

THE ROLE OF TRANSNATIONAL RETAIL ON FAIR TRADE DEVELOPMENT

Luciana Marques Vieira*, PhD

ABSTRACT

The growth of Fair Trade (FT) market has an important impact on developing countries business environment, where multinationals companies replace the public sector improving the welfare of small producers. The paper addresses to the question: How the fair trade system, as a GVC, is organized to provide market access in the context of an emerging country? How these different chain members perceive sustainable standards set by a FT certification? This paper focuses on Global Value Chains (GVC) to discuss governance and inclusion or exclusion of smallholders in global markets. The GVC typology useful to understand FT relationships, which move from market, where price is the main requirement, to tighter relationships, where trust and knowledge transfer may evolve. However, they also state that this system is co-coordinated not only by economic reasoning but also by the role of external agents and institutions. In this paper, the role of multinational retail is highlighted. Empirical evidence is provided by a case study from a FT fruit supply chain, where producers are located in Brazil and the buyer (a retailer) in the United Kingdom. In our study, the power asymmetry existent between buyer and supplier is clear but there is interdependence due to the lack of certified producers. In this sense, the retail fills an institutional void on setting sustainable standards for the small producers in an emerging country context.

Keywords: Fair trade. Global value chain. Chain governance. Retailer

1 INTRODUCTION

This paper investigates at a recent phenomenon, the Fair Trade system that brings together developed countries 'consumers (mainly from Western Europe and the USA) and small producers from emerging and developing countries. Economics has been a moral philosophy on its origins and paid attention to ethical issues and social norms (SEN, 1987) despite moving to more "engineering" approaches lately.

In this paper, we develop an argument that business groups, members of a global value chain, can become powerful agents that promote the inclusion of developing and emerging countries small producers to developed countries markets. The growth of Fair Trade (FT) market has an important impact on developing countries business environment, when multinationals companies replace the public sector improving the welfare of small producers. We develop this argument presenting New Institutional Economics and moving to the framework of Global Value Chains (GVC) to discuss governance and inclusion or exclusion of smallholders in global markets. We illustrate the theoretical

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Address for correspondence / Endereço para correspondência

* Professora adjunta PPG Administração da Unisinos. Bolsista produtividade CNPq. Líder do Grupo de Pesquisa Empreendedorismo Internacional e Gestão em Mercado Globais. Av. Unisinos, 950 93022-000 São Leopoldo - RS BRAZIL. E-mail: lmvieira@unisinos.br. Telefone e fax 55 51 35911122, ramal 1596.

discussion presenting an exploratory case study from a FT fruit supply chain, where producers are located in Brazil and retailers in the United Kingdom. The paper addresses to the question: How the fair trade system, as a GVC, is organized to provide market access in the context of an emerging country? How these different chain members perceive sustainable standards set by a FT certification?

Food production and processing standards are fundamental to market access. Particularly in developing countries, producers must raise their standards to maintain their export markets or to gain access to high value ones. The world-wide proliferation of food standards has stimulated an increasing need for certification to assure not only food safety, but also social, economic and environmental concerns. Nevertheless, some of these food standards may be incompatible with prevailing systems of both production and marketing in developing and emerging countries, due to imposing good agricultural and manufacturing practices which are expected by international buyers, but that, in reality, impose challenges and higher costs of production (JAFPE; HENSON, 2004).

The World Fair Trade Organization (WFTO) defines their network as a trading partnership, which is based on dialogue, transparency and respect, and that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of marginalized producers and workers especially in the South (WFTO, 2009). Low and Davenport (2006) tell that Fair Trade (FT) started as an alternative way of commercialization but nowadays FT use conventional marketing channels such as large retail chains. While fair trade channels can provide opportunities to small farmers, the initial certification costs can be high and limit the potential outreach of the fair trade alternative (VIEIRA; AGUIAR, 2009). The fair trade label is essentially a private one and operates parallel to conventional trading mechanisms.

