Ethical trade is an increasingly popular approach that allows companies to manage the social and environmental dimensions of their supply chains. Yet is it able to benefit poor producers and workers in developing economies, particularly those who outside of industrial production systems?

This paper examines how ethical trade is being applied to smallholder tea, coffee and cocoa growers in Asia, Africa and South America. It shows that many of the primary concerns among growers are not included in ethical trade standards. It argues that, although civil-society organisations have influenced the direction and scope of such standards (e.g. through partnerships with companies), the cultural and ideational dimensions to ethical trade impose limits on what can be modified and improved. Furthermore, the standards overlook critical aspects of business practice and their consequences for growers.

The consequences of this are not only potentially detrimental for ethical trade’s intended beneficiaries but also for this system’s corporate supporters. No matter what the business case may be for ethical trade, ultimately its success depends on accurately identifying and addressing the well-being of those in developing countries. This paper shows not only how far we are from achieving that goal but also some of the hitherto unrecognised reasons.

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In 1998 only one mainstream beverage company was showing an interest in the social or environmental dimensions of its supply chains, in contrast to the apparel, cut-flower and fresh produce industries, which were involved in initiatives such as Milieu Project Sierteelt, the Ethical Trading Initiative (ETI) and the Apparel Industry Partnership. However, by 2002 leading cocoa, coffee and tea companies such as Cadbury, Starbucks and Unilever were involved in ethical trading or sourcing of one kind or another. In this paper, I want not only to examine the reasons for this change but also to explore how power relationships within the chains affect the issues that are addressed and to look at whether the end outcomes constitute a benefit for producers.

By ethical sourcing (or trading) I mean that a company at one part of the supply chain (typically a brand owner, retailer or other Western company with a public profile) takes responsibility for the social and/or environmental performance at other stages of the chain, especially for that of primary producers. This is a significant change from traditional practice as it means a company takes responsibility for the behaviour of others even if it does not have any long-term formal liability for the results of that behaviour (i.e. in contrast to the responsibilities of a subsidiary or joint venture).

The UK-based Premier Brands was one of the first mainstream companies to engage in ethical sourcing, seeing it as an aspect of quality management. It established its own in-house standards and management systems, and was also an early member of the ETI (joining in 1999). This was not the first attempt to address ethical issues in such supply chains, as throughout the 1990s the fair-trade movement had built up market niches for its chocolate, tea and, especially, coffee brands, emphasising a commitment to a fair price for producers and, in the latter part of the decade, was starting to stress environmental performance as well through the production of fair-trade organic products (Courville 2000). Nonetheless, adoption of ethical sourcing by the commercial mainstream is a significant development because of the sheer volume of commodities it uses, something that not only promises a greater impact among producers but also gives it potentially enormous influence in shaping the features of ethical sourcing.

1 The scope of ethical sourcing standards

An obvious example of how certain elements of the supply chain can influence what is included and excluded from the scope of ethical sourcing is that, in marked contrast to the principles of fair trade, the producer price is not normally addressed. A repeated theme in the literature on small-scale commodity producers is price (see e.g. Bedford et al. 2002; Blowfield 1993, 1995; NRET 1998), and the world prices of tea, coffee and, until recently, cocoa have been at historic lows (Economist 2002). However, price is not given much consideration in ethical sourcing, either by the codes of practice that define good performance (e.g. SA8000, the ETI Base Code) or in companies’ programmes and social reports (e.g. the stewardship programme of US coffee blender Green Mountain does not mention price, and the Cadbury Schweppes 2002 social report says that it cannot affect the world market price for cocoa). The Starbucks preferred-supplier programme sets

1 Premier Brands, which is now US-owned, is a tea packer and also produces drinking chocolate.
2 For example, Mars UK processes more cocoa in a day than the fair-trade chocolate manufacturers do in a year (Martin Gilmour, personal communication, 11 November 1999).
3 According to the Cadbury Schweppes Social Responsibility Report, found at www.cadburyschweppes.com/faqs/fair_trade.html: ‘At Cadbury Schweppes we share Fair Trade’s commitment to improve the economic returns of cocoa farmers. However, we do not believe it is possible to manipulate or regulate the market for a crop that is produced in many different countries and consumed in many different
social and environmental criteria which, if met, give coffee producers a price premium. It has also pioneered the increased use of ‘outright prices’ negotiated directly with vendors (i.e. traders, co-operatives or growers). This type of contract accounted for 97% of purchases in 2003, and offers stability and predictability for both buyers and sellers. Such initiatives (plus the ability to charge premium prices to consumers) allow the company to pay growers over twice the price paid on the commodity markets (Starbucks 2003).

