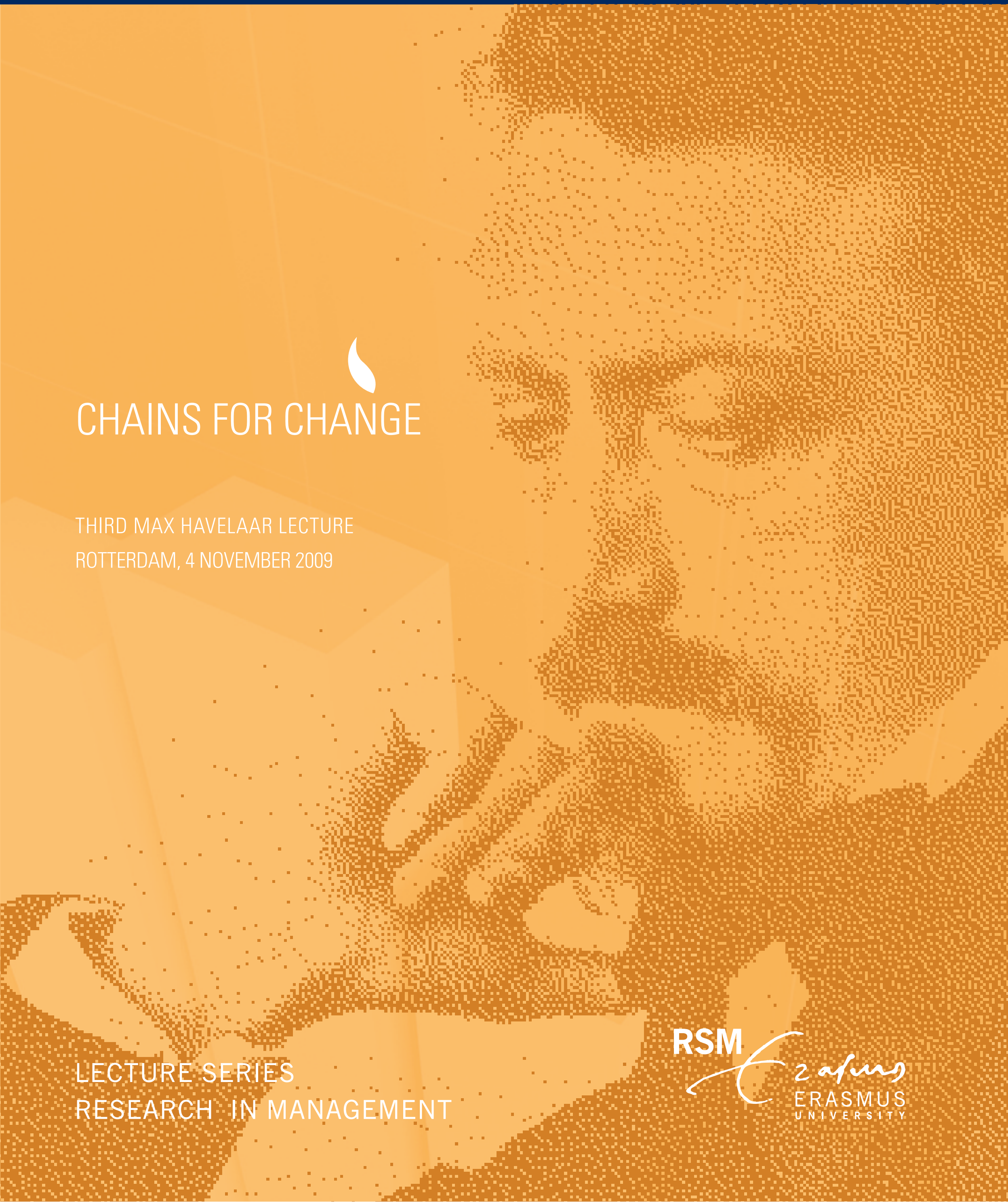
ROTTERDAM SCHOOL OF MANAGEMENT
ERASMUS UNIVERSITY

MAX HAVELAAR LECTURES



CHAINS FOR CHANGE

THIRD MAX HAVELAAR LECTURE

ROTTERDAM, 4 NOVEMBER 2009

LECTURE SERIES
RESEARCH IN MANAGEMENT

CHAINS FOR CHANGE

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ABOUT THE ROTTERDAM SCHOOL OF MANAGEMENT, ERASMUS UNIVERSITY

RSM is the business school of Erasmus University. RSM aims to be at the leading edge of future management issues by offering a cohesive package of university-level education, research and professional services, and by being attractive to an international market of students, executives and commercial enterprises. The school offers an extensive portfolio of management courses (including BSc in Business Administration / Business Management, MSc in (International) Business Administration, part-time diploma in Business Management, PhD in General Management, (executive) MBA programmes, specialist Masters and in-company training. Most of RSM's research programmes are given at the Erasmus Research Institute of Management (ERIM). The school is a member of several leading international networks, including the Community of European Management Schools (CEMS) and the Partnership in International Management (PIM). RSM has approximately 7,200 students and 400 members of staff. RSM can boast a triple crown accreditation (AACSB, AMBA and EQUIS), as well as Dutch NVAO and KNAW for ERIM.

Over the past 35 years, Rotterdam School of Management, Erasmus University, has firmly established its reputation as one of Europe's leading business schools. Long before 'global' became an important descriptor for business education, RSM's students, faculty and staff were already reflecting the diversity of the globalising world. Just like our host country, one of the world's renowned international trading nations, RSM has continued to expand and internationalise, cementing its status as one of Europe's most international and innovative business schools. RSM offers a distinctive intellectual culture, believing that leadership can be taught through a combination of intellectual and practical challenges. We believe that the difficulties encountered working in diverse teams fosters creative new approaches in business. We enjoy a reciprocal, supportive relationship with multinational companies.

RSM encourages a flexible, broad and sometimes iconoclastic mindset in matters of business practice and research. This distinct approach has helped RSM to establish a portfolio of top-ranked programmes, as well as one of the largest and most prolific management faculties in the world.

About the B-SM Department at RSM
The Department of Business-Society Management (B-SM) was founded in 1999 as one of the seven departments of the Rotterdam School of Management, Erasmus University. More than 30 researchers and professors work for the Department. They are active in education, research, and also provide external services. Their research is published by many top journals including: Academy of Management Journal, Academy of Management Review, Business Ethics: A European Review, Business & Society, Business & Society Review, European Management Journal, Journal of Business Ethics, Journal of Corporate Citizenship, Journal of Management Studies, Journal of World Business, and Corporate Reputation Review.

Corporations face many challenges. The ever increasing worldwide integration creates an array of opportunities and threats for both business and civil society. All over the world communication has increased, as has income inequality. Technological developments change the corporate environment, governments and societal organisations. Environmental problems lead to creative solutions in some countries, but they also stimulate companies to relocate to countries with less restrictive legislation.

The production of goods that were traditionally labelled ‘public goods’, such as education, electricity supply, infrastructure development, public transport and telecommunications, are confronted with market principles, deregulation and privatisation policies. Companies are on the one hand expected to operate ‘lean and mean’ in order to meet international competition, while they are, on the other hand, being held accountable for the consequences and effects of their behaviour on society. It is not clear which strategies are ideal in the long run and which will lead to the best results for both business and society.

The research programme of the Department of B-SM addresses the relationships and communications between companies, stakeholders, governments, international institutions and civil society. These interfaces are studied from several different perspectives, such as a normative, institutional, strategic, and communicative. It is hypothesised that if these interfaces are managed effectively this will considerably improve the functioning of companies, stakeholder relations, markets, governments, and thus, the functioning of society in general.

www.rsm.nl/home/faculty/academic_departments/business_society_management

ABOUT THE PARTNERSHIPS RESOURCE CENTRE

The Partnerships Resource Centre is an open centre where academics, practitioners and students can create, retrieve and share knowledge on cross sector partnerships for sustainable development. The centre does (or commissions) fundamental research, develops tools, knowledge sharing protocols as well as web-based learning modules and executive training. Most of these activities are open to the general public and are aimed at enhancing the effectiveness of partnerships around the world. The centre's ambitions are to have a high societal as well as scientific impact (resulting in citation scores in academic as well as popular media). It should function as a source of validated information regarding cross sector partnerships, a platform for exchange of information and a source of inspiration for practitioners around the world.

The Partnerships Resource Centre contains four different tracks of research and activities: portfolio development, global value chains development, effective public goods provision and issue management. The tracks have been identified as the most promising, but also the most difficult, complementary areas for further progress in partnerships research and management. They are aimed at bringing together supply and demand in a 'researchable' format, while also making sure that knowledge can be effectively disseminated to policy makers and practitioners alike. The tracks are organised as learning networks with the ultimate aim to link them to actual (decentralised) partnership processes in developing countries in order to guarantee application of the generated knowledge – build up capacity – in favour of poverty eradication and sustainable development.

Each track focuses on a particular type of partnership:

1 from the perspective of individual actors: *Partnership Portfolio development*
2a bi-partite partnerships primarily between profit and non-profit parties: in *global value chains*
2b bi-partite partnerships primarily between public and private parties: in the effective *provision of public goods*
2c tri-partite partnerships to *approach and solve issues.*

Four complementary levels of analysis/approach are therefore represented in the Resource Centre: actor, chain, nation, issue.

For more information: www.erim.nl/partnerships

ABOUT THE MAX HAVELAAR FOUNDATION

The Max Havelaar Foundation strives towards fair and just relations world-wide. Central to its policy is sustainable production, trade and consumption. The foundation offers access to international trade with favourable conditions for farmers and workers in disadvantaged parts of the Third World, so that they can build a better future for themselves. This means consumers and retailers must also pay enough to cover social and environmental costs. This means that products such as coffee, tea, fruit, cocoa, wine and cotton can have the Max Havelaar trademark when they follow the Max Havelaar guidelines. The Max Havelaar initiative has been followed in 20 different countries among which are most European countries, the U.S.A. and Canada. Max Havelaar is not a brand but a trademark for fair trade. This means that products can have the Max Havelaar trademark when they follow the Max Havelaar guidelines.
The foundation co-operates with three other players:

1. The registered producers: co-operatives of small farmers and plantation holders in developing countries.
2. Licence holders: Dutch companies and importers.
3. Consumers.

The foundation owns the Max Havelaar trademark and submits licence holders to close scrutiny as it does not sell products itself. Licence holders are Dutch producers or importers of coffee, chocolate, tea, honey, bananas or orange juice. They have to comply with certain conditions of trade and be prepared to submit themselves to checks. The licence holders trade with farmers' co-operatives and plantations that are registered with Max Havelaar to offer their produce.

Where does the name Max Havelaar come from?
More than 130 years ago the author of the book *'Max Havelaar: Or The Coffee Houses Of The Dutch Trading Society'*, Eduard Douwes Dekker, was an assistant resident in one of the districts of the former Dutch East Indies, the present Indonesia. Douwes Dekker could not reconcile with the politics of the colonial government who forced the countrymen to work for the Dutch coffee plantations on a massive scale. That pressure was so great that the farmers had to neglect the cultivation of food crops and famine was the result. The *Max Havelaar* was published in 1860. its 150th birthday will be celebrated throughout 2010. **www.maxhavelaar.nl**

ABOUT THE MAX HAVELAAR LECTURE

Max Havelaar is the world's first Fairtrade labeling organization. Since 1988, the Max Havelaar certification mark has been used to guarantee consumers, that their products have been traded under fair conditions. From the vision that people can only maintain their families and communities through sufficient income from labour, a strategy was developed that addresses poverty alleviation through entrepreneurship. The standards that have been set support farmers in achieving a better deal for products such as coffee, tea, fruit, cocoa, wine and cotton. The Max Havelaar initiative has been followed in twenty different countries among which most European countries, the U.S.A. and Canada. Together with these initiatives Max Havelaar founded the international Fairtrade Labelling Organization (FLO). Max Havelaar is set up as a not-for-profit foundation and does not trade, but inspires and stimulates market actors to develop a market assortment under Fairtrade conditions.

Fairtrade has been rather successful in the past years. More than a million farmers and their families benefit directly from Fairtrade. Impact studies have shown that development impact through trading cooperatives is significant. Total consumer turnover in 2006 was 1.6 Billion Euros. The Fairtrade initiative has stimulated other actors to develop other sustainability certification schemes, which are welcome. However, none of them has the unique Fairtrade trading conditions that guarantees farmers a price and investment covering price for their products, provided that they find market under the label.

The lecture

Poverty alleviation constitutes a multi-faceted problem. It is on the one hand extremely local and leads to enormous deprivation of at least half of the world's population. But on the other hand, it is an extremely international problem as well through the operation of global markets – in particular of resources – and the functioning of value chains. It has increasingly become acknowledged that the role of corporations and the private sector is vital for sustainable solutions to poverty.

Entrepreneurial solutions are often considered preferable over the traditional approach of development aid and subsidies. Micro-credits and fair trade labels are typical examples of this new development paradigm. At the same time, however, it is clear that the involvement of private (international) corporations is far from undisputed. The claim that the profit maximization strategies of private corporations can 'solve' poverty requires substantial modifications. It is obvious that some strategies are more effective than other strategies. The integration of developing countries in the international supply chains of multinational corporations can have positive, but also negative repercussions. The new development paradigm therefore is not yet established, let alone undisputed. The Max Havelaar lecture stimulates the thinking on these issues in a balanced manner, without making use of the usual simplifications either in support or against the involvement of firms in development. The Max Havelaar organization is proof of this approach: it is aiming at a continuous improvement in its strategy towards labeling products – increasingly in a variety of partnerships with NGOs, corporations and governments.

Aims

The Max Havelaar lecture has seven aims:

- Provide a platform for the presentation of state-of-the-art scientific insights in how sustainable business and development cooperation can be combined
- Discuss the advantages and disadvantages of the involvement of corporations in poverty alleviation in a systematic and non-ideological manner
- Address the complexities of sustainable development rather than engage in simplifications on poverty, in order to come up with realistic – and obtainable – approaches to address in particular poverty (Millennium Development Goal 1)
- Discuss the strengths and weaknesses of specific approaches such as trade marks, codes of conduct, reporting or governance measures
- Provide an arena in which innovative ideas can be launched
- Consider development as part of international value chains in which a fair distribution of income, power and knowledge is an issue that affects both developed and developing economies
- Start a structured dialogue on shaping the preconditions for effective partnerships between public and private parties (including firms and NGOs) for development (Millenium Development Goal 8)

Organisation

The lecture is a recurring annual event. Each year, a leading scholar in the field will be invited to hold the key lecture which will be made available to a wider audience around the world. The lecture will take about 45 minutes and will have an academic standing. It will be held at the Erasmus University Rotterdam, partly as a legacy to Jan Tinbergen the former Nobel Prize Laureate in economics and leading thinker on sustainable development. The second and third lecture were financed by the Max Havelaar Foundation and the Triodos Bank as evidence of their commitment to high quality dialogue on the most effective approaches to poverty alleviation. The lecture is open to the public and provides an occasion where policy makers and the scientific community can meet. It is organized in cooperation with the Erasmus Research Institute on Management (ERIM), the Expert Centre on Sustainable Business and Development Cooperation (Ecsad), the department of Business-Society Management at RSM Erasmus University and the Parnterships Resource Centre (PrC). The first Max Havelaar lecture was held in October 2007.

INTRODUCTIONS

Louk de la Rive Box, Rector, Institute of Social Studies (ISS), Erasmus University Rotterdam

[Holding up a fair trade banana] What makes it special? Look at this banana, what makes it special? There is no logo, nothing printed on it, it does not say Fair Trade – and yet when you came in you knew it was something special, because we are aware that a Fair Trade banana is something special. Should it remain special? Obviously not, if we are talking about 'chains for change', and we are talking about making this the only banana that is being sold in the Netherlands or in supermarkets elsewhere. Why? Because we feel the world is ripe and ready to accept this. How far are we? Not yet far enough. If we are talking about chains and change (and for a Dutchman these are difficult words to say) we are trying to make this banana the only normal banana there is. It is a banana our colleague will speak about soon. Is this real? Yes.

Let me give you another example: in the 1990s, I was working at the Netherlands Ministry of Foreign Affairs advising a minister for development co-operation. A lady from Canada came to me saying, Mr. Box, I'm from the anti-landmine campaign, can you please convince your minister that landmines are bad for children, are bad for everyone, especially children and women; children – because they play out, and women – because they fetch water. Would you please convince him? And the minister said, look, I'm delighted to hear that you have spoken to the lady, but politically I have other things to do. It took ten years and then Burkino Faso signed, or ratified, the anti-personnel landmine treaty; ten tears for something which was totally politically unfeasible to become totally accepted in the general international community, except of course for China and the United States because they had more important things to do. So, in other words, in ten years you can make the difference; in ten years you can make the change. And all that we are discussing here this afternoon is how that change could be made. There are adequate examples that chains work and that change can work, and therefore what I will listen to this afternoon and what I will come back to at the end is the question how do we make those changes in these chains. I will be back with you at the end of the afternoon.

Peter d'Angremond, Executive Director Max Havelaar Foundation Netherlands

It is a pleasure and honour to welcome you all as participants of this third Max Havelaar lecture. Just over 19 years ago I took my degree in business economics here at the Erasmus University. The various positions I worked in afterwards have always been commercial. My passion for Fairtrade is based on a firm belief in the trade not aid model.

After my switch from a 'commercial' organization to Stichting Max Havelaar many people wanted to know my first impressions. One of the things that struck me most was the tremendous power of partnerships. Producers, brand owners, distributors, retailers, science, NGO's, governments and consumers, all working together in a sustainable trade model to fight poverty! My impression after four month at the Max Havelaar Foundation is that NGO's and commercial organizations tend to move towards one other.

Fairtrade is a balanced model that covers three fundaments of sustainability People, Planet and Profit. Producers receive a fair price for their goods, based on the cost of sustainable production. The Fairtrade premium enables the co-operatives to invest in education, business improvement, health care and in improvement of living conditions. The key fact that co-operatives and producers themselves decide where to invest their revenues builds empowerment of producers. In the Fairtrade system there is a continuous focus on development: change in the chain. In many area's producers are committed to improvement programs on social and ecological aspects. The Fairtrade Labelling Organizations International, the umbrella organization, offers support where needed.

A lot has been achieved. The international Fairtrade trademark, in the Netherlands better known as Max Havelaar, gained a broad respect, trust and acceptance. Pioneers of the past continue to be our loyal partners and clients. Whether they are consumers, volunteers or organizations. New partners and clients join us, every day. Large consumer goods brands like Verkade, Ben & Jerry's, Cadburry's and Starbucks as well as leading retailers like Albert Heijn, Lidl, Plus and other have adopted the Fairtrade conditions and are now selling products under the Max Havelaar – Fairtrade certification. Partnerships with these leading brands is vital to continue to grow the user base of Fairtrade labelled products and so grow the impact of the system for the producers. In the sector we call this ‘upscaling’.

Production capacity has increased; Fairtrade certified products can now be found in many categories in almost every store. How about consumers and consumer behaviour? Research shows that consumers like to contribute to creating a better world without poverty. Only most consumers do not know how… Contributing to a better world can in fact be surprisingly simple. Be aware of what you buy as consumer. If the Max Havelaar Fairtrade logo is on the pack, you as consumer contribute to the change in the chain. Growth of Fairtrade certified goods does not only depend on partnerships with commercial organizations. We must and will continue to inform consumers and organizations about the benefits to buy Fairtrade certified products.

Already many volunteers ‘campaign’ in the so called ‘Fairtrade Town Campaign’. Cities around the world can apply for the label ‘Fairtrade Town’. This label will only be granted after a number of criteria are met. Criteria that cover the entire community in a city: citizens, schools, churches, administration and business community. Initiatives like these are, in my opinion far stronger than any traditional advertising campaign can ever be, for they build on true passion, commitment and involvement. By jointly teaming up an entire city community can contribute to a change in the chain!

This almost looks like a good news show… Indeed we are on course, but we need to put up even more sail to increase the speed we are sailing at. Taking the millennium goals as our guidance, we can only conclude that these goals are both ambitious and still far from being realized. Time is running out. When we truly want to make the highly needed changes we cannot waste resources in our continuous quest to achieve the millennium goals: to fight poverty and all its consequences.

Fairtrade strongly contributes to realization of the millennium goals. Fighting poverty where it is highly needed: small farmers in developing countries. Developing education, democracy, equal rights for men and women, improvement of healthcare, development of environmental sustainability and of course development of fair trade conditions for the least privileged producers: the small farmers.

I welcome governments and organizations to take their responsibility, set the example and lead. I compliment our minister of development cooperation who repeatedly supported the Fairtrade system. Very important because the government can and should set an example. Public procurement can stimulate commercial organizations even more to implement Fairtrade in their business models. Allow purchasing managers to choose products that comply to Fairtrade standards.