2 LITERATURE BACKGROUND

2.1 INFORMATION ASYMMETRY AND SIGNALS

The study of the market is a central topic in Economics. The Neoclassical approach considers a firm as a black box, using inputs and producing outputs through a production function. The firm's aim is to maximize profits. Market prices would provide information and incentives to agents involved in the transaction. Neoclassical economists, for instance, explore the "best" allocation of resources. Economic efficiency occurs when economic exchange is carried out in perfectly competitive markets. The perfectly competitive market assumes that firms sell a standardized product, with each firm having only a small market share of total supply and taking the price of the product as beyond its control. Firms, in this paradigm, are price takers and all agents are fully informed. An important kind of market failure is particularly important within the context of this study. It means the inability of the market to produce and transmit information efficiently. Buyers and sellers must have enough information to be able to undertake transactions, but the transaction outcome is uncertain on different degrees. Concerning welfare, the market does not produce a socially optimal allocation of resources when it fails to produce and transmit information (MILGROM; ROBERTS, 1992). A food standard is an example, which obliges products to meet specified standards to transmit product information to the consumers. This issue will be developed further.

Market failures are the basis of the formation of the New Institutional Economics, which accepts that information is imperfect or asymmetrical. Information asymmetry occurs when one or more agents have particular information about credence, safety or product value. Asymmetry creates an adverse selection problem in the market as informed investors trade on the basis of their private information, such as quality (BROWN; HILLEGEIST, 2007). It is essential to ensure this quality. The relationship between the quality and uncertainty must be minimized (AKERLOF, 1970).

Product certification is a way of emphasizing, to guarantee the quality of the process production, establishing a relationship of trust between the producer and consumer, avoiding the informational asymmetry. Trusting in the certification process is very important to consumers, also due to the rapid growth of fair trade market. Search attributes are those that consumers can evaluate before purchasing. Experience attributes are those for which consumers can evaluate only when consuming the product.

Credence attributes are those for which the consumption does not bring information on the quality (for example the use of pesticides). Because customers cannot detect credence attributes, extrinsic cues must be used to indicate the presence of these attributes. As extrinsic cues have nothing to do with the physical product, experience cannot be used to judge if the product contains the necessary attributes. In this case there is a need for reputation or labeling that the customer can trust (STEENKAMP, 1990; GRUNERT ET al., 1996). Fair trade can be classified as credence attribute, whereas its key attributes cannot be evaluated by consumers even after purchase and consumption.

2.2 GLOBAL VALUE CHAIN

The global food trade system has shown a growing concentration of buying power in retail channels through the proliferation of sourcing from overseas. This connectivity also depicts that common consumption and production patterns have spread to many different countries. The Global Commodity Chain (GCC) is a method of analysis focusing on governance structure and institutional framework within global production and the spread of sourcing and manufacturing throughout developing countries. Gereffi (1994) differentiates two types of chain configuration and governance structure: producer driven and buyer driven. The first means chains where large companies (usually transnationals) co-ordinate the whole supply chain and is characterized by capital and technology intensive industries such as automobiles and computers. Here, the main strategy is to attain economies of scale in manufacturing. Traditional examples are automobile companies such as Ford and General Motors. Conversely, buyer-driven chains focus on the domination of retail companies and brand-named merchandisers. These compete intensively against each other by continuing minor innovations to products and packaging, the maintenance of strict quality criteria and price. Traditional examples are UK supermarkets, Nike and Reebok (DOLAN; HUMPHREY, 2000; GEREFFI, 1999). These companies are merchandisers that design or market the products that they sell. The key agent, the so called governor, delegates, manages and enforces the production process to ensure that its supply chain really complies. Gereffi (1994) also recognizes that both systems, the buyer and the producer-driven, may be contrasting, but not mutually exclusive. Large companies play the role of the governor, creating and monitoring their own standards. They can be manufacturers holding technological and production information (producer-driven) or retailers or branded companies concentrating on the possession and translation of market information.

