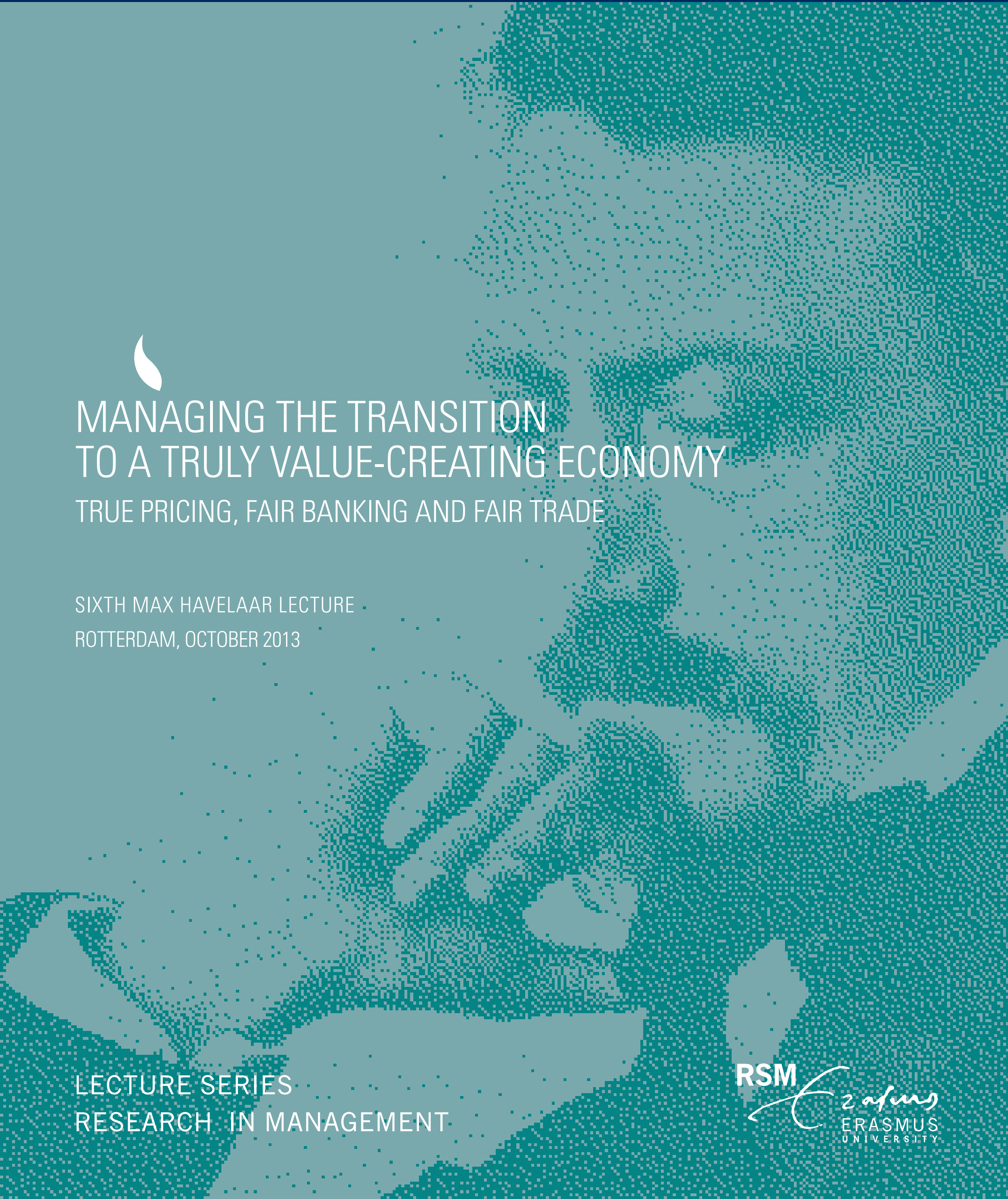
ROTTERDAM SCHOOL OF MANAGEMENT
ERASMUS UNIVERSITY

MAX HAVELAAR LECTURES



MANAGING THE TRANSITION TO A TRULY VALUE-CREATING ECONOMY

TRUE PRICING, FAIR BANKING AND FAIR TRADE

SIXTH MAX HAVELAAR LECTURE

ROTTERDAM, OCTOBER 2013

LECTURE SERIES
RESEARCH IN MANAGEMENT

RSM ERASMUS UNIVERSITY

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ABOUT 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, (full-time and 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).

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 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.

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 (carries out and commissions) fundamental research, develops tools and 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.

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.partnershipsresourcecentre.org

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?
The author Eduard Douwes Dekker was an assistant resident in one of the districts of the former Dutch East Indies, the present Indonesia in the 1850s. Douwes Dekker could not reconcile himself with the politics of the colonial government who forced the countrymen to work for the Dutch coffee plantations on a massive scale to the extent that they had to neglect the cultivation of food crops, resulting in famine. Douwe Dekkers published a novel: *'Max Havelaar: Or The Coffee Houses Of The Dutch Trading Society'*, in 1860. ***www.maxhavelaar.nl***

ABOUT THE MAX HAVELAAR 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 to 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 maximisation strategies of private corporations can 'solve' poverty requires substantial modifications. It is obvious that some strategies are more effective than others. The integration of developing countries in the international supply chains of multinational corporations can have positive and 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 of or against the involvement of firms in development. The Max Havelaar organisation 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 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 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 an annual event. Each year, a leading scholar in the field is invited to hold the key lecture which will be made available to a wider audience around the world. The 45-minute lecture will have an academic standing and is hosted at Erasmus University Rotterdam, partly as a legacy to Jan Tinbergen, the former Nobel Prize Laureate in economics and a leading thinker on sustainable development. The second and third lecture were financed by the Max Havelaar Foundation and the Triodos Bank as evidence of its 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 organised in co-operation with the Erasmus Research Institute of Management (ERIM), the Department of Business-Society Management at RSM and the Partnerships Resource Centre (PRC). The first Max Havelaar lecture was held in October 2007.

1. THE SEARCH FOR MAINSTREAMING FAIRNESS:

POSITIONING THE THREE CONTRIBUTIONS

It goes without debate that international supply or value chains only add real value to a selected group of companies and people. Cost and benefits are difficult to assess and even more difficult to be distributed in a 'fair' manner. The distribution of income and profits – economists neutrally refer to this as the 'appropriation of rents' – along global value chains is rather skewed. The costs of the production system – economists refer to this as 'negative externalities' – are regularly not even taken into account. Whereas the first dimension says something about the 'fairness' of the system, the second dimension in addition says something about the efficiency and the 'smartness' of the system. When fairness and smartness considerations are brought together, we can make an ultimate assessment of the sustainability – financially as well as ethically – of the whole system. This is rarely done. Not in the least because it presents a difficult analytical challenge in two ways:

- how to define what is fair, what are externalities, what trade-offs and dilemmas there exist and to what extent they can be considered negative or positive (and for who);
- how to assess whether particular interventions (via prices, labels, comparisons or financial intermediation) are actually helping to facilitate a transition to higher levels of sustainability.

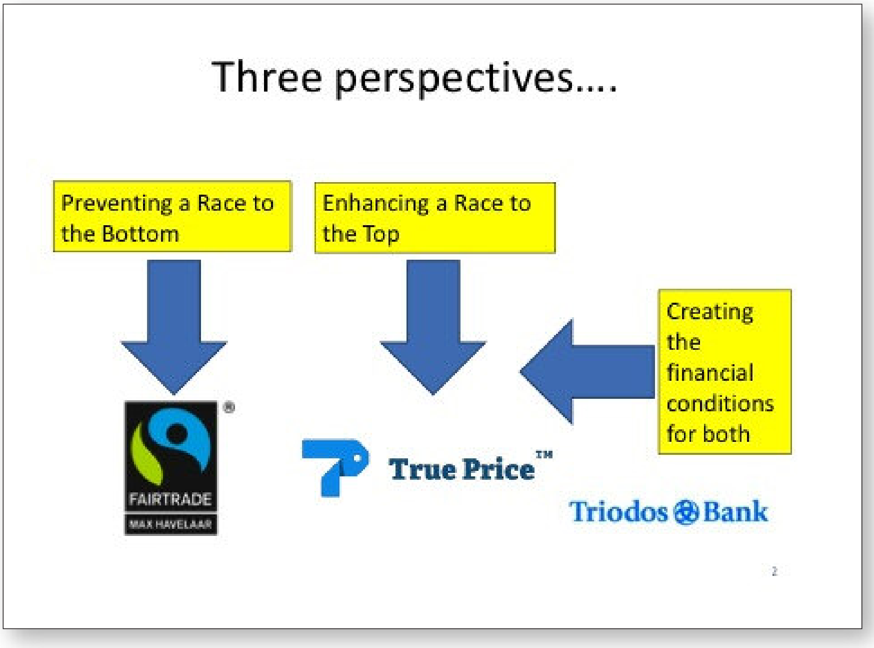
In the academic and societal discourse on in particular these questions, three intervention angles can be distinguished that take the whole value chain into account:

Those initiatives that try to prevent a race to the bottom from appearing; here we see fair trade initiatives such as Utz Certified or Max Havelaar that – amongst others through labelling towards consumers – try to enable producers at the bottom of the value chain to have a better bargaining position or fixed minimum prices that should help them not to sink below a bottom level that is under subsistence. One of the problems of this strategy is that it has not yet become mainstream, witnessing the relatively low penetration ratios of fair trade labels on commodities like bananas, coffee, cocoa and the like.