Ladies and gentlemen, this year, during the Fairtrade week we celebrate 15 years Fairtrade cocoa in the Dutch stores. November 1993 the first shipment of Fairtrade certified cocoa arrived in the Netherlands. Now in 2009 Fairtrade certified cocoa is widely available through brands like Fair Trade Original, Tony Chocolonely, Verkade, Albert Heijn Puur and Eerlijk and others.

I invite you as leaders and future leaders to invest in changing the chain. As a consumer you can start today. Simply by being aware of the products you put in your shopping trolley. It’s that easy!

Cornelius Lynch, banana farmer St. Lucia

My name is Cornelius Lynch. I am from the beautiful island of St. Lucia with its warm sunshine – so I'll take this opportunity for some free advertising and hope you will come to the Caribbean on holiday! I have a family of five children, and a wife of course. I have been a banana farmer from the age of eight. I was raised by a single parent, a mum with four children, and my mum had to struggle on the farm to take care of us, and her own mother. It was really a challenge for us. Nevertheless, I came to enjoy farming and I stayed in farming while my siblings went into other professions.

My country, St. Lucia, depends totally on tourism and bananas as the economic activity on the island, and getting to work with Fair Trade was really important for us. Before I go into Fair Trade in detail I want to thank Max Havelaar for having me in the Netherlands. I did not know anybody at Max Havelaar, but the Fair Trade connection is the reason I am in the Netherlands. This is already a demonstration of the benefits of Fair Trade. I would also like to congratulate the organisers of this session because I think you have chosen a very interesting theme – chains for change. I am here to testify that Fair Trade is really a chain for change. There was an organisation of farmers in St. Lucia but before Fair Trade you had a number of layers in banana production. There was a time when families were beginning to lose confidence in the organisation because you were not able to cover your costs of production because of all the layers that we actually had. People were becoming very demotivated, and, between 1998 and 1999, we saw a lot of farmers leave the industry and they migrated to the neighbouring island of Martinique, which is a French island, where they actually went to work on banana farms and were better able to maintain their families back home. You saw a lot of migration to the US, but then in 2000 Fair Trade was introduced to the Caribbean, the Windward Islands, through an organisation named WINFA. This is an umbrella organisation which represents St. Lucia, St. Vincent, Grenada and Dominica as an advocacy organisation and Fair Trade was introduced to us by this organisation. I had no idea what it would have turned out to be like, but I was convinced, and I was desperate like many other farmers, that we needed a change. So myself and some other farmers took up the idea, went about the community, met farmers and organised groups and tried to sell the Fair Trade initiative to them. We started in 2000 with 120 farmers, producing bananas as Fair Trade. From 2000 to 2004, a period of about five years, we saw an increase in membership of about 1,200 farmers. It is simply because there was a direct benefit. Right away farmers saw a difference in their earnings. For example, farmers easily got $5 more than what they had been getting for conventional bananas. That was a really big change. In addition to that there was also the social premium of which I am going to tell you a little more. Because of the Fair Trade movement we saw we had to reorganise ourselves as a corporation and register the organisation. That gave us the opportunity to take charge of our own affairs, we became our own managers, we became our own decision makers. And so we were in power – because farmers are businessmen and women just like in any other sector. We know what we want although we may not be as highly educated as having PhDs for example, but we know exactly what we want. We know when we are operating at a loss, we know when we cannot afford to manage our farms. This was an opportunity for us to come together and to make our own decisions. In 2004 we organised a register and we had our own departments, our own technical department, it created employment for people within the community, we had our own procurement department – which is packaging material, and so we are growing. Now, in 2009, our membership has not increased significantly because our population is very small. Overall, we have 1,500 farmers and we have about 85% of the farming population. We are totally independent now, we can sit with the exporters and the buyers and negotiate, and the system is totally transparent.

But, of course, to be a Fair Trade farmer there are certain standards you must meet. We have worked very well with our farmers to meet the standards, and those standards are social standards, environmental standards and health and safety standards. Time will not permit me to go into all the standards – but the standards ensure there is no violation of workers' rights, we preserve the environment by reducing the amount of chemicals used on the environment, we ensure that workers are protected – that they use protective clothing whenever they are using dangerous tools and when they are applying whatever kind of fertilizer they are using. This was an opportunity for farmers to be more conscious of their surroundings and what they do, and they had more respect for the environment. What has happened recently – when we began getting the social premium – was that we, as an organisation, were able to seek out and decide what is really important for our community. Just to list some of the things we have done: we were able to install computer programmes in our schools, computer laboratories so that our children can have access to computers; we are not as poor as they are in Africa – where some places do not have schools – but generally speaking we have schools on the island, in the Caribbean. Most children have access to schools but there are not the facilities such as computers for them to become computer literate. We have given them that opportunity so they can have access to computers and computer knowledge, because in this modern world if you do not have computers you are nowhere, nothing happens, everything slows down. We were able to establish computer laboratories in the schools, we also assisted in the hospitals, by making equipment available, for example to sterilize tools and equipment used at the hospital so that our people, our community, can have a better health service. We also made water available to some of the schools. In St. Lucia you have two seasons – the wet season and the dry season. The dry season can sometimes be so dry that there is always a shortage of water. We have purchased water tanks so they have a back-up reserve during the dry season. We have also established medical assistance programmes for our farmers so they can feel confident now to go to a doctor and to check on their health, and they are reimbursed a certain amount for the year. In the past this was non-existent.

If we are really talking about change, Fair Trade has demonstrated that it does make a change in communities.

Finally, I would like to advise particularly the young people – not that I am discriminating! – who are the people of tomorrow, the consumers and policy makers. They should use their energy to influence people within their own communities and their own surroundings to buy more Fair Trade products. You know that when you buy a Fair Trade product you are making a contribution to the standard of living for people in my part of the world.

Koert Jansen, Fund Manager Triodos Sustainable Trade Fund

I am very pleased to be here since the topic of today is very much related to the core of what we do with this sustainable trade fund. With Triodos Bank we have been financing sustainable and Fair Trade supply chains for almost fifteen years now and, building on this experience, last year we launched this particular sustainable trade fund – to which Rob already referred. We have just had our first anniversary. Later that year, that is 2008, we set up a millennium consortium with five partners, in order to scale up this typical form of finance and also to mainstream the concept of value chain finance amongst other banks, especially also in developing countries. So far I have said a few words in introduction and a given a bit of publicity for the work we do.

Now, I want to share with you a particular concern we have as financiers of sustainable trade. I am fully aware that this is a technical topic so I apologise in advance for bringing it up – but it is important so I hope you are willing to stay with me. Value chain financing is about banking against the strength of value chains – more so than banking on the strength of an individual balance sheet. Now the strength of value chains is tested every year by price developments. You can imagine that if two partners are doing business, are trading with each other, are concluding their seasonal contracts for six to twelve months, the price development during that period is quite critical. For example, if in that period coffee prices (to take one example) are spiking then you will see that farmers will be a little reluctant to deliver the coffee; they hope that prices will increase even further. This of course will put the value chain and the trade contract to the test. This is nothing new. This behaviour is as old as time, and is very understandable. What is new though is that the commodity price dynamics have changed quite a bit over the last five years. Price dynamics in commodity markets have become distorted by large-scale speculation on the commodity exchanges. Not by traditional speculation, which is very much based on trading using in-depth knowledge about supply and demand fundamentals in the market, but by a new type of speculation which is referred to as so-called index speculation. I will explain what this is. For five years commodities have been kind of discovered by institutional investors as a new asset class; you have equity, you have bonds and now there are commodities. Large institutional investors allocate part of their funds into commodities. To accommodate for this demand banks have developed what we call index funds. Now, what do these index funds do? They passively invest in baskets of various, in principle, unrelated commodities including metals, energy and several agricultural commodities. By definition, when these funds speculate or invest they do not do that on the basis of in-depth knowledge of supply and demand of the particular commodities, they just buy bundles of commodities and the amount of money they invest is very much related to the asset allocation of the underlying investors. Meanwhile, and it has grown rapidly in these five years, they have become a dominant player on the commodity exchanges. We are literally talking about billions of dollars. Now, the impact of all this, and that is of course the crux, is that price distortion occurs. Over the past five years we have seen this speculator flow driving up the prices of commodities – we all remember past years' food crises and commodity crises spiking food prices. A large part of that can be explained directly by this speculation. Also volatility increases and this is all very much understandable because every commodity contract that is traded for other reasons than of supply and demand has of course a distortive effect on the real economy. I will not go into this any further, but for those of you who are interested we can refer you to, for example, a person called Michael Masters in the United States who has been the whistleblower there to really put this subject on the agenda. Today the commodity exchange supervisor in the U.S. is looking into the possibility of new legislation to kind of put a dam on this kind of speculation. I can also point you to a study that Triodos Bank has commissioned on speculation in the coffee markets. We have brought a couple of these reports with us and also the author of the study is with us today: Marten van der Molen. So, if you would like to speak to him, he is here.

Finally, we should also mention the UNCTAD report – the United Nations Conference on Trade and Development – which was released only a month ago. One of its five chapters is fully dedicated to the impact of what they refer to as the financialization of commodities. Consequences are far-reaching: many developing countries depend on the export of commodities. You would expect that higher commodity prices, based on this speculative behaviour, would be good but they can actually do harm when they are artificial and strongly volatile. Wrong price signals lead to wrong investment decisions and wrong trading decisions. If you look at Millennium Development Goal No. 9 – which is about global partnerships – it calls for an open and rule-based predictable and non-discriminatory trading and financial system. We believe that this speculation is doing quite the contrary.

It would be nice of course if we in our sustainable Fair Trade niche would be sheltered from these brutal forces. Unfortunately, of course, we are not. And I think that one of the best things we in the Fair Trade sector can do is to continue demonstrating that the best way to invest in commodities is not on the commodity exchanges but right on the ground in real stuff that really matters.

POSITION PAPER

CHAINS FOR CHANGE

Rob van Tulder, Professor of International Business-Society Management,
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1. Introduction: between free trade and fair chains[1]

Trade can be an important driver in poverty alleviation and empowerment in developing countries. International trade relations can be an important impetus to change, but in what direction? Whether the optimistic expectation related to trade liberalization and globalization materializes, depends on the conditions under which trade relationships are managed. As an arms-length relationship between independent actors, or as dependency relationships in networks of supply and demand, also known as international value or commodity chains? This makes the issue of ‘fair trade’ a prime topic not only for policy makers and international economists, but also for business scholars. Firstly, fair chains involve the inclusion of small entrepreneurs: firms, farmers (small-holders) and their co-operatives. Are they able to participate in global value chains, can they get a fair share of the economic pie and can they produce under sustainable conditions? Secondly, there is the big business perspective which involves major traders and multinational firms that ‘steer’ global value chains either in-house or at arm’s-length. Thirdly, the question involves the acts of consumers. Can their – sometimes inarticulate – demands for sustainability and fairness be translated in feasible market propositions (products, business models) and clear communication (labels, codes)? Finally, there is a role that has to be played by governments: can they be neutral bystanders or should they become active, and if so in what areas?

The slogan ‘Trade – not aid’ indeed refers to the millions of small producers in developing countries who have something to offer, but have been economically disadvantaged or marginalized by the conventional trading system. The terms of trade in the conventional trading system have been

1) Input for this position paper was adequately and timely provided by Matthias Olthaar, Raymond van der Zwan, Deliana Stoeva, Krista van Buren, Ingrid van Ginkel, Jochum Veerman and Andrea da Rosa.

extremely skewed towards the interests of the developed countries. Fair access to markets under better trade conditions would help small producers to overcome some of the most immanent barriers to development. The idea of ‘fair access to markets’ is worldwide acknowledged as the concept of “Fairtrade”. Fairtrade is about better prices, decent working conditions, local sustainability, and fair terms of trade for farmers and workers in the developing world. By requiring companies to pay sustainable prices, Fairtrade addresses the injustices of conventional trade, which traditionally discriminates against the poorest, weakest producers. It is intended to enable them to improve their position and have more control over their lives.

Far from being influenced by open trading relations in global commodity markets, the fairness of international trade relationships is increasingly influenced by the way global value and/or commodity chains are governed (not necessarily managed). This is usually done by a relatively limited number of corporate players, that have up to 50% of all trade transactions as company-internal activities – susceptible to so called transfer pricing practices (Van Tulder with van der Zwart, 2006). In many instances, the ambition for ‘Trade, not aid’ might therefore more appropriately be substantiated into ‘chains for (sustainable) change’. Fairtrade has also become the classic example of the ambition to establish sustainable (global) chain management. A wealth of Fairtrade initiatives and labels have developed after the initial introduction of Max Havelaar, the pioneering Fairtrade labeling organisation of the Netherlands in 1988. But their effectiveness in establishing really sustainable chains still has been topic of serious debate, witnessing the large number of NGO reports on the issue testifying for an ambiguous state of affairs.

The present state of affairs surrounding fairtrade reveals four types of ambiguities: (1) between prescription and description: whether scientific disciplines are willing to deal with such a topical issue; (2) between supply-driven and demand-driven: the need to understand who ‘calls the shots’ in chains and how fairness in the outcome can be measured; (3) between regulation and self-regulation: on the implementation modalities – in particular on the question how codes of conduct, quality marks and/or labeling initiatives are operationalized; (4) between liability and responsibility: what makes corporations move towards a more ‘fair’ supply chain management function. This position paper takes in particular stock of the scientific literature in the area and gives illustrations of company strategies in order to delineate a research agenda.

2. Between description and prescription: growing attention for fairness in chains

Small suppliers around the world are increasingly included in ever more complex chains of supply and demand. The outcome of this development in particular for suppliers at the ‘bottom’ – ‘upstream’ – of the chain receives growing research attention, but also concern. Chains are by some considered to be a threat for development and by others as an opportunity for development. No final answers, however, can be given. The actual state-of-affairs in scientific literature is rather ambiguous. Research on the actual operation of global value chains and the possibilities to make these chains fair through new forms of governance is still in its infancy, whereas solid description (mapping chains) and intelligent prescription (conceptualizing fairness) is only slowly emerging. Of most global value chains, the exact distribution of value and profits is not yet registered exactly leaving most actors in these chains in a semi-dark position. Under these circumstances prescription and description get easily mixed.

In order to find out whether scientists around the world have been looking at the issue of fair chains, a systematic literature scan was executed for the 2000-2009 period. For five relevant academic disciplines, two leading journals were selected, resulting in a set of ten representative journals (Table 1):

1. supply chain management
   (journals: supply chain management, the journal of supply chain management)
2. general management
   (journals: academy of management journal and academy of management review)
3. international business
   (journals: journal of international business studies, international business review)
4. development (journals: World Bank Economic Review, World Development)
5. Business Ethics (journals: Journal of Business Ethics, Business Ethics Quarterly)

Table 1 Scientific coverage of fair value chains, 2000-2009 [numbers, % of total]

Key words	**Disciplinary area** 1. Supply chain management	2. General management	3. International business	4. Development	5. Business ethics
Chain responsibility	5 [0.7%]	0	0	0	6 [0.2%]
Value chain	139 [19.2%]	56 [4.8%]	147 [14.2%]	68 [4.6%]	84 [3.0%]
Labels in com. chains	0	1 [0.1%]	1 [0.1%]	20 [1.3%]	8 [0.3%]
Codes of cond in chains	0	1 [0.1%]	0	6 [0.4%]	12 [0.4%]
Sustainability and chains	40 [5.5%]	41 [3.5%]	12 [1.2%]	79 [5.3%]	236 [8.4%]
Fair trade	3 [0.4%]	8 [0.7%]	8 [0.8%]	24 [1.6%]	122 [4.4%]
Max Havelaar	0	0	0	2 [0.1%]	17 [0.6%]
Utz Kapeh	0	0	0	5 [0.3%]	3 [0.1%]
Forest Stew. council	0	2 [0.2%]	1 [0.1%]	9 [0.6%]	15 [0.5%]

Value chains have clearly received a growing attention in the scientific debate. The disciplines of supply chain management and international business – as a result of the globalization of (out)-sourcing – clearly attach most importance to the subject. Most of these disciplines take a managerial and/or largely descriptive approach. More gradually, the attention for aspects of 'fairness' in supply chains is also increasing. This attention is primarily covered by authors in the area of Business Ethics. On almost all accounts do these journals lead in the scientific attention for fair trade.

A concept like ‘fair trade’ in particular has boomed from almost no attention in the year 2000 to major attention (in particular in the Journal of Business Ethics) by the year 2009. A concept like ‘chain responsibility’ on the other hand received quite stable and low attention throughout the same period (see Annex A for more detailed graphics). Comparable observations can be made for the concept of ‘chain liability’. A prescriptive approach prevails at the moment. Interestingly, development journals are lacking behind the leading ethics journals. Supply chain management journals for instance have triggered relatively more papers on sustainability and chains than development journals. Most articles still miss out on the specifics of fair trade as can be witnessed from the relative lack of detailed accounts of the use of labels, trademarks and codes of conduct in chains. There exists a slight division of labor between the academic disciplines in attention for particular trade marks. Max Havelaar (and the Rainforest Alliance) is more popular in the Business Ethics literature, whilst Utz Kapeh receives a better coverage in development journals. The Forest Stewardship Council (FSC) and the Marine Stewardship Council (MSC) receive less, but more spread attention over the various disciplines: at least four different disciplines cover these two initiatives. The broader coalitions behind these initiatives might be an explanation for this. Other more recent and more specialized initiatives like Fair Food have received no attention yet

3. Between supply-driven and demand-driven chains: identifying (potential) change agents

Two types of actors have generally been identified as potential change agents in the supply chain: lead firms that could be anywhere in the chain and smaller firms at the bottom of the chain. For the first category, the biggest challenge has been how to identify them, consider ‘governance’ modalities and assess their impact on the value chain. For the second category of firms, the biggest challenge has been how to measure and value success. Here the concept of ‘upgrading’ has been introduced. Interestingly, neither consumers nor governments have been considered particularly relevant as change agents in global supply chains.

3.1 Lead firms: who governs the chains?

An increasing number of authors are pointing at the importance of so called ‘lead’ or ‘core’ companies that have an above-average influence over chains. While more developing countries become involved in supply, trade is organised by a decreasing number of global buyers (Humphrey and Schmitz 2001: 19; Schmitz and Knorringa 2000: 177). This has resulted in the dominance of so called ‘incomplete firms’ where the complete process from beginning to end-product does not take place within one firm but within a chain of legally independent firms (Gereffi et al 2001: 2). Gereffi (1999) also called these firms ‘manufacturers without factories’. Others have referred to these corporations as ‘hollow firms’ (Van Tulder with Van der Zwart, 2006). The consequential ‘fragmentation of production’ leads to increased levels of specialisation and differentiation, with firms in developed countries increasingly focusing on intangible aspects of value creation (product design, branding, marketing, and communication) and firms in developing countries increasingly focusing on the tangible aspects of value creation. Developing country firms specialise in labour-intensive production as labour costs are generally low in these countries. Even though purchasing companies do not manufacture, they do specify what products should look like, how it is to be produced, and when. This results in ‘coordination without ownership’ (Gibbon et al 2008: 318; Humphrey and Memedovic 2006; Humphrey 2004; Schmitz and Knorringa 2000: 178).

The position of the lead firm is thereby strongly influenced by the overall nature of the commodity chains. Table 2 identifies three archetypical commodity chains that are based on different types of drivers, industries, core competencies, which create favourable conditions for specific types of core or lead firms (as well as related entry and exit barriers). Producer-driven commodity chains put the lead in the hands of the producers, whereas buyer-driven chains are dominated by the firms that are closest to end-consumer markets (retailers and global brands). In-between bulk crops and commodity chains are primarily dominated by international traders. As a result, the potential for change differs per chain, not in the least because the core competences of the lead firm and their prime driver differ. Table 2 further shows that fair trade products have been primarily introduced in chains dominated by international traders, whose barriers to entry are formed by economies of scope, which require much less scale economies than in other commodity chains.