Traditionally, the food industry has displayed the characteristics of the producer-driven chain, dominated by large processors such as Nestle and Heinz. This pattern has been changing due to the concentration of retailing, hence challenging the position of large processors. The governor of the chain, i.e. the one responsible for setting the standards, should have sufficient size and capacity to monitor the standards, whilst the supplier should have the capacity to invest to meet the standards. However, Dolan and Humphrey (2000) showed that processors in developing countries have difficulties in meeting the requirements of UK supermarkets in respect of, for example, food safety, care for the environment and labor. Still, Vieira and Traill (2008), analyzing the Brazilian beef chain through a global value chain approach, conclude that there is a gap between practices adopted for the export market and practices to supply markets in developing countries.

The original idea of GCC moved to GVC, where empirical work expanded the original typology to create a more dynamic and operational theory (STURGEON, 2007). Therefore, Gereffi, Humphrey & Sturgeon (2005) states “Global value chain research and policy work examine the different ways in which global production and distribution systems are integrated and the possibilities for firms in developing countries to enhance their position in global markets”. Transactions costs economics influenced this broad framework to explain why some value chains are located in a place and other are more easily transferred. Bair (2009) also emphasizes the different institutional contexts and how companies respond differently to pressures in different countries. Raynolds, Murray and Wilkinson (2007) consider the GVC typology useful to understand FT relationships, which move from market, where price is the main requirement, to tighter relationships, where trust and knowledge transfer may evolve. However, they also state that this system is co-coordinated not only by economic reasoning but also by the role of external agents and institutions.

Market governance suggests a traditional view of price as the main requirement. In modular governance though, codification of information leads to production chain segmentation, with frequent transactions and relative supplier independence. Relational governance involves solidarity and cooperation with more balanced power between parties. Captive governance indicates a more clear co-ordination between processors and retailers, known as quasi-integration. Finally, hierarchy governance focuses on control of the whole process (GEREFFI; HUMPHREY; STURGEON, 2005; RAYNOLDS et al., 2007).

As a result of the proposed typology, FT can be then characterized as governed by an external agent: the certification body. To better understand how the certification body performs it is important to describe the main requirements obtain certification.

3 METHOD

This study relies on descriptive and exploratory techniques, aiming at bringing insights to the development on this field of research (YIN, 1994). The experience of the researcher comes into play when assigning priorities to problem areas for further research. In this study, different techniques were used such as: in depth interviews with key informants selected because they possessed special knowledge or experience in studying this particular topic (FLO certification body, academics, Brazilian public organizations) and with agents positioned in different parts of the supply chain (supermarket, importer, and trader, co-operative). These interviews were carried out in the UK and Brazil in first semester of 2009 and lasted around one hour each one. In-depth interviews discussed issues such as: the extension which fair trade facilitates access to markets, definition of standards and participation in the process, supermarkets strategies to choose fair trade products.

In this study, the unit of analysis is multiple, which means, we analyze the different agents involved in the global chain. This brings advantages such as providing an observation of a phenomenon, which is slightly different according to distinct contexts (MILES; HUBERMAN, 1994). However, while it was not possible to interview the different agents at the same time (as in a focus group), they were analyzed as members of the same global value chain (single case design). The last step consisted of the transcription of the narratives provided by the small producers interviewees and secondary data analysis. The transcription process tries to abstract and simplify the record of the events (RIESSMAN, 1993). The interviewees consider a narrative from their own vantage point, adding to the emergent analysis options and alternatives (GARUD et al., 2006). The use of narratives is common on social sciences and organizational studies, and it provides richness for the GVC perspective, where agents are positioned on different part of the chain and therefore perceive it in diverse ways. In order to check validity, the resulting analysis was disclosed to the key respondents to verify the veracity of the information gathered. Any claim was supported, with multiple evidences, when possible (MILES; HUBERMAN, 1994; YIN, 1994).

The GVC presented is product specific, in this case, a FLO fruit supply chain. Fruits are produced in Brazil by small holders in the Southern region and traded by a local branch of a UK fruit importer. The importer is responsible for supplying the fruit for the major supermarket chains in the UK. The role of external agents such as ETI and the FLO office in Brazil were also assessed.

