

<http://www.unmillenniumproject.org>: the UN Millennium Project, and
<http://www.worldbank.org>: the Data and Research page at Development.

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CHAPTER 4

COMMODITY CHAINS

Where does your breakfast come from?

Aims

- To demonstrate how capitalism serves to conceal the conditions of commodity production
- To introduce commodity chains and their basic components
- To appreciate the differentiation of commodity chains in terms of their structure and geography
- To recognize the possibilities for, and limitations of, more ethical ways of organizing commodity chains.

4.1 Introduction

Wal-Mart is the world's largest retailer by far. In 2004, the company recorded profits of just over US\$10 billion on sales of US\$285 billion across 4,900 stores in 10 countries, and its 1.6 million workers sold goods to some 138 million customers each week. While the huge size and ongoing rapid growth of Wal-Mart have been well documented, where do the products it sells come from? For many of the non-perishable consumer goods on the store shelves – such as toys, clothes, and electronics – the answer is increasingly likely to be *China*. Attracted by the availability of good quality, low price goods, the retailer is rapidly expanding its purchasing activities there. In 2004, Wal-Mart sourced US\$18 billion worth of goods from China, representing 3 per cent of the country's total exports for the year (US\$593 billion), and a remarkable 13 per cent of China's exports to the US (US\$136 billion) (<http://www.chinadaily.com.cn>, accessed 9 September 2005). These figures placed Wal-Mart as China's eighth largest trading partner, ahead of entire national economies such as Australia, Canada and Russia.

This huge sourcing operation is run from Wal-Mart's overseas procurement office in the city of Shenzhen located in China's southern Guangdong province, from which the retailer has established ongoing supply relations with over 5,000 companies. Individual Chinese companies can do huge amounts of business with Wal-Mart. Guangdong's Yili Electronics Group, for example, started supplying hi-fi systems to the retailer in 1995, and now supplies Wal-Mart with over US\$200 million worth of goods each year, accounting for half of Yili's total sales. And Wal-Mart is not alone. Other leading transnational retailers such as Carrefour and Auchan (France), Metro (Germany), Makro (the Netherlands), B&Q (the UK), Ikea (Sweden), and Home Depot (the US) also have extensive sourcing operations in the coastal provinces of China (see Chapter 10, for more on these retailers). In dynamic terms, in almost every case the share of total purchases accounted for by China is growing rapidly.

Why are these trends significant? On one level, they are indicative of the emergence of China as an economic force in the global economy, and the cost-based globalization of manufacturing production. Labour costs in China's manufacturing sector are just 4 per cent of those in the US, meaning that a product can be manufactured in China, packaged, shipped around the world, and sold to an American or European consumer and still return a decent profit for both the manufacturer and the retailer. On another level, and more importantly for this chapter, the example of Wal-Mart's Chinese sourcing opens a window on the way in which distant producers and consumers are connected together by particular commodities that travel the globe on complex journeys from their origins as raw materials, to their final destinations as items bought from the shelf of retailers and then consumed. More specifically, whether they realize it or not, the fortunes of the workers in Yili's factory in Guangdong province are intricately connected to consumers in, say, Austin, Texas – and indeed in many other thousands of locations where Wal-Mart has stores – who buy one of their hi-fi products. Equally, they are connected to workers in the many firms across China and other parts of Asia that supply components to Yili, to the shipping and logistics firms that move the goods from China to the US, to Wal-Mart's own employees, and to specialized service firms that may be called upon to fix the hi-fi should it break or need servicing once purchased. And we could easily trace this web of connections still further. The key point, however, is that one commodity – in this case a hi-fi appliance manufactured in China – connects a diverse range of people together in profoundly important ways, as it traces a chain of connections across the global economy. The simple 'Made in China' label printed on the box nowhere near does justice to the sheer complexity of these spatial and structural interdependencies.

But how can we conceptualize the complex journeys taken by commodities across the global economy? In Chapter 3 we learnt how value is produced in specific, yet interconnected, locations as part of processes of capitalist uneven

development. In this chapter, we develop the notion of *commodity chains* as a way of understanding the connections and interdependencies between different workers, consumers, firms and institutions involved in the production, distribution and consumption of commodities. There are four main sections in the chapter. First, we consider how capitalism as a system hides the connections or social relations inherent to a particular commodity, and reveal the implications of this concealment (Section 4.2). Second, we explore the nature of commodity chains, revealing how they vary in terms of their structure, geography, coordination, and context (Section 4.3). Third, we look at different ways of organizing commodity chains that serve to highlight the various connections along the chain and endeavour to improve them (Section 4.4). Fourth, we evaluate the potential limitations and contradictions that such ethical interventions may generate (Section 4.5).

4.2 Capitalism, Commodities and Consumers

As explained in Chapter 3, capitalism can be thought of as a *commodity* exchange system. A commodity is simply something useful that enters the market and is available for purchase. However, commodities are much more than just material things, such as books or food. In the contemporary world, more and more areas of our everyday life have become caught up in processes of *commodification* (see also Chapter 6 on nature). Domains as varied as culture (e.g. museums and galleries), religion (e.g. celebrity preachers), knowledge (e.g. intellectual property rights), the environment (e.g. carbon credits), war (e.g. private armies) and even the human body (e.g. trade in human organs) have become commodified.

While commodities are central to the capitalist system, at the same time they may serve to hide important dimensions of how they are produced. The *exchange value* of a commodity – i.e. the price – is often indicative of how the commodity was created: the cost of the human labour that went into its production, the costs of machinery, buildings, electricity, trucks and so on that were required, and the profits extracted at various points in the process. And yet the simple price-tag itself reveals nothing of the production process the commodity has undergone and the necessary social relations that connect this production to the commodity's eventual customer. As a result, consumers in the capitalist system are largely ignorant of the geographical origins and histories of the commodities that they consume. The purchase of a commodity for money serves to *disconnect* producers and consumers, encouraging an abdication of responsibility on the part of consumers for the terms and conditions under which the commodity was made. The consumer can simply benefit from the *use value* of whatever they have purchased, i.e. the usefulness of a particular product to an individual. This

poses profound challenges to both conscientious consumers who actively want to know the history of the commodities they consume, and economic geographers who want to understand connections and interdependencies within the global economy. In reality, even just drinking a coffee in a café such as Starbucks makes the consumer complicit – albeit unknowingly in many cases – in complex webs of connections across the globe (Box 4.1).

Box 4.1 *Coffee, cafés, and connections*

Founded in Seattle in 1971, Starbucks has become the largest chain of coffeehouses worldwide. In August 2005, Starbucks had some 6,888 locations in the US, and 2,783 across a further 34 countries, and was serving an estimated 33 million customers each week. New coffeehouse openings were proceeding at a rate of three to four stores worldwide *per day*. The company offers a range of over 30 coffees and teas in addition to a wide variety of snacks and other beverages. Through its marketing and store information strategies, Starbucks endeavours to create a 'knowledgeable' culture of coffee drinking in its cafés. The corporate website, for example, has an extensive 'Coffee Education' area, one page of which describes and contrasts the coffees from Latin America, Africa, and Southeast Asia (under the heading '*Geography is a flavour*': see Figure 4.1). Elsewhere on the website, individual coffees are described in evocative tones such as '*Sulawesi: smooth, buttery, earthy and elegant*'. The strategy is clearly to turn coffee drinking from a routine activity into a more meaningful consumption process involving certain kinds of knowledge about coffee as a commodity with a particular history and geography.

