



Dariusz PIENKOWSKI • Renata SKÝPALOVÁ

THE UNFAIR VALUE SHARED IN FAIR TRADE VALUE CHAINS

Dariusz **Pieńkowski** (ORCID: 0000-0002-0006-2186) – *Poznań University of Life Sciences*

Renata **Skýpalová** (ORCID: 0000-0002-7161-7038) – *Ambis University*

Correspondence address:

Wojska Polskiego 28, 60-624 Poznań, Poland

e-mail: darpie_xl@wp.pl

ABSTRACT: Fair trade is a trading partnership that seeks greater equity in international trade by offering better trading conditions to producers and workers in developing countries. The higher final prices of the products should result from the floor price at the first stage of the value chain; however, the final price is also strongly influenced by the value added at the next stages. The objective of this study is to highlight the price escalation observed at the later stages of the supply chain, which does not appear to be aligned with the principles of fair trade. This is a comparative analysis of the value added at different stages of the supply chain. It compares the potential hypothetical market price of several fair trade goods with the actual price, which increases in value at successive stages of the supply chain. The data was collected from publications within the agri-food sector for coffee, bananas and cocoa. It is argued that in order to achieve a more competitive price, it would be necessary for other actors in the supply chain to become more involved rather than just consumers. This can be accomplished without a reduction in profits, which will remain at the same level as those generated by non-fair trade products. Furthermore, it will contribute to an increase in fair trade product sales. Finally, the research also suggests some measures to increase the engagement of non-producers in the creation of socially responsible businesses.

KEYWORDS: fair trade movement, value chain, margins, developing countries, responsible business

Introduction

Fairtrade (FT) measures that address ethical consumption are based on the conscious support of producers and the environment. The higher prices of the products result from the floor price at the first stage of the supply chain. The measures are very often coupled with the concept of sustainable development. Fairtrade International claims there is a cross-over between its mission and almost half of all sustainable development goals, as postulated in Agenda 2030. The first goal as part of this mission is to end poverty ‘in all its forms, everywhere, while leaving no one behind’ (Fairtrade International, n.d.). Moreover, new measures that have been developed in the European Union (EU) since 2004 aimed at the creation of a framework for the impact assessment of an organisation on the environment and stakeholders (Li et al., 2021) fit into the already much longer running discussions regarding corporate social responsibility (CSR) and sustainability, as well as the contemporary concept of corporate citizenship. The mandatory reporting regulation in the EU relating to Environmental, Social and Governance (ESG) is perceived as a qualitative tool of CSR for the evaluation of investments (Park et al., 2023). Regardless of the theoretical aspects of the various concepts and programmes, there are several key aspects to the social responsibility of businesses, as presented by Park et al. (2023), as a result of the ESG framework: workforce freedom of association, child labour, forced and compulsory labour, workplace health and safety, customer health and safety, discrimination, diversity, and equality, opportunity, poverty and community impact, supply chain management, training and education, and customer privacy. The policy towards responsible business, including mandatory measures, is a potential tool for promoting products that are in line with the FT movement.

In this paper, the term “fair trade commodities” is defined as certified commodities under “a labelling initiative aimed at improving the lives of the poor in developing countries by offering better terms to producers and helping them to organise” (Dragusanu et al., 2014). These include, in particular, organisations such as Fairtrade International and Fair Trade USA, which split in 2012. The certification’s support mechanism comprises the establishment of a minimum price (*price floor*) and raising funds for local community development at a *premium price* paid by buyers to cooperative organisations. This is accompanied by specific contractual and credit conditions (e.g. buyers have to accept long-term contracts and/or advance financing to producer groups) together with the assumption of certain labour and producer organisation or environmental standards (e.g. safe working conditions, child labour prohibition, democratic and transparent cooperation of producers, or avoidance of harmful chemicals) (Dragusanu et al., 2014).

UNACTAD (2012) claims that ‘CSR is now mainstream in global value chains’ due to the role of codes of conduct. CSR policy provides standards and certification schemes that are utilised by large buyers and can influence all participants within supply chains, including small and medium-sized suppliers and further tiers within extended supply chains. Herkenhoff et al. (2021) note that firms in the North¹ are under pressure to conform to minimum standards expected along their value chains. The concerns about negative social and environmental impacts are particularly widespread in developing and emerging economies. Moreover, some studies present the direct benefits of CSR for companies. For example, Husted and Allen (2007) and Henisz et al. (2019) reported the benefits of CSR or ESG reports. Their research highlighted the value creation that comes from cost reduction, product differentiation, innovation, new market expansion and/or access to subsidies.

Within the context of these principles, the FT movement is a perfect match, with the ethical demands also applicable to other stages of and participants in FT value chains, such as wholesalers and retailers. Business groups can promote FT commodities, inter alia, through preferential pricing strategies that increase their availability to consumers. These strategies can be reported as being socially responsible and supported with additional measures to increase their competitiveness against non-FT commodities in the markets of developed countries.

¹ The term was coined by Willy Brandt (German Chancellor) in the 1980s. The rich North included the countries of North America, Western Europe and Japan, as well as the USSR, New Zealand and Australia, while the remaining countries belonged to the poor South. Although this division has become obsolete in some areas of the world, many economic relationships, particularly those between the developed countries of the North and the developing countries of the South, continue to be characterised through this division (Lees, 2021).

The demand for higher-priced FT products is grounded in the ethical attitudes of responsible consumers. However, the higher price is not entirely justified by the FT measures aimed at the first stage of a product's value chain. This means that the price for the final consumer consists of additional profits not related to the FT measures for producers. In other words, the price is hiked in subsequent stages where no certification measures apply. In fact, the limits for price increases in the subsequent stages of the value chain are defined by the price and income elasticity of demand rather than the pricing strategies being ethically driven. It goes beyond the original producers and consumers engaging the businesses at all stages of the FT value chain.