The interviews were carried out in the beginning of 2009 and used the “snowball” process. In the UK, the interviews were made with category manager of a British retail chain, manager of a fruit import company and with a member of the ETI. In Brazil, the respondents were a fruit trader, a fruit co-operative and with a member of the FLO in Sao Paulo. In the fruit co-operative, it was possible to have longer interviews to be able to assess the small producers’ narratives on how the FT certification impact on their lives. Each interview lasted about one hour and was analyzed according to the literature review and in the light of each member (internal or external) position in the supply chain. In addition, an analysis of supermarkets websites and folders was also carried out in an attempt to understand how strategic FT is for these retailers.

The data gathered from secondary and primary sources was analyzed using the software N-VIVO was used, grouping and relating the concepts used and applications of the interviews made.

The interviews were conducted with individual firms, but the analysis tried to see them in a global chain context. Thus, all the information gathered was analyzed in the wider context.

4 FINDINGS

In order to integrate the FT international criteria and to adopt a common system of certification, in 1997 it was founded the Fairtrade Labelling Organizations International FLO (FLO, 2005). The FLO is responsible for certifying producers and establishing the FT criterion. It follows international practices accepted by external monitoring and certifies products, giving them a guarantee label. It has social rules associated to the technical specification regarding the production of goods. In addition, there are also some environmental rules applied for each product. These rules aim to facilitate the acceptance of the products on the international market. Under the FLO list of certified food products (FLO, 2005) it can be found tropical products such as coffee, tea, cocoa, sugar, fruit juices, fresh and dried fruit, bananas, vegetables, spices and herbs, rice, nuts, oils, wine, beer and rum. Yet, non-food products are also certified and commercialized such as cotton, flowers and sports balls. To produce or manufacture products carrying the FT banner producer's associations must adhere to the set of standards enforced by FLO in respect of economic, social and environmental directives that follow certain criterion and conventions internationally recognized.

4.1 FLO STANDARDS

To understand how fair trade works in practice, it is important to describe what the main requirements to receive the certification are. In order to integrate the FT international criterion and to adopt a common system of certification, it was founded the Fair Trade Labeling Organizations International (FLO, 2005) in 1997. The FLO is responsible for certifying the producers and establishing the FT criterion. It has branches worldwide and, for this study, an interview was carried out in Sao Paulo office. These rules aim to facilitate the acceptance of the products at the international market. The set of certification criterion gives the guarantee to the consumer that by buying a FT certificated product he/she will benefit the whole supply chain. FLO receives payment from every agent part of the supply chain. For example, in this case study, the fruit producers pays an annual fee for the certification. FLO gives a purchasing license to the importer who pays a fixed fee for that. In addition, the retail pays to FLO a share of the total FT products sales.

In order to be eligible for the FLO certification, producers' organizations must comply with both general criterion (applicable to any product) as well as specific criterion (per product). Within each criterion there is a minimum requirement in order to the certification to be achieved. Two overarching directives organize the structuring of the criterion regarding the social, economic and environmental dimensions.

Social Directives:

Criterion 1 relates to the development potential that a producer organization can have. As for the minimum requirements, the producer organizations must be able to prove that FT will make a difference to the business. The benefits generated will provide support for the growth of business and will also enhance the livelihood of producers and their families. Criterion 2 states that members of the organization must be small farmers. As for the minimum requirements, it most of the members of producer organizations must be characterized as small farmers. Criterion 3 is about an organization that is democratic, participatory and transparent. The minimum requirements relate to members must control the organization structure. The gathering of members in an annual general assembly should be the supreme forum for decision-making. During assemblies a report of the activities and the annual accounts must be approved by all members. Criterion 4, is about non-discrimination. The minimum requirements provide that no person can have their participation denied. On the Economical Directive, Criterion 5 is about the FT Price Premium. As for the minimum requirements, the organization