However, it is possible to offer a more critical reading of this sophisticated marketing strategy. The information on offer in Starbucks presents a highly partial interpretation of coffee and its production process (see also Figure 4.5). The structures of domination and exploitation inherent in today's global coffee industry – and indeed their colonial origins – are entirely overlooked. The story of the global coffee industry in the past decade has been one of rising production and falling prices (at least until very recently), and as a result, increasingly marginal working and living conditions for millions of farmers and farm workers in a range of poor tropical countries, many of them highly dependent on coffee exports (which make up over 50 per cent of Ethiopia's total exports, for example). Control of the industry chiefly rests with a small group of Western buying, roasting, and processing companies, the top five of which – Kraft, Nestlé, Sara Lee, Procter and Gamble, and Tchibo – account for 44 per cent of global coffee roasting. These companies have been able to maintain healthy

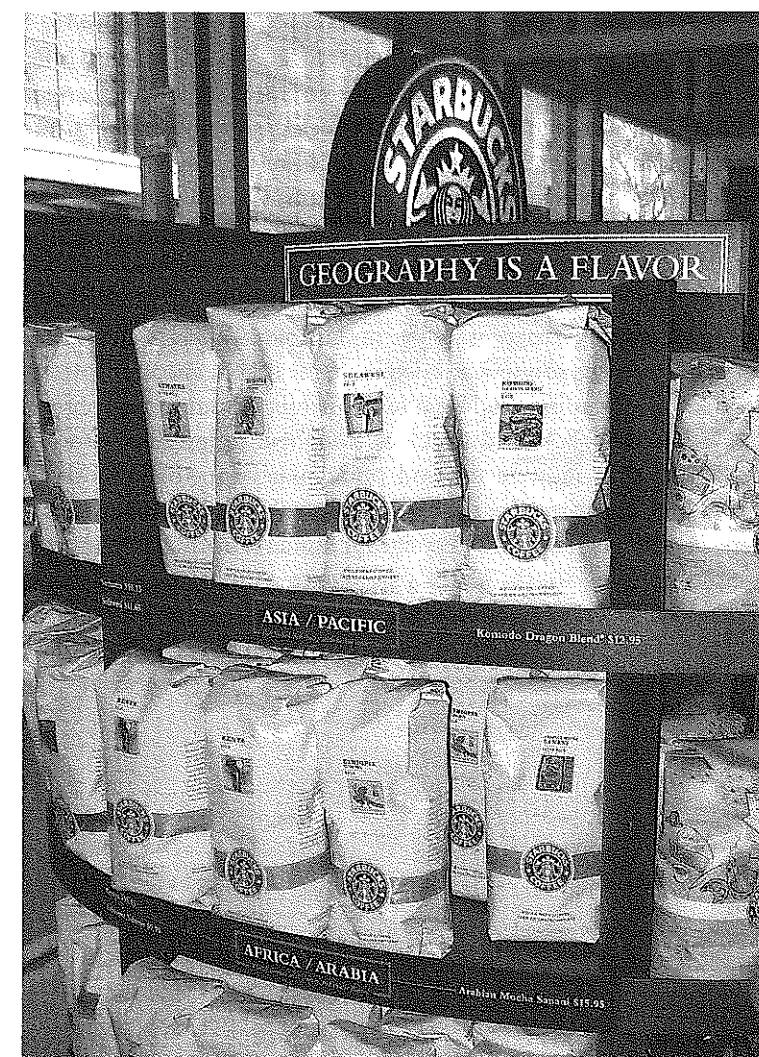


Figure 4.1 *Geography is a flavour . . .*

Source: Clive Agnew, with permission.

profit margins on their various brands, despite the price downturn since the mid-1990s. Western retailers similarly continue to do well from selling coffee. Starbucks, in short, deliberately offers a highly selective and romanticized reading of the global coffee industry in its literature and store displays. As a commodity, however, coffee also has many other less palatable stories to tell. For more, see Smith (1996), Oxfam (2003), and <http://www.starbucks.com>.

Moreover, the *images* we receive about commodities in our everyday life may actively serve to further conceal the origins of commodities. Advertising – a significant economic sector its own right – is extremely important here. Through the creation of various images, advertisers seek to establish time- and place-specific meanings for particular goods and services that may be a far cry from the realities of their production. Think, for example, of adverts for gold jewellery in developed country markets. Through skilfully combining pictures and words, these adverts tend to emphasize certain values and emotions that are associated with the products: love, passion, romance, commitment, and so on (for an engaging attempt to destabilize and subvert advertisements and their central messages, see <http://www.adbusters.org>).

But a more critical reading might ask what is missed out in this representation of gold as a commodity? A gold necklace bought in a jewellery store in a rich world city (Figure 4.2) may be the end point of a series of links that connect consumers to high-security global logistics firms, ring manufacturers in Italy, gold traders in Zurich, black male migrant miners from Lesotho working in appalling conditions in South Africa's gold mines and women left behind in



Figure 4.2 The jewellery shop window – the start or the end of a complex commodity chain?

Source: The authors.

Lesotho working long hours for negligible pay in the textile industry. In this way, 'the gold windows of Tiffany's in New York are linked to the gold widows in Lesotho' (Hartwick, 1998: 433). The harsh reality of the gold industry is that notions of love and commitment stand rather incongruously alongside the legacies of South African apartheid, slave-like working conditions in mines, and abandoned women working in unregulated factories. Curiously, in some cases, places of origin are constructed in certain ways to make the products more 'appealing' and 'positive'. Many up-market consumers are willing to pay more for products made in places well known for them – Swiss watches, Italian clothing, French wines, German cars, and Japanese digital cameras. Packaging of products often comes with labels that give a caricatured view of their places of origin. Coffee beans are often packaged and labelled to emphasize their tropical 'exotic' origins, never mind the poverty level of these severely underdeveloped countries. Advertising, then, acts as a powerful force further accentuating the disconnection of producers from consumers.

By now, the significance of the question in the chapter's title – where does your breakfast come from? – should be clearer. It alludes to the fact that even the most mundane and everyday acts of consumption tie us into these webs of connections, as the following passage makes clear:

Consider, for example, where my breakfast came from. The coffee was from Costa Rica, the flour that made up the bread probably from Canada, the oranges in marmalade came from Spain, those in the Orange juice came from Morocco and the sugar came from Barbados. Then I think of all the things that went into making the production of those things possible – the machinery that came from West Germany, the fertiliser from the United States, the oil from Saudi Arabia . . . It takes very little investigation for the map of where my breakfast came from to become incredibly complicated. I also find that literally millions of people all over the world in all kinds of different places were involved just in the production of my breakfast! The odd thing is that I do not have to know all that in order to eat my breakfast. Nor do I have to know it when I go shopping in the supermarket. I just lay down the money and take whatever it will buy. Most of us know next to nothing about how our breakfast got on the table and even less about the conditions of life of the millions of people involved in its production.

(Harvey, 1989: 3)

Commodities, then, need to be thought of as much more than just their immediate market and use values. Instead, every commodity should be seen as 'a bundle of social relations' (Watts, 1999: 307), or, put another way, as representative of the whole system of connections between different groups of people that have enabled the consumer to make a purchase. In this way, the working conditions that underlie commodity production – and which may be unacceptable to certain consumers – can be revealed, challenged and, eventually, improved. As the quotation suggests, in the contemporary era, this is increasingly about revealing

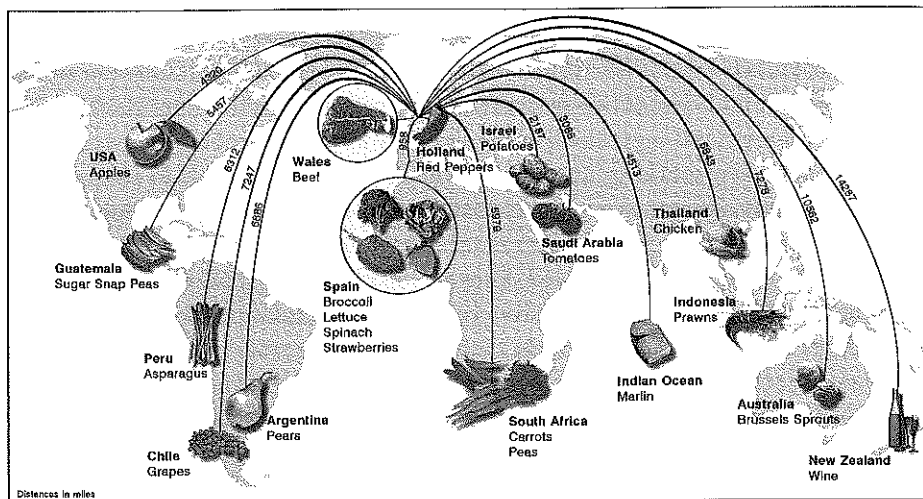


Figure 4.3 Food geographies – a basket of produce bought in a UK supermarket
 Source: Adapted from *The Guardian*, 2003, p. 18.

interdependencies at the *global* scale, even in the case of relatively perishable foodstuffs. Figure 4.3, for example, illustrates how a regular basket of goods bought in the UK may have cumulatively travelled tens of thousands of miles to reach the supermarket shelves. We now move on to look at how the idea of the *commodity chain* can help us connect together the many different actors involved in producing goods and services.

