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DIPLOMARBEIT

Upgrading through Fair Trade in Tourism

Analysing the Opportunities of the first *Fair Trade* Tourism Businesses in the
Global Economy - A South African Case Study

Verfasserin

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angestrebter akademischer Grad

Magistra (Mag.)

Wien, 2013

Studienkennzahl lt. Studienblatt:

A 057 390

Studienrichtung lt. Studienblatt:

Individuelles Diplomstudium Internationale Entwicklung

Betreuerin:

Dr. Karin Fischer

Abstract

The contribution of tourism to the economic development of countries of the Majority World has been and still is subject of numerous discussions. The very optimistic view of the 1960s that the positive aspects of this industry will outrun its negative effects was later countered by a very critical position when environmental and social problems of the fast growing tourism industry became apparent. Today various concepts are available for establishing tourism in a way that minimises its negative impacts and encourages positive development. The introduction of fair trade principles to tourism industry is one attempt to achieve this aim. In 2000 a pilot project was launched in South Africa that resulted in the development of a country-specific fair trade certification system and in the establishment of the non-profit organization *Fair Trade in Tourism South Africa* (FTTSA). As the persistence of such initiatives is inevitably connected to the advantages associated with it, this research investigates the benefits that can result from *fair trade* for individual businesses. The theoretical framework for this analysis is the Global Value Chain (GVC) approach and the concept of *upgrading* in particular. It is assumed that the compliance with certain social and environmental standards does not only have altruistic reasons but can result in tangible economic advantages for businesses. The question to be answered is whether the certification of a tourism business with the FTTSA-label has an impact on its *upgrading* possibilities. First, the theoretical *upgrading* chances that can be connected to the certification are identified. Secondly, to estimate their relevance in practice, these theoretical *upgrading* possibilities are compared with the results of semi-structured interviews conducted with owners/managers of FTTSA accredited tourism businesses in South Africa. The results show that there are various theoretical *upgrading* chances inherent in the standards of FTTSA but that they occur only partly in practice. Furthermore, according to the interviews, most of the requirements were already in place when the businesses applied for the label, hence the advantages arising from these standards cannot be directly linked to the certification program itself. Therefore, this study comes to the conclusion that for the time being the FTTSA-certification is, contrary to fair trade certification programs in the agricultural sector, primarily a marketing tool to gain competitive advantage with regard to future trends rather than a way of gaining direct economic advantages.

Zusammenfassung

Welchen Beitrag Tourismus zur Entwicklung von Ländern des Südens leisten kann, ist seit den 1960er-Jahren Gegenstand zahlreicher Diskussionen. Der anfänglichen Euphorie über das Potential, welches in diesem Wirtschaftssektor steckt, folgte eine sehr kritische Auseinandersetzung, da negative umweltbezogene und soziale Auswirkungen einer rasanten Tourismusentwicklung immer augenscheinlicher wurden. Heute existieren zahlreiche Ansätze, die das Ziel haben, Tourismus in umwelt- und sozialverträgliche Bahnen zu lenken. Hierzu zählt auch die Einführung des Konzeptes von *fair trade* in diesen Dienstleistungssektor. Im Jahr 2000 wurde ein Pilotprojekt in Südafrika gestartet, welches im Weiteren zu der Entwicklung eines länderspezifischen Zertifizierungssystem für *fair trade* im Tourismus und der Gründung der Non-Profit-Organisation 'Fair Trade in Tourism South Africa (FTTSA)' führte. Da das Fortbestehen einer solchen Initiative unweigerlich mit deren Nutzen verknüpft ist, beschäftigt sich die vorliegende Arbeit mit den Vorteilen, die eine Zertifizierung mit dem FTTSA-Label für Unternehmen haben kann. Die theoretische Grundlage für diese Untersuchung liefert im Allgemeinen der Ansatz der Global Value Chain (GVC) und deren zentrales Konzept *upgrading* im Besonderen. Es wird im Folgenden angenommen, dass die Erfüllung bestimmter umweltbezogener und sozialer Standards nicht nur altruistische Gründe hat, sondern auch konkrete wirtschaftliche Vorteile schaffen kann. Die Fragestellung lautet daher, ob die Zertifizierung mit dem FTTSA-Siegel die *upgrading* Chancen eines Unternehmens erhöhen. Die Bearbeitung erfolgte zum einen auf theoretischer Basis, indem die FTTSA-Standards auf ihre *upgrading* Chancen hin überprüft wurden und zum anderen auf empirischer Basis, indem Interviews mit Besitzern/Managern von FTTSA-zertifizierten Unternehmen durchgeführt wurden um die praktische Relevanz der theoretisch getroffenen Annahmen zu prüfen. Die Ergebnisse dieser Untersuchung zeigen, dass einer Zertifizierung mit dem FTTSA-Siegel zwar zahlreiche theoretische *upgrading* Chancen innewohnen, diese in der Praxis jedoch nur partiell auftreten. Hinzu kommt der Umstand, dass zahlreiche Anforderungen für das Siegel zum Zeitpunkt der Akkreditierung bereits vorhanden waren, wodurch die dadurch entstandenen Vorteile nicht direkt der Zertifizierung zugeschrieben werden können. Die vorliegende Arbeit kommt daher zum Schluss, dass bis zum jetzigen Zeitpunkt eine Zertifizierung mit dem FTTSA-Siegel, im Gegensatz zu *fair trade* Zertifizierungsprogrammen im landwirtschaftlichen Bereich, vielmehr aus Marketingzwecken erfolgt um sich im Hinblick auf zukünftige Trends Wettbewerbsvorteile zu verschaffen, als dass sie zu direkten ökonomischen Vorteilen für die Unternehmen führt.

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1. Introduction

Global tourism is declared to be the largest and fastest growing industry. In 2011, according to the *World Travel and Tourism Council* (WTTC), travel and tourism contribute 6 trillion US dollars to the world economy, 9% of global GDP and are accounting for about one in twelve jobs worldwide (WTTC 2011: 2, 16). Furthermore, for many countries tourism is the main source of foreign currency. All these aspects have led to the image of tourism as an engine for development.

In the 1960s the discussion about tourism and development was characterized by modernization theory, the prevalent theory of that time. In line with the paradigm of this development theory the assumption was that the positive economic effects of tourism (export earnings, job creation, tax revenues, linkages to the larger economy) for countries of the Majority World will outrun the negative effects which inevitably come along with tourism industry (cf. Baumhackl 2006: 7f; Clancy 2005: 6; Nohlen 2002: 795). With the emergence of dependency theory, this very optimistic view of development power inherent in tourism has been vehemently criticized.

Instead of development, adherents of this school of thought observe the maintenance of underdevelopment, caused by the unequal integration of developing countries into the global economy. They argue that the dominance of foreign investors in the tourism industry of the Majority World and prevalent terms of trade undermine the national control of countries' own development processes (Backes 2005: 14; Baumhackl 2006: 8).

Further, there is criticism that

- tourism mostly creates seasonal and part-time jobs with low-end skills for the local population and simultaneously destroys traditional forms of work (cf. Friedl 2002: 68; Clancy 2005: 6; Nohlen 2002: 795f; Studienkreis für Tourismus und Entwicklung 2006: 28).
- countries have to make large investments in infrastructure to build up tourism industry. This infrastructure is sometimes exclusively geared to tourism businesses like big resorts and hotels, but is of no use for other industries or local people (cf. Friedl 2002: 66).
- especially tourism destinations located in the Majority World have to import consumer and luxury goods for the tourism industry. Therefore a high share of foreign exchange earnings from tourism leaks back to the countries of origin of tourism companies and travellers, meaning industrial countries. Due to the ownership structure in the tourism sector and terms of trade, the same applies to profits (cf. Clancy 2005: 6; Friedl 2002: 65f; Nohlen 2002: 795f).

- Some economies depend to a great extent on tourism¹. This circumstance makes them highly sensitive to collapse and/or structural changes of the market and leaves destination countries in a weak position in price negotiations. This fact is reinforced on the one hand by the growing interchangeability of destinations, which leads to an increase in competition, and on the other hand by a major process of concentration in tourism industry, which leaves a great share of bargaining power in the hands of a few transnational companies mostly based in industrial countries (cf. Friedl 2002: 66f; Plüss 2005: 67f; Studienkreis für Tourismus und Entwicklung 2006: 29f).
- Tourism is a luxury item and therefore power inequality between guest and host is already inherent in the concept of tourism. This is especially true for North-South tourism. Therefore, the contribution of tourism to international understanding is estimated to be low by critics (cf. Baumhackl 2006: 8; Clancy 2005: 7; Friedl 2002: 69ff).
- In consideration of factors such as environmental pollution (e.g. waste, air pollution, water pollution), destruction of the environment (e.g. erosion, clearing, construction) and high consumption of resources (e.g. water, electricity), which are brought about by an unmindful growth of tourism industry, the image of tourism as a *white industry* seems untenable (cf. Backs 2005: 14f; Friedl 2002: 56ff; Nohlen 2005: 339).

It does not require much research to find examples to confirm these criticisms but to draw the conclusion that tourism industry has only negative effects falls short of differentiation.

On the one hand it is a fact that global tourism industry and its revenues are unevenly distributed, as data from the *United Nation World Tourism Organization* (UNWTO) shows²:

Table 1: International Tourist Arrivals / International Tourism Receipts 2010

| International Tourist Arrivals 2010 | | | International Tourism Receipts, 2010 | | |
|-------------------------------------|----------|----|--------------------------------------|----------|----|
| Region | millions | % | Region | billions | % |
| Europe | 477 | 51 | Europe | 406 | 44 |
| Asia and the Pacific | 204 | 22 | Asia and the Pacific | 249 | 27 |
| Americas | 150 | 16 | Americas | 182 | 20 |
| Middle East | 60 | 6 | Middle East | 50 | 6 |
| Africa | 49 | 5 | Africa | 32 | 3 |

Data Source: UNWTO 2010: 9

¹ Some island states like Barbados and Antigua generate 90% of their GNP with tourism (Friedl 2002: 66)

² This data and those to come have to be interpreted as indications rather than facts because of shortcomings in data collection especially in countries of the Majority World and the different definitions of variables by different institutions and state authorities.

On the other hand growth in tourist arrivals is greatest in countries of the Majority World³, so there is a tendency to catch up with *old* tourist markets like Europe (cf. Studienkreis für Tourismus und Entwicklung 2006: 4ff). According to the *United Nations Conference on Trade and Development* (UNCTAD) tourist arrivals in Africa⁴ are increasing most rapidly at a rate nearly twice that of the global average (UNCTAD 2007: 3ff ; UNCTAD 2010: 3ff).

As previously mentioned, a significant percentage of the revenues arising from tourism are not available for (re-)investment or consumption in the destination country. The extent of these financial leakages is estimated to be around 60 to 75% (Nohlen 2002: 795; Pérez Ducy de Cuello 2001; Nuscheler 2005: 336). However the actual extent of these leakages varies considerably from country to country and depends strongly on the developmental stage of a countries tourism industry as well as on the prevailing type of tourism (Pérez Ducy de Cuello 2001: 127). If non-financial aspects of foreign engagement in a country's tourism industry are additionally taken into account, trainings and education of people on an international level have to be regarded as a positive effect of foreign engagement (cf. Christian et al. 2011).

The controversial effects of tourism become most visible in the discussion about its environmental impacts. On the one hand tourism can make a significant contribution to the preservation of ecosystems when governments establish conservation areas and/or national parks instead of making these areas accessible to other kind of industrial exploitation. On the other hand, high numbers of visitors/tourists can put the same ecosystems in jeopardy, leaving aside other environmental impacts that come along with tourism industry (cf. Studienkreis für Tourismus und Entwicklung 2006: 35f).

The discussion about the advantages and disadvantages of tourism gives rise to the question whether tourism can be established in a way that minimises its negative impacts and encourages positive development. Since the mid-1990s concepts like *community based tourism*, *green tourism* or *pro-poor sustainable tourism*, which can be subsumed under the term *sustainable tourism*, have been attempts to answer this question (Baumhackl 2006: 8f). The main focus of these concepts varies, but all of them aim to make tourism more socially and environmentally sound.

³ Developing countries are the destination for over one-third of all international tourists. Among these countries China records the greatest volume of international tourists. Mexico, Turkey, Malaysia and Thailand also rank highly. Twenty other developing countries are among the world's top 50 exporters of tourism services, and many of these countries have the world's highest growth rates for international arrivals (UNCTAD 2007: 3).

⁴ Contributed to continued growth in Africa's most popular destinations - South Arfrica, Kenya, Marocco – but also in Cape Verde, Lesotho, Madagascar, Uganda, Angola and the United Republic of Tanzania (UNCTAD 2010: 5 / UNCTAD 2007: 3).

1.2. Fair Trade in Tourism

Considering these approaches it is not surprising that also the term *fair* has entered the discussion on tourism and the marketing of its products (Plüss 2005: 68). Fair trade in tourism reflects not only the current discourse on tourism and development, but also the consumers growing awareness of and interest in fair-traded products; which make the attribute *fair* a selling point (Aderhold 2007; Fairtrade International 2011; Plüss 2005: 70f).

The meaning of *fair* varies depending on who is using the term and it is obvious that a tour operator or a travel agency might have a different understanding of this term than an NGO has. It is difficult for consumers to find out what they can expect from a *fair* tourist offer. In response to the growing uncertainty and confusion, the UK charity *Tourism Concern* has launched the project *Fair Trade in Tourism*. In the scope of this project, NGOs and tourism action groups from all continents have developed common criteria for fair trade in tourism. One outcome of this discussion is the certification process of *Fair Trade in Tourism South Africa* (FTTSA) (Plüss 2005: 71). This NGO awards tourism businesses with the first *Fair Trade label* “as a way of signifying their commitment to *Fair Trade criteria including fair wages and working conditions, fair purchasing, fair operations, equitable distribution of benefits and respect for human rights, culture and environment*” (FTTSA official website: Starting Page, 11.04.2013).

Fair Trade criteria respond to many critical points concerning tourism. The question that arises is whether *Fair Trade in Tourism* can make a difference by leading to a more equitable distribution of tourism gains and costs as well as to sustainability in this sector.

The FTTSA certification programme, the first fair trade initiative in tourism sector, is relatively young⁵ and has not been the object of many studies yet. The following work will be one of the first attempts to analyse the effects of fair trade in tourism industry.

1.3. Theoretical Base

The Global Value Chain (GVC) approach seems promising to undertake such a research as previous studies (e.g. Taylor 2005; Stephan/Stamm 2010) have shown.

The main objects of investigation are not the individual national economies, but the different participants in the production of a consumer good and the linkages between them. The aim of GVC analysis is to identify the members of a value chain, the division of labour and profit among them, and the structure of control and power, termed *governance* in the GVC approach. This identification process does not only make it possible to understand the functioning of value chains but it also offers

⁵ In 2002 the FTTSA certification programme was officially launched and in 2003 the first four certified establishments were announced.

the opportunity to identify development chances for participants holding a weaker position in a specific chain.

The different ways actors can improve their position in a chain and thus increase their bargaining power as well as their profit, and receive greater exertion of influence are subsumed under the concept of *upgrading* in the GVC approach. At the moment, four forms of *upgrading* are frequently mentioned in literature (*process upgrading, product upgrading, chain upgrading, functional upgrading*), but more recent research shows further *upgrading* opportunities like *getting better paid for the same product* or *matching standards and certifications* (Bolwig 2010: 176f; Kaplinsky/Morris 2002: 38ff). There are also attempts to expand the GVC concept and to take aspects of sustainability like environmental effects into account (Riisgaard et al. 2010).

The GVC analysis is still in progress and new insights can lead to further developments. This openness and flexibility of the GVC approach meets the complexity and diversity of the tourism sector and is therefore suitable for research within this field.

1.4. Methodological Approach

The following work will investigate the effects of *Fair Trade in Tourism* by using the GVC approach. The question to be answered is whether the certification of a tourism business with the *Fair Trade label* has an impact on its *upgrading* possibilities.

Two strategies are pursued to answer this research question. As a first strategy the FTSA-standards, the certification process and the market situation for fair trade products in general are analysed using the GVC framework to identify the theoretical *upgrading* chances inherent in the concept of *Fair Trade in Tourism*.

The second strategy is to determine expectations, motivations, advantages and disadvantages of maintaining a *Fair Trade business* from the perspective of entrepreneurs. For this purpose eight semi-structured interviews with owners/managers of FTSA-certified tourism businesses are carried out and analysed⁶. The questionnaire used, is developed on the basis of the different FTSA-Standards and concern their implementation, advantages/disadvantages connected to them as well as the certification process in general.

The comparison of the results of these two approaches show whether the identified theoretical *upgrading* chances are reflected in actual practice and hence provide information about the effects of fair trade in tourism.

⁶The interviewed businesses and their main characteristics are listed in appendix 8.1.

1.5. Overview

The first section of this thesis serves as a theoretical foundation. Chapter two describes the GVC approach in general – origin, key concepts, application, advantages/disadvantages and criticism.

As the GVC is originally designed for the production sector rather than for the service sector it is necessary to outline its applicability for tourism industry. Therefore, chapter two not only points out the possibilities and limitations of using the GVC framework to analyse tourism, but also provides an insight into the present state of research in this field.

Chapters three and four describe the context and the framework conditions of the value chain of fair trade in tourism. Firstly, the South African tourism market and the relevant institutions and regulations are presented and secondly, the fair trade market in general and the fair trade market of tourism products in particular are highlighted.

The FTSA-principles, the certification process and the meaning of the label are presented in the first section of chapter five. The second section finally comprises the analysis of *upgrading* chances that can be connected to FTSA-standards and their relevance in practice.

2. Theoretical Framework

2.1. Global Value Chains

2.1.1. What is a Global Value Chain?

Bringing a product from its conception to its end use and beyond involves a chain of activities like design, production, marketing, distribution, consumption and recycling. A value chain is the sequence of activities performed by companies and workers to produce a product or provide a service and the consumption of the same. Value chains can be contained within a single company but they are more likely to be divided between different enterprises often located in different places (Global Value Chain Initiative official website, 18.8.2012; Humphrey/Schmitz 2000: 9). Therefore, a *global* value chain (GVC) constitutes a value chain whose activities are globally spread.