should be able to manage the FT premium to the producers; benefit in a transparent way. Criterion 6 relates to the Export Capacity. The minimum requirements to be adhered to related to the need of the organization to have some physical assets and be qualified to export. The organization should have access to a telephone line, the Internet, a computer system and evidence of good administrative skills. The products traded must follow the present standards of quality to export and the organization must show it has or it can export directly with success or, if necessary, indirectly through a partner. The contract established between seller and buyer must also provide a clear indication that the transaction is FT certified. Criterion 7, relates to Economic Growth whose one of FT purposes is to increase the capacity of small farmers to work in groups aiming at the export market. The producers must develop their skills and capacities in order not to depend on other people which could behave opportunistically. The Environmental Directive contains Criterion 8 relating to the environment. The minimum requirements refer to the management of the water resource, natural forests and other areas in the vicinity where the work is done. The environment must be protected, including control against erosion and waste management. The environmental monitoring must be applied. As seen, this set of certification criteria implies in a reduction of information asymmetry to consumers that by buying a FT certificated product they will provide social inclusion.

4.2 ETHICAL TRADE INITIATIVE

ETI is an important stakeholder in the FT supply chain. It is an alliance of companies, trade unions and voluntary organizations based in London. This partnership produces guidelines to improve the lives of workers who make or grow consumer goods worldwide. The origins of the initiative goes back to 1998, where a group of UK companies, NGOs and trade union organizations, with the backing of the then Secretary of State for International Development Clare Short, launched a radical approach to protecting workers' rights in global supply chains. Their aim was to build an alliance of organizations that would work together to define how major companies should implement their codes of labor practice in a credible way - and most importantly, in a way that has maximum impact on workers. The companies that joined ETI in 1998 were ASDA, Premier Brands, The Body Shop, Littlewoods and Sainsbury's. From that handful of pioneers, membership now comprises over 50 companies with leverage over more than 38,000 suppliers, collectively covering in excess of eight million workers across the globe (ETI, 2007). An interview with a senior member representing this organization was held to better understand the role of the different agents on the configuration ethical supply chains. According to the respondent, fair trade relates more to sustainability and, as such, covers a small part of the bigger picture. On ethical trading FT is judged to be ignoring the bigger dimension that could be more important for the livelihoods of small farmers. In this sense ETI is more marketable as it gives the edge in the consumer's mind. A small producer adhering to FT would have his costs raised due to annual certification payments. There are a number of motivations behind food retailers for choosing fair trade products such as: to get into the market, to provide something extra to consumers and to offer something better than the existing proposition, and, most of all, doing good for the environment makes one company less susceptible to criticism.

In the UK, the retail chains have different approaches to ethical trading. For example, Waitrose follows a different set of standards (it considers itself high-end, top ethics) yet others, such as Morrison's, is not at all committed to ETI. Since standards are norms that must be adhered to, those supplying Morrison's need to carry out a different standard audit from the food retailers members of the ETI. It is felt that if each supplier sets up some specific requirements that factories need to adhere to with different codes of practices it would become impractical. Hence going to the highest standard should suffice.

The ETI senior member also highlighted that every supply chain is in constant danger of disruption and the argument for fairness and trading certainly ends up strengthening the supply chain by treating the workers better. As a result, the intermediates, importers or retailers would end up being better known, and, consequently, the workers would spread the good news that they are being treated fairly.

4.3 BRITISH RETAIL

The retail sector is highly concentrated and very competitive in the UK (Hollingsworth, 2004). Their changes in supply chain management practices through the development of tight relationships with food suppliers are present in recent literature (ELLIS; HIGGINS, 2006; JONES et al., 2004, HORNIBROOK et al., 2005). In the light of increasing environmental awareness among consumers, retailers have been putting considerable effort into portraying a greener and more neighborly image, as they no longer compete just on price, but also on ethical perception. As such, food labeling has proved to be a further point of differentiation between the big chains (EUROMONITOR, 2007). Jones et al. (2007) identify that the top UK retailers used related Corporate Social Responsibility (CSR) themes within stores to inform customers about specific products predominantly on organic and FT products, healthy living ranges and local produce. Barrientos and Smith (2007) specifically examine the role of supermarkets to the rapid growth of Fair Trade in the UK. These authors understand that this process is consumer-led.