Those initiatives that try to stimulate a ‘race to the top’ in which companies are stimulated to show their commitment to sustainability by becoming transparent on the costs of the whole supply chain. Some of the company benchmarks like ‘Access to Medicine’ or the ‘Behind the Brands’ campaign of Oxfam, share the philosophy that by making more transparent how the whole business model of a company appears, they can stimulate a positive competition between companies. A recent initiative in this area goes deeper and further, by mapping the negative externalities of the whole value chain and thus enabling companies to communicate the ‘true price’ of their products. One of the problems of this angle is that it is really difficult to assess the ‘true price’ of a product. Furthermore, it is not clear how the intervention – when companies actually would adopt the proposed technique – would work out. Can it become mainstream?

Those initiatives that look at the facilitating and financial dimension of the whole value chain and see to what extent banks and other financiers can support the creation of fair value with all participants in the value chain. This angle requires a return to the original function of the financial sector (based on its theoretical roots as specified in financial intermediation theory). However, the transition towards different practices of the banking sector proves very difficult, even in the present era where a financial crisis has appeared that shows clear deficiencies in the system. Fair banks occupy a niche in the present banking system. So what are the odds that they can become mainstream as well?

The 2013 Max Havelaar lecture brought these three perspectives together in three lectures that each present a positive message: (1) on the untapped potential of fair trade, (2) on the inevitability of true pricing and (3) on the future of fair banking.



The contributions are made by opinion leaders in these areas:

- Prof. Rob van Tulder is a leading thinker in sustainable business models and founder of the department of Business-Society Management at the Rotterdam School of Management.
- Dr. Adrian de Groot Ruiz, is one of the Worldconnectors and the founder of the 'True Pricing Foundation', a highly acclaimed new initiative in the Netherlands to pioneer new pricing mechanisms.
- Peter Blom is the CEO of Triodos Bank, the world's most sustainable bank and thought leader in the area of fair finance.

Each of these contributions contains an optimistic message: that a transition to more fairness is not only possible, but also necessary. None of the contributors are naive in their expectations. It will take considerable effort, resilience, but also intellectual creativity to make the transition real. These three contributions also show that these strategies have to be complementary and open for input and debate. None of the perspectives probably will be sufficient alone to create the timely change towards higher levels of sustainability, notwithstanding their growth and popularity. This booklet bundles the three contributions and thus also the three perspectives.

2. UPSTREAM: THE UNTAPPED POTENTIAL OF FAIR TRADE

Prof. Dr. Rob van Tulder
Department Business-Society Management
Academic director Partnerships Resource Centre

& Julia Post MScBA,
Alumna, Global Business & Stakeholder Management [1]

2.1 Introduction: the history

In 1973 the first fairly traded coffee was imported by a Dutch organization. In 1988, the Max Havelaar foundation launched the first Fairtrade certification system, which enabled companies to embrace the Fair Trade concept as well as customers to easily identify fairly traded products (EFTA, 2006). The label named Fairtrade was intended as the trigger to strengthen Fair Trade products on the mainstream market (Elliott, 2012). Fair Trade organizations must not directly manage the whole value chain, but allowed every participant along the chain to engage in Fair Trade, leading to bigger scale opportunities. After being the frontrunner in the market for sustainable labels, more and more initiatives with similar concepts were launched, such as UTZ Certified and Rainforest Alliance (TCC, 2012a, 2012b).

In 1989, Alternative Trade Organizations experienced an upturn when the International Coffee Agreement (ICA) could not be renewed (Milford, 2004; Ponte, 2004). Between 1962 and 1989, the international coffee market was regulated by the ICA, which set a target price for coffee and

1 *The first part of this paper makes use of the 2014 Master Thesis of Julia Post: "fairtrade: a successful approach to the mainstream market?"*

distributed export quotas to the member countries of the International Coffee Organization (ICO) with the aim to stabilize coffee prices. When coffee prices were higher than the target price, quotas were relaxed; when coffee prices fell below the target price, the quotas were tightened. With the failure of the agreement, the coffee market was liberalized, coffee prices fell dramatically, producer countries' voice in market relations was diminished and farmers experienced increasing disadvantages. ATOs proposed a system that offered to be a counterweight to the approaching inequalities, thus gaining momentum (Low & Davenport, 2006; Sidwell, 2008).

2.2 How much achieved?

In 2012/13, over 1,3 million farmers and workers worldwide were organized in more than 1100 certified producer organizations, half of them located in Latin America and the Caribbean (Fairtrade International, 2013a). Thereby, over 300 raw goods divided into 16 different categories are certified by Fairtrade (Fairtrade International, 2013b). Besides popular products such as coffee, sugar and cocoa, also less known goods such as flowers, gold and sport balls are approved by the Fairtrade certification mark. In 2012, $4.8 billion were spent on Fairtrade products, with the biggest market in the UK.[2] Only after 2009, countries outside of Europe and North America slowly approached Fairtrade products. Between 2004 and 2012, Fairtrade sales in the retail market have grown by approximately 600% (Diagram 1).

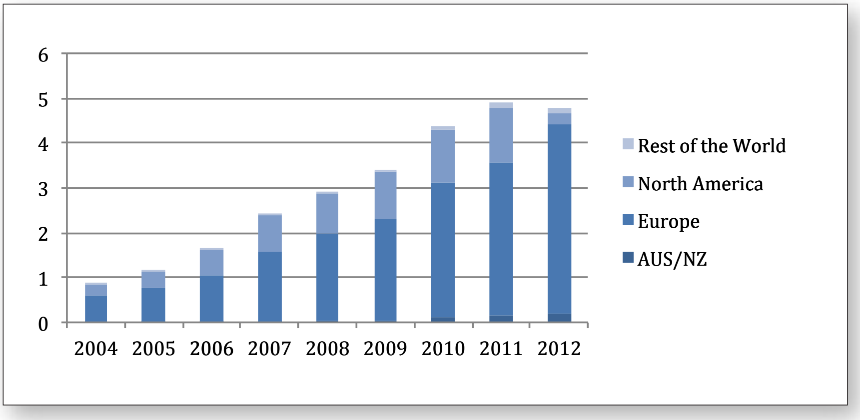


Diagram 1. Fairtrade Retail Sales 2004-2012 in Billion €
(Fairtrade International, 2006, 2007, 2008, 2009a, 2010, 2011a, 2012a, 2013a).

Even though the average growth rates of Fairtrade products are in the double-digit range, the shares of Fairtrade products in the global trade volume remains relatively low. In Table 1, the estimated sales volumes (producer to buyer) of selected Fairtrade certified products in 2012 as provided by FLO are contrasted with the global production volumes of the particular commodity. It becomes visible that the share of Fairtrade certified sales volumes in global production volumes is negligible. Even coffee

2 *In 2011, the Fair Trade US, being the second largest market with approximately $1 billion sales, withdrew its membership from FLO (Fairtrade International, 2013a). 3 Whether the difference is used for the production of further products or disappeared while passing through the value chain is not identifiable.*

beans and bananas, the two most popular Fairtrade certified products, only represent 1,5% and 0,3%, respectively. Retail sales show that for processed commodities such as coffee and cocoa, approximately two thirds of the certified sales arrive at the supermarkets[3]. Furthermore, the shares differ greatly between the national markets. Even though fairly traded coffee and bananas account with less than 2% to the global production volumes, approximately 25% of coffee sales in the UK market is certified coffee (Fairtrade International UK, 2014a) and over half of the bananas sold in Switzerland are labelled with the Fairtrade certification mark (Fairtrade International, 2013a). The presented numbers show the issue of Fairtrade products outlined in the beginning: even though the sales of Fairtrade certified products from producer to buyer increased immensely during the last decade, the shares of these products compared to the global production volumes remains extremely low. It shows that Fairtrade is still a niche market and has not yet established a mainstream presence in global trade structures.

	Volumes				Share in %		
	Global Production	Production	Sales	Retail Sales	Production	Sales	Retail Sales
Bananas	101 992 743	623 200	342 300	331 980	0,6	0,34	0,33
Cocoa (beans)	5 003 211	175 900	68 300	40 559	3,5	1,3	0,81
Coffee (green beans)	8 826 903	398 800	134 100	77 429	4,5	1,5	0,9
Fresh Fruit	31 447 977	634 100	64 500	12 259	2	0,02	0,004
Fresh Vegetables	269 852 343	5 300	2 200	364	0,002	0,0008	0,0001
Honey (natural honey)	1 592 701	8 800	2 400	1 319	0,5	0,15	0,08
Quinoa	82 510	7 900	1 800	590	9,5	2,2	0,7
Rice	719 738 273	30 000	18 400	5 623	0,004	0,0025	0,0008
Spice & Herbs (spices)	2 106 197	9 400	900	417	0,5	0,04	0,02
Sugar (cane sugar)	1 832 541 194	717 300	170 000	158 986	39	9,3	0,009
Tea	4 818 118	188 400	13 800	11 869	3,9	0,28	0,25

Table 1. Shares of Fairtrade Production, Sales and Retail Sales Volumes in Global Production Volumes 2012, in Metric Tons (Fairtrade International, 2013a; FAOSTAT, 2014)

2.3 Fairtrade and conditions for mainstreaming

Several developments have brought Fairtrade and similar labelling organisation to their current position: from a small initiative starting with one farm to the threshold between niche and mainstream market.