4.3 Linking Producers and Consumers: The Commodity Chain Approach

How then do we bring together all the diverse actors involved in the global travels of a hi-fi system or a breakfast food? The notion of the *commodity* or *production chain* is central to conceptualizing such systems. Figure 4.4 outlines a basic commodity chain, illustrating the transformation of initial material and non-material inputs into final outputs in the form of goods and/or services. This transformation includes primary activities (e.g. production, marketing, delivery, and services) and support activities (e.g. merchandising, technology, finance, human resources and overall infrastructure). The commodity chain, then, is not simply about manufacturing processes: many of the inputs to the chain, and many of the final commodities produced, will take the form of intangible services. In producing a tangible product (e.g. a mobile phone) or a service (e.g. consumer or merchant banking), the various activities are linked together in a chain-like fashion, with each stage adding value to the process of production of

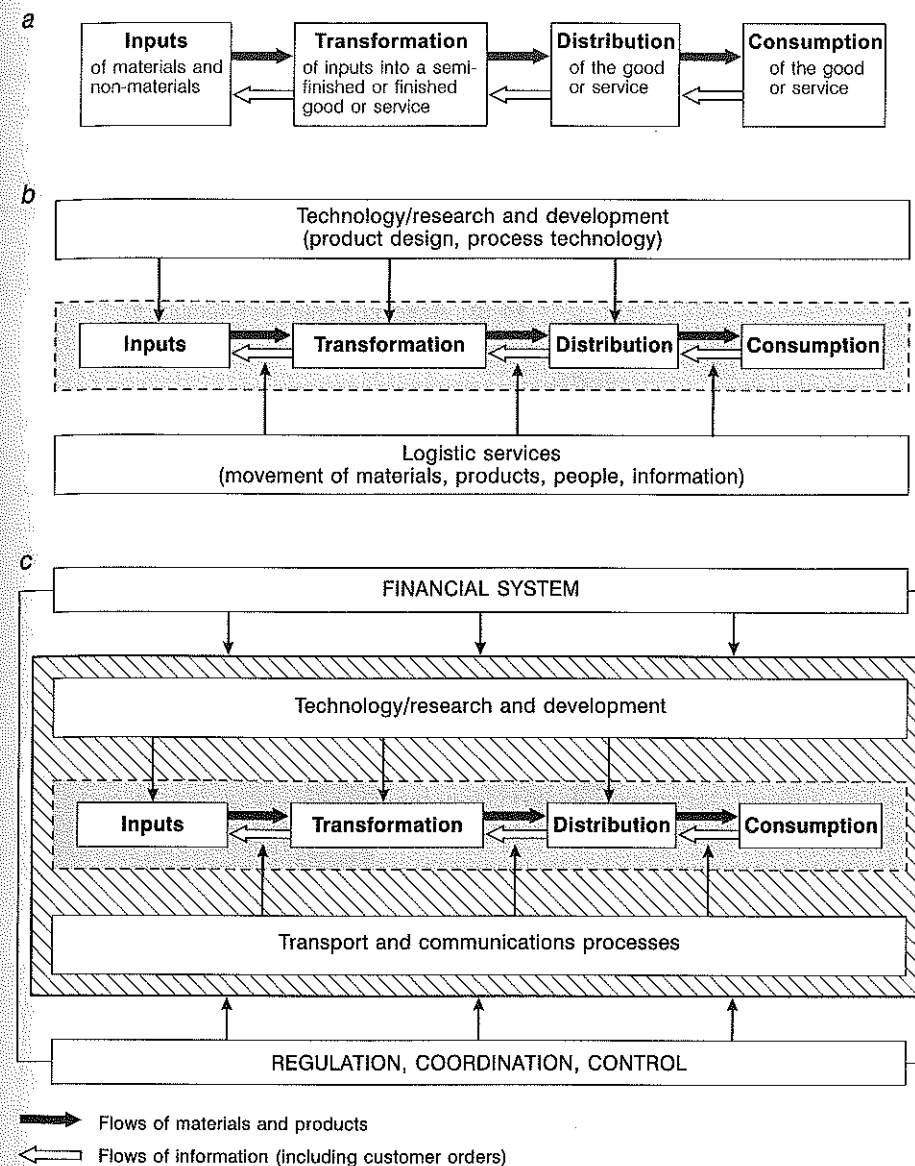


Figure 4.4 The basic commodity or production chain
 Source: Dicken (2003). Figure 2.3. Reprinted by permission of Sage Publications.

the goods or services in question. One good example of such a commodity chain is coffee – a recurrent theme in this chapter. Further to the geographies of coffee beans explained in Box 4.1, Figure 4.5 shows how the market value (price traded) of a bag of coffee beans is derived and the costs and profits encountered by various producers and intermediaries.

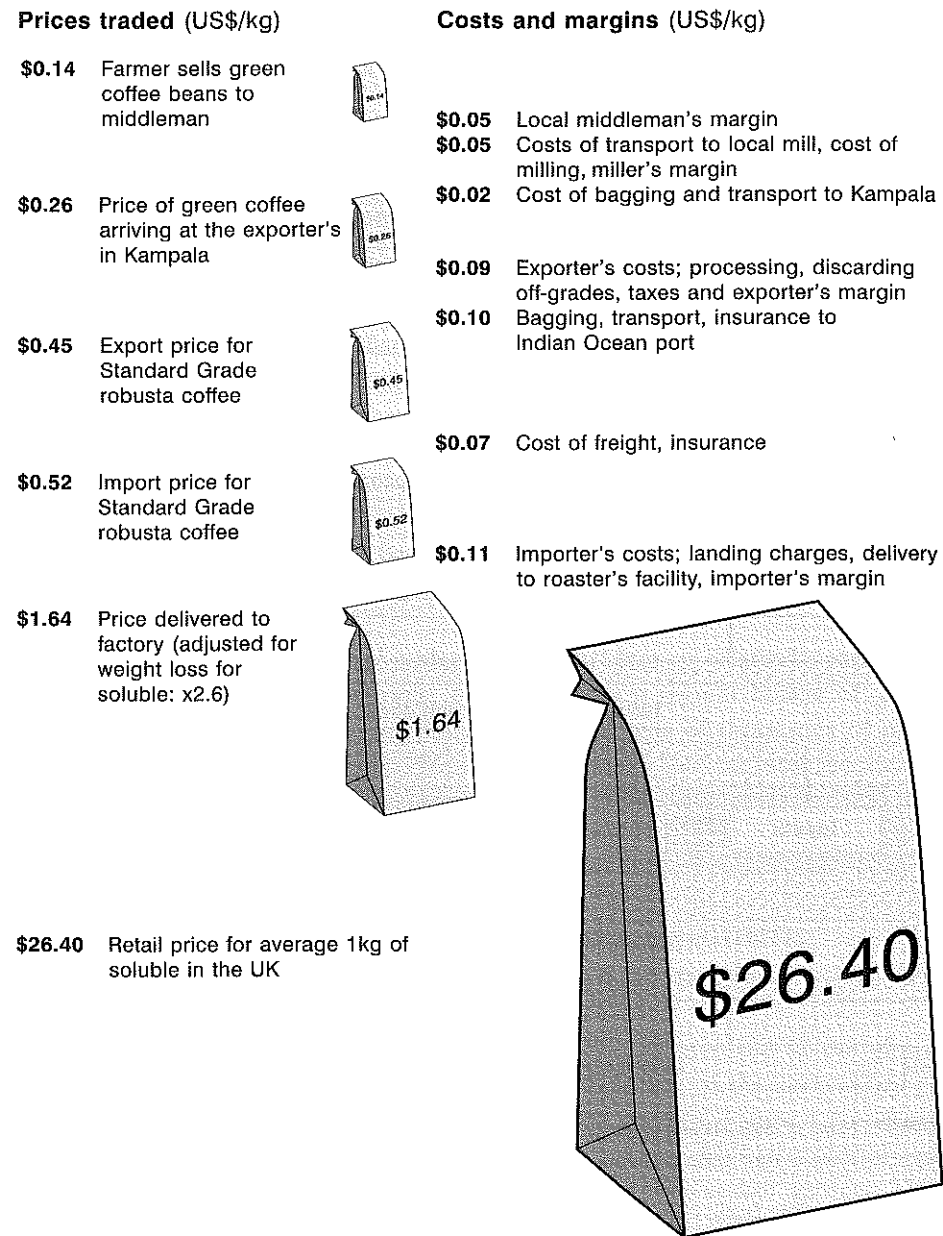


Figure 4.5 The coffee value chain

Source: Adapted from Oxfam (2003: 24) (no figure number).