Attention to price is important not only for small producers but also for ethical sourcing as a whole. For example, if farm-gate prices are equal to or less than the costs of production, then the initial producer response may not be to stop production (a difficult decision with perennial crops) but to exploit labour (e.g. through low wages, excessive hours and use of forced labour) or to engage in poor environmental management (e.g. to carry out deforestation if expansion is a cheaper way of increasing yields than is intensification). In other words, low prices may encourage the very behaviour that ethical sourcing seeks to prevent, and this in turn will damage the reputation of the companies seeking to take responsibility for their supply chains.

It is tempting to conclude from this that companies should simply adopt fair-trade practices, which is happening to an extent where high-street coffee retailers such as Costi in the United Kingdom and Starbucks has started selling their own Fair Trade-certified lines. However, this assumes that fair trade is more beneficial than is conventional trade, something that has not been adequately tested, with field research raising questions about the distribution of benefit (Nelson and Galvez 2000), the sustainability of prices (Malins and Nelson 1998), the viability of fair-trade co-operatives (Tallontire 2000) and the real differences in farm-gate prices (Bedford et al. 2002; Collinson and Leon 2000). Furthermore, some of the elements of the success of fair trade mirror elements of good practice in conventional chains, including longer-term relations between producer and buyer, transfer of knowledge between the two and fair trading practices (e.g. not tampering with the weight, transparency about price, on-time payment). All of this results in trust, something emphasised by fair-trade organisations (Collinson and Leon 2000) and conventional companies (Gereffi 2001; Humphrey and Schmitz 2001), and in turn enhances product quality and other factors of competitiveness. Indeed, in contemporary supply chain theory price is only one aspect of competitiveness, along with quality, specification, timeliness and volume (Humphrey and Schmitz 2001).

Gereffi (2001) describes this as part of what he terms ‘value chain theory’, and he would consider tea, coffee and cocoa from the perspective of a model of a buyer-driven value chain where, although there is dynamic interaction and cross-learning between companies (including competitors), certain elements of the chain have more power than do others, arising from their position as brokers to the more lucrative Western markets (Humphrey and Schmitz 2001). The three commodities I am concerned with here challenge some aspects of the buyer-driven value chain model. For instance, it is stated that the demands of market brokers are narrowing the supply base (Humphrey and Schmitz 2001), but the tea, coffee and cocoa industries each have large and increasing numbers of small producers whereas plantation production is in decline. It is also held that the market brokers have the most influence over the behaviour of others (Humphrey and Schmitz 2001), but in the coffee and cocoa industries, where the international commodity traders and markets account for the bulk of trade, the power of those brokering access to Western markets (i.e. retailers and brand owners) may be limited. An example of this is found in the cocoa industry, where trade in beans is concentrated markets. Previous attempts to set a minimum price for cocoa via international cocoa agreements have failed, mainly due to the vast number of participants in the market, and it was agreed at an intergovernmental level that the best way forward was to liberalise the market.'
in the hands of a few international traders selling directly to processing factories or through international commodity markets. These traders are in some instances larger than the major confectionery companies, so that even a company as large as Nestlé or Hershey may not be able to influence the behaviour of suppliers in the way that large apparel brands have exerted pressure on their suppliers to adopt ethical standards.

Another factor affecting the degree to which companies take responsibility for the social and environmental performance of their supply chains is the extent to which importance is attached to product provenance. It can be argued, for instance, that the industries where ethical sourcing is most advanced are those where the supply chain appears to be relatively straightforward and where there is already some motivation for knowing the product origin (e.g. supermarkets need to know where their fresh vegetables come from because of a legal liability for food safety; the sports shoe industry knows where its trainers come from because of product quality, design and intellectual property rights issues). In significant segments of the coffee market, a premium is attached to product origin, which creates a need for tracing mechanisms, and these in turn can be used in monitoring ethical performance. This is true to a lesser extent for tea (where the factory is documented but not the farm) but such considerations are almost entirely absent for cocoa, where country but not grower location is a factor in determining price.