Table 2 Three Archetypical Commodity Chains

Characteristics	**Producer-driven**	**Int. Trade driven**	**Buyer-driven**
Driver of GVC	Industrial capital	Private Capital	Commercial capital
Core competence	R&D, production	Coordination, risk hedging	Design, marketing
Economic sectors	Consumer durables, capital & intermediate goods	Primary commodities	Non-durable consumer goods
Typical Industries	Aircraft, cars, computers, biotechnology	Grains, cotton, fruits, coffee, cocoa, wood	Agro-food, apparel, footwear, toys
Lead / Core companies	MNEs (Boeing, GM, Monsanto)	International Traders (Cargill)	Retail MNEs & Global Brands (Coca-Cola, Wal Mart)
Barriers to entry	Economies of Scale	Economies of Scope	Working capital, accumulated market knowledge

Source: class notes Jeroen van Wijk, based on: Kaplinsky and Morris, 2001; Gibbon, 2008; Van Tulder et al., 2009a

Lead or Core firms are mostly located in developed countries and are powerful in determining "what is to be produced, how, and by whom" (Gereffi et al 2001: 1). This includes determining whether to outsource, make components in-house or something in between, and specifying the price, volume, production, quality, and distribution (Gibbon 2008: 319). Value chains governed by global buyers are so-called because they buy (semi-) finished products globally. They have increased in importance the last two decades. At the same time competition among producers in developing countries is increasing as well (Schmitz 2004: 5-6; Schmitz and Knorringa 2000: 177-178). Most authors assume one or a limited number of actors governing most of global commodity chains. The degree of both explicit coordination and power asymmetry in international chains depends on (1) the complexity of transactions (in particular the complexity of information and knowledge transfer), (2) codification possibility of information, and (3) the capabilities of the suppliers. Assuming each of these variables can take two values (high or low), five likely outcomes are summarised in Figure 1.[2]

2) As each determinant can take two values (high or low) this would result in eight combinations. The two combinations where both complexity and ability to codify transactions are low are, however, unlikely to occur. A situation in which the first and third determinant would be low whereas the second would be high, would lead to exclusion from the value chain. This explains why five combinations are shown (Gereffi et al 2005, p. 87).

Figure 1 – determinants and governance in global value chains

Complexity of transactions	Ability to codify transactions	Capabilities in the supply-base	Degree of explicit coordination and power asymmetry
Low	High	High	Low
High	High	High	
High	Low	High	
High	High	Low	
High	Low	Low	High

Source: adapted from Gereffi et al 2005, p. 87

Governance is seen as the basis of ethical trade initiatives. Low producer prices, certain labour conditions, and environmental impact of production are, for example, seen as an ethical problem and TNCs are held responsible for these problems. In dealing with these problems it is possible to distinguish between ‘distributive justice’ and ‘procedural justice’. The former is concerned with the fairness of the distribution of benefits and burdens, while the latter is concerned with the fairness of the way one party deals with another vulnerable party. Suppliers were found to prioritise procedural justice over distributive justice. It is, however, only fair to hold buying companies responsible for ethical problems if they are aware and have the possibility to do something about it (Humphrey and Schmitz 2001: 21; Van Wijk et al, 2008: 10; Gilbert 2008: 6).

The growing importance of lead firms in supply chains, also has the effect that the traditional distinction between ‘Fairtrade’ and ‘ethical trade’ has become of decreasing importance. The principles under which Fairtrade operated designated it to have *relational* value chain governance, where building long-term relationships and trust prevail, with the explicit aim of strengthening the position of the small-scale producers (Barrientos and Smith, 2005: 192).The original ethical trade idea was based on *modular* governance that involves complying with minimum standards and the exploitation of retailer’s buying power to control the chain to meet their needs, resulting in higher profits and dominant position over the producers (ibid). Fairtrade is becoming ‘modular’ in many cases whilst some retailers’ supply chains have elements of relational links (Tallontire, 2009:1008). The transition from relational to modular governance structures in particular of the supply chains of retailers has made fairtrade more mainstream, but also prone to criticism. The ‘mainstreaming’ process threatens key elements of what is considered the original vision of Fairtrade. For instance fair-trade products might become associated with the bad reputation of certain distributors that might become less willing to simply engage with Fairtrade organizations on an arms-length basis (Reed, 2008). The move towards own-label Fairtrade brands by large corporate retailers, can – in this context – be seen as a first step to generate higher profit margins by increasing control over the supply chain, which is also compatible with the modular form of governance that primarily relies on meeting minimum standards (Reed 2008: 11). Another concern is the issue of 'parallel production', where a company becomes a fair-trade licensee, purchases only a small amount of the products but on the basis of its status as licensee and creates the image of a socially responsible 'Fairtrade company', while having only very small percentage of its sales as Fairtrade products (Reed, 2008:14).

The demand for accountability stimulates in particular lead companies to adopt standards and quality marks towards their suppliers (see sections 4 and 5). Standards are one way to describe what has to be produced, how, and by whom. Through codification, standards reduce the complexity of information transmission. Whereas standards used to describe (or prescribe) technical, tangible specifications and characteristics, current standards also include process characteristics, such as labour and environmental standards. Design and enforcement of standards is carried out by different actors, including both public and private actors. Governing (monitoring and enforcing compliance) is generally more complicated for process than for product standards as certain product and process qualities cannot be identified at the end product. As these qualities cannot be identified at the end-product, the process needs to be monitored. Products possessing unidentifiable product and process qualities were called 'credence goods' by Reardon et al (2001; Humphrey and Memedovic 2006: 4, 15; Gereffi et al 2005: 85). Standards are codified in certification systems to address what has to be conformed to and how, in which way this is verified and published, and what non-conformance would result in. In the case of external standards, buyers provide suppliers that are unable to conform in general assistance only when the suppliers are important (Humphrey 2004: 5).

3.2 Small farmers: upgrading dimensions

- The question on the fairness of the chain requires in particular an assessment of the effects of inclusion 'upstream' in supply chains of small firms and farmers – often referred to as 'small-holders'. Certainly when this is coupled to quality marks of often competing lead firms, can inclusion in international chains become a mixed blessing for suppliers. Suppliers can get 'locked into' chains that increase their dependence and limit their development possibilities. This represents both a theoretical as well as empirical challenge for research on effective chain management from a developmental perspective. One particularly interesting measure of success for supply chains is whether inclusion in global (commodity) chains leads to 'upgrading' possibilities for firms and farmers at the bottom of the chain. Upgrading is defined by Giulian et al (2005) as "innovation to increase value added". Schmitz and Knorringa (2000: 181) define upgrading as "means enhancing the relative competitive position of a firm". In light of global value chain analysis, upgrading can also define sustainability according to the following definition: "sustainability […] refers to the business upgrading opportunities that the retail supply chains offers to developing country suppliers" (Van Wijk et al., 2008:4). Five different types of 'up-grading' have been distinguished in the literature (Humphrey and Schmitz 2002a: 1020; Barrientos et al 2008: 7):

- *Process upgrading*: transforming inputs into outputs more efficiently by reorganising the production system or introducing superior technology
- *Product upgrading*: moving into more sophisticated product lines (which can be defined in terms of increased unit values)
- *Functional upgrading*: acquiring new functions (or abandoning existing functions) to increase the overall skill content of activities

- *Inter-sectoral upgrading*: firms of clusters move into new productive activities
- *Social upgrading:* enhancing the capabilities and entitlements of workers as social actors, and enhances the quality of their employment

The benchmark of 'upgrading' provides an interesting benchmark for economic and social success of value chains. But there is criticism as well. Van Wijk et al. (2008) for instance argue that upgrading not necessarily means moving up the chain, but rather means doing things different from competitors. It could thus be 'downgrading' as well. In addition it is noteworthy that upgrading to more value adding stages is not always preferred as it can bring more uncertainties. Taiwanese computer manufacturer Mitac, for example, chose not to move into product upgrading like competitor Acer, as it preferred the security of low profit margins above the insecurity of innovative products with potentially higher profit margins (Humphrey 2004b; Barrientos et al 2008). Kaplinsky (2000) argues that increased output and employment not necessarily can be defined as upgrading. Participation in the global economy is beneficial if it leads to sustainable income growth. A sustainable growth of income has not been practice for every developing country actor within a value chain. Kaplinsky uses the term 'immiserising growth' which "describes a situation where there is increasing economic activity (more output and more employment) but falling economic returns" (Kaplinsky 2000).
A special report of 'The Broker', a Dutch development journal (16 October 2009)[3], on the 'power of value chains' reveals, moreover, that the gains resulting from upgrading strategies can be unequally distributed. International value chains often excluded the most vulnerable farmers and women, whilst those who are included only "benefit marginally due to the unequal distribution of power, as well as failures of markets and governments" (The Broker 2009: 13). German research of the Development Institute in Bonn, shows that value chains are becoming more exclusive, due to the imposition of quality standards by those who control the chains, which effectively excludes small-scale producers from the chain. Laven (2009:16) explains how this works in practice as follows:

> "For example, fair-trade organizations aim to pay poor farmers a fair price for their produce, but membership of such schemes is often linked to land ownership. As a result, the benefits of fair trade often go to (male) landowners, and not to the migrant laborers and female farmers who do not have title to the land they work. Many development initiatives have attempted to benefit small producers by shortening value chains. In practice, this has resulted in the exclusion of middlemen, who may also be poor and may have difficulty finding alternative employment. Thus the weakest actors in the chain often enjoy very few opportunities to upgrade their business. However (…) given the right circumstances, small producers can be profitably included in value chains."

More appropriate conditions, in this view, have to be created by new types of governance and 'chain empowerment' of the marginal producers in the chain. Value chain analysis, in any case, involve power analyses. Leading authors like Humphrey and Schmitz (2001) re-iterate that adequate governance – and not only upgrading at the bottom of the chain – remains critical for establishing fair gains from globalization. Table 3 summarizes the general determinants and conditions for successful upgrading as specified in the literature.

3) See www..thebrokeronline.eu for more detailed accounts of the articles

Table 3 upgrading determinants

Upgrading determinants	Upgrading conditions
• Increased entry barriers leads to reduced competition and increased scarcity, which consequently leads to increased economic rents • Excellence in manufacturing • Effective learning and application of knowledge • Domestic and international supply of exportables • Income • Productivity • Intensification and extensification of farming • Processing opportunities • Sales • Employment and working conditions • Price development • Diversification	• Upgrading should be of interest for the lead firm from a profit or sustainability perspective • Support is required from lead firms, governments, extension services, NGOs, development agencies, or donor agencies • Competitiveness • Nature and processing requirements • Transportability • Size of the domestic market • Innovation • Firm size • Access to wealthy markets • International trade regulations • Control over capital resources • Available assistance • Investment in upgrading

Source: Olthaar, 2009

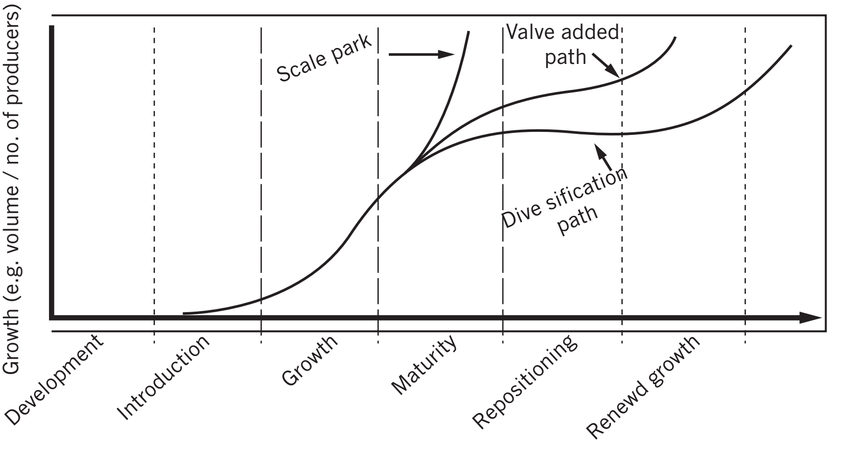
3.3 Value chain Development[4]

The concept of sustainable value chains is linked to the notion that such chains should be (come) self sustaining over time. That is, the facilitating role played by the partnership structure in providing ‘public goods’ and reducing uncertainty and risk in the chain should eventually give way to a more fluid structure whereby market mechanisms (e.g. purchasing agreements made on open markets) substitute for the partnership’s function as a tool for reducing uncertainty and risk.

This ‘dynamic’ view of partnership functioning in global value chain development can be linked to the life cycle of the chain. Standard life cycle approaches are used for understanding the market development and decline for a given product over time. A variation on this theme would be to consider the development of the chain over time. Given the notion that a self-sustaining chain should ultimately be able to function in international markets, it is possible to link the phases of chain development to the degree of insulation or exposure to changes in the market forces. Figure 2 illustrates this concept.

4) The section is drawn from De Boer et al. (2010), a ‘rough guide’ on partnerships for development in value chains; written for ICCO and Ecsad.

Figure 2 – A model of value chain development



For self-sustaining chains, considerable insulation from market forces is required in the early stages (development through growth) of the chain. A certain degree of stability and predictability is neccessary to reduce additional uncertainty for all parties in a venture that is by definition uncertain (the establishment of a new (international) value chain). In later stages, value chains can develop in different directions as they mature, depending on the opportunities present and the characteristics of the chain, its production base, market demand and the capabilities of actors in the chain. In general three paths can be realized: the **scale path**, based on greater volumes which lead to the possibility of reductions in per-unit costs; the **value added path**, based on forward integration in the chain by producers into additional value-adding functions like processing; or the **diversification path**, whereby potential synergies are explored in terms of additional commodities linked to existing crop rotation strategies etcetera. The key lesson from the literature is that partnerships between NGOs and companies to obtain more sustainable value chains, must be based on an explicit vision of chain development.

4. Between regulation and self-regulation: setting new rules of the game?

The extent to which good intentions of lead companies and retailers can be operationalized in actual good practices, depends on the question to which the ‘rules of the game’ (institutions) can effectively be changed. Global supply chains, however, are difficult to regulate. At least that is what governments around the world experience. Strict rules on the ethical nature of imports are quickly considered as ‘trade restrictions’ or ‘protectionist’ measures. The only international body that looks at the conditions of international trade is the World Trade Organization (WTO), which primarily tries to make sure that trade is free, not necessarily ‘fair’. Other inter-governmental organizations like the OECD or the United Nations have initiated codes and accreditation programmes, that nevertheless remain largely voluntary. Across borders, the prime role is played by companies and two types of informal institutions or voluntary measures to implement fair supply chains: codes of conduct and quality marks or labels. These are ways in which companies can try to make supply chains more fair and communicate this to end-consumers. The experience until now in these areas is rather mixed, however.

4.1 Supply (external) codes of conduct

Codifications are triggered by *intrinsic* motivations such as the greater moral space available for MNEs (Donaldson and Dunfee, 1999), as well as by the greater strategic need to coordinate and control the firm's activities spread over a large number of countries and constituencies (Mamic, 2005). This is often the area of 'internal codes of conduct' or 'codes of ethics'. The strategic need for the formulation and implementation of external codes of conduct as a coordination mechanism becomes bigger when firms engage in sourcing out activities to dependent affiliates (off shoring) or to independent suppliers (outsourcing) in developing countries, where the governance quality is often relatively low and the cultural and institutional distance (Kostova and Zaheer, 1999) is relatively high. A large number of (procurement) codes thus addresses supply chain issues such as human rights, labour standards or the right to association (Carter, 2000; Emelhainz and Adams, 1999). In this case firms have an incentive not only to formulate codes of conduct, but also to implement them. *Extrinsic* motivations for MNEs are gaining in importance as well: the risk of reputation damage triggered by critical NGOs precipitates MNEs to formulate international codes of conduct or principles of 'corporate citizenship'. In case the main motivation is due to actual and/or perceived stakeholder action in the home country, MNEs might have an incentive to formulate, but not to implement these codes – as long as the code itself is sufficient to keep criticasters at bay.

Inactive and re-active codes represent a 'liability' approach towards the management of international supply chains, in which the interaction with stakeholders generally is one of confrontation and/or evasion. Pro-active codes require an active involvement of stakeholders. Expanding international supply chains have raised questions concerning the scope of corporate liability, both under legal and moral rules. To what extent can firms be held liable for deficiencies in a final product due to supply irregularities, or for labor conditions in the supply chain that produced these products, and what kind of codes can be formulated to manage this process? The existing literature on chain management stresses liability issues and legal requirements in the home country as trigger for CSR strategies (Snir, 2001; Preuss, 2001). Others stressed that arm's length relationships with suppliers are no longer accepted (Philips and Caldwell, 2005), but the extent to which this could lead to more active strategies and codes has been disputed. Mamic (2005) concluded that more extended supply chains create bigger implementation problems, whereas Maloni and Brown (2006) found that some issues were more easy to address than other issues – such as for instance wages. Sobczak (2006) concluded that with the broadening of the circle of persons that is involved in the setting of new norms, processes of change could be speeded up, but also that labor and employment law gets replaced by consumer and commercial law. At the same time he warns for the rather arbitrary character of consumer involvement in labor issues. The randomness of reputation amongst consumers as driver for moral responsibility is also confirmed by Roberts (2003). Most of these supply chain studies do not differentiate between the various CSR strategies.

Box 1 - Supermarkets making the supply chain more sustainable? Global Social Compliance Programme

The first time that global retailers rather than global brands or manufacturers create a common set of standards for the supply chain. By the end of 2006, the world's largest retailers agreed on a unified set of workplace standards aimed at eliminating problems such as child labor and unpaid wages in their vast global supply chains. Wal-Mart, Tesco, Carrefour and Metro – the world's four largest supermarket chains, with more than $500bn (€384bn) in aggregate annual sales – have been working with Migros, the largest Swiss retailer, to develop a draft code of standards called the Global Social Compliance Programme.

The programme includes standards drawn from the companies' existing codes of ethics and will also set out goals aimed at standardising a range of competing monitoring initiatives to combat "audit fatigue" among suppliers.

"The ultimate objective is to improve conditions in the supply chain," said Alan McClay, chief executive of CIES, an international association of food retailers and suppliers that is heading the initiative.

The code will cover both food and non-food production for retailers and brands – making it potentially the most sweeping initiative since the emergence of the supply-chain monitoring movement a decade ago.

However, it has received a cautious response from labour rights advocates concerned they have not been consulted in the formation of the initiative, and are excluded from a direct role in its governing board. Ineke Zeldentrust, of the Clean Clothes Campaign, one of the largest European anti-sweatshop groups, said she would welcome efforts by the large retailers to address supply-chain issues "but what I see now is a talking shop. We'd like to see them actually join one of the better existing initiatives and actually implement their codes . . . What we don't need is another platform to discuss codes or standards."

CIES's board approved the new draft code in December. Mr McClay said details would be made public in a month or so.

The involvement of Wal-Mart is the latest sign of the company's drive to improve its reputation on social and environmental issues.

Financial Times, 11 January 2007

4.2 Quality marks, labelling and accreditation

Company efforts can be made recognisable for consumers by means of a quality mark, label or certificate. Such a quality mark or label enables a company or a group of companies to communicate its commitment to society and provide stakeholders with information on the quality and contents of products. There is great diversity and enormous overlap among quality marks and labels (cf. Quak, 2009). There are sector quality marks, labour condition quality marks (Oké bananas, Fair Wear, Rugmark, Fair Trade), production conditions quality marks (FSC certificate, Rainforest Alliance), recycling or organic quality marks (Eco – O.K.), human resources policy quality marks (Investor in People) and product quality marks. CSR related quality marks are often classified as 'idealistic quality marks'. A small country like the Netherlands alone boasts about a hundred 'idealistic' quality marks and an additional one hundred green logos. Europe has about thirty international eco labels.

In the face of such diversity in quality marks, the potential is great that the consumer may not be able to see the wood for the trees. Moreover, due to the large number of quality marks, the instrument is threatening to lose its force, as indicated by studies of the OECD (1997), which showed that generally, eco-labeling has been, at best, moderately successful with individual consumers. Research conducted in many countries shows that the majority of respondents did not know what the label actually meant. Every consumer can testify to this problem. Accreditation councils around the world inspect whether a label does what it promises, but not whether its promise also reflects the perception of consumers[5].

So it remains difficult to address a complicated CSR problem by means of a quality mark or label, not in the least because of lacking regulation. Some eco-labels are for instance awarded to a product if it is ‘one of the least environmentally degrading of its kind’, which may refer to anything from the production process or product properties to recycling. Other eco-logos that hint at the recyclability of a product fail to be clear on whether the product / the packaging is made of (supplied) recycled material or if the product / packaging itself can be reused. It is impossible for the consumer to establish which of these qualifications apply to the product.

Also, while almost every consumer knows what the Fair Trade or *Max Havelaar* labels stands for, some confusion surrounding these labels also exists. Consumers tend to be under the impression that Fair Trade is the manufacturer and not just the quality mark. In practice, a manufacturer could therefore ‘spoil’ the market for other manufacturers who use the same label. If the label is awarded also to other products, the potential for confusion between product characteristics and quality mark further increases.

In most countries, the issuing of marks or labels is subject to (some) regulation but in practice that does not do away with problems of overlap, diversity, confusing or inadequate information and a lack of international coordination. Effective control and international coordination, however, is exceptionally difficult. Control and coordination of CSR themes are essential, but quality marks hardly supply any information about this. National accreditation and certification Institutes appear not to have been able to curb the number of quality marks. And internationally too, there is hardly any evidence of coordination[6].

Confusion can also be deliberately created. In 1993, the issue of deforestation was first addressed by the FSC who introduced a global quality label. Following the early lead of this scheme, however, several regional forest certification schemes were set up. To a certain degree it can be interpreted as an authentic response to the alleged shortcomings of the label, but it can also be seen as an attempt to water down the original objectives of the FSC scheme. A large NGO (WRM) in the field characterizes the many competing certification schemes as the ‘greenwashing’ of logging activities. The rival certificates have increased the confusion surrounding sustainable logging and have probably withheld the FSC from formulating more stringent rules (in order not to loose its appeal as a leading label).