Today, FT products mostly satisfy the demands of wealthier customers, with conventional production, relative to environmental and social threats, still demanded and even favoured by sellers due to the higher margins. The FT movement should also bring about equal profit sharing, as postulated in the concept of sustainable development and the International Fair Trade Charter (WFTO & FI, 2018). The effects of this should be felt through lower prices for final consumers, higher profits for farmers, and the pushing out of the market of non-FT products that are socially and environmentally costly, thereby supporting poverty prevention in the South and sustainable consumption patterns in the North.

This paper compares selected value chains for FT commodities with their conventional (non-FT) counterparts. The analyses are focused on the distribution of values generated at the different stages of the value chains. The hypothesis stated in the research does not challenge the higher profits of FT producers but the additional profits unrelated to the FT mission that are mostly generated in the subsequent stages of their supply value chains, particularly by retailers. The study reveals the pricing strategies of all the participants of FT value chains and the potential benefits of FT measures based on the ethical postulates of the FT movement and CSR.

An overview of the literature

Fridell (2004) reported the origins of FT movements in the inter-war periods (1918-1939) when the North tried to create a system of control for production and trade with the South. The control schemes mostly resulted from the colonial activities of the North and emerged to prevent the potential collapse of international trading systems as a result of the rapid decline in the price of commodities from the South. These schemes tend to stabilise the economies of the South and the profits of the companies of the former colonial powers.

The post-war period was characterised by international regulations such as the Bretton Woods agreement in 1944, which followed agreements that were drawn up in the shadow of the economic collapse in the North in the 1930s and the years of military conflict before and after. In Europe, the first FT practices were reported in the activities of non-governmental organisations such as Oxfam and in the US by the Mennonite Central Committee (Nicholls & Opal, 2005). Today's FT missions mostly arose in the 1960s and 1970s when it was agreed that a more just distribution of wealth between the North and the South was required, with the first postulates formulated during the United Nations Conference on Trade and Development in 1964 (Fridell, 2004). The concept of fair exchange first attracted the attention of academia and eventually business when ethical issues became more widely discussed (Moore, 2004). The trend also fits in with the policy of sustainable development, which stresses inter- and intragenerational justice regarding the use of resources and represents a framework for the evaluation of the social and environmental impact of economic activities (Pieńkowski, 2022).

The ethical dimension of the regulations is crucial for understanding the FT mission. The FT movement is an element of an ethical economy that can be defined as value-driven economic activity. The activity is defined by moral regulations that usually go beyond legal ones or typical economic calculations in terms of the monetary benefits and individualism, characterised by the neo-classical foundations of market activity (Adelman, 2020; Arvidsson & Peitersen, 2016; Bowles, 2017). Koslowsky defines it as a 'theory of the ethical presuppositions of the cultural system of the economy, a theory of the ethical rules and attitudes that presuppose market coordination and the price system in order to function' (Koslowski, 2001). The series by Springer on Ethical economy details it in its description of the series 'as a means to increase trust and to reduce transaction costs' (Pritchard &

Englehardt, 2021). Within the broad meaning of Koslowsky's definition, the FT movement offers specific moral principles and socio-economic measures that are codified and certified, thereby offering moral foundations for market exchanges between consumers and producers. These two extremes and the most populated stages of the value chains are, therefore, of particular importance. Although the movement originally focused on the stages that began in the South and ended in the North, today, the commodities are also successfully marketed in many developing countries of the South (Pieńkowski, 2022).

The value chains of FT commodities typically consist of 5-10 main stages before the final products reach consumers. These stages, which apply to all commodities, involve producers, i.e. farmers, wholesalers and retailers; the FT benefits predominantly apply to the producers. Slob (2006) broke down a typical coffee supply chain into 7 stages: producer, private intermediary, processing plant, local exporter, international trader, roasting company, and retailer. The latter three stages usually represent the highest value added in the supply value chain, which benefits consuming countries. The reason for this is that the international trading and roasting markets are dominated by massive players, with the markets characterised by oligopolistic competition (i.e. a large number of buyers and sellers) and oligopsony (i.e. a small number of buyers and a large number of sellers), whereas producers are represented by small farmers and different forms of business established on the basis of common activities, such as cooperatives (BASIC, 2014; Fountain & Hütz-Adams, 2015; Slob, 2006).

The specific trading conditions between the highly concentrated North and the highly fragmented and unorganised markets in the South give a particular advantage to the former in the trading relationship. In addition, this power over the economies is further facilitated by the low political stability of the South and the dependence generated during the colonial periods. Slob (2006) describes the power distribution in the coffee market as a bottleneck in the global market. Ten years later, and in a similar vein, Wildenberg and Sommeregger (2016) describe, in their paper entitled *Bittersweet Chocolate*, the problems that have resulted from the imbalance in the value chain. In the seminal *Cocoa Barometer* (Fountain & Hütz-Adams, 2015) or Oomes et al. (2016), increasing vertical (integration across different segments of the value chain) and horizontal (in the same market segment of the value chain) concentration in the global cocoa supply chain is reported. Oomes et al. (2016) indicated that the three largest cocoa processors (Barry Callebaut, Cargill and ADM) controlled about 40% of the world's production in 2006, while eight years later, their share accounted for close to 55% of the global market. In 2013, the top four manufacturers (i.e. Mondelez, Mars, Nestle and Ferrero) shared over 40% of the global market. At the same time, there were 100,000 cocoa farmers in Ivory Coast alone, while the share of farmers in the global value chain of cocoa-derived products in 2014 accounted for less than 7% thereof; close to 80% of the chain belongs to manufacturers and retailers (Fountain & Hütz-Adams, 2015). Daviron and Ponte called the phenomena in the coffee sector a 'coffee paradox, which they defined as the 'coexistence of a "coffee boom" in consuming countries and of a "coffee crisis" in producing countries' (Daviron & Ponte, 2005). They noticed in the 1990s and 2000s that with the increase of the prices of the commodity (a coffee boom) for final consumers, farmers had been offered the lowest prices in a century in real terms.

