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ABSTRACT. In the literature, Fair Trade (FT) goods are usually associated with other products differentiated by process attributes such as organic food, genetically modified (GM) food or child labour-free clothing. All of these products are regarded as *credence goods*. This classification refers to the simplified definition of credence goods, which describes product attributes which consumers cannot evaluate, even after having consumed the good. Focusing on the characteristics of FT goods, this article proposes a reassessment of the link between FT goods and credence properties as defined by Darby and Karni. We first demonstrate that (1) the usual classification masks important particularities of FT goods compared to other goods with process attributes and (2) the full definition of credence goods may even provide a better description of the quality of FT goods. However – and this is our second theoretical contribution – the lack of consensus among experts concerning FT standards and their level of efficiency encourage us to consider FT goods as *indeterminate goods* as defined by Lupton. This result leads us to suggest a new typology of product attributes summarized in an innovative diagram. It sheds light on how competition between the different FT approaches works and why the FT market is still confined to a niche, if not threatened with collapse. We mainly illustrate our theoretical analysis with observations relating to the French FT market and institutions.

KEY WORDS: asymmetric information, credence goods, Fair Trade, indeterminate goods, labels, uncertainty

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ABBREVIATIONS: EFTA: European Fair Trade Association; FLO-Int: Fair Trade Labelling Organizations International; FT: Fair Trade; FT SSOs: Fair Trade Standard-Setting Organizations; IFAT: International Fair Trade Association; NEWS!: Network of European World Shops; NPO: Non-profit organizations; UT1: Uncertainty type one; UT2: Uncertainty type two; WFTO: World Fair Trade Organization

Introduction

Approximately 60% of French consumers surveyed in 2006 said they were willing to pay 10% more for Fair Trade (FT)-labelled goods (TNS-Sofres, 2006).[1] However, this claimed willingness to pay more does not result in actual purchases: only 42% of French consumers surveyed in 2006 had actually bought an FT-labelled product in 2006 and FT sales remain low throughout France. Many studies confirm this discrepancy between the attitudes and behaviour of northern consumers in their ethical purchasing behaviour in general and FT consumption in particular (Chatzidakis et al., 2007; De Pelsmacker and Janssens, 2007; Loureiro and Lotade, 2005). Consumer uncertainty (doubt, scepticism, lack of trust etc.) is one of the reasons offered in the literature to explain this *attitude–behaviour gap* (Castaldo et al., 2009; De Pelsmacker and Janssens, 2007). Mistrust of FT goods is usually seen as inherent to consumers' inability to discern the nature of the quality that FT is actually selling. As FT goods are differentiated by process attributes that are not apparent in the product, consumers cannot (at a reasonable price) assess FT quality through a search process prior to the purchase (*search* attribute according to Nelson, 1970, p. 312) or by observation-in-consumption (*experience* attribute, *ibid*.). This observation leads most authors to place FT goods in the same category

of *credence goods* as other consumer goods with process attributes (such as organic food, child labour-free clothing, and dolphin-safe tuna), a credence attribute being defined as a characteristic the quality of which cannot be evaluated even after consumption (Bonroy and Constantatos, 2008, p. 238). These goods share a common problem of asymmetric information between sellers and consumers concerning the quality actually delivered.

Our research leads us to question the classification of FT goods as credence goods and to propose a new information economics typology for product attributes based on the consumers' ability to detect attributes. This typology is summarized in an innovative diagram. The article proceeds as follows: in the next section, we explain why FT goods are usually considered as credence goods. In the third section, we show that (1) this usual classification masks important specificities of FT goods compared to other goods differentiated by process attributes and (2) the full definition of credence goods proposed by Darby and Karni (1973) may provide an even better description of the nature of FT goods. In the fourth section, however, we argue that the lack of consensus among experts concerning FT standards and their levels of efficiency prevent FT goods from being considered as credence goods. We thus propose a new classification of FT goods, which we feel fall into the indeterminate category defined by Lupton (2005). The fifth section illustrates the important implications of this new classification before we present our conclusions in the final section.

The quality of Fair Trade goods in the literature

A broad definition of ''Fair Trade quality''

The currently accepted definition of FT was agreed upon by FINE[2] in 2001:

> Fair Trade is a trading partnership, based on dialogue, transparency and respect, which seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of marginalized producers and workers – especially in the South. Fair Trade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.

This definition is intended to characterize the value added in an FT good in comparison with a conventional one, *ceteris paribus*. Let us call this attribute 'FT quality'. This FT quality can be seen as a dimension of the quality of a good along with aspects such as appearance, taste or origin (Renard, 2003). Of course, as it mainly focuses on the objectives of FT, the definition proposed by FINE makes the production and measurement of FT quality (and thus the valuation of FT goods) very difficult in practice, especially for consumers. Certain requirements have, therefore, been specified by the Fair Trade Organizations (FTOs) to clarify what should be considered as FT quality. In order to be recognized as a Fair Trader by their peers or by an independent certification body (depending on the means of labelling[3]), producers, importers, manufacturers and retailers must comply with requirements concerning trading conditions and relationships (paying a fair price in the regional or local context, helping with access to pre-production financing, treating each other with respect, being transparent); the worker's rights (democratic structure, fair remuneration, socially responsible, safe and healthy workplace), the process of sustainable development; and the role of FTOs.[4]

These principles are intended to help producers, importers and retailers to achieve the global objective specified in the FINE definition ('greater equity in international trade'). FT quality depends on the extent to which these principles are respected for a given FT good. Nevertheless, as these standards relate to the production and processing environment, they are difficult (if not impossible) to verify at the point of sale. Many authors thus regard FT quality as a credence attribute.