In this study, an in-depth interview was carried out with a category manager of a large British retail chain to understand the purchasing process and the agents involved in the global chain. The purchasing process is delegated to a third party by the retailer. In this case the third party is a British importer with purchase branches in several developing countries. Although the supermarket manager recognizes that once or twice per year he travelled to visit the sites of production, the entire supplier selection and monitoring is run by the importer. The manager also stated that no concerns regarding the fruit origin or provenance were ever raised as the fruit arrived at the distribution center accompanied by the FLO certification within the set specified format and color standards. The category manager was responsible for both certified and conventional fruits and there was no need for segregation on the supply chain, apart from the requirement of FLO label.

4.4 BRITISH FRUIT IMPORTER

The British importer interviewed started to trade FT fruits in the 1990's. At the time of the study, the UK market was worth 40% of his total business and he dealt with many different products supplied to a range of retailers. Fruits range from pineapples, apples, pears, oranges, limes, lemons, grapefruit, avocados, mangoes, prunes, among others. These fruits are all FT-certified by international organisms such as FLO, BSC and Global Gap. The company's turnover is about 12 million sterling pounds annually. It sources fruit from countries such as South Africa, Mozambique, the Ivory Coast, Peru, Ecuador, Burkina Faso, Ghana and Brazil. In Brazil, for example, the company has a branch which is responsible for the social development and production of around 100 farmers. As an importer, the company has to bear the cost and support the FT initiative for at least two years until it becomes sustainable. At the Brazilian branch, an employee is responsible for the inspection and monitoring of the orchards and someone from head office will make an annual visit to the Brazilian fruit producers. The importer absorbs the costs of those visits (around 6,000 sterling pounds each) while the FLO certification costs are covered by the small producers. The British importer collaborates with the FLO certification body while establishing standards and prices for fruits. In his opinion, since third world countries are often located in the tropics, the production of FT tropical fruit was seen to have great potential in the Fair Trade market segment.

The trader initially approached different retail chains to check whether there was a market for the Fair Trade products. Around 2004, supermarkets buyers were skeptical when there was only 37% customer recognition of Fair Trade products. Retail such as Marks & Spencer (M&S) that only carried their own range products which already helped third world countries were not thrilled to join Fair Trade idea. At the onset of the Fair Trade concept in the UK, each growers association would approach each retail chain individually. At that time there was no co-operation amongst growers and acting individually growers could not sustain constant throughout over an extended period of months. This meant, for example, that Sainsbury's, a retail chain that have around 450 stores in the UK, would only have enough to attend the demand to cover 100 stores. The fruit importer interviews came up

with a unique solution that would enable to source and supply Fair Trade products from around the world in order to supply supermarkets with a 52 week supply every year. As supplier of fair trade produce, the importer source produce directly from growers who takes over the responsibility to grade, package and ship the fruit which are delivered to the retailers' distribution centers. Whilst the producers are constrained by about a sixweek supply of produce window and the supermarkets were looking for a year-round supply for their customer that is provided by the trader.

4.5 BRAZILIAN FRUIT CO-OPERATIVE

The cooperative studied is located in the Southern Brazil and it produces 5,000 tons of fruits per year. The cooperative has 45 partners and approximately 150 families benefit from it. The organization possesses both organic and FT certification. Exporting activities started in 2005 when FLO certified the producers for citric and tropical fruits such as orange, lime, pineapples, among others. As such this cooperative has not yet engaged in direct exporting activities. The fruit is commercialized via a local branch of an UK importer to takes over the responsibility of the negotiations. The cooperative's CEO stated that the certification provided a better price from the external market. Apart from exporting to the EU, the cooperative also sells to large retail chains in Brazil. However, domestic food retailers do not pay a premium price for their product. On the other hand, the cooperative's decision has considered strategic to not become dependent on the export market. It sells the fruit under its branded name to the domestic market. The decision to become organic and FT certified has enabled the cooperative members to improve their livelihoods as they add more value to the end product. Nevertheless, the CEO considered it to be a niche market where the whole negotiation still depends the trader. The CEO also emphasized that he is aware that the retail chains can source anywhere and all these certification investments can get lost easily. Additionally, he said that the main barriers to direct sales were cultural, regarding language, context, way of being, ways of doing business and relationships.