A report by BASIC (2014) illustrated the bottleneck in the global agricultural market with the following numbers: 2.5 billion farmers and workers produce commodities for 7 billion final consumers, with the top ten consumer brands accounting for 15% of world retail sales and only five retailers accounting for 50% of the market in Europe. The concentration relates to input suppliers (agrochemical and seed companies), traders, processors and retailers. For example, in the 1980s, in the agrochemical sector, 20 companies accounted for 90% of global sales. In 2002, decreasing competition over the preceding 20 years meant that this number had fallen to 7 top market players.

This leads to extreme poverty in the South, as well as many other social and environmental problems in the region, such as child labour at the cost of schooling, exploitation of workers, deforestation, extensive production with pesticides, soil degradation and climate change (Wildenberg & Sommeregger, 2016). Moreover, the profits of the South are distributed among small-scale farmers, generating incomes of up to just \$0.50 per day (Fountain & Hütz-Adams, 2015). In contrast, the pay in 2019 (basic salary with bonus, stock options and other compensations) for the chairman and chief executive officer of the largest cocoa market player, Mondelez International, was close to \$50,000 per day (Salary.com, n.d.). This is despite the fact that the FT movement seeks to address the problems of producers in the supply chain and the economies, societies, and environments of the South.

The most cited definition of FT is offered in the International Fair Trade Charter. The document defines FT as a trading partnership based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers – especially in the South’ (WFTO & FI, 2018). The mission is expressed through eight socio-economic and environmental principles: 1) inclusive economic growth, 2) gender equity, 3) food security, 4) sustainable livelihoods, 5) ecological balance, 6) thriving communities, 7) “people first” trade policy, and 8) decent work (WFTO & FI, 2018).

In practice, the policy is implemented through certification, with the certificates informing customers about the FT standards of production and the way in which additional profits are spent. The key measures relating to the FT mission consist of a minimum price to protect producers from market fluctuations, additional funds (premium) for use in producer communities (schools, roads, health care systems, as well as conversion to organic farming), standards for social, economic and environmental practices, and advocacy and promotion that increase the market visibility of FT certificates. The Charter points out the fact that ‘Fairtrade’s work depends on trust; the trust of consumers who buy Fairtrade products and the trust of those who invest in new services and programmes’ (WFTO & FI, 2018). Consumers’ responsibility and ethics-driven behaviour are key determinants of the development of FT markets.

Nicholls (2002) reported a change in consumer attitudes towards brands. He noticed that, since the 1990s, consumers have come to value brands that tackle ethical issues more highly, whereas, in the 1970s, price-based and pragmatic attitudes towards brands prevailed. Such responsible consumerism is a result of increasing consumer awareness facilitated by the development of the global information society. Consumers are better informed about ruthless business practices all over the world and the interdependencies between different parts of the global economy. In addition, global environmental threats, such as climate change and the debate on sustainable development, have resulted in new ethical attitudes towards consumption and responsibility for the harmful effects thereof in remote parts of the world.

Anderson (2018) notes that the FT mission focuses on the idea of citizen-consumers, as expressed in the partnership between producers and consumers brought together in the form of a citizen movement. Within this context, citizens as consumers take responsibility for the producers and the environment from the perspective of global interdependencies. The practices also include shortening supply chains by buying directly from producers to reduce the margins at each stage and increase the share of producers in the final price (Nicholls & Opal, 2005; Padel & Gössinger, 2008).

Research methods

The FT movement resulted from the specific economic trading relationship between poor countries, with a relatively high share of agriculture in their economies, and rich countries. The movement has its micro- and macroeconomic dimensions. The microeconomic dimension involves the farmers and their household incomes, while the macroeconomic dimension is that of the domestic economy, including growth rate, employment, or the bargaining position in the global market.

The research presented here is based on a comparison of value creation at the different stages in the value chains of FT and non-FT commodities. The data was collected from publications in circulation within the agri-food sector for coffee, bananas and cocoa. The higher price in conjunction with FT certification is justified by the costs incurred at the first stage of the supply value chain, that is, producers. An increase in margin should, therefore, only occur at this stage in the value chain in relation to the minimum price, the premiums and other costs incurred by FT certification. The other stages, usually in the North, should take into account any increase within the context of being responsible partners in sustainable value chains.

The research analyses the potential market price for several FT commodities against the actual price reduced by the increase in margin at the next stages of the supply value chain. The rationale behind the analyses is to show the supply at the new market equilibrium at the lower price, which only includes the increase in margin at the first stage of the value chain.

A hypothetical reference price was estimated based on the FT producer benefits to show the additional value created at the non-production stages. The price assumes that all the FT costs are added to the final price with no additional value added at the non-producer stages compared to the non-FT products. Under these conditions, the non-producers join the FT movement by keeping profits in line with the non-FT returns despite the need to invest more financial capital. The more proportional increases in value at these stages, compared to the non-FT chains, shift the FT costs exclusively to customers (i.e. both the direct costs of FT measures, such as a minimum price or premium and the higher costs of the financial capital invested in FT chains). The reference price assumes that the increase in the FT price is exclusively paid by customers, as postulated in the FT movement; however, they borne the cost of the financial capital invested by non-producers. As a result, the final price for consumers is much lower, and the products are more competitive in the market than non-FT products.

The presumptions for the research presented here are defined as follows:

1. There is no substantial quality difference between FT and non-FT products in terms of the intrinsic qualities of the commodities that would increase the costs and margins of the commodities beyond the costs incurred by certification requirements.
2. The entities at all FT stages should be encouraged to participate in the FT value chains (i.e. processors, traders, etc.); the support of FT markets should be treated as a component of a company's CSR strategy.
3. The more proportional increase in the final prices of FT commodities compared to non-FT commodities is the result of shifting more of the FT costs onto consumers.

Results of the research

The analyses of the distribution of values and margins are presented according to reports and research available in published literature. The data are usually offered for the most successful products, such as bananas (641,727 tonnes), cocoa (216,662 tonnes), coffee (214,106 tonnes) and cotton (8,311 tonnes) (Pieńkowski, 2022). In the analyses, data for coffee, bananas and cocoa were used. Table 1 shows the references used for the analyses and the distribution of value at the non-producer stages. The value chains are analysed in detail in the subsections.