Fair Trade goods as credence goods (in the broad sense of the term)

Consumers of FT goods are faced with uncertainty because FT goods are differentiated by process attributes (characteristics which depend on the way the good is produced and exchanged) which are not apparent in the end product. Consequently,

consumers cannot assess FT quality at a reasonable price either by means of a search process or through consumption. This observation leads most authors (except Jahn et al., 2005) to place FT goods in the broader category of consumer goods differentiated by process attributes, all of which are indistinctively considered as credence goods.

For example, Loureiro and Lotade (2005, p. 131) group 'products such as genetically modified (GM)-free corn and soya beans, child labour-free clothing, cruelty-free cosmetics' together with FT coffee, shade-grown coffee and organic coffee in the 'credence goods category'. According to Bonroy and Constantatos (2008, p. 238, footnote 1), 'examples of credence goods are organic products, FT products, types of goods claiming higher safety or better environmental performance, etc.' Steinrücken and Jaenichen (2007), Roe and Sheldon (2007), Baksi and Bose (2007) and Fridell et al. (2008) adopt the same classification. Many other examples could be added as Internet searches on 5 October 2009 on Google Scholar returned 203 hits for the expressions 'Fair Trade' and 'credence goods'. Most of these are working or published articles that place FT goods in the same category as credence goods.

Consequences

This classification has two important implications.

First, it leads us to consider the well-known issue of asymmetric information (Akerlof, 1970) as the main concern. Indeed, the only information problem common to all of these different goods with process attributes is the asymmetry of information between sellers and consumers concerning the true quality of the goods. A discrepancy may arise between promised quality and what is actually supplied if the sellers exploit this asymmetry. To take one aspect of FT quality as an example, the consumers of a given FT good cannot be sure that sellers in the North really provided small farmers with pre-financing when it was necessary.

Consequently, concerns about the best way to indicate unobservable 'FT quality' have become a central theme in the FT literature. In the case of credence attributes (in the broadest sense of the expression), it is well known that ways of signalling unobservable quality, such as guarantees, reputation and repeated purchases, are only partial solutions. 'In such cases […] information asymmetries lead to the emergence of a particular type of market institution: certification intermediaries' (Lizzeri, 1999, p. 214). As consumers must rely on these intermediaries to assess FT quality, the effectiveness of the regulatory system governing the labelling of FT goods and its perception by consumers are seen as being crucial to the development of the FT market. Much of the FT literature has, therefore, become concerned with the efficiency of third-party certification schemes. The most important prerequisite is that the certifier's gain has to be independent from the inspection result he provides. That explains why FLO-International (FLO-Int) has made certification functions autonomous and independent (creating FLO-Cert, which has recently been recognized as independent by ISO).[5]

In short, regarding FT products as credence goods similar to other goods with process attributes reduces the problem of uncertainty in FT markets to a well-known problem of asymmetric information (Akerlof, 1970). In this context, contributions and results from the huge body of research literature dealing with the signalling of unobservable product attributes could be directly applied to the analysis of the FT market. We will show in this article that this analysis provides only a vague understanding of the informational problems in the context of FT markets, while challenging this classification of FT goods. Goods which are differentiated by process attributes actually form a very heterogeneous group, involving different types of uncertainties, and the informational problems are particularly severe in the case of FT products.

The link between credence properties and FT goods: a re-assessment

To question the classification of FT goods in the category of credence goods, it is necessary to return to Darby and Karni's definition of credence qualities.

Darby and Karni's concept of credence goods

The articles highlighted generally quote the following part of Darby and Karni's seminal article

(1973, pp. 68–69): 'credence qualities are those which, although worthwhile, cannot be evaluated in a normal use. Instead the assessment of their values requires additional costly information'. This quotation implies that the difference between credence and search or experience goods results from the level of costs consumers have to bear to evaluate quality. According to the usual classification, the quality of search attributes can be learnt at almost zero cost, while the purchase of experience goods is required to assess their quality and credence qualities require additional information for their values to be assessed.

This broad definition clearly suits all the goods differentiated by process attributes.[6] However, this definition is only 'a simplified version of credence goods' (Roe and Sheldon, 2007, p. 1020). Let us recall the complete definition proposed by Darby and Karni in 1973.

Taking the example of automotive repair services, they distinguish two potential forms of uncertainty faced by a consumer:

- First, consumers may be unaware 'of the ability of the repair service to satisfy a given want' (p. 67). For example, most drivers cannot fully evaluate the advantages of replacing a component (p. 69). In these cases, consumers turn to experts who can determine their needs. Contrary to consumers, experts are not faced with uncertainty. In other words, this *uncertainty* is actually *information asymmetry*. It makes fraud likely to occur when the provision of the diagnostic and repair services are made jointly (the expert–seller can, for example, overestimate consumers' needs) (Dulleck and Kerschbamer, 2006).
- Second, consumers are faced with another uncertainty 'of a somewhat different nature' (p. 76): sellers can charge for a repair service which has not been provided. This type of uncertainty concerns the unobservable (to the consumer) quality of goods or services mentioned in "The quality of Fair Trade goods in the literature" section. This uncertainty becomes asymmetry when the seller clearly knows the quality he actually provides.

Carefully distinguishing these two types of uncertainties faced by consumers of credence goods is essential to our argument. Let us call them:

- *'Uncertainty type one' (UT1)*, which arises whenever the consumer is 'unaware of the ability of' a good or service 'to satisfy a given want'.
- *'Uncertainty type two' (UT2)*,[7] which emerges whenever the consumer cannot detect the quality of a good or service.

According to Roe and Sheldon (2007, p. 1020), only UT2 is relevant 'in the case of consumer goods with process attributes […], because consumers are assumed to know their preferences for the process attribute': unlike drivers who turn to an auto mechanic to determine the repair they actually need, consumers do not need an expert to know that they want products that are for, example, GM-, child labour- or cruelty-free. The usual classification described above is implicitly based on this assumption: indeed it uses the *credence* qualifier to refer to the second uncertainty and the degree thereof which, in the case of FT attributes, is high.

