

## **From commoditisation to de-commoditisation... and back again. Discussing the role of sustainability standards for agricultural products**

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## From commoditisation to de-commoditisation... and back again. Discussing the role of sustainability standards for agricultural products

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### Abstract

Sustainability standards are flooding global agricultural markets. Standards however, are not recent: standards for the exchange of grain and tropical products emerged in the 19th century. The objective of this article is to analyze, in a historical perspective, the implications of the transition from traditional standards to sustainability standards on the commoditization/de-commoditization process. We show how early standards and grades contributed to the construction of the category of products called primary commodities and how, after a short attempt at de-commoditization (with the early fair trade and organic standards), sustainability standards tend towards re-commoditization.

### Keywords

Grades, traditional standards, sustainability standards, commodities, fair trade, organic agriculture

### Standards durables et re-commoditisation des produits agricoles

### Résumé

Dans de nombreux secteurs, les standards durables de produits agricoles envahissent le marché : café respectueux des oiseaux, coton biologique, produits forestiers extraits de forêts gérées de manière durable, huile de palme durable, ananas issus du commerce équitable, bananes éthiques, etc. Dans cette course à la respectabilité environnementale et sociale, les acteurs du secteur privé supplantent progressivement les autorités publiques dans la « qualification » des produits, notamment *via* la promotion d'écolabels volontaires ou la communication sur les conséquences sociales et environnementales de leurs activités économiques. Cet article se propose d'analyser, dans une perspective historique, la transition observée de standards traditionnels aux standards durables, et de montrer comment cette transition a modifié le statut des produits primaires exportés par de nombreux pays du Sud. Nous défendons l'idée selon laquelle la prolifération actuelle de standards durables risque de se mener à terme à la banalisation des enjeux environnementaux et sociaux et à la dilution de leurs exigences dans une version édulcorée des standards durables qui ne donnerait lieu à aucune prime de prix pour les producteurs tout en restreignant leur accès au marché.

### Mots clefs

Standards, normes, standards durables, produits primaires, commerce équitable, agriculture biologique

JEL: N57, Q13, Q17, Q56

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## **Of standards and commodities**

From “*bird-friendly coffee*” to “*ethical tea*”, through “*sustainably certified forests*”, “*sustainable palm oil*”, “*eco-friendly pineapples*”, “*responsible soy*” or “*better bananas*”, sustainability standards in the area of agricultural commodities are flooding global markets. While traditional standards defined the identity of a product to be exchanged on international markets based on a set of physical attributes, sustainability standards provide detailed technical specifications setting social and environmental characteristics for the production process itself<sup>1</sup>, with a clear reference to the three pillars of sustainable development. The ambition to standardise the production process for agricultural products is not totally new, since organic and fair trade standards have been sharing this feature for over 30 years. Sustainability standards differ from these pioneering initiatives not only through their principles, but also because they are supported by the main actors of the value chain (manufacturers, retailers, banks) that aim to create the new quality reference for mainstream agricultural product markets.

The objective of this article is to analyze in a historical perspective the implications of the transition from traditional to sustainability standards on the commoditisation/de-commoditisation process. We call commoditisation, the process that gave birth to a specific category of goods called “primary commodities”, clearly different from manufactured goods. The construction of product homogeneity – a necessary condition for pure and perfect competition (Marshall, 1890) – is at the heart of the process of commoditisation<sup>2</sup>. Product homogeneity implies a high degree of similarity between the different batches of products sold on the market, and thus allows a high degree of substitutability between suppliers. Product similarity and supplier substitutability depend mostly on the quality attributes considered in the transaction. Two batches of a given commodity – two bags of Robusta green

coffee for example – are never absolutely identical if all the variables that can be used to describe them are taken into account. They can be identical regarding the size of the beans, but different regarding their colour. Similarity between batches and substitutability between suppliers supposes that market participants focus on some specific information regarding the quality (or the identity) of a commodity. If homogeneity, and therefore commoditisation, rests upon the production and exchange of information regarding a limited number of quality attributes, this means forgetting or neglecting even more information regarding specific quality attributes of a given batch (*e.g.* its geographical origin, the variety used, the planter's name, etc.). As a consequence, commoditisation is also supported by the creation and management of a certain degree of opacity between the upper and lower parts of the chain. From this point of view, commoditisation illustrates the rationalization process at work in our modern society that supposes not only producing more and more information, but also discarding or ignoring information. In the agricultural sector, standards have been the main instrument of this rationalization process<sup>3</sup> (Beninger, 1986; Busch and Bingen, 2006; Hill, 1990) to the extent that we consider standardization and commoditisation as closely intertwined processes.

The commoditisation process can be split in two: (i) a day-to-day process that transforms an agricultural product harvested in a field into a primary commodity traded on world markets (testing, sorting, grading) ; (ii) a historical process that gave birth to the institutions necessary for the existence of primary commodities as a specific category of goods. It is this second process of commoditisation that we intend to investigate in this paper, mainly through a literature review. The current proliferation of sustainability standards has given a new impulse to the commoditisation/de-commoditisation debate. According to Kaplinsky (2006), sustainability standards supported by certification, create new barriers to entry and therefore foster de-commoditisation. They should hence be considered as a development tool. We

defend the opposite position: by reintroducing market relations and supplier substitutability, sustainability standards and the associated certification practices tend towards re-commoditisation. To understand this involves going back to the core logic of commoditisation.

The paper is organised in three sections. The first section presents an account of the emergence of standards in the agricultural sector in the 19<sup>th</sup> century. It underlines the relationship that exists between standardization and commoditisation, and the evolution of these notions through time. Early standards and grades contributed to the construction of the category of products called primary commodities (homogeneous products for a given grade that may be supplied by interchangeable suppliers). The second section details two initiatives: organic agriculture aimed at promoting alternative production methods, and fair trade aimed at promoting social relations. These initiatives entailed the construction of vertically integrated chains tailored for differentiated products. By making it possible for retailers and consumers to trace their products all the way back to identifiable producers or producer organisations, these initiatives contributed to the effective de-commoditisation of agricultural products (even though this was not a stated objective of these initiatives). Beyond the debate regarding fair trade and organic agriculture, the third section addresses recent developments in the area of sustainability standards (proprietary standards, standards developed by environmental and social NGO standards, multi-stakeholder commodity initiatives). We defend the idea that these standards are used to differentiate products at the consumer level, to avoid blame and to protect one's brand, while ensuring a regular supply of sustainable products provided by anonymous certified producers. This brings us to consider the emergence and diffusion of sustainability standards as a new phase in the commoditisation process of agricultural products. In the conclusion, we investigate the implications of this process on development and discuss the impact of sustainability standards on value

distribution along the chains. This leads us to consider complementary policy measures to ensure a positive contribution of sustainability standards to development.

