



The Centre For Business Relationships,  
Accountability, Sustainability and Society

## **Comment and Analysis**

Responding to Commentary?  
Changes in the Regulations of the Fairtrade  
Labelling Organizations International  
(on defining small farmers and development  
practice)



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## **Responding to Commentary? Changes in the Regulations of the Fairtrade Labelling Organizations International (on defining small farmers and development practice)**

**Alastair Smith**

As anyone familiar with the Fair Trade will be aware, the Fairtrade Labelling Organizations International (FLO) has become a defining force in the movement since its establishment in 1997. While the very term 'Fairtrade' has become widespread, more than half of the goods (by volume) produced and traded under Fair Trade governance are now certified by the FLO. As Marie-Christine Renard (2005) has suggested, such an institutionalisation of the principles of Fair Trade have granted the FLO considerable power in controlling who has access to Fair Trade markets. Indeed, the size and influence of FLO has bestowed considerable influence in defining what conditions of production and trade should, and should not be classified as Fair Trade. For example, commentators have showed critical interest in the specification of a 'fair' price; the extent to which producers are subject to environmental requirements (Moberg 2005); and the responsibilities, or perhaps more pertinently, lack of responsibilities placed upon retailers benefiting from Fair Trade sales (Smith 2008b). However, more critical commentary has covered 1) the way that the FLO defines a small farmer and thus regulates who is eligible for certification and 2) how 'Developmental' Fair Trade governance might be. This brief analysis paper explores these two latter issues in relation to changes in FLO standards applicable to Small Farmers' Organizations. The conclusion is that commentators would do well to continue their critical analysis of the FLO system (*inter alia* in the way that the voices of producers are incorporated into the decision making process), particularly as the regulatory body has demonstrated itself more than willing to incorporate issues of concern in the revision of its operation.

### The Definition of Small Farmers

Given the importance of FLO certification in defining the parameters of Fair Trade, it is logical that commentators have sought to engage critically with this system of governance. One particular point which has drawn attention has been the way in which FLO standards define the category of a 'Small Producer'; congruence with

which is obviously key for producer organisations wishing to obtain certification. Here, some of the most intense criticism has attacked FLO certification by alleging that 'Fairtrade not only disregards the poorest [due to the costs and barrier to entry], it makes their condition worse by requiring that certified farms do not hire permanent full-time employees' (Sidwell 2008, p. 15). This is certainly an important issue as the theme of definition has remained at a key complaint of critics in more recent times (Chambers 2009; Henderson 2008).

As has been pointed out elsewhere (Smith 2008a, p. 21; Smith 2009a), these arguments have often been categorically incorrect. This is because while the FLO have discursively categorised small farmers as not 'structurally dependent on hired labour', the technical operationalisation of this concept allows Small Farmers' Organisations to source up to 49% of output from suppliers who are dependent on hired labour. This is because the exact view of the FLO is that 'Of every Fairtrade-certified product sold by the [cooperative] organization, [only] more than 50% of the volume must be produced by small producers [or those not reliant on paid workers]' (FLO 2007, p. 5). There is of course also the option for organisations producing some goods to be certified under the Standards for Hired Labour (FLO 2009c).

Having said this, others more interested in the way that the Fair Trade movement attempts to replace information about the conditions of production – excluded through conventional commercial interactions – have had firmer ground from which to ask questions. For example, after spending time with an FLO Fairtrade certified coffee cooperative in Cost Rica, Luetchford (2008) questions the accuracy of a brand built around the image of the small family farmer. Specifically, it is noted that although small farmers are defined by the FLO as 'not structural dependent on wage labour', the nature of coffee farming means that families are very much dependent on additional labour during harvesting. For this reason Luetchford (2008, p. 146) suggests that 'an unintentional outcome [of Fairtrade] is to mystify the conditions of production in economies such as coffee that frequently combine family and wage labour'.