5) Labels around the world include a large number of ambiguous qualifications, for instance: biological (‘bio’) in a label is often not defined; ‘light’ is not specified in by the UK Food standards agency, ‘low fat’ is specified nowhere (at the same time it is usually quite easy to check on the package and compare with other products FM); On the other hand, all food sold as ‘organic’ in Europe must be produced according to European laws on organic production.
6) The Key mark introduced by CEN in the mid-1990s, to coordinate quality marks is not well established yet.

4.3 Dealing with information asymmetry: the ambiguous role of governments

Governments around the world clearly have difficulty in regulating labeling and codification initiatives. They are not willing or able to choose ‘the best’ label, whilst they also have problems in identifying relevant labels. This is representative for the ambiguous position governments have been taken due to de-regulation and privatisation pressure of the last 15 years. Dealing with so-called ‘information asymmetries’ in the market is normally considered to be one of the prime responsibilities of governments. Information asymmetries frustrate the effective operation of markets. Abundant and uncoordinated labeling creates a very specific form of information asymmetry which leads to flawed and sometimes misleading communication towards consumers.

Sometimes, governments try to take a midway position by providing information on labels to citizens / consumers. In practise, this proofs a difficult exercise. In the Netherlands, for instance, the ministry of Economic Affairs set up a “consuwijzer” website (www.consuwijzer.nl) to provide consumers with information on a selection of labels. The selection proofs very sketchy, based on self-submitted labels, with rather scant reference to the question whether the labels delivers what it is supposed to do, although only labels that passed the test of the accreditation council are allowed. The result is a very limited number of (approximately forty) labels in particular on ecology / recycling, sustainable and safe building, and ‘healthy’ food. Consumers that want to check the site to get advice on what to buy in order to contribute to sustainability, will not really be helped much. Moreover, the selection does not include any ‘fair trade’ labels at all. It proofs easier to show ecological (recycling) and health-oriented labels than fair-trade labels. In some instances, this is because governments do not want to make a choice for a particular brand. In fair-trade labeling, sometimes the label is the brand (cf. ‘Red’). In a letter to parliament in 2008, the state-secretary of Economic Affairs, gives a much more practical argument. He argued that there are not enough fair trade labels available to grant inclusion on the website. A quick scan of the fair trade labels and brands available the Netherlands at the moment, however, reveals that this is not really true (Figure 3). There are now initiatives to give information on these labels as well, but it is highly unlikely that the ministry will be able to provide adequate and selective information to create sufficient market transparency to facilitate fair trade to proliferate through labels.

Figure 3 — A selection of ‘fair trade’ labels and brands available to consumers

5. Between liability and responsibility: implementing strategic trajectories of change

What is the experience of lead companies until now? Have they been triggered by fairtrade initiatives to become more pro-active in their purchasing function? How to judge – for instance – the suppliers codes as introduced by leading retailers (box 1)? Motivaction research (PriceWaterhouse Coopers, 2009), found that 37% of companies in the Netherlands consider chain responsibility and CSR oriented purchasing policies relevant. This finding applies in particular to the largest companies. This finding corroborates with the move of leader/core firms towards more (pro)active forms of CSR in particular in their chain management – much less it seems in their marketing strategy. The purchasing power of leading firms in supply chains is sizeable and growing. This power can be used to cut prices and put pressure on the suppliers, but also to increase 'procedural justice' in the buyer-supplier relationship (cf. Fearne et al., 2005). A 'low price strategy' does not automatically imply that suppliers are treated unjust, with lower margins (ibid). Fearne et al. (2005:579) conclude that in the buyer-supplier relationship 'procedural justice' might be of greater concern for suppliers than 'distributive justice'. To what extent are leading companies moving from an inactive towards a more (pro)active supplier relationship? Research in this area struggles with the problem of distinguishing public-relations statements and the strategic intent of companies from their implemented (realised) strategies.

The purchasing function represents one of the most important dimensions of a corporation's CSR strategy (Carter and Jennings, 2002). This is the area of '*Purchasing social Responsibility' (PSR)*, '*responsible purchasing'* (Responsible Purchasing Initiative, 2006) or *'Socially Responsible Buying*" (SRB). PSR refers to the "strong desire of the purchasing organization to maintain a long-term relationship with suppliers" (Carter and Jennings, 2002: 39). Carter and Jennings (2002) and Carter (2005) have tried to research the impact of PSR on supplier performance and buyer-supplier relationships in the upstream supply chain. Although the research area is still in its infancy (Van Mil, 2007:104) many authors suggest that this relationship is (moderately) positive. Whether the relationship is influenced by forms of 'organisational learning' can only be supposed (Carter, 2005). Furthermore, there is no guarantee that firms that engage in PSR will improve their performance. It depends on specific 'competencies' of the firm (in relationship with its stakeholders/suppliers). Others (Marcus and Anderson, 2006) found for the retail food industry in specific that business and social competencies have different determinants. The build up of trust and reputation in the chain are important factors that influence the relationship (and ultimately the performance in the chain) and increase the ability of the retail company to coordinate the chain (Carter and Jennings, 2002).

So a more or less coherent strategy towards suppliers can be supposed to have a positive influence on the whole chain. Dynamic capabilities in the direction of social competencies will be enhanced by a broadened mission definition of the firm to include the concerns of a variety of different stakeholders (ibid: 39). In moving from an in-active to a pro-active CSR approach firms thus have to build up substantial own capabilities, develop chains on the basis of joint responsibilities (cooperate) with suppliers, which probably implies a changed mission. In terms of the geographical spread of suppliers, the more local suppliers are, the more they can be involved in this co-production strategy.

Table 4 Supplier relationships and CSR strategies

IN-ACTIVE ⟷ **ACTIVE**

RE-ACTIVE ⟷ **PRO-ACTIVE**

“Corporate *Self* Responsibility”	“Corporate Social *Responsiveness*”	“Corporate Social *Responsibility*	“Corporate *Societal* Responsibility”
Chains on the basis of prices only; strong competition for customers; active use of power position in chain; no systematic attention for e.g. labour conditions (prime responsibility of supplier)	Chains on the basis of prices and quality; suppliers are responsible for e.g. labour conditions	Chains on the basis of fair prices and high quality; suppliers are selected on the basis of their approach towards e.g. labour conditions	Chains on the basis of joint responsibilities; quality and prices are set together; definition of fair wages and labour conditions are based on consultation and strategic dialogues
Cost, control, risk aversion	Cost, control, quality	Control and quality	Co-development and quality
Only CSR that does not cost much (and does not result in higher purchasing prices)	Only CSR if needed and/or available (and does not resulting higher purchasing prices)	Upgrading according to own standards (cf. Van Wijk et al, 2008)	Upgrading according to joint and/or open standards (cf. Van Wijk et al. 2008)
Probably below 5% of purchases	Below 25% of CSR of purchases (maximum customers want)	Between 25-60% CSR of all purchases as aim	60-100% CSR as aim
‘buy’	‘make or buy’	‘make’	‘cooperate’
‘global’	‘global’	‘regional’	‘local’

Supplier’s codes of conduct strategy:

Internal codes	Specific supplier codes	General supplier codes	Joint codification initiatives: dialogues
Specificity: low	Specificity: high	Specificity: low	Specificity: high
Compliance: low	Compliance: low	Compliance: high	Compliance: low
Labels / trade-marks Labels initiated by governments or to specify product qualities; instrumental approach to labels	Labeling to prevent liability suits; no coordination of labels needed; identification of ‘worst-practice”	Ethical labels: only the best labels are relevant; no coordination needed; identification of ‘best-practice’	Interactive labels: joint development of ‘appropriate practice’ approach towards products and information assymetries

Chain Liability ⟶ | ***Chain Responsibility*** ⟶

Sources: Van Tulder et al. (2009a, 2009b).

Maignan, Hillebrand and McAlister (2002) – in their delineation of the road towards *Socially Responsible Buying (SRB)* – also see the pro-active approach towards SRB as the ultimate goal of corporations which implies a strong involvement of 'organizational stakeholders' (although relatively vaguely specified, with four types of SRB that are rather loosely defined: 'reactive', 'defensive', 'accommodative' and 'pro-active'). Table 4 gives the most important general indicators of the various (CSR) purchasing relationships (Cf. Van Tulder et al, 2009). Companies thereby face two types of trade-offs: (1) in attitude between an inactive and active stance, (2) in responsiveness between a re-active and pro-active approach. Inactive firms are often triggered to start-up a change trajectory due to pressure from societal groups. But this has also consequences for their mainstream supply/purchasing strategy. The more firms try to become active and pro-active in their supply strategy, the more they have to link this to other functions of the firms and align this with the interests of external stakeholders. By doing this firms move along a path of different types of 'CSR': from Corporate Self Responsibility towards Corporate Societal Responsibility. This implies very complex adjustment strategies that are not easy to obtain and attain. The willingness of lead firms to become more sustainable in their purchasing strategy is neither a sufficient nor a necessary condition for strategic change.

5.1 Lead firms and their strategies: examples

There is hardly any systematic research done on the actual chain strategies of leading companies. Table 5 gives exemplary statements of Fortune top 100 companies on the issue of fairness in their supply chain strategy.

The examples indicate that companies in producer-driven supply chains – like Ford Motor – have gone furthest in identifying their value chains as part of their competitive strategy and have felt inclined to create more transparency in assessing the impact of every part of their supply chains on economics, social and environmental factors. This feeds the idea that producer-driven supply chains will probably be relatively inactive or reactive towards sustainability. Only in case external stakeholders – like trade-unions - get involved in the formulation of supplier codes, do these firms adopt a more active stance (Cf. Van Tulder et al, 2009a). Global brands with high degrees of integration in the chain like Nestle that constitute a combination of producer-driven and buyer-driven value chains take an explicit and interesting stance on fair trade, by considering it synonymous with free trade.

Table 5 Exemplary statements of Top 100 Companies on their Supply Chain strategy (2009)

General Electric	"Global trade must be fair. From international labor and environmental standards to intellectual property rights to market transparency, all participants in the global economy must live by international rules of the road. Technical standards should not be used to bar access; governments should refrain from trade-distorting subsidies; and WTO decisions must be respected". GE viewpoint statement on fair trade at www.ge.com
British Petroleum	"We intend to develop our work with local suppliers and businesses, including planning to standardize the way we screen the human rights records of suppliers". British Petroleum Company sustainability report 2007 bp.com/sustainability pp 33.
Royal Dutch Shell	"Thinking globally does not mean that local suppliers miss out. We actively promote the use of local suppliers and contractors and train local companies to help them meet our standards, so they can compete for contracts." Royal Dutch Shell responsible energy report 2008.
Ford Motor Company	"Increasingly, we are bringing our understanding of a wide range of sustainability issues into the stages of our value chain. Environmentally, we are improving our manufacturing efficiency, cutting the emissions of our vehicles, designing vehicles with end of life in mind and increasing the recyclability of our vehicles and our use of recycled materials. Socially, we seek to strengthen the communities we're part of, expand the connections within them and improve our relationships throughout the value chain. Economically, we are trying to build our capacity to adapt and respond to the variety of challenges and opportunities present at every stage, meeting our customers' needs as well as our stakeholders' expectations". Ford Motor Company website: Our value chain and it's impact.
Vodafone Group	"Vodafone has been using Fair Trade products as corporate promotional items and gifts for employees and partners for a long time now." "Vodafone is also trying to promote the principles of Fair Trade to the general public. In August, through the company blog, it held a contest with Fair Trade products as prizes. The objective was to raise awareness about Fair Trade products and to engage the public in discussion. Vodafone also uses Fair Trade packages as commemorative items at various conferences on a regular basis." Vodafone website under Media Relations 16 October 2008
	"We use our influence to encourage suppliers to provide more products with a reduced environmental impact. This helps stimulate the market for these goods. For example, we have purchased energy-efficient shuttle buses for employees working at our Newbury HQ and we buy Fair Trade coffee for our cafes." Vodafone website under Corporate Responsibility à Supply chain 2009

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Electricité De France	“The 2005 global Corporate Social Responsibility Agreement established the group’s commitment with respect to its subcontractors and provided a framework for consistent relations with these companies and their service providers, with a view to social and environmental responsibility” Electricité de France sustainable development report 2008 pp39 + pp40
Wal-Mart Stores	“We are purchasing more produce from local farmers and purchasing products that are grown and produced by people who use sustainable practices in their business. Our goal at Wal-Mart is to have a long-term supply of reliable agricultural and seafood products harvested in a sustainable way.” “We carry 8 coffees under our exclusive Sam’s Choice brand that are either Organic Certified, Fair Trade Certified or Rainforest Alliance Certified, and we also carry two Member’s Mark coffees at Sam’s Club that are Fair Trade Certified. Customers and Members get gourmet coffee at a great value while farmers, their communities and the environment all benefit.” “Achieve 10 percent traceability of all diamonds, gold and silver in jewelry sold in Walmart U.S. from mines, refineries and manufacturers, meeting ethical sourcing standards and responsible mining criteria by 2010.” Wal-Mart sustainable part of the website
Volkswagen	“Volkswagen is the only automotive company among the winners in the “Germany’s most sustainable brand” category. Among other things, the jury praises the Volkswagen Group’s sustainable supply chain, anti-corruption initiatives and ethical guidelines.” Volkswagen sustainability report 2009/2010 pp 16
Nestlé	“these days, you see the label on international brands. The implicit message is that normal trade is not fair. Apparently, this implicit message is not a matter of concern for those from mainstream business who use the label to appease some critics. FREE TRADE IS FAIR TRADE.” P. Brabeck-Letmathe, CEO of Nestlé S.A. – Chief Executives’ Club Luncheon speech
[Starbucks]	We’re committed to 100% grown ethically and traded fairly by 2015 Starbucks is the largest buyer of Fairtrade products at the moment

Buyer-driven firms – in particular in the retail industry, but the oil industry is another candidate – are often most explicit in their efforts to buy ‘local’. They also choose to link the fairtrade image to their corporate brands. Wal Mart is a clear example of that. This feeds the idea that buyer-driven supply chains are inclined to take a relatively re-active stance towards global fair trade, unless they are able to couple this to their marketing strategy and can tap in on fairtrade interested consumers. Service oriented firms like Vodafone provide an interesting illustration of yet another inactive / reactive approach towards fair trade, by primarily stating that fairtrade products are used in the cantine.

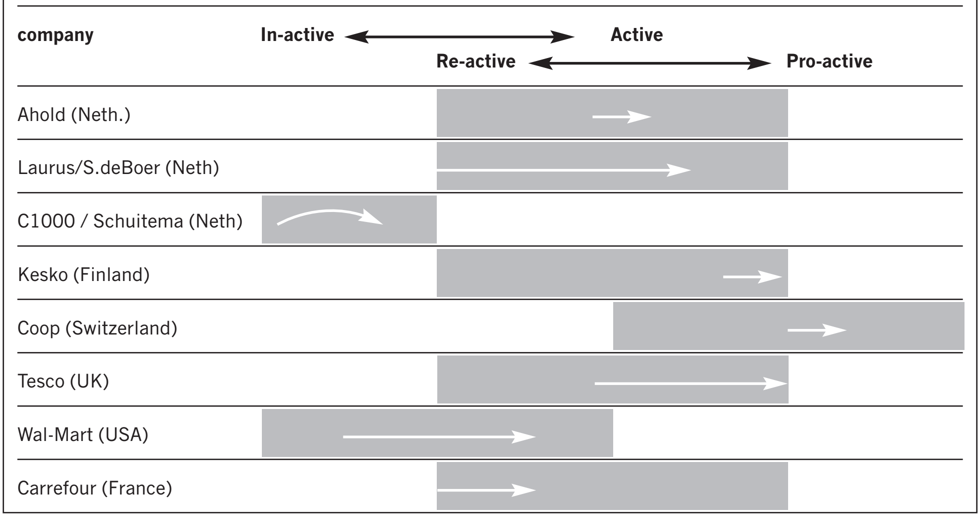
Fairtrade, thus, becomes part of Human Resource Management and internal logistics, but not of the purchasing or marketing strategy. International trade-driven firms or smaller buyer-driven firms, however, are the most clear candidates for an integral approach to fairtrade. With these companies – Starbucks is a prime example of this approach – the ambition towards full-scale and pro-actively implemented fairtrade is most prominent. In particular corporate branding plays a role with this type of lead firms. The label becomes the brand

5.2 Indifferent consumers or ambiguous retailers?

Not many international chains are dominated by consumers. Even demand-driven supply chains have retailers or brands as lead actor not consumers. This might explain partly for the discrepancy between the declared intentions of consumers and what they actually do in terms of sustainable consumption. Motivaction research in the Netherlands for instance indicates that 24% of consumers opt for more sustainable products, but the actual purchasing behavior falls sharply short of that. In France, surveys indicate that between 25% and 40% of the consumers make purchasing decisions according to ethical or environmental reasons. 17% even agrees to pay more for ethically produced products (CREM, 2009). However, in practice sustainable clothes for instance only account for about 5% of the total retail sector sales in most countries around the world. In countries where retailers have become more active in propagating fair trade products as ‘mainstream’ there are indications that fair-trade indeed reaches its much higher market potential.

In applying the framework of Table 4 to the supply strategy of leading retail firms around the world, the following transition picture emerges (Figure 4). In the 1995-2008 retailers have been moving in the direction of more active chain strategies, but not all and not all enthusiastically. All retailers see for instance food safety as a prime area for very strict quality codes and control. This strategy can at best, however, be seen as an active approach. Only in case active support of sustainable suppliers’ coalitions such as the Marine Stewardship Council exists, can one speak of a more (pro)active approach. As regards fairness in supply chains, the position diverges strongly. In some countries, the preconditions for more active supply chain strategies are clearly more positive. Examples are Finland, Switzerland and the United Kingdom. In these countries, the preconditions for rapid progress towards more active and more fair supply chains are considerably better than in other countries. It allows retailers indeed to go quicker for chance in their supply strategies. In other countries, like the Netherlands, the competitive environment – in which retailers for instance compete on the basis of continuous price ‘wars’ – can be considered more detrimental for quick progress in the area of fair trade (not necessarily in other areas like ecological food). This points also at the influence of other stakeholders like shareholders and governments. Interestingly, sometimes private companies under these circumstances are better able to ‘go for fair’ than public companies. What looks like a step in the right direction (box 1) with retailers coordinating their supplier’s codes of conduct, in practice sometimes need to be interpreted as a much more modest step towards a re-active approach, as in the case of Wal-Mart and/or Carrefour.

Figure 4 — Transition trajectories in purchasing strategies of leading retailers (1995-2008)



Source: based on Van Tulder et al. (2009b)

The result of the above transition strategies is that the United Kingdom and Switzerland in particular seem to be leading in implementing the idea of fair trade, or 'chains for change'. The United Kingdom represents the largest and most diversified Fairtrade market in the world with a range of 3000 Fair-trade certified products. The main retailers for the Fairtrade products are Sainsbury's, Co-op, Waitrose, Marks& Spencer and Tate& Lyle. The situation is described by industry analysts as 'very encouraging' because some power brands that previously did not want to participate now 'want to engage' (Contrasting national profiles, 2008) .The largest retailer of Fairtrade in the UK is Sainsbury's, with 700 Fairtrade products and annual total social premium of $12 million, which is distributed among the developing countries (CR report Sainsbury's, 2009: 17). Moreover, Sainsbury's also sells most Fairtrade bananas in the UK and the goal by 2010 is to have 100% of own brand tea and roast and ground coffee to be Fairtrade (CR report Sainsbury's, 2009: 17). Tesco has comparable ambitions.

Measured as per capita spending on Fairtrade products, Switzerland finally takes the first place with EUR 18, which is considerably ahead of any other market in the world. According to industry analysts, this position is due mainly to the early commitment of the county's largest food retailers- Migros and Coop, which put Fairtrade "in the mainstream from the beginning" (Contrasting national profiles, 2008). Coop posted sales of 135 million francs and is by far the biggest licensee of the Max Havelaar Foundation and is one of the leading marketers of Fairtrade products. (Coop Sustainability report, 2008).