3 *Whether the difference is used for the production of further products or disappeared while passing through the value chain is not identifiable.*

Firstly, Fair Trade organizations took the opportunity after the collapse of coffee prices following the suspension of the International Coffee Agreement in the late 1980s. By focusing its strategy on the disadvantaged situation of Southern producers of one of the most widely traded commodity, the idea of Fair Trade good quickly spread with ethical consumers (Low & Davenport, 2006). Next, the engagement of businesses is arguably the most crucial driver of mainstreaming Fairtrade. In the beginning of the 1990's, UK and Swiss supermarkets were the first to place Fairtrade on the shelves, followed by the commitment of Starbucks to source at least 1% of the total volume of coffee from Fairtrade certified producers (Doherty et al. 2012). Step by step, large consumer goods retailers such as Walmart and Tesco familiarized with Fair Trade products. Especially the decision by UK supermarkets that allied in a co-operative to support Fairtrade products is perceived as highly important for the development of Fairtrade towards the mass market (Moore, 2004). Some large retailers like Tesco or Costco took the opportunity and received Fairtrade certification for store-owned brands (Raynolds, 2008). Later on, in particular organised consumers through NGOs became an important driver because their efforts forced large manufacturers and retailers to engage in Fairtrade or alternative labelling concepts. For example the commitment of Starbucks resulted from the threat of a highly publicised campaign triggered by ethical activists when no change in Starbuck's sourcing strategy would be visible (Levi & Linton, 2003). Reynolds (2008) assumes that "quality-driven" coffee companies who only recently sell Fairtrade coffee do so to react to customer demands. Nicholls (2002b) adds political, academic and informational drivers to the discussion and emphasizes the interdependency and interactivity of these drivers. Political changes in the form of adding the topic of alternative trade to political programmes (e.g. "trade not aid" as a developmental goal of UNCTAD (Moore et al., 2006)) are stimulated by the growing importance of NGOs and other stakeholders. Subsequently, public institutions raise public awareness of alternative trade and encourage businesses to get engaged. Additionally, the increased offer of ethical business courses in academic institutions supports the establishment of ethically sensitive management practices. Finally, consumer behaviour is influenced by an increased offer of easily accessible information about global trading issues and value chain practices.

These developments are accompanied by a fierce debate of practitioners and academics who discuss the assets and drawbacks of an intense market penetration of Fairtrade products. The interceding group argues that by transforming Fairtrade from a niche concept to a broadly accepted mainstream trend, even more small-scale producers are able to benefit from being a part of the Fairtrade community, while the opponent group is afraid that the mass production undermines the core principles of Fairtrade and that the pureness of the concept will be lost (Renard, 2003). Arguments against mainstreaming Fairtrade, e.g. in form of the integration of multinationals, highlight the risk of a softening of labelling standards (Poret, 2010; Raynolds, 2008; Renard, 2003). Increasingly, companies in collaboration with NGOs develop their own Fair Trade concepts, which creates confusion of consumers as well as competition between different labels. Opponents fear that only those certification systems with less costly and less demanding requirements for multinationals will survive the competition and win favour of the consumers. Such a development would consequently lead to the cannibalization of Fairtrade products (Doherty et al., 2012). Subsequently, large companies are accused to use Alternative Trade labels as a greenwashing strategy, meaning that only "lite" standards are applied or that the introduction of Fairtrade in only one product line is used to improve the reputation of all corporate businesses (Doherty et al., 2012; Raynolds, 2008). Doherty et al. (2012) refer to the issue as dilution of fair trade. In line with this argument is the fear of some mainstream opponents, who see issues arising when it comes to the political impact of Fairtrade. When corporations participate in the

Fairtrade concept, political goals, for example improved international trade systems, may not be pursued as sustainable as possible because the concept “takes over the responsibility” (Reed, 2009).

So, the original Fair Trade idea is exposed to the risk to lose credibility as a committed and serious alternative trade approach. The reputational damage for Fairtrade (Doherty et al., 2012) “[…] occurs when a company derives positive benefits from its association with the fair trade movement, however minimal its efforts to “live” the values. […]” (Low & Davenport, 2004, p. 533). More specific, opponents of the mainstream development criticize multinationals which apply standards that incorporate large plantation productions because it differs from the original values of Fairtrade that aim at supporting small-scale farmers that are disadvantaged by current trade structures (Reed, 2009). Critics argue that an extension of Fairtrade standards to large plantations shuts smallholders out of the competition, not being able to produce on the same level of economies of scale and to pay workers similar wages (The Nation, 2012).

Alternatively, supporters of mainstreaming Fairtrade argue that without the involvement of multinational manufacturers and large retailers, the movement is stuck in a niche that cannot spread the advantages of Fairtrade to a larger number of producers (Fridell, 2008). Further positive consequences are seen in combining efforts of NGOs, retailers and multinationals to increase public awareness for ethical trade by reaching a wider consumer base as well as attention of public institutions (Doherty et al., 2012).

One of the advocates of mainstreaming is Paul Rice, CEO of Fair Trade USA (Fair Trade USA, 2014). In 2010, the US-division of Fairtrade International decided to separate from the founding organizations and to establish an individual Fair Trade certificate with standards adapted to the vision of Fairtrade becoming mainstream (Bloomberg Businessweek, 2008; The Nation, 2012). Furthermore, Fair Trade USA argues that the requirements for different types of crops are not the same (Bloomberg Businessweek, 2008). While coffee is harvested mainly by smallholders, bananas are almost exclusively grown on large plantations. Excluding these plantation farmers with low labour conditions for their workers only because of their size, thus locking the plantation workers out of the advantages of Fairtrade, should not be the intension of a Fairtrade organisation that supports the mainstream idea. Furthermore, Paul Rice and his organization are convinced that ‘Fair Trade for all’ is only possible when operations are enlarged by integrating plantations into the program (The Nation, 2012).

Moore (2004) argues that the internal motivation of the Fairtrade movement itself (providing an alternative trading approach as critique of conventional global structure) as well as the introduction of food products into Fairtrade value chains guided the concept into mainstream. Renard (2003) also divides Fair Trade supporters in two groups: the ones who want to transit current trade to fair trade, thus making it the general mainstream rule, while the others rather concentrate to establish fair trade as a real alternative to conventional market structures. The first group are the supporters of mainstream Fairtrade, who aim at working “with” the market to improve the system and to increase the success (Low & Davenport, 2006). The latter group, the opponents of mainstream Fairtrade, justify the traditional concept of Fair Trade to operate “in and against” the market. While fighting against the exploitative structures, commercial market channels are used (Raynolds, 2000). The internal contradictions about the future of Fairtrade that have emerged from the same background are the source of an ongoing debate (Low & Davenport, 2006).

Other areas of critique relate to the actual organisation of the fairtrade label, which goes beyond the scope of this paper, such as: (1) corruption: uncertified crops are blended with Fairtrade certified crops (Weitzman, 2006), difficult monitoring of corruptive behaviour (Sidwell, 2008), (2) scale and risk: the non-fixed nature of the quantity that is bought (Sidwell, 2008); some authors are worried that the "green wave", which is one pillar of FLO's reputation, is of temporary nature while the farmers' investments are made for the long-term (LeClair, 2002; Sidwell, 2008); by engaging in Fairtrade, farmers increase their dependency on the shopping behaviour of ethically oriented consumers (O'Neill, 2007); (3) monopolistic behaviour: Sidwell (2008) accuses FLO to aggressively compete with alternative organizations. Especially in Great-Britain the concept of Fairtrade has conquered an exceptionally strong position in national education plans, developed by governmental institutions, which emphasize that Fairtrade is worth being supported. Sidwell (2008) doesn't criticise the supportive atmosphere itself, but the great disregard of competitive alternative schemes or other forms of charitable giving. He is worried that when students at a young age already get indoctrinated with the concept of Fairtrade as being the only desirable one, critical debates are stifled. Also the International Development Committee sees the risk that monopolistic structures will emerge (House of Commons - International Development Committee, 2007). Even some producer organizations would like to see a closer collaboration or even unification of the several certification schemes, because receiving them results in multiplied expenses and efforts even though their requirements often overlap (Taylor, 2002); (4) Financial arguments: Booth & Whetstone (2007) argue that only 40% of FLO's income is spent on certification processes.

2.4 Caught up by the competition?

One of the reasons why fairtrade has still not met its full potential is in the practical and organisational challenges for the mainstreaming of fairtrade. One challenge at the moment, therefore, comes from a competing business model: Utz Certified. UTZ Certified (formerly known Utz Kapeh) (UTZ Certified, 2014d) was founded by Belgian-Guatemalan coffee growers and the Dutch coffee roaster Ahold Coffee Company (Potts et al., 2010). In 2002, UTZ launched its coffee programme with the goal to improve the position of coffee growers in the world's trading systems by linking them to Western buyers via a certification scheme (UTZ Certified, 2014d). In 2010 and 2011 respectively, UTZ certified cocoa and tea are available on the market (UTZ Certified, 2013c). Furthermore, UTZ Certified introduced a comprehensive traceability system for cotton and palm oil (UTZ Certified, 2014f). In 2012, 449 402 smallholders and 719 farms/estates with 374 794 workers active in the production of coffee, tea and cocoa were approved UTZ Certified producers (UTZ Certified, 2013b). The three commodities are produced in 34 countries, mainly located in Latin-& South America, Africa and Asia. UTZ certified products are sold to 116 countries in total, most of them are located in the Northern hemisphere (UTZ Certified, 2014e). UTZ does not disclose country specific sales numbers. What can be said is that between 2004 and 2012, the sales of UTZ certified coffee have grown by approximately 900%; tea and cocoa show similar growth numbers since their introduction to the market in 2010 and 2011, respectively[4] (see detailed numbers in Appendix V). In 2012, approximately 11% of the global cocoa production and 8% of the global coffee production are produced on UTZ certified farms. For tea, the share amounts to 1.3%. However, the total volume of UTZ certified cocoa that is sold to the market is 2.4% of the total global production of cocoa, 2,1% for coffee and 0,06% for tea (Table 2).