### **The genesis of historical standards**

Until the last quarter of the 19<sup>th</sup> century, goods were mainly judged by direct physical contact with the buyer. Each buyer had his own criteria for evaluating the quality of goods and the degree to which they matched his requirements. In the process, several senses were used: touch, sight, smell and taste (even for rubber). Products were also identified according to their geographical origin, but the criterion used to define the geographical origin varied considerably. Grades and standards for agricultural products emerged in the second part of the 19<sup>th</sup> century (Cronon, 1991; Daviron, 2002; Daviron and Ponte, 2005). This process was closely linked with the birth of futures markets. Both institutions appeared first in the grain trade in Chicago. They are clearly “products” of the United States’ phase and model of capitalism.

#### Innovations in grains

Cronon (1991) offers a fascinating account of the historical process that led to the creation of grain standards and the Chicago Board of Trade. Until the middle of the 19<sup>th</sup> century, grains (mostly corn and wheat) produced by the prairie farmers were sold in New Orleans or in the cities of the East Coast under a marketing system that was similar to the one developed for overseas products. Ownership rights over the grain remained with the original shipper until it reached the point of final sale. A commission merchant organised the transportation, storage and sale of the grain and sometimes provided credit and insurance to the shipper. The grain was transported by river in sacks and remained untouched from the farm to the flour mill. The first impulse for change came from the expansion of railroads. Grain flows were reoriented

from Saint Louis and New Orleans to Chicago and the Great Lakes. New incentives to achieve 'economies of speed' appeared. The response to these incentives was the development of a specific technical innovation: built in the 1850s, the steam-powered grain elevator changed the whole organisation of marketing. The ability to handle and transport grain without the use of sacks and to mix grains from several farmers in a bin of an elevator meant that the ownership could not remain with the farmer during handling and transport as before. Here the response was institutional rather than technical, and led to the creation of the first standard by the Chicago Board of Trade – a voluntary association of grain traders aimed at promoting the city and at dealing with the day-to-day problems of the grain market. In 1856, the Board created a uniform wheat standard for the city, based on three grades. This act was decisive for the re-organisation of the grain trade in the USA.

After 1848, the telegraph network enabled to synchronise price movements between Chicago (the hub of prairie grain supply) and the East Coast (its main consumer market). The telegraph and the grain standard enabled the sale of a grain lot before it moved from Chicago to New York (on the basis of a so-called '*to arrive*' contract). The standard enabled the buyer to know exactly what he would receive, while the telegraph enabled the two parties to build a contract on a common price basis. From then on, a trader could sell a '*contract to arrive*' without owning the grain and then hope to buy the grain (just before the time of delivery), by buying elevator receipts at a cheaper price than the one stipulated in the contract. This contract could be (re)sold several times between traders before delivery. Initially based on the '*contract to arrive*', this speculative activity was subsequently (after 1865) organised by the Chicago Board of Trade through a '*future contract*'. This contract defined a specific grade of grain, a specific volume, and a specific date of delivery.

The last step in the building of a '*modern commodity market*' was the invention of hedging. Hedging emerged and spread along with futures markets in the third quarter of the 19<sup>th</sup> century (Rothstein, 1983). Hedging means using future contracts as insurance. In practice, it entails the buying (or selling) of a future contract simultaneously with the selling (or buying) of 'real' grain. Hedging enables operators, anxious to buy grain and to keep it for a while before selling it in the same form (or in a transformed form, *e.g.* flour), to protect themselves against price fluctuations (specifically, a price fall). Because the fluctuations in the future contract are linked to the fluctuation on the 'real' grain market, carrying out the reverse operation in the futures market enables the trader to minimise the loss (or the gain) realised in the 'real' grain market. Hedging seems to have been first used by traders who bought grain in Chicago and sold it to exporters in New York. The diffusion of hedging as an insurance against price fluctuations occurred along with a change in the way merchants operated: the latter increasingly bought grain on a cash basis rather than on consignment. Being protected against the risk of selling at a lower price than the price paid at purchase, the merchant could become the owner of the product and hold it for a long time. Because of this new ability, previously distant market transactions were suddenly brought close to small towns or even the farm gate. Subsequently, the necessity for the farmer to hold the product for months before selling disappeared.

#### Diffusion to tropical products

Standards for tropical products started with cotton. Classification in different grades started in the middle of the 19<sup>th</sup> century in the main American cotton trade towns. These classifications were strictly limited to local use. However, in 1874 a conference attended by representatives of the different American markets decided to adopt the New York Cotton Exchange standard. The distribution of samples of different cotton grades to the various local trading associations was supposed to guarantee the use of the standard (Brown, 1938).



The creation of the New York Coffee Exchange in 1881 was a decisive step in the commoditisation process of coffee. By the end the 19<sup>th</sup> century, the USA had become the largest coffee consuming country in the world. For the next sixty years, the New York Coffee Exchange remained the leading market and drove many of the changes occurring in producing countries. Traders made extensive use of its exchange standard. Transactions in the Coffee Exchange were organised according to rules defining nine grades. Each grade was defined in relation to the number of defects. Grade N°7 was used as a basis for quotation and all other grades were judged in relation to it. No coffees with a grade lower than N°8 were allowed to be imported in the USA. The grading system made no reference to coffee aroma or to the geographical origin of the coffee.