We can accept that all goods with process attributes potentially suffer from UT2. However, we think that some of them contain attributes which also suffer from UT1 and that this is the case of FT goods. Putting all such goods in the same category, therefore, masks substantial differences.

Do FT attributes suffer from the first type of uncertainty?

In some cases, process attributes are wanted for themselves: once their presence is attested by some signal such as third-party certification – that is to say once uncertainty type 2 is removed – an assessment of their value requires no additional information. This is the case for GM-free foods, dolphin-safe tuna or child labour-free clothes, for example.

In other cases, however, process attributes are simply a means of inferring other properties of goods. For example, people may buy organic products because they want to stay healthy and protect the environment. Furthermore**,** most people who buy FT goods probably aim to achieve greater fairness and solidarity in international trade and to support marginalized producers[8] in the South (see definition of 'FT quality' in "A broad definition of Fair Trade quality" section).

In these cases, a parallel between repair services and FT goods can be drawn: a consumer whose car has broken down wants to make it work. He has identified a need, like the consumer who aims at contributing to fairer international trade or to a better economic situation for small-scale producers in the South. Both have to find a good or a service which can satisfy their needs. However, and this is the main contribution of Darby and Karni (1973), consumers may not be able to evaluate 'the ability of services to satisfy their wants' (p. 67): a driver who is unfamiliar with car mechanics does not know if replacing a clutch is enough to make the car work, even if the clutch has indeed been changed (i.e. even without UT2). Likewise, consumers may have some doubts about the ability of FLO-Int standards, for example, to make trade fairer or southern producers wealthier, even if these standards are met. Moreover, we know these doubts exist (see "Empirical evidence" section), as stressed by Utting (2009, p. 2):

> The proliferation of supporters of responsible trade initiatives has been accompanied by the growth of a band of strong critics and sceptics. The latter point to what they see as potentially insurmountable challenges to Fair Trade and ethical trade, such as their limited potential to expand market growth, to ensure sustainability and to create long term benefits for Third World producers and their communities.

Therefore, contrary to the implicit hypothesis put forward by most authors and clarified by Roe and Sheldon (2007), a kind of UT1 exists for some goods with process attributes if these attributes are seen as a means of achieving another goal. This is the case with FT goods and with organic goods, although these examples are different from the ones used by Darby and Karni.

Proposition 1: Consumers of FT goods face two potential forms of uncertainty: first, they may not be able to judge if FT standards can really achieve their goals (Darby and Karni (1973), what we call 'uncertainty type one'); and second, they are not sure that these standards are respected throughout the production chain ('uncertainty type two', analyzed by Akerlof).

Empirical evidence

Do empirical studies confirm the existence of UT1 in the FT market? Lessons from studies actually tell us that a percentage of consumers do not buy (or do not buy more) FT goods because they realize they are facing UT1: consumers have identified a particular need which they know FT initiatives try to satisfy, but they are not convinced of their effectiveness. The results of two French population-based surveys conducted in 2008 support our hypothesis.

In a poll conducted by IPSOS in 2008, it appears that of those who have 'already heard about FT, even if only by name' (82%), 57% point out that they do not have enough information.[9] Does this lack of information refer to compliance with the standards or to the effectiveness of those standards? Half of the people polled think that 'firms can claim to adhere to the FT movement without complying with its principles'. This confirms that the UT2 is still an important concern among consumers, despite the development of third-party certifiers (FLO-Cert and Ecocert for example) and the efforts made by other FTOs to forge a reputation through codes of conducts (like WFTO (formerly IFAT) members). However – and this is the crucial point – uncertainty about FT effectiveness (UT1) is the third reason put forward by consumers to explain why they do not purchase FT goods whereas UT2 is not mentioned.[10] Moreover, 17% of those interviewed simply do not agree with the claim that 'FT labels really allow small-scale producers' livelihoods to improve'. In a nutshell, consumers claim that they face UT2 but put forward UT1 to explain why they do not buy more FT goods.

A second opinion poll conducted in April 2008 (TNS Sofres, 2008) follows similar lines: 40% of the people polled 'do not really know what Fair Trade is' and are, therefore, unable to assess the ability of FT products to satisfy a given need. 78% of the people asked said they were 'ready to make an effort to help the Third World to develop' but 29% 'do not believe in Fair Trade'. These figures confirm the fact that complying with a code of 'fair' practices is not sufficient: whether these so-called fair practices are sufficient to achieve greater fairness in international trade remains to be proven.

Studies conducted in other countries support the existence of UT1, confirming that consumers lack information to assess the ability of different FT approaches to achieve their goals. De Pelsmacker and Janssens (2007) cite some of these studies and, through their own empirical research (a large-scale survey of 615 Belgian consumers), confirm the importance of the quantity and quality of information in shaping attitudes and behaviours towards FT. Chatzidakis et al. (2007) conducted a qualitative survey of 18 UK respondents to identify why people do not buy more FT products, even when they endorse FT values. They found that doubts concerning FT effectiveness ('denial of benefit') are one of the most frequent reasons offered by respondents. A typical reaction is '[by buying FT] I'm not doing anything that contributes to an improved trading system […], I think the problem is too big to be dealt at the level of the consumer' (p. 92). Finally, Castaldo et al. (2009, p. 5) cite a poll (Gebben and Gitsham, 2007) that identifies UT1: 'The most frequent reason offered by respondents for their inaction is the high price of the products; *the second most frequent is ignorance of how and whether the Fair Trade system works*' [authors' emphasis].