Understanding the sequence and range of actors involved in a particular commodity chain – sometimes known as its *input-output structure* – is the first step towards developing a good understanding of commodities and their production processes. However, there are three further important dimensions to all commodity chains that we will now consider in turn: their geography or *territoriality*; the way in which they are coordinated and controlled i.e. their *governance*; and the way in which local, national and international conditions and policies shape the various elements in the chain, i.e. their *institutional frameworks* (Gereffi, 1994).

Spatial structures

In very simple terms, the geography of a commodity chain can range from being *concentrated* in one particular place, to being widely *dispersed* across a range of localities. As the earlier quotation about breakfast commodities makes vividly clear, it is hard to identify a commodity chain in the contemporary global economy that is not global to at least some degree, even if it is just seen in the sourcing of one or two inputs, or a limited export market for the final good/service. Many bring together an extensive range of international connections. *Global commodity chains*, as they have come to be called, are one of the primary organizational features of the world economy (Gereffi, 1994). This territoriality is important not only because it determines precisely which actors are connected together across the global economy, but also in revealing the unequal geographical distribution of value, and associated economic development benefits, between different points along the chain. As we saw in Chapter 3, the location of high value-added activities (e.g. design, marketing, etc.) in global cities is particularly important in the spatial inequality engendered through these commodity chains.

We can make five further arguments about the territoriality of commodity chains. First, in general, the *geographical complexity* of global commodity chains is increasing, enabled by a range of developments in transport, communication and process technologies. This complexity is illustrated in Figure 4.6, which shows the production system for hard disk drives, a key component of personal computers. The various tasks shown are distributed across a wide range of countries. Globally, the majority of disk drive assembly takes place in Southeast Asia, particularly Singapore and Thailand. In 2000, Singapore maintained a 35 per cent share of the world's hard disk drive market by volume. The leading American manufacturer Seagate, for example, splits the tasks shown in Figure 4.6 between operations in the US, China, Thailand, Malaysia, Indonesia, the Philippines and Singapore, the latter being a key hub where a lot of the final assembly and testing takes place. If the commodity chain was extended to include the production process of the whole personal computer, and incorporate its final consumption, the geographic complexity would, of course, increase still further (see examples in Chapter 8).

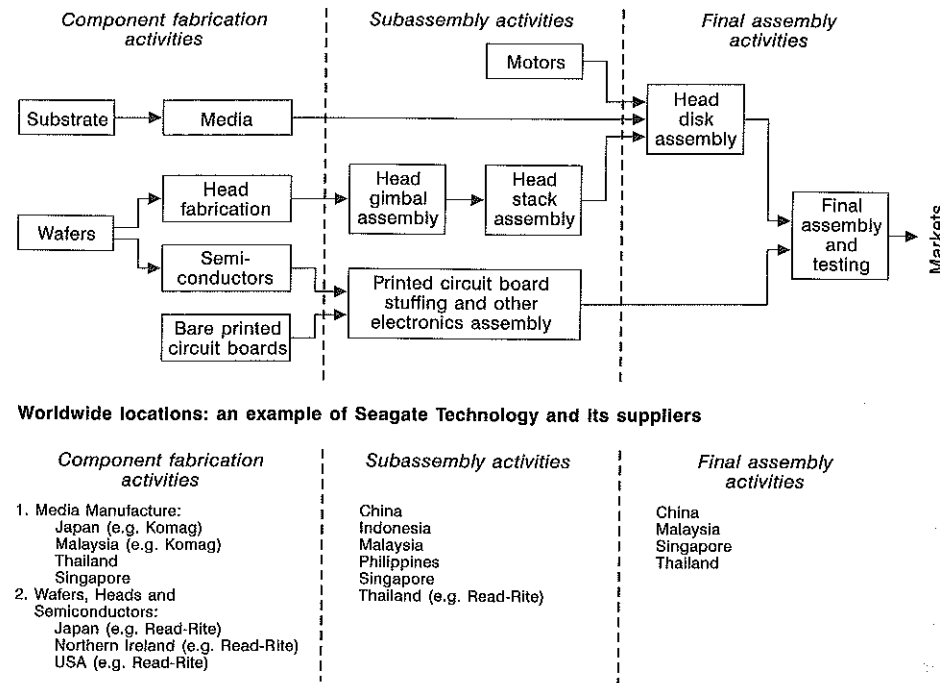


Figure 4.6 The geography of the hard disk drive commodity chain
 Source: Adapted from Gourevitch et al., (2000), Figures 1 and 3.

Second, the geographic configurations of global commodity chains are becoming *more dynamic* and liable to rapid change. This flexibility derives both from the use of certain space-shrinking technologies (see Chapter 5), and from organizational forms that enable the fast spatial switching of productive capacity. In particular, this flexibility comes from the increased use of *external* subcontracting and strategic alliance relationships that allow firms to switch contracts between different firms and places without incurring the costs of moving production themselves (see more in Chapter 8). Third, and relatedly, understanding the geography of commodity chains is not as simple as locating each stage in a particular place or country. Global commodity chains also reveal the dynamics of *inter-place competition*. Firms in different localities may be vying for market share at different points along the chain. The global catfish commodity chain is revealing here (Figure 4.7). Catfish farmers in Vietnam's Mekong delta are not just connected to the US as a key export market, but also through relations of competition with catfish producers in the Mississippi delta region who are also seeking to sell in the US market. In other words, different localities involved in a global commodity chain may engage in competitive upgrading strategies to protect market shares and profitability (Box 4.2).

Box 4.2 Upgrading strategies in global commodity chains

It is important to view the value structures of commodity chains in dynamic terms. Upgrading refers to the potential for firms, or groups of firms, to improve their relative position within the system as a whole. It is useful to distinguish between four different types of upgrading (Humphrey and Schmitz, 2004):

- *Process upgrading*: Improving the efficiency of the production system by either reorganizing the production process or introducing superior technologies. For example, a car manufacturer might introduce robot technology to speed up its assembly lines.
- *Product upgrading*: Moving into making more sophisticated products or services. For example, a basic food processing firm might start making prepared frozen meals, or a financial firm might offer new kinds of insurance products.
- *Functional upgrading*: Acquiring new roles in the chain (and/or abandoning existing functions) in order to increase the overall skill content and level of 'value-added' of the activities undertaken. An electronics manufacturer, for example, might move from simple assembly to original equipment manufacturing (OEM) to own-design manufacture (ODM) to own-brand manufacturing (OBM) (see more in Chapter 8).
- *Inter-sectoral upgrading*: Using the knowledge derived from a particular chain to move into different sectors. For example, a firm might use its experience of making televisions to enable it to move into computer monitor making.

At the level of the individual firm, successful upgrading strategies can transform fortunes. The Turkish clothing firm Erak, for example, has developed from a clothing manufacturer supplying Germany's Hugo Boss into a global clothing brand and retailer through its Mavi jeans products. More broadly, successful upgrading lay behind the emergence of the newly industrializing economies of Asia and Latin America from the 1960s onwards (see also Box 7.2). The Taiwanese electronics industry, for example, has benefited from all four kinds of upgrading processes to develop from a base for foreign-owned electronics assembly into one of the world's leading centres for designing and producing new computer technologies in the global economy. For many other developing countries, facilitating upgrading across a wide range of sectors remains a key policy concern, as they seek to gain a greater share of the spoils of global commodity chains for clusters of local firms.

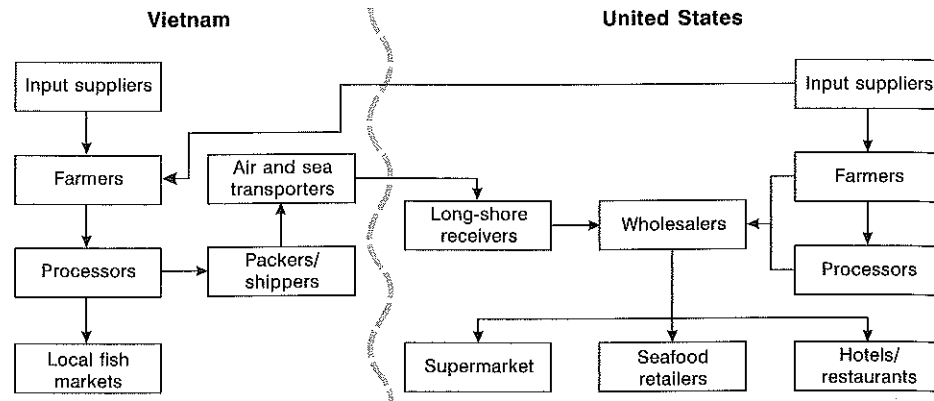


Figure 4.7 The catfish commodity chain
 Source: Adapted from Duval-Diop and Grimes (2005), Figure 5.