4 *Even though production and sales volumes of UTZ certified produce for 2013 exist, only the numbers of/until 2012 are used for a better comparison of Fairtrade and UTZ.*

	Volumes			Share in %	
	Global Production	Production	Sales	Production	Sales
Cocoa (beans)	5 003 211	534 614	118 641	10.7	2.4
Coffee (green beans)	8 826 903	715 648	188 096	8.1	2.1
Tea	4 818 118	64 508	3 074	1.3	0.06

Table 2. Shares of UTZ Certified Production and Sales Volumes in Global Production Volumes in 2012, in Metric Tons (FAOSTAT, 2014; UTZ Certified, 2013c)

To achieve its vision and long-term goals, UTZ identified four intervention strategies (UTZ Certified, 2014j). First, farmers are enabled to become entrepreneurs. In doing so, the UTZ standards are introduced and the certified parties receive training and education. The standards aim at increasing the profitability and productivity of the certified farms and strengthening the social, environmental and economic resilience of producers located in developing countries. The quality of crops is improved at lower costs by educating the farmers how to efficiently and environmental-friendly manage a plantation, resulting in better living standards for themselves and their communities. The education of the farmers about the improvement of their products gives them a stronger bargaining power in the value chain. Therefore, UTZ identifies its policy as an approach to help people to help themselves. Second, the certification process makes the improvements visible and credible. Third, value chain actors are connected by creating a transparent chain, thereby making sustainability claims credible. And lastly, the idea of UTZ is introduced to the market to create demand. UTZ believes that productivity, quality and efficiency are the most important drivers for a sustainable income (UTZ Certified, 2013c). UTZ's communication efforts are focused on B2B communication (TCC, 2009). The industry related activities aim at increasing demand among companies, providing innovative and cost-efficient systems and promoting and explaining the concept to potential partners. In doing so, it is intended to encourage companies to recognise UTZ as a credible and effective concept and use it as a brand endorser by communicating the sustainable investments of the company (UTZ Certified, 2014i). UTZ notices that the willingness of consumers to pay more for sustainably sourced products is relatively low and consider this fact as an industry issue. Furthermore, one of their intervention strategies is to conduct outreach and communication activities to promote the concept. This intervention is not primarily aimed at consumers but reaches out to potential business partners and public institutions. UTZ has been criticised for representing "Fairtrade light" because minimum prices, premiums and pre-financing are not anchored in the initiative's policies, thus exposing producers to volatile market prices (Öko-Test, 2013). By offering a mainstream-friendly concept, businesses are able to engage in seemingly sustainable initiatives to "green-wash" their operations (Daviron & Vagneron, 2011). Furthermore, the environmental standards of UTZ are criticised for not being strict enough on the use of genetically modified crops as well as sustainable pesticide management (Coffee & Conservation, 2010; Conroy, 2007). Pesticides are allowed as long as their use is not prohibited in the largest markets (Clapton, 2013).

2.5 The jury is still out

When comparing the production and sales volumes of the two certification schemes in comparable markets, UTZ has gained greater shares in the mainstream market. UTZ certified cocoa amounts to 2,4% of the total global production of cocoa, Fairtrade certified cocoa amounts to 1,3%. Similar are the numbers for coffee. UTZ certified coffee that is sold to the market represents 2,1% of the total global production of coffee, Fairtrade certified coffee represents 1,5%. (See Diagram 2).

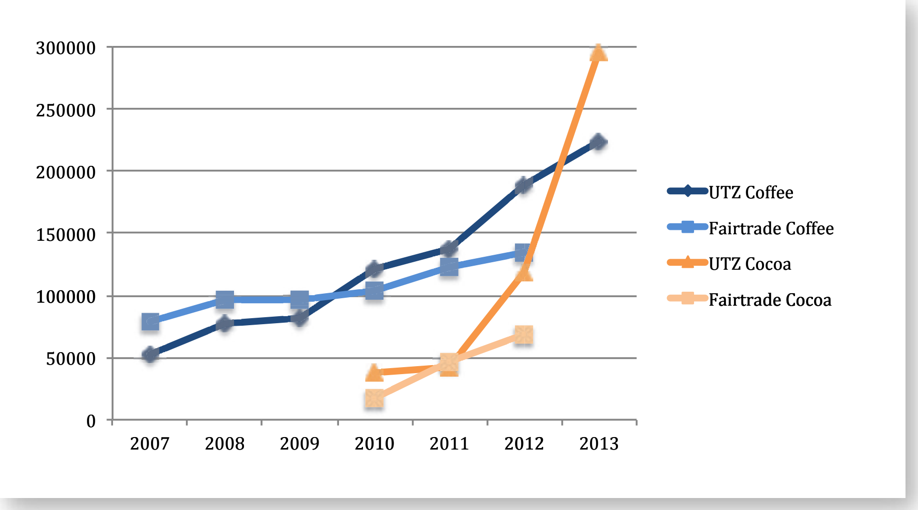


Diagram 2. Fairtrade and UTZ Sales (producer to 1st buyer) of Certified Coffee and Cocoa in Metric Tons (Fairtrade International, 2008, 2009a, 2010, 2012a, 2013a; UTZ Certified, 2007, 2008, 2009, 2010, 2011a, 2012a, 2013c)

Fairtrade and UTZ have the same goals: to improve the economic, social and environmental situation of producers in developing countries by transforming the world's productions systems and value chains (Fairtrade et al., 2011). However, they chose different approaches to achieve these goals. While Fairtrade's core is to increase the fairness in value chains by setting minimum prices, thereby assuring a stable income for producers, UTZ aims at enabling farmers to independently improve the productivity and efficiency of their farming practices and to offer better quality and larger volumes to the market, thereby being able to bargain a fair price for their produce. Fairtrade remains a consumer-oriented concept (Ingenbleek & Reinders, 2013). The consumer is required to pay a higher price for the environmental and social costs of the product. Thus, most of the communication efforts of FLO and related organizations are directed to consumers. Fairtrade chooses a "bottom-up" strategy to increase its impact: consumers are educated and encouraged to engage in Fairtrade, thereby generating pressure on businesses. In doing so, FLO works together with several other organizations that incorporate the Fair Trade idea as their core value.

UTZ, on the other hand, requires roasters and retailers to internalize the higher costs for sustainable production practices, thus regarding businesses as most important actors in their concept (Ingenbleek & Reinders, 2013). UTZ aims at convincing companies to engage in UTZ, thereby a greater product variety is pushed towards the mainstream market. The business-oriented approach of UTZ becomes visible when researching its history and organization. UTZ was co-founded by a Dutch coffee roaster before it was turned into a NGO. Furthermore, in the Supervisory Board of UTZ, 6 out of 10 members represent businesses. In FLO's board only 3 out of 11 members are market representatives. Furthermore, the pricing policies of UTZ and Fairtrade diverge. Not only the fixed minimum price and premium make the Fairtrade concept more expensive for businesses, but also the fact that every single value chain actor has to receive certification. With UTZ, only when a company physically handles, makes product claims and obtains ownership of the product, certification fees have to be paid. From a pricing perspective, UTZ seems more attractive for buyers than Fairtrade (Nicholls & Opal, 2005).

2.6 A still untapped potential of fairtrade: frontrunner companies

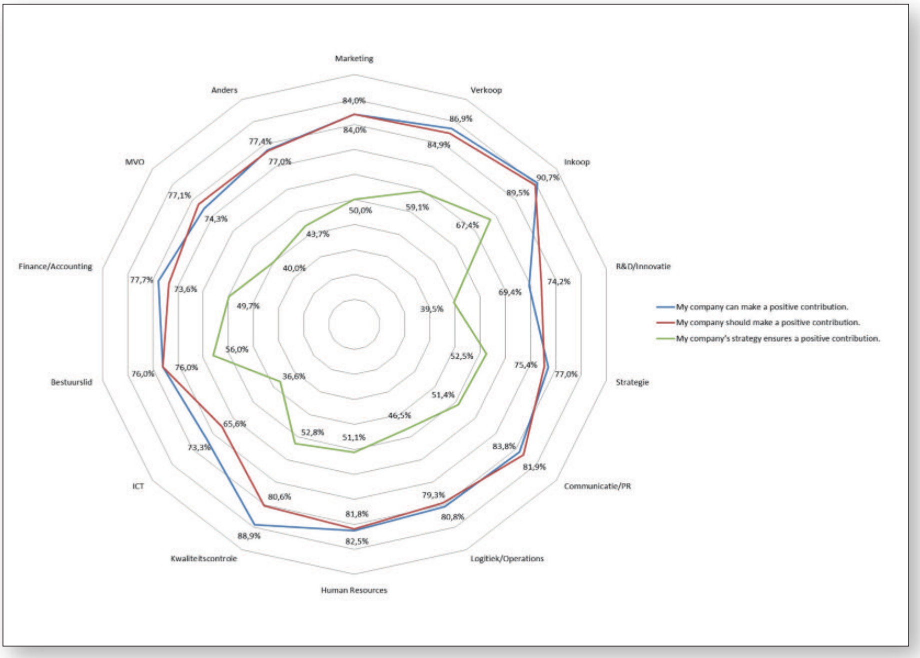
So, Fairtrade can be described as an approach that connects producers and consumers by using the label as a means of communication, while UTZ is a concept that enables buyers to incorporate sustainable practices in their CSR strategy (Ingenbleek & Reinders, 2013). Both approaches seem to complement each other, although with a comparable approach to the main challenge of fair value chains: preventing a race to the bottom from happening. Neither FLO nor UTZ, however, can claim that they have become mainstream. Mainstreaming fairtrade to a considerable extent depends on its internal logic and the degree to which its organisational form can become more efficient and better coordinated. The dynamics of the 'market for fairtrade' at its supply side (labels) is to a certain extent destructively competitive. Others have criticized the problem that there are too many labels and that the two basic ones on fairtrade reveal competing claims. One of the problems of both formulas is that they use a label to consumers to trigger change in the whole chain. In the end – despite the differences – consumers are leading. The change is relatively slow and does not seem to create a convincing tipping point in the transition towards more fair supply chains. So, we asked ourselves what would happen if we would put companies in the value chain more in the lead. This question can approached on the basis of a parallel research project (Van Tulder et al. 2014) in which a representative sample of around 2000 managers of twenty big frontrunner companies in the Netherlands were asked (1) how they would like to organise their supply/value, (2) whether they would prioritise fairtrade, (3) how that would measure against alternatives (trade-offs) and (4) what department should thereby be in the lead. Each of these companies represented a separate segment of the Dutch economy (from waste management to electronics, from steel to railways, from banking to pension funds), so these data actually can be considered to represent the potential support for further moves in the direction of more sustainability in general, and – for this paper specifically checked – for fairtrade in specific.