6. Conclusion: an action and research agenda

This position paper revealed that the topical area of 'chains for change' is still surrounded by major analytical, conceptual, empirical, strategic and political ambiguities. The area is nevertheless slowly emerging into very promising directions, but is still in its infancy. This implies that the development of effective strategies by either lead companies, small producers, governments and/or consumers is a difficult task. One of the biggest problems has been to assess the nature of international chains and develop feasible change strategies. One of the biggest problems, thereby, has been that neither consumers nor governments have been considered particularly relevant as change agents. Whether this holds true – either in a descriptive or prescriptive sense – is open for further debate and research. Notwithstanding these questions, the role of lead / core firms in global value chains stands out as vital. Not many of these lead firms have developed active or pro-active strategies yet. So there is still a 'world to be gained'. This paper has identified a number of the most important trade-offs and dilemmas that have to be addressed by researchers as well as business strategists and policy makers. This leads to the following 'balancing acts':

- Balancing supply and demand in chain participants and between retailers and consumers
- Balancing inclusion and exclusion of smaller suppliers and intermediaries
- Balancing selection and upgrading: using quality marks and labels not only as a tool of selection, but of sustainable development
- Balancing over-regulation and chaos: overcoming information asymmetries in markets by either appropriate government policies or coordinated private action
- Balancing go-it-alone and cooperation: forming alliances with relevant stakeholders to come to 'procedural justice'
- Balancing national politics, policy and responsibilities in an international context

The following questions for each of four relevant actors remain relevant:

Governments:

- Should governments be more clear about the meaning of labels and trade-marks for sustainability? How to solve existing information asymmetries: through regulation, self-regulation or something else ('smart regulation'?)
- Should you try to make trade fair also at the macro-economic level: i.e. what about the WTO mandate for free trade; should it be transformed into a broader mandate for 'faire trade' or should maybe other organisations take up this task; the FAO for instance?
- Agricultural policies by the US and the European Union frustrate the operations of commodity chains; what can be done to give developing countries a fairer chance for access to developed regions?
- Effectiveness of development aid: should 'upgrading' of local entrepreneurs become an official benchmark for success?
- Are partnerships a necessary and sufficient condition for development in international (commodity) chains?
- Government is one of the biggest consumers. How do they use their own purchase policy to stimulate sustainable chain management?

Firms:

- How to move more quickly towards a pro-active approach?
- Under what conditions will partnerships with NGOs create a more favourable climate for change towards sustainability?
- Include Upgrading possibilities in your value chain approach: what about exclusion of weaker groups like women, minorities, smaller firms. Is that a problem?
- How to deal with the chaos in labeling initiatives? Should you define your own label as a Unique Selling Point or try to coordinate that in order to create more transparency towards consumers?
- Waiting for consumers to formulate effective demand or taking own action? What alternatives – for instance of 'coproduction' and/or 'co-consumption' - are there?
- How is marketing (telling a big story) affecting sustainability (telling a realistic story). Is CSR-marketing a threat (green washing) or a chance (communicating commitment)?

Civil society:

- Is it acceptable that companies are not able to support the demands from increasing numbers of consumers to provide them with more sustainable choices?
- How to effectively create empowerment at the lower end of the chains?
- How to deal with the potential exclusion of marginal groups as the consequence of particular fairtrade initiatives
- Can civil society as 'consumer' take up different responsibilities than civil society as 'citizens'? How can civil society create greater transparency in markets?
- Is it possible for NGOs to create a partnership with lead firms to make chains more sustainable? What are the conditions of success?

Science:

- Mapping global value chains in more detail is still a problem in a world that is oriented towards national economies.
- Understanding the determinants and preconditions for upgrading: action research might be needed to fully develop strategies for entrepreneurs at the low end of the value chain; more systematic research is needed.
- Developing partnerships in particular between NGOs and lead firms: what are the preconditions of effectiveness?
- Governance research could lead to innovative ways to govern global value chains and solve information asymetries (smart regulation)
- Further develop the concept of 'core firms' and/or 'lead firms': what repertoire of action can they develop to become pro-active agents of change towards more sustainable value chains?
- Methodology: case studies often prevail for obvious reasons; so the challenge is how to move from individual case study research to more generalisable research methods.

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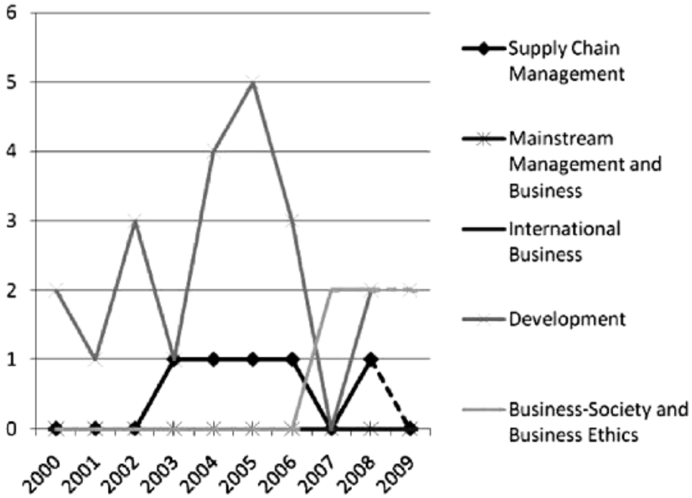
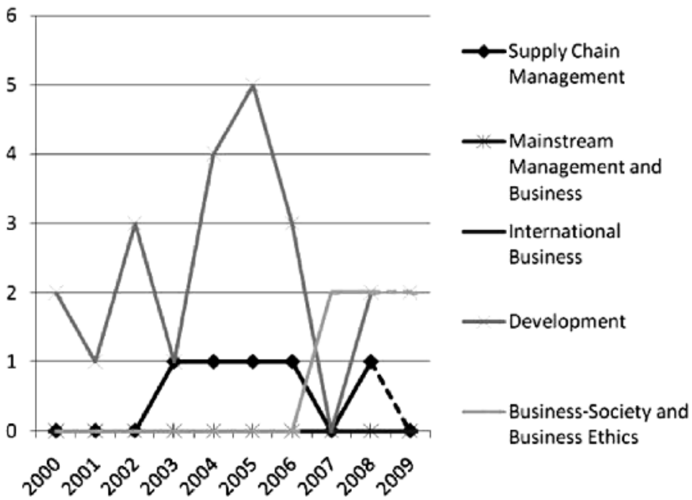
Annex A Topics in the scientific literature: Quotes (2000-mid-2009)

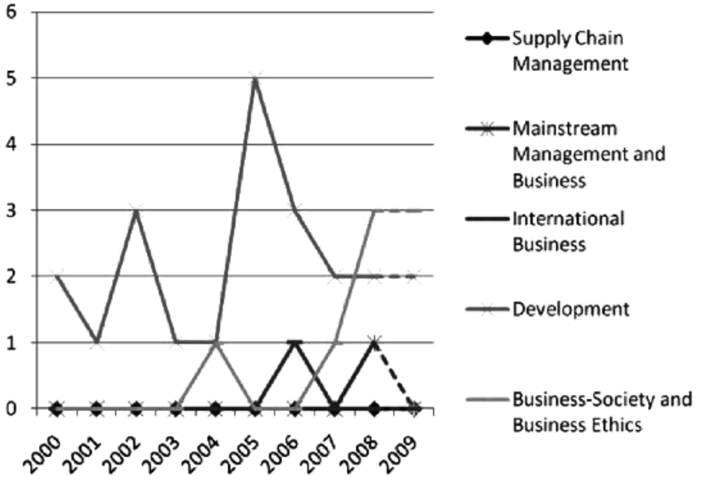
[1] "Chain Responsibility"



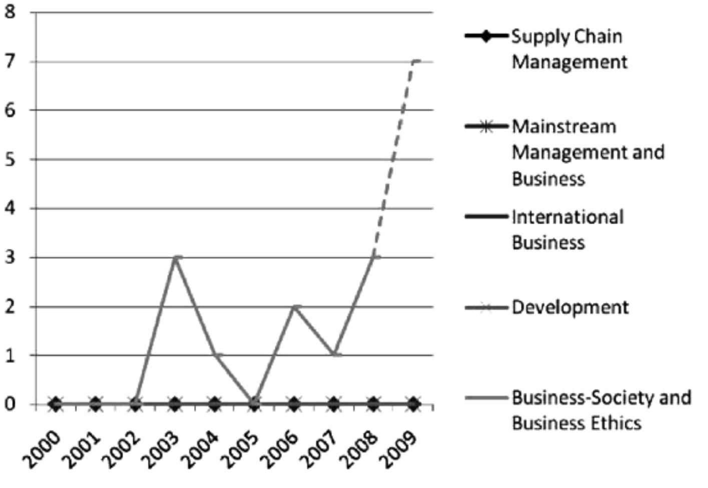
[2] 'Fair Trade'



[3] "Commodity Chain" AND "labels"



[4] "Max Havelaar"



MAX HAVELAAR LECTURE

GLOBAL VALUE CHAINS AND SUSTAINABLE DEVELOPMENT

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I. Introduction[7]

In the 1990s, a new framework, called global commodity chains (GCCs), tied the concept of the value-added chain directly to the global organization of industries (Gereffi and Korzeniewicz 1994; Gereffi 1999, 2001). The insight that emerged from this work was the growing importance of global buyers (mainly retailers and brand companies, or "manufacturers without factories") as key drivers in the formation of internationally dispersed production and trade networks. I contrasted these "buyer-driven" chains to what I termed "producer-driven" chains (Gereffi 1994), which are the production systems created by vertically integrated transnational manufacturers in capital- and technology-intensive industries such as automobiles, aircraft, and advanced machinery. Buyer-driven commodity chains were essential to the rise of East Asia's export-oriented economies (Hamilton and Gereffi 2009), and they highlighted the significance of design and marketing in the activities of global production systems. It drew attention to the diverse range of economic actors that could exercise significant power on both the supply side and demand side of global production and distribution networks.[8]

The "global value chain" concept has recently gained popularity as an overarching label for this body of research because it focuses on value creation and value capture across the full range of possible chain activities and end products (goods and services), and because it avoids the limiting connotations of the word "commodity," which to some implies the production of undifferentiated goods with low barriers to entry. Like the GCC framework, global value chain (GVC) analysis highlights the international expansion and geographical fragmentation of contemporary production networks, and focuses primarily on the issues of industry (re)organization, coordination, governance, and power in the chain (Humphrey and Schmitz 2001). Its concern is to understand organizational

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7) The research assistance of Joonkoo Lee of Duke University in the preparation of this article is gratefully acknowledged.
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8) The GCC approach adopted what Dicken et al. (2001) call "a network methodology for understanding the global economy." The objective is "to identify the actors in these networks, their power and capacities, and the ways through which they exercise their power through association with networks of relationships."

reconfiguration taking place in global industries and its consequences. The GVC approach also explores the broader institutional context of these linkages, including trade policy, regulation and standards.[9]

The GVC approach analyzes the global economy from two contrasting vantage points: top down and bottom up. The key concept for the top down view is the "governance" of global value chains, which focuses mainly on lead firms and the organization of international industries; and the main concept for the bottom up perspective is "upgrading," which focuses on the strategies used by countries, regions, and other economic stakeholders to maintain or improve their positions in the global economy (Lee, 2010). One of the key findings of value chain studies is that access to developed country markets has become increasingly dependent on participating in global production networks led by firms based in developed countries. Therefore, how value chains function is essential for understanding how firms in developing countries can gain access to global markets, what the benefits from such access might be, and how these benefits might be increased.

The remainder of this contribution will highlight the framework that has been developed to analyze the governance of global value chains, and upgrading in the global economy will be illustrated by examining the cases of Mexico and China, which have both relied heavily on export-oriented industrialization, but with contrasting results in recent years. In addition, we will explore how the GVC framework can help us to approach the challenges of the triple bottom line of sustainable development – that is, to what degree can economic, social and environmental upgrading be combined by developing economies like China and Mexico, which are engaged in ever more intense battles to attain and sustain international competitiveness?

II. The Governance of Global Value Chains

Power is the ability of a firm or an organization to drive the direction of the value chain, and thus influence and control other firms in the chain. Power can come from any part of the value chain structure, and in many different forms. Within the chain, power is exercised by firms of different types and workers within firms. Outside the chain, power comes from the state and other institutions created by the enabling environment and consumers. Those in possession of industry power actively shape the distribution of profits and risk through their activities.

Within the chain, power at the firm level can be exerted by lead firms or suppliers. Lead firms can be producers or buyers in the chain. In *producer-driven chains*, power is held by final-product manufacturers and is characteristic of capital-, technology- or skill-intensive industries. In *buyer-driven chains*, retailers or marketers of the final products exert the most power through their ability to shape mass consumption via strong brand names. They source their products from a global network of suppliers located in the places most cost-effective to make their goods. Knowing if the lead firm in a chain is a buyer or a producer can help to determine the most likely upgrading opportunities for suppliers. For example, buyer-driven chains tend to provide more opportunities to their suppliers in product and process upgrading because the core competence of the buyers is in marketing and branding, and the suppliers are responsible for implementing and sometimes refining the specifications issued by the buyers (Gereffi 1999).

The connections between industry activities within a chain can be described along a continuum extending from the market, characterized by arm's length relationships, to hierarchical value chains

9) For an up to date review of this literature, see the links and approximately 500 publications listed at the Global Value Chains website, www.globalvaluechains.org.

characterized by direct ownership of production processes. Between these two extremes are three network forms of inter-firm governance: modular, relational and captive (see Figure 1) (Gereffi, Humphrey and Sturgeon 2005). Network-style governance represents a situation in which the lead firm exercises power through coordination of production vis-à-vis suppliers (to varying degrees), without any direct ownership of the firms.

Market: Market governance involves transactions that are relatively simple. Information on product specifications is easily transmitted, and suppliers can make products with minimal input from buyers. These arms-length exchanges require little or no formal cooperation between actors and the cost of switching to new partners is low for both producers and buyers. The central governance mechanism is price rather than a powerful lead firm.

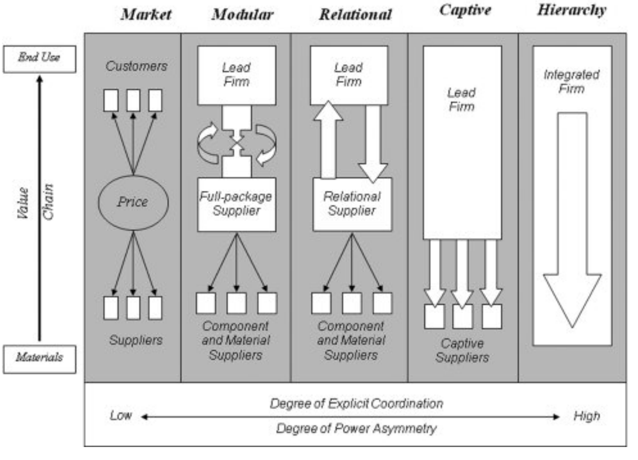
Modular: Modular governance occurs when complex transactions are relatively easy to codify. Typically, suppliers in modular chains make products to a customer's specifications and take full responsibility for process technology using generic machinery that spreads investments across a wide customer base. This keeps switching costs low and limits transaction-specific investments, even though buyer-supplier interactions can be very complex. Linkages (or relationships) are more substantial than in simple markets because of the high volume of information flowing across the inter-firm link. Information technology and standards for exchanging information are both key to the functioning of modular governance.

Relational: Relational governance occurs when buyers and sellers rely on complex information that is not easily transmitted or learned. This results in frequent interactions and knowledge sharing between parties. Such linkages require trust and generate mutual reliance, which are regulated through reputation, social and spatial proximity, family and ethnic ties, and the like. Despite mutual dependence, lead firms still specify what is needed, and thus have the ability to exert some level of control over suppliers. Producers in relational chains are more likely to supply differentiated products based on quality, geographic origin or other unique characteristics. Relational linkages take time to build, so the costs and difficulties required to switch to a new partner tend to be high.

Captive: In these chains, small suppliers are dependent on one or a few buyers that often wield a great deal of power. Such networks feature a high degree of monitoring and control by the lead firm. The power asymmetry in captive networks forces suppliers to link to their buyer under conditions set by, and often specific to, that particular buyer, leading to thick ties and high switching costs for both parties. Since the core competence of the lead firms tends to be in areas outside of production, helping their suppliers upgrade their production capabilities does not encroach on this core competency, but benefits the lead firm by increasing the efficiency of its supply chain. Ethical leadership is important to ensure suppliers receive fair treatment and an equitable share of the market price.

Hierarchy: Hierarchical governance describes chains characterized by vertical integration and managerial control within lead firms that develop and manufacture products in-house. This usually occurs when product specifications cannot be codified, products are complex, or highly competent suppliers cannot be found. While less common than in the past, this sort of vertical integration is still an important feature of the global economy.

Figure 1: Five Types of Value Chain Governance Structures



Source: Gereffi, Humphrey and Sturgeon (2005:89)

Figure 2: Dynamics in Global Value Chain Governance

Governance Type	Complexity of transactions	Ability to codify transactions	Capabilities in the supply-base
Market	Low	High	High
Modular	① High ②	High ④	High
Relational	High	③ Low	⑤ High ⑥
Captive	High	High	Low
Hierarchy	High	Low	Low

① increasing complexity of transactions (harder to codify transactions; effective decrease in supplier competence)
② decreasing complexity of transactions (easier to codify transactions; effective increase in supplier competence)
③ better codification of transactions (open or de facto standards, computerization)
④ de-codification of transactions (technological change, new products, new processes)
⑤ increasing supplier competence (decreased complexity, better codification, learning)
⑥ decreasing supplier competence.(increased complexity, new technologies, new entrants)

Source: Gereffi, Humphrey and Sturgeon (2005:90)

The form of governance can change as an industry evolves and matures, and governance patterns within an industry can vary from one stage or level of the chain to another. Therefore, we need to to beyond a descriptive typology of governance categories to a parsimonious explanation of the conditions under which various types of governance emerge and change over time. A theory of GVC governance has been posited that accounts for the five governance types illustrated in Fiture 1 with different combinations of three key variables: the *complexity* of information the production of a good or service entails (design and process); the ability to *codify* or systematize the transfer of knowledge along the chain; and the *capabilities* of existing suppliers to produce efficiently and reliably (see Figure 2) (Gereffi, Humphrey and Sturgeon 2005:85-87).

Information complexity refers to the intricacy of information and knowledge that must be transferred to ensure a particular transaction can occur. This is important because suppliers working with complicated product and process specifications are more difficult to control and coordinate, which increases switching costs. This effort can be reduced through standardization and codification.

Information codification is the extent to which complex knowledge is converted into industry-wide standards or situation-specific information that can be efficiently transmitted along the chain at a minimal cost. Developments in information technologies enabling better logistics management, such as electronic data interchange (EDI), radio-frequency identification (RFID), or computer-aided design (CAD), allow complex data to be easily handed off between value chain partners.

Supplier capability refers to the ability of suppliers to meet all transaction requirements. These may include quantity and quality specifications, on-time delivery, or environmental, labor and safety standards. Suppliers need access to support services such as input supply, equipment maintenance and upgrades, reliable transportation, and certification assistance to develop new capabilities. If affordable and effective services are not available from supporting markets, suppliers will rely more heavily on buyers to meet these needs and vice versa.

If any of these three variables change, then value chain governance patterns tend to shift in predictable ways. For example, if a new technology renders an established codification scheme obsolete, modular value chains are likely to become more relational; and if competent suppliers cannot be found, captive networks and even vertical integration will become more prevalent. Conversely, rising supplier competence might result in captive networks moving towards the relational type, and better codification schemes set the stage for modular networks.

III. Industrial Upgrading and International Competitiveness

Since the 1970s, the international economy has evolved through a combined process of outsourcing and offshoring that has been termed "global sourcing." In their continuing quest for lower costs and higher profitability, U.S. branded manufacturers began to emphasize marketing and design over production; initially they moved their manufacturing subsidiaries to lower cost locations within the United States (e.g., relocating factories from the Northeast and Midwest to the South) and eventually to overseas locations like Mexico, the Philippines and East Asia. Soon retailers (like Sears, Kmart and JC Penney) and marketers (such as Nike, Reebok, and Liz Claiborne) joined the global sourcing game, and they provided a flood of orders to contract manufacturers in East Asia's export powerhouses, such as Hong Kong, Taiwan, South Korea, Singapore, Vietnam, and eventually mainland China (Gereffi 1999; Hamilton and Gereffi 2009).

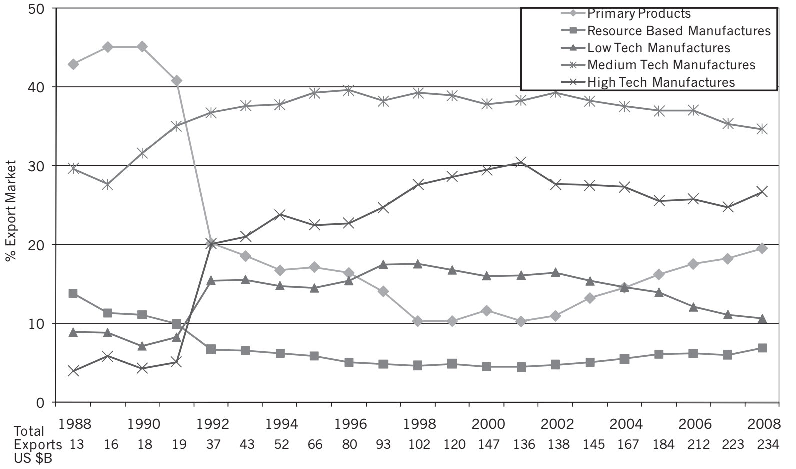
Industrial upgrading refers to the process by which economic actors – nations, firms, and workers – move from low-value to relatively high-value activities in global production networks. Different mixes of government policies, institutions, corporate strategies, technologies, and worker skills are associated with the upgrading process. However, we can think about upgrading in a concrete way as linked to a series of economic roles associated with production and export activities, such as: assembly, original equipment manufacturing (OEM), original brand name manufacturing (OBM), and original design manufacturing (ODM) (Gereffi 2005:17). This sequence of economic roles involves an expanding set of capabilities that developing countries must attain in pursuing an upgrading trajectory in diverse industries.