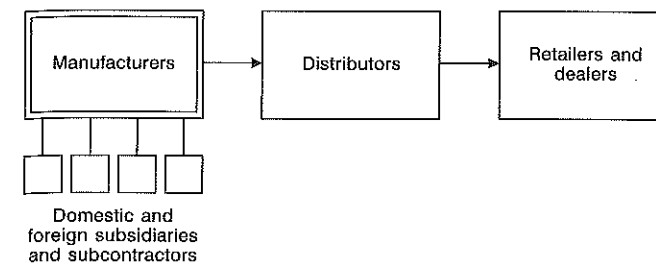
Fourth, it is important to re-emphasize that global commodity chains are not just a feature of agricultural and manufacturing sectors, but are also apparent in many *service sectors*. For example, many service firms now find it advantageous to conduct routine data processing and software programming functions in overseas sites – India, Mauritius, Jamaica and Trinidad and Tobago are prime examples – where there is relatively low cost labour. Fifth, and finally, we need to connect these ideas about the geographical extensiveness and complexity of global commodity chains with the arguments about the geographical *clustering* of economic activity (see Chapter 5 for more). Some kinds of interactions within commodity chains will take place within the same locality, due to, for example, the intensity of transactions or the importance of place-specific knowledge to the activity in question. For these ‘nodes in global networks’, commodity chains are the organizational forms that connect clusters and agglomerations together.

Understanding the input-output structure and territoriality of a commodity chain is undoubtedly important, but still leaves questions unanswered. Think of Wal-Mart. Who controls the organizational structure and nature of its global commodity chain? Who decides where inputs are purchased from, and where final goods and services are sold? Who shapes the restless geographies of commodity chains? This brings us on to the important issue of governance.

Management processes

Thus far we have seen how commodity chains are constituted by a mix of intra-firm and inter-firm linkages, and a combination of near and distant connections. In most cases, however, the chain will have a primary coordinator or a lead firm ‘driving’ the system as a whole. In general terms, it is helpful to distinguish

Producer-driven commodity chains



Buyer-driven commodity chains

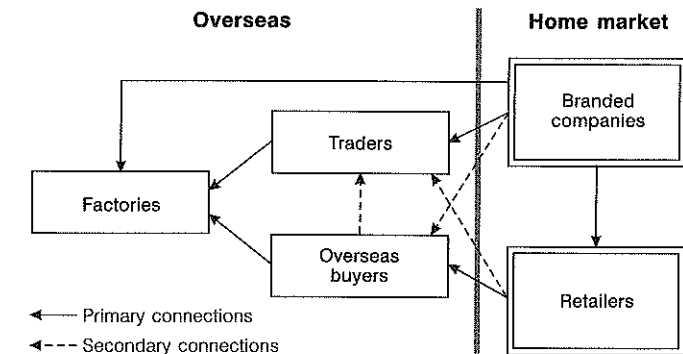


Figure 4.8 Producer-driven and buyer-driven commodity chains
 Source: Adapted from Gereffi (1994), Figure 5.1.

between chains that are *producer-driven* and those that are *buyer-driven* (Gereffi, 1994: see Figure 4.8).

Producer-driven chains are commonly found in industries where large industrial transnational corporations (TNCs) play the central role in controlling the production system (see also Chapter 8). This situation is found in many capital- and technology-intensive industries such as aircraft, automobile, computer, semiconductor, and machinery manufacturing. These chains are notable for the degree of control exercised by the administrative headquarters operations of TNCs. Producers dominate such chains not only in terms of their earnings and profitability, but also through their ability to exert control over backward linkages to raw material and component suppliers, and forward linkages with distributors and retailers. Profits are secured through the scale and volume of production in combination with the ability to lead technological developments. The automobile industry provides an excellent example of this kind of chain. Leading assemblers such as Toyota and Ford coordinate production systems involving literally thousands of subsidiaries and tiers of subcontractor firms dotted around the world, as well as extensive global networks of distributors and dealers.

Table 4.1 Characteristics of producer-driven and buyer-driven chains

	Form of economic governance	
	Producer-driven	Buyer-driven
Controlling type of capital	Industrial	Commercial
Capital/technology intensity	High	Low
Labour characteristics	Skilled/high wage	Unskilled/low wage
Controlling firm	Manufacturer	Retailer
Production integration	Vertical/bureaucratic	Horizontal/networked
Control	Internalised/hierarchical	Externalised/market
Contracting/outsourcing	Moderate and increasing	High
Suppliers provide	Components	Finished goods
Examples	Automobiles, computers, aircraft, electrical machinery	Clothing, footwear, toys, consumer electronics

Source: Adapted from Kessler and Applebaum (1998).

Buyer-driven chains, on the other hand, tend to be found in industries where large retailers (e.g. Wal-Mart, Carrefour, or Ikea) and brand-name merchandisers (e.g. Adidas, Nike, and The Gap) play the central role in establishing and controlling production systems, usually located in export-oriented developing world countries (see Figure 4.8). This form of commodity chain is common in labour-intensive consumer goods sectors, such as clothing, footwear, toys, and handicrafts. Production is generally carried out through tiered networks of sub-contractors that make finished goods subject to the specifications of powerful buyers. Profits in these chains are derived from the bringing together of design, sales, marketing, and financial expertise, allowing the retailers and merchandisers to connect overseas factories with the main consumer markets. Hence control is enacted through the ability of firms to shape mass consumption patterns through strong brand names and meet this demand through global sourcing strategies. The basic characteristics of producer- and buyer-driven commodity chains are summarized and contrasted in Table 4.1.

The distinction between producer- and buyer-driven commodity chains is a useful first step towards understanding chain governance. In reality, however, governance is far more complex and variable both within, and between, different economic sectors. Equally, a chain need not necessarily be coordinated by either a large manufacturer or a retailer. Box 4.3 describes a particular kind of intermediary in coordinating global commodity chains – the Japanese *sogo shosha*. As neither manufacturers nor retailers – but well positioned in networks of manufacturers and retailers, these very large trading companies possess strong organizational capabilities to coordinate even the most complex global commodity chains.

Box 4.3 Trading giants – the Japanese *sogo shosha*

The Japanese *sogo shosha* provide a fascinating example of the importance of logistics and distribution companies in the global economy. *Sogo shosha* translates directly as ‘general trading company’, but this does not really do justice to the range of functions they perform. The *sogo shosha* have long played an important role in the Japanese economy. During the 1960s, they were the first Japanese firms to venture overseas, acting as global marketing and intelligence gathering networks and thereby facilitating subsequent trade and Japanese foreign direct investment. The seven leading *sogo shosha* – Marubeni, Mitsui, Mitsubishi, Itochu, Nissho-Iwai Nichimen, Sumitomo, and Tomen – are now massive commercial, financial, and industrial conglomerates. They each operate huge networks of subsidiaries and affiliates across the global economy. In 2003, for example, Marubeni employed some 25,000 staff and registered total sales of almost US\$70 billion across 263 affiliates in 38 countries, and Mitsubishi had 47,400 staff and total sales of US\$134 billion from 309 affiliates in 31 countries (<http://www.unctad.org>, accessed 6 October 2005). Each of these firms handles tens of thousands of different products. More specifically, they perform four particular functions (Dicken and Miyamachi, 1998):

- 1 *Trading intermediation*: matching buyers and sellers in long-term contractual relationships.
- 2 *Financial intermediation*: serving as a buffer between buyers and suppliers.
- 3 *Information gathering*: gathering and synthesizing information on market conditions around the world.
- 4 *Organization and coordination of complex business systems*: as seen in the case of large infrastructure projects.

The role of the *sogo shosha* has changed in two important ways over the past two decades. First, their share of Japanese trade has fallen substantially: in 1991, they accounted for almost 60 per cent of Japan’s imports and 50 per cent of exports, while by 2002 these figures had dropped to 22 and 12 per cent respectively. In part, these changes reflect how Japan’s manufacturing companies have established their own marketing and sales networks overseas. Second, the nature of the business undertaken by the *sogo shosha* has changed, with 79 per cent of foreign affiliates being involved in service activities – including finance, insurance, transportation, and project management – in contrast to the historic focus on manufacturing.