Consequences: the separation of diagnosis and treatment in the FT market

We have shown that doubts about the ability of FT goods to satisfy consumers' FT considerations (UT1) have to be considered of primary importance, although they have hardly ever been explicitly addressed. When does this UT1 constitute a major issue? According to Darby and Karni (1973), (see also Wolinsky, 1993), UT1 is an issue only if informed experts consulted by uninformed consumers are also the sellers of the good or service about which the consumers are seeking advice. In this case, there is information asymmetry concerning customers' requirements which creates strong incentives for the 'expert-seller' to suggest unnecessary services with the express intent of charging for them.[11] Echoing Darby and Karni, many authors have therefore analyzed whether 'the market mechanism may induce non-fraudulent seller behaviour' (Emons, 1997, p. 107). They have found that the 'simplest' and probably the best way to 'ensure honest services is the separation of diagnosis and treatment' (*ibid.*, p. 108).

In the case of FT goods, separation means that the FT Standard-Setting Organizations (FT SSOs such as WFTO and FLO-Int), which in practice act as experts (while determining the customers' requirements through their standards and advising consumers about the best action to take to support marginalized producers), should not be the sellers of these goods. The credibility of their diagnosis depends on this separation. It should be noted that this necessary separation of sellers and experts (or spokespeople) is of a quite different nature from the aforementioned independence of sellers from certifiers (who check if FT requirements are met with a view to solving UT2; see section "Consequences").

While there is no more doubt about the independence of the main FT certifier (namely FLO-Cert, see section "Consequences") from the sellers, the separation of FT SSOs and sellers is a controversial issue. Indeed, the income of FLO-Int (not to be confused with FLO-Cert) and of WFTO depends on the number of goods sold. At present, their resources come from fees paid by certified sellers (called 'licensees'). The expert determining the means of fulfilling the need is certainly not the seller here (contrary to the example of car repairs), but he is paid by the seller. More precisely, in 2004, 56% of the income of WFTO came from membership and monitoring fees (according its Annual Report). FLO-Int also derives its income from sellers: 60% of its total income comes from membership contributions paid by national initiatives such as Max Havelaar France (MHF), TransFair USA or FT Foundation UK. And most of the income of these initiatives is derived from licence fees: 88% for MHF (MHF, 2007), 93% for FT UK (FT Foundation, 2007) and 64% for Transfair USA (Transfair, 2007). In the case of FLO-Int, the link with licensees is all the more obvious as they often participate in determining standards. For example, in 2005, employees of MHF worked with agents of certain large-scale private sellers (flower retail chains) on the formulation of FT standards for roses in France.

As shown by Becchetti and Huybrechts (2008, pp. 737–738), the particular legal form chosen by most of the FT SSOs, like FLO-Int or WFTO, provide them with partial protection against such attacks: 'the prohibition to distribute net earnings'

that characterizes non-profit organizations (NPO) 'serves as a guarantee to all the stakeholders (and particularly to the consumers) that the goal of the organization is not to make profits but to pursue a social mission'. However, the prohibition to distribute profits does not mean that non-profit FTOs are not concerned with growth, which may entail some conflict of interest.[12]

In short, whatever opinion one may hold about the true objectives of FT SSOs, the simple fact that the income of FLO-Int depends on the number of licensees (and on the number of labelled products sold) fudges the distinction between 'diagnosis and treatment' (Emons, 1997, p. 108). This leads to our second proposition:

Proposition 2: In FT markets, there may be a certain confusion between the experts who determine FT standards and the sellers of FT goods. It raises the question of credibility in the presence of UT1.

Castaldo et al. (2009, p. 6) supported this proposition, stating that 'endorsements by independent testimonials' could contribute to building trust in the FT concept. FT actors also seem to have understood this issue, as they try to involve people known as experts in development analysis: on its website, for example, MHF refers to the French agro-economist Marcel Mazoyer, whose analyses of international trade and agriculture are highly regarded.

If FT goods are genuine credence goods, relying on researchers' analyses is indeed a clever marketing strategy to convince consumers that FT SSOs propose appropriate diagnosis and solutions through their standards. However, we will present another theoretical explanation for this strategy.

The quality of FT goods: indeterminate

So far, we have shown that contrary to many other goods with process attributes, FT goods raise both the uncertainty problems of 'credence goods' in their strictest sense: not only can consumers never be sure that FT specifications are respected (UT2), but they are also unaware of the ability of these specifications to satisfy their needs (UT1). UT2 has been the subject of many studies: if they are provided with appropriate incentives, certification intermediaries can efficiently disclose the extent to which sellers comply with FT specifications. FLO-Cert, for example, complies with the prerequisite of independence. In theory, a similar separation principle (this time between sellers and experts) ought to be sufficient to remove UT1. For FT products, however, consumers have to trust FT SSOs whose income depends on the number of FT goods sold (see section "Consequences: the separation of diagnosis and treatment in the FT market"). However, can we predict that a greater separation between FLO-Int and license fees would be sufficient to remove UT1 altogether and stimulate a spectacular increase in the consumption of FT products? We do not believe that this is the case, as most consumers today are simply unaware that national initiatives transfer their license fees to FLO-Int. This does not mean that the UT1 is not important in the case of FT goods, but that consumers' doubts may have deeper roots. We will now demonstrate that, contrary to credence goods, UT1 surrounding FT goods cannot be reduced to a mere issue of information asymmetry.

Is the problem of uncertainty about the adequacy of FT attributes simply a problem of asymmetric information?

Saying that greater impartiality of FT SSOs would eliminate UT1 means assuming that this uncertainty can be reduced to an issue of information asymmetry. Assuming that the impartiality of experts will lead them to reveal the *true* information suggests that they are actually in possession of this *true* information. The implicit idea is therefore that, whereas consumers cannot determine the effectiveness of FT specifications, experts can. This is consistent with the original definition of credence goods proposed by Darby and Karni: as clarified by Dulleck and Kerschbamer (2006), experts are supposed to know if the product characteristics can satisfy a given want (UT1) and if the delivered goods possess these so-called properties (UT2) (so that UT1 and UT2 should be called asymmetry 1 and asymmetry 2). *Information is available*, but it is known to a limited number of people, and it is too costly to be acquired by consumers. For example, the information concerning the advantages of replacing a clutch exists, but it is known to auto mechanics and is too costly to acquire by non-expert consumers.

