margins on certified goods at a maximum of 15% (Comercio Justo México 2008, p. 9). Furthermore, it is required that such companies are willing to continually commit themselves to the CJM system, offering a plan every year with the aim of increasing the volume of certified goods bought by at least 10% (Comercio Justo México 2008, p. 9). Another essential commitment for companies wishing to integrate themselves in Fair Trade networks is that they must 'produce a commercial plan that has the objective of positioning the Comercio Justo product in the market so as to meet the approval of CJM' (Comercio Justo México 2008, p. 9). Such a requirement aims to avoid the problem of retailers managing the marketing of Fair Trade to their own advantage – as noted by Smith (2008b) – instead of promoting the benefits to producers to their maximum potential. Such a view is reinforced by the requirement that whenever large or multinational companies display the CJM mark, 'the company

must directly include the exact percentage of CJM products in relation to their total purchases in a visible and understandable manner' (Comercio Justo México 2008, p. 9). In fact, all publications that bare the CJM mark have to be verified by the organisation to ensure that the 'advertising guarantees the promotion of the concept of CJM' (Comercio Justo México 2008, p. 9).

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While these alternative norms no doubt invite criticism from those fundamentally opposed to the regulation of 'free markets', they certainly present a tremendous stimulus to consider some of the questions currently being asked within the Fair Trade movement. Will such intensive regulations kill the uptake of CJM certification at the level of commercialising and processing firms, and if so, how will the base of small producers respond? Will additional regulations allow for their manipulation, leading to corruption and inefficiency? And perhaps most critically, will these regulations contribute towards domestic economic development and provide the type of sustainable livelihoods so desperately needed in rural México? Only the future and close attention is likely to yield answers to such questions. However, what seems certain is that 'peripheral' views should not remain peripheral in academic research, nor should the wider Fair Trade movement miss out on any contribution towards the debate over its current and future direction.

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