Table 1. Distribution of value at the different stages of FT and non-FT value chains. Value increase shows the percentage share of the non-producer stage in the final price of the commodity. Value added shows the difference between FT and non-FT commodities

Commodity	Producers			Non-producers' value added					Source
	non-FT	FT	value added	non-FT	value increase	FT	value increase	value added	
Coffee	€2.98	€4.08	€1.10	€9.37	76%	€11.73	74%	€2.36	BASIC (2018) ¹ , Depperu and Todisco (2010) ² , Pierre (2010) ³ , Slob (2006) ⁴ , Auroi (2003) ⁵
	\$0.15	\$0.62	\$0.47	\$1.85	93%	\$2.74	82%	\$0.89	
	\$1.52	\$2.78	\$1.26	\$7.98	84%	\$10.41	79%	\$2.43	
	€0.10	€0.58	€0.48	€1.47	94%	€1.41	71%	-€0.05	
	\$1.36	\$1.67	\$0.31	\$3.04	69%	\$3.66	69%	\$0.62	
Banana	\$0.22	\$0.48	\$0.26	\$0.86	80%	\$1.72	78%	\$1.12	Evans and Gordon (2011) ⁶ , Vagneron and Roquigny (2011) ⁷ , Depperu and Todisco (2010) ⁸
	\$0.33	\$0.44	\$0.11	\$1.32	80%	\$1.41	76%	\$0.90	
	\$0.12	\$0.29	\$0.17	\$1.78	94%	\$2.03	88%	\$0.25	
Cocoa	€1.34	€1.63	€0.29	€9.00	87%	€13.03	89%	€4.03	FAO and BASIC (2020) ⁹

Note: ¹ per kg: Colombia and France, ² per 250 g, ³ FOB prices per kg exported to Switzerland: Max Havelaar, ⁴ per 250 g in the Netherlands: Max Havelaar, ⁵ per lb for non-FT in 1994 and FT in 1995, ⁶ per kg: Dominican Republic and the US, ⁷ FOB prices per kg in Dominican Republic and export to Europe, ⁸ per kg, ⁹ per kg of premium dark chocolate in 2018: France.

Coffee value chain

The coffee value chain usually consists of eight stages, with four production and four consuming country stages. The former stages consist of producers, private intermediaries (small local traders who collect the products from producers–local middlemen), processing plants (cleaning and refining of the beans) and local exporters, while the latter international traders, roasting companies, retailers and consumers (Depperu & Todisco, 2010; Slob, 2006); however, a coffee bean may change hands as many as 150 times from producer to consumer (Slob, 2006).

Figure 1 shows the distribution of value in the coffee chains broken down into five main groups of costs: producer, local middleman, exporter, certification and importer, roaster and retailer combined (Depperu & Todisco, 2010). The margins were calculated by Depperu and Todisco (2010) as the share of specific stages in the final price for customers. The third column (FTpc) shows the hypothetical total value of the margins, which includes only the higher margins for producers directly addressed in the FT certification policy (a reference price whereby all the FT costs are shifted to customers). The price of FTpc commodities is lower by 25% than the FT commodities on the market.

The final price of the FTC commodities in the consuming countries is higher by €1.36 compared to the non-FTC (i.e. 68%), while the increase at the production stage was by €0.53 (i.e. €0.62 + €0.06 – €0.15). The increase in value at the non-producer stages resulted from the cost of the financial capital invested in the more expensive products. The latest analyses by BASIC (2018) for Colombian producers and French consumers (see Table 1) identified similar increases. The producer value of FT coffee added €1.10, while for the subsequent stages €2.36. The profits at the subsequent stages were relatively lower for the FT markets, although the increases were mostly related to the value of the transactions and the invested financial capital.

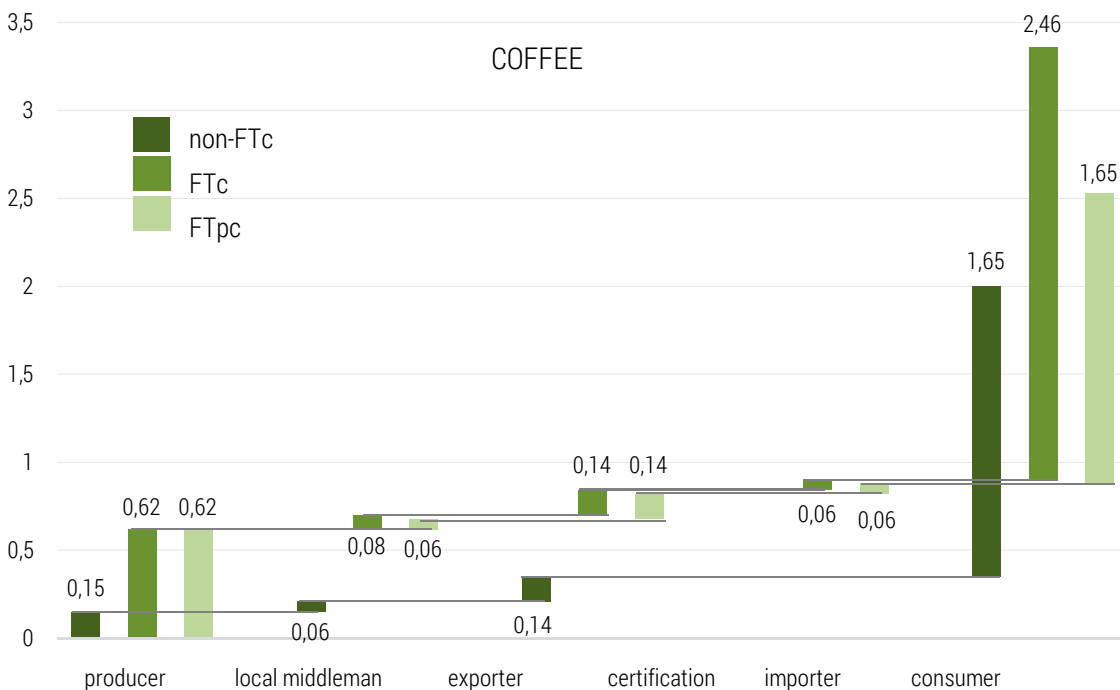


Figure 1. Distribution of value in a coffee value chain [250 g package in €]. Non-FTC – traditional coffee (excluding FT), FTc – fair trade coffee, FTpc – fair trade coffee price estimation in relation to the increase in price as the direct result of FT producer benefits (reference price)

Source: authors' work based on Depperu and Todisco (2010).