As regards the opinion of these managers on how to organise the supply chain, a very small minority wanted to have their purchasing based on only price (.3%), a little bit more based on price and quality (19,4%). Most interestingly, the overwhelming majority of managers had a clear preference for value chains managed on the basis of fair prices and high quality (33%) while most of them (38%) in addition favoured value chains managed on the basis of 'joint responsibilities'.

The latter two categories show that there is considerable support for further progress in developing fair trade practices in bigger Dutch organisations. From this finding it can already be read that the fair trade movement might want to reconsider whether the formula is appropriate to serve the need of leading companies to develop shared responsibilities in their value chains. We saw also some inconsistencies in their execution. Whereas almost 90% of the respondents of these companies found fairtrade important (58%) or even extremely important (30%),there were hardly any differences in these answers per sector (so not necessarily only related to the food industry). Respondents showed a less active attitude in actually doing something about it. On the question whether they would buy products because they are fairtrade, around one third of the respondents (37%) noticed that they would do that only when reminded upon. Almost the same number, however, wanted to be active (37%) while a small, but nevertheless substantial group (7%) wanted to really implement a proactive strategy together with their suppliers. Notice that this percentage is substantially above the present penetration ratio of fair trade products in most supply chains.

For companies, one of the most important trade-offs that defines a choice for or against fair-trade is the one with free trade. So we asked respondents to make that choice: what would they prefer when confronted with the choice between ‘fair’ and ‘free’ trade? The general picture is that the choice falls out in favour of fairtrade, with 25% finding fair trade most important, as opposed to 5% finding free trade most important. In total almost 60% find fairtrade more important than free trade (with 30% undecided). Only 13% percent find free trade under all circumstances more important than fair trade. There is substantial support, therefore, for policies that adjust WTO practices in order to substantiate action in fairtrade. We also wondered whether this pattern was dependent upon the industry or upon the functional department of companies. As regards industry, the pattern was comparable, although in the food processing industry (arguably the most affected in its production structure) we could find a slightly higher number of respondents that found free trade as important as fairtrade (30%). But nowhere did the balance trip towards free trade. As regards functional department, there were some interesting patterns. Departments that are most in favour of fair trade are strategy, quality control, Human Resources and CSR (with more than 25% of the respondents finding fairtrade much more important than free trade). Interestingly, board members of the companies show the greatest inclination towards favouring free trade above fairtrade. To a lesser extent this is true for the purchasing department. The logical conclusion of this finding is that the fairtrade movement should also looks for support with other departments in the companies than the ones it is looking for now (purchasing, boards). Only the CSR department is strongly in favour of fairtrade, but in many companies this department is often not in the most powerful position.

In the research we finally, defined a so called issue web (graph 4) in which we distinguished between three basic questions: (1) whether the company actually makes a positive contribution to fairtrade, (2) whether the company should make a positive contribution and (3) whether the company can make a positive contribution. In the overall research we draw maps for these dimensions for all companies combined and for a number of specific topics (cf. Van Tulder et al. 2014). For this contribution we singled out the finding on fairtrade. On the whole we already concluded that one of the areas in which frontrunner companies can make the greatest headway in their transition to a more sustainable enterprise has been in fairtrade (and child labour). With a gap of around 30% between categories 1 (what they actually do) and 2+3 (what companies should and can do). The biggest gains to be made in this area relate to age categories: employees between 31-35 and between 51-70 years were the most ambitious in this respect. The biggest gains to be made related to functional department were in quality control, marketing, CSR and Innovation/R&D, the least at board level.



Graph 4 – The issue web around fair trade (N=2500)

2.7 Conclusion

Mainstreaming fairtrade is not easy. The barriers lie partly in the approach of the fairtrade organisations themselves. By linking to the consumers, they try to engage those parts of the value chain that might actually not create the scale and the change through which any of the formulas might reach a critical tipping point. This paper presented recent research, however, that showed considerable support for fairtrade also with core companies in a variety of supply chains and in a surprisingly broad spectre of companies, ages and functional areas of management. The support for fairtrade is substantial, but relatively inconsistent yet, because business leaders are ambiguous and the degree of implementation trails behind the position that is preferred by most employees (including the leaders). Employees are less ambiguous (also in their personal preferences). The longer experience in the industry they have, the greater the support for fair instead of free-trade. It seems logical that the fairtrade movement – FLO as well as UTZ – start focussing on these segments rather than competing with each other and created the conditions for a new business model: fairtrade as an integrated supply chain management strategy.

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3. THE INEVITABILITY OF TRUE PRICING

Dr. Adrian de Groot-Ruiz
Executive Director True Price

3.1 Introduction

I stand here, with a bold message. I am genuinely convinced that true pricing is all but inevitable. It may take 2 years, 3 years maybe or even 5 years, but it will happen. Why? Because it is a misfit: a slate of clay in an age of tablets and smartphones. Our pricing system stems from an age that money travelled by stagecoach, information by carrier pigeon, and intercontinental contracts by boat. In those days, this pricing system was probably the best thing around. However, with the current speed of light of money transfer, information sharing, and global transactions, that can hardly be said anymore. The world is different from the 19th century: our growth is meeting our planetary boundaries. Technology is different: we have seen the advent of internet, GPS, big data. Business is different: CSR, social entrepreneurship, certification, fair trade, fair banking. But market pricing is essentially still the same. And it is not delivering. Our pricing system has been squeaking under its own weight for some time, searching for an alternative. Now, such an alternative has come. We call it true pricing. It is an old idea made possible by new technology and fits in a broader business trend to measure externalities.

Two years ago I would have had to explain why true price is a good idea. In the meantime, most decision makers agree with that. The burning questions people now have are: ‘is it not too good to be true?’, ‘is it really inevitable?’ So, I will tackle these questions head on. After introducing true pricing, I will explain why it is feasible. And then why it is inevitable. I will give you the economic reason and the behavioural reason. I will explain how it is going to happen. At the end, I have a great announcement.

3.2 What is True Pricing?

First, what is pricing?
Prices in a free market are the result of many small or big interactions whereby demand and supply kind of balance out. A free market is not such a bad idea. By the free pricing mechanism a lot of information about what people want and what they can get, finally boils down to a certain price. In a well-functioning market – if supply exceeds demand – prices fall, and – if demand exceeds supply – prices rise.

There is one crucial downside here, though: business activity has effects on society, so-called external effects that happen outside of the market. This leads to costs and benefits that are not reflected in prices. Sometimes this is remedied ("internalized") by governments. For instance, many countries outlaw forced labour and the worst forms of pollution. However, governments have often little information about many of these effects. Supply chains are global and governments have very limited powers outside their jurisdiction and political action is hard. So, as a result many externalities remain.

For instance, in the production of a cup of coffee there can be underpayment, discrimination, scarce water extraction, CO2-emissions and conversion of rainforest to plantations. Currently, these costs are not paid for and, therefore, the current price is not the true price. Arguably, for a long time there was no way to calculate true prices. Until the 1980's, it was almost impossible to know the externalities involved in any product. But times have changed.

The True Price
The True Price is the retail price plus the net social and environmental costs across the life cycle of a product. It takes into account what goes into the production process – land, water, energy, materials, labour – and what comes out – emissions, impacts on consumers and communities. It shows what the price would be if the consumer would pay for or benefit from these externalities.

We have done a project on coffee from Brazil. It reveals that for a cup of take-away coffee, the true price would only be a bit higher. With a small investment, we could take care of most social and environmental costs in the supply chain. A lot of bang for your buck, as they say.

True pricing
True pricing, more broadly, is measuring the impacts production and consumption have on society and integrating these into financial metrics. Just as we can calculate the true price, we can calculate the True Profit of a company by adding to its financial profit/loss, the environmental profit/loss and the social profit/loss. Same counts for the True Returns of an investment. So true pricing is a technology to feed information about the impact the market has on society back into the market.

True pricing implies concretely for you that businesses show their true prices on the labels of their products as additional information and that they decrease the true price until the actual price is the true price.

Now, three things it is not:
It is not an absolute truth. We will never know the 'true' True Price. The True Price is a quest, but a quest best done by calculating the best price we can. Is the number perfect? No, but it is a lot better than what we have now.

It is not a tax. It is information. The government could use this information to differentiate in taxes. Lower true prices result in lower taxes and the other way around.

It is not an additional cost to consumers. However, we may set up a financing system, whereby consumers may provide a voluntary contribution to the true price if it is higher than the retail price.

3.3 True pricing is possible in the 21st century

First, transparency
Calculating true prices is not very complex. It is counting externalities along the supply chain, multiplying them by their price, adding them up and checking them. There are two challenges: managing all the data and agreeing on prices for externalities. Both issues can be solved nowadays.

Agreeing on an international standard for externality-prices is possible. In contrast to the 19th century, nowadays a flat international community can agree on a standard. The Global Reporting Initiative managed to agree on standards for sustainability reporting. We have standardized ways to map environmental impacts of products, we have a Greenhouse gas protocol and recently John Ruggie even managed to forge a broad based framework on human rights in business.

Managing data is also a feasible challenge in the current age. It is well possible to measure, trace and verify the externalities of our production system. Nowadays, we can know exactly what goes in and out of a factory. We have the technology to handle a lot of data: think about Google-maps or the human genome. The tech is here.

You may think because the societal benefits of transparency are so large, the costs must be high. But in fact, setting up a reporting system for true pricing is a minor investment for a multinational and even doable for a medium sized enterprise.

Second, we can make internalization affordable
Once we see the true prices, can we actually drive them down? In the long term, goods will be cheaper. Because under true pricing we conserve natural resources for production, there will be less scarcity. Can we also afford true prices in the short term? Yes. For starters, we do not need to pay the difference between the true and actual price. Rather, we advocate to show the true price and bring it down to the actual price by making products in a better way.