2.1.2. Origin and Development of the GVC Approach

Since the 1960s a body of literature about chain and network concepts has emerged. Although these approaches are partly consistent with one another, they derive from two different intellectual domains.

First, there are chain concepts that originate from business-managerial literature. The best-known example for this intellectual direction is probably the *value chain* by Michael Porter (1985). His concept refers mainly to firm and inter firm networks while chain/network approaches which are rooted in the second intellectual domain, the economic-development field, have a broader spectrum of examination (Henderson et al. 2002: 438f). The French *filière* concept (cf. Raikes/Jensen/Ponte 2000) developed in the 60s and the *commodity chain* terminology established by world-system theorists Terrence Hopkins and Immanuel Wallerstein (1977) were the first approaches that derived from the economic-development background.

Since then several chain- and network-based approaches have emerged⁷, but the *commodity chain* by Garry Gereffi is considered the undisputed reference point in this body of literature (Humphrey/Schmitz 2000: 10). In his contribution to *Commodity Chains and Global Capitalism* (1994) he conceptualizes a framework for the study of what he calls *global commodity chains* (GCC). This work has marked the beginning of a new era in value chain

⁷ e.g. international production networks (Borras/Ernst/Haggard 2000); global production networks (Henderson et al. 2002); global production systems (Milberg 2004)

research. Although the GCC approach can be linked to the world-system tradition (cf. Raikes/Jensen/Ponte 2000), there are significant differences between the two schools of thought.

GCC researchers investigate the organisation of global industries. They try to identify all enterprises involved in the production and distribution process of a specific good or service and describe the linkages between them. The questions that have to be answered in the GCC approach are where, how and by whom value is created and distributed along a commodity chain (Appelbaum/Gereffi 1994: 42f). The units of analysis in the GCC framework therefore are individual countries or networks of particular firms. However, for world-system theorists the object of investigation is the world-system with its core, semi-periphery and periphery classifications rather than individual countries and firms. This difference subsequently induces two opposed development concepts. The GCC approach bases upon national development, whereas the world-system theory rejects the idea of national development and the shaping power of nation states in general. In the GCC approach development is represented through the *upgrading* concept that refers to the possibilities for economic stakeholders to improve their position in a specific value chain. The world-system theory, however, pursues a more historical and holistic approach. Its focus is on the reproduction of the hierarchically structured global capitalist economy which, according to world-system theorists, evolved in the long sixteenth century. Commodity chains are insofar of interest as they allow to calculate the total surplus value of a chain and to trace its distribution between the various chain links (Bair 2005: 154ff). The value of commodity chain analysis for world-system theorists therefore lies in the illumination of *'the dynamics of capital accumulation at a particular point in the evolution of the world-system'* (Bair 2005: 157) rather than in the identification of *upgrading* chances for countries of the Majority World.

As outlined above, a large spectrum of chain- and network literature has emerged often causing terminological confusion. To counteract this development, scholars who pursue research on global networks held a meeting in Bellagio, Italy in 2000 and agreed upon the term *value chains* because it seems to be the most inclusive and comprises the different approaches best. They also agreed that it is of utmost importance to develop a common set of parameters that should allow a systematic comparison of different chain/network studies and therefore create the possibility to generate more general conclusions (Gereffi/Humphrey/Sturgeon 2001). In the course of this integration process at the Bellagio meeting, the GVC concept and a GVC research network (www.globalvaluechain.org) have been established.

The GVC concept can be regarded as an advancement of Gary Gereffi's GCC framework. The comparison of GCC and GVC reveals the high similarity of the two approaches, which has

generated a discussion about how far the GVC analysis can be regarded as a self contained approach.

Bair (2005) argues that the GVC approach can be comprehended as a third contended chain framework, distinct from the world-system as well as from the GCC chain approach. On the one hand, Bair draws this conclusion from the fact that with the development of a formal theory of value chain *governance* (Gereffi/Humphrey/Sturgeon 2005), the GVC approach offers an extended and more flexible *governance* concept as it is the case in the GCC framework (Bair 2005: 163). On the other hand, Bair points out that the GVC approach has a '*greater influence of the international business literature on its analysis of global production networks as opposed to the more sociological orientation of the earlier GCC framework, and a more pronounced interest in the policy implications of chain research*' (Bair 2005: 154).

In particular it is this policy orientation of the GVC concept that fosters its popularity and its relevance for the development discourse, as outlined in the next section.

2.1.3. The Profitability of the GVC Approach

One main feature of globalization and the global economy in particular is the cross-linkage beyond national boundaries. Although this fact is undisputed, it is still common to analyse and interpret world affairs from a state-centred perspective. It is not surprising that recommendations based on this view fail to achieve the expected results. GVC analysis, like other chain/network approaches, overcomes this state centrism and thus is suitable for investigating and explaining present (economic) developments and global distribution accurately (Fischer/Parnreiter 2007: 106f; Gereffi/Fernandez-Stark 2011: 12). Furthermore, the GVC perspective draws attention to the effects of western consumption on countries of the Majority World and therefore can help to raise awareness for responsible and critical consumption (Mosedale 2006: 440)

Today's economic success and prosperity depend to a lesser extent on *whether* to participate in global processes than on *how* to do so. As it is obvious that there are 'winners' and 'losers' in the globalization process, the reasons and mechanisms behind this polarisation are less evident (cf. Kaplinsky 2000: 1; Hatakoy 2003: 1). The GVC framework is an instrument for identifying these mechanisms and therefore provides an important contribution to explaining uneven development and continuing underdevelopment under the conditions of globalization (Stamm 2004: 8).

The GVC approach can inform stakeholders about the best way to access and benefit from participation in the global economy (Bair 2005: 161f; Gereffi/Fernandez-Stark 2011: 1ff; Kaplinsky/Morris 2002: 1f). This ability of the GVC framework derives from the investigation of

economic networks on the basis of the two central concepts of GVC analysis *governance* and *upgrading*.

These concepts are not only complementary but they also offer two different starting points for analysing the global economy. The *governance* concept with its focus on *lead firms* and the organization of industries represents a top-down approach, whereas the *upgrading* concept with its focus on strategies used by economic stakeholders to maintain or improve their position provides a bottom-up perspective (Gereffi/Fernandez-Stark 2011: 12). According to their significance in GVC research the following sections are dedicated to the two concepts and their interrelationships.

2.1.4. Governance

Governance refers to the 'authority and power relationships that determine how financial, material and human resources are allocated and flow within a chain' (Gereffi 1994: 97). The *governance* concept is based on the fact that power is unevenly distributed in a value chain. The chain participants that wield *governance* are called *lead firms*. These *lead firms* not only set and/or enforce the parameters, rules and standards under which other members of the chain operate and therefore determine the terms of participation, but they also control the distribution of costs and benefits (cf. Bolwig et al. 2010; Gereffi 1994; Gereffi/Humphrey/Sturgeon 2005)

In order to identify development chances for firms, individuals, cities, regions or countries in the global economy, it is essential to find out by whom and how *governance* is performed and distributed in a GVC (Gereffi/Fernandez-Stark 2011:8). It makes a difference whether only one or a few companies control the whole value chain and therefore have the power to determine

- what exactly is produced
- how and when it is produced
- how much is produced and
- at what price it is produced

(Bolwig et al. 2010: 176),

or whether these factors are regulated in a process of balancing supply and demand on a free market.

In his first chain framework Gereffi (1994: 95ff) identified two forms of *governance* structures:

Producer-driven commodity chains: This form of *governance* occurs in 'industries in which transnational corporations (TNCs) or other large integrated industrial enterprises play the central role in controlling the production system (including its backward and forward linkages). This is

most characteristic of capital- and technology-intensive industries like automobiles, computers, aircraft, and electrical machinery' (Gereffi 1994: 97).

Buyer-driven commodity chains: This term refers to 'Industries in which large retailers, brand-named merchandisers, and trading companies play the pivotal role in setting up decentralized production networks in a variety of exporting countries, typically located in the Third World' (Gereffi 1994: 97f). In *buyer-driven* chains global buyers (e.g. Wal-Mart, Tesco, Nike, The Gap) create global scale production and distribution systems without direct ownership and coordinate this supply-base with non-market mechanisms (Gereffi/Fernandez-Stark 2011: 8; Gereffi/Humphrey/Sturgeon 2005: 82).

As chain research gained momentum, it became obvious that this classification was not comprehensive. Case studies in different industries show a variety of *governance* forms that do not match the concept of *producer-driven* or *buyer-driven* commodity chains. As a consequence and on the basis of new findings Gereffi, Humphrey and Sturgeon (2005) have developed a *theory of value chain governance*, which bases on three variables:

- The *complexity* of the information that must be transferred to ensure a particular transaction between actors in the chain.
- How the information for production can be *codified* and therefore transmitted to producers effectively, efficiently and at minimal cost.
- The level of suppliers' competence to meet all transaction requirements

(Gereffi/Humphrey/Sturgeon 2005: 85; Microlinks official website: Value Chain Governance, 08.06.2012)

These three factors can be estimated to be either *high* or *low*, which results in eight possible combinations. Five of these combinations are actually found in practice and are described by Gereffi and Fernandez-Stark (2011: 9f; Gereffi 2005: 83f, 86f) as follows:

Market: *Market governance* occurs when transactions are relatively simple, information on product specifications is easily transmitted, and the input from buyers to suppliers is minimal. No formal cooperation between the actors is required and business partners can be switched at low cost. Price is the central *governance* mechanism rather than a powerful *lead firm*.

Modular: *Modular governance* involves transactions that are complex but easy to codify. Suppliers make products according to customers' specifications. The investments are spread across a wide customer base by using generic machinery. The cost of switching partners therefore remains low and transaction-specific investments are limited. Since interactions can be very complex and the volume of information flowing between the partners is high, the relationship

between buyer and supplier is more substantial than in simple markets. The basis for *modular governance* is Information technology and standards.

Relational: In these chains, transactions are complex and information is not easily transmitted or learned. Frequent interactions and knowledge sharing between buyers and sellers is necessary and generates mutual reliance. *Relational governance* therefore depends on trust and is regulated e.g. through reputation, social and spatial proximity, or family and ethnic ties. Products that are produced in chains with *relational governance* are likely to be differentiated, of higher quality and of unique characteristic. *Lead firms* still have a certain level of control over suppliers but the costs and difficulties of switching to new partners tend to be high and time-consuming.

Captive: *Captive governance* describes chains in which small suppliers rely on one or a few buyers who often wield a great deal of power. *Lead firms* (buyers) set the conditions of supply, which are often specific to their needs. Linkages are therefore tight and the costs of switching are high. In captive governed chains *lead firms* have an interest in helping their suppliers to *upgrade*, because this increases the efficiency of the supply chain. But this support happens only to a certain extent, as transmitting of core competencies normally does not occur and therefore *upgrading* chances for other chain participants are limited.

Hierarchy: *Hierarchical governance* occurs when production processes are vertically integrated and controlled within *lead firms* (in-house development and manufacturing). This form of *governance* often occurs when product specifications cannot be codified, when products are complex and/or when competent suppliers cannot be found.

As mentioned above, it is the *governance* structure of a value chain that determines the possibilities of countries, regions, firms and other economic stakeholders to improve their position in the global economy. The reason for this lies in the effect of the different *governance* types on *upgrading*, which is the second key concept of GVC analysis and will be outlined in the next section.

2.1.5. *Upgrading*

In the GVC analysis *upgrading* is defined as '*the process by which economic actors – nations, firms, and workers – move from low-value to relatively high-value activities in global production networks*' (Gereffi 2005: 171). *Upgrading* therefore refers to the different strategies economic stakeholders can pursue in order to increase their competitiveness, their share of value-added and thus improve their position in the global economy. In the GVC literature, four forms of *upgrading* are frequently mentioned:

Process upgrading refers to the enhancement of the efficiency of internal processes by reorganizing the production system or by introducing superior technology. *Upgrading* occurs when the improved processes are significantly better than those of rivals.

Product upgrading is the capability to introduce new products or to improve old products and to move into more sophisticated product lines.

Functional upgrading occurs if new value adding activities and functions can be executed, or if less value adding functions can be abandoned to increase qualification.

Chain or inter-sectoral upgrading designates the move to a new but often related value chain for example from the manufacturing of transistor radios to calculators, to TVs, to computer monitors, to laptops and then to WAP phones).

(Kaplinsky/Morris 2002: 38; Humphrey/Schmitz 2002: 6; Microlinks official website: Types of Upgrading, 08.06.2012).

More recent research, especially in the attempt to integrate aspects of poverty and sustainability in GVC analysis, has revealed further ways of *upgrading* like

Improving value-chain co-ordination: especially for small producers joining forces can be crucial to reduce their individual risks and improve their bargaining power.

Matching standards and certifications: with the growing uncertainty and loss of control in the course of globalisation, standards and certifications are gaining importance.

Delivering on logistics and lead times: the expression “time is money” illustrates why secure and fast delivery is a decisive competitive criterion in today`s economy.

Better rates of payment for the same product: growing social responsibility and awareness of the conditions of production extend the market for `ethical` products and services (Bolwig et al. 2010: 177; Riisgaard et al. 2010).

Furthermore, Kaplinsky and Morris amend the concept of *upgrading* with the theory of barriers to entry and economic rent. Therefore, *upgrading* is linked to the ability of actors to differentiate productivity factors and simultaneously protect them from competitors (Kaplinsky/Morris 2002: 25f, 76; Kaplinsky 1998:15). There are a variety of forms of economic rent that can accompany *upgrading* processes. Some rents are based on firm level actions and are classical Schumpeterian rents which include

- *Technology rents:* command over scarce technologies
- *Human resource rents:* access to better skills than competitors
- *Organisational rents:* possession of superior forms of internal organisation
- *Marketing rents:* possession of better marketing capabilities and/or valuable brand names

Economic rent can also be constructed endogenous to a specific chain by groups of firms. These are

- *Relational rents:* to have superior quality relationships with suppliers and customers

Furthermore there are rents that derive from environmental assets, so called

- *Resource rents*: access to scarce natural resources

and rents that are provided by parties external to a chain, so called

- *Policy rents*: a company operates in an environment of efficient government
- *Infrastructural rents*: access to high quality infrastructure
- *Financial rents*: access to finance on better terms than the competitors

(Kaplinsky/Morris 2002: 28)

The interrelationship between *governance* and *upgrading* that offers insights into economic functioning and development perspectives will be outlined in the next section.

2.1.6. The Relationship between *Governance* and *Upgrading*

The analysis by Humphrey and Schmitz (2000) combines the knowledge about the *governance* concept with that of *upgrading*. They conclude that in *quasi-hierarchical*⁸ value chains *process* and *product upgrading* are fostered by the *lead firm*, whereas *upgrading* in highly profitable activities like design and marketing are prevented by the same. Thus, for businesses in *quasi-hierarchical* chains *upgrading* is easy to a certain extent, but impossible after reaching a specific level.

According to Humphrey and Schmitz (2000), the situation is different in *market-* and *network-based* value chains⁹. There are no system-inherent limitations for *upgrading* in such chains but the process is connected to high investments of local firms and the support of local institutions.

It seems obvious that in more hierarchically structured value chains *upgrading* is determined by the interests and policies of the respective *lead firm*, which is not the case in *non-hierarchical* chains. The consequences of this general conclusion for the different stakeholders vary from case to case and depend not solely on the concrete exercise of *governance* in a chain, but also on other framework characteristics (e.g. industry) and conditions (e.g. state policies).

In the literature on GVCs in the tourism industry, the article by Tejada, Santos and Guzmán (2010) is the first one to explicitly deal with the connection of *governance* patterns and *upgrading* chances in this industry. Their findings will be outlined in section 2.2.3.

⁸ The quasi-hierarchical terminology can be compared with the recent captive governance concept and is defined by Humphrey/Schmitz as follows: 'High degree of control of buyer over supplier, buyer defines the product. The buyer would incur losses from the suppliers' performance failures, and there are some doubts about the competence of the supplier. Where high supplier competence is not generalised, buyer invest in specific suppliers and seek to tie them to their chain (Humphrey/Schmitz 2000: 16)

⁹ These chains can be seen as non-hierarchical and their definition (see Humphrey/Schmitz 2000: 16) can be compared with the concept of market- and relational governance, introduced by Gereffi, Humphrey and Sturgeon (2005:83ff).

2.1.7. GVC Analysis

The Analysis of GVC is carried out along four dimensions, which will be outlined below¹⁰ (Gereffi/Fernandez-Stark 2011; Gereffi 1994).

2.1.7.1. *Input-Output Structure*

The first step of GVC Analysis is to identify the main activities/segments of a production process of a good or a service. All of these activities put together form an input-output structure that typically includes research and design, inputs, production, distribution and marketing, sales, and possibly recycling and supporting services.

After a general study of an industry using secondary data and interviews, it should be possible to identify the input-output structure and thereby differentiate the segments of a chain by the value they add to the product/service.

Another important aspect of this analytical phase is the identification of the companies that participate in a chain and their key characteristics (e.g. geographic range, form of ownership, size). This information is important to understand a chain's *governance* structure (Gereffi/Fernandez-Stark 2011: 5f; Gereffi 1994: 96f).

2.1.7.2. *Geographic Scope*

In today's economy, supply chains are globally dispersed and the different chain activities are usually carried out in different parts of the world. Generally, labor intensive production stages and the extraction of raw material are located in the Majority World, whilst research, development and design take place in wealthy nations.

The geographic analysis of a GVC starts with the identification of the *lead firms* in each segment of the chain by using secondary sources of firm data, specialized industry publications and interviews with industry experts. The number of leading firms within a particular region or country provides information about its position within a value chain. This information, combined with country-level data (e.g. industry exports), illustrates a country's contribution to a GVC (Gereffi / Fernandez-Stark 2011: 7f; Gereffi 1994: 96f).