The standardization of rubber started in 1913 with the founding of the London Rubber Trade Association. This association set up a Standard Quality Committee during its first year of operation with the purpose of defining a standard and providing arbitration for sales concluded with reference to this standard. In 1928 however, the US Rubber Manufacturers Association published its own standard (Rondet, 1997). Like the cotton standard, it was based on the distribution of sets of reference samples to the operators. It soon became the dominant standard in the market, reflecting the influence of US tire manufacturers in the international rubber market. This standard was subsequently renegotiated by producers, users and traders at conferences organised by the International Rubber Study Group. In 1952, these negotiations resulted in the so-called 'Green Book', a globally-agreed document defining the various smoked sheet and crepe<sup>4</sup> classes recognised in international trade. The first standard for cocoa was created in 1925 to enable the functioning of the New York futures market.

## The collective dimension of agricultural standards: from trader associations to State entities

The building of such agreements and the necessary funding to elaborate the associated technical knowledge raise a problem of collective action for the different users of the standard. Originally, trader associations supported such collective action. The Midwest merchants and the Chicago board of Trade offer the best example of this capacity for collective action (Odle, 1964).

For cotton, the decisive change occurred in 1909, when the US government proposed the first official standard, following the complaints of cotton growers. The standard was drafted by a committee consisting of cotton classification specialists, growers, traders and spinners. Promulgated in 1916, the Cotton Futures Act and the Grain Standards Act imposed the mandatory use of the standard for market transactions and organised the intervention of the Department of Agriculture in grading and inspection (Société des Nations, 1928). In 1923, the Cotton Standards Act made the standard compulsory for all domestic and international transactions. In 1923, two conferences attended by the Department of Agriculture and representatives of the various European associations of traders and spinners gave the official US standard the title of “universal standard” after a number of minor adjustments. The first Universal Cotton Standards Conference was held in 1925.

In cocoa, standardization was initiated and driven by the public institutions that operated in the British and French colonies in Africa in the 1920s and 1930s. Inspections were initially organised to prevent exports of substandard cocoa. Simple classifications were created, with two or three categories of exportable cocoa (Viton, 1960). One of the last standards to be “nationalised” is that of rubber, with the creation of the Standard Malaysian Rubber in 1965.

From then on – and for almost one century – the identity of an internationally traded batch of a commodity will be defined by its national origin and by a specific grade within the national standard. No further information will be necessary to sell and buy a product. No information will be given about the characteristics of the production process or the identity of the farmer and, in most cases, no information will even be provided about the regional origin within the country. In the absence of universal standards, market operators will work with a system of equivalencies between national origins – including premiums and discounts – in relation to the central market price, *i.e.* the price quoted on the main futures market. At the same time, a domestic standard was created to organise market transactions at the farm level. In some cases, the domestic standard defined the quality of the commodity *prior* to a first physical transformation: seed cotton before ginning, rubber cup lump before re-milling, etc. In other cases, the domestic standard defined the quality of the commodity *prior* to sorting and cleaning (cocoa, green coffee).

#### Standards for batch substitutability in space and time

The criteria for product characterization used in various standards remain extremely generic: cleanliness and absence of damage (mould or insect damage) are the main variables considered. The different grades are defined according to the amount of impurities present in a sample (foreign matter or deteriorated product). The standard for sheet and crepe rubber laid down in the Green Book is limited solely to cleanliness. A further factor in the case of cocoa is the presence of slaty or violet beans indicating possibly inadequate fermentation and hence a potentially weak chocolate aroma. The general appearance and staple length of cotton is added to cleanliness criteria. These criteria allow simple methods of testing and product acceptance. Visual inspection is dominant, even though it might be preceded by a knife cut (the cut test for cocoa) or by stretching the product between the thumbs (pulling cotton). In

this situation, product qualification is based mainly on the know-how of the person performing the visual inspection and does not require any special equipment.

The generic standards used to qualify tropical commodities are thus characterised on the one hand by the absence or minor role of processability criteria, and on the other hand by the absence of interest for their local specificities. Finally, these standards reflect the comparative weakness of the quality requirements of the user industries and, above all, the absence of demand for variety (indeed, standards were developed to define quality in a mass production economy). The reduction in the diversity that accompanied the creation of national standards can thus be seen as the ‘price’ that consumers paid for the development of low-cost small-scale production (in comparison to the costs incurred by large plantations).

In all cases, the standards provided very simple information about the intrinsic characteristic of the commodity (most often cleanliness), and no information at all about the production process implemented within the farm. Ignoring the conditions of production made it possible to resort to a great variety of production technologies for the supply of a single commodity.

#### Standards as a source of opacity

Domestic and export standards organised competition between suppliers and smoothed market operations by acting as a curtain or a screen between the field and the fork. Nations and farms were “black boxes” that were totally opaque to the upper part of the chain. In the manufacturing sector, standardization is necessary to guarantee interchangeability, and interchangeability is necessary to guarantee compatibility between the different components in the assembly line. Although interchangeability is also a key issue for agricultural products, market transactions predominate. Premiums or penalties allow products coming from different places, times or agents to be interchanged, with no difficulty for the buyer or the seller. In

other words, instead of being subordinated to the technical constraints of the assembly line, the definition of standards was subordinated to the constraint of the anonymous market transaction. Despite the technical recommendations provided by the engineers, the content of agricultural standards seemed to respond first to the merchants' needs. While industrial standards were primarily elaborated to reduce production costs within the factory, agricultural standards aimed at reducing transaction costs, and more specifically search costs (Shapiro, 1999).

### **Fair trade and organic agriculture: from de- to re-commoditisation**

The 1960s witnessed the development of new agricultural chains, with the organic agriculture and fair trade movements. Both initiatives explicitly encouraged and valued the differentiation of agricultural products, first through specific retailers and marketing chains, before promoting labelled products in mainstream chains (Raynolds, 2000). Both initiatives clearly challenged the mainstream agro-food system: the generalised use of chemicals and pesticides, the poor quality of its final products, the distended nature of social relations between its actors, the inequalities generated at the local and the global levels, and the misuse of natural resources (Goodman, 2004; Marsden, 2000). In other words, both initiatives proposed an alternative system based on “quality”, “place” and “nature” (Goodman, 2003, 2004). Both initiatives were characterised by a high level of vertical integration that went all the way from marginalised or “different” producers and their organisations to dedicated retail shops. They also promoted new rules and production techniques that were completely disconnected from the mainstream, and expressed new concerns for the impacts of agriculture on the environment and on labour conditions (Renard, 2003). Finally, both initiatives emphasised the importance of restoring trust between increasingly disconnected food consumers and producers (Morgan *et al.*, 2006).