If we would pay the true price for exactly the same products at exactly the same margins, yes, then prices would go up. But true pricing changes what goes into our shopping cart.

It is still early days, but from our current studies, the following picture emerges. There is variation in the true price of competing goods. But affordable products with a good true price

"Our current pricing system is an anachronism."

*"Just as we can calculate the true price,
we can calculate the True Profit of a company."*

*"It is well possible to measure, trace and verify
the externalities of our production system."*

*"the costs of preventing externalities are much lower
than the externalities themselves."*

"Prices are already moving in the direction of true prices."

*"If we are to have a prosperous future, we need to internalize externalities,
and if we want to internalize externalities, we need true pricing.
There is no alternative."*

*"Once people have tasted true prices, the genie is out of the bottle
and it will not go back in."*

*"the current pricing system only provides incentives
to make 10% of our activities circular;
under true pricing 100% can be made circular."*

Adrian de Groot-Ruiz (Executive Director True Price)

exist – often certified products – and feasible interventions could bring the true price down to the actual price. Why? First, the costs of preventing externalities are much lower than the externalities themselves. For example, the impact of accidents at work is large, but investments to prevent them are small. Second, there is still a lot of room for efficiency increases i.e. yields can go up significantly. Third, innovation: think about the pace at which the price of renewable energy has dropped. Finally, margins in end products are typically huge and can easily absorb some costs. Now, in some markets, we need more drastic innovations. For example, to keep the costs of road transportation at current levels, we may need to switch to car-sharing. So, sectors and companies who do not manage to provide affordable prices will be replaced. But that's the way the cookie crumbles.

3.4 True Pricing is inevitable

So, it is possible. I go one step further: it is inevitable. Because of economics and psychology.

First, economics: the gains of true pricing have become too large to forego
In terms of environmental externalities, an estimated 2 trillion of dollars[5] can be gained by 2030 by internalization. When free markets were conceived, nature was basically free. Due to increasingly scarce resources, population growth and economic development, externalities have grown massively since that time. By internalization, we can conserve fertile land, rainforests, fresh water aquifers and reservoirs and precious minerals. Plus, we can prevent that food, water, energy and other sources, become very scarce, expensive and a source of strive. We can save the planet by internalization – at least for some extra centuries.

In terms of the social upside, business can end poverty. Businesses have the potential to provide access to affordable goods and the income to buy these goods to almost everyone in the world.

So, it is more than logical that the economic and political forces for internalization are mounting.

Prices are already moving in the direction of true prices. For example, China and Australia have introduced a CO2 scheme. Corporate investments in water will be 60% higher in five years[6]. Commodity prices have more than doubled since 2000[7]. China is not a cheap-labour country anymore. Tolerance for accidents like the BP Oil spill or the Rana Plaza factory disaster in Bangladesh is eroding. In essence, societies have so much to win by internalizing externalities, that if they are just a bit functional, they will do so.

True pricing provides exactly the information necessary to internalize

There is one barrier to further internalization: information. We know very little. And to internalize externalities, information is needed about CO2 emissions, energy use, wages, etc. If we do not know how much water is used to produce coffee and what the costs are to restore the water table, we cannot conserve fresh water where the coffee is produced.

True pricing provides exactly the information needed. So, if we are to have a prosperous future, we need to internalize externalities, and if we want to internalize externalities, we need true pricing. There is no alternative.

Second, there is also a behavioural, psychological reason why true pricing is inevitable
When we are in the marketplace we unwittingly make an essential choice. When we buy or make a product, there are three options. What we do is either good for ourselves, good for others or both.

True pricing makes this choice transparent

Market choices are incredibly complex with many consequences and trade-offs. If I buy a T-shirt, where did it come from? What was the CO2 footprint? Were people underpaid? Is it better to buy a T-shirt from China or Bangladesh? What if the social and environmental effects conflict? Should

5 *McKinsey Global Institute (2011). Resource Revolution: Meeting the world's energy, materials, food and water needs.*
6 *Global Water Intelligence, April 2013, Profile of the Global Water Market, Vol. 4.*
7 *McKinsey Global Institute (2013) Resource Revolution: Tracking global commodity markets.*

I switch brands? If you are a company, you face similar choices. Do you go for maximum profit or the most sustainable product? What does 'sustainable' mean anyhow?

True pricing integrates all information in one simple criterion. What about complexity? Henry Thoreau, environmentalist avant-la-lettre, wrote "Life is frittered away by detail. Simplify. Simplify." True pricing shows that in essence there are three options. It makes sure your choice is not frittered away by detail.

And finally true pricing makes us an offer we can't refuse

True pricing creates the option to do something that is good for yourself and good for the world. If you're a consumer, it shows you which of your favourite products are affordable and good for people and planet. If you are a company, it shows you how to make a profit and improve your impact on society. A small minority wants the most sustainable product regardless of the price; another minority wants the lowest price or highest profit at any cost. But the overwhelming majority wants both, and true pricing shows how it can be done. Who would reject a piece of affordable, delicious chocolate made by healthy and happy workers or a well-paid job at a company that makes society better? Let me tell you. Once people have tasted true prices, the genie is out of the bottle and it will not go back in.

3.5 How will it happen?

Phase 1: It starts with internal transparency
A growing number of companies are working internally at some form of true pricing. They recognize it is of vital importance to know their material risks and opportunities and do a thorough due diligence on the current and future realities of their supply chains. It helps them understand and tackle the challenge of the future: how can I innovate to make products with a better impact and a better margin. And it allows them to build an integrated strategy based on relevant internalities and externalities.

Phase 2: Breaking out
In the coming years, companies will break out in each sector. Companies that do better than their peers have a strong incentive to publish their true prices. Because they suffer from the lack of transparency that allows all their peers to claim to be sustainable as well. By showing their true prices, front runners can credibly distinguish themselves from their competitors.

Phase 3: Creating a norm
A norm will be created once there is a critical mass of early adopters, some 10%-15%, that will make the others follow. This is going to speed up as true pricing becomes part of the public domain, creating strong external rewards and punishments. Consumers, NGOs, investors and regulators will ask for true prices.

NGOs will integrate transparency about true prices in their existing efforts. So, as a company you will not be able to win a sustainability award, or get certified, or get a favourable CO2 ranking without showing true prices. Companies will in turn ask their suppliers for their true prices. It will become standard: 'Of course you report your true price.' Similarly, investors will want to know 'Do my investments deliver positive true returns?' And consumers will love true prices, because it makes the good life easier. And comparisons are irresistible: you want to know whether a soy burger has a lower true price than your organic hamburger. True prices will go viral, on social media and at the dinner table.

So, true prices will form part of the public domain in a way that integrated reporting, the bio-based or circular economy, a GHG protocol or EPDs will never be and were never meant to be.

Phase 4: Codification
At some point, there will be many initiatives and a call for codification. One standard will probably emerge. Governments will adopt it as a norm for their own purchasing and procurement and perhaps even mandate transparency. For those companies that do not report, consumers and investors will know: their true prices are just too bad to show.

Phase 5: Business as usual
What remains is internalization. That will be done by business as usual. Consumers and employees and CEOs will want affordable truly priced products. Governments can speed up the process by adding incentives but they are not necessary. The sheer power of the market will be unleashed to drive true prices down. The forces of competition, innovation and entrepreneurship will close the gap. Entrepreneurs will deliver innovative technologies and companies will compete to deliver affordable truly priced products. This phase is going to be very interesting.

3.6 Two observations to conclude

One, just look outside. See the major economic innovations. The circular economy, bio-based economy, sharing economy, renewables, social entrepreneurship, impact investing, sustainable trade, integrated reporting, fair banking. Think about it. All these activities fit much better with true pricing. For example, the current pricing system only provides incentives to make 10% of our activities circular[8]; under true pricing 100% can be made circular. True pricing just fits the times.

Finally, it is already happening. In 2011, Puma published an Environmental Profit & Loss Account. Ten companies will publish an EP&L under the lead of Richard Branson and former PUMA CEO Jochen Zeitz. Our own platform started last year and now has partners from business, finance, civil society and government and is working on projects with companies in the food, building and chemicals industry. The best of all is that we can announce that in the coming year, we will already see the first companies in the world to publish true prices.

8 *Ellen MacArthur Foundation (2012). Towards the Circular Economy Vol. 1: an economic and business rationale for an accelerated transition*

4. THE THREE DIMENSIONS OF FAIR BANKING

Peter Blom
CEO Triodos Bank

4.1 Introduction: about counterintuitive mechanisms

Today it is announced that Tony Chocolonely will be the first chocolate brand to have a true price in 2014. The chocolate bars of Tony Chocolonely are pleasantly confusing: blue bars are pure and red are milk, whereas the standard colouring scheme of chocolate bars is exactly the other way round. Confusion, however, creates consciousness, that's nice.

The same mechanism works for the idea of 'true pricing' as addressed by Adrian de Groot Ruiz. One of the founders of our bank once explained to me how pricing works, how interest rates work. Rudolf Mees was born in Rotterdam to a famous family of bankers. They were bankers for hundreds of years – Mees & Hope for the Dutch among you. He told me that there is a funny thing with interest rates: the lower the rate the more people are interested! That represents a very interesting socio-economic mechanism: that human interest in things actually has a sort of reverse effect on the level of interest rates. I know that when we started the bank in 1980 we offered a savings account with a zero interest rate. Actually, people could choose the interest rate. It was fascinating to see what people did. In 1980, when the bank was founded, interest rates for saving accounts were between 8 and 10 per cent – which gives you an idea of how much inflation we had at the time. We offered that possibility as well, but many people said they would accept the zero interest rate on their deposit accounts because they liked what we were doing. They were interested in the Triodos format and they said they would help us with that. In a certain way that is still the case. The mechanism represents an interesting, new economic law – which I never learnt at university.