In this regard, it is useful to think of *relational* forms of governance that fall in between the producer- and buyer-driven models (Gereffi et al., 2005). These can be thought of as close inter-firm relationships that develop on a relatively even footing. The example of the trade in fresh vegetables such as peas and beans between Kenya and the UK is useful here (Dolan and Humphrey, 2004). Up until the mid-1980s, trade was handled through a series of market relationships between Kenyan farmers and exporters, and UK-based importers and traders, wholesalers and retailers. However, as UK supermarkets such as Tesco, Sainsburys and Asda have grown in size and expanded their market share, they have started to control and coordinate more directly the commodity chain. In order to try and attract customers, the supermarkets have introduced new varieties of fresh goods, placed heavy emphasis on quality, provided year-round supply, and increased the processing of products so they require little or no preparation before cooking. As a result, instead of buying vegetables through wholesale markets, they have developed closer, non-market-based relationships with UK importers. By the mid-1990s, a relational governance system had emerged in which the supermarkets work directly with a limited number of UK importers with whom they have established long-term relationships. The importers have moved beyond a trading role, offering a range of services including processing and handling, monitoring quality, finding new sources of supply, and supporting African producers, and assessing their performance. The governance of a commodity chain should always be seen in dynamic terms, however. Over time, the previously buyer-driven relationships between importers and Kenyan exporters are also becoming more relational as the capabilities of the exporters grow and they are able to take on more processing of the produce.

Institutional contexts

Commodity chain governance, then, is both a complex and a highly dynamic affair. Its nature does not just depend on the sector or industry in question, but also on the precise array of places that are connected together by the chain. This is because every point on the chain is connected to, and shaped by, the *institutional context* in which it is situated or embedded. In reality, the intersections between complex commodity chains (e.g. Figure 4.6) and their institutional contexts are many and varied.

We need to discern between different institutional contexts in two ways to make sense of this complexity. First, we can distinguish between *formal* and *informal* institutional frameworks. The former relates to the rules and regulations that determine how economic activity is undertaken in particular places (e.g. trade policy, tax policy, incentive schemes, health and safety/environmental regulations, etc.), while the latter describes less tangible, place-specific *ways-of-doing business* that relate to the entrepreneurial and political 'cultures' of particular places (see also Chapter 11). Second, it is useful to think about how

institutional context is important at the global scale, local and regional scale, and promote certain holidays for firms at the national scale, nation-states can influence, motivate, and steer, etc. (more). At the macro-regional influence on trade and global scale, institutions like the International Monetary Fund and trade relations chain, then, will cross-cut and influence contexts. A banana commodity chain may be affected by corporate strategies. Ecuadorian and French economic policies, the Andean Common Market and the European Union, in addition to any more localized institutions. In St Lucia, a small Caribbean island with 150,000, two-thirds of its 10,000 banana producers in the traditional export market, the UK, had to make an arrangement with St Lucia in August 2005. banana companies such as Chiquita filed complaints with the British trade preference for its former colony and favour.

We can further illustrate the profound impacts that institutional contexts can have on commodity chains by returning to the coffee industry. Over 90 per cent of the world's coffee is produced in the developing world (Central and Latin America, Africa, and East Asia), while the vast majority is consumed in developed countries. A commodity chain that straddles these two groups of countries is discussed in Figure 4.9 (Ponte, 2002). The changing institutional context for the coffee industry is considered at both the global and national scales. On the global scale, from the period 1962–89, the international trading of coffee was governed by the International Coffee Agreements (ICAs) managed by the International Coffee Organization (ICO), a supra-national organization constituted by representatives of a wide range of coffee importing and exporting countries (see www.ico.org). The ICAs combined price bands and export quotas to provide a coffee trading system that was widely credited with raising and stabilizing coffee prices. At the national scale, many exporting countries established coffee marketing boards. These were government institutions that controlled markets and monitored quality within producing countries and acted as a link to exporters and international traders (Figure 4.9). For individual farmers and growers, they provided an important buffer between themselves and international markets.

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Roasted/instant coffee

Green coffee

In this regard, it is useful to think of *relational* forms of governance that fall in between the producer- and buyer-driven models (Gereffi et al., 2005). These can be thought of as close inter-firm relationships that develop on a relatively even footing. The example of the trade in fresh vegetables such as peas and beans between Kenya and the UK is useful here (Dolan and Humphrey, 2004). Up until the mid-1980s, trade was handled through a series of market relationships between Kenyan farmers and exporters, and UK-based importers and traders, wholesalers and retailers. However, as UK supermarkets such as Tesco, Sainsburys and Asda have grown in size and expanded their market share, they have started to control and coordinate more directly the commodity chain. In order to try and attract customers, the supermarkets have introduced new varieties of fresh goods, placed heavy emphasis on quality, provided year-round supply, and increased the processing of products so they require little or no preparation before cooking. As a result, instead of buying vegetables through wholesale markets, they have developed closer, non-market-based relationships with UK importers. By the mid-1990s, a relational governance system had emerged in which the supermarkets work directly with a limited number of UK importers with whom they have established long-term relationships. The importers have moved beyond a trading role, offering a range of services including processing and handling, monitoring quality, finding new sources of supply, and supporting African producers, and assessing their performance. The governance of a commodity chain should always be seen in dynamic terms, however. Over time, the previously buyer-driven relationships between importers and Kenyan exporters are also becoming more relational as the capabilities of the exporters grow and they are able to take on more processing of the produce.

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institutional context is important at different *spatial scales*. At the sub-national scale, local and regional governments may implement a range of policies to try and promote certain kinds of economic development in the locality (e.g. tax holidays for firms that undertake more research and development). At the national scale, nation-states still wield a huge range of policy measures to try and promote, and steer, economic growth within their boundaries (see Chapter 7 for more). At the macro-regional scale, a variety of regional blocs have considerable influence on trade and investment flows within their jurisdiction. And at the global scale, institutions such as the World Trade Organization (WTO) and the International Monetary Fund (IMF) shape the rules-of-the-game for global financial and trade relationships. Even a relatively simple global commodity chain, then, will cross-cut and connect a wide range of multi-scalar institutional contexts. A banana commodity chain linking Ecuador and France, for example, may be affected by corporate strategies of French and American banana firms, Ecuadorian and French economic policies, by the rules and regulations of the Andean Common Market and the European Union, by WTO rules and regulations, in addition to any more localized policy initiatives within the two countries. In St Lucia, a small Caribbean island state with a population of about 150,000, two-thirds of its 10,000 banana farmers lost their revenue when its traditional export market, the UK, had to surrender its preferential trade arrangement with St Lucia in August 2005. This is because US-controlled banana companies such as Chiquita filed complaints with the WTO against the British trade preference for its former colony and the WTO ruled in Chiquita's favour.

We can further illustrate the profound impacts that changing institutional contexts can have on commodity chains by returning to the example of the coffee industry. Over 90 per cent of the world's coffee is grown in the developing world (Central and Latin America, Africa, and East and Southeast Asia), while the vast majority is consumed in developed countries. The coffee commodity chain that straddles these two groups of countries is depicted in Figure 4.9 (Ponte, 2002). The changing institutional context for the coffee chain can be considered at both the global and national scales. On the *global* scale, in the period 1962–89, the international trading of coffee was governed by a series of International Coffee Agreements (ICAs) managed by the International Coffee Organization (ICO), a supra-national organization constituted by representatives of a wide range of coffee importing and exporting countries (see <http://www.ico.org>). The ICAs combined price bands and export quotas to provide a coffee trading system that was widely credited with raising and stabilizing coffee prices. At the *national* scale, many exporting countries established coffee marketing boards. These were government institutions that controlled markets and monitored quality within producing countries and acted as a link to exporters and international traders (Figure 4.9). For individual farmers and growers, they provided an important buffer between themselves and international markets.