2 Smallholder perceptions of benefit

Lack of tracing mechanisms is not a reason for abnegating responsibility for ethical sourcing, but the degree to which the elements of the supply chain know and understand each other has consequences for how social and environmental issues are addressed. For example, until recently the tea industry largely set to one side ethical sourcing from smallholders because the challenges of monitoring were much greater than is the case for plantations. Failure to demonstrate adequate understanding of smallholders was a major reason why the chocolate industry was subjected to prolonged media scrutiny over child labour and slavery in 2001: the industry did not have the means to trace product provenance to farms or even regions. Partly as a result of this lack of knowledge and the subsequent groundswell of Western public opinion, declarations of US and British government intent, and follow-up actions by the likes of the International Labour Organisation (ILO), the US Agency for International Development (USAID) and the British Foreign and Commonwealth Office, the focus of ethical sourcing in cocoa became the use of child slaves. At the time of writing there is little empirical evidence of the systematic use of child slaves in cocoa production and several reasons to question the extent of the problem. For example, initial reports that 90% of cocoa farms in Côte d'Ivoire used forced child labour have been revised down to less than 2% (IITA 2002). Although the IITA data is flawed because research in Côte d'Ivoire did not take place during the main cocoa harvest, this reduction in estimates is not surprising. Rural slavery is normally associated with labour-intensive crops, whereas outside of the harvest season cocoa is not labour-intensive. Forced child labour is associated with intensive but light tasks (e.g. weeding, picking) whereas labour demand on cocoa farms throughout the plant life-cycle tends to be more for heavy tasks (e.g. land clearing, replanting). (For instance, for overviews of labour and cocoa production see Blowfield et al. 2001; Blowfield 1993.) It is to the credit of the ILO and others involved in responding to the accusations that their first step has been to study the extent of the problem.

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4 Over a four-week period in March and April 2001, I collected over 20 national newspaper articles on these issues (see e.g. Financial Times 2001; Guardian 2001).
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sourcing creates an environment within the supply chain and the producer countries that will support the establishment of a just and sustainable industry. For smallholders at least, that will mean addressing the priorities of the kind identified by Bedford et al. (2002), such as the type of trading relationship (e.g. timely payment), the security of land tenure and distribution of benefits (Table 1).

However, if we take the cocoa, tea and coffee industry as a whole, what appears to be happening is that a separate set of issues is being introduced, ones with resonance in the main consumer markets but less apparent among producers themselves. In the Starbucks preferred-supplier guidelines (Starbucks 2003), for example, smallholders are required to adhere to many of the same core labour standards found in SA8000 and similar codes of practice—codes that were originally developed for large workplaces and that include criteria on overtime, freedom of association and child labour which may not be suited to application to small family-operated farms. What is more, as the complexity of even seemingly simple supply chains such as those in the apparel industry becomes apparent to ethical sourcing practitioners, the response has tended to be to concentrate on how to apply the codes to small producers, and not whether these are the right codes for the situation. This has been the approach taken towards SA8000 during its 2001 revisions (SAI 2001), of the ETI, which has commissioned research into applying labour standards to small producers, and of the various national and international industry-specific initiatives.

Table 1 shows the priorities that smallholders in Indonesia and Kenya wish to see addressed by industry. The fact that the majority of priority issues are not included or only partially addressed within standards does not in itself undermine their potential value. Any enquiry into producers’ opinions will tend to elicit contested issues rather than accepted rights, so that the failure of Indonesian cocoa farmers to mention slavery as a priority ethical concern reflects its absence and not people’s indifference. There are also issues that the industry may consider outside of its responsibility. I have already mentioned the reluctance of companies engaged in ethical sourcing to tackle the trading

<table>
<thead>
<tr>
<th>Indonesia cocoa</th>
<th>Kenya tea</th>
<th>Issue mentioned in ethical sourcing?</th>
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<tbody>
<tr>
<td>Land-tenure security</td>
<td>Land-tenure security</td>
<td>No</td>
</tr>
<tr>
<td>Fair, transparent legal system</td>
<td>Stable, long-term buyer–seller relations</td>
<td>No</td>
</tr>
<tr>
<td>Freedom from harassment and intimidation (ethnic, sexual)</td>
<td>Freedom from harassment and intimidation (ethnic, sexual)</td>
<td>Yes</td>
</tr>
<tr>
<td>Fair price and timely payment</td>
<td>Fair price and timely payment</td>
<td>Rare</td>
</tr>
<tr>
<td>Competitive wages for workers</td>
<td>Access to training</td>
<td>Yes</td>
</tr>
<tr>
<td>Access to health and education</td>
<td>Access to training</td>
<td>Some mention of workplace health</td>
</tr>
</tbody>
</table>