## Vertical integration as a means of greater transparency and debate

At the early stages, organic agriculture relied on a set of shared values and informal norms rather than on official criteria (Ingenbleek, 2007). According to Sylvander (1997), these informal norms were more social than technical. Product differentiation, trust and transparency were organised through specific marketing channels (peasant markets, specific brands, contract farming, local producer-consumer associations, and specialised health stores selling own-branded products). In France, *Nature & Progrès* was certainly the most innovative experience. This federation of local associations bringing together consumers and producers was created in 1964 and emphasised the health-related aspects of organic farming. *Nature & Progrès* elaborated the first written technical specifications for organic farming in 1970 (Harrouch, 2003). Local committees made of producer and consumer representatives (COMAC, *Commission Mixte d'Agrément et de Contrôle*) were set up to control and accompany farmers in their practices. Through this system, consumers had a direct and personalised relationship with the farmers and their farms. The influence of *Nature & Progrès* stretched all the way to the creation of a network of organic farming extension officers that later created Ecocert (one of the 6 EU accredited certifiers for organic farming in France). In 1972, *Nature & Progrès*, the British *Soil Association*<sup>5</sup>, the Danish biodynamic association, the US *Roadale Press*, set up the *International Federation of Organic Agriculture Movements*.

Fair trade finds its origins in various movements, including the cooperative movement, charity business, solidarity trade and development trade (Gendron *et al*, 2009). The initial fair trade movement was organised by *Alternative Trading Organisations* (ATOs) based in developed countries. ATOs bought goods directly to producer organisations located in developing countries, and subsequently sold these goods directly to consumers through a network of dedicated retail shops (World Shops) selling products (mostly handicrafts) that

bore their name – *Traidcraft, Oxfam, Solidaridad, Equal Exchange, Artisans du Monde*. In this model, it was the trading practices between the organisations and their partners that defined fair trade, rather than a common external standard. Fairness of trade was guaranteed by self-declaration and reputation, rather than by certification. Direct and personalised relationships between the shops and the producers on the one hand, and between the shops and committed consumers on the other hand, lied at the core of the trade practices (Raynolds, 2002). These relationships included the transmission of written information, correspondence, the organisation of visits for producer and consumer representatives, etc. (Le Velly, 2007). Because of the geographic distance, World Shops and their staff involuntarily acted as a first curtain between producers and consumers, despite their constant efforts towards “interknowledge” (*ibidem*). In the mid 1980s, the World Shops progressively became more professional. This can be explained by several factors, including: the inclusion of foodstuffs besides handicrafts; increasing demand; higher safety and quality standards and stronger competition from mainstream retailers (Littrell and Dickson, 1999; Gendron *et al.*, 2009). In France, the *Artisans du Monde (AdM)* network exemplifies this evolution: the first *AdM* shop opened in Paris in 1974 and was followed by many more throughout the 1970s<sup>6</sup>. In 1984, despite valuing direct relations with producer organisations, *AdM* created a central importing company – *Solidar’Monde* – to rationalise the imports and warehousing of foodstuffs and crafts and to manage a larger pool of suppliers (*ibidem*). With *Solidar’Monde*, a second curtain was drawn between the consumer and the producer.

#### From idiosyncratic trading practices to common standards, labels and third party certification

The organic movement remained disconnected from the mainstream until the early 1990s, when consumer demand for organic products began to rise, as a consequence of : widely publicised food scares in Europe such as BSE, *E. Colii* and salmonella outbreaks, dioxin-contaminated chicken, etc. (Gale, 2006); emerging consumer concerns over how food is

produced; and decreasing public support to agriculture (Guthman, 2004). Accompanying this trend, the creation of national organic standards, labels and certification practices in Europe (1991), Japan (1991) and the USA (2002), created an opportunity for organic products to be commercialised in a more varied array of food outlets, including supermarkets. These evolutions were accompanied by two major changes: the evolution of the very definition of organicness and a redefinition of control procedures and practices. Regarding the definition organic farming, there was a shift from a holistic vision to an input oriented vision: organic farming became characterised in reference to the absence of synthetic inputs in fertilizing and pest control. This shift greatly paved the way for the elaboration of precise and largely shared technical specifications (roughly speaking, a list of forbidden inputs). Regarding control procedures, most organic regulations introduced the mandatory use of third party certification involving the intervention of an *“independent organisation with expertise to provide an assessment and verification of the company's compliance with standards and/or legal requirements”* (Tanner, 2000:415).

Concerning fair trade, the historical model heralded by the ATOs was challenged in the late 1980s<sup>7</sup> by the new *labelling initiatives*. This second generation of fair-trade initiatives broke away from the vertically integrated chains organised by ATOs in two major ways. First, organisations no longer limited themselves to buying the goods, but rather focused on setting standards regarding the conditions of trade (prices, advance payment, support services)<sup>8</sup>, they also certified that the standards were been respected by the various actors of the value chain<sup>9</sup>. Second, fair trade labelled products could hence be sold through conventional marketing channels, which substantially expanded the market for these products.

In the case of fair trade, certification contradicts and even poses a threat to the very principles of the movement: (a) with the reintroduction of competition enabled by certification, large



scale plantations are likely to be privileged over groups of small and marginalised producers because they can afford high certification costs, and because they are able to deliver large and consistent volumes of products with a constant quality (Le Velly, 2007); (b) certification helps large corporate downstream actors control and switch between certified and hence substitutable suppliers<sup>10</sup> (Haan *et al.*, 2003; Raynolds, 2004); and finally (c) by forbidding the inspectors from providing advice to the farmers whose practices they are monitoring<sup>11</sup>, third party certification may ultimately contribute to the exclusion of poor farmers (Mutersbaugh, 2004). Ultimately, certification and labelling ensure the perfect substitutability of suppliers, while those unable to conform to the wishes of the buyer are excluded from the chain (Kaplinsky and Morris, 2001).