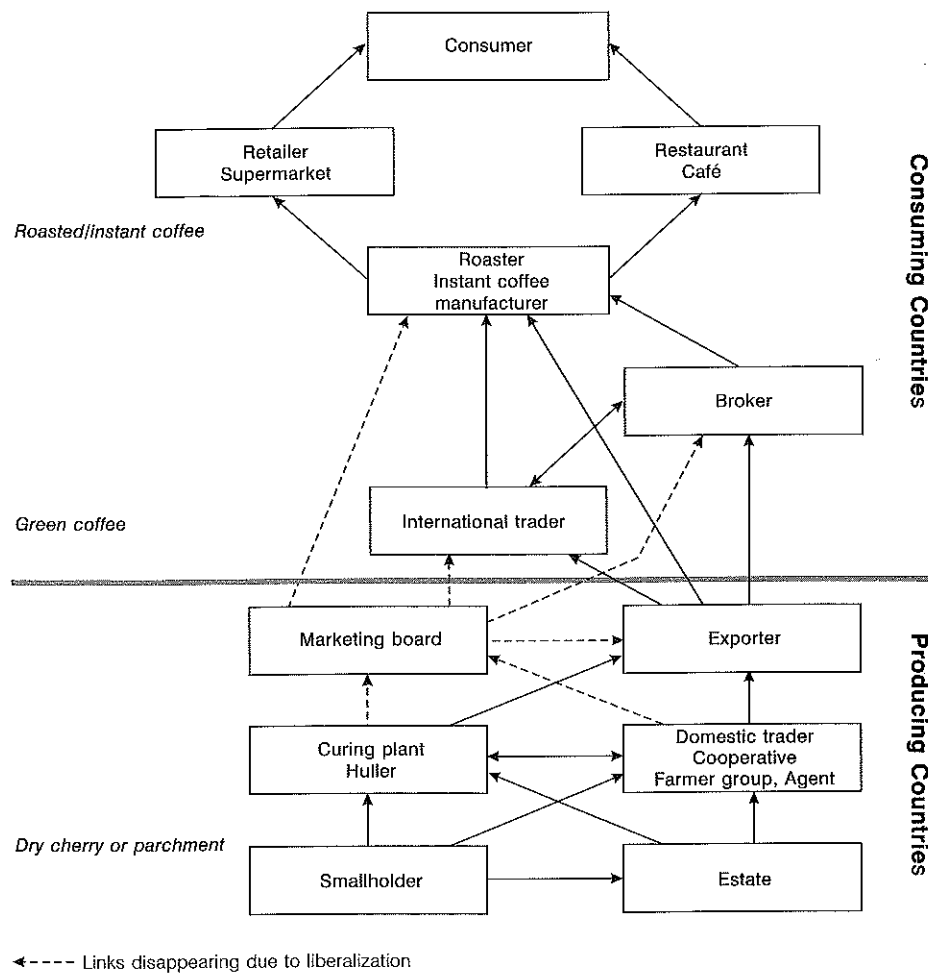


Figure 4.9 The coffee commodity chain: the changing institutional framework
 Source: Adapted from Ponte (2002), Figure 1.

In 1989, however, the ICA was not renewed in the face of rising production levels and low-cost competition from non-member exporting countries. The ending of the ICA regime has dramatically altered the balance of power in the coffee chain, as the now liberalized, market-based coffee trade regime has led to lower and more volatile coffee prices. Power has been concentrated in the hands of consuming country firms, and in particular a small group of roasters and instant coffee manufacturers (Box 4.1). These firms are also increasingly applying stringent quality standards that have implications all the way down the chain to the farmers. It has been estimated that the percentage of income from the coffee chain that is retained in the developed markets has gone up from 55 to 78 per cent in the post-ICA era, while the proportion of income accrued by

growers has fallen from 20 to 13 per cent (see also Figure 4.5). At the same time, the national coffee marketing boards in the exporting countries have either been eliminated, or have retreated into a restricted overseeing role that has left them marginalized within the commodity chain (Figure 4.9). As a result of these changes to the inter-linked international and national institutional contexts, millions of coffee smallholders and farmers worldwide are left open to the full force of the global coffee market and its fluctuating prices. At its worst, this can lead to a situation where farmers receive less for their crop than it actually costs them to produce it. The example of coffee clearly shows how changing institutional frameworks can significantly affect all three of the other basic dimensions of a commodity chain, namely the input-output structure (e.g. the bypassing of coffee marketing boards), territoriality (e.g. the rapid growth of production in Vietnam), and governance (e.g. the accumulation of power with roasting/processing firms).

Overall, this section of the chapter has shown how commodity chains are organizational platforms that link producers and consumers together, within certain institutional contexts, across the global economy. The precise form taken by individual commodity chains varies greatly – both within and between different sectors of the economy – in terms of their structure, geography, governance and institutional context. Understanding this variability and complexity is a vital step towards trying to *change* how commodity chains function. We now move on to consider the potential for different ways of trying to change, or *re-regulate*, commodity chains in ways that negate some of the less desirable aspects of commodity production, circulation and consumption.

4.4 Re-regulating Commodity Chains: The World of Standards

There are many different ways in which various players may seek to alter the prevailing ways in which a commodity chain operates. In Chapter 6, we will look at how efforts can be made to mitigate the environmental impacts of certain commodity chains. In Chapter 9, we will see how certain groups of workers have the necessary *agency* to challenge established ways of working in their industry through engaging in different forms of *production politics*. Here, however, we want to explore the potential for different forms of *consumption politics*, i.e. interventions initiated at the consumption end of commodity chains through a desire to improve conditions at various points 'up' the chain. This is often also termed *ethical consumption* in that it seeks to be actively aware of social and geographical connections inherent to commodity chains and their implications.

Perhaps the simplest form of consumer campaign is to *boycott* – i.e. not purchase – the products of a particular company. For example, a boycott launched

in 1977 against the giant Swiss foodstuffs company Nestlé, prompted by concerns over the company's promotion of baby milk formula in the developing world, is still in operation across 20 countries (see <http://www.ibfan.org> for more).

We can also identify *corporate campaigns* that seek to target highly visible corporations by mobilizing information regarding violations against workers or the environment. The United Students Against Sweatshops (USAS) campaign in the US, for example, used a series of university campus protests and sit-ins in 1999 to force university administrators and firms such as Nike to be far more transparent about their licensing arrangements and production systems in the US\$2.5 billion college apparel sector (for more, see *Antipode*, 2004). However, the development of various kinds of *benchmarks* or *standards* – against which various end products and their production processes can be measured – are an increasingly important part of commodity chain regulation within the global economy. Indeed, while the kinds of consumer campaigns just described were particularly popular in the late 1980s and the 1990s as some of the downsides of globalization became evident to consumers and consumer groups (see also Section 8.6), most such campaigns are now tied to pushing for corporate adherence to standards and responsibilities of various kinds.

As Table 4.2 illustrates, however, the world of standards is a broad and varied one. First, they can be applied to different aspects of the commodity chain, for example, health or labour conditions. Second, the precise form they take may be a code of conduct, a label on a finished product, a tightly specified technical standard, a set of voluntary initiatives or some combination of all of these. Third, the standard may apply to a particular chain (e.g. fresh tomatoes), a sector (e.g. fresh fruit and vegetables), or be generic (e.g. a safety standard to sell an electrical good in a particular national market). Fourth, while consumer campaigns are clearly the domain of end consumers (and sometimes labour unions), standards may be developed by firms, NGOs, trade unions, or international organizations, and usually involve a combination of some, or all, of these institutions. Fifth, the certification or accreditation of standards (i.e. the assessing of whether they have been met) may be undertaken by a variety of different parties (both public and private, for profit and not for profit). Sixth, the regulatory impacts will vary from the voluntary (e.g. seeking 'Fairtrade' status for a product) to the mandatory (e.g. safety standards for plastic toys and organic certifications for food). Finally, standards are innately *geographical* in two different ways: in terms of the territory within which they apply to the consumption of particular products, and in the way in which they have implications further down a chain that may connect many disparate territories.

Here, we will use the first of these many lines of variation to explore some concrete examples of standards in practice, looking in turn at initiatives aimed primarily at the labour, economic, and quality assurance aspects of commodity chains. The UK's Ethical Trading Initiative (ETI) is a multi-stakeholder organization established in 1997, and funded jointly by its membership and the UK

Table 4.2 The world of standards

Attribute of standard	Variability
Field of application	<ul style="list-style-type: none"> • Quality assurance • Environmental • Health and safety • Labour • Social/economic • Ethical
Form	<ul style="list-style-type: none"> • Codes of conduct • Label • Standard
Coverage	<ul style="list-style-type: none"> • Firm/commodity chain specific • Sector specific • Generic
Key drivers	<ul style="list-style-type: none"> • International business • International NGOs • International trade unions • International organizations
Certification process	<ul style="list-style-type: none"> • First, second or third party • Private sector auditors • NGOs • Government
Regulatory implications	<ul style="list-style-type: none"> • Legally mandatory • Market competition requirement • Voluntary
Geographical scale	<ul style="list-style-type: none"> • Regional (e.g. a US-state) • National • Macro-regional (e.g. the EU) • Global

Source: Adapted from Nadvi and Waltring (2004).

government's Department for International Development (DFID) (the Fair Labor Association is a similar initiative in the US context). By 2005, the ETI was constituted by 35 corporate members (leading retailers and suppliers selling into the UK market, e.g. Asda, The Gap, Tesco), 17 NGOs (including many charities such as Christian Aid and Oxfam), and representatives from four international trade unions. The ETI has established a labour code that members can apply to their supply chain activities. The Base Code consists of the following nine provisions (<http://www.ethicaltrade.org>; accessed 29 September 2005):

- Employment is freely chosen.
- Freedom of association and the right to collective bargaining are respected.
- Working conditions are safe and hygienic.
- Child labour should not be used.
- Living wages are paid.
- Working hours are not excessive.
- No discrimination is practised.
- Regular employment is provided.
- No harsh or inhumane treatment is allowed.