The main cost at the subsequent stages of the chain is induced by the higher value of capital invested in the FT market. The value added could be more equally shared between all the stages of the chain. The latest data shows that the non-producers have only slightly given up their profits in the FT markets compared to the non-FT ones (i.e. the value added on the FT markets was only 2 percentage points lower than in the non-FT markets).

The case shows that the price increase for producers imposed by the minimum price and the premium price for FT would affect the final price at the reference level illustrated by the reference price – FTpc. This assumes that at the other stages of the supply chain, the value added would be at the same level as that of non-FT products. Consequently, the final consumer would only be required to pay €2.56, as opposed to the €3.36 offered by the market. This price is considerably more competitive with the non-FT products, for which the price fluctuates around €2.00.

Banana value chain

Banana value chains are usually shorter than coffee value chains, with the differences between the production and consumption country stages being relatively smaller. The chain typically consists of a producer, local trader and exporter for the producer country stages and an importer, ripening and packaging firm, retailer and consumer for the consumer country stages. Figure 2 shows the margins offered by similar analyses undertaken by Depperu and Todisco (2010), which consist of producers, exporters, international transporters, certification, ripening/packaging/distribution, and consumer prices.

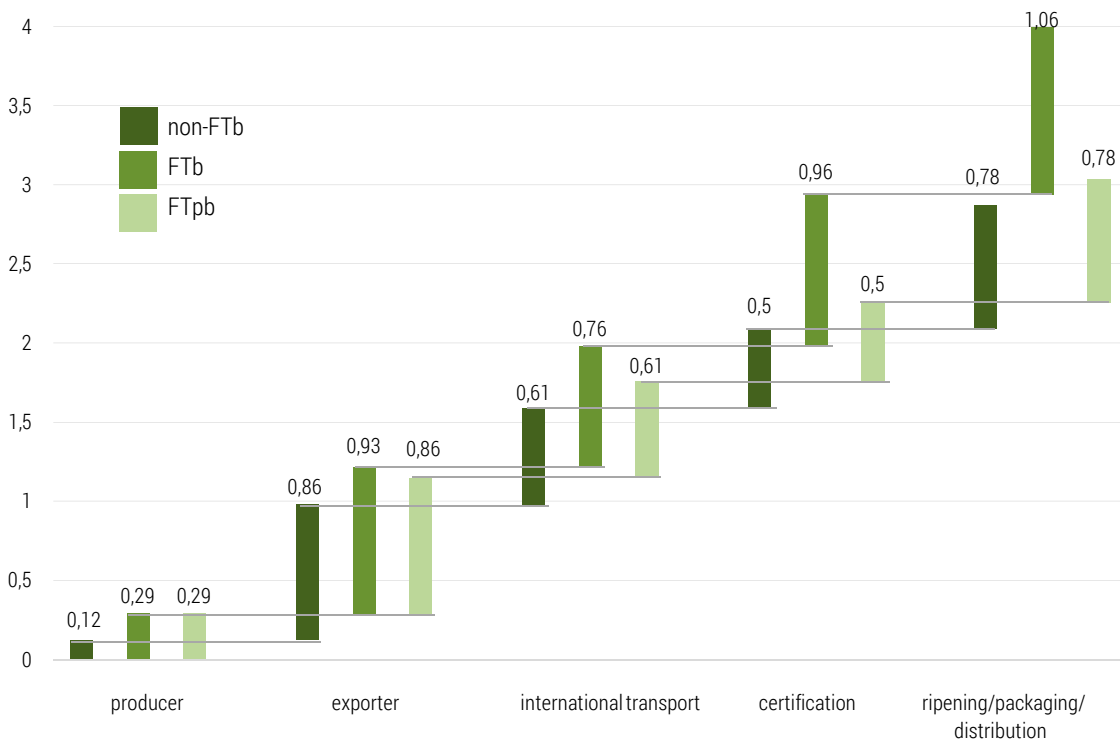


Figure 2. Distribution of value in a banana value chain [1 kg in €]. Non-FTb – traditional coffee (excluding FT), FTb – fair trade coffee, FTpb – fair trade coffee price estimation in relation to the increase in price as the direct result of FT producer benefits

Source: authors' work based on Depperu and Todisco (2010).

Banana value chains should only differ at the first stage as the chains are very short and less influenced by the profits of processors and manufacturers, as in the case of coffee value chains. The total value of FTpb is lower by 10% compared to FTb commodity (i.e. €0.22). The producer stage related to the FT measures increased the value of the FTb commodity by €0.20 (i.e. €0.29 + €0.03 – €0.12) compared to the non-FTb commodities, while the subsequent stages generated a final value higher by €0.42. Similar issues are presented in the other available research in Table 1. The profits in FT markets decreased slightly by 2-6% compared to non-FT markets, thereby substantially increasing the final price for consumers. Consequently, the final consumer would be required to pay only €3.04, as opposed to the €4.00 offered by the market. This price is considerably more competitive with the non-FT products, for which the price was €2.87.

Cocoa value chain

The cocoa value chain is one of the most extensive and diverse from the perspective of the non-producer stages of the chain compared to the coffee and banana value chains. Coffee beans are typically commercialised after the initial stages of processing, such as fermentation and then drying by producers. Local intermediaries can be involved in the transport and final preparation for export. Some local manufacturers can also participate in the subsequent stages, such as roasting and grinding, although these are mostly performed by international companies. At this stage, semi-finished products such as cocoa liquor or cake (if dried and pressed) and cocoa butter are produced. These commodities are usually offered after some refining processes, in the form of liquid or solid couverture, to the subsequent stages of chocolate production. The final products are then distributed and sold by retailers (FAO & BASIC, 2020; World Cocoa Foundation, n.d.).