#### Competing with conventional products over supermarket shelf space

Once confined to alternative marketing channels, certified fair trade and organic products compete today with conventional products on the same supermarket shelf-spaces.

Good economic prospects brought by the opening of the market have drawn a growing number of stakeholders (farmers, processors, retailers) to the organic business. Today, while the food industry overall is growing at approximately 1-2%, global organic sales have achieved double-digit annual growth for more than a decade (Giovannucci, 2006). Global retail sales of organic foods were estimated at US\$34 billion in 2005 and increased by over 200 % in less than a decade, from approximately US\$11 billion in 1997 (Byers and Giovannucci, 2008). The North American market is the most dynamic market worldwide, with retail sales of organic foods having increased up to \$21.1 billion in 2008 from \$3.6 billion in 1997 (Dimitri and Oberholtzer, 2009). In the USA, several studies show how initially small organic actors grew into larger companies that – because of their profitability – ultimately ended up in the hand of transnational corporations (TNCs) (Dimitri and Greene, 2002; Sligh and

Christman, 2003; Clark, 2007). In 2004, mainstream supermarkets accounted for 37 % of total organic food sales on the US market, followed by independent natural food stores (28 %) and natural food supermarket chains (19 %) (Martinez, 2007). As organic sales in the conventional channels increased, many supermarkets (*e.g.* Safeway, Supervalu) began to produce their own corporate-brand organics (*ibidem*).

Following a similar pattern, the growth of fair trade has been fuelled by a brisk demand. Sales of fair trade certified products worldwide reached €2.3 billion in 2007, representing a 47 % increase over the previous year (FLO, 2008). Tropical commodities such as coffee, bananas, cocoa or tea enjoy considerable growth rates: global fair trade coffee sales more than doubled between 2004 and 2007; global fair trade banana sales increased at an average growth rate of 36 % per year between 2001 and 2006; global tea fair trade sales more than tripled since 2001 (*ibidem*). The main markets for fair-trade products (USA, UK, France, Switzerland, Germany), accounted for US\$1.8 billion in 2006, *i.e.* 82 % of global sales of FLO-labelled foods (Byers *et al.*, 2008). Symbolic of the recent trend towards certified products, in 2004/2005 FLO certified sales represented 88 % of all fair trade sales, and ATO sales, only 12 % (Raynolds *et al.*, 2007). According to a statistical overview of fair trade in 33 countries, non-certified sales of fair trade products reached € 265 million in 2007, which represents roughly 10 % of all fair trade sales (Krier, 2008). Supermarkets represented in these countries 96.6 % of the points of sale for fair trade products in 2007 (*ibidem*).

In the competition between large downstream actors (*e.g.* food manufacturers and supermarkets), organic and fair trade labels are a powerful instrument of product differentiation and hence play a crucial role in capturing market share. Supermarkets sell today on their shelves manufacturers' fair trade certified brands next to their own-brand fair

trade certified products, and progressively convert entire product lines to fair trade (Raynolds 2008; Smith, 2008). Coffee perfectly illustrates such mixed strategies (Table 1).

*Table 1 – Supermarket strategies to sell fair trade certified ground coffee*

One of the first fair trade agricultural products through solidarity trade with politically marginalised countries such as Nicaragua or Tanzania, coffee is today one of the flagship products of “corporate fair trade”<sup>12</sup>. Jaffee (2007) explains how many coffee TNCs partially converted to fair trade in the early 2000s under the pressure of civil society: this is the case for Starbucks’ (2000), Procter & Gamble (2003), and Nestlé (2005). Supermarkets soon joined in the race, switching all their own-brand coffee to fair trade: this strategy was followed by Co-op in 2003 and Marks & Spencer in 2004 (Fairtrade Foundation, 2006), while Sainsbury’s and Waitrose plan to do the same by 2010. As a consequence, in the United Kingdom, fair trade coffee enjoyed a 20 % market share in 2007 (Krier, 2008) and certified fair trade coffee sales soared from 1,954 tons in 2002 to 6,238 tons in 2006 (Raynolds, 2008).

The early fair trade and organic agriculture movements both questioned the commodity status of agricultural products. By building strong vertical linkages between consumers and producers, these movements – which aimed at more transparency concerning technical and social production processes within food chains – ended anonymity and limited producer substitutability. The shift from labelled organisations to labelled products, characterized by the adoption of harmonised standards and the use of third-party certification, triggered major transformations. First, it brought organic and fair trade products onto supermarket shelves. Second, it restored the distance in the trading relationship: yet another curtain was drawn between the consumer and the producer. Finally, by conciliating anonymity and transparency it reintroduced supplier substitutability. Although organic and fair trade products remain differentiated at the consumer level thanks to a label, although prices for organic and fair

trade products are higher than conventional ones, although a certain degree of transparency has been achieved all the way to the consumer, we consider that commoditisation is on its way.

### **Sustainability standards: one step further towards commoditisation**

The 1990s witnessed a proliferation of standards for corporate conduct regarding the provision of raw material. This was first led by corporate actors themselves, through proprietary standards (company codes, supplier guidelines, sustainable business principles, etc.)<sup>13</sup>. TNCs also resorted to well established and reputable NGOs to signal their awareness of social and environmental issues (*e.g.* Starbucks allied with Conservation International for the development of its C.A.F.E. practices). At the same time, and in clear competition with FLO standards, NGOs such as Rainforest Alliance or Utz Kapeh started developing their own third-party certification schemes that were clearly more industry-oriented<sup>14</sup>. These schemes were mainly used by TNCs to avoid shame under the growing pressure of environmental and social activists, and to target an increasingly conscientious consumer. Finally, the definition of sustainability standards in a multistakeholder framework started in the mid 1990s, with the Forest Stewardship Council (1993) and the Marine Stewardship Council (1997). From the mid 2000s onwards, multistakeholder collective action picked up in the field of sustainable standard setting, with several crop-specific (soy, palm oil, cotton sugarcane, coffee, tobacco, etc.) initiatives based on dialogue, partnerships, monitoring and labelling schemes (Segerlund, 2005). These initiatives involved a variety of stakeholders representing sometimes conflicting interests (Pattberg, 2005; Fransen and Kolk, 2007), including: TNCs (*e.g.* Unilever, Nestlé, Cadbury, Shell); banks (*e.g.* Rabobank, HSBC); retailers (*e.g.* Marks & Spencer, Migros, Sainsbury's); traders (*e.g.* Cargill, ED & F Man); various processors (*e.g.* Unimills, British Sugar); NGOs, (*e.g.* World Wildlife Fund, Oxfam); international organizations (International