2.1.7.3. *Governance*

As outlined in section 2.1.4, the purpose of this analytical step is to discover the control and coordination mechanisms in a value chain and thus identify the authority and power relationships between its members.

¹⁰ Other manuals for GVC analysis are e.g. Kaplinsky/Morris (2002): A Handbook for Value Chain Research structure or the ILO Guide for Value Chain Analysis and Upgrading 2009 <http://www.bdsknowledge.org/dyn/bds/docs/detail/545/6>, [9.6.2011]

The *governance* structure within a GVC may vary depending on the sector of industry, the stage of development of an industry and also within a single chain between the different levels/stages of production (Gereffi/Fernandez-Stark 2011: 8f; Gereffi 1994: 96f).

2.1.7.4. Institutional Context

GVCs are shaped by local, national and international regulations and policies as well as by prevalent local economic, social and institutional dynamics. In order to understand the design of a GVC, its way of functioning and the related consequences for its participants and policy makers, it is essential to take these framework conditions into account.

Economic conditions include factors like labor costs, available infrastructure, and access to other resources such as finance. Social conditions are, for example, available workforce and its skill level, access to education and female participation in the labor force. Institutional conditions comprise tax and labor regulations, subsidies, and education and innovation policy. These local conditions have a significant influence on the insertion of a country into a GVC (Gereffi/Fernandez-Stark 2011: 11f; Gereffi 1994: 96f).

After the analysis of these four dimensions it should be possible to answer central questions concerning *upgrading* like:

- How can economic actors gain access to the knowledge, competences and services required to participate in the global economy and in a specific GVC, respectively?
- What kind of entry barriers exist and how can they be overcome?
- What potential is there to improve the position of a business/region/country within a GVC and therefore to increase their value-added?

2.1.8. Limitations and Challenges of the GVC Approach

The GCC/GVC approach mainly focuses on the meso level of sectoral dynamics and/or the micro level of firms. As outlined in chapter 2.1.3. this is one advantage of the approach but at the same time also a major point of criticism (cf. Bair 2005; Henderson et. al 2002; Plank/Staritz 2009). Most of the previous chain studies hardly consider the larger political, social and cultural contexts into which GVCs are integrated. In consideration of the power 'external'¹¹ stakeholders and organisations have in shaping a value chain, this analytical omission can lead to distortions as well as to an inaccurate assessment of a GVC's *governance* structure and the *upgrading* possibilities for its participants¹². The importance of taking the larger institutional and structural environment into account can be

¹¹ 'external' in terms of not being part of the actual production process of a product or service

¹² GVC studies that demonstrate the influence of 'external' stakeholders: Gereffi/Bair 1998; Gereffi/Garcia-Johnson/Sasser 2001; Dussel Peters 2000; Fold 2010; Komlosy 2010; Manzenreiter 2010, Nadvi 2004

demonstrated, for example, by means of global trade regimes. Customs and import barriers shorten value chains while free markets and deregulations usually encourage the extension of GVCs (Fischer/Parnreiter 2007: 116).

The complaint that the integration of poverty, environmental concerns and sustainability into the GVC framework hardly exists also derives from this insufficient contextualization of GVCs, as the integration of stakeholders like NGO's and trade unions into GVC analysis could counteract this shortcoming¹³.

The second major point of criticism concerns the current form of the *upgrading* concept. It is criticised for its narrow focus on the level of *individual* firms in *particular* value chains. When the *upgrading* of some firms in a region is concomitant with the *downgrading* of other firms in the region, as some studies have revealed¹⁴, the problematic nature of this limited focus becomes apparent. Therefore, the question that has to be considered is what implications this individual *upgrading* of firms has for development on a larger scale, e.g. for national or regional economies.

Closely related to this question is the call for scrutiny of profit distribution gained from *upgrading* processes. Previous studies¹⁵ suggest that 'successful' *upgrading* is not necessarily linked to increased rewards. In some cases a firm's move to higher-valued activities such as design or distribution is the result of an off-loading process of less profitable activities by the *lead firm* rather than the result of an *upgrading* process.

Furthermore, when firms in weaker positions of a chain actually manage to *upgrade*, it has to be clarified who benefits from this process. When it comes to development aspects, it is important to find out whether the positive effects of an *upgrading* process are provided further on to workers (e.g. through increased wages, improved working conditions or job security) or/and to the regional economy (e.g. by procuring goods from local suppliers) (Bair 2005: 153ff; Fischer/Reiner/Staritz 2010: 16ff; Bolwig et al. 2010: 173ff). If GVC analysis has the claim to work out successful development strategies, it is indispensable to expand its scope and to take broader implications of *upgrading* into account.

Moreover, GVC researchers are confronted with the challenge of obtaining the required information. To reproduce a value chain and its *governance* structure, proprietary information and sensitive data are required, which most firms are not willing to disclose due to their competitive advantages and sometimes the required data are undocumented or not available in a feasible

¹³ The analysis value chains of products that are certified by external, independent organisations/institutions like fair trade or the Forest Stewardship Council Certification (FSC) (Taylor 2005; Stephan/Stamm 2010) can be considered exceptions of these shortcomings.

¹⁴ e.g. Dolan/Humphrey 2000; Gibbon 2001; Dolan/Tewari 2001

¹⁵ e.g. Fitter/Kaplinsky 2001; Gibbon 2001; Schrank 2004; Schurman 2001

format¹⁶. Therefore, GVC research can imply intense research on a range of scales, and it can be very labour-intensive if new data has to be collected.

2.2. GVC & Tourism

The GCC/GVC analysis has been designed and used to study production sectors like apparel, automobile, electronics and food industry¹⁷. Since tourism is a service sector and therefore subjected to different dynamics and mechanisms, the question of the applicability of the GVC framework for tourism arises.

The paper '*Commodity Chains, Services and Development: Theory and Preliminary Evidence from the Tourism Industry*' by Michael Clancy (1998) is one of the first dealing with this issue. Clancy has studied the hotel and air transport industry and comes to the conclusion that the basic concept of the GCC framework is quite useful for detecting and understanding the dynamics of the tourism sector and its development chances and limitations, although it is necessary to widen the approach to '*account` fully for the unique organization of the global tourism industry*' (Clancy 1998: 122).

More recent studies, which already depend on the current GVC concept, have achieved similar results. The GVC approach is suitable for studying the tourism industry, but not without adjustment measures. The most frequent suggestion for improvement is to enhance the integration of the institutional context and 'external' stakeholders. This general criticism concerning the GVC approach (see 2.1.8) seems particularly striking in matters of value chain studies on tourism. This can be explained by the fact that in tourism, production and consumption occur simultaneously and in the same place (uno-actu principle). Therefore, the tourism destination is an integral part of the product and not just a production site as it is the case in other industries (Schamp 2007: 151). Neither political, social, economic or environmental changes in a destination country, which are considered as 'external' to a value chain, nor the complete change of the 'production site' occur unnoticed by customers and demand, respectively. However, the framework conditions of a tourism value chain are not the only influences on consumer demand, but the *governance* structure and the *upgrading* chances of chain actors in a chain play a role as well. It appears obvious that investments in infrastructure, law regulations, entry requirements, tourism training programs, financial incentives like tax breaks, and subsidies influence the structure of a chain and the acting of its participants (cf. Christian et al 2011; Dörry 2008; Mosedale 2006). A strong legal framework, for example, can reduce insecurity in transactions between chain actors and thus change the *governance* structure, as various control measures are no longer necessary. Some legal systems of destinations mandate the

¹⁶ Because of the still prevalent state-centric perspective most data refer to the level of national states. Data on cities, regions and other analytical levels of GVCs are barely available (Fischer/Parnreiter 2007: 107)

¹⁷ A comprehensive list of publications can be found on the homepage www.globalvaluechains.org

incorporation of local tourism guides or travel agencies in a value chain. Such provisions not only lengthen the chain, and therefore increase coordination effort and transaction costs, but they also open up new chances for local service providers (cf. Dörry 2008: 205f).

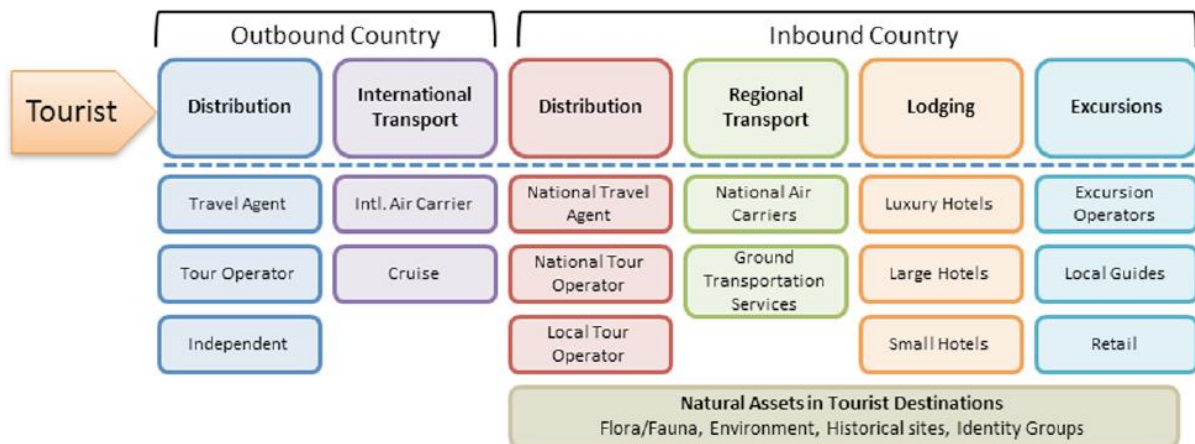
The previous argumentation reveals that successful GVC research in tourism requires the incorporation of legal, political, social and environmental characteristics specific to the respective destinations. As a result, the generalisation of GVCs in tourism is almost impossible, especially when it comes to *governance* mechanisms and coherent *upgrading* chances.

Nevertheless, there exists a convincing argument for the use of the GVC framework to study tourism industry. A package tour can be divided into partial performances which consecutively follow one another (transport, accommodation, entertainment, ...). Tour operators have to link these 'stages of production' to each other and standardize them. The production process of a package tour therefore hardly differs from that of goods (Schamp 2007: 150f). Go and Appelman (2001: 184) come to the same conclusion when they argue that an organised holiday tour consists of different activities that are carried out by different actors in different places who have to join forces to produce a tourist offer. Therefore, tourism consists of a chain of activities, which, in case of international tourism, are spread globally. On this basis Christian et al. (2011) have developed a general tourism GVC by identifying all possible production stages of a long-haul travel and the types of businesses involved. Despite the previous argumentation, their conceptualisation of 'the' tourism GVC seems to be a useful reference point, because the authors acknowledge that in a specific case the value chain does not necessarily include all the identified stages, and furthermore they make no general statement on *governance* structure and *upgrading*. Therefore, this general tourism GVC is a quite flexible approach that is suitable for research in the highly diverse tourism sector.

2.2.1. The Tourism GVC

In their paper *'The Tourism Global Value Chain: Economic Upgrading and Workforce Development'*, Christian et al. (2011) present a general tourism GVC which *'details the steps and the firms a tourist interacts with, from the moment they decide to take a trip to the completion of their international journey'* (Christian et al. 2011: 10). The following (graphic) chart illustrates this general tourism GVC:

Figure 1: The Tourism Global Value Chain



Source: Christian et al. 2011: 11

The first segment of the tourism GVC is **Distribution** and refers to the purchase process of tourists. The main actors in this segment are travel agents and tour operators, located in the country of origin of the tourist, or the tourist himself, who purchases components of his holiday independently. Distribution is followed by **international transport**. In general, the main actors of this segment are international air carriers. National travel agents, national tour operators and/or local tour operators perform the next task in the chain, which involves the realization and/or organisation of the booked trip in the destination country (**local distribution**). The next three chain segments concern the stay of the tourist and the activities he is engaged in, namely **regional transport, lodging** and **excursions**.

2.2.2. Governance in Tourism GVCs

Even though previous GVC research in tourism and its results are diverse, there is a general agreement that, due to their gatekeeper position between the consumer and various tourism businesses, tour operators are the *lead firms* in tourism value chains (cf. Ioannides: 1998; Lessmeister: 2009). Furthermore, studies on tourism GVC reveal that there are two aspects of major influence on the *governance* structure of a value chain. The size of the involved enterprises on the

one hand, and tourism typologies on the other hand, are assumed to determine the *governance* structure.

In an article about *governance* in package tours, Schamp (2007) identifies three *governance* types (*hierarchical, captive* and *relational*). In value chains which are lead by touristic groups like TUI, Thomas Cook or Rewe, *hierarchical* and *captive governance* mechanisms occur. This applies particularly to GVCs in mass tourism destinations, where the predominant tourism typology is the sun, sea and sand (3S) holiday, and which are mostly located close to the tourists' home countries (e.g. Spain, Italy and Egypt as typical destinations for EU-citizens). In order to realize economies of scale, which are inherent in mass tourism, touristic groups integrate all service providers of the GVC (air carriers, incoming tour operators, accommodation providers and possibly car rental companies) in their organization structure and therefore coordinate and control the whole value chain (*hierarchical governance*). In destination areas where no economies of scale can be generated but tourism groups are still involved in the GVC, they become powerful *lead firms* and create a *captive governance* structure. *Captive governance* is most likely to occur when destinations, due to their undifferentiated image, are almost interchangeable and when the predominant tourism type is the 3S holiday (Schamp 2007: 152ff). One example of such a case is Mosedale's (2006) study on tourism in St. Lucia.

According to Schamp (2007) the situation is quite different in specialised tourism markets. These markets can be differentiated from mass tourism in matters of the types of trips they provide (e.g. trekking, eco, cultural, study holidays), and/or in matters of their regional specialisation, which lies mostly in more 'exotic' regions of the world like Africa, the Orient or Latin America. Generally, touristic groups have no supremacy in these markets due to the special demands of customers and to the fact that usually no mass tourism and furthermore no economies of scale occur¹⁸. Therefore, these markets are often served by specialized small and medium tourism enterprises (SMEs), and even if touristic groups are engaged in these segments they operate similar to SMEs. Although small and medium tour operators are, like integrated tourism groups in mass tourism, the gatekeepers between the tourist and the destination, power in specialised tourism markets is more evenly distributed. The consequence is that *governance* in these GVCs bases on personal networks and trust between the participants, and therefore complies with the *relational governance* concept.

In conclusion, Schamp (2007) argues that in mass tourism GVCs (mostly 3S holidays), in which *lead firms* are powerful tourism groups, *hierarchical* and *captive governance* structures are predominant,

¹⁸ e.g. in trekking tourism the destinations are peripheral regions and it is generally of great importance for customers that their holiday is environmentally and socially compatible. Trekking tourism therefore seems per se inconsistent with the concept of mass tourism (e.g. Lessmeister 2009). In all probability, same can be said about eco tourism and other tourism niche markets.

whereas in specialized tourism GVCs (e.g. trekking holidays) the concept of *relational governance* applies.

A case study which mainly supports Schamp's assumption is the research on *relational governance* in German package tours to Jordan by Dörry (2008). This study is one of the first attempts to analyse *relational governance* and the findings suggest that in Jordan, as a niche market and more or less 'exotic' destination, with circular tours as predominant tourism type, this form of *governance* is basically applicable. However, Dörry's study reveals that in specialized tourism markets, the size of the involved businesses is also of great importance when it comes to concrete control mechanisms. Whereas the large tour operators and some medium-sized businesses organize their relationships on contractual basis with jurisdiction based in Germany, most SMEs lack the financial resources to overcome the constitutional uncertainty with legal measures. Trust and long term relationships as well as some weaker control mechanisms like feedback from customers determine their relationship with business partners at the destination. Unsurprisingly, the size of the involved businesses is also of great importance when it comes to price negotiations, as some medium and small businesses have no bargaining power at all, whereas some large tour operators are able to beat down prices (Dörry 2008: 200ff).

These results would lead to the conclusion that even in specialized tourism markets, when large tour operators are involved, *captive governance* occurs. However, Dörry (2008) points out that despite the fact that German tour operators are the gatekeepers of the consumer market, they depend on a competent and responsible local business partner to a certain extent, not least because of cultural distance. This issue concerns all tour operators, regardless of size. Therefore, they have to invest in the partnership with Jordan businesses, whereby the termination of the relationship entails high sunk costs. Thus, there is interdependency, although power is not always evenly distributed. The fact that the business partners examined by Dörry prefer to negotiate rather than to threaten each other reinforces this conclusion.

Whereas Dörry's study supports Schamp's assumption that in tourism niche markets *relational governance* occurs, Lessmeister's study on trekking tourism in Morocco (2009) discloses a different situation. His study reveals that the enormous financial and organizational efforts to serve the various national markets, the lack of professional staff for direct consumer contact, and the absence of connections to supplementary actors (e.g. insurance companies, air companies) are the reasons, amongst others, why Moroccan agencies are not able to directly enter consumer markets. The Moroccan agencies therefore depend to a great extent on international tour operators and are furthermore bound to the market of their own country. As more and more experienced agencies push on the Moroccan market, transaction costs and consequently the bargaining power of Moroccan businesses vis-à-vis international tour operators decrease rapidly. The combination of

these two facts shows a situation of *captive governance* in the Moroccan trekking tourism market rather than one of *relational governance* as suggested by Schamp (2007). This circumstance becomes evident as more and more international tour operators switch their associate partners in Morocco or use this option to push the prices of current partners (Lessmeister 2009: 144).

The two case studies by Dörry (2008) and Lessmeister (2009) reveal that general statements on *governance* in tourism GVCs are inaccurate at the current state of research and thus need to be done on a case-by-case basis.

2.2.3. The Relationship between *Governance* and *Upgrading* in Tourism GVCs

The article '*Applicability of Global Value Chains Analysis to Tourism: Issues of Governance and Upgrading*' written by Tejada, Santos and Guzmán (2010) is the first one that explicitly tries to connect *governance* patterns in tourism industry with *upgrading* chances. Although the findings of this ambitious work base on the Andalusia tourism industry and its applicability to other destinations has not yet been verified, the results offer a reference point for further studies.