While most of the retailers use large international, independent social auditors such as Bureau Veritas, some pass on the auditing role to key suppliers, and others seek the involvement of NGOs with an on-the-ground presence in key source areas (Hughes, 2005). Interestingly, the ETI explicitly chooses not to pursue a label, arguing that it is simply not possible for a retailer to know about labour conditions at all points on every commodity chain, and also that several of the Base Code provisions rely partly on government action in source countries (e.g. the right to form a labour union).

In contrast to this focus on labour conditions, the fair trade movement is more centrally concerned with the *economic* returns that primary producers secure for their commodities. One of the leading examples is the UK Fairtrade Foundation, which was established in 1992 by a group of charities and NGOs and is part of the Fairtrade Labelling Organizations International, which coordinates 20 national initiatives across Europe, North America, Japan, and Australia/New Zealand. The Fairtrade mark is a certification label awarded to products sourced from the developing world that meet international standards of fair trade, carrying the strap-line 'Guarantees a better deal for Third World producers'. Under Fairtrade labelling, there are two sets of standards, one that applies to small farmers, and one for workers in plantations and processing factories. These standards (<http://www.fairtrade.org.uk>; accessed 29 September 2005) stipulate that traders must do the following:

- pay a price to producers that covers the costs of sustainable production and living;
- pay a 'premium' that producers can invest in social, environmental and business improvements;
- make partial advance payments when requested by producers;
- sign contracts that allow for long-term planning and sustainable production practices.

By mid-2005, the Foundation was working with over 420 producer organizations in 49 countries, with benefits extending to approximately 5 million farmers, workers and family members. Sales of Fairtrade mark goods have expanded



Figure 4.10 Look for the label: Fairtrade coffee and bananas consumed in the UK
Source: The authors.

rapidly in the UK, up from £16.7 million in 1998 to £140 million in 2004. The mark can be found on 15 categories of foodstuffs, of which coffee, bananas, chocolate/cocoa, and tea are the most important, and four non-food products including cotton and cut flowers (Figure 4.10). Leading Fairtrade brands in the UK include Cafédirect (coffee and tea) and Traidcraft (food, drinks, crafts and gifts), and some supermarkets such as Tesco are now developing their own Fairtrade brands. While Fairtrade is, like the ETI, based on a central code/standard, it also signifies to the consumer that a product meets that standard through its labelling system.

ISO9000 provides an excellent example of a *quality assurance* standard. The Geneva-based International Organization for Standardization (ISO) is perhaps the best-known global standards organization, and brings together national standards institutes from 130 countries. Its central objective is to facilitate international trade and investment by harmonizing national standards with international ones. While many ISO standards are technical, the ISO9000 standards (of which ISO9001:2000 is the current version) are procedural, outlining a comprehensive set of quality-management practices. Their purpose is to provide external quality assurance to customers by demonstrating that a supplier is conforming to a formalized quality management system. The requirements of ISO9000 – which are essentially a set of written rules – cover a wide range of activities such as a firm's customer focus, quality planning, product design, review of incoming orders, and monitoring of customer perceptions about the quality of the goods and services it provides (for more details, see www.iso.org).

The system can be certified in different ways: by a firm itself, by a customer firm, or by a third party accreditor. Adoption of the standard is growing rapidly.

Table 4.3 Regional share of ISO9001:2000 certificates (December 2004)

Region	Number of countries	Number of certifications	Share of world total (%)
Africa/West Asia	49	31,309	4.7
Central and South America	29	17,016	2.5
North America	3	49,962	7.5
Europe	50	326,895	48.8
Far East	21	225,220	33.6
Australia and New Zealand	2	19,997	3.0
World	154	670,300	100.0

Source: www.iso.org, accessed 29 September 2005.

ISO9001:2000, which was established in December 2000, expanded from 44,388 certifications in December 2001 to 670,399 by December 2004. Interestingly, the global geography of the uptake is highly uneven, with Europe and East Asia together accounting for over 80 per cent of total certifications (Table 4.3). At the country level, China, Italy, the UK, Japan, Spain, and the US are the top six adopters (in that order), with China alone accounting for almost 133,000 certifications in late 2004 (20 per cent of the global total). Mapping ISO9000 certification in this way is an interesting indicator of rates of growth and international connections with the global economy. Most importantly here, however, ISO9000 is illustrative of the way in which a global standard can transmit expectations about appropriate forms of undertaking business along a global commodity chain (there is also a parallel system – ISO 14000 – which applies to environmental management).

4.5 The Limits to Ethical Intervention?

We have now seen that there is a wide range of consumption-based initiatives that seek to improve the living and working conditions along the commodity chain. However, it is worth injecting a note of caution at this point, as there is always the danger that the various initiatives can simply become enrolled as part of the capitalist system, i.e. as another way for firms to make money.

Hence, it is important to think carefully about the motives of firms for participating in the kinds of schemes described above. While consumer campaigns may genuinely bring end-consumer pressure to bear on firms and effect change, many of the standards schemes are based on the *voluntary* participation of corporations. A more critical reading of a scheme such as the ETI, for example, would

suggest that firms participate because it helps maintain their profitability and also serves to protect them from negative and critical media exposure. Any impact from consumers in such a process is indirect, and for the firms involved, the simple fact of participation may be just as, if not more, significant than any real improvements in working conditions for suppliers. Moreover, it is hard to judge the success of many such schemes. Again, in the context of the ETI, critics suggest that while only a few products may comply with the base code, retailers are happy for their association with the ETI to shed a favourable light on all their sourcing patterns. Others may resist the use of any kind of external auditor, while still publicly claiming they meet certain ethical standards.

Another potential pitfall may lie with the simple issue of *who* pays for ethical consumption? The rise of standards-based schemes has fuelled the emergence of a new category of commodity chain participant, the independent auditor, many of whom themselves are profit-seeking firms. The costs of auditing long and complicated commodity chains can become substantial, and whether firms are prepared to meet these costs will depend on both their financial resources and their corporate culture (Hughes, 2005). In some instances, they will expect suppliers to meet the extra production costs, but they do not pay a higher price for the products. Farmers involved in certified organic coffee production in Oaxaca State, Mexico, for example, pay between 10–30 per cent of their gross receipts to certify their produce. The result is that farmers are abandoning certified organic production in increasing numbers. In this instance, the global standard serves as a significant barrier to entry that increases production and certification costs to the extent that only the best organized and most well-funded farmers can make organic production into a profitable exercise (see Mutersbaugh, 2005). Label-based schemes often rely on the consumer to pay a premium voluntarily – and which may place them out of reach of certain consumer groups – but non-label schemes such as the ETI cannot raise funds in that way. Overall, it is perhaps hard to escape the conclusion that consumption-based schemes are driven at least as much by economic rationales as ethical ones.

Other critiques of ethical consumption initiatives are more explicitly *geographical*. Many of the codes of conduct or general standards are by necessity quite crude abstractions and simplifications. A simple statement such as 'living wages are paid' sounds promising on a first read, but in reality a living wage will vary dramatically from place to place, and even between different social groups within the same locality. Calculating meaningful wage rates would be hugely expensive and time-consuming. Equally, by focusing primarily on formal employment relations, these initiatives may make less of an impression in sectors and places where there is a significant informal (and often female) component to the workforce. This speaks to the wider issue that ethics – and understandings of what is wrong or right, acceptable or unacceptable – are geographically specific. As a result, the implementation of ethical standards may have ambiguous impacts in the areas they are meant to help.