One of the ways that we can assess industrial upgrading for export-oriented economies like Mexico and China is to look at shifts in the technology content of their exports over time. We divide each country's exports into five product groupings, which are listed in ascending levels of technological content: primary products, resource-based manufactures, and low-, medium-, and high-technology manufactures.[10]

In 1988, over 50% of Mexico's total exports to the U.S. market were primary products, the most important of which was oil (see Figure 3). In 1993, one year prior to the establishment of the North American Free Trade Agreement (NAFTA), medium-technology manufactures (mainly automotive products) and high-tech manufactures (largely electronics items) moved ahead of raw materials in Mexico's export mix. By 2008, over 60% of Mexico's exports of $234 billion to the U.S. market were in the medium- and high-technology product categories, followed by primary products (which rebounded from their nadir of 10% of total exports in 2001) and low-technology manufactures (such as textiles, apparel, and footwear). Thus, in two decades, Mexico's export structure was transformed from one based on raw materials to one dominated by medium- and high-technology manufactured items. This pattern of rapid industrial growth would have been labeled a clear success story in terms of conventional development theory, but international competitiveness in the contemporary global economy is highly elusive and difficult to sustain, as the comparison of Mexico and China demonstrates.

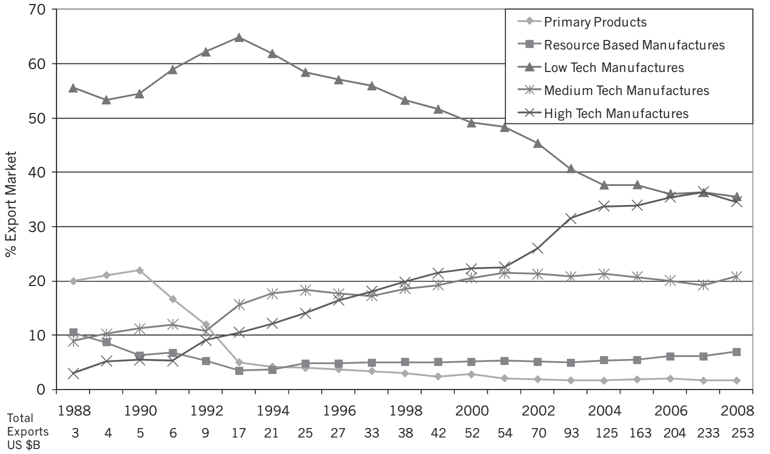
10) Sanjaya Lall (2000) developed this technological classification of exports based on 3-digit Standard International Trade Classification (SITC) categories. His article provides the detailed list of products under each category.

Figure 3: Composition of Mexico's Exports to the U.S. Market, 1988-2008



Source: UN Comtrade (http://comtrade.un.org/db/dqBasicQuery.aspx), Nov 2009

Figure 4: Composition of China's Exports to the U.S. Market, 1988-2008



Source: UN Comtrade (http://comtrade.un.org/db/dqBasicQuery.aspx), Nov 2009

In Figure 4, the composition of China's exports to the U.S. market during the 1988-2008 period is highlighted. Unlike Mexico, the leading product category in China's exports to the U.S. market was low-technology manufactured goods. These were primarily made up of a wide variety of light consumer goods supplied in buyer-driven chains – apparel, footwear, toys, sporting goods, house - wares, and so on. These products accounted for about two-thirds of China's overall exports to the United States in the early 1990s. By 2008, however, high-technology exports from China had increased their share to 35% of China's overall exports to the U.S. market, and were poised to pass low-technology exports for the top spot in China's export mix.

Mexico and China have a number of commonalities in their export trajectories to the U.S. market during the past two decades. Both are diversified economies, with a range of different types of export products. In both cases, manufactured exports are more important than primary product or resource-based exports; within manufacturing, high- and medium-technology exports are displacing low-technology goods. While these export data have limitations as indicators of industrial upgrading,[11] both economies appear to be increasing the sophistication of their export structures.

A more detailed look at the international trade data, however, shows that since 2000, China is beating Mexico in head-to-head competition in the U.S. market. Table 1 identifies six of the leading manufactured products in which China and Mexico are significant U.S. suppliers. In five of these products, Mexico's share of the U.S. market was greater than China's in 2000; by 2008, China had wrested the lead from Mexico in all but one of these items. In automatic data processing machines (SITC 752), for example, China's share of U.S. imports increased nearly fivefold from 11.3% in 2000 to 52.7% in 2008. In telecommunications equipment (SITC 764), China's market share more than tripled from 10.3% to 40.3%; and in electrical machinery (SITC 778), it more than doubled from 11.9% to 28.9%. Only in auto parts and accessories (SITC 784) did Mexico expand its lead in the U.S. market over China.[12]

11) The main problem with these export data is that they are not sufficiently detailed to tell us about the process by which these products are made. Auto parts or electronic components, for example, could still be made in labor-intensive ways by relatively unskilled workers. Thus, industrial upgrading cannot be assured just by moving in the direction of medium- or high-technology finished products. However, it is probably true that the relative proportion of high-value activities goes up as we move from low-technology to medium- and high-technology export categories.

12) These findings are consistent with the results of Gallagher et al. (2008:1370), which show that in the 2000-2005 period, over half (53%) of Mexico's exports were under "direct" threat (when Chinese exports in the same sector grow and Mexican exports decline) or "partial" threat (when Chinese exports grow faster than their Mexican counterpart) from China.

Table 1: Mexico's and China's Competing Exports to the United States, 2000-2009

SITC	Product		2000 Value (billions)	2000 Share of US market	2009 Value (billions)	2009 Share of US market	Change in Market Share 2000-2009
752	Automatic Data Processing Machines and Units	Mexico	6.4	11.5	7.0	13.1	1.6
		China	6.3	11.3	32.0	59.9	48.6
		US Total	55.9		53.4		
764	Telecommunications Equipments and Parts	Mexico	9.1	20.6	12.9	16.3	-4.3
		China	4.6	10.3	30.7	38.8	28.5
		US Total	44.3		79.1		
778	Electrical Machinery and Apparatus	Mexico	3.1	18.3	3.8	19.9	1.6
		China	2.0	11.9	6.2	32.5	20.6
		US Total	17.1		19.1		
784	Auto Parts and Accessories	Mexico	4.6	16.3	7.8	26.3	10.0
		China	0.4	1.5	3.1	10.4	8.9
		US Total	28.4		29.7		
821	Furniture	Mexico	3.2	16.9	3.0	12.2	-4.7
		China	4.5	23.6	12.7	51.6	28.0
		US Total	18.9		24.6		
84	Articles of Apparel and Cothing	Mexico	8.7	13.6	3.6	5.2	-8.4
		China	8.5	13.2	27.1	39.1	25.9
		US Total	64.3		69.3		

Source: US Department of Commerce (http://dataweb.usitc.gov), downloaded Feb. 17, 2010.

Why has China gained U.S. market share over Mexico so rapidly and decisively? There are several factors. First, Chinese labor costs have traditionally been significantly lower than Mexico's. However, China's labor market is in serious turmoil. As the height of China's export boom, persistent labor shortages were reported at scores of Chinese factories, a trend that pushed up wages and led a number of manufacturers to consider moving their factories to lower-cost countries like Vietnam, Cambodia, and Bangladesh (Barboza 2006; Goodman 2005). In the wake of the recent economic recession, however, it is estimated that 20 million Chinese workers have lost their jobs as a result of slumping demand in industrialized economies, sparking a massive return migration to the rural areas that provided much of the workforce that fueled the export surge (Harney 2009). Thus, China's export model can no longer rely on a stable supply of abundant low-wage workers.

Second, China has leveraged its huge economies of scale and made major investments in infra - structure and logistics to lower transportation costs and to speed time to market for its export products. The growth of China's "supply chain cities" – led by FDI-driven clusters in Guangdong (including Dongguan and Humen) and single-product clusters in Zhejiang (such as Anji and Datang) – is a perfect illustration of how China's governments and entrepreneurs are turning scale-driven specialization into a persistent competitive advantage for the country (Gereffi 2009). China's sheer size has also allowed it to develop broad manufacturing clusters at the regional level, each with its own specialization: the Pearl River Delta in the southern part of China specializes in labor-intensive manufacturing, including the production of components and their assembly into finished consumer goods in a wide range of industries; the Yangtze River Delta near Shanghai specializes in capital-intensive industry and the production of cars, semiconductors, mobile phones and computers; and the Zhongguancun technology hub in Beijing is an entrepreneurial high-tech zone, often dubbed China's Silicon Valley.

China's advantage is not simply the magnitude of its manufacturing capacity, but the fact that its central government makes its strategic decisions in an authoritarian, top-down manner; once key decisions are reached, often after intense debate in national party congresses, they can be implemented quickly and massively. In its run up to the 2008 Olympics, China spent US$160 billion on airport construction, transportation systems, sports venues, and other infrastructure projects (Ernst & Young 2007:2). The unprecedented scale of China's development is leading the country to import close to 30% of global demand for many hard commodities, including oil, coal, steel, and cement.

Third, China has a coherent and multidimensional upgrading strategy to diversify its industrial mix and to add high-value activities. In their detailed study of China's export performance, Lall and Albaladejo argue that China and its East Asian neighbors are developing high-technology exports in a regionally integrated fashion, based on complex networks of export production that link leading electronics multinational corporations to their first-tier suppliers and global contract manufacturers (Lall and Albaladejo 2004; see also Gereffi 1996; Gereffi, Humphrey and Sturgeon 2005; Sturgeon and Lee 2005). The export patterns for high-tech products reveal complementarity rather than confrontation between China and its mature East Asian partners (Japan, South Korea, Taiwan, and Singapore). China's role as a motor of export growth for the region, however, could change as China itself moves up the value chain and takes over activities currently carried out by its regional neighbors. Rodrik suggests that China is already exporting a wide range of highly sophisticated products, and he calculates that China's export bundle is similar to that of a country whose per capita income is three times higher than China's current level (Rodrik 2006).

Fourth, China is using foreign direct investment to promote "fast learning" in new industries and knowledge spillovers in its domestic market (Zhang and Felmingham 2002; Wang and Meng 2004). Despite restrictions imposed by the World Trade Organization against domestic performance requirements for multinational corporations, China's local market is sufficiently attractive for foreign manufacturers that they are willing to comply with the wishes of local, regional and national government authorities, despite stringent requirements regarding technology transfer and other matters.

The experiences of Mexico and China show that international competitiveness requires more than an export-oriented growth strategy. Sustained industrial upgrading requires the ability not only to participate in global value chains that link global buyers in the advanced industrial economies with increasingly capable suppliers in the developing world, but also the ability to diversify export products as well as export markets in order to tap new sources of demand for the expanding global supply base for industrialized goods. While both Mexico and China have relied very heavily on the U.S. market to fuel their export growth, China has fared much better than Mexico notwithstanding the current economic downturn. In addition to the institutional factors mentioned above, China's strong performance reflects its unique supply chain relationships to both the U.S. economy as well as its East Asian neighbors.

If China is currently the factory of the world, the United States has become the world's supermarket. In reality, the U.S.-China trade deficit, which hit a record high of $268 billion in 2008 (U.S. Census Bureau 2009), is not simply a bilateral problem driven by unfair Chinese competition, as is frequently alleged. The United States has a *multilateral* trade imbalance with 100 other economies in the world. The root cause of this problem is what Stephen Roach, Chairman of Morgan Stanley Asia, has called

“America’s excess consumption model” (Roach 2009). In early 2007, U.S. consumption accounted for 72% of real gross domestic product (GDP), a record for the United States and for any major economy in the world. While this U.S. consumption binge may be unsustainable, it has fueled the export-led growth model of China and much of the rest of Asia for the past several decades. It is precisely for this reason that the prospective post-bubble demise of the U.S. consumer is such a threat: it undermines the external demand on which the Chinese economy and the rest of export-dependent Asia have depended during their boom years. If the United States consumes too much, then one can say China exports too much. The two trends have been mutually reinforcing, and a source of vulnerability to both economies.

China’s export dependence has grown dramatically. Between 2001 and 2007, the export share of China’s GDP nearly doubled from 20% to 36%, and during the same period developing Asia’s export share hit a record of 47% of GDP. These trends are closely connected because the Asian economy is increasingly China centric. East Asia’s exports to China underpin Chinese exports to the rest of the world and the economic growth of the entire East Asian region. The complementarity of Asia’s China-centric value chains explains why China and its neighbors are raising their high technology exports in tandem (Lall and Albaladejo 2004). However, this tight pan-regional integration has vulnerabilities in tough times, just as it was a virtuous circle when China’s exports were booming.

IV. The Triple Bottom Line of Sustainable Development

Notwithstanding the current global economic crisis and the intense competition among countries pursuing the export-oriented model of industrialization, there are a new set of challenges posed by the notion of sustainable development. The expansion of global supply chains since the early 1970s raised issues of a “race to the bottom” in the global economy – namely, multinational corporations were moving abroad primarily to lower their labor costs and to avoid more stringent social and environmental regulatory conditions in the advanced industrial economies. Often, the search for economic efficiencies by the lead firms in buyer-driven and producer-driven global value chains was a means to offload risks and costs to developing countries suppliers, who in turn extracted the maximum value possible from workers, their families, and supporting communities that were disadvantaged by conditions of precarious employment and environmental degradation (Raworth and Kidder, 2009: Goodman and Pan, 2004)).

Opposition to the race to the bottom approach has surfaced on many fronts. Management and business scholars who focus on “corporate social responsibility” have highlighted the need of corporations to broaden their objectives beyond the economic bottom line, and to adopt a “triple bottom line” that seeks not only economic profitability, but also to maintain decent social conditions for workers and communities and to be responsible stewards of the natural environment.
These enhanced notions of corporate social responsibility require new institutions – typically, the formulation and implementation of voluntary or self-imposed corporate codes of conduct, which respond to both intrinsic and extrinsic motivations (van Tulder et al., 2009). The intrinsic motivations include the strategic need to coordinate and control the firm’s activities over large number of countries and multiple stakeholder groups, and to ensure there is consistent set of standards to manage dependent affiliates (offshoring) and independent suppliers (outsourcing). The extrinsic motivation is twofold: the risk of reputation damage for multinational firms triggered by the criticisms of social and environmental activists or non-governmental organizations; and the need to comply with diverse public regulations at the national and international levels.

What contributions can the global value chain approach make in pursuing the triple bottom line of sustainable development? First, the role of lead firms in global value chains is vital to successfully pursuing any combination of economic, social and environmental upgrading. Van Tulder (2009: 21) identifies a series of "balancing acts" that have to be addressed by business strategists, policy makers and researchers:

- Balancing supply and demand among chain participants (including suppliers, retailers and consumers)
- Balancing inclusion and exclusion of small suppliers and intermediaries
- Balancing selection and upgrading in terms of quality and safety issues
- Balancing over-regulation and chaos from uncoordinated private action
- Balancing go-it-along and cooperation
- Balancing national politics and responsibilities in an international context

One of the areas of greatest controversy has been corporate codes of conduct in terms of labor conditions in global supply chains. A common allegation is that these voluntary codes are inadequately enforced, and there is insufficient transparency in the information released by high-profile lead firms in global value chains. However, researchers have been gaining much greater access to the information from factory audits of lead firms, and drawing new conclusions about the ways in which corporate codes of conduct can affect labor conditions in developing countries. For example, detailed research on more than 800 Nike suppliers across 51 countries over the years 1998-2005 reveals that monitoring along only produces limited results in terms of improving labor standards in Nike's supply chain. However, when monitoring efforts (the "compliance model") were combined with other interventions that tackled some of the root causes of poor working conditions, such as allowing suppliers more flexibility to schedule their work and helping them to improve quality and efficiency (the collaborative or "commitment model"), working conditions seemed to improve considerably (Locke at al., 2007; Locke and Romis, 2007: also see Locke et al., 2009).

As with social upgrading, lead firms in global value chains have also been promoting greater transparency and more ambitious corporate goals in the area of environmental upgrading. Patagonia, a well known brand marketer for outdoor and sports apparel and equipment, launched an ambitious interactive website in 2009 called "The Footprint Chronicles," which promotes the company's goal of sustainable business by allowing viewers to track more than 150 specific Patagonia products from design to delivery. Walmart, the world's largest retailer, has gone even farther in pushing its environmental objectives onto its entire supply chain. In his 2005 speech "Twenty-first Century Leadership," former CEO Lee Scott announced several lofty goals, including Walmart's commitment to create zero waste, to be supplied 100% by renewable energy, and to see more sustainable products. In October 2008, Walmart unveiled a new agreement with 20,000 Chinese suppliers, who would be expected to meet a new set of environmental and social standards, and Walmart is collaborating with advocacy groups like Environmental Defense Fund and other consumer goods manufacturers and brands to create sustainability metrics for a variety of consumer goods items (Gereffi and Christian, 2009: 585-586).

What these examples have in common is the core idea that achieving sustainable development through a combination of economic, social and environmental upgrading can't be accomplished by individual companies, no matter how powerful they may be. Instead, the triple bottom line of sustainable development requires a collaborative approach to getting a broad range of supply chain actors, including lead firms and their suppliers, labor and environmental advocacy groups, and regulatory agencies, to cooperate in defining ambitious yet obtainable objectives and appropriate standards to improve social and environmental conditions.

V. Conclusion

Where does the global economy go from here? Even before the current economic crisis, a new governance structure was emerging on the international scene. It is widely believed that the Washington Consensus is dead. The neoliberal turn in global economic ideology in the 1980s, led by the United States and buttressed by the policies of key international organizations like the World Bank, the International Monetary Fund, and the World Trade Organization, was undermined by its failures to deliver on the promise of sustained economic growth and prosperity for developing economies (Ocampo 2009). The relatively successful large emerging economies (such as China, India, Brazil and Russia) are demanding more clout in the governing institutions of the international economic system, as we see more high-level negotiations involving the G-20 countries (19 of the world's largest national economies, including many in the developing world, plus the European Union) than the clubby G8 (the United States, United Kingdom, France, Germany, Italy, Russia, Japan, and Canada). While the pre-crisis hegemony of the neoliberal regime is clearly unhinged, the shape of the future is still hard to discern (Gereffi and Mayer 2006).

International trade and foreign direct investment will rebound, although economists predict the impact of the recession on employment and slow domestic growth in the major developed economies of the world will continue to be felt for another three to five years. What will change, however, is the infatuation stoked during the Washington Consensus years for export-oriented industrialization. This model was deemed successful when the large advanced industrial economies of North America and Europe were willing to subsidize the export growth of developing economies via high levels of consumption and burgeoning trade deficits. But as we have seen, this model is questionable in the long run.

Global value chains are becoming more consolidated. Large multinational manufacturers, retailers, and marketers who manage global sourcing networks are proclaiming that they want fewer, larger and more capable suppliers, and they will operate in a reduced number of strategic locations around the world. This is likely to promote a higher degree of regional sourcing, with suppliers located close to the major consumer markets in North America, Western Europe, and East Asia. In industries like apparel, leading suppliers (countries and firms alike) have strengthened their positions in the industry. On the country side, China has been the big winner, although Bangladesh, India and Vietnam have also continued to expand their roles in the industry. On the firm side, the quota phase-out and economic recession have accelerated the ongoing shift to more streamlined global supply chains, in which lead firms desire to work with fewer, larger, and more capable suppliers that are strategically located around the world (Gereffi and Frederick 2010; Gereffi and Christian 2009).

Globalization is not going to disappear, but it is likely to become more decentralized. Globalization's benefits will continue to be unevenly distributed, with its gains going to those with more education, skills, wealth, and power. However, the inclusion of large emerging economies like China, Mexico and India among those who are benefitting, at least in part, is a qualitative shift in the process. But it does not necessarily improve the chances for smaller countries in the global economy unless they devise policies to enhance their own capabilities to foster development.

