

# Chapter 57

## An Investigation on Fair Trade Business: Opportunities and Challenges

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### **ABSTRACT**

*In the past 20 years, Fair Trade appears as an approach of trading encouraging minimal returns, safety, sustainability and ethics. There are some good practices of Fair Trade supply chain management in the western companies such as the Body Shop; however, the development of Fair Trade business is still a new concept in developing countries such as China. This proposed chapter will start with an introduction of Fair Trade, and then analyze successful cases in the western countries. There will be initial investigation into Fair Trade supply chain management in China, with a focus on its opportunities and challenges. Discussion will be made to address the critical issues of Fair Trade management, followed by a summary of the chapter.*

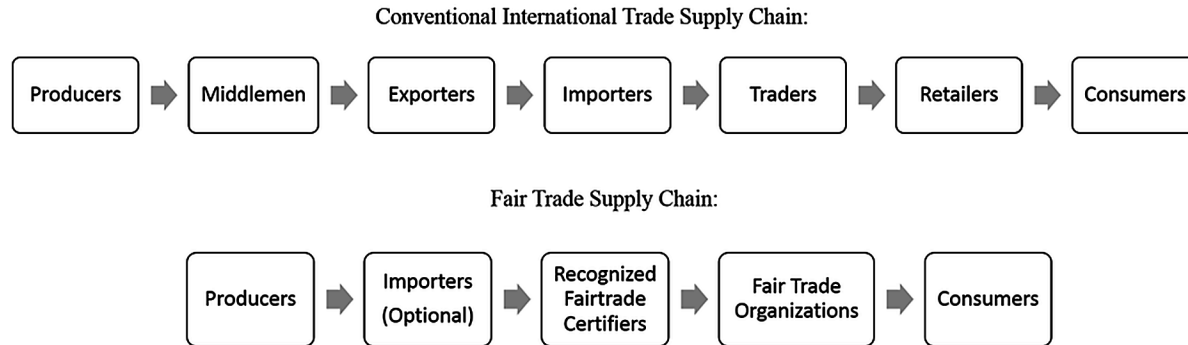
### **INTRODUCTION AND BACKGROUND OF FAIR TRADE**

With the emphasis on business ethics and sustainability, fair trade business has emerged as an alternative approach to conventional international trade. It was a movement beginning in 1950s in western countries, with the objectives of promoting greater equity in international trading partnerships by offering producers in developing countries better trading conditions and secured rights. Fair trade movement suggested that higher process can be paid to exporters with higher ethical and environmental standard. Specifically, the fair trade organizations buy directly from producers in developing countries without the middlemen. Thus, fair trade business demonstrates a complete different supply chain structure from the conventional international trade (Figure 1). While most supply chain literature covers conventional

DOI: 10.4018/978-1-7998-0945-6.ch057

Figure 1. Conventional international trade supply chain vs. fair trade supply chain

Source: Oxfam, 2009.



international trade, it is important to unveil the unique feature of fair trade supply chain management, both from business practices in the west, and in the emerging countries such as China.

To review the industry background of fair trade, it is notable the business strictly follows standards, while offering producers fairer, useful skills and market contacts, in order to help them improve their living conditions. In some cases, similar to green products, they ask customers to pay a slight premium to do the right thing. The detailed principles (Fair Trade USA, 2014) of fair trade are as follows.

- **Fair Prices and Credit:** Democratically organized farming groups receive a guaranteed minimum floor price (or the market price if it's higher) and an additional premium for certified organic products. Farming organizations are also eligible for pre-harvest credit.
- **Fair Labor Conditions:** Workers on Fair Trade farms enjoy freedom of association, safe working conditions and sustainable wages. Forced child and slave labor are strictly prohibited.
- **Direct Trade:** With Fair Trade, importers purchase from Fair Trade producer groups as directly as possible to eliminate unnecessary middlemen and empower farmers to develop the business capacity necessary to compete in the global marketplace.
- **Democratic and Transparent Organizations:** Fair Trade farmers and workers decide democratically how to invest Fair Trade premiums, which are funds for community development.
- **Community Development:** Fair Trade farmers and farm workers invest Fair Trade premiums in social and business development projects like scholarships, schools, quality improvement and leadership training, and organic certification.
- **Environmental Sustainability:** Harmful agrochemicals and GMOs are strictly prohibited in favor of environmentally sustainable farming methods that protect farmers' health and preserve valuable ecosystems for future generations.

Most fair trade supply chain management is operated collaboratively, with key organizations playing important roles. Early fair trade is co-developed with charities, and main products were crafts. In the 1960s to 1970s, Oxfam and other organizations played important role in trading products to assist the producer communities. In 1980s, there were more fair trade products such as coffee, tea and sugar imported for sale in special retailers (World Shops). In the 1990s, the Fair Trade Labelling Organization (FLO) was formed, which set the standard for fair trade products. Since then there were increasingly more institu-

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