- The major conclusion of the study reveals that tourism typologies determine the *governance* structure of tourism GVCs. In 3S tourism *captive governance* occurs, in cultural, business and congress tourism *modular governance* is predominant, whereas specific markets like rural, sport or health tourism are organized by *relational governance*. These findings are in unison with Schamp's (2007) conclusions on the connection of tourism typology and the form of *governance*.
- Some enterprises operate in several GVCs simultaneously and therefore are confronted with different *governance* patterns.
- The *upgrading* intensity in the sample (100 small touristic firms) was generally very low compared to that of other service sectors and small industry firms. From the three *upgrading* forms that were analysed, *intra-chain upgrading*¹⁹ occurred most frequently, followed by *process upgrading* and, finally, by *product upgrading*.
- The *upgrading* intensity of small Andalusian firms located in the coastal area, where sun and sand tourism (*captive value chains*) takes place, was lower than the *upgrading* intensity of

¹⁹ This is one example of the terminological diversification that aggravates comparison of different chain/network studies. In general, authors distinguish between the four upgrading types *process, product, functional and chain/inter-sectoral upgrading*. **Intra-chain upgrading** in this article designates 'several types of upgrading opportunities that exist within a particular chain. Firms can acquire new functions in the chain, such as moving from production to design or marketing (*functional upgrading*). Firms can also move backwards or forward to different stages in a value chain, such as moving from the production of finished goods to intermediates or raw materials (*upgrading* via vertical integration). In addition, firms can diversify their buyer-supplier linkages within a value chain.' (Tejada/Santos/Guzmán 2010: 1630).

firms in the inner area of the region, where cultural and business tourism (*modular* value chains) are predominant. This study therefore reveals that tourism typologies not only influence *governance* structures, but that they subsequently effect on *upgrading* chances.

2.3. Position of this Study in GVC Research

This theoretical chapter on GVC analysis reveals that the following case study on fair trade in tourism in South Africa differs from 'classical' GVC studies in several aspects.

- GVC studies in service sectors are still hard to find, tourism being no exception in this regard. The following work therefore is part of a rather small number of GVC studies.
- In the apparent situation two stakeholders, namely the South African state and the FTSA, which are designated as 'external' to the chain, will play an important role rather than a chain internal *lead firm*.
- The last deviation from most of the other GVC studies is the integration of non-economic aspects in the analysis, as fair trade is determined by factors of social and environmental responsibility.

The following work therefore has to be seen as an explorative work rather than a theoretically sound research as it might be the case in other GVC studies.

3. Tourism in South Africa

The following description of the South African tourism sector aims to outline two of the factors that have an influence on *upgrading* chances in an economic system, namely the character of a market and the capabilities of the institutional environment (Stamm 2004: 29).

A brief outline of tourism history in South Africa provides some background information about the sector and is followed by the description of South Africa's tourism sector on the basis of key indicators. Then the basic concept of governments' tourism development strategy is presented along with international institutions that influence the GVC of tourism. Finally, central international declarations that affect the South African tourism industry will be discussed in short.

3.1. A brief History of Tourism in South Africa

Up to the 1960s tourism played a subordinate role in the economy of the country. The situation started to change with the boom of the South African economy that resulted in an expansion of the road network and an improvement of the country's infrastructure in general. However, what was decisive for the development of international tourism in South Africa was the advent of commercial jet aircraft travel and its rapid growth during the 1960s. The government of South Africa responded to this development by establishing a department which, at least partly, dealt with tourism issues. Its task was to promote tourism and formulate policies for the sector. Also, a hotel board was founded to grade hotels according to their quality standards (Grundlingh 2006: 105f).

In the following years South Africa was and partly still is being promoted overseas as a destination where modernity and wildness meet. Where, from a luxury residence and in a pleasant climate, tourists can explore nature, wildlife and 'ancient tribes' of the country as well as enjoy a round of golf or a rugby game. Tourists coming from greater South Africa furthermore made use of the offer of shopping possibilities and casino hotel resorts that were established in homelands (Grundlingh 2006: 107ff).

Although the number of overseas visitors increased from 18,000 in 1961 to 60,000 in 1967 (Smith/Turffontein 1968: 6335 qtd. in Grundlingh 2006: 106), it was not the government's intention to promote South Africa as a mass tourism destination. The focus of marketing was rather on high-income tourists to ensure that South Africa would not attract great numbers of visitors with limited spending power. The opinion that wealthier tourists were more likely to be politically conservative and therefore to a lesser extent critical of the government's apartheid policies, as well as the fear that mass tourism may jeopardize the 'social order' because of the difficulties to control it backed up this selective approach. Although politically 'reasonable' at that time, this strategy was a constraint for tourism development. Thus, the pressure of tourism businesses and the growing awareness on

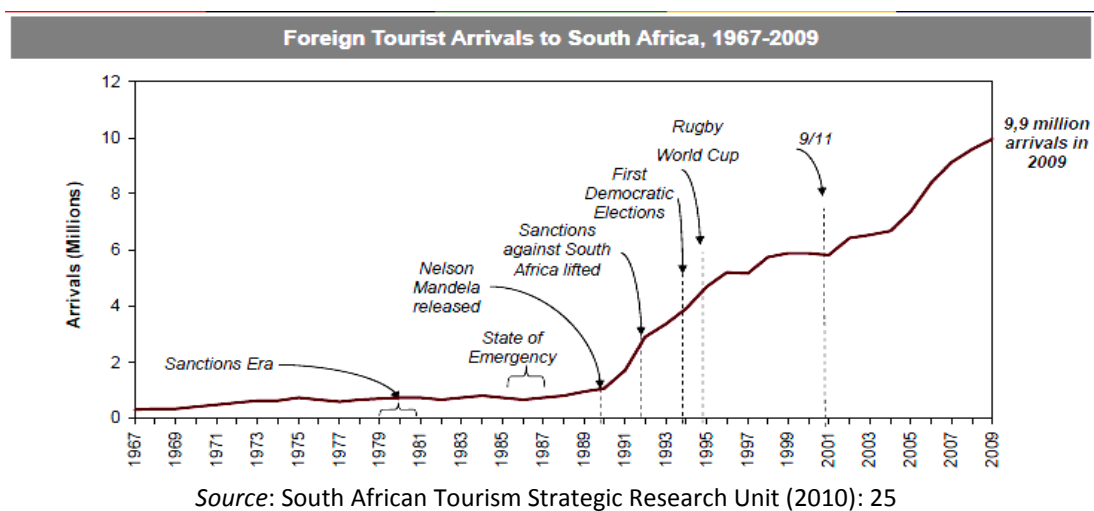
the part of the government of the economic potential inherent in this industry led to a more encompassing, business-orientated tourist strategy in the 1970s (Grundlingh 2006: 107).

Until the mid-1970s the number of tourist arrivals increased steadily but with the Soweto revolt in 1976 this changed. The following years, characterized by apartheid resistance and growing international pressure, had their effects on the industry. However, these developments did not induce a continuous decline of tourist arrivals as one would expect, but rather caused occasional slumps as a reaction to serious events like the announcement of a nation-wide state of emergency in 1986. Apart from these short declines, arrivals from overseas tourist were reasonably steady until the beginning of the 1990s (Grundlingh 2006: 113ff; Statistics South Africa 2008: ii)

The end of apartheid led to a radical change in South Africa, including its tourism sector. Tourist arrivals increased rapidly, not least because of the so-called ‘Mandela syndrome’ – the curiosity over the end of apartheid, the political transformation, and the prominence popularity of Nelson Mandela himself (Cornelissen 2005: 49; Grundlingh 2006: 105ff; Statistics South Africa 2008: ii). Furthermore, the post-apartheid government implemented a new policy framework for tourism with the fairly new concept of responsible tourism as its centrepiece. This framework is still in place and will be outlined further in section 3.4.1.1.

A summary of tourism development in South Africa over the past decades is provided by the following figure:

Figure 2: Foreign Tourist Arrivals to South Africa, 1967 – 2009



Today tourism is not only a major policy matter in South Africa but it is also an important sector of the country’s economy. Its current structure and characteristics will be outlined in the next section.

3.2. Key Figures of the South African Tourism Sector

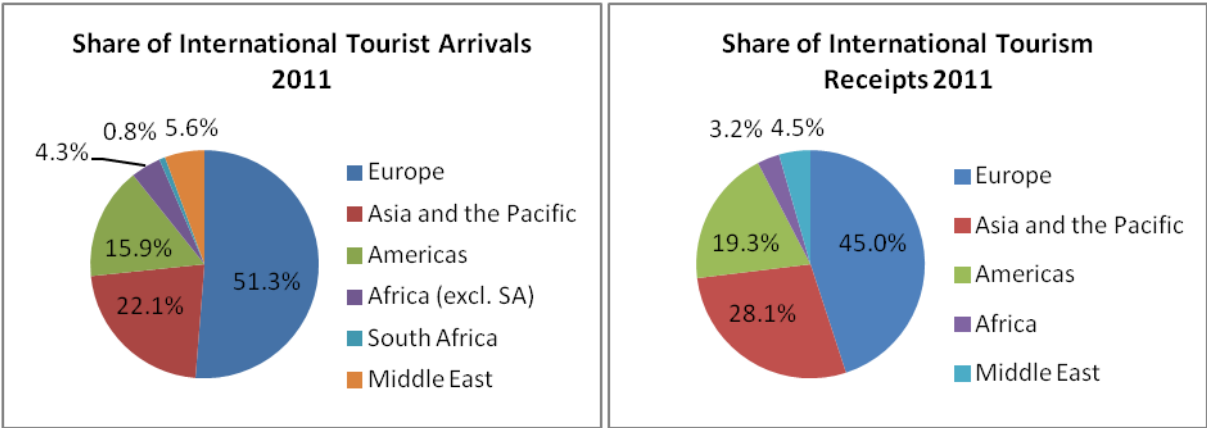
The focus of the following section lies mainly on South Africa’s tourism overseas markets, as GVC analysis deals with the economic connection between industrial countries and countries of the Majority World rather than with value chains between countries at the same stage of development (Schamp 2007: 148, 158). Nevertheless, it is important to point out that tourists from overseas constitute only a small proportion of the South African tourism market.

3.2.1. South African Tourism in the Global Context

In 2011²⁰ the UNWTO registered 983 million international tourist arrivals. A little bit more than half of these arrivals were counted in Europe (51.3%), while the remaining percentages were divided between the Asian and Pacific region (22.1%), the Americas (15.9%), the Middle East (5.6%) and Africa (5.1%). In the global context South Africa made up for 0.8% of worldwide international tourist arrivals and improved its global ranking from 34th position to 33rd position in 2011 (UNWTO 2012: 3ff).

The distribution of international tourism receipts (1,030 billion US \$) was slightly different from international tourist arrivals. Europe was gaining less percentage of international tourism receipts in comparison with its number of tourist arrivals (45% vs. 51.3%), whereas the Asian and the Pacific region as well as the Americas gained a higher share of the world’s international tourism receipts than their share in global international tourist arrivals (28.1% vs. 22.1% / 19,3%vs. 15.9%). The Middle East as well as Africa experienced the same discrepancy between international tourist arrivals and international tourism receipts as Europe, though not at the same rate (5.6% vs. 4.5% / 5.1% vs. 3.2%) (UNWTO 2012: 3ff; South African Tourism Strategic Research Unit 2012: 9ff).

Figure 3: Share of International Tourist Arrivals / Share of International Tourism Receipts 2011

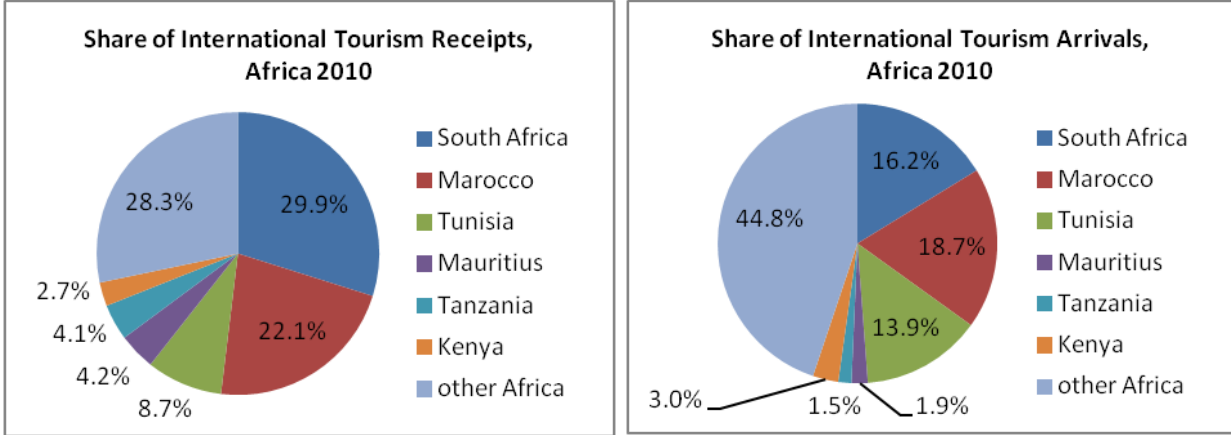


Data Source: UNUNWTO United Nations World Tourism Organisation (2012): 3ff

²⁰ For the year 2011 only provisional data were available.

When focusing on Africa²¹, data on the distribution of international tourism receipts in 2010²² show the supremacy of South Africa in this region. The country gained 29.9% of total African international tourism receipts (30.4 million US \$), followed by Morocco gaining 22.1% of the receipts. There is a great gap between these two countries and the other forty-nine countries²³ that belong to the African region. This can be demonstrated when looking at the share of tourism receipts held by the four countries following South Africa and Morocco, namely Tunisia, with a share of 8.7%, Mauritius with 4.2%, Tanzania with 4.1% and Kenya with 3%. When looking at the share of international tourist arrivals, South African supremacy is still visible, though not to the same extent as data on international tourism receipts demonstrate. Morocco even outran South Africa, receiving 2.5% more international tourists in 2010. When it comes to tourist arrivals, Tunisia also received a considerable share of Africa’s international tourists with 13.9%.

Figure 4: Share of International Tourist Receipts, Africa 2010/ Share of International Tourism Arrivals, Africa 2010



Data Source: UNUNWTO United Nations World Tourism Organisation (2012): 3ff

²¹ According to the UNUNWTO Egypt assigns to the region Middle East rather than to the region Africa which is why the country is not taking into account in this calculation.

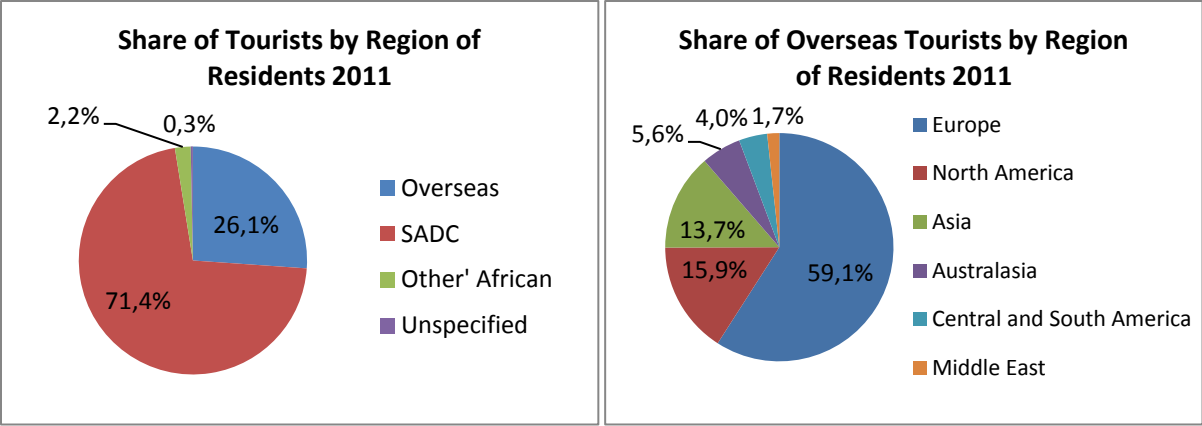
²² Data for 2011 were not available for most of the African countries which is why the comparison is based on data from 2010.

²³When making this comparison it must be considered that for nine countries (Chad, Congo, Dem. R. Congo, Equatorial Guinea, Eritrea, Gabon, Liberia, Mauritania, Somalia) no data was available for 2010 / 2011.

3.2.2. Foreign Tourist Arrivals

In 2011 Statistics South Africa counted a total of 8,339,354 international tourists, an increase by 7.4% compared to 2010²⁴ (South African Tourism Strategic Research Unit 2012: 6). The majority of the arrivals contributed to Africa and, more specifically, to the SADC countries²⁵ which accounted for 71.4% of total arrivals. Tourists from overseas accounted for 26.1% of total arrivals in 2011, with Europe as the leading source market with 1,286,027 tourists (59.1% of total overseas tourists) followed by North America accounting for 345,384 tourists (15.9% of total overseas tourists) and Asia with 297,882 tourists (13.7% of total overseas tourists).