Finance Corporation), etc. Table 2 presenting a chronology of the emergence of sustainability standards clearly shows the acceleration in the number of sustainability schemes over the past decade, and an evolution from multisectoral to crop-specific standards.

*Table 2 – Chronology of sustainable standard initiatives*

Today, the adoption of standards promoted by NGOs and multistakeholder initiatives seem to be the two dominant strategies used by TNCs. This can be explained by the high costs generated by the creation, implementation and monitoring of proprietary standards: it might indeed be both less costly and more efficient in terms of image for large corporations such as Nestlé or McDonalds to resort to NGOs' expertise in the field of standard setting and certification than to develop their own – potentially less credible – certification scheme<sup>15</sup>. The simultaneous adoption of various strategies is not as awkward as it first seems: by adopting the sustainability standards created by NGOs that are more legitimate, TNCs try to avoid contestation, buy themselves an image of cleanliness and access niche markets with considerable margins. By creating sustainability standards with other firms of the same business, TNCs agree collectively around a new set of sustainability standards that will, in the end, determine who has access to the market and who does not. Finally, by creating sustainability standards with a wide array of actors, TNCs seek consensus and legitimate their actions, especially when prominent NGOs are involved.

The previously described sustainability standards share three common features. First, they are designed to ensure that TNCs have access to a pool of interchangeable suppliers (sharing desired technical specifications), while preventing potential price claims. Second, they are designed to ensure transparency regarding the social and environmental conditions of production, that is to inform actors located both inside (workers) and outside (shareholders, consumers, bankers, civil society, etc.) the firm of its initiatives in terms of sustainable

development (procurement policy, labour policy, transportation policy, etc.). Third, they share a common signalling device: sustainability standards are monitored by third-party certifiers in charge of measuring and signalling performance outside the supply chain, and of ensuring supplier substitutability inside. The increasing role played by the third-party certification further contributes to reduce the relationships between buyers and suppliers.

According to Green (2005), a general characteristic of sustainability standards is the “watering down”, *i.e.* the dilution of the principles carried by the pioneers (organic agriculture and fair trade). Watering down, which seems to be a condition for the implication of the largest number of actors with different and even conflicting interests (concessions must be made within a context of negotiation), may result from the adoption of less stringent principles and criteria – the most frequent being price provisions. Among sustainability standards, only FLO and to a lesser extent Starbucks, explicitly grant producers price premiums. Utz Kapeh and Rainforest Alliance guarantee no price premium, although both initiatives affirm that certified products command higher prices, mainly because their quality is higher, thus reflecting free market forces. Business-to-business (B2B) standards – that are not meant to be communicated to the final consumer *via* a label – are becoming increasingly used (Henson, 2006). These standards are used to organise the supply chain (Nadvi and Waltring, 2002; Barrientos *et al.*, 2003) and to ensure compliance with existing national food safety regulations<sup>16</sup> and therefore to limit exposure to liability claims (Meuwissen *et al.*, 2003; Fulponi, 2006). A private B2B standard developed by a network of European retailers, GlobalGap successfully imposes its generic standards to a large number of suppliers throughout the world: over 102,000 producers in 108 countries were certified against the GlobalGap standard in 2010<sup>17</sup>. Ultimately, GlobalGap has become a “*regulatory foundation*” for international trade in agro-food products (Neilson and Pritchard, 2009). The transition from B2C to B2B standards may be yet another engine for the watering down of standards, by

subordinating (weak) sustainable development principles to more stringent food safety standards. Finally, watering down also shows through the growing importance of third-party certification: the ability to report and document is becoming the key performance factor (and a major cause of exclusion within supply chains), to the point where making things auditable (through guidelines, routines, and certification standards) becomes more important than the content of the standard itself (Power, 1997). The lack of reference to farmer prices; the growing importance of B2B initiatives that confine sustainability standards to the organisation of the supply chain; the deep asymmetries in transparency required between farmers and TNCs; and auditability becoming more valued than sustainability itself are the most salient signs of this process of watering down.

By systematizing the use of the instruments promoted by the organic and fair trade movements (*i.e.* harmonized technical specifications for the production process and certification), sustainability standards give further impulse to the process of commoditisation. Indeed, the involvement – through collective action – of a large variety of actors in the definition of sustainability standards provides the opportunity to create a unique reference for the mainstream market. This movement is facilitated by the watering down of the principles of sustainable development: by making all farmers potential applicants for certification, sustainability standards reintroduce competition at a global level.

### **Conclusion: sustainability standards, commoditisation and development**

The commoditisation process of agricultural products may be traced back to the creation of standards, first in close relation with futures markets and later supported by national governments. Table 3 summarises our interpretation of the historical evolution of standards, based on the criteria of *substitutability*, *transparency* and *collective action*, developed throughout the paper.

Initially aimed at organizing low-cost supplier *substitutability* at both the country and the farm levels, “old standards” incorporated little information, limited to the intrinsic attributes of the products (colour, taste, size, cleanliness, etc.). By doing so, they deliberately ignored or even hid more information regarding the characteristics of both the production process (child labour, use of pesticides, etc.) and the local marketing conditions (price, credit, intermediaries). This was a very condition of *substitutability* and a historically dated one. Although the issue of *transparency* is not explicitly considered when looking at commoditisation, the introduction of a certain degree of opacity along the chain has been a component of the historical process of commoditisation. In a certain way, by focusing on the intrinsic attributes of the product, historical standards drew a curtain on the production process at the farm level.