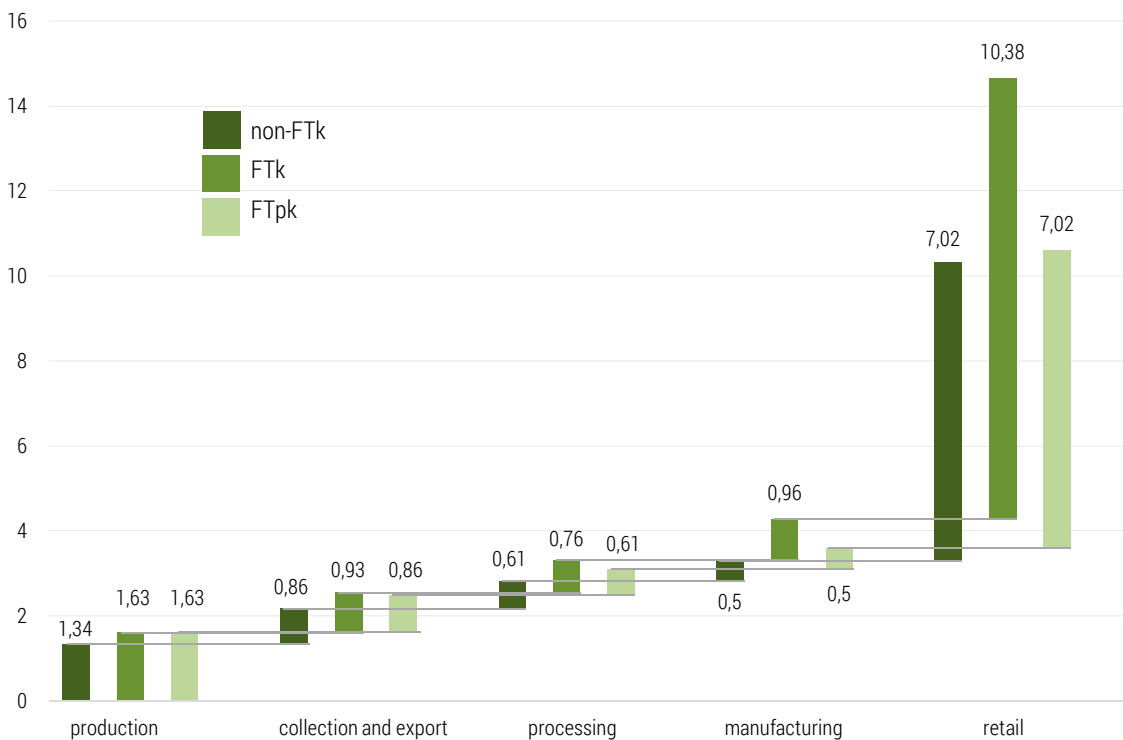


Figure 3. Distribution of value in a cocoa value chain [1kg of premium dark chocolate in 2018 in €].
Non-FTk – traditional cocoa (excluding FT), FTk – fair trade cocoa, FTpk – fair trade cocoa price estimation in relation to the increase in price as the direct result of FT producer benefits (reference price)

Source: authors' work based on FAO and BASIC (2020).

The cocoa value chain, due to its diversity and the portfolio of products offered to final customers, generates the largest value gains in the non-production stages. Table 1 shows that the value at these stages in the FT chains increases even more than in the non-FT chains (by 89% for FT commodities and 86% for non-FT commodities). The reference price used for the comparison in the research shows that the retail stages increase the value of the final FT products by €0.29 (FTpk), while market prices increased by €4.33 (FTk) compared to non-FT (non-FTk) prices, i.e. by 42%. Consequently, the final consumer would only be required to pay only €10.62, as opposed to the €14.66 offered by the market. This price is considerably more competitive with the non-FT products, for which the price was €10.34.

The study by FAO and BASIC (2020) concluded with the general statement that retailers particularly profit more from the sales of certified products; it also referred to organic commodities. In the case illustrated in Figure 3 (i.e. premium dark chocolate), the retail stage margins were higher by 65% in the FT chains compared to the non-FT ones. These increases cannot be exclusively justified by the manufacturing or processing differences between the products or the increases in the production

stages. Similar trends were observed in the premium milk chocolate chains, with an increase of 50% for the retail stages.

The value added in the subsequent stages is clear when the higher prices generated at the first stage due to the higher financial capital investment are taken into consideration, although in some chains, such as that for cocoa, the value disproportionately increases due to certification. The retail participants are the key beneficiaries in the chain, with the profits of producers and the additional profits for the last stages paid by consumers. Similar pricing trends were also reported by BASIC (2018) for coffee chains.

Conclusions

The growth in margins for producers is highly dispersed due to the large numbers of farmers and is arbitrarily related to the obligatory CSR practices offered through the premium, whereas large participants may only voluntarily participate in CSR practices. FT commodities are shifted to the category of more expensive products offered mostly to wealthier customers, while the goals offered by the FT movement are highly consistent with many postulates on sustainable development and CSR.

The small-scale farms address market conditions that are much closer to the economic models of perfect market competition, and the CSR policy behind the minimum price and premium directly addresses the postulates on sustainable development related to poverty, distributive justice and environmental concerns.

On the FT market, the procurement of commodities that are socially and environmentally responsible is defined by the principles of the FT movement and the concept of sustainable development. These ideas seek to create sustainable global supply chains and ethical business practices, as postulated in the concept of CSR and reported (i.e. in mandatory ESG reports) accordingly.