Figure 5: Share of Tourist by Region of Residents 2011 / Share of Overseas Tourists by Region of Residents 2011



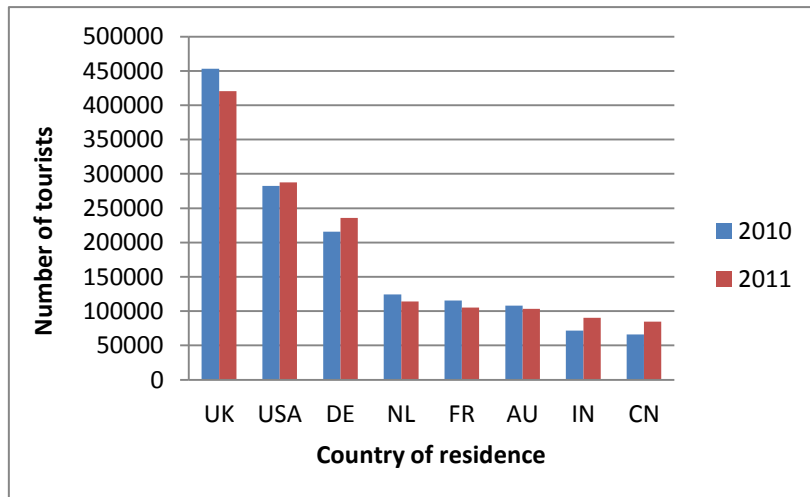
Data Source: Statistics South Africa (2011): 24

The main overseas source markets by country in 2011 were the UK (420,483 tourists), followed by the USA (287,614 tourists) and Germany (235,774 tourists). From 2010 to 2011 South Africa experienced a decline in tourists from its most important European markets (UK -7.2%, the Netherlands -8.3%, France -8.6%) with the exception of Germany, which ranked among the top ten growth markets with a growth of 9.3%. An increase was also registered in the USA market (+1.9%) and to a great extent in the Chinese (+28.7%) and Indian markets (+26.2) (Statistics South Africa 2011: 27; South African Tourism Strategic Research Unit 2012: 18).

²⁴ The tourists who travelled to South Africa specifically for the FIFA™ World Cup are excluded in this calculation.

²⁵ Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

Figure 6: Number of Tourists from the eight leading Overseas Countries in 2010/2011

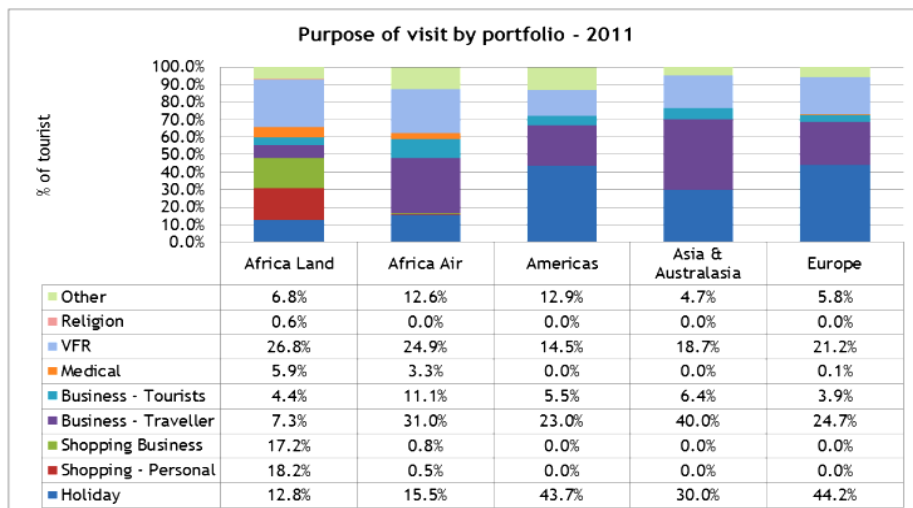


Data Source: Statistics South Africa (2011): 27

3.2.3. Purpose of Visit

The main purpose for overseas tourists to visit South Africa in 2011 was *holiday*. This was particularly the case for Americans and Europeans of which 43.7% and 44.2%, respectively, visited South Africa in 2011 for *holiday*. Tourists originating from the Asian and Australasian region also came to South Africa for *holiday* (30.0%), although the main reason for visiting the country was *business travel* (40.0%). Furthermore, *business travel* was the second leading purpose for American and European tourists for travelling to South Africa, accounting for 24.7% of the visits in the first, and 23% in the latter market. In all overseas markets the third leading reason for travelling to South Africa in 2011 was *visiting friends and relatives* (VFR), making up 21.2% of the European, 18.7% of the Asian and Australasian, and 14.5% of the American markets. Altogether these three reasons accounted for 90.1% of European visits, for 88.7% of visits from Asia and Australasia and for 81.2% of visits from the Americas (South African Tourism Strategic Research Unit 2012: 23f).

Figure 7: Purpose of Visit by Portfolio



Source: South African Tourism Strategic Research Unit (2012): 24

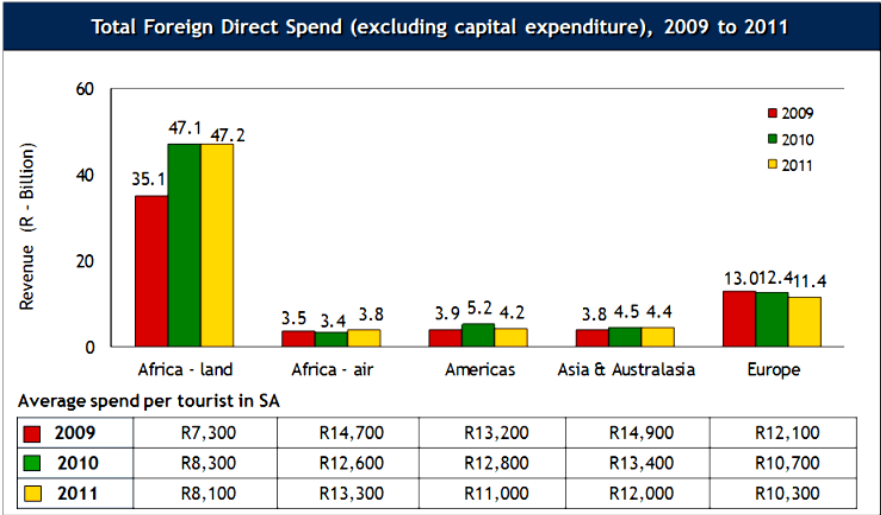
3.2.4. Length of Stay and Tourist Spending

The length of stay varies according to the type of market. South African tourism statistics often divide tourism markets into air markets and land markets. Air markets comprise those countries where at least 60% of tourists arrive by air, as opposed to land markets where at least 60% of tourists arrive by land, namely Botswana, Lesotho Mozambique, Malawi, Namibia and Zimbabwe. The average length of stay for tourists who arrived by air was 17.6 nights in 2011. The average length of stay for land markets was 4.9 nights (South African Tourism Strategic Research Unit 2012: 1).

Data on foreign direct spending (excl. capital expenditure) showed that in 2011 the average spending per tourist was highest in African air markets at ZAR 13,300 (approx. € 1,269)²⁶, followed by Asia and Australasia with an average spending of ZAR 12,000 (approx. € 1,145) per tourist. Tourists from the Americas spent, on average, ZAR 12,000 and Europeans ZAR 10,300 (approx. € 983).

Although tourists from African land markets spent least per tourist (ZAR 8,100/approx. € 773) in 2011, in total their spendings made up 66.5% of total foreign direct spending due to their high arrival numbers. The second largest market measured in terms of total revenue in 2011 was Europe making up for 16.1% of total foreign direct spend, followed by Asia and Australasia (6.2%), the Americas (5.9%) and African air markets (5.4%).

Figure 8: Total Foreign Direct Spend (excluding capital expenditure), 2009 to 2011



Source: South African Tourism Strategic Research Unit (2012): 32

Tourists from Africa spent most of their money on *shopping for resale*, whereas the revenues from overseas markets, apart from the category *other*, were mainly generated by the accommodation sector (South African Tourism Strategic Research Unit 2012: 36ff).

²⁶ The following amounts in Euro are calculated on the basis of the exchange rate of 31/12/2011.

3.2.5. Tourism's GDP Contribution and Effects on Employment

In recent years the South African tourism sector has comprised around 3% of total gross domestic product and has accounted for around 4 % of total employment:

Table 2: Tourism Gross Domestic Product / Share of Employment

| | 2007 (final) | 2008 (provisional) | 2009 (provisional) | 2010 (provisional) |
|--|-------------------------|-------------------------------|-------------------------------|-------------------------------|
| Tourism direct gross domestic product (TDGVA) | 3,0% | 3,0% | 2,9% | 3,0% |
| Persons directly engaged in producing goods and services purchased by tourists | 4,2% | 4,4% | 4,1% | 4,3% |

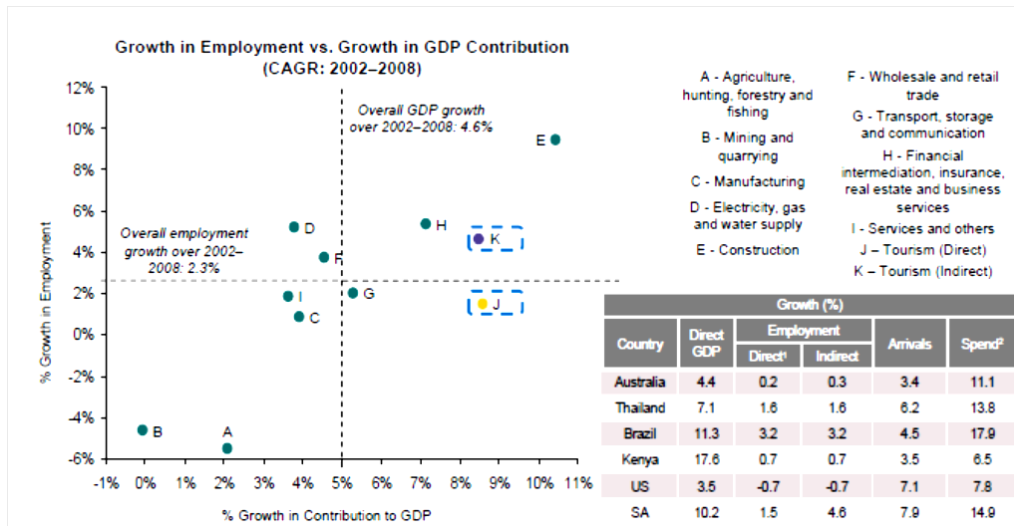
Data Source: Statistics South Africa (2012): 2f

In comparison to other main economic sectors, regarding its contribution to GDP and employment, the tourism sector has shown a relatively strong performance over the last years (2002 – 2008²⁷). The growth of tourism contribution to GDP was actually only surpassed by the performance of the construction sector (see figure 9).

Regarding the percentage growth in employment a differentiation between tourism direct and indirect employment was made. Direct employment considered employees which were directly engaged in the travel and tourism industry, whereas indirect employment also took employees into account that were *'engaged in intermediate sectors such as suppliers of intermediate inputs to tourism industry as well as suppliers of investment goods to the tourism industry and of goods to tourists overseas such as construction firms building hotels'* (South African Tourism Strategic Research Unit 2010: 32). The tourism sector only showed great performance when considering data on tourism's indirect employment effects. The growth of employment directly connected to tourism was significantly lower than the one of indirect employment in tourism, and even lower than the growth rate of most of the other sectors. Out of nine sectors only the three sectors *mining and quarrying, agriculture, hunting, forestry and fishing* as well as *manufacturing* showed lower growth than the direct tourism employment rate (see figure 9).

²⁷ More recent data was not available.

Figure 9: Growth of Tourism GDP and Employment compared to other main Economic Sectors



Source: South African Tourism Strategic Research Unit (2010): 35

More reliable and detailed data on the effects of tourism on employment can be found in the Tourism Satellite Account (TSA) for South Africa. This accounting framework, adopted by the United Nations and designed to measure goods and services associated with tourism, uses tourism industry ratios (TIR)²⁸ to allocate employment numbers to tourism. According to the Satellite Account, 567,379 people worked in the tourism sector in 2010, constituting 4.3% of total employment. The four industries that made up 85% of tourism employment in 2010 were *Road passenger transport* (30.1%), the *accommodation sector* (19.8%), followed by the *food and beverage serving industry* (19.1%) and *retail trade of tourism-connected goods* (16.0%). Two sectors that are very closely related to the tourism sector (TIR 0.98/ TIR 0.94), namely the *travel agencies and other reservation services industry* and *air passenger transport* accounted only for 3.9% and 3.6% of employments in the tourism industry (Statistics South Africa 2012: 29).

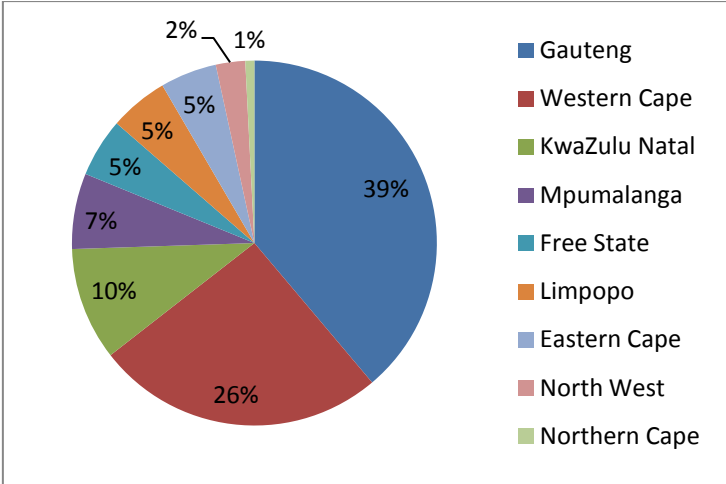
3.2.6. Provincial Distribution of Tourism

Data on the distribution of bed nights spent by foreign tourists in the different provinces in 2011 showed a great dominance of the two provinces Gauteng and Western Cape. Gauteng accounted for 38.8% of total bednights of foreign tourists (66,153,429), while the Western Cape made up 25.6% of total bednights. Together they amount to 64.4% of total bednights spent in South Africa by foreign tourists. The share of Kwazulu Natal, Mpumalanga, Limpopo, Free State and Eastern Cape was between 10% and 5%, whereas North West and Northern Cape only account for 2.7% and 0.8% respectively.

²⁸ TIR is the proportion of an industry's output that is consumed by tourists. For derivation of TIR see Statistics South Africa (2012): 24

In the Western Cape foreign tourist from air markets accounted for most of the bednights (86.7%), while in Gauteng the distribution of bednights between foreign tourists from land markets and the ones from air markets was almost balanced. Tourists from air markets also account for the majority of bednights in the two provinces Eastern Cape, accounting for 90% of bednights and KwaZulu Natal (58%). In all other provinces the number of bednights spent by foreign tourists from land markets was higher or equal to the number of bednights spent by foreign tourists from air markets.

Figure 10: Share of Bednights – Provincial Distribution 2011



Data Source: South African Tourism Strategic Research Unit 2012: 55

Table 3: Share of Bednights - Provincial Distribution and Market Type 2011

| | Gauteng | Western Cape | Eastern Cape | KwaZulu Natal | Mpumalanga | Limpopo | North West | Northern Cape | Free state |
|---------------------|--------------|--------------|--------------|---------------|-------------|-------------|-------------|---------------|-------------|
| Land Markets | 20.9% | 3.4% | 0.5% | 4.2% | 4.0% | 3.5% | 1.9% | 0.4% | 4.5% |
| Air Markets | 17.9% | 22.2% | 4.5% | 5.8% | 2.7% | 1.7% | 0.8% | 0.4% | 0.7% |
| Total | 38.8% | 25.6% | 5.0% | 10.0% | 6.7% | 5.2% | 2.7% | 0.8% | 5.2% |

Data Source: South African Tourism Strategic Research Unit 2012: 55

The total foreign direct spend (excluding capital expenditure) of ZAR 71 billion (approx. € 6.8 billion) is distribution according to the share of bednights. Therefore Gauteng and Western Cape together captured 64.4% of foreign tourism receipts (ZAR 45.7 billion/approx. € 4.4 billion) in 2011, followed by KwaZulu Natal (ZAR 7.1 billion/approx. € 0.68 billion), Mpumalanga (ZAR 4.7 billion/approx. € 0.45 billion), and Limpopo and Free State with ZAR 3.7 billion (approx. € 0.35 billion) each. With ZAR 0.6 billion (approx. € 0.06 billion) the province Northern Cape captured least of tourism revenue (South African Tourism Strategic Research Unit 2012: 56).

The dominance of Gauteng and the Western Cape is explained by the fact that six of South Africa’s top 10 attractions are situated in the Western Cape and Gauteng (Cape Town & Cape

Peninsula, the Winelands, the Garden Route, Robben Island, Johannesburg, Soweto). The provinces Limpopo and Mpumalanga share another main attraction, namely the Kruger National Park, whereas in the latter another top attraction is situated, the Blyde River Nature Reserve. The main attractions of the Eastern Cape are the Garden Route that extends beyond the Western Cape into the province and the Wilde Coast. KwaZulu Natal with Durban and its beach front offers the last of the top 10 attractions. The three provinces with less than one percent of tourists from air markets do not accommodate any of the main attractions. Whereas the Northern Cape and North West Province offer similar products like the other provinces (wildlife, nature, heritage sites), Free State tries to attract tourists with its sandstone mountains, the world's oldest meteorite impact site and ancient San rock art (SAT official website: Best of South Africa, 23.03.2013 ; SAT official website: Where to go, 23.03.2013).

3.3. External Stakeholders

Various actors external to a GVC affect its shaping. In tourism value chains these include the national stakeholders of the destination country as well as of the source country, but also, and in tourism as global economy per se, especially international organizations.

Since the present paper has its focus on South Africa as a destination country and is not limited to a single source country, the following chapter is constrained to characterize the main South African and international institutions associated with tourism.