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THE CORPORATE PERSPECTIVE

Hans van Bochove, Director Public Affairs, Communication and CSR of Starbucks Coffee

It is good to be back home, and in an academic environment. But I have to disappoint you if you think that companies operate in a very academic environment. There is not as much academic thinking going in companies as you might have hoped, but there is a lot of practical work going on and you can talk all you like about sustainable sourcing, about Fair Trade, but someone has to do it. And that is what I would like to take you through, by means of an example of a company – in this case a coffee company – that is taking sustainability very seriously, has a strong relationship with organisations that certify coffees – in this case Fair Trade – and the reasoning behind it, but also sharing some concerns and some questions, back to Fair Trade, back to the academic world, back to the minister for international development, but also back to you as consumers.

The business model

First of all I have to share with you the model that Starbucks uses because otherwise it would be very hard to understand some of the choices that we have been making, and some of the actions we have been putting into practice. For those of you who do not know Starbucks that well it is not all about lifestyle, as many people think. It actually started out as a very small company in Seattle, in the U.S., in 1971. It was one store buying coffee, tea and spices from around the world and trying to do that in the most sustainable way and selling these products to local consumers. Ultimately they did something very revolutionary – they started to sell the products by post order, and may I remind you this was 1971. It took the company until 1992 before they went to New York for a NASDAQ quote, with 100 stores and 1,000 partners. That is only seventeen years ago, and in those seventeen years the company has grown relatively rapidly to 16,000 stores in fifty countries, with more than 150,000 employees, who we call partners because many of them have stock. The reason I am sharing this story is not to brag, but it is to tell you a story of a company that has grown so fast that it would have been very easy to lose track of the original values. I am proud to work for a company that did not. This is a company that even though they went through this tremendous growth curve still stayed true to the original belief that having a business does not necessarily mean that you cannot take care of each other and you cannot take care of the environment. Starbucks has a very deep-rooted belief that it is ultimately our partners working for us, and particularly the ones working in our stores, and the farmers that grow the high-quality coffee that we serve to the consumers every day, that we need to take care of in order to be a successful and ultimately also a sustainable business. This is why Starbucks has developed a sustainability programme, an umbrella if you like, that captures all the activities in ethical sourcing as well as in environmental stewardship and in our community connections which we have called Starbucks Shared Planet.

Given the nature of this lecture, I would like to focus on ethical sourcing. I hope you will allow me just a few words on what ethical sourcing means for Starbucks. For us, ethical sourcing is a personal commitment, for example to the farmer that grows the high-quality coffee every day under very difficult circumstances, that coffee that we enjoy every day, and that means that we do value the direct relationship with farmers. Starbucks is one of the few coffee companies that takes pride in not buying coffee on the New York commodity market. The reason is that we do value the direct relationship with suppliers – not just farmers, but also the traders and the coffee mills etc. – because we believe that only direct relationships make it possible for us to find that high-quality coffee, but also to help the farmers in growing that high-quality coffee under the circumstances that we desire. One of the most important things, of course, is paying the farmers the higher price for the high-quality coffee that they grow. On average, if you look at the last few years, Starbucks pays roughly 25 per cent to 30 per cent more than the New York commodity market and we do that because we believe that ultimately the price helps that farmer to have a sustainable living. I will come back to what comes even before price. It is also an idea about rewarding suppliers in a way that helps them create that sustainable living – I will explain to you in a minute what that means – and it is supporting farmers through having farm support centres both in Costa Rica and Rwanda in East Africa because ultimately we care for the farmers, and not only the ones that grow the coffee right now, but also the ones that will be able to grow the high-quality coffee that we demand in the future. We know that helping the farmers in a direct way, also providing them with farmer loans that get them through from one harvest to another, is vitally important. If we talk about rewarding suppliers that grow our coffee it is very important to understand that this is not charity. We believe that the relationship with the farmers, and helping them grow that high-quality coffee, ultimately is the best way to sustainability. Whether you are certified or not, whether you are Fair Trade or not, if this pineapple or that coffee is not of the right quality it is not sustainable. Quality comes first. In our opinion, certification comes next. Quality is vitally important.

Circles of sustainability

If you look at this model you will basically see four circles that are the core of our sustainability programmes. First, quality is vitally important. We value all the farmers in the world, and we know there are more than 25 million of them, but actually we can only have a relationship with those farmers who grow the high-quality coffee we need to be able ultimately to sell it in our stores. If you do not grow the high-quality coffee we demand then we do not have a business relationship. We may still be able to help you to get there, but we would not have a commercial relationship. Even if you were able to grow that product quality, there is another very important element and that is economic transparency. Here is the crux – if we were to have a direct relationship with each and every small farmer in the world we would know exactly what price we would be paying that farmer. Unfortunately, most of the supply chains in the commodity world are a bit more complex. Given its size, Starbucks needs to source its coffee from different places in the supply chain. Sometimes it is directly from the farmer or the estates, but often it is from the mills, it is from the traders, it is from the exporters, sometimes it is even from importers. If you buy your coffee from higher up in the supply chain you pay a price to that trader but you no longer know where that money ends up in the supply chain. If we ultimately want to be sure that the farmer receives the price that he or she deserves for that high-quality coffee, economic transparency is vitally important. You will not have a Starbucks verification for your coffee if you do not comply with quality requirements and if you do not comply with economic transparency. Only then do we start to look into the social and environmental factors of growing the coffee, and that is also ultimately where our farmer support centres step in to help the farmers achieve a continuous development in those fields. Ultimately, our goal, as we have probably stated, is to have all our coffee sourced in this way by 2015 Currently that is 80 per cent. Some people say it is only 80 per cent, where is the rest of your coffee? Typically, from this picture, I hope you understand that has nothing to do with the quality; because we are buying that coffee the quality, you can rest assured, is okay. But if these two on the left – product quality and economic transparency – are pre-requisites for getting our Starbucks Shared Planet verification, it is not the quality that is missing, it is the economic transparency. Referring back to Gary's presentation, and to some extent the memo that Rob wrote, there are some governmental developments particularly for example in East African countries that do hinder economic transparency, and that would also be a question of course to our minister for international development. Does that play a role when you talk to those local governments how they do or do not help support you in economic transparency because ultimately it is vitally important to know where the money ends up. Only then do we have a relationship that we believe will be on the path to sustainability.

As part of our ethical sourcing policy we have always bought certified coffees; our relationship with Fair Trade has now been ongoing for more than a decade. Last year, with the renewed partnership we undertook, we promised to double the amount of Fair Trade certified coffee in 2009, and within two weeks we will know whether we have achieved this or not, because our fiscal year has just ended – rest assured that we have. This makes us the world's largest purchaser of Fair Trade coffee in the world with 40 million kilos. That is all well and good, but Starbucks – even though we are a large brand – still only represents two per cent of the world's coffee. There are four other players in our market which represent more than 80 per cent. We do two per cent and we are the world's largest purchaser of Fair Trade, that is great for us, and great for Fair Trade, but it also sends a message that there is a world to be gained by including bigger companies in this equation as well.

Transparency

One of the things we have talked about is quality, the other is transparency. Those are the two pre-requisites that we truly believe in as very important elements on the road to sustainability, but in terms of the relationship with Fair Trade, or other certification programmes – again we have a strong relationship with Fair Trade – we also believe there is merit in trying to get mainstream traffic going. Only when you are able to make certified products, or sustainability, part of people's daily lives will it ultimately be sustainable and be growing. That is why we have decided, as of March 2010, in other words in the spring of next year, all of the espresso-based beverages at Starbucks throughout all our stores in Europe will be Fair Trade certified; this means that every latte, every cappuccino, every beverage you purchase at Starbucks will have a Fair Trade certification to it. We believe this is a major step forward in the coffee industry because we are talking specialty coffee here.

Last but not least, buying more Fair Trade coffee, trying to make it mainstream is one thing, but there is more work to be done. This is why we believe that just buying certified coffee – putting a stamp on your packaging – is not enough. What we are currently doing with the International Fair Trade Labelling Organisation is looking at ways of doubling the amount of farmer loans that Starbucks is sending out, and directing them directly towards Fair Trade cooperatives. Also, very importantly, we are looking at the opportunity of basically integrating these verification systems which we currently have, because going to the farmer each and every time with a new verification system, which means new requirements they have to meet, is very costly and very labour intensive for those farmers. There are much better ways for them to utilise their time. This is also something which we are looking into, which makes the whole idea of a relationship run much deeper than just buying Fair Trade certified coffee and putting a stamp on it.

The role of consumers

If you would like to know more about the Starbucks programmes please take a look at our website under the Shared Planet logo. There is also something that you as consumers can do. There is always much discussion as to why Starbucks coffee has to be so expensive – why do we have to pay $3.50 or 3.50 Euros for a latte? I hope, after this presentation, and we could have gone on discussing the social element as well, that you now have a better understanding of why sustainable coffee has a price. I urge you, the next time you buy a product, and ideally you would buy a cup of coffee with a Starbucks logo on it, you do not just look at the price you are paying but that you primarily look at the values in the cup because that, we believe, is what it is all about.

THE CIVIL SOCIETY PERSPECTIVE

Willemijn Lammers, Program Manager Sustainable Economic Development, ICCO

I went to Seattle two weeks ago. I visited the first Starbucks shop in Seattle. I was there because two blocks away from the Starbucks shop is the office of Nordstrom. In the office of Nordstrom there was a board meeting on organic exchange, and as ICCO we are one of the board members of Organic Exchange. Organic Exchange is a network of all the actors in the organic cotton chain. It is unique, and in my view it is a marvellous example of how to work in sustainable chain management. It is a network where all the actors, from small farmers in developing countries, to high fashion retail shops certifiers, ginners, spinners, factories, industries, big industries in America, big industries in Japan and Taiwan are working together, meeting each other to look into the high transaction costs of the chain, the bottlenecks in the chain, the gaps in the chain. It is really a kind of open community, a lot is done on the internet but there are also personal meetings. Where can we make a chain more effective and efficient? We as ICCO are supporting it, because we are especially supporting the farmers. We promote and facilitate their participation and special programs with and for them within Organic Exchange, because otherwise easily they will fell out, nor participate in all the events, meetings, negotiations, etc., considering there lack of money, information, influence, position, etc.. There I was, two blocks away from Starbucks, in the Nordstrom office, and the discussion was already at a very high and heated level because, especially in the American companies, Nordstrom, Nike, Under the Canopy, etc. were discussing the new challenges they are experiencing at the moment. There was a lot of discussion about new fibres: polyester, organic fibres, intelligent fibres, re-cycled fibres and what to do with them. How could they source these new fibres? What are the possibilities, what is the carbon footprint, where do they have to be, how can they be combined?

The meeting was absolutely dominated by the big companies – how could they do their sourcing and how could they stabilise it in the future. The discussion on organic cotton was a little pushed into the background - the spinners of India, the American farmer, the factory owner in Turkey, they were silent. If the big market is in confusion and unsure, let them first make up their minds, otherwise we no longer have any business. In other words let's wait for the big companies – they have the demand and the market is ruled by the demand. Then, talking amongst the companies, I, being from an NGO, was the only one who could interrupt the discussion. I just asked a simple question: if you want to shift your materials what about the rest of the cotton chain, all the investments you did, the farmers which are expanding their organic cotton fields, and especially now in times of crisis? When the supply of organic cotton is a problem - what about them? If you now want to focus on recycled materials, are we going to work with garbage collectors in the slums of Brazil in our network.

It got silent. They confessed that they had not thought about this at all – they were so involved with their own questions about sourcing. Then the others got up – the ginners, the factory men, the farmer, the certifiers, the cooperative, the finance man. Okay, your focus can be diversified, but there is still a lot to do in organic farming. We are still talking about 1 per cent of the total market. Our mission was organic cotton – the chain. Then the discussion took a totally different direction. The companies really listened and they got into debate with the others, maybe for the first time that day. And the final resolutions of the board were about organic cotton.

Value chains and partnerships
This is an example, bit is an observation in general: with all due respect – CSR is good, CSR is done by lots of willing people, CSR will help the world – but in general the world of companies ends and begins at the factory gate.

As development organizations we have a very much more specific role in change processes with chain actors, in partnerships and really looking all the time at what we can do. We do it in several ways. We motivate companies – they ask us to introduce the concept of corporate social responsibility, especially related to working in developing countries, to find ways with them to do it. We link the companies to small producers, we link small producers to companies, we support local farmers' associations to organise themselves, we have studies on business models, on governance structures. We commonly look at the needs of infrastructure. We help in cases of inter-cultural (mis)communication. We look for supporting NGOs, business development service, financial services and we cooperate a lot on summarising advice on sustainability. True partnerships benefit all parties.

Chain cooperation offers our local partners the opportunity to get a better position into the business side of the chain development, and for companies it means that they can support small producers, secure their sourcing and work together on lowering transaction costs, infrastructure and higher demands. Increased transparency in the chains makes it possible for NGOs and producer organisations to make better-balanced decisions about whether a partnership is indeed the best choice, or whether other alternatives are more viable. But also it gives data about which products are requested by the market and what are the trends and developments in the market. Based on transparency the actors involved can spread their risks better.

But a partnership is like a marriage: you need to work at it to make it a success, particularly if it is an inter-cultural marriage. After the wedding you need to work hard at learning to speak one another's language and seeing things through the other person's eyes. How do we express the importance of the involvement of small producers in our jargon, how do we demonstrate the effects, the terms and conditions of supply imposed by the companies, how do we ensure that producers and the shop employee can really explain what the difference between purchase price and the price in the shops is based on?

For many years now, we have also been working with Albert Heijn. Albert Heijn wanted to procure sustainable fruit and vegetables from Africa, and also support local communities. Then they sought cooperation with ICCO. They want to set up a kind of foundation and support local community projects in the fields of housing, education, drinking water and healthcare. But we did not only want social community projects. Nowadays, a few years down the line, we are advising them on work and chain issues, on sustainability of production and selling, and on infrastructure necessary in the living environment of the producers, on the workers' representative bodies, on working policies, on HIV Aids. We support Albert Heijn to ensure that the production of fruit and vegetables meets the basic standards that are accepted internationally. Thus small farmers are at last facilitated and supported so they can deliver their fruit and vegetables to African suppliers or Albert Heijn supply chains.

ICCO desires everyone involved in trans-shipment of a product to earn a fair wage or receive a fair share – from producer to consumer. ICCO believes that only by involving all stakeholders in such a product chain is it possible to have fair trade throughout the entire sector. But it is, and it was, hard work. Sometimes cultural differences are too great, NGOs are not patient enough and companies do still want to source cheaply and quickly, and scale up, and sometimes that is not possible. It takes time and it needs support.

We are also supporting the CSR organisations, one of the biggest in the world is Ethos, the CSR-organization of the 'VNO / NCW' (the employers) of Brazil. It is a very strong organisation, very mainstream, they consist of the large Brazil multinational companies in it. They did an evaluation after their first ten years of existence, just recently, and a strategic planning for the next ten years. One of their findings was that CSR is indeed interesting and relevant and that working with CEOs is crucial in the first phase of introducing CSR in a company. But it is not enough. After ten years working on culture, on behaviour, on goodwill, ideas of CSR, we have to do more, it is not enough. We are making progress, but it is going too slowly. And now, after a big fight with Petrobras, the big oil company of Brazil, which was not acting fast enough in the eyes of the civil society and in the eyes of the government of São Paolo, Petrobras got out of Ethos. At the moment they have returned, because again they are talking.

Their conclusion is culture, behaviour, etc. and talking is not enough. It is time to change rules and regulations, to focus on the structure, on the environment, we have to go faster. That is what we need – together with governments, together with NGOs, branch organisations, support organisations – we look into the whole chain, so that at the end consumers and producers are benefitting from our sustainable efforts.

Conclusion

To conclude, let me ask one thing – who is financing all this work? The time invested by NGOs, by ICCO or others – who is paying for that? We can ask the companies to pay for it, we can ask for our services and that is one of our problems. But, in the beginning, companies – because they are not used to NGOs – do not want to finance it. We can do it, and make arrangements with them, we do it on a loan basis, we do it on a guarantee basis, we do it on a long-term basis, but also in the short term you need some form of subsidy - it is a kind of public investment in the long term. It is one of the main issues we quarrel with companies about. But there are models to make it workable, and to have a kind of combination of private and public funding in it. Being clear about mutual investment, mutual expectations – we will have a conclusion that we believe that if we really work in sustainable partnerships, focussing on the long term, applying new business and government models, developing new tools, supporting business development, supporting finance – that the debate is not business community *or* NGO, but the debate is do we want fairness and sustainability in the whole chain, on a long term basis, and on a large scale. And that – with global sustainability and fair trade – is possible, but only if we tackle the whole sector and the entire chain. Then it is possible for us to eat and drink coffee in a sustainable and enjoyable way.

THE GOVERNMENT PERSPECTIVE

Bert Koenders, Minister for Development Cooperation the Netherlands

Global value chains are very close to my heart. I truly believe that they present many opportunities for entrepreneurs in developing countries to become competitive actors in world markets. My slogan today is not 'Trade for Aid', but 'Aid and Trade', or even 'Aid for Trade'."

It's a pleasure to be here today. I'd like to begin by thanking the organisers of this lecture – the Erasmus University, the Max Havelaar Foundation, Triodos Bank and the Expert Centre for Sustainable Business and Development Cooperation – for the invitation.

I would also like to congratulate the other speakers on what I heard excellent presentations. They touched on many important issues. I'm afraid I won't have time to address them all this afternoon. But perhaps we could look at some of them in more detail during the panel discussion.

When Prof. Rob van Tulder asked me to give you a government perspective on sustainable supply chain management, my first reaction was, 'Why me? Has Rob never seen the British comedy series 'Yes Minister'? Because then he would know who you need to talk to get a real government perspective on things. Unfortunately my highest ranking civil servant, Joke Brandt, who was first invited, has a very busy schedule and could not be here today. So you'll have to make do with me instead.

Seriously, though, I am very happy to be able to talk to you today about this very important subject. Rob, thank you; we have been classmates and I highly appreciate your knowledge, insights, scientific professionalism and also the advice to my ministry. The paper for this conference gave me a lot of insights. Global value chains are very close to my heart. I truly believe that they present many opportunities for entrepreneurs in developing countries to become competitive actors in world markets. And if local power relationships are seriously taken into account – and they should be – then value chain development is likely to reduce poverty. My slogan today is not 'Trade for Aid', but 'Aid and Trade', or even 'Aid for Trade'. Basically, modern development cooperation relates sustainable growth to jobs as major instruments for development. Jobs help people help themselves and therefore stimulate growth and equity. So stimulating inclusive value chains is a priority of my policy.

Only this weekend I returned from a trip to Ethiopia and Egypt. In both countries, I talked with small farmers and the authorities about the important role of value chain development as a catalyst and mobilising strategy. Tareq in El Fayoum felt for the first time that he was being taken seriously in his profession. Aged thirty five, he is now able to grow sorghum for beer and display his newly acquired professionalism. He feels part of a larger world and can finally care for his family's education. Ultimately, that, for me, is what 'chains for change' are all about. In Egypt I spoke just the day before yesterday that builds a wholesale chain for distribution on food, cutting the middleman and increasing the power of dispersed farmers.

Which brings me to the question: what can governments do to develop global value chains? To my mind there are three things.

- First, they should set a good example.
- Second, they should work with other governments to ensure a free and fair trading environment.
- And third, they should encourage the private sector to play its part.

Good example and partnerships
First of all, I firmly believe in leadership by example. Governments, after all, are not only governing bodies, they are also major consumers. In this country alone government agencies buy over 50 billion euros' worth of goods and services every year. Central government is the country's main purchaser of office supplies, road and construction works, means of transport and energy. In 2006, the decision was taken to make government procurement more sustainable. Parliament recently approved criteria to be met by all public tenders worth more than 133,000 euros for 45 product groups ranging from audiovisual equipment to vending machines and workwear. These criteria focus on compliance with international labour and human rights standards in the international supply chain. Specific criteria have also been formulated for specific products. They relate to occupational health and safety, decent working hours, living wage or living income and fair trade standards (like pre-finance and minimum guaranteed price). It is this government's stated goal to achieve 100 per cent sustainable procurement by 2010. If we succeed, we will be the first government in the world to do so, thereby sending an important signal to others.

The second way governments can stimulate global value chains is by working with other governments to ensure a free and fair trading environment. Value chains relate to the complex issue of fair trade. The most logical starting point is the World Trade Organisation. As you know trade negotiations in the WTO's Doha Development Round have been dragging on for years. This is a real shame, because a successful conclusion of the round would not only curb the increasing protectionism which is detrimental to poor nations, but it would also greatly stimulate global value chains.

What constitutes a successful outcome? As far as the Dutch government is concerned, it is important from the perspective of development that an asymmetrical trading regime should be guaranteed for poorer nations, to ensure them a level playing field. Furthermore, they should have the flexibility and policy space needed to take the measures they deem necessary to support their economic development.

But even if the negotiations drag on for a bit longer, there are ways in which governments can work towards removing the obstacles poorer nations face in their struggle to access world markets. They can, for example, help people in poorer nations upgrade their skills through training; they can help producers organise. They can simplify access to finance, improve business climates and invest in infrastructure.