Table 1 SOCIAL PRIORITIES IDENTIFIED BY SMALLHOLDER PRODUCERS OF TEA AND COCOA IN KENYA AND INDONESIA AND THEIR RELEVANCE TO ETHICAL SOURCING STANDARDS

Source: adapted from Bedford et al. 2002: 7, 21, 25-28

6 Man-Kwun Chan, personal communication.
7 E.g. Kenyan Flower Council; Agricultural Ethics Assurance Association of Zimbabwe.
relationship, and issues such as land tenure may seem even less within an industry’s control. However, in both Indonesia and Kenya, albeit for different reasons, some people see the threats to their land as a direct consequence of the supply chain (Bedford et al. 2002; Ruwiastuti 1991). 

3 Influences on ethical sourcing

The above examples show that there is a disparity between the standards used in ethical sourcing and the norms, values and priorities of producers in the supply chains, and this is something highlighted by work in other industries (see e.g. Barrientos et al. 1999; Blowfield 2000; NRET 1998). Initially, omission of certain issues from ethical sourcing standards has tended to be attributed to business reluctance to tackle contentious issues (Ferguson 1998; Varley 1998) or to prioritise issues with the most resonance to Western audiences (Varley 1998). The response to this has been to argue for the creation of partnerships between companies, civil-society organisations and sometimes governments with the intention that these alliances will prevent any one party’s interests from predominating (Jenkins 2001; Kolk et al. 1999; Warner and Sullivan 2004). Two assumptions that inform such partnerships are (a) that the interests of producers can be represented by (typically Western) organisations (be they private, civil-society or public-sector) and (b) that those interests can be codified within some kind of standard that in turn can be used to manage ethical performance within the supply chain (for an example where a stronger direct role for producers and an increased the scope for labour standards are advocated, see Pearson and Seyfang 2000). As a result, there has been little effort spent on involving Southern organisations in the setting of standards or in seeking out the priorities of Southern producers relative to that spent on building partnerships and improving approaches to monitoring and measuring performance.

In response to this, it is possible to argue that the challenges for ethical sourcing are ones that can be addressed either by technical or instrumental means (e.g. by extending the scope of standards and by improving auditing) or by increasing participation in partnerships. What is now taken for granted is that the instruments and partnerships are neutral devices that do not influence the possibilities of ethical sourcing itself. However, there are strong indications that standards are ideational. For example, for a ‘good’ to be recognised within a standard it must be quantifiable, it must be experienced by an individual (not a group), it must be secular and it must be a condition that can be compared across different sites of production. Yet, as Pelras has shown among the Bugis, who dominate Indonesian cocoa production, well-being is often defined in communal terms and is rarely separate from religion (Pelras 1996), and various authors on the anthropology of trade have shown that benefit is culturally determined (see e.g. Gregory 1982; Mauss 1925; Schrader 1994). Moreover, the ideational nature of instruments such as standards and accounting is central to Foucault’s conceptualisation of contemporary power (Hindess 1996) and is part of the rationalism that Scholte (2000) gives as one of the four defining elements of globalisation, a concept that various authors have referred to as creating the necessity and means for ethical sourcing (see e.g. Ferguson 1998; Jenkins 2001; Pearson and Seyfang 2000).

Lack of questioning of the ideational nature of instruments fundamental to implementing ethical sourcing is one reason for questioning the neutrality of the partnerships that are increasingly acting as oversight bodies. If the logic of these partnerships is to

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8 For example, Ruwiastuti (1991) describes how expansion of cocoa production has resulted in migrants, in collaboration with corrupt officials, forcing indigenous farmers off their land in Central Sulawesi, Indonesia.
provide balance by bringing together parties with diverse and often opposing opinions (Blowfield 2002) then one would expect that the ideational nature of standards, the omission of key producer issues and the limitations placed on improving performance by the trading relationship would be referred to, if not in company reports then in presentations or publications. Yet despite the growing importance of ethical sourcing in global trade, and despite the prominence given to power and governance in theories of trade, the notion of power within partnerships is almost absent from the literature on ethical trade.