3.3.1. The South African Government

Tourism was not a major issue for the government until the end of apartheid, as the short historical overview shows. This changed when the new government identified the sector as strategically important for implementing its Reconstruction and Development Program (RDP)²⁹. The potential of tourism to stimulate growth and revive other sectors of the economy and the positive effects associated with such a development (e.g. the creation of jobs and new entrepreneurial opportunities, the need of a multiplicity of skills, the development of rural areas) met the key programme of the RDP, namely meeting basic needs, developing human resources, building the economy and democratizing the state and society (Department of Environmental Affairs and Tourism 1996: 17ff; Government Gazette 1994: 9). This new orientation led not only to the development of a new policy framework for tourism - the national *White Paper on the Development and Promotion of Tourism in South Africa* - which will be outlined in section 3.4.1.1., but also to the implementation of

²⁹ The RDP is a social-economic policy framework with the aim to finally eradicate apartheid and to build a democratic state. For more information see Government Gazette (1994): White Paper on Reconstruction and Development.

various governmental institutions. The latest development in this respect was the establishment of an autonomous tourism department, the *National Department of Tourism* (NDT) in 2009 (Department of Environmental Affairs and Tourism 1996: 44). The tasks of this department are the provision of policy advices, the regulation and development of the sector and the administration and monitoring of government's investment in tourism programmes. It also manages the core tourism data set and its distribution. The NDT therefore is the highest state authority when it comes to tourism development. There are also provincial tourism departments which are responsible for the mediation between national tourism bodies and local governments and tourism operators as well as for the promotion of their provinces. Also, local authorities are integrated in the development of tourism by managing assets such as public land and by providing important infrastructure. Despite the fact that there are institutions on different federal levels that take part in tourism development, it is still mainly a national sphere, where provincial governments have limited autonomy and legislative capacities (Department of Tourism 2011: 50; Cornelissen 2005: 44).

Other important institutions on the national level apart from the NDT are

- The *South African Tourism* (SAT), a statutory body that is responsible for the international marketing and brand management of South Africa.
- The *Culture, Art, Tourism, Hospitality and Sport Education and Training Authority* (Cathsseta), responsible for training and skills development in the tourism and hospitality sector.
- The *Tourism Grading Council of South Africa* (TGCSA), the organisation responsible for quality assurance for and the grading of tourism products respectively.
- The *Tourism Enterprise Partnership* (TEP), a former job creation programme and now a public-private partnership institution that supports small tourism businesses through products and services with the aim to improve product quality, operational efficiency and market reach.

3.3.2. Private Sector Associations

The tourism industry of South Africa is organised through various associations and organizations that represent the interests of their members vis-à-vis the government and other stakeholders and provide them with different services. Three core industries of tourism, the aviation, the accommodation, and the travel agent industry are, inter alia, organized through the following associations:

Tourism Business Council of South Africa (TBCSA): The TBCSA is the official umbrella organisation for the tourism private sector in South Africa. It interacts with government departments and institutions as well as with NGOs and international institutions like the WTO and the WTTC. The aim is to lobby and positively influence government policies and decisions in the interest of the

tourism and travel sector. Not only hotel and car rental chains but also organisations like the FTTSA and all the associations mentioned in this section are members of the TBCSA (TBCSA official website: About TBCSA, 03.04.2013).

Federated Hospitality Association of Southern Africa (FEDHASA): FEDHASA is a trade and employers' association for the South African hospitality industry and represents its members³⁰ on most of the recognised public and private sector economic, business and environmental forums. The association's aim is to provide a unifying voice for the hospitality industry to enhance and promote its development and growth (FEDHASA official website, 17.03.2012).

Southern African Tourism Service Association (SATSA): This association represent various tourism providers, destination management companies, tour operators and transport providers of Southern Africa. The association not only does lobbying work but also provides their members with a logo that guarantees customers a certain quality (SATSA official website: Why SATSA?, 03.04.2013).

South African Youth Travel Confederation (SAYTC): In 1998 the youth tourism sector formed its first association for cooperative marketing. In 2007 this organisation expanded its scope of activities and now does not only have the objective to market South Africa as a preferred youth tourism destination but also to establish a professional youth tourism industry based upon guidelines and accreditations. Apart from marketing work the association provides statistics and information related to youth tourism and represents its members in government, regional, national and international bodies like TBCSA or FEDHASA (SAYTC official website: About SAYTC; Become a Member, 03.04.2012)

Association of South African Travel Agents (ASATA): The association represents 85% of South African retail travel agents, travel management companies and wholesalers in policy, planning, operational and regulatory issues concerning the travel industry and interfaces with key opinion leaders in the industry and senior government officials. Furthermore it has established its own Constitution and a Code of Conduct that self-regulates the travel industry and provides the consumer with a benchmark that confirms that a business operates in line with certain standards (ASATA official website: About ASATA, 26.03.2013).

Airlines Association of Southern Africa (AASA): Currently seventeen airlines from South Africa and other SADC countries are members of this association. Its main tasks are to lead and coordinate the airline industry position in response to specific aviation-related initiatives,

³⁰ hotels, restaurants, conference centres, caterers, self-catering accommodation, home hosting establishments (B&B's and guest houses), clubs, taverns, shebeens, suppliers and trainers, consultants and service providers to the hospitality industry

including policy, planning, operational, regulatory and financial matters affecting the bottom line of the airlines (AASA official website: AASA Profile).

3.3.3. NGOs

Tourism affects many different spheres and therefore, NGOs that consider aspects of tourism range from environmental and social to cultural organizations, associations, programmes and initiatives. This circumstance is reflected when looking at NGOs on the global level that participate in the discussion of tourism and development, inter alia *Conservation International*, *World Wide Fund for Nature (WWF)*, *Forum for the Future* and *Public Citizen*. NGOs that are explicitly committed to tourism are for example *Tourism Concern*, a UK charity campaigning for just and responsible tourism, *Tourism Watch*, an information service that provides reports and information about new literature and congresses on tourism in the Majority World, or the *Acción por un Turismo Responsable*, a legal personality that supervises a platform for the reflexion on the debate on tourism and development (cf. Hoad 2003; Planeta Wiki official website, 06.12.2012; Cleverdon/Kalisch 2000).

On the national level FTTSA can be named as an NGO that deals with tourism. Furthermore, it can be assumed that the work of various other South African NGOs affects the realm of tourism. However, it is hard to estimate their number³¹ as they are registered by their legal status and in accordance with the International *Classification of Nonprofit Organisations (ICNPO)* rather than by economic sectors (cf. Department of Social Development 2011).

3.3.4. World Trade Organization (WTO)

The WTO is an organization for trade opening, a forum for governments to negotiate trade agreements and sort out trade problems with each other, as well as an institution that implements and monitors a system of trade rules that can be legally claimed by members (WTO official website: Who we are, 06.12.2012). WTO agreements have affected the development of many economic sectors significantly. In the context of tourism especially the *General Agreement on Trade in Services (GATS)* is of importance. Its key principles and their possible effect on tourism development are outlined in section 3.4.2.3.

³¹ In 2011 the South African government registered a total of 76 175 non-profit organisations (Department of Social Development 2011: 3).

3.3.5. United Nation World Tourism Organization (UNWTO) & World Travel and Tourism Council (WTTC)

The UNWTO and the WTTC are the leading international organisations in the field of travel and tourism. The UNWTO is part of the United Nations and represents various stakeholders (private sector, educational institutions, tourism associations and local tourism authorities), whereas the WTTC is the forum for the largest travel and tourism companies. Both organisations give priority to the promotion of tourism and to fostering its development.

The UNWTO provides data and information on global tourism, promotes competitive and sustainable tourism policies, fosters tourism training and education and carries out technical assistance projects in over one hundred countries. The aim of the organization is to make tourism a tool for sustainable development, inter alia through promoting tourism as an instrument to achieve the United Nations Millennium Development Goals and by encouraging stakeholders to implement the Global Code of Ethics for Tourism (see 3.4.2.1.) (UNWTO official website: Who we are, 06.12.2012).

The tasks of the WTTC appear to be similar. The organization works to raise awareness of the travel and tourism industry, advocates partnership between private and public sectors and provides research results, information and data on the industry. The strategic priorities are *freedom to travel* (promotes smarter visa and border security policies), *policies for growth* (creation of a competitive business environment) and *tourism for tomorrow* (ensures benefits for consumers, businesses, local people and the environment) (WTTC official website: Our mission; Strategic priorities, 06.12.2012).

Although both organizations consider environmental and social aspects of tourism development in their guidelines they also have a strong focus on growth and liberalization. This range of advocacy often implies a great deal of conflict potential whereby the UNWTO and WTTC often present and support a rather liberal perspective in comparison with other stakeholders. This can be demonstrated for example in their moderate position towards the GATS (cf. Hoad 2003: 217f).

3.3.6. The Global Partnership for Sustainable Tourism (GPST)

The GPST is a new initiative launched in 2011 with the aim of forcing sustainable principles into the mainstream of tourism development, policies and operations. Currently, it has 83 members that comprise UN organizations, national governments, business associations, companies and NGOs. The GPST's mission is to develop partnership between the different tourism stakeholders by coordinating and encouraging cooperation, facilitating access to information, and establishing and implementing multi-stakeholder projects to foster sustainable tourism development globally. The seven priority themes are *support of effective policy framework and good governance, climate change adaptation and mitigation, protection of the environment and biodiversity, promotion of sustainable tourism to*

alleviate poverty, preservation of cultural and natural heritage, adoption of sustainable management practices by the private sector, and integration of sustainability factors into financing and investment decisions.

3.4. Policy Framework of GVCs in Tourism

In order to get an understanding of how these various external stakeholders can affect the GVC of tourism, the next section outlines important policy guidelines and agreements that some of the institutions presented above have resolved for the tourism sector. On the national level South Africa's overall policy framework for tourism, the *White Paper on the Development and Promotion of Tourism in South Africa*, as well as a more recent initiative which affects the operation of businesses, the *Broad-Based Black Economic Empowerment Charter (B-BBEE)*, will be presented. On the international level agreements concluded by the largest institutions namely the UNWTO, the WTTC and the WTO, will be outlined.

3.4.1. National Level

3.4.1.1. White Paper on the Development and Promotion of Tourism in South Africa

The centrepiece of South Africans tourism policy is the *White Paper on the Development and Promotion of Tourism in South Africa*, developed in 1996. The White Paper originated from a participative process which involved representatives from the business sector, labour movements, provincial governments, community organisations and the national government. Countrywide workshops were held, experts were interviewed, local consultants were appointed and written submissions were received and reviewed. The concept that met the concerns of the different stakeholders best was responsible tourism. Key elements of responsible tourism, as listed in the *White Paper* (Department of Environmental Affairs and Tourism 1996: 22), are:

- Avoid waste and over-consumption
- Use local resources sustainably
- Maintain and encourage natural, economic, social and cultural diversity
- Be sensitive to the host culture
- Involve the local community in planning and decision-making
- Assess environmental, social and economic impacts as a prerequisite for developing tourism
- Ensure that communities are involved in and benefit from tourism
- Market tourism that is responsible, respecting local, natural and cultural environments
- Monitor impacts of tourism and ensure open disclosure of information

Also mentioned in the White Paper are market opportunities that have been expected to accompany the implementation of responsible tourism. The concept has met the demand of international markets for environmentally and socially sound holidays and since it was a relatively new concept at that time, the idea has been that South Africa could not only be leader in this new market segment but also would be able to define global best practice. Last but not least a great potential has been seen in the inclusive character of the approach that demands the cooperation of various stakeholders, e.g. government, private sector, NGOs, previously neglected local communities, consumers, the media and employees.

To enable the implementation of responsible tourism in South Africa the *White Paper* identifies fourteen areas where policies and actions have to be taken:

Safety and security have to be improved e.g. by undertaking strategies for reducing crime and violence on tourists, providing information to visitors about this issue and devoting adequate resources for the safety of tourists.

Provide tourism **education and training** e.g. by promoting the involvement of the private sector in the provision of education and training, making training more accessible through introductory/bridging courses and scholarships, developing and investing in an education system and encouraging local media and NGOs to become partner in the tourism education and awareness process.

Financing tourism should be improved e.g. by reviewing the government's financial contribution to tourism, considering a large initial capital injection to start a major tourism development, broadening the tourism funding base and facilitating access to RDP and donor funds for the tourism industry.

Investment incentives and casino licenses should be reviewed and modified e.g. by allocating incentives on the basis of a venture's commitment to responsible tourism criteria like the nature and extent of its investment in rural areas, in education and training and in community projects.

Foreign Investment should be encouraged, but not in small micro-enterprises or the ancillary services sector because they are in reach of the local entrepreneurs and businesses. The aim should be to attract foreign investors and companies that support the responsible tourism agenda, e.g. by investing in rural areas and communities, developing products that diversify the tourism product and promoting the transfer of skills and technology to locals.

Policy guidelines for **environmental management** are e.g. the promotion of sustainable and responsible tourism development, inter alia by offering incentives to private enterprises and communities, by making an Integrated Environmental Management mandatory for all new tourism projects, by ensuring that communities neighbouring conservation areas participate in and benefit from economic activities generated from these areas or the promotion of sustainable

and responsible use of resources like water and energy, and of waste management in tourism plants.

Policies for **cultural resource management** should consider e.g. effective protection and sustainable utilisation of cultural resources, and ensure that tourism takes note of cultural heritage resources within communities/environments as well as that the access to management of cultural resources is as broad as possible within specific communities.

Policies concerning **product development** should, inter alia, emphasise the diversity of South Africa, ensure that local peoples and cultures are not over-commercialised or exploited, foster the development of community-based tourism, emphasise the development of products with good potential for development, such as cruise tourism or ecotourism, and encourage the sustainable development of underdeveloped, environmentally sensitive areas.

Concerning the **transportation** industry policy guidelines for air transport are e.g. the liberalisation of the airline industry and the building of strategic alliances. Policies for ground transportation should consider e.g. training of transport operators to enhance their services, the improvement of standards and controls among all transportation forms and expanding the range and accessibility of different transportation options to visitors.

Infrastructure is another important aspect of tourism development. Policy guidelines in this area comprise, inter alia, the improvement of the accessibility of existing infrastructure, especially in respect of rural areas, the excessive use of modern technology/means of communication for marketing, promoting and distributing tourism products, and the consideration of negative environmental effects when it comes to bulk infrastructure for tourism, especially in environmentally sensitive areas.

Marketing and promotion policy guidelines are, inter alia, to promote domestic tourism as well as new and emerging products and attractions, to allocate more resources in the marketing and promotion of South African tourism products in overseas countries because these tourists spend most per capita, and to develop new markets and exploit niche markets.

Policy guidelines for **product quality and standards** should include, inter alia, the promotion and development of tourism standards in a consultative manner, the introduction of standards to all tourism activities, not only to the accommodation sector, the warranty that standards do not turn out to be barriers to entry for previously neglected groups, and the encouragement to upgrade standards of service.

Regional cooperation with the *Southern African Development Community (SADC)*, the *Regional Tourism Organization of Southern Africa (RETOSA)* and bi-lateral relation with neighbouring countries is another area for which new policy guidelines are suggested in the White Paper. Cooperation should be encouraged, inter alia, when it comes to environmental conservation and

the development of related products (trans-border protected areas), to international marketing or regional tourism health information and programmes.

Youth development is also named as crucial for the development of tourism. Suggestions for enhancing youth development include the establishment of special initiatives and programmes for the youth, such as the development and encouragement of a youth travel market e.g. through price reductions for young people, the creation of summer jobs in the tourism industry, the expansion of education and training opportunities, and the provision of career guidance on the part of the industry (Department of Environmental Affairs and Tourism 1996: 24ff).

Since 1996 some progress has been made in the implementation of the *White Paper*. Its recommendation to found a separate ministry of tourism, for example, was finely fulfilled with the establishment of NDT. One of the first tasks of the NDT was the development of the *National Tourism Sector Strategy*, published in 2011, that further specifies the implementation of the *White Paper* and the *Tourism Act 1993* (cf. Department of Tourism: 2011). Another indication that the *White Paper* is not merely an 'empty promise' was the development of a *Responsible Tourism Manual* in 2002, which provides information and suggests practical and cost-effective actions for tourism business to implement responsible business activities (cf. Department of Environmental Affairs and Tourism: 2002). Also, the recent initiative to improve the position of formerly disadvantaged people in the South African economy (including the tourism sector) – the *Broad-Based Black Economic Empowerment Charter (B-BBEE)* - can be seen as an instrument for putting the guidelines of the *White Paper* into practice (cf. Department of Environmental Affairs and Tourism: 2010). As the *B-BBEE Charta* starts to affect businesses more and more its basic principals will be outlined in short in the next section.

3.4.1.2. Broad-Based Black Economic Empowerment Charter (B-BBEE)

In 2003 the government adopted the B-BBEE Act No. 53, which aims to redress the inequalities of the past in the economic sphere by enhancing the economic participation of black people in the South African economy. The Act provides a legislative framework for the promotion of black economic empowerment (BEE), whereas the *B-BBEE Codes of Good Practice* provides the implementation framework. To monitor the implementation of the B-BBEE codes, scorecards have been developed for the different economic sectors, including the tourism industry. The tourism scorecard includes the elements ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development and industry specific. In all these areas a certain percentage of black people involvement has to be achieved (Department of Trade and Industry official website: Broad-Based Black Economic Empowerment, 05.04.2013; Government Gazette 2009: 5ff).

3.4.2. International Level

South Africa, as a member of various international organizations, is bound to numerous international agreements. Although, most of the agreements are not legally enforceable, except for the *General Agreement on Trade in Services* (GATS), they represent a general commitment and guidelines to a certain way of tourism development.

3.4.2.1. The Global Code of Ethics for Tourism

In 1999 the members of the UNWTO agreed on a set of principles that were outlined in the *Global Code of Ethics for Tourism*. This code intends to set a frame of reference for the development of a globally responsible and sustainable tourism, and outlines the rights and obligations of destinations, governments, tour operators, travel agencies tourism planners, workers of the tourism sector and the tourist himself. It comprises, inter alia, the demand for

- tolerance and respect towards religious, philosophical and moral beliefs, the diversity of cultures and social tradition by all participants involved
- compliance with human rights (e.g. non-discrimination, right of movement, no exploitation of human beings)
- protection and preservation of natural and cultural heritage, and the environment in general (e.g. saving precious resources, using tourism revenues for protection and preservation measures)
- participation of the local population in tourism activities and its economic, social and cultural benefits
- implementing measures by governments and tourism professionals to protect tourists as well as to provide access to the relevant information and infrastructure
- guarantee fundamental rights of salaried and self-employed workers

In 2004 *the World Committee on Tourism Ethics* was established. The Committee promotes and disseminates the *Global Code of Ethics in Tourism*, evaluates and monitors its implementation and conciliates for the settlement of differences concerning its application or interpretation (UNWTO 1999; World Committee on Tourism Ethics official website, 29.11.2012).