Furthermore, this does not exclude absolute profits similar to those generated on non-FT markets for all the stages. The reference prices guarantee similar margins in many chains, with the procurement of the FT commodities inducing sales and more responsible consumer choices. This is the ethical input of the middle stages of the chains between producers in the South and consumers in the North, which were originally omitted in the FT movement but are now widely postulated in sustainable development goals and CSR.

FT policy should be focused on the financial markets and the subsequent stages of FT value chains. The processors and sellers substantially increase the value of FT commodities, shifting most of the cost induced by FT certification to customers. This trend decreases the availability of FT commodities to customers due to their higher prices and, additionally, encourages the traders of non-FT commodities due to higher profits generated through non-FT value chains. Some additional measures would support FT value chains, such as preferential trade credits to trade off the higher capital invested in FT markets or lower taxation of the products (e.g., value-added tax).

FT policy was originally focused on final consumers, but it should also address the ethical principles applied by non-producers within FT value chains. Similar to the idea of responsible customers, this can include the trade of FT commodities as a good example of CSR. We agree with Slob, who claimed that 'the Fair Trade movement can increase its market share in Europe by serving large institutional clients and should, therefore, invest in raising awareness about the link between sustainable procurement or responsible purchasing and Fair Trade' (Slob, 2006). Therefore, it is evident that further comparative research across fair trade and non-fair trade supply chains is required in order to identify and quantify the potential gains for non-producers in fair trade markets, which would result from greater affordability of these products for customers.

The contribution of the authors

Conceptualization, D.P.; literature review, D.P.; methodology, D.P.; formal analysis, D.P. and R.S.; writing, D.P. and R.S.; conclusions and discussion, D.P. and R.S.

References

- Adelman, J. (2020). Introduction: The moral economy, the careers of a concept. *Humanity*, 11(2), 187-192. <https://doi.org/10.1353/hum.2020.0020>
- Anderson, M. (2018). Fair trade and consumer social responsibility: Exploring consumer citizenship as a driver of social and environmental change. *Management Decision*, 56(3), 634-651. <https://doi.org/10.1108/MD-01-2017-0013>
- Arvidsson, A., & Peitersen, N. (2016). *The Ethical Economy: Rebuilding Value After the Crisis*. New York: Columbia University Press.
- Auroi, C. (2003). Improving Sustainable Chain Management through Fair Trade. *Greener Management International*, (43), 25-35.
- BASIC. (2014). *Who's got the power? Tackling imbalances in Agricultural supply chains*. https://lebasic.com/wp-content/uploads/2016/06/FTAO_Whos-got-the-power_abstract.pdf
- BASIC. (2018). *Coffee: The hidden crisis behind the success*. https://lebasic.com/wp-content/uploads/2018/10/BASIC_Coffee-Value-Chain-Study_Research-Report_October-2018_Low-Res.pdf
- Bowles, S. (2017). *The moral economy: Why good incentives are no substitute for good citizens*. New Haven: Yale University Press.
- Daviron, B., & Ponte, S. (2005). *The Coffee Paradox: Global Markets, Commodity Trade and the Elusive Promise of Development*. London: Zed Books.
- Depperu, D., & Todisco, A. (2010). *Value creation in the fair trade chains*. [https://centridiricerca.unicatt.it/cersi-CERSI_CWP_4_2010_Depperu_Todisco_\(1\).PDF](https://centridiricerca.unicatt.it/cersi-CERSI_CWP_4_2010_Depperu_Todisco_(1).PDF)
- Dragusanu, R., Giovannucci, D., & Nunn, N. (2014). The Economics of Fair Trade. *Journal of Economic Perspectives*, 28(3), 217-236. <https://doi.org/10.1257/jep.28.3.217>
- Evans, E. A., & Gordon, R. M. (2011). *Analysis of US market for organic and Fair-trade bananas from the Dominican Republic*. http://www.mdgfund.org/sites/default/files/PS_STUDY_RDominican_Analysis%20of%20US%20Market%20for%20Organic%20and%20Fair-trade%20Bananas.pdf
- Fairtrade International. (n.d.). *Sustainable Development Goals (SDGS)*. <https://www.fairtrade.net/issue/sdgs>
- FAO & BASIC. (2020). *Comparative study on the distribution of value in European chocolate chains*. <https://www.eurococoa.com/wp-content/uploads/Comparative-study-on-the-distribution-of-the-value-in-the-European-chocolate-chains-Full-report.pdf>
- Fountain, A. C., & Hütz-Adams, F. (2015). *Cocoa Barometer 2015*. <https://voicenetwork.cc/wp-content/uploads/2019/07/Cocoa-Barometer-2015.pdf>
- Fridell, G. (2004). The Fair Trade Network in Historical Perspective. *Canadian Journal of Development Studies / Revue Canadienne d'études Du Développement*, 25(3), 411-428. <https://doi.org/10.1080/02255189.2004.9668986>
- Henisz, W., Koller, T., & Nuttall, R. (2019). *Five ways that ESG creates value*. <https://www.mckinsey.com/~media/McKinsey/Business%20Functions/Strategy%20and%20Corporate%20Finance/Our%20Insights/Five%20ways%20that%20ESG%20creates%20value/Five-ways-that-ESG-creates-value.ashx>
- Herkenhoff, P., Krauthaim, S., Semrau, F. O., & Steglich, F. (2021). Corporate Social Responsibility Along the Global Value Chain. *SSRN Electronic Journal*, 9498, 55. <https://doi.org/10.2139/ssrn.4007780>
- Husted, B. W., & Allen, D. B. (2007). Strategic Corporate Social Responsibility and Value Creation among Large Firms: Lessons from the Spanish Experience. *Long Range Planning*, 40(6), 594-610. <https://doi.org/10.1016/j.lrp.2007.07.001>
- Koslowski, P. (2001). *Principles of Ethical Economy*. Dordrecht: Springer. <https://doi.org/10.1007/978-94-010-0956-0>
- Lees, N. (2021). The Brandt Line after forty years: The more North-South relations change, the more they stay the same? *Review of International Studies*, 47(1), 85-106. <https://doi.org/10.1017/S026021052000039X>
- Li, T.-T., Wang, K., Sueyoshi, T., & Wang, D. D. (2021). ESG: Research Progress and Future Prospects. *Sustainability*, 13(21), 11663. <https://doi.org/10.3390/su132111663>
- Moore, G. (2004). The Fair Trade Movement: Parameters, Issues and Future Research. *Journal of Business Ethics*, 53(1/2), 73-86. <https://doi.org/10.1023/B:BUSI.0000039400.57827.c3>
- Nicholls, A. J. (2002). Strategic options in fair trade retailing. *International Journal of Retail & Distribution Management*, 30(1), 6-17. <https://doi.org/10.1108/09590550210415220>
- Nicholls, A., & Opal, C. (2005). *Fair trade: Market-driven ethical consumption*. London: SAGE.
- Oomes, N., Tieben, B., Laven, A., Ammerlaan, T., Appleman, R., Biesenbeek, C., & Buunk, E. (2016). *Market concentration and price formation in the global cocoa value chain*. Amsterdam: SEO Amsterdam Economics. <https://www.kit.nl/institute/publication/market-concentration-and-price-formation-in-the-global-cocoa-value-chain/>
- Padel, S., & Gössinger, K. (Eds.). (2008). *Farmer consumer partnerships. Communicating ethical values: A conceptual framework*. Tjele: International Centre for Research in Organic Food Systems.