4.2 Fair banking is not easy

The idea of fair banking has a similar connotation. It seems a strange word to use today, judging by what you read in the newspapers today on, what can be considered, one of our fairest banks – the Rabobank. As a cooperative bank, the idea of fairness is their image, it is in their roots. The cooperative banking movement is a very important movement in the Netherlands and worldwide. Today, Rabobank is confronted with the Libor affair in which it participated as the only Dutch bank[9]. The affair did not feel good at all. I felt really sorry, especially for all those Rabo bankers who are sincerely trying to serve people locally in banking. But it happens, and I would say it is one of the phenomena of today. It happens to many banks, many big banks and there is a reason for that.

Before doing that, however, I would like to elaborate a little bit on the terminology: on 'fair'. What is 'fair' actually? When can you call something fair and when is it not fair? It's a very simple word to use, but can you measure it, for example? I don't think you can really measure it. Maybe you would like to challenge me on that. Maybe we can measure it. It is the same thing with true pricing. Adrian de Groot Ruiz said it is not an exact science. He said it is a guess. You try to find out what is sort of true; a reflection of the price but it is not like natural science. So, how do you define it? How can you recognize it? The same is true for 'fair'. 'Fair' is a people thing. If you think about animals, plants and nature the question seems oblivious: is nature fair? I don't know. It is what it is. It can be beautiful, it can be inspirational but in itself I would not call nature fair. Nor would I call an animal fair. It is therefore important thing to understand that 'fair' is not a natural thing. Fair is something we as human beings have acquired. Of course we are all part of nature, as we all know, we have a physical body and it works according to biological laws. We are all part of nature, but at the same time we are not. We can free ourselves from nature. We can think independently, we can make free choices. Some people doubt whether we have a free will, others say we have a free will but the fact that we can discuss it is fascinating in itself. It is not so much about whether you have a free will or not, the fact that we can discuss it is a typical human characteristic.

We are actually part of two worlds: we are firstly, part of the natural world with its laws, with its instincts, with its desires. It is about eating, it is about reproducing. And we are part of the other world, the cultural world – creating something out of nothing is a typical human aspect.

We became emancipated from nature, in a way we became almost too independent from nature. We thought we could create everything ourselves in our thinking, and we forgot about nature. The interesting development of today is that many of us realize now, more than ever, that the foundation of our own lives is actually in nature, in our planet. For a long time it was possible to sort of do away with nature. The planet was always there, it was a given, and we almost thought we could do without it. The same happened to bankers – they thought at a certain moment you could make money with money. Maybe in a business school they teach you differently now, but for a long time people really thought you could make money with money. You cannot make money with money. That does not work. If you are in banking you know you cannot. The moment you start to realize you cannot, the whole thing implodes. It is a sort of belief, a religion that you can do it, but the moment you ask who is actually going to pay for it – or where do I get my food, my thoughts, my housing – then it bounces

9 *Editor's note: LIBOR is the London inter-bank offered rate, an important benchmark interest rate that has great impact on actual money transaction in the City. It underpins approximately $350 trillion in derivates. A small number of banks define this rate. The Libor affair involves a series of fraudulent actions in which the participating banks were falsely inflating or deflating their interest rates to either profit from trade or show higher creditworthiness than was actually the case. According to the Economist: "this affair, not only betray a culture of casual dishonesty; they set the stage for lawsuits and more regulation right the way round the globe. This could well be global finance's "tobacco moment"."The involvement of Rabobank staff in this affair, points at lacking internal auditing anad flaws in the management system (internal alignment, see Van Tulder et al, 2014).*

back again. The same is true for our idea of separation of nature. We come now back to a moment today that we realize that we are not only dependent on nature, but that nature is also dependent on us. That is a sort of inter-dependency which is relatively new in the history of mankind. In that sense an element of fairness comes back. Our relationship with nature, our care for the planet, has to be fair. What we take, we have to give back. The circle economy concept comes from that. It is quite important that we take that as the new paradigm in economics. That we make clear that if we take something we have to give something back. Nature is not a given, it is part of the circle now. Realising that is relatively new (for western people at least). That is one development that leads to a greater consciousness of fairness and the realization that fairness should be an important idea in our economy and society. Another development is we created a different type of social consciousness. The traditional social consciousness concerned about a family, children, husband and wife; then the tribe came, then the community, followed by the nation states. It has not been so long since we started to develop consciousness of world citizenship.

> *"You cannot make money with money"*
>
> *"It is the entrepreneur who creates the value, not the bank."*
>
> *"The price is not just a price. You can only understand a price if you understand a context and a relationship."*
>
> *"I do not think there will be very big banks in the future but there will be very efficient banks with very efficient networks and different know-how."*
>
> *Peter Blom (CEO Triodos Bank)*

4.3 Away from mechanical notions of prices

When I was studying in the 1970s the whole idea of globalization was not around. We talked about nation states, about blocks, but we did not talk about world citizenship. Today, that is really happening, and it is a fascinating new concept which also creates a consciousness for the interdependency between peoples. We are really dependent on people living in China, in Latin America, in North America and they on us. We are becoming one world economy, one world community, we are world citizens. Again, this leads to an increasing importance of the whole concept of fairness.

That we know that what we do, what we eat is something which you cannot eat in another part of the world. One of the other founders of the Triodos bank, Professor Brüll was a great philosopher. He asked me if I knew what the average income is of a world citizen. What is their average income? If you take GDP and divide it by something like 6 billion people – today it is about $12,000. I actually thought it was less. But the average is $12,000. In 1980 the average was $3,000. So we have made an interesting step up since then. Brüll said that if you were to earn – in 2012 terms – let's say $48,000, you have to realize that actually four people are working for you. Take that as a sort of concept and then you create this whole network of interdependencies. We, in this part of the world, sometimes do not realize that many people are working for us, who earn less than $12,000 a year. This notion is supporting the whole idea of a fair economy, of fair banking, of fair trade.

Maybe there is a third dimension to the whole notion of fairness. That is a fairer, more ethical and moral notion. With the two earlier dimensions there is a sort of almost ecological law or a social law to fairness. But I also feel that stronger people do something because they believe in it. It is not because it is happening socially – you care for your mother, you care for your community – it is something you strongly believe in yourself. The third foundation for fairness is moral and ethical, and this is becoming more and more important. If you lose that part it is very hard to be active and work in the economy, particularly in banking.

For many centuries we thought that the whole notion of fairness had nothing to do with economics. Economics was a sort of physical law almost of things happening on their own account. Adrian has already referred to the classical idea of markets that produce an objective price – that was the sort of mainstream thinking we had. The price was something which created objectivity. It was almost as if price had no quality. It was not true, it was not fair, it was not higher, or lower, it was what it was. As I said earlier, is nature fair? No it isn't. On the other hand: is a price fair? It seems that it is what it is. We have become accustomed to accepting that frame. That is the sort of thinking which was an almost mechanical law. The price is what it is, and we dealt with it. Today, however, we are learning more and more that the price is something different. You can only understand a price if you understand a context and a relationship. The relationship is the whole time element – how do we get from here to here and at a certain moment a price has been created. Personally, I think the price in itself is not so interesting. It is one moment in time that a certain price happens. But the next moment the price could be different, for the same goods, for the same product because the context has changed. To gain more understanding of the context in which a price is emerging is quite important, and the relationship becomes much more important. That is where I agree with the True Pricing initiative – that modern technology comes in; social media can help us understand much better what the context is. In the past we could not do this. We just bought something in a shop and we did not know where it came from. The price was the price. There is a unique possibility now to get a better understanding of what the price is about. Then we make a price more qualitative; it is not just a quantitative measure.

Now, especially in finance and banking, we are still dealing with the results of this almost physical thinking about prices. It is a mechanical thing. We have to learn to rewind a little bit to understand, or rather to fast forward, I would say, to understand much better what a price is. And that you can only understand price in a context and in a relationship. I think that is also the way to come out of our financial crisis. That is exactly what happened in the financial crisis – we did not put things in perspective any more. We saw the price as something objective, and that was true, it could no longer be connected to what the real context was. This is important. Therefore, I think fair trade, fair banking, fair pricing or true pricing is something of today. That is what we have to do today – have this broader picture again.

4.4 Fast forward: the future of fair banking

I would never call ourselves a fair bank but I was challenged by the title of this Max Havelaar lecture and I thought let's see where we are with that. When I became involved in banking I had no idea what a bank was about. To be honest when I was 16 or 17 years old the idea of becoming a banker was not on my horizon – no way. I hated banks, they were capitalist, they did bad things to people and I did not like them at all. What I did – and there is my relationship with Fairtrade – was create a small Third World shop in my high school. There I learnt my first lesson about the accumulation of capital. I borrowed a little bit of money from my parents and bought some Fairtrade coffee from (I think) Mozambique. We went to the Christian movement there and we could buy it and I was selling it in the school. It was quite a struggle because this school was a very conservative school and I was immediately seen as a Communist working for the Russians. I had to fight my way in, but I enjoyed that actually. I was selling all kinds of artisan products and coffee and other things. I repaid the loan to my parents and suddenly, after 6 months, I realized that I had 500 Gulden and I had no idea who owned that 500 Gulden. Was it mine? Had I maybe stolen it from the farmers in Africa? Were my prices too high? That was the question. Who created this 500 Gulden? That was
my first question about capital, not about capitalism but about capital. And I had to deal with it. I thought it was interesting – you can create something and call it capital but you have a moral responsibility to do something with it.