3.4.2.2. Agenda 21 for the Travel and Tourism Industry

The action programme *Agenda 21*, adopted by 182 governments at the *United Nations Conference on Environment and Development* (UNCED) in 1992, provides a general blueprint for transition to more sustainable development practices and is the basis on which the three international organizations WTTC, UNWTO and the Earth Council have launched the tourism-specific

action framework *Agenda 21 for the Travel & Tourism Industry: Towards Environmentally Sustainable Development*.

This document on the one hand provides recommendations for travel and tourism companies to bring about sustainable development, and on the other hand shows government departments how to facilitate this process. Concerning the government and its institutions such recommendations are, for instance, to specify actions that the industry can take to bring about sustainable development, to identify ways of facilitating this process and to assess the current regulations and policies on behalf of their contribution to sustainable development. Travel and tourism companies on the other hand, are requested to incorporate sustainable development as part of the core management functions and to identify necessary steps to realise such a development. Especially environmental concerns are taken into account, including waste minimization, energy conservation and management, as well as fresh and waste water management (UNWTO 1996).

3.4.2.3. General Agreement on Trade in Services (GATS)

The GATS is the first legally enforceable, multilateral agreement covering trade and investment in services. Through ongoing negotiations that have been resulting in commitments between states, service sectors including tourism progressively liberalise with the effect of facilitating foreign direct investment in destination countries and transport.

The consequences of trade liberalisation are a continual subject of discussion. This is also the case when it comes to estimating the effect of the GATS on tourism development. There are two divergent positions in this debate. On the one hand it is argued that liberalization leads to an expansion of trade in services and thus increases revenues, spending, employment and foster technology transfers as well as new investments. On the other hand liberalization just as well might lead to an increase of economic leakages, to an undermining of human and environmental protection measures and a reduction of local control over resources (Bendell/Font 2003; Hoard 2003, Kalisch 17. November 2000).

In its current form GATS raises significant problems for sustainable tourism development and sustainability in general as the analysis of the key legal principles of GATS demonstrates:

- **Market access** (Article XVI.1) prohibits discrimination against foreign service providers and the use of restrictive quotas and limitations. This provision is challenging as qualitative and quantitative restrictions are a common instrument used by governments and local communities to safeguard sustainable development. Restrictions of the number of diving boats on coral reefs, limitations of tourist numbers for vulnerable ecosystems or subsidies and concessions for environmentally friendly firms can be viewed as violating market access rules. Qualitative restrictions like licensing and qualification standards are weakened further by Article VI of the GATS, which demands the avoidance of 'unnecessary' strictures in

licensing arrangements. Environmental and other sustainable tourism standards that are implemented through certification, codes of conduct and licensing procedures are not explicitly considered 'necessary' in the current formulation of Article VI and therefore may fall foul of trade discrimination rules (Bendell/Font 2004:146f; Hoad 2003: 221f).

- **Most-favoured nation treatment** (Article XVI.1) states that member countries have to give the most favourable treatment to any of their trading partners from the WTO and therefore cannot distinguish between countries on the basis of their environmental record or their commitment to human rights and labour standards.
- **National treatment** (Article XVII.1) obliges member countries to treat every service supplier the same way. Thus, preferential treatment for local communities is not allowed and common investment requirements on foreign firms to establish joint ventures, to employ and train local people or to use local commodities are inadmissible. Furthermore, this provision opens up local tourism markets for foreign suppliers which might undermine and destroy local development efforts. The national treatment rule therefore may threaten an integral aspect of sustainable tourism, namely the participation and empowerment of local people. Initiatives to support local entrepreneurship e.g. by awarding only local people with restaurant and taxi concessions, a policy established by authorities of the Indian district Goa, conflict with this Article (Bendell/Font 2004:147; Hoad 2003: 222f).
- The **general exceptions** article (Article XIV) provides the possibility for exemptions from free trade rules. It covers issues such as maintaining national security, health, protection of human, animal or plant life, or public morals. However, experience with trade disputes under the already implemented *General Agreement on Tariffs and Trade* (GATT) shows a very limited application of these exceptions on environmental protection measures, as panels consistently have ruled against member countries who tried to use Article XIV in this manner (Hoad 2003: 223).

GATS regulations bear potential for conflict with aspects of sustainable tourism. However, due to lack of empirical and longitudinal data, there is as yet no scientific evidence for the actual impact of GATS (Bendell/Font 2004:146ff; Hoad 2003; Perrin 2001; WTO s.d.).

This chapter on the South African tourism industry and its global embedding outlined the outermost framework conditions of the fair trade tourism GVC. It also shows that the political framework establishes a favourable basis for the FTSA initiative and therefore provides the potential for *policy rent* (see 2.1.5.). However, fair trade GVC in tourism is affected by another global framework, namely the fair trade movement, which will be outlined in the next chapter.

4. The Fair Trade Movement

4.1. The Basic Concept

Fair trade³² can be understood as a movement which tries to counteract the negative effects of globalization. Fair trade is not an anti-globalization movement but rather tries to make a change in the way it is performed so far – often ruthless, with high social and ecological costs.

The idea of fair trade is to use market-based instruments to make trade between the different stakeholders of the global market more just, transparent and more considerate. Fair trade labels assure the customer that a certain product is produced under *fair* conditions and sold at a *fair* price and, depending on the label, even assure that the retailers of these products operate according to fair trade principles. Since the actual decision to buy is still up to the customer, fair trade products compete against others on a 'free market' and are subject to the same conditions (import regulations, customs duties ...) (Cremona/Marín Durán 2012: 100; Murray/Raynolds 2007: 4ff).

4.2. Origin and Institutionalization

The first occurrence of fair trade was recorded in the United States in the mid 1940s when religious groups like SERRV International and Self Help Crafts (later Ten Thousand Villages) began to build up fair trade supply chains in some countries of the Majority World. Primarily, the first fair trade products were handicrafts which were sold in churches and at fairs. The first 'fair trade shop' of the USA opened in 1958. In Europe the beginning of fair trade can be traced back to Oxfam UK, which started selling crafts made by Chinese refugees in the late 1950s.

With the emergence of the first importing organizations that were solely dedicated to fair trade, namely SOS Wereldhandel (later Fair Trade Original) in 1959 and the Oxfam Fair-Trade Company, established in 1964/65, fair trade started to expand beyond the charity movement. In the 1970s Fair Trade Original also established subsidiaries in other European countries (e.g. EZA Fairer Handel in Austria, GEPA in Germany).

The foundation for a fair trade distribution network was set with the opening of the first Worldshop in 1969 in the Netherlands. During the 1970s partnerships between importers (Fair Trade Organizations), non profit retailers (World Shops) and small-scale producers in the Majority World

³² The following paragraph contains different spellings of 'fair trade', each of them conveying different meanings. 'Fairtrade' is used to refer to the Fair Trade Labelling Organization International (FLO) product-labelling system, whereas 'Fair Trade' (in two words and with capitals) refers to the World Fair Trade Organization (WFTO) monitoring mechanisms and organizations labelled by the WFTO. When not dealing with one of these systems exclusively, the more general and neutral spelling 'fair trade' is used.

developed. At the same time these producers started to organize themselves by establishing fair trade producer associations/cooperatives.

Parallel to these initiatives in the economic sphere a discourse on fair trade entered the political scene during this period, as demonstrated by the adoption of the 'Trade not Aid' approach by the second UNCTAD in 1968. This approach emphasized the need to establish equitable trade relations between North and South if a more equal distribution of benefits of global trade is to be achieved.

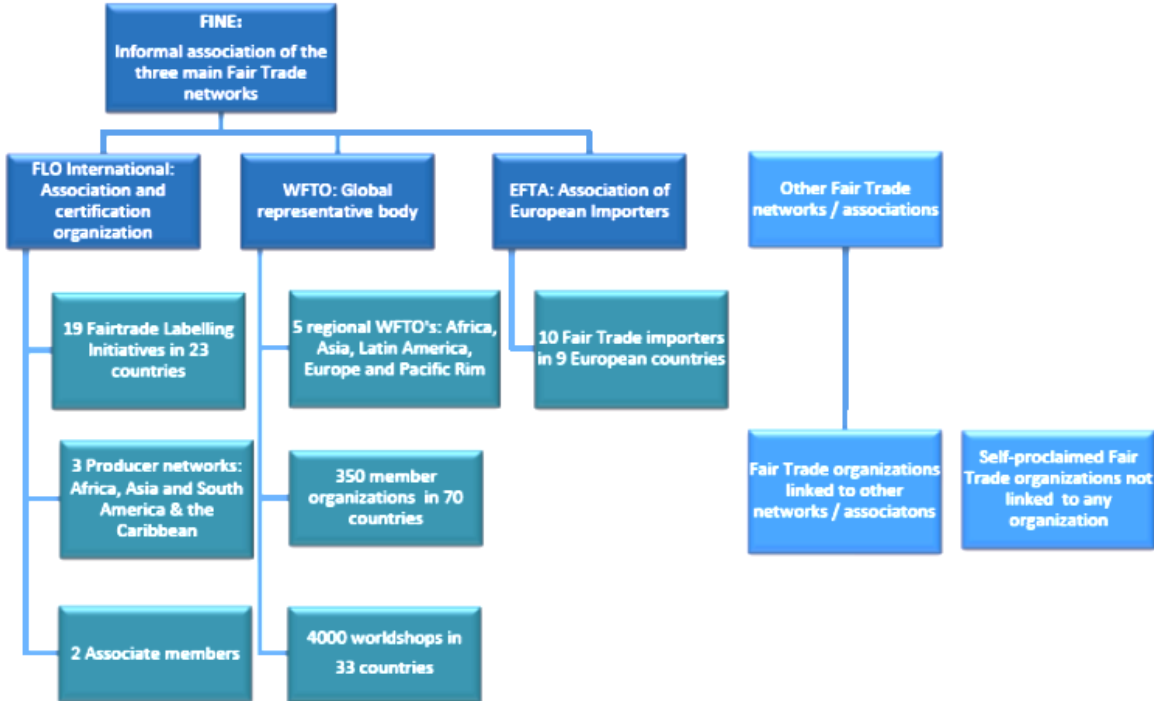
Gradually the contact between the different fair trade organizations became more frequent as they increasingly started to source products from the same producer cooperatives as well as from each other. In 1989 the cooperation between these organizations was formalized with the creation of the *International Federation for Alternative Trade (IFAT)*, which today is known as *World Fair Trade Organization (WFTO)*.

In the years that followed the fair trade movement changed fundamentally in respect of structure and reach. The fall of agricultural prices and its impact on poor producers in the Majority World as well as the declining demand for fair trade handicrafts led to a shift in the activity of fair trade organizations from handicraft to agricultural products. This started with the creation of the Max Havelaar³³ label for coffee in 1988. Labelling fair trade products made it possible to use new distribution channels such as supermarkets and other commercial outlets, while guaranteeing the customer that the products met certain fair trade standards. The successful implementation of the Max Havelaar label has led to other national labelling initiatives in Europe and North America (e.g. Max Havelaar in Belgium and France in 1992, the Fairtrade Foundation in the UK in 1992, and TransFair in Germany (1992). These initiatives worked independently with own certification programmes and labels until 1997, when the *Fair Trade Labelling Organization International (FLO)* was founded to harmonize product certification across countries and thereby facilitate trade (Cremona/Marín Durán 2012: 97ff; Boonman et al. 2011: 14; WFTO official website: Sixty years of Fair Trade, 21.11.2012).

³³ The name is a contribution to Eduard Douwes Dekkers' book 'Max Havelaar: Or the Coffee House of the Dutch Trading Society' in which he criticized colonial politics.

Today the fair trade movement comprises various associations, networks, cooperatives and lobbying organizations. A schematic overview of the biggest organizations is provided by the following figure:

Figure 11: Overview of Fair Trade Organizations



Source: Boonman et al.: 24

The two main **Associations of fair trade** are the **FLO** and the *European Fair Trade Association (EFTA)*.

The main tasks of the **FLO** are the setting of international Fairtrade Standards, Fairtrade inspections and certification, supporting Fairtrade certified producers, coordinating a global Fairtrade strategy and advocating Fairtrade. The organization comprises 19 labelling initiatives that operate in 24 countries, three marketing organizations, one associate member and the three producer networks, *Fairtrade Africa*, *Coordinator of Fairtrade Latin America and the Caribbean (CLAC)*, and the *Network of Asian Producers (NAP)*. All Fairtrade labelling initiatives, the producer networks as well as the two associate members, Fairtrade Label South Africa and Comercio Justo México, participate in the FLO’s decision-making through the *General Assembly* and their respective assemblies, the *Labelling Initiatives Assembly* and the *Producer Network Assemblies* (FLO official website: What we do; how we are run; Members, 19.11.2012; Cremona/Marín Durán 2012: 104).

EFTA was established in 1987 by the largest fair trade importers. Today it comprises 10 importer organizations³⁴ from nine European countries. The tasks of EFTA are to encourage the cooperation and coordination between its members, to facilitate and exchange information and to foster labour division and joint projects (EFTA official website, 21.11.2012).

The largest **fair trade network** is the **WFTO**. This network counts more than 450 members and operates in 75 countries across all world regions. Most of its members are situated in the Majority World and comprise international fair trade organizations as well as grassroots organizations. The network is organized in five regional networks: *Cooperation of Fair Trade in Africa (COFTA)*, *WFTO-Asia*, *WFTO Latin America*, *WFTO-Europe* and *WFTO-Pacific*³⁵. The aim of WFTO is ‘to enable producers to improve their livelihoods as well as their communities by means of Fair Trade’ (Boonman et al. 2011: 31). This should be achieved by facilitating market access through policy, advocacy, campaigning, marketing and monitoring. Whereas the FLO certifies fair trade products, the WFTO has created a label for fair trade organizations to increase their visibility and credibility.

The desire of the fair trade umbrella organizations FLO, WFTO and EFTA to speak with one voice led to the foundation of a joint **lobbying organization** in 2004, the *Fair Trade Advocacy Office (FTAO)*. The tasks of this office are the monitoring of international and European trade and development policies, the securing of a constant dialogue between political decision makers and the fair trade movement, the development of political positions in the field of fair trade and trade justice and the publishing of information material (e.g. newsletters, brochures) (FTAO official website: What we do, 21.12.2012; Cremona/Marín Durán 2012: 101).

Another attempt to improve coordination and cooperation between the different fair trade institutions and businesses was the implementation of the **platform FINE** (standing for the initial letters of the four organizations FLO, IFAT³⁶, NEWS!³⁷ and EFTA) in 1998. This platform is used by its members to work together in areas like advocacy and campaigning issues, standard setting, and monitoring of the progress of fair trade (Boonman et al. 2011: 33; Cremona/Marín Durán 2012: 100). One achievement of FINE was the determination of a definition of fair trade that now is commonly accepted:

“Fair Trade is a trading partnership, based on dialogue, transparency and respect, that 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

³⁴ Claro (Switzerland), CTM altromercato (Italy), EZA Fairer Handel GmbH (Austria), Fair Trade Original (the Netherlands), gepa (Germany), Intermon Oxfam (Spain), Oxfam-Magasins du monde (Belgium), Oxfam-Wereldwinkels (Belgium), Solidar’Monde (France), Traidcraft Plc (UK)

³⁵ Comprising North America and the Pacific Rim.

³⁶ Today known as the WFTO

³⁷ Now part of WFTO Europe

producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.” (WFTO/FLO 2009: 6)

Of all these fair trade institutions the two umbrella organizations FLO and WFTO can be seen as the authorities in the movement that have a great influence on what is understood as fair trade.

4.3. Fair Trade Principles

While specific fair trade standards vary due to different requirements for different types of products and markets³⁸, there are underlying principles that connect all the different approaches. In 2009 the WFTO and the FLO presented *A Charter of Fair Trade Principles* which aims to provide a single international reference point of what fair trade means (WFTO/FLO 2009: 5). The six common principles outlined in the Charter (WFTO/FLO 2009: 7f) are:

Market access for marginalised producers: Fair trade supports producers to realise the social benefits of traditional forms of production for their communities and helps shorten trade chains so that producers receive a greater share of the final selling price.

Sustainable and equitable trading relationships: Transactions on fair trade basis take direct and indirect costs of production into account, including the safeguarding of natural resources and meeting future investment needs. Prices and payments therefore are not just a reflection of current market conditions but are determined by factors like granting sustainable livelihood for workers, environmental well-being, and the possibility of future improvements.

Capacity building & empowerment: Fair trade relationships impart knowledge about market conditions and trends as well as skills and resources to producer organizations and therefore enable them to get more control and influence over their lives.

Consumer awareness raising & advocacy: Fair trade relationships form the basis for connecting producers with consumers and informing consumers of the need for social justice and the opportunities for change. Consumer support provides fair trade organizations with the ability to advocate and campaign for a wider reform of international trading rules to make the global trading system more just and equitable.

Fair Trade as a ‘social contract’: Fair trade is a commitment to implementing long-term trading partnerships based on dialogue, transparency and respect. On the part of the buyer/consumer, the implicit ‘social contract’ between producer and buyer/consumer of fair trade products comprises the payment of fair prices, the provision of pre-financing and support for capacity

³⁸ The fair trade standards for tourism are listed in appendix 8.3. and 8.4.

building. On the part of producers it demands the use of benefits of fair trade to improve the social and economic conditions among the most disadvantaged members of their organization.

Fair trade therefore *'is not charity but a partnership for change and development through trade'* (WFTO/FLO 2009: 8). These underlying principles differentiate fair trade products from others and, with increasing success, provide competitive advantages as the next section will demonstrate.