When it results from credence properties, UT1 can therefore be reduced to an issue of information asymmetry (Roe and Sheldon, 2007) and the separation of experts and sellers should be sufficient to resolve it. This is more or less the case for the French organic market for example. However, we believe that this crucial assumption of perfect information for experts does not always hold. Indeed, for some goods, information about quality simply does not exist. In this case, UT1 cannot be reduced to an issue of information asymmetry as it is *shared* by everyone, experts and sellers included. This observation has significant implications and has caused Lupton to introduce a new category of goods which she refers to as 'indeterminate goods' (Lupton, 2005).

The concept of indeterminate goods

Lupton (2005) points out that quality uncertainty has almost always been considered as a problem of asymmetry, a 'lack in the consumer's knowledge of which the omniscient producer/seller takes advantage' (p. 400). In a very informative work, she analyses the limits of this assumption and shows that in some cases: (1) quality uncertainty can be shared by all agents and (2) this shared uncertainty can be non-neutral and may deeply disrupt the market. She has identified three sources of shared uncertainty which pose specific economic problems:

- Echoing Hirschman (1974), she sees the emergence of new products, 'or products that were created for a specific market and then extended to new consumer groups' (Lupton, 2005, p. 404), as a first source of shared uncertainty: when demand arises in advance of real knowledge of how to satisfy it, it is possible that sellers do not exactly know what to offer and consumers have not yet formed their preferences. For example, when the market for child care developed rapidly during the 1960s, consumers and sellers shared a common ignorance concerning 'what should be expected of such a service' (*ibid.*). In this context, inadequate goods and services may be provided. If this is the case, the market can only survive and develop if consumers express their dissatisfaction (what Lupton calls the 'voice option'). This process of mutual adjustment can take time to reach a situation of 'stabilized knowledge' (*ibid.*, p. 416).
- The future impact of the product is a second source of shared uncertainty. For example, a consensus among experts has not yet emerged on the future impacts of consuming hormone-treated beef or of GM-foods. Here, controversy may cause the market to collapse because the precautionary principle (or its strategic use as a 'competitive weapon', p. 410) leads many of the consumers/states to reject the good/service as long as the experts do not agree.
- Taking the market for paintings as an example, Lupton identified the history of the products as a third source of shared uncertainty: 'different experts can have different judgements on the attribution of the painting, without anyone being able to prove that his/her judgement is the right one' (p. 407). Continued controversy over the authenticity of paintings may also make the market collapse because the paintings become unmarketable.

As these situations of indeterminacy are not taken into account in the traditional typology of experience, search and credence goods, Lupton (2005) introduces the concept of 'indeterminate goods'. What fundamentally distinguishes indeterminate goods is that 'information about the characteristics of these goods/services *is not available*, taking into account the actual knowledge at the time, *and is not possessed by any agent* or group of agents [authors' underlining]' (p. 413). Moreover, although it is symmetrical, the shared uncertainty is not neutral as it can disrupt the market.

Using this definition and typology, we argue that UT1 is shared and that FT thus suffers from indeterminacy. This indeterminacy creates the risk of collapse, which clearly describes the challenges facing FT.

FT goods and the concept of indeterminate goods

UT1, which deals with the ability of FT schemes to satisfy the demand for greater equity, concerns the first two forms of shared uncertainty identified by Lupton,[13] which are highly interdependent here: the

ability of the different FT schemes to achieve greater equity has not yet been established, partly because FT products and services are relatively new.

Indeed, existing studies on the impacts of FT are often conflicting. Of course, for some of these impacts, southern producers operating within an FT scheme possess information. They know, for example, if FT improves their livelihood or not, and in what way. For some of the impacts, therefore, the only problem is that of asymmetric information. This could be solved by better representation of producers on the boards of the FT SSOs, thus reducing this uncertainty. However, in order to determine the extent to which FT achieves its ultimate goal ('making trade fairer'), other elements must be taken into account (see definition in "A broad definition of Fair Trade quality" section). At present, information concerning some of these elements simply does not exist. For example, the ability of FT to achieve sustainable development cannot yet be assessed, even by producers. Because the FT price floor may remove the incentive for growers to switch crops, upgrade production or invest in market knowledge, FT may both improve the current livelihoods of producers and 'prolong their dependence on products that are arguably poor prospects in the long run' (Leclair, 2002, p. 957). This depends on the future demand for FT products, which is unknown. More generally, there is a lack of scientific consensus about the ability of FT initiatives 'to ensure sustainability and to create long term benefits for Third World producers and their communities' (Utting, 2009, p. 128). During the 3rd Fair Trade International Symposium (FTIS) held in France in May 2008, the impact of FT was actually 'the most discussed topic'.[14]

The global net effect of FT is therefore still uncertain. In this context, there is no clear consensus between 'experts' on what should be defined as 'FT quality'. Reed (2009, p. 16) argues that the participation of corporations in FT has generated 'a variety of *normative* issues [authors' emphasis]' concerning 'fairness, ethics and legitimacy' (*ibid.*, p. 4): What type of change is required to make the current system fair? What should the Fair Trade price be? Do corporations harm FT goals and values? Who should be represented in the FTOs? Does FT assist 'one set of producers at the expense of others' (Leclair, 2002, p. 957)? In short, there is no clear consensus on the principles that should drive FT. With regard to what should be expected of 'FT quality', the demand has arisen in advance of real knowledge of how to satisfy it.