In 2005 the WTO launched the Aid-for-Trade initiative. The Netherlands has been very active in this field. We have, for example, been able to help Mali increase its exports of mangoes by advising farmers on product certification and marketing their product in Europe. And – together with private partners – we have funded a cooling station near the international airport of Ouagadougou. This enables farmers to store their perishable products for longer periods, making them more suitable for export. All in all, the export of Malian mangoes has risen by 400 per cent within three years. This has not only meant more income for many farmers and their families, but has also benefited the logistics, transport and storage sectors. As the previous speaker said: "Quality comes first, and that also goes for logistics transport and storage sectors. Through increased tax revenues, Malian society as a whole benefits from the economic growth generated by projects like these. This money funds the construction of schools and hospitals, bridges and roads; it even pays the salaries of civil servants. The positive effects of projects like the one in Mali are sorely needed at a time when we are increasingly facing the cumulative impact of the economic, food and climate crises. The economic crisis in particular has underscored the need for a more inclusive growth model. Developing countries had little or no part in causing the crisis, but they are some of the hardest hit. Fragile states; landlocked, resource-poor countries; LDCs with low productivity and a poor business climate; workers who toil away in unhealthy conditions in factories and sweatshops; small farms that cannot meet strict safety and quality standards – this is where suffering is most acute. Many people in the Netherlands and abroad are rightly concerned about this.

They are also concerned about issues like child labour, deforestation and climate change. Right after taking office, I made sustainable international trade and production one of the central themes of my policy priority of 'growth and equity'. I did this in the conviction that we cannot close our eyes to the negative aspects of globalisation. And let's make no mistake about it, we still do. We do not see the billion people in developing countries who experience these problems in their daily lives.

Importance of private sector
Which brings me to my third point: governments should stimulate the private sector to do its share. Last weekend, reports in the newspapers told us that 70 per cent of the largest Dutch companies are not yet doing enough for sustainability: transparency and chain management are simply not enough. Although information on labor regulations, standards and sustainability is important and thus implementation is key. There is a lot to be done. With this in mind, exactly a year ago, we launched the Sustainable Trade Initiative, the IDH. This initiative unites trade unions, NGOs, the business community and government, drawing on expertise from multiple parties for the purpose of improving working and environmental conditions in international trade. Within the IDH, NGOs like Solidaridad, ICCO and Oxfam-Novib work together with companies like Ahold, Nestlé, Unilever, Mars and Cargill in programmes to come up with solutions for problems in the value chain. These programmes are aimed at improving value chains, creating synergy and making the value chain more sustainable on both the supply and demand side.

Initially we chose to launch the IDH in six sectors: cacao, tropical timber, tourism, natural stone, soy and tea. Last week the balance sheet of the IDH's first year was released, based on the outcome of a quick scan in three of these sectors. The results are very encouraging. Within one year our efforts in these sectors have led to higher incomes for farmers, a substantial rise in productivity, better prices for products and greater involvement by the leading players in the world market.

The cacao programme, for example, works with the three largest processors and the two largest chocolate companies in the world. Together they control a market share of 40% of global cacao processing and 30% of global chocolate production. The largest chocolate producer in the world, Mars, has set the ambitious goal of purchasing nothing but fully certified, sustainable cacao by 2020. This is the attitude shift, the multiplier effect we need. This is the path that leads to results! The programme has already trained over 2,800 farmers in Côte d'Ivoire and certified 180 of them.

This process of fostering sustainable business practices has been given an enormous boost, thanks to an integrated value chain approach. The major challenge now is to reach even more local producers. 30,000 farmers in Ghana and Côte d'Ivoire are likely to be certified by 2012. In the coming period, the programme will be expanded to embrace Indonesia as well. This shows that setting our sights high can yield impressive results, with high expectations for the future.

In the cacao sector we do run the risk that only a few larger or more innovative farmers will be able to continue producing cacao for the world markets of the future. We also will have to work with smaller farmers and ensure that rural entrepreneurs get power in the value chain; in its management, and its agreement. The essential is to upgrade possibilities for firms and farmers at the bottom. They too should have the power to agree on the functioning of the value chain. I welcome the pre-competitive cooperation that is so crucial for the work of IDH, since consumers, businesses and workers have a common interest in the economic and environmentally sustainability of supply: you don't want to buy chocolate based on child labour or from farms that are not ecologically viable in the long run. This also applies to the other IDH programmes. The stone mining programme, for example, has led to a broader dialogue with stakeholders on exactly these issues. And within the soy sector, the number of members of the Round Table on Responsible Soy has grown significantly, due in part to the IDH. That is in itself not enough. Outsiders play a large role, like the Chinese markets. And the building up trust and confidence in the chain plays an important role.

In short, we are seeing mounting enthusiasm for sustainable practices within the sectors we've examined. And when a substantial proportion of market players are willing to make the transition to sustainability, as we've seen in the cacao sector, we can transform entire markets. Core firms and suppliers organisations can both play a large role. That's when we can really make a difference. In this light – as part of my effort to use modern development cooperation as a catalyst for development – on Monday I announced an extension of the IDH programme until 2015 and an additional grant of €20 million in 2011. As has been agreed with the IDH partners, I expect this amount to be matched by at least a similar contribution from them, thereby creating a multiplier effect: more value for money for both the private and the public sector.

More equitable value chains
I have sketched three ways in which I believe governments can help build more equitable global value chains. As you have heard, the Dutch government is actively engaged in all three of them. But before

I close I would like to make one more quick point: we should not limit our discussion to entrepreneurs in developing countries that are active in international commodity chains. For, in spite of globalisation, only a very small percentage – varying between 3 and 10 per cent per country – of entrepreneurs in developing countries fall into this category. The vast majority produce solely for the local market. Of these, 80 percent are farmers. If we are to combat worldwide poverty effectively, we will need a way to reach these people. This is why together with agriculture minister Gerda Verburg I am investing an additional 50 million euros in strengthening developing countries' agriculture sector. This money, we hope, will promote economic growth, improve the productivity and sustainability of the agriculture sector, reduce rural poverty and increase food security in developing countries. Projects we are supporting include strengthening international research in the light of climate change and globalization, supporting the development of agriculture in fragile states like Afghanistan, and creating public-private partnerships for market access. We also support the development of financial services that benefit the rural poor, making international trade chains more sustainable and strengthening farmers' organizations and cooperatives. We also have a policy dialogue with countries to ensure transparency, this was one of the urgent questions before the break. Checks and balances are key.

As you might know farmers associations in this country are very active. In recent year thirty of these organisations – including Agriterra, KIT, WUR, SNV, Oikocredit and ICCO – have joined forces in the platform Agri ProFocus. Together they aim to improve the performance of the agricultural sector in developing countries by strengthening the organisations of farmers there. In 7 African countries they encourage local partners to join forces and cooperate, yielding encouraging results.

An example of one of the programmes my ministry finances to support local farmers organisations, is Agriterra's Farmers Fighting Poverty. The idea behind this programme is that strong producers' organisations can negotiate with the stakeholders in their value chain, with local governments and other market players. This way, they can set a fairer price and introduce better working conditions. They can then become their own advocates for their own actions, and make a better living. I am very enthusiastic about this programme. In Northern Uganda, for example, it supports the Uganda Oilseed Producers and Processors Association. This association has some 18 thousand members, half of which are women. By advising them how to cultivate, process and market their crops, their incomes have increased substantially enabling them to invest in more cattle and in the education of their children. Crucial results on the way to defeating poverty.

In conclusion, there is no doubt in my mind that it is imperative to make the international chains of trade and production more sustainable. That is also crucial in combatting speculation in raw materials and establish long term sustainable financing in the chain.The welfare of our children and the future of our planet depend on it. Making the transition to an economy of sustainability is one of the major challenges of the 21st century. At a time of global economic crisis we should ensure that we do not return to business as usual, but make the link between the food, climate and financial crises. This is particularly important at a time when many countries in Asia, Africa and Latin America want to keep growing in order to lift their peoples out of poverty. Meeting all these needs demands political vision and leadership. More and more people are aware of this. This is a positive sign. One month before the start of negotiations on a new climate agreement in Copenhagen we need to seize this momentum and ramp it up. I'm willing to do whatever I can to make this happen. We need companies, students, consumers and academics to make it happen, and therefore I appreciate the opportunity to discuss with this afternoon.

CONCLUSION

Louk de la Rive Box, Rector, Institute of Social Studies (ISS), Erasmus University Rotterdam

My question at the outset was: how long will the Fair Trade label be needed on this banana? I think we have had some answers this afternoon, because progress is clear. Let me try to run through with you ten conclusions in five minutes.

Conclusion One: trade happens in chains. Supply chains were always there, but increasingly value chains become important at a time of globalisation. Gary Gereffi has made a very clear argument that over the past decade or two a fundamental change has been occurring in production and distribution of relations at a global level. Global value chains are an inherent part of that.

Conclusion Two: basic changes over these past decades, as I said, from national economies with dominant producers like multi-national companies changing very clearly through outsourcing and off-shoring, to global value chains creating a global supply base. Again, I refer to Gary's comments this afternoon – I am very happy to see that he is nodding, so I did understand him! By the way, if you are a student in this room you got 12 ECs in 45 minutes from Gary this afternoon – so take them as they come.

Conclusion Three: there is a tremendous power of cooperation, and this afternoon we have seen that tremendous power of cooperation. Just as the Canadian lady wished me to say to the Dutch minister in 1990 that he would need to take landmines as a serious issue, and he could not, politically speaking – it was the tremendous power of the women's movement in Canada, in the United States and in Europe which in the end brought about the change in anti-personnel landmines. Well, that change is occurring at this moment also through a combination of what was called here the NGOs and the company sector. They move ever closer as Peter d'Angremond has argued from Max Havelaar's point of view this afternoon. But see also what the minister called the IDH agreement: with cocoa, with timber, with tourism, soya and tea. There are therefore very encouraging results as was shown by Willemijn Lammers in her presentation on the case of organic cotton, the Organic Exchange. These partnerships produce change. These partnerships are not just for fun, but these partnerships generally change and they are structural changes which may also affect this banana and its label in future.

Conclusion Four: Fair Trade is more than trade, it creates linkages as Cornelius Lynch has argued very clearly this afternoon. Not only did he see his 1,500 fellow banana producers in St. Lucia get more money from the companies which imported or which bought their bananas, he also saw those 1,500 producers come together on many other issues. He argued that schools were improving, that hospitals were improving, indeed many things in society in St. Lucia have been changing due to the faith which many of these producers had in working together. The question this afternoon was: are Fair Trade and free trade opposed to each other? Well, in one point they are. Free trade has very often generated an uncouth type of competition, and Cornelius has very clearly shown us that Fair Trade has created a cooperative movement in St. Lucia, and thereby produced many promising results: social upgrading occurred.

Conclusion Five: This is all very well, but standards are needed. Without standards it will not work: social standards, environmental standards and safety standards. These should be the basis of new value chain governance. Do not just go for one player; do not just expect the business cycle to do it; do not leave it all to the NGOs, as Willemijn has been arguing; and do not expect government to do it alone as Bert Koenders has been arguing. Do not just wait for one actor to do it but, as Coen van Beuningen and Peter Knorringa have argued, in a booklet which is also on sale here, you will have to integrate this into a total management approach. I see Coen nodding so apparently I understood the basic message from the booklet.

Conclusion Six: That said, Bert Koenders will argue, governments have a very special role and they had better be reminded of it. Governments have to set the example because after all they are the major buyers of goods and services: 50 billion Euros worth of them for the Dutch Government alone. So they set the example. Secondly, they promote a favourable trading environment, because it is through the WTO and through the agreements in the European Union and elsewhere that a favourable trading environment needs to be created. If governments do not do it, if they are not kept to their task, it will go to pieces. Thirdly, Bert argued that entrepreneurs need to be allowed to do their work and do it well. Give entrepreneurs the freedom to do their work and have public private partnerships profit from them.

Conclusion Seven: expand programmes to include other producers in the South. Do not just think of the northern consumer who invites the southern producer of bananas, because it is the bananas we have been talking about. No, we have to move beyond bananas, beyond cotton, beyond coffee and beyond cocoa. Get the other farmers involved; work for a total agricultural development programme and always remind yourself that agricultural development may be the very start, because most of the people who are poor also happen to be rural producers, as Bert Koenders has very clearly argued. And therefore agricultural development for overall growth is needed.

Conclusion Eight: move beyond Fair Trade as such, as Gary argued in the concluding statement. Not in the sense that Fair Trade would not be good, but that it should not be necessary any more to have the label on this banana. Just as Starbucks is serving you a cup of coffee – which, you can rest assured, come March 2010, is made from sustainably produced coffee - from that coffee chain which

Starbucks is developing. The same thing should go for this banana, the same should go for that cotton and the same should go for the other crops. Move beyond the Fair Trade as such; move therefore from traditional development to the upgrading of the entire value chain. It pays, and because it pays many people can capture both the pre- and post-production benefits, as indeed was shown in the Chinese case. It is not the production benefits that need to be captured it is the pre- and post-production benefits which you need to capture. That is where the basic benefits really come from.

Conclusion Nine: if you have good value chain governance - it pays. It pays off in the economic sense – the Chinese case – it pays off in the social sense – the St. Lucia case – and it pays in the environmental sense – the cotton case.

Conclusion Ten: I would like to quote what the minister has just said at the conclusion of his presentation, and I think it is an excellent quote to also close with: it is imperative to make value chains more sustainable. It almost sounds like a cliché because we have been talking about it all afternoon, but it is only for a very small part of global production that this message is really heard. It is imperative to make value chains more sustainable. Let me close with the most famous economist from this university, who got the Nobel prize many years ago: Jan Tinbergen – whose words are written here on this canvas – *van de verdeling komt de winst*. I am not completely sure how to translate this into correct English, but it must be something like “equity generates profit”. If this is true, if equity generates profit as Cornelius has shown in the St. Lucia case, because it was equity among small producers in St. Lucia, banana producers, if that is true then certainly we, here, can all make a difference – as consumers, as participants in civil society organizations and as responsible voters in our upcoming elections. We can all make the difference to make value chains more sustainable.

Thank you very much.

Personalia

Hans van Bochove. Director Public Affairs, Communication and CSR of Starbuck Coffee Europe, Middle East and Africa (including Russia). Hans van Bochove joined Starbucks Coffee EMEA B.V. in June 2007. Previously, he worked at Coca-Cola Enterprises for nine years as Director Public Affairs and Communications. In this capacity he developed a CSR policy and published the first public societal report within the Coca-Cola system, setting a benchmark for the company's current performance in that field. Starbucks is one of the leading companies in the world. Committed to 100% grown ethically and traded fairly by 2015. Starbucks is the largest buyer of Fairtrade products at the moment. With more than 3000 'coffeeshops' in 37 countries, Starbucks is a clear successtory. Partnership projects in for instance Colombia gave Starbucks international recognition for its innovative approach towards value chains.

Louk de la Rive Box. Rector of the International Institute of Social Studies (ISS), Erasmus University Rotterdam. Prof. Box is considered the most 'connected' person in the Netherlands as regards development cooperation.

Peter d'Angremond, director Max Havelaar Foundation Netherlands since 2009. Worked in marketing and sales functions with Schiphol Group, Disneyland Resort Parijs en Sara Lee Household & Body Care Nederland. From 2005 head of Business Area Consumers, part of the Schiphol Group.

Gary Gereffi. Professor at the Department of Sociology, Duke University. Gereffi is director of the Center on Globalization, Governance, & Competitiveness and Professor of Business Administration and Corporate Sustainability, Fuqua School of Business, Duke University. Prof. Gereffi is a leading expert in global value chains and offshoring, outsourcing. He has done many studies in Mexico, the garment industry, engineering, tourism, but also looking at issues from a value chain perspectice such as the chain of obesity. Gereffi is member of the US National Academy committee on analysing the US content of imports and exports, and worked for the Intern American Development Bank, and the ILO on their decent/living wages project.

Koert Jansen is fund Manager Triodos Sustainable Trade Fund. Triodos Bank aims to be a pioneering force in the world of sustainable banking and to contribute to social renewal. The Bank finances companies, institutions and projects that actively benefit people and the environment. Koert (MBA, Free University of Brussels) worked as a project manager at Facet BV (currently Triodos Facet), a consultancy company specialized in the promotion and development of small and medium sized enterprises in developing countries. He held various positions including company secretary and project manager climate change. In 2003 he joined Triodos Investment Management BV as an investment officer microfinance and trade finance. In 2009 Koert became Fund Manager of Triodos Sustainable Trade Fund in 2009. This fund assists fair trade and organic producers in developing countries to prefinance their export to EU and US based clients.

Bert Koenders is Minister of Development Cooperation sinds February 2007. Studied political sciences and international relations at the University of Amsterdam and received an MA at Johns Hopkins University. Member of parliament as spokesperson Foreign Affairs, European director Parlementarians for global action, political advisor to the UN. President of the NATO assembly and recently special envoy to the General Assembly of the United Nations on the consequences of the financial crisis for developing countries. Koenders is known in the Netherlands for his active and innovative approach towards development. Is deeply committed to reaching the Millenium Development Goals, but is also building bridges with other policy areas. He speeded up the process towards cross sector partnerships with a large number of companies and NGOs to increase the efficiency and effectiveness of his ministry. In this area the movement has been from country to country support to include whole value chains. The topic of the Max Havelaar lecture. According to Koenders, evelopment should not be considered a 'subsidy' but an investment.

Willemijn Lammers, replaces Jack van Ham, the general director of ICCO, the protestant christian organisation for development, founded in 1965. ICCO is one of the first development cooperation organisations that has actively sought partnerships with corporations. Besides this, ICCO has also used the concept of global commodity chains as a vehicle to assess and adress the effectiveness of the projects they are active in. Embraces concepts like 'the Base of the Pyramid'. ICCO tries to stimulate 'honoust' markets for smallholders through the development of more sustainable international commodity chains. ICCO concentrates here on tropical fruit, forest products and cotton. Mrs. Lamers is Program Manager Sustainable Economic Development. She is actively involved in the international value chain programme and therefore an excellent replacement of Jack van Ham.

Cornelius Lynch is banana farmer and General Manager of the Saint-Lucia National Fairtrade Organization. He lives in the Mabouya Valley community in the Dennery quarter on the east coast of St Lucia. Cornelius has been a farmer for 23 years and for the past 17 years has combined it with various jobs in the banana industry. He was closely involved in the establishment of the Fairtrade movement in St Lucia in 2000 and was among the first group of farmers whose bananas were exported as Fairtrade in July of that year. This was made possible following the three-year collaboration between the Fairtrade Foundation and the Windward Islands Farmers Association (WINFA) to put in place the structures necessary to enable the banana farmers to meet Fairtrade standards, including organising farmers into Fairtrade groups across St Lucia, St Vincent, and Dominica.

Rob van Tulder is professor of International Business-Society Management, Rotterdam School of Management/Erasmus University Rotterdam. Van Tulder is the coordinator of the research project on "International Business-Society Management", the SCOPE databank project (that compiles the lists of the largest transnational firms in the world together with UNCTAD) and co-founder of the Expert Centre on Sustainable business and development cooperation (www.ecsad.nl) that coordinates research on development issues of five business schools in the Netherlands. The latest initiative has been the set-up of the Partnerships Resource Centre (www.erim.nl/partnerships) which represents a modern approach towards development by means of cross-sector partnerships.

MAX HAVELAAR LECTURES

The Max Havelaar lecture is a recurring annual event. It serves five interrelated goals:

- Provide a platform for the presentation of state-of-the-art scientific insights into how sustainable business and development cooperation can be combined;
- Discuss the advantages and disadvantages of the involvement of corporations in poverty alleviation in a systematic and non-ideological manner;
- Address the complexities of sustainable development rather than engage in simplifications in order to come up with realistic – and obtainable – approaches to addressing in particular Millennium Development Goals;
- Discuss the strengths and weaknesses of specific approaches such as trade marks, codes of conduct, reporting or governance measures;
- Provide an arena in which innovative ideas and structured dialogues can be launched.

Each year, a leading scholar is invited to hold the key lecture which is accompanied by statements from leaders of the business community, civil society and government. The lecture is held at the Erasmus University Rotterdam, as a legacy to Jan Tinbergen, the former Nobel Prize Laureate in economics and leading thinker on sustainable development. The lecture is open to the public.

The Max Havelaar lecture is organised as a cooperative effort between three institutes: The Max Havelaar Foundation (www.maxhavelaar.nl), Rotterdam School of Management, Erasmus University (in particular the department of Business-Society Management; www.bsm.org) and the Expert Centre on Sustainable Business and Development Cooperation (ECSAD; www.ecsad.nl). The first Max Havelaar lecture was held in October 2007. More information on present and future lectures can be found on www.maxhavelaarlecture.org

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