5 DISCUSSION AND FINAL REMARKS

In this paper, we argument that FT is a Global Value Chain, where business groups, such as transnational retail, have increasingly sourced products from smallholders and have made them available on their shelves. This has been considered important not only regarding social inclusion of small producers in sophisticated and developed markets but also in respect of benchmarking of Corporate Social Responsibility (CSR). The transnational retail, while trying to differentiate their products for their high income consumers, contributes to upgrade sustainable standards on developing countries. In Brazil, as in other export-oriented countries, the export standards are above those adopted for local consumption. In addition, public sector monitors foods products supplied to export markets, and these are generally supplied by large producers (VIEIRA & TRAILL, 2007). Smallholder Brazilian fruit producers are generally excluded from export markets due to their small scale and lack of information and, hence, good CSR practice could constitute an opportunity. In this sense, the small producers studied perceived the benefits of being part of the FT GVC and receive a premium price. They receive a clear information of the social, environmental and economic directives that the FLO-CERT enforce. This means that the added value is better shared. Information asymmetry is reduced by the codification of information and standards from the FLO CERT guidelines. The trader acts a bridge between the sustainable concerns from the British consumers and the upgrade of practices by fruit producers in Southern Brazil. A combination of factors influencing the market, involving institutions such as private organizations interests, NGOs and the third sector growing influence in trade matters as well as greater consumers' awareness of all these issues, in order to promote the empowerment of small producers (RAYNOLDS et al. 2007). FT businesses benefited immensely from an increase in brand awareness and from the possibility of going mainstream, using the existing much wider distribution channels of transnational retail.

Following the GCC and GCV typologies, the FLO-CERT is the chain governor and sets the sustainable standards to the FT markets. It is agent external to the chain, does not participate in the

production process, but manages it. In a way, FLO-CERT replaces the role of Brazilian government of including small producers in sophisticated distribution channels and improving their welfare. This could be better understood through the concept of “institutional voids” which promotes self-regulation and other mechanisms (MAIR; MARTI, 2009). The different institutional contexts in the UK and Brazil have an influence but all agents pay the FLO CERT to get access to this premium market. However, the retail is key for providing access to these small holders product on their shelves. During the study procedures, it is also possible to realize that transnational retail located in Brazil, such as Wal-mart, Cassino and Carrefour, have been developing fair trade suppliers to sell in large urban towns such as Sao Paulo and Rio de Janeiro. These could be considered as spillovers from transnational companies that are located in an emerging country and deserve further investigation.

The configuration of the FT GVC is unique since the relationship between buyer and supplier is not direct as well as the presence of an external agent (FLO CERT) which exercises an important role as chain governor. In our study, the power and information asymmetry existent between agents is clear but there is as well interdependence due to the lack of certified producers. We believe this unique chain configuration can contribute empirically to the GVC research development (DOLAN & HUMPHREY, 2000; GEREFFI, HUMPHREY; STURGEON, 2005; BAIR, 2009). This study also contributes to the ethical issues regarding global buyers and small suppliers relationships and bringing business ethics discussion into the study of market failures.

Finally, the literature on FT proposes that it is an alternative route to market (JONES, COMFORT; HILLIER, 2005; LOW; DAVENPORT, 2006; RAYNOLDS et al, 2007) but in fact what it seems is that Fair-trading marketing is moving towards becoming dominated by large food retail carrying branded fair-trade merchandises in the West. Although this study is exploratory and looks to a single supply chain case, we encourage further research on other FT chains to better understand the evolution of ethical trade.

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