Observing France's FTO landscape illustrates how controversial the definition of FT remains: Artisans du Monde (WFTO member) advocates a 'radical opposition' (Codron et al., 2006, p. 283) to conventional practices, whereas Max Havelaar France (FLO-Int member) has always supported the introduction of FT products in the mainstream to increase FT sales.[15] The main FT actors have tried to establish a consensual definition of FT within AFNOR (the French standard-setting organization, a national equivalent of ISO), but they have barely reached an agreement after years of consultation, not to mention an official standard. Moreover, this agreement is weakened by the opposition of Minga, a radical FTO in the French FT landscape. Consequently, 'stabilized knowledge' is far from being achieved.

One might view the FT SSO disagreements as a simple form of competition. However, they raise questions that would have been answered if 'experts' in development, international trade or ethics (for example, independent researchers) really knew 'how fair is Fair Trade' (Maseland and de Vaal, 2002). What make us consider FT quality as indeterminate is that this uncertainty is *non-neutral* and jeopardizes the FT market: as in Lupton's examples (GM-foods, hormone-treated beef), the uncertainty is used strategically by major corporations to 'discredit FT' and provide their own solutions to consumers' needs (Fridell et al., 2008, p. 16). Nestlé, for example, defends its 'specialty coffees' against FT coffees. It argues that 'by attempting to maintain a minimum price' (*ibid.*, p. 16), FT exacerbates the oversupply suffered by southern producers, which eventually pushes world prices downwards.

In short, uncertainty about the effectiveness of FT is shared because new products and services have been proposed in advance of real knowledge of how to achieve greater equity. There is a risk of collapse if consumers, producers and experts cannot take part in the mutual process of adjustment[16] and/or if some agents strategically use this uncertainty. FT thus perfectly corresponds to the definition of 'indeterminate goods' provided by Lupton (2005, p. 413).

Proposition 3: The ability of Fair Trade to achieve greater equity in the international trade is an indeterminate attribute.

A new typology of goods' attributes

The figures in this article summarize our main contributions. They clarify the distinction between the two forms of uncertainty that consumers may be faced with when they have to choose a good to satisfy a given need: the first axis represents UT1, while the second axis represents UT2. The different attributes of the good are ordered according to the degree of difficulty in acquiring information. First, when information is perfect, consumers are faced with 'ordinary goods': they are fully aware of the extent to which a given attribute can satisfy a need and where to find this attribute. This is a theoretical benchmark used since Arrow and Debreu (1954). Second, consumers may have to search for some information to find the appropriate good. When they can obtain this information by inspection before purchase, the goods concerned are referred to as 'search goods': for example, consumers can determine which ethical criteria they are looking for before they make their purchase. When the quality of a good is easier to evaluate by purchasing it, goods are called 'experience goods': a person needs to cut his/her hair to see if the style suits him/her. In the figures, experience attributes come after search attributes although for certain goods, the search procedure may be more expensive than the experience procedure (Nelson, 1970). This explains the arrows. Third, consumers may not be able to find the information by themselves. If they can obtain it by turning to experts, then they are dealing with credence goods characterized by a high level of information asymmetry: for example, only experts are able to determine what an 'organic production process' is (UT1) and if products really satisfy organic requirements (UT2). However, Jahn et al. (2005) stress that when experts cannot solve UT2 by means of laboratory analyses at the end-product level, the monitoring process becomes much more difficult as the 'investigation scheme [has to] cover the whole supply-chain and ensures on-site inspections throughout the production process' (p. 56). The attributes concerned (ethical trade, FT) are referred to as 'Potemkin' by Jahn et al.[17] Finally, some cases exist in which the current state of knowledge is insufficient to solve the two uncertainties ('indeterminate attributes'): if they do not agree or have insufficient information, experts would not overcome consumer uncertainties concerning the origin of a painting or the effectiveness of FT goods.

The figures clearly show that, due to the two types of uncertainty, goods may fall into several categories. Indeed, the ability of FT requirements to satisfy the need of greater fairness is an indeterminate attribute, whereas the compliance with these FT requirements by sellers is a Potemkin attribute (Figure 1).

Implications

The classification we propose has significant implications.

First, the indeterminacy of FT provides an additional explanation for the well-known 'attitudes–behaviour gap' mentioned in ''Introduction'' and ''Empirical evidence'' sections. While consumers claim to be willing to pay more for fairly traded goods, consumption still remains low compared to production. We believe that this gap is partly due to uncertainty concerning FT effectiveness: consumers may sincerely be willing to pay more for goods promoting fairer trade conditions, but might not be convinced that the so-called FT goods achieve this goal.

Second, emphasizing the indeterminate nature of FT goods sheds a new light on the marketing strategy of famous labels: the complex nature of FT products means that their commercialization relies on the effective communication of the benefits resulting from their consumption. The amount and nature of FT SSOs' marketing expenditure support our hypothesis: half of the resources of Max Havelaar France in 2007 were spent on communication operations (MHF, 2007). Moreover, a number of impact studies (often highlighting successful FT stories) are explained on FTO websites.

Third, regarding FT goods as indeterminate goods encourages us to view the future of FT markets from another standpoint: threats of market collapse result from the indeterminacy of FT quality more than from adverse selection. Two scenarios can be proposed.