*Table 3 – Substitutability, transparency, and collective action*

De-commoditisation is a key result of the historical fair trade and organic movements: strong vertical relations isolated sustainable products by differentiating the whole chains from the mainstream market. These chains promoted close relationships and inter-knowledge between consumers and clearly identifiable, non-anonymous producers. The aim was clearly to sweep aside supplier *substitutability*. Contestation of the commoditisation process was mainly achieved by reintroducing *transparency* along the chain, *i.e.* by linking together the consumer and the producer.

We defend the idea that the definition of common standards and the adoption of third party certification in the 1990s, to monitor compliance with organic and fair trade standards brought this trend toward de-commoditisation to an end. Furthermore, we consider that the process of re-commoditisation of agricultural products on the basis of sustainability standards is on its way. Indeed, the creation of shared and explicit standards backed by certification procedures –



first for organic and fair trade products and then for sustainable products – enabled to achieve simultaneously *transparency* and *substitutability*... thus leading back to commoditisation.

With sustainability standards, what is at stake is the emergence for each product of one global hegemonic standard incorporating sustainability issues and used by all actors of the value chain. This shows through the growing importance of multistakeholder initiatives aimed at defining a single standard for the market. Such hegemonic standards guarantee *substitutability* at the world level between suppliers (*i.e.* farmers); reintroduce perfect competition in the market while guaranteeing *transparency* within the chain. Of course, this process is both incomplete and fragile and is threatened by the space for contestation opened by the watering down of the original principles supported by the fair trade and organic initiatives.

So far, the role played by sustainability standards has been considered positive by the development community, as illustrated by the Sustainable Commodity Initiative promoted by International Institute for Sustainable Development (IISD) and the United Nations Conference on Trade and Development (UNCTAD). The main drawback frequently associated with sustainability standards is the risk of smallholder exclusion that stems from both demanding technical requirements and from the certification process itself (for a review, see Friis Jensen, 2004).

Very few studies document the impact of sustainability standards on the distribution of value between the different stages of the commodity chain, although this issue became central in the development debate as soon as the 1990s<sup>18</sup>. Several studies show that this share has tended to decline over the past 30 years (Morisset, 1997; Oxfam, 2002; Green, 2005; Kaplinsky, 2006).

Moreover, recent studies emphasize higher inequalities in the distribution of value within certified chains (fair trade and organic), as compared to conventional ones (Calo and Wise, 2005; Daviron and Ponte, 2005; Forero- Madero *et al.*, 2006; Roquigny *et al.*, 2008; Zehner,

2004). According to Daviron and Ponte (2005), this can be explained by the opportunity given to downstream actors (*e.g.* retailers) to value the symbolic attributes associated with their products (environmental friendliness, concern for social issues, etc.), attributes that lie at the core of value creation in today's consumer markets<sup>19</sup>. As a consequence, we defend the idea that – in line with what happened in the fair trade and organic sectors – the new commoditisation process supported by the sustainability standards is likely to widen the gap between producer and consumer prices.

The question of value distribution along the chains is absent from the initiatives on sustainability standards, even from fair trade that only focuses on producer prices. Ecocert's recent fair trade initiative seems the only exception to this trend: the “*Equitables, Solidaires et Responsables*” guidelines explicitly ask for transparency and monitoring of downstream actors' margins (Ecocert, 2010).

Other alternative ways of helping smallholders get a greater part of the economic rent exist, such as investment in social infrastructures: in Costa Rica, Rainforest Alliance invests in schools and health centres; in Ethiopia, Starbucks has been investing in social development in coffee regions with Oxfam (sanitation, education and health programmes, and improvements of coffee farming cooperatives)<sup>20</sup>. The creation of new property rights, namely intellectual property rights, is another major avenue for value redistribution, because of the importance of symbolic attributes in the current process of value creation at the consumer level. Setting a legal precedent, the dispute between Ethiopia and Starbucks was resolved in June 2007 in favour of the recognition of Ethiopia's rights over a trademark for its *Sidamo, Harrar, Yergacheffe* coffees<sup>21</sup>.

Beside these limited attempts aiming a rebalancing the distribution of value within the chain what is really at stake is the inclusion of this issue in the agenda of “big” round tables (RSPO, RTRS, BSI, 4Cs) that are supposed to elaborate universal (or hegemonic) standards. This

evolution would need a better representation of governments and producer organisations in these initiatives.

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## Table

**Table 1 – Ventes de café moulu certifié par les supermarchés**

	Marques privées	Marques distributeurs	Conversion de gammes complètes de produits
ASDA	Cafédirect, Taylors of Harrogate	Extra Special fairtrade organic coffee	-
Carrefour	AlterEco, Éthiquable, Lobodis	<i>Agir Solidaire</i> , Fair trade Arabica coffee, Latin America	-
Co-op		Co-op Fairtrade Roast and Ground Coffee	2003
Marks & Spencer		Fairtrade Rwandan Coffee	2006
Sainsbury	Cafédirect, Percol, Rwandan Farmers Taylors of Harrogate	Sainsbury's Fairtrade Colombian	2010
Tesco	Cafédirect, Percol	Fairtrade Colombian Coffee	-
Waitrose			2010

Source: les auteurs.