While analysis of advertising and branding falls beyond the scope of this article<sup>1</sup>, it appears that FLO have been alive to the discontinuities identified between the realities of producer life and the standards required for certification. For example, in the first new set of Generic Standard of 2009, FLO revised its definition of a Small Producer and for the first time presented two possible categories: one being applied to product categories that 1) *are not* (highly) labour dependent<sup>2</sup>, and 2) *are* (highly) labour dependent<sup>3</sup> (FLO 2009a, p. 4). In the case of products falling under the first category, small farmers are understood to be ‘those that are not structurally dependent on *permanent* hired labour and that are managing their farm mainly with their own and their family’s labour’ (FLO 2009a, p. 4). This rephrasing seems to acknowledge the fact that while coffee production might not be structurally dependent on permanent wage labour, seasonal tasks might require additional support. In the second category it is explicitly acknowledged that farmers have the option to hire non-family labour so long as, ‘The number of *permanent* hired workers does not exceed a specific factor per hectare per crop, as defined by the certification body in its compliance criteria’ (FLO 2009a, p. 4).

Perhaps in recognition of the contradiction thus posed to the idea that Small Farmers are ‘not structurally dependent on hired labour’, a further revision in August 2009 (FLO 2009b) amended the definition to imply that, ‘the producer’s labour and that of their family members constitutes a *significant proportion* of the total agricultural labour undertaken on their farm’. Furthermore, this new definition implies, although does not specifically describe, the reality that small agricultural producers will most likely need to manage risk by holding a diversified portfolio of income activities (Ellis 2000). Indeed, while Luetchford (2008) observes that coffee farmers participation in dairy and beef farming is little reflected in accounts supplied to consumers, such livelihood patterns are well recognised in the requirement that ‘Revenues from the producer’s agricultural activities [should] constitute the major part [and thus not all] of their total income’.

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<sup>1</sup> For such analysis see for example, Berland (2008).

<sup>2</sup> This product category is applicable to the following Fairtrade products: cocoa, coffee, herbs and spices, honey, nuts and oilseeds, quinoa, rice, seed cotton, soybeans and pulses.

<sup>3</sup> This product category is applicable to the following Fairtrade products: bananas, cane sugar, dried fruit, fresh fruit, fresh vegetables, fruit juices, tea, and wine grapes.

### A 'Developmental' Focus?

One of the more sophisticated criticisms of Fair Trade has been that while such governance might increase the welfare of (some) producers, it cannot be considered 'Developmental' as it discourages producers to diversify into higher income activities (Henderson 2008, p. 63; LeClair 2002; Sidwell 2008). The basic reasoning for this argument is that: as Fairtrade pays a fixed or above market price, it encourages farmers to remain in problematic sectors instead of diversifying into other more profitable and less volatile livelihood activities. In defence of Fair Trade principles, some have questioned this critique for being grounded in inapplicable abstract economic theory (Hayes 2008) and not sufficiently related to the practicalities of livelihood diversification (Smith 2009b). In responding to criticism, Smith argues that while market prices are relevant, it is of equal if not greater importance that producers possess the capacity to respond to price incentives (Smith 2008a; Smith 2009b). Based on this view, it is argued that FLO governance can in fact contribute to the diversification process by supplying the much needed assets and stability, while at the same time proactively encouraging diversification. Specifically it is noted that FLO governance requires that:

'The producer organisation shows efforts to also promote the marketing of other crops in the farmer's rotation pattern in order to decrease economic dependency on one single crop and to give the farmers additional sources of income. Also other alternative sources of income (e.g. production of biological pest control formulations) shall be explored'<sup>4</sup>.

The inclusion of 'alternative sources of income' further breaks down any assumption that producers earn a livelihood growing only one agricultural crop (see above), but more importantly, demonstrates FLO realisation that diversification is an essential component of the Development process. This awareness has taken an even more concrete form in the latest FLO Generic Standards (2009: Section 2.2 p. 11) which features a section exclusively concerned with the 'Economic Strengthening of the Organization'. Here it is stated that,

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<sup>4</sup> See criteria listed under "Economic Development" and "Process Requirements" (FLO 2008a, 2008b). Taken from Smith (2009b).