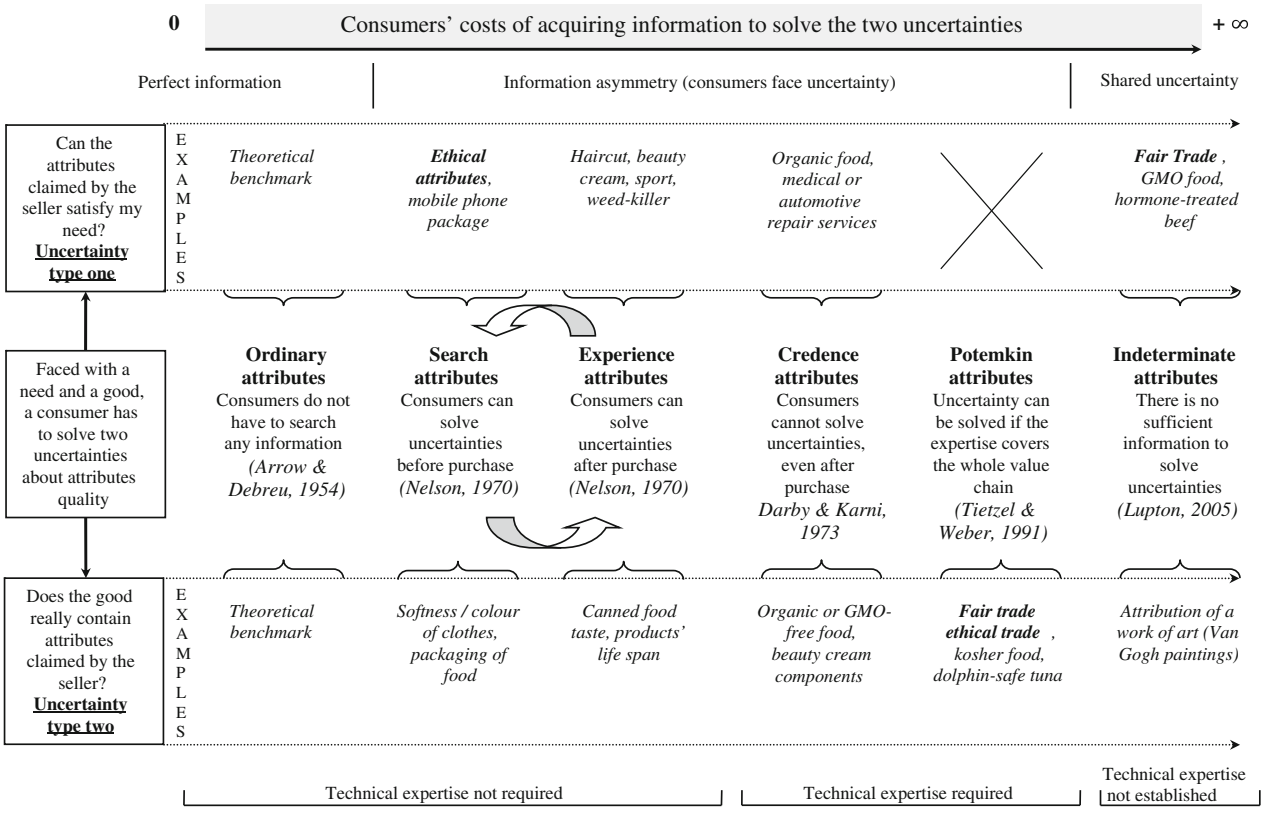

Figure 1. A new information economics typology of goods' attributes based on two types of uncertainties.

– If competition between actors decreases, then the FT market could evolve and develop progressively like the childcare market when it started (Lupton, 2005). The process of mutual adjustment between FT SSOs, experts, consumers and producers would lead to the stabilized knowledge of how to make trade fairer and remove indeterminacy. FT goods would, therefore, fall into the credence category, and the prerequisite of independence would be sufficient to solve the two types of uncertainties.
– If no scientific consensus emerges concerning the benefits of FT and if competition between FT players increases, then players will exploit this uncertainty as a competitive weapon. Subsequent conflicts among FTOs (as we can see in France) or between conventional firms and FTOs (see Fridell et al., 2008) will increase the degree of indeterminacy of FT quality. Criticism and scepticism will exacerbate doubts about effectiveness and could clearly cause FT markets to collapse. In France, FTOs seem to have fully understood this crucial issue: the strategies adopted are based on a fragile equilibrium which prevents the major players from starting a negative advertising war in which each FTO would try to discredit the others.

Finally, the classification we propose in this article reinforces the distinction between 'ethical trade' and FT. Ethical trade refers specifically to the labour practices in a company's supply chain. These specifications can be 'codified' into technical standards, often derived from the labour standards set forth in the UN's Universal Declaration of Human Rights and the International Labour Organization (ILO). These process attributes can be desirable in and for themselves: people know their preferences for labour standards (regarding child labour or gender discrimination, for example) and are, therefore, mainly faced with the UT2 issue. FT is confronted by much more complex uncertainty issues which may jeopardize its future. Of course, the objective of ethical trade is less ambitious than that of FT, but in the

absence of a consensus on the definition of FT, ethical trade may have a rosier future.

Conclusion

Fair Trade goods are differentiated by process attributes. Because consumers cannot check these characteristics either before purchase (search goods) or after consumption (experience goods), FT goods are almost always placed in the same category of credence goods as other goods with process attributes (such as organic or GM-free foods). This explains why concerns about the best way to signal unobservable characteristics have become a central theme in the FT literature.

In this article, we question this classification, making two theoretical contributions. First, we reassess the link between FT goods and the complete definition of 'credence goods' as proposed by Darby and Karni (1973). We show that, contrary to the vast majority of goods differentiated by process attributes, FT goods suffer from both uncertainty problems which characterize credence goods strictly speaking: consumers may be unaware of the ability of FT schemes to satisfy the demand for greater equity ('uncertainty type one'), even if FT standards are respected throughout the production chain ('uncertainty type two'). The second type of uncertainty can be reduced to an issue of asymmetric information, since at every stage of the production process, someone knows if FT requirements are respected. However – and this is our second contribution – because the first type of uncertainty is *shared* by everybody (producers, sellers, consumers and experts), FT goods cannot be qualified as 'credence goods' in the strictest sense of the term. For the first uncertainty, FT goods actually have more in common with indeterminate goods as defined by Lupton (2005).

The main implication of our contribution is that the FT market is threatened with collapse as long as doubts about its effectiveness remain, i.e. as long as FT goods remain indeterminate goods. If the uncertainty surrounding FT practices and their efficiency is not removed soon and/or if it is used strategically by many conventional firms, then FT may really collapse. Its future, therefore, depends on the emergence of a consensus among producers, experts and consumers (who should rightly be represented on the boards of the FT standard-setting organizations) as to the best means of achieving greater fairness (or the recognition that several means exist). This is nevertheless a challenging task.