**Table 2 – Chronologies des initiatives de durabilité**

<b>Initiatives multi-produits</b>	IFOAM (1972)	Rainforest Alliance (1992)	EurepGap (1997) Fairtrade Labelling Organization (1997)	Social Accountability International (1997) Ethical Trade Initiative (1998)	Global Food Safety Initiative (2000)	
<b>Initiatives spécifiques à un produit</b>		Forest Stewardship Council (1993)	Marine Stewardship Council (1997) Ethical Tea Partnership (1997)	Flower Labelling Program (1998) Pan-European Forest Certification (1999)	Eliminating Child Labour in Tobacco (2001) Roundtable on Sustainable Palm Oil (2004) Common Code for the Coffee Community (2004)	Roundtable on Responsible Soy (2005) Better Sugarcane Initiative (2006) Better Cotton Initiative (2006) Roundtable on Sustainable Biofuels (2008) Roundtable on the Sustainable Cocoa Economy (2009) Aquaculture Stewardship Council (2009)
	70s-80s	Rio (1992)	1990s		Johannesburg (2002)	

Source: Kolk (2005) et

**durabilité, transparence et**

	Anciens	Mouvements du commerce équitable et de l'agriculture	commerce équitable et de l'agriculture biologique	Normes et standards de durabilité
Substituabilité	forte	aucune	forte entre producteurs certifiés	forte entre producteurs certifiés
Transparence	origine (pays) à l'intention des acteurs de la filière	origine (identité du producteur), à l'intention des consommateurs	processus de production à l'intention des consommateurs	processus de production à l'intention des acteurs de la filière
Action collective	Commerçants puis Etats	réseaux de consommateurs et de producteurs	FLO, WFTO IFOAM (légitimité contestée)	Initiatives multi parties-prenantes (complexe ONG-industrie)

Source: les auteurs.



## Notes

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<sup>1</sup> Namely through attributes related to food safety, environmental and social conditions of production, animal welfare, etc. The presence of these attributes, called “credence attributes” (Nelson, 1970; Darby and Karni, 1973) cannot be discovered even after full consumption of the product, which translates into strong information asymmetries between the consumer and the producer (Caswell and Mojduszka, 1996).

<sup>2</sup> Conversely, we understand de-commoditisation as the reverse process, *i.e.* the creation of diversity.

<sup>3</sup> For agricultural products, “*standardization means making uniform among buyers and sellers, and from place to place and time to time, the quality specifications of grades*” (Thomsen, 1951).

<sup>4</sup> Smoked sheet and crepe are two different presentations for rubber traded in the international market. Natural rubber is produced by coagulating latex collected on the trees. The coagulum is then processed by a number of roll mills. Crepes are made by air-drying the sheet obtained after this process. Smoked sheets are made through drying in smoke houses.

<sup>5</sup> A forerunner, this association defined its own standard in the late 1960s and its own certification system in the early 1970s.

<sup>6</sup> There were 17 local *AdM* associations in 1979. The *Federation Artisans du Monde* was created in 1981 <http://www.artisansdumonde.org/histoire-commerce-equitable-adm.htm>

<sup>7</sup> The first *Max Havelaar* initiative was created in 1988.

<sup>8</sup> While ATOs label an organisation committed to fair trade, labelling initiatives label a product.

<sup>9</sup> Certification is carried out by FloCert, an independent certification body abiding by the EU standards for certification bodies.

<sup>10</sup> As a result, certification introduces anonymous arms length marketing relationships where vertical relations based on trust and continuity used to prevail: when all complex information about quality is embedded in standards, coordination can be achieved through market relations (Ponte and Gibbon, 2005).

<sup>11</sup> Indeed, strict standards in the area of certification (public European regulation EN 45011, private standard ISO65) require that the certifying body be independent, competent, efficient and applies confidentiality further disconnect the producer from the final customer.

<sup>12</sup> For a detailed analysis of the corporate response to fair trade in the coffee sector, see Fridell *et al.* (2008) and Reynolds (2008).

<sup>13</sup> One of the examples is Tesco’s “Nature’s Choice” standard for suppliers of fresh produce (1991) that covered a wide range of environmental, social and health-related issues. In the coffee sector, examples of firm-specific involvement include: Nestlé’s *Corporate Business Principles* (1998), Sara Lee’s *Supplier Selection Guidelines* (2001), Starbuck’s *Preferred Supplier Scheme* (2001) or Kraft’s *Code of Conduct* (2003) (Kolk, 2005; Neilson and Pritchard, 2007).

<sup>14</sup> Rainforest Alliance started the Better Banana Project with Chiquita in 1992 and signed various agreements for the sourcing of sustainable cocoa with Kraft in 1997, and of sustainable coffee with Kraft in 2003, with Procter & Gamble in 2004, with Lavazza in 2006.

<sup>15</sup> These strategies are combined differently according to the final market targeted: in its UK outlets, McDonalds sells *Rainforest Alliance* certified coffee; in other European countries, it offers *Utz Certified* coffee; in the USA, it sells fair-trade certified coffee (Ethical Corporation, 2007 cited by Lazaro *et al.*, 2008.).

<sup>16</sup> For example the British Food Safety Act (1990), the EU traceability and Maximum Residue Limits regulations (2002).

<sup>17</sup> [http://www.globalgap.org/cms/front\\_content.php?idart=1057](http://www.globalgap.org/cms/front_content.php?idart=1057)

<sup>18</sup> For the last 50 years, the issue of commodities and the link between commodities and economic development have given rise to a tremendous body of literature. In these works, primary commodities are plagued by several evils, including: price instability (Maizels, 1992); long term declining prices (Prebisch, 1949, 1950; Singer, 1950). Traditional development policies and international initiatives were designed to escape the “commodity curse” (*e.g.* international commodity agreements, processing of primary commodities, industrialisation through import substitution, etc.). More recently, the debate took a new turn, by focusing on the low share of the final price reaching the producers (Morisset, 1997).

<sup>19</sup> According to Bruno Luisetti, MD of Kraft Foods France, “*Certification gives value to our products*”, in Les Echos “Avec Rainforest, Kraft Foods investit dans le café durable”, February 2010.

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<http://www.lesechos.fr/info/agro/020343184219-avec-rainforest-kraft-foods-investit-dans-le-cafe-durable.htm>

Accessed in May 2010.

<sup>20</sup> East Harerghe Livelihoods Project, [http://news.starbucks.com/article\\_display.cfm?article\\_id=129](http://news.starbucks.com/article_display.cfm?article_id=129), accessed in June 2010.

<sup>21</sup> “Starbucks has reiterated its commitment that it will not oppose Ethiopia’s efforts to obtain trademarks for its specialty coffees” (June 20, 2007), <http://www.starbucks.com/aboutus/pressdesc.asp?id=779>, accessed in May 2010.