‘Over time it is expected that being part of Fairtrade acts as a support to the producer organization such that it becomes stronger and more economically sustainable. The degree of progress expected depends on the level of economic benefits the organization receives from Fairtrade and on its specific context’.

While there are no minimum requirements included in this section (2.2.1) – which arguably reduces the barrier to entry for newer or less capable organisations – there are Process Requirements which producers should comply with. While Courville (2003) sees this type of requirement as inherently Developmental, these new standards go much further in orientating FLO governance around a core requirement of economic Development – namely that firms agglomerate the core assets (usually expressed in terms of financial, physical, human and social capital) needed to be competitive in increasingly globalised markets. Specifically it is required that, ‘The organization should take gradual steps to assume more control over the entire trading process’ and thus graduate or diversify into higher paid activities and internalise value-adding functions lost to outsourcing. In further explanation, it is noted that:

‘To strengthen the organization itself and its position in trade business the organization is expected to gain more knowledge of the supply chain. Direct communication and negotiation with buyers, having service contracts with exporters who export on behalf of the organization (where applicable), or adding value by establishing processing facilities and/ or shared ownership with other producer organizations (horizontal integration) may be strategies for gradually assuming more control over the trading process and supply chain’.

This requirement is qualified in that, ‘the appropriate timelines for this, and the extent of control gained over the trading process will be determined by the scale of the operation and the business strategy of the organization’; and furthermore that the intention of this process is to ‘maximise the return to the members’. The process is explained more specifically in that:

‘As a result of constant learning, training of members and staff, high commitment of members and good planning, the organization will be able to work more efficiently and to maximise the return to its members. This may be through e.g. more Fairtrade sales, more Fairtrade buyers (or non-Fairtrade buyers), more benefits to members, reduced cost in operations, increasingly skilled management and staff, the building up of working capital, implementation of quality control, training/education and risk management systems and collaboration or even shared ownership (horizontal integration) with other producer organizations’ (FLO 2009b, pp. 11-12).

This new section appears to resonate with the arguments of economists that ‘learning by doing’ and the adaptation of general knowledge to local circumstances are essential components in the Development process (Rodrik 2004). What such standards still lack is the specific suggestion that new livelihood activities should seek to capture greater levels of value added; although, having said this, a lack of specificity can also be read as allowing for a more participatory approach to Development planning, perhaps allowing local stakeholders to prioritise local food security should they see this as a more pertinent need.

### Conclusion

This brief analysis paper began with the observation that as the volume of Fair Trade goods certified by the FLO has grown, so too has the power of the organisation to control market access, and to define the parameters of Fair Trade. With this in mind, there have been many questions asked about the appropriateness of FLO Fairtrade governance particularly in the 1) the way that Small Farmers are defined by FLO, and, 2) the extent to which such governance could be viewed as ‘Developmental’. While it was shown that commentary assuming the exclusion of farmers relying on wage labour is inaccurate, it was highlighted that other arguments have been more relevant in pointing out a mismatch between discourse/governance and producer realities. However, reference to recent changes in FLO standards suggests that such mismatches have not gone unnoticed as the definition of ‘Small Producers’ has evolved to better represent livelihoods in the rural developing world. The second section considered the criticism that FLO Fairtrade is not adequately Developmental as it discourages diversification into higher income activities. While this critique has been questioned elsewhere, again, reviewing recent changes in FLO governance suggests that such issues are far from ignored as standards are changing to incorporate the views raised by critical analysis.

Overall, the conclusion of this paper is that while commentators must continue to critically analyse the governance and practices of FLO, the organisation has not been unresponsive to the need for slow and steady improvement. For this reason, it can be suggested that consumers and those more heavily involved with Fair Trade should

engage to the fullest extent possible, as appropriate critical engagement is likely to be socially beneficial – and could well be instrumental in making the difference between a movement that alleviates middle class consciousness, and one that precipitates a genuinely better deal for poor southern producers.

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