Notes

[1] The actual wording of the question is: 'For each of these products, would you be ready to pay 10% more if you were sure that the money would be devoted to improving the livelihoods of producers in poor countries?' Poll studies used in this article are available upon request.

[2] FINE is an informal association of four international FT networks: Fair Trade Labeling Organizations International (FLO-Int), IFAT which has recently been renamed World Fair Trade Organization (WFTO), Network of European World Shops (NEWS!) and European Fair Trade Association (EFTA).

[3] To join the WFTO, applicants must provide a self-assessment report which is reviewed by the WFTO's monitoring department. To join the FLO, applicants are inspected by the certification body: FLO-Cert.

[4] See, for example Hira and Ferrie (2006) and the websites of FLO (www.FairTrade.net/) and WFTO (www.wfto.com/).

[5] The most famous certification system for FT products (namely FLO) is divided into two parts: the standard-setting functions fall under the auspices of the FLO-Int foundation, and the certification functions fall under the auspices of FLO-Cert. FLO-Cert obtained ISO 65 accreditation in 2004, which means that its independence is recognized by the International Organization for Standardization (ISO). Although the independence of the certifiers is the most important element in guaranteeing the ability of third-party certification schemes to disclose product quality, other points have been studied: Roe and Sheldon (2007) and Bonroy and Constantatos (2008), for example, study if there is a case for making labels mandatory.

[6] The packaging of canned tuna fish is a search attribute as it can be observed before purchase. Its taste is an experience attribute because the product must be consumed to be assessed (Nelson 1970, p. 312). However, it would be much harder, if not impossible for a consumer, left to his own devices, to check whether tuna is fished in 'dolphin-safe' conditions.

[7] We have called the uncertainty concerning the ability of a good to satisfy a given want 'uncertainty

type one' and the uncertainty concerning the quality of this good 'uncertainty type two' because of the search sequence: we assume that consumers first seek to identify quality criteria appropriate to their needs before ensuring compliance with them.

[8] People may also buy FT goods with a view to obtaining better functional quality (taste, for example), to enjoy an original packaging etc. In this article, we focus on those consumers who claim to be willing to pay more for the FT attribute, *ceteris paribus*.

[9] 'Do you agree with the following statement?': 'I have sufficient information about FT products': totally agree = 14%, agree = 28%, disagree = 43%, totally disagree = 14%.

[10] 'I do not know where to find these products' and 'FT products are too expensive' are the first and second reasons put forward by consumers who do not buy FT products.

[11] According to Darby and Karni (1973), fraud is more likely to occur when (1) information about the diagnosis is costly to verify and (2) production capacity exceeds demand. In the case of repair services, this means that no customers are waiting for the service. As explained previously, fraud may still take place in other cases where information is costless to verify and when many customers are waiting for the service, but it will be of a different nature: the seller can exploit what we call UT2 and charge for services not provided (*ibid*., 1973, p. 76).

[12] In theory, growth-oriented management may be compatible with a social mission (according to MHF and FLO-Int, increasing the demand for FT products is wired into their social mission). In practice, however, the true motivations of FTOs are unclear (which supports the argument developed in the rest of the article): in France, for example, aid agencies hesitate to subsidize MHF because of doubts surrounding the public benefit.

[13] The third source of shared uncertainty concerns the past of FT products, corresponding to what we call 'uncertainty type two' (i.e. the true conditions in which the so-called FT goods have been produced and traded). We have already shown that it can be reduced to an issue of information asymmetry: information exists at every stage of the production process and someone knows if the FT requirements have been satisfied. Even if the search process can be very costly, as in the case of 'Potemkin' (Jahn et al., 2005) attributes, an efficient third-party certification scheme can overcome consumer uncertainty.

[14] http://www.ftis2008.org/cice2008_en/summary/summary_of_the_workshops, accessed on 5th October 2009.

[15] Renard (2003, pp. 91–92) had already stressed that 'tension remains between two visions [that] reflects a real ambivalence of the FT Labelling Model'. Moore (2004, p. 76) confirmed that 'the two visions of Fair Trade […] inevitably create an element of tension'.

[16] A period of learning and 'mutual adjustment' (Lupton, 2005, p. 405) between consumers, experts and producers could improve 'FT quality' as more knowledge becomes available. The history of FT mainstreaming is an example that illustrates this process of mutual adjustment to which Lupton draws attention: in the 1980s, to satisfy consumer demand and producers' demands for more outlets for their goods, FT was mainstreamed. FT sales have risen sharply since then. Nevertheless, many consumers/experts/producers now believe that this mainstreaming betrays the goals of FT. As Raynolds underlines (2009, p. 1091), mainstreaming has in turn become 'FT's sharpest challenge' since consumers have to form new preferences concerning retailers who 'give shelf space to FT products to satisfy customer demand' (*ibid*.) but 'work within the same commodity chain that impoverishes farmers in the first place' (Bassett, 2010, p. 44). Consequently, 'stabilized knowledge' is not and, in light of the controversy over the impact of FT, may never be achieved.

[17] This term was first used by Tietzel and Weber (1991) to describe qualities which appear genuine on the surface but which are actually deceptive. They adopted the term in reference to the Russian marshal G. A. Potemkin. In the 1780s, he was charged with developing the newly conquered territories in the Crimea. On the occasion of the visit of the Catherine II, Potemkin used theatrical decorations to build imitation villages and simulate the success of his settlement programme. Today the expression 'Potemkin villages' is used both literally and figuratively. Jahn et al. (2005) used the term Potemkin to provide a more precise description of goods which are characterized by the fact that neither the buyer nor external institutions are able to carry out quality controls at end-product level.

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