I became very interested in the initiative of the Triodos Bank, which was starting to create relationships between people who had money and people who needed money. I became a volunteer there and that is how I started my banking career. I still had no idea that I would become a banker. I thought I would work for this nice initiative for a couple of years and then I would do something else, such as going into a nice organic shop or something else, but not banking. I did not like banking at all. Triodos, therefore, provides an interesting example on how to focus on the real economy and what people want to do – as integral part of the culture of your bank. It is incredibly important in banking that you create a culture in which you are really focused on who you want to serve. That is why it is so regrettable what happened to Rabobank. Although, I also think that some of these elements are still very strong at Rabobank, with their local cooperative banks. That is the way you have to do banking. You have to develop the basic serving attitude in banking. It is the entrepreneur who creates the value, not the bank. In the best case scenario you are part of that value-creating process, but you are not directing it. You are the bridge between people who temporarily have money available and people who temporarily need money, but the real value creation is with the real economy.

In describing how fair banking is developing, three levels exist. The first level is about transparency, about transparent banking. You need to be transparent before you can actually act in a different and fair way. There was no transparent banking at all in 1980; it is coming more and more into the public domain and people can see it. Banks have to be more transparent. We suddenly discovered it was a great idea to use some Google map technology to show all our borrowers on the Google internet application. Our depositors love it. They can see which borrowers live in their own neighborhood, what they make, what they do. You can find it on the internet, you can go to our internet site and you will see it. It was actually almost by accident we did this, and we learnt from that that people really want to know and are interested in what their money is doing. That transparency is fundamental. It does not change the world, maybe it is still not about fairness, but it is a very basic condition for creating fairness, and creating value. Banking thus can get a social function again by making depositors into lenders, with the bank as bridge with the beneficiaries.

The second level is real fair banking, the sense that you go beyond where your money is used, how your interest rate is actually earned. People want to earn an interest rate on their deposit – not so much today because there is far too much money in the world and not enough entrepreneurs; that is why we have such low interest rates. I can really see that it is important that you do not just ask where your money is, but you ask how that entrepreneur is also earning money for me. The earning capacity of a business has to become much more important. You can see that people are actually interested in lowering their interest rates if they see what is happening with their money – if they can understand how that entrepreneur is creating a business which can also benefit them.

The third level is when you use your money for positive change. I would not say that all the half a million customers of the bank go for this positive change. Some of them just like the transparency. There is another group that really likes the whole fair banking idea – a fair price, a fair interest rate – but there is also a growing group who want to use their money for social change. See what you can do – become part of a bank that will want to change the financial system. That group is growing. So you see different levels of consciousness.

4.5 Conclusion: the future lies with values based banking networks

I would like to conclude with some strategic questions. Many people tell us we have a nice business model, but ask how we can scale it up. It has to be big. Our American friends especially love that, it has to be replicated, scaled up, only then are you successful. That is an interesting question. Can you so easily replicate and scale it up? What are the strategic ways of doing that? In our organization we found out that growth paths between 20-30 percent, what we have done in the last say 20 years, is something we can manage as an organization. There is almost a social ecosystem in the bank that can cope with that growth. You learn how to deal with that growth. I think I would be very disappointing if the growth rate was zero or 5 per cent – we would have an issue to deal with that. But 50 or 100 per cent growth would also really create sizable challenges. You find, in an organization, a sort of rhythm of growth, an organic growth and for some organizations, probably the bigger ones, it can be 5 or 10 per cent. If you are smaller you may grow a little bit faster. It is an important lesson to learn and you should not try to ‘blow yourself up’ by growing too fast.

At the same time, what I also learnt is that there are many other initiatives like Triodos bank around the world. At a certain moment we said we are not growing ourselves immensely because we want to change the world, we are going to line up with others and we created a global alliance for banking on values (see box), an organization created here in the Netherlands in 2009. This is our approach to the mainstreaming question that prof. Van Tulder will pose in his address. There are now 25 banks worldwide that collaborate in this alliance and it is fascinating to see how much we can learn from each other. It is a club of CEOs – we did not want to just to make it a club of banks, we wanted the drivers of those banks, the people with final responsibility to come together. In this global alliance we try to create a better understanding in the world of what fair banking is about. What I really learnt is that if you are just one bank and you are trying to be an example people say well that's great, but maybe that is the exception. If you start to create a group of banks working to the same values and they are successful then suddenly others start to think this might be interesting, we should look into that. That is the lesson: do not just make yourself big, make yourself big with others.

The Global Alliance for Banking on Values

The Global Alliance for Banking on Values (GABV) is a membership organisation, made up of the world's leading sustainable banks, from Asia, Africa, Australia, Latin America to North America and Europe. Members include microfinance banks in emerging markets, credit unions, community banks and sustainable banks financing social, environmental and cultural enterprise. Members include amongst others: Alternative Bank Switzerland, BancoSol, FirstGreenBank, Integral, Vancity, XacBank and Triodos Bank.

All comply with *sustainable banking principles* and have a shared commitment to find global solutions to international problems – and to promote a positive, viable alternative to the current financial system. These organisations believe that we must improve the quality of life for everyone on the planet, recognising that we are economically interdependent and responsible to current and future generations.

The network's members have to meet three criteria:
- they are independent and licensed banks with a focus on retail customers
- with a minimum balance sheet of $50 million;
- and, most significantly, they should be committed to social banking and the triple bottom line of people, planet and profit.

For more information on the actual partnership: **http://www.gabv.org/our-banks**

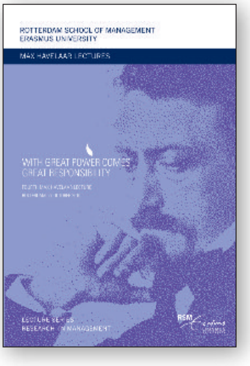
The network principle.
We are moving into an economy which is much more network based. It is much more about know-how and not having big heavy organizations. For many of you probably that is already a given thing. It is not about being in a big company but being in a small company and being able to relate to each other. That is the future, I believe. I do not think there will be very big banks in the future but there will be very efficient banks with very efficient networks and different know-how. The big institutions with all their internal bureaucracy do not have a real future. We have to stay much smaller and work together. That would be an interesting debate to have. That is why I think this relationship approach; this more horizontal approach – connecting and making things work – is something which has to do with fair banking, with Fairtrade, but also the relationships with producers. Fairtrade is actually still a relatively small movement, and yet it is global. I think that global concept is quite important and can be a source of inspiration for other companies as well. My picture of the future is about understanding better the context of relationships – keep it more horizontal, look at situational cooperation, and I think then we will have a completely different economy and a completely different society, which will be much fairer than the ones of today.

MAX HAVELAAR LECTURES SERIES

Fairtrade and Climate Change - Max Havelaar Lecture 2011
25 October 2013

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. Increasingly these standards also include environmental issues.
But is there a trade-off between fairtrade and climate change?
The fifth Max Havelaar lecture considers these tensions.
Position paper written by Ans Kolk and Jonathan Pinkse.

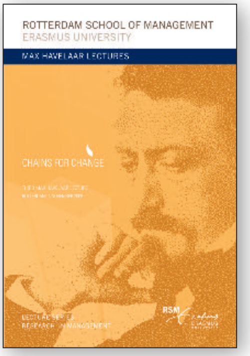
With great power comes great responsibility - Max Havelaar Lecture 2010
16 May 2011



The fourth Max Havelaar Lecture concentrated on the question whether corportate power can be a force for good and under what conditions this could happen. In this booklet you find the position paper that was written as well as transcripts of the lecture itself.
Key note speeches by Jan Pronk, George Yip and many others.

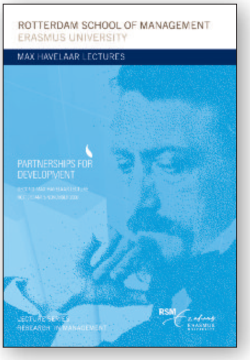
Chains for Change - Max Havelaar Lecture 2009
1 October 2009

Trade is an important means to achieve poverty reduction and empowerment. The slogan ‘Trade. Not aid’ regards millions of disadvantaged and marginalized small producers in developing countries who are able to fight poverty on their own, if only the market would allow them. Fair access to the trade system under better trade conditions would help them to overcome the barriers to development.
Keynote speeches and position paper by Gerry Gereffi and Bert Koenders.



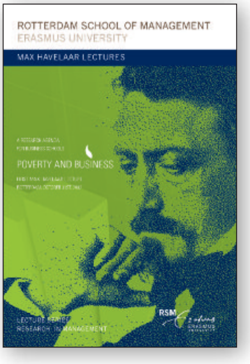
Partnerships for Development - Max Havelaar Lecture 2008
1 October 2008

Since the beginning of the 21st century ‘partnerships’ have received increasing attention on the development agenda. Governments and NGOs seek alliances with firms to increase the effectiveness of their development efforts. Partnerships have been pioneered in infrastructure projects, millennium villages, the provision of health services and (micro)credits … the list of announcements is growing. The increasing involvement of firms in development partnerships is particularly noticeable.
Key note speech and contribution by Noreena Hertz.



Poverty and Business - Max Havelaar Lecture 2007
1 October 2007

Since the beginning of the 21st century, the potential contribution of corporations to a large number of societal issues has received increasing attention and controversy. This also applies to arguably the biggest global challenge of the moment: alleviating poverty. Until recently, the issue of poverty was largely ignored in management theory and practice.
Key note speeches by Geoffrey Sachs, Alexander Rinnooy Kan, Antony Burgmans.



MANAGING THE TRANSITION TO A TRULY VALUE-CREATING ECONOMY

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SIXTH MAX HAVELAAR LECTURE

ROTTERDAM, OCTOBER 2013

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Max Havelaar Lectures Series
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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 Partnerships Resource Centre (www.partnershipsresourcecentre.org). The first Max Havelaar lecture was held in October 2007.

More information on present and future lectures can be found on www.maxhavelaarlecture.org

Topics of previous Max Havelaar lectures:

2007 Poverty and Business
2008 Partnerships for Development
2009 Chains for Change
2010 With Great Power Comes Great Responsibility
2011 Fairtrade and Climate Change

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