- Park, J. G., Park, K., Noh, H., & Kim, Y. G. (2023). Characterization of CSR, ESG, and Corporate Citizenship through a Text Mining-Based Review of Literature. *Sustainability*, 15(5), 3892. <https://doi.org/10.3390/su15053892>
- Pieńkowski, D. (2022). Local action, global thinking and the Fair Trade movement. In K. Wajszczuk & M. Kozera-Kowalska (Eds.), *Sustainable agri-food supply chains: Contemporary and new challenges in logistics terms* (pp. 23-39). Poznań: Wydawnictwo Uniwersytetu Przyrodniczego w Poznaniu.
- Pierre, K. (2010). *The economics of Fair Trade coffee: For whose benefit? An investigation into the limits of Fair Trade as a development tool and the risk of clean-washing*. https://repec.graduateinstitute.ch/pdfs/Working_papers/HEIWP06-2007.pdf
- Pritchard, M. S., & Englehardt, E. E. (Eds.). (2021). *Everyday Greed: Analysis and Appraisal*. Cham: Springer International Publishing. <https://doi.org/10.1007/978-3-030-70087-4>
- Salary.com. (n.d.). *Mondelez International, Inc. Logistics Coordinator I. Salary in the United States*. <https://www.salary.com/research/salary/employer/mondelez-international-inc/logistics-coordinator-i-salary>
- Slob, B. (2006). A fair share for coffee producers. In A. Osterhaus (Ed.), *Business unusual: Successes and challenges of Fair Trade* (pp. 121-139). Brussels: Fair Trade Advocacy.
- UNACTAD. (2012). *Corporate Social Responsibility in Global Value Chains*. https://unctad.org/system/files/official-document/diaeed2012d3_en.pdf
- Vagneron, I., & Roquigny, S. (2011). Value distribution in conventional, organic and fair trade banana chains in the Dominican Republic. *Canadian Journal of Development Studies / Revue Canadienne d'études Du Développement*, 32(3), 324-338. <https://doi.org/10.1080/02255189.2011.622619>
- WFTO & FI. (2018). *The International Fair Trade Charter*. https://www.pebblechild.com/wp-content/uploads/2018/09/2018_FTCharter_English_PRINT.pdf
- Wildenberg, M., & Sommeregger, C. (2016). *Bittersweet Chocolate – The Truth Behind the International Chocolate Industry*. Wien: Südwind.
- World Cocoa Foundation. (n.d.). *The Cocoa Supply Chain: From Farmer to Consumer*. <https://www.worldcocoa-foundation.org/about-wcf/the-cocoa-supply-chain-from-farmer-to-consumer/>

Dariusz PIĘNKOWSKI • Renata SKÝPALOVÁ

NIEUCZCIWIE DZIELONA WARTOŚĆ W ŁAŃCUCHACH WARTOŚCI SPRAWIEDLIWEGO HANDLU

STRESZCZENIE: Sprawiedliwy handel to partnerstwo handlowe, które dąży do większej równości w handlu międzynarodowym poprzez oferowanie lepszych warunków handlowych producentom i pracownikom w krajach rozwijających się. Wyższe ceny końcowe produktów powinny wynikać z ceny minimalnej na pierwszym etapie łańcucha wartości, jednak na cenę końcową duży wpływ ma również wartość dodana na kolejnych etapach. Celem niniejszego badania jest zwrócenie uwagi na eskalację cen obserwowaną na późniejszych etapach łańcucha dostaw, która nie wydaje się być zgodna z zasadami sprawiedliwego handlu. To jest analiza porównawcza wartości dodanej na różnych etapach łańcucha dostaw. Porównuje potencjalną, hipotetyczną cenę rynkową kilku towarów sprawiedliwego handlu z rzeczywistą ceną, która wzrasta na kolejnych etapach łańcucha wartości dostaw. Dane zostały zebrane z publikacji w sektorze rolno-spożywczym dla kawy, bananów i kakao. Argumentuje się, że aby osiągnąć bardziej konkurencyjną cenę, konieczne byłoby większe zaangażowanie innych podmiotów w łańcuchu dostaw, a nie tylko konsumentów. Można to osiągnąć bez zmniejszenia zysków, które pozostaną na tym samym poziomie, co te generowane przez pozostałe produkty. Ponadto przyczyni się to do wzrostu sprzedaży produktów sprawiedliwego handlu. Wreszcie, badania sugerują również pewne środki mające na celu zwiększenie zaangażowania nieproducentów w tworzenie społecznie odpowiedzialnych przedsiębiorstw.

SŁOWA KLUCZOWE: ruch „fair trade”, łańcuch wartości, marże, kraje rozwijające się, odpowiedzialny biznes