This absence of debate does not indicate that the equitable partnerships envisaged in corporate responsibility literature (e.g. see Grayson and Hodges 2002; United Nations 2001) have been realised in ethical sourcing, although equally it does not mean that non-business partners have been co-opted by companies. This latter point is evident not only from the partial consideration being given to small producers (see Section 2) but also from the gradual recognition and adoption by business of ideas originating, for instance, from civil-society organisations. However, this acceptance by business of alternative ideas is also taking place without any substantial critique. For example, reflecting similar trends in the tea and coffee industries, major chocolate companies are supporting the establishment of producer co-operatives, something that reflects the wishes of non-governmental organisations (NGOs) and trade unions. The benefit of co-operatives to small producers can be questioned, but we should also note that co-operatives as an ideal type are being promoted to companies as a means of monitoring social and environmental performance and not for their primary purpose of organising inputs and marketing. This promotion is evident, for instance, in discussions between the West African cocoa task force of the British Foreign and Commonwealth Office and the industry–ILO partnership on child slavery. In other words, the partnerships are prescribing a particular organisational form that although appearing to serve the partners’ interests is unproven in the context of ethical sourcing.

4 Conclusions

The development of ethical sourcing in cocoa, coffee and tea supply chains offers insights into ethical sourcing as a whole. First, it raises questions over some of the assumptions of the buyer-driven value chain model, in particular the assumption that small producers are marginal and that brand owners and marketers are the most powerful actors within the chain. In each of the commodities I have discussed, smallholders are significant if not dominant and, as I have shown, their priorities are not well reflected in ethical sourcing standards. Furthermore, in the coffee and cocoa industries in particular the international trading houses and commodities markets have yet to participate significantly in ethical sourcing. For example, Cargill, the largest commodities trading company, makes no mention of ethical sourcing in its report (Cargill 2003), and, at time of writing, ADM, the second-largest company, has not yet produced a report. Involvement of these types of ‘invisible’ company will become increasingly important if ethical sourcing is to expand from industries where public profile, reputational risk and power are characteristics of a single company, to ones where they are not. This is true of the commodities discussed here but it is also true for other exchange commodities such as palm oil.

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9 Tallontire (2000) and Malins and Nelson (1998) offer examples of poorly run co-operatives in East Africa, and Pelras’s (1996) description of the Bugis as a group for which economic relations are based on kinship and not geographical proximity throws into doubt the cultural applicability of co-operatives and similar territorially bounds means of economic co-operation.
Second, the cocoa, coffee and tea industries reveal the challenges of implementing ethical sourcing where small producers are a significant element in the industry—challenges not only in terms of monitoring performance but also in terms of defining what is good performance. On the one hand, there are aspects of performance that do not seem to have been recognised by companies or partnerships, but, on the other hand, there are aspects such as the trading relationship that have been recognised but are excluded from standards.

This leads on to my third point, which is not related to the specifics of a particular commodity nor to the governance of different supply chains but rather applies to ethical sourcing as a whole. The possibility that the instruments used in ethical sourcing and the functioning of the partnerships serve to include and exclude certain issues and entities means that we need a more rigorous approach to understanding whose rights are being considered and whose are being denied. There is evidence that certain issues will be overlooked or excluded from standards in the future because they cannot be codified or measured. What is more, others have de facto been removed from negotiation as a condition of business participation in ethical sourcing. Put another way, businesses’ expectations regarding their engagement may be that civil society and government will leave unquestioned such rights as the freedom to trade, to invest and disinvest and to defer to market mechanisms as the arbiter of fair price. Thus, although there may be reason to celebrate some of the changes in businesses’ notions of responsibility that ethical sourcing is bringing about, we should not be blind to the lessons from the tea, coffee and cocoa industries regarding sustainable supply chains in general. In particular, once one gets beyond the broadest definitions, sustainability needs to be recognised as a contested and subjective concept, the negotiation of which will be influenced by the perceptions and, above all, power of different parties. A just outcome from such negotiation (and justice is an inherent part of sustainability) is not simply a question of attempting to involve interested parties (although, given the differences in interests, education, location, culture, etc., that in itself will be an immense challenge) but also a question of developing means of negotiation that are not inherently biased towards a particular party or world-view. This may seem to support the notion of stakeholder engagement or partnership as essential to sustainable supply chain management, building on the widespread advocacy of such approaches in corporate social responsibility literature. Yet these notions may be as ideationally rooted as the other instruments of ethical sourcing, leading to the possibility that they will only recognise, benefit and reproduce those who conform to the social, economic and political formations from which such instruments have emerged. And if this comment serves as a note of caution for civil-society organisations eager to embrace multi-sectoral partnerships it should also serve the same purpose for those keen to promote a business case for ethical sourcing—business will be unable to limit risks, enhance its reputation or simply obtain a reliable supply of commodities for the future if it employs approaches that ignore or misrepresent the well-being of those in developing countries.
References


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