4.4. Fair Trade Sales Figures

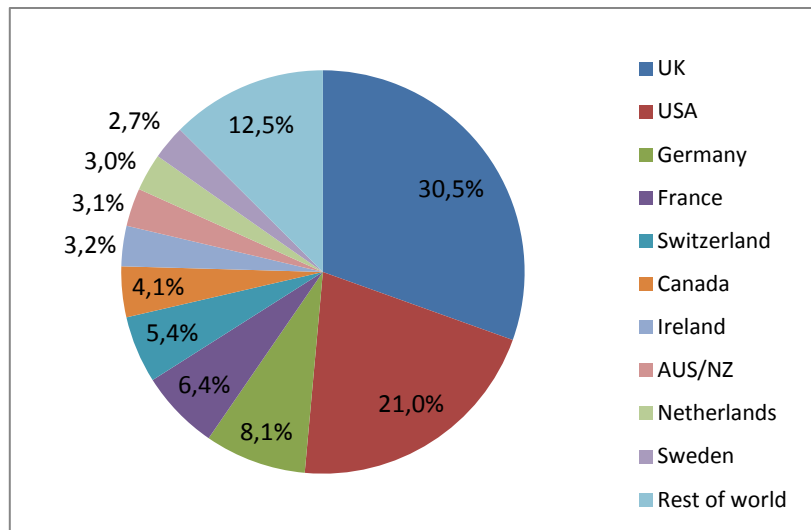
According to the latest *Fair Trade Facts & Figures: Fair Trades* (Boonman et al. 2011) total sales of gifts and living products on producer level was estimated at € 10.3 million for Africa in 2009, total sales in Asia reached € 19.4 million in 2009 and approximately € 4.2 million in 2009 in South America. On the basis of a producer survey WFTO estimates that in Africa more than 19,000 jobs were created due to Fair Trade, with a share of employment for women of 69%. In Asia and South America the estimates are 215,000 and 2,100 jobs, respectively, with a share of employment for women of 41% and 83%, respectively (Boonman et al. 2011:44).

Worldwide sales of Fairtrade food (FLO-certified products) rose from almost € 815 million in 2004 to approximately € 3.4 billion in 2009 due to increased consumer awareness in the North and in the South and the switching of large companies to 100% Fairtrade products (Boonman et al. 2011: 44). According to the annual report 2011-12 of the FLO (FLO 2012) this trend continues. The estimated retail sales³⁹ of products with the Fairtrade label⁴⁰ has risen further up to € 4.9 billion in 2011 and has recorded a growth of 12% compared to the previous year. European and North American countries are still the most important markets for Fairtrade products. The UK and the USA alone account for slightly more than half of Fairtrade retail sales with 30.5% and 21%, respectively. The third largest Fairtrade market is Germany, but with 8.1% lies already clearly behind the other two markets. Germany is followed by France (6.4%), Switzerland (5.4%) and Canada (4.1%), which together accounted for close to a quarter of total retail sales in 2011 (FLO 2012: 12).

³⁹ 'Fairtrade International calculates the total estimated retail sales value based on both out of home sales and retail sales [...] Out of home sales come from products consumed outside of the home; for example in cafés and restaurants. Retail sales come from consumer products bought in stores and supermarkets. In 2010 the following countries calculated their out of home sales value using the average out of home retail price; for example, the average price of a cup of coffee at a café: Canada, Estonia, Finland, FLO, Germany, Ireland, Latvia, Lithuania, Spain and the USA. The following countries calculated their out of home sales value using the average retail price for consumer products bought in stores and supermarkets: Belgium, France, Italy, Japan, Sweden and Switzerland. The rest of the countries do not separate out of home sales from retail sales. Out of home retail prices often have a higher value per volume sold than the retail sale price found on products in stores. Therefore, the countries that use the out of home retail price for their calculation may have relatively higher sales values.' (FLO 2012: 12)

⁴⁰ The Fairtrade product range comprises banana, coffee, cocoa, cotton, flowers, fresh fruit, gold, honey, juices, rice, spices and herbs, sports balls, sugar, tea, wine and composite products like chocolate bars.

Figure 12: Estimate Retail Sales of Fairtrade-Products, 2011

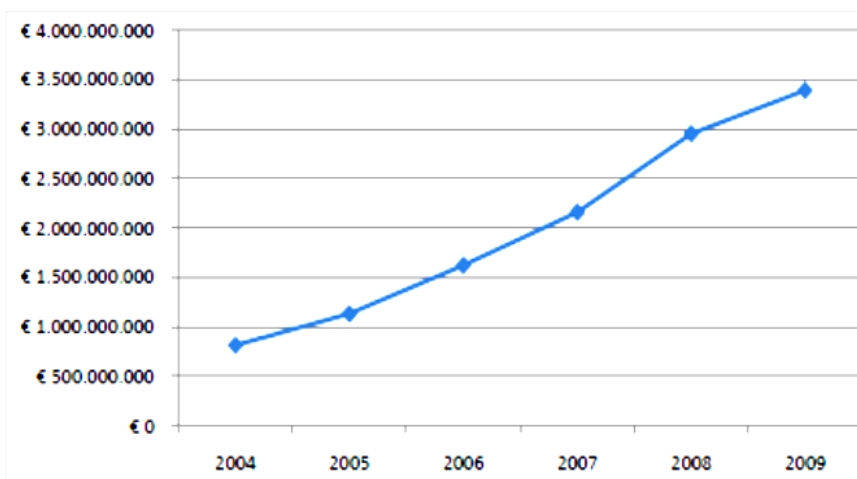


Data Source: FLO 2012: 12

However, an indicator that there is also great potential in markets of other world regions is the development of South Africa's fair trade retail sales. From 2010 to 2011 the country recorded a growth rate of 283% in Fairtrade retail sales, the highest of all countries, continuing its strong growth since 2009 (FLO 2012: 12).

All longitudinal figures of fair trade retail sales show a positive trend although with variation in the steepness of growth but with rarely any decline (Boonman et al. 2011: 23):

Figure 13: Total Value Retail Sales by FLO Members around the World (Euros)



Source: Boonman et al. 2011: 50

Despite these impressive figures one has to take into account that, compared to the volumes that are traded on the world market, fair traded products only account for a fraction of it (Boonman et al. 2011). According to the WTO, world export merchandise reached a total of 18.25 trillion US dollar (current prices) in 2011, of which agricultural products and food made up 3.01 trillion (WTO: Statistic program: total merchandise trade 2011, exports/merchandise trade by commodity, exports,

agricultural products & food). The comparison of this sum with the total retail sales of Fairtrade products⁴¹ of 4.9 billion (FLO 2012: 12), which even considers sales on domestic markets, gives an idea of the market share of fair trade products. Data of national markets support this assumption. In Germany for example, the world's third largest Fairtrade market, the percentages of Fairtrade coffee and Fairtrade bananas, the two most successful products, were only just below 2% in 2011 for coffee and 2,1% for bananas, of the total sales of these products (Fairtrade Germany official website: Absatz Fairtrade-Produkte, 23.11.2012).

4.5. Criticism & Challenges

In order to get a more holistic view on the effects and the limitations of fair trade the next chapter outlines some of the criticism this approach is confronted with. Also, the challenges that come with new developments will be outlined in short.

Fair trade does not help the very poor. Fair trade co-operations are mostly not situated in the poorest countries of the world and, furthermore, the farmers that are part of such co-operations are not part of the poorest social group. Also, entry barriers such as lack of funding or absence of business partners as well as competitive distortion due to fair trade price mechanisms are mentioned to have negative effects on farmers who are not producing fair trade products (mostly the very poor).

Farmers do not always earn more by producing fair trade products. When the production of fair trade products does not meet the expected demand, farmers have to sell the goods under normal market conditions, which can affect up to 80% of their harvest. Furthermore, fair trade only guarantees a minimum price, so that if the global market price lies above this price, the farmers have no financial advantage of fair trade.

Fair trade does not change wrong economic structures and distracts attention from problems. Fair trade production is geared to the export markets, which are mainly industrial countries, and therefore solidifies the dependence on these countries. Furthermore, fair trade principles and standards reflect consumer wishes of western countries rather than the needs of the producers. Fair trade also does not have an effect on the central problem of speculations with food. Getting better sales prices for their products does not help farmers when at the same time the purchase price for their own aliment rises. Another problematic aspect is the fact that fair trade labels help large companies to 'greenwash' their image by awarding certifications for some of their products, while the companies continue to produce others under exploitative conditions.

⁴¹ mostly agricultural and food products

The **overestimation of the positive effects of fair trade and its ethical aspects** is another argument of fair trade critics. These critics demand that it has to be pointed out that the market share of fair trade products is still very low so that its influence on global trade is minute. Further criticisms are that fair trade uses the same market practices as other commercial organizations but 'sells' them as ethical attributes, and that the FLO has spent too much money on advertising/campaigning rather than on providing a good system of inspection, which, according to the critics, is a necessity as the number of reports of abuse is increasing.

(Booth/Whetstone 2007; Boris 2006: 199ff; Griffith (s.d.); Hartmann 2009; Müller 24.2.2012; O'Neill 7.3.2007)

The criticisms can be contradictory, e.g. on the one hand it is argued that fair trade gives some producers competitive advantages over other producers due to higher prices, whereas on the other hand it is criticised that fair trade producers are not earning more than the others and have to sell most of their harvest for regular prices. These contradictions can be partly explained by the different ideological and/or scientific background of the critics, but also by the fact that different product markets function under different conditions and that one criticism does not have to be true for all the different fair trade markets. This work therefore will not discuss the different criticisms in detail but rather pick them up when they seem to be relevant for the case study of Fair Trade in Tourism South Africa.

However, it is important to point out that also within the fair trade movement criticism and debates concerning some of the issues mentioned above exist. Central issues and questions in this discussions are, according to Murray and Reynolds (2007: 9ff), the Co-Directors of the *Center for Fair and Alternative Trade Studies*

The increasing pursuit of large-volume markets and business partnerships: Does working with conventional markets erode the efforts to challenge the unjust and inequitable nature of conventional international trade?; Do the attempts to expand market share overshadow the moral purpose of fair trade?; Can the conventional and the alternative market strategies of fair trade be connected or does one undermine the other?

The integration of large-scale estates or plantations: Can fair trade principles be advanced and maintained when working with small-scale producers as well as with large-scale plantations?; Can large numbers of workers as well as producers benefit individually and collectively from fair trade benefits?; Do commodities from large enterprises push out small-scale producers due to economies of scale?

New movement pressures in both North and South: Can fair trade standards be adapted to different national conditions and therefore allow national fair trade initiatives to develop in the Majority World as well as in the North?

The shifting of consumer base: Can fair trade successfully fuel consumer consciousness in dedicated as well as in mainstream markets?; Will fair trade be reduced over time to just another set of standards or can it maintain its place as a movement for alternative trade, development and consumption?

4.6. Fair Trade in Tourism

The development of a fair trade label for tourism was drawn from the concern of different stakeholders to develop ethical policies for a sector that, especially in countries of the Majority World, has been growing fast, often without appropriate mechanisms in place to counteract the negative impacts of such a development.

One of the established initiatives to develop ethic guidelines in the tourism industry was the joint initiative of the *University of North London, Volunteer Service Overseas (VSO)* and *Tourism Concern*. The initiative examined to what extent fair trade principles, originally developed for agricultural products, apply to trade in tourism. The results of this initiative and those of other researches were presented at the *Achieving Fairly Traded Tourism Conference* in 1999. Following this conference, *Tourism Concern* established a fair trade in tourism network that facilitated and consulted discussions among communities, governments and industry. The aim was to find a workable and realistic definition of fair trade in tourism that reflects the requirements and needs of the different stakeholders and to prepare an action guide on best practice for the tourism sector (Cleverdon/Kalisch 2000: 171ff; Cleverdon 2001: 347). The following definition was the result of this process:

'Fair Trade in Tourism is a key aspect of sustainable tourism. It aims to maximise the benefits from tourism for local destination stakeholders through mutually beneficial and equitable partnerships between national and international tourism stakeholders in the destination. It also supports the right of indigenous host communities, whether involved in tourism or not, to participate as equal stakeholders and beneficiaries in the tourism development process.'

(Tourism Concern official website: Principles and Definitions, 26.11.2012)

Consultations with representatives from southern organizations involved in tourism identified, inter alia, the access to capital, ownership of resources, distribution of benefits, and transparency of tourism operations, including price and working conditions and the control over representation of the destination in tourist-generating countries as problem areas of tourism in the Majority World (Cleverdon/Kalisch 2000: 178). The five main criteria of fair trade in tourism, taking these problems into account, are:

- **Fair trade partnerships between tourism and hospitality investors and local communities** e.g. taking interests of local community stakeholders into account through consultation and

negotiation, transparent and accountable business operations, training and development at the local level, employment of local residents.

- **Fair share of benefits for local stakeholders** e.g. fair prices, fair competition, fair distribution of tourism revenues, use of local products and materials, open and transparent information and education for the consumer as part of the marketing process, respect for cultural assets.
- **Fair trade between tourists and local people** e.g. mutually beneficial exchange between tourists and local people, paying and charging fair market prices.
- **Fair and sustainable use of natural resources** e.g. investment and research in environmental protection, consultation of the local community, adherence to relevant national and international regulations.
- **Fair wages and working conditions:** compliance with international labour standards within the context of the *UN Declarations on Human Rights* - minimum wages, freedom of association, health and safety measures, no child labour, no discrimination.

(Tourism Concern official website: Principles and Definitions, 26.11.2012)

As member of the International Fair Trade in Tourism Network, South Africa has taken the idea of fair trade in tourism one step further. In 2000 a pilot project, enabled by the *International Union for Conservation of Nature* (IUCN), was carried out to test the relevance of fair trade principles in tourism to the South African tourism industry. This two year pilot project finally resulted in the development of a country-specific fair trade certification system and the establishment of the non-profit organization *Fair Trade in Tourism South Africa* (FTTSA), whose task is the implementation, the assessment and the promotion of a fair trade in tourism label (Seif 3. March 2009, 11.04.2013).

5. FTTSA & Upgrading

It is the implementation of and the compliance with the principles and standards of FTTSA and, furthermore, the awarding of its label that not only distinguishes fair trade tourism products from others, but also might offer businesses special *upgrading* chances. To investigate the validity of this assumption, the next section firstly outlines the FTTSA-principles and explains the certification process. Then the label itself and the overall standards of FTTSA will be analysed in context of the various *upgrading* chances (see section 2.1.5.). Each possible *upgrading* chance is outlined theoretically before it is compared to the results of the interviews⁴² and thereby tested for its practical relevance.

5.1. FTTSA-Principles

The FTTSA works on the basis of the following six principles:

- **Fair Share:** All participants involved in a tourism activity should get their fair share of the income, in direct proportion to their contribution to the activity.
- **Democracy:** All participants involved in a tourism activity should have the right and opportunity to participate in decisions that concern them.
- **Respect:** Both host and visitor should have respect for human rights, culture and environment. This includes:
 - Safe working conditions and practices
 - Protection of young workers
 - Promoting gender equality
 - Understanding and tolerance of socio-cultural norms
 - Reducing consumption of water and energy as well as reducing, reusing and recycling waste
 - Conservation of biodiversity and natural resources
 - HIV / Aids awareness
- **Reliability:** The services delivered to tourists should be reliable and consistent. Basic safety and security for both host and visitor should be ensured.
- **Transparency:** Tourism businesses should establish mechanisms of accountability. This includes:
 - Ownership of tourism businesses must be clearly defined

⁴² The interviewed businesses and their main characteristics are listed in appendix 8.1.

- Employees and other participants should be able to access information that concerns them
- Sharing of profits, benefits and losses must be transparent
- **Sustainability:** The tourism businesses should strive to be sustainable.

This includes:

- Increased knowledge through capacity building
- Improved use of available resources through networking and partnerships
- Economic viability through responsible use of resources
- Reduction of leakage through local purchasing and employment
- Support of historically disadvantaged entrepreneurs

(FTTSA official website: FTTSA Principles, 09.04.2013)

These principles are put into practice through a comprehensive set of standards which applying businesses have to meet in order to get the FTTSA-label⁴³.

5.2. The Certification Process

The certification process to get the FTTSA-label comprises three stages:

Application: Applicants first have to submit an online application that consists of a preliminary test where 9 general questions have to be answered, for example: Does your business meet the definition of a tourism product?; Do all of your employees have a written contract of employment?; Has your business been in operation for at least one year?; The application can be pursued even if a business cannot answer all of the questions with a 'yes'. However, the applicant gets informed that this might hamper the success in getting through the full self-assessment phase that follows the preliminary test. The self-assessment consists of nine sets of questions considering the following issues:

- *Business:* questions concerning business activities and characteristics e.g. size, number of employees, capacity and pricing.
- *People:* questions about employment contracts and insurances, special remunerations, characteristics of staff (how many employees are female and/or black?).
- *Workplace:* questions about business policies concerning remuneration, recruitment, tipping, HIV/Aids and questions about overall plans and management systems in respect to transparency, environment, human resource development and quality standards.

⁴³ An exhaustive list of the FTTSA-standards is provided in appendix 8.3.

- *Legal*: questions about licensing and the possession of relevant permits and registrations e.g. liquor license, TV license, registration with the *Unemployment Insurance Fund (UIF)* or the *South African Revenue Services (SARS)*
- *Procurement*: questions about e.g. procurement policies, the origin of commodities, characteristics of suppliers
- *Guests*: questions about feedback system for guests, provision of information about things such as safety and health measures, environmental impacts, code of behaviour
- *Environment*: questions about environmental protection measures, e.g. recycling, energy and water saving measures, environment awareness raising initiatives
- *Community*: questions about supporting measures for the local community, e.g. support of community projects, donation initiatives, assisting entrepreneurs from the local area
- *Network*: questions about the affiliation with tourism organisations and programmes, e.g. the SATSA or *Backpacking South Africa (BSA now SAYTC)*, and the networking with other tourism business

(FTTSA official website: How it works; Preliminary test, 09.04.2013)

The full online application is reviewed by an independent certification panel⁴⁴. After the panel has approved the online application the next step in the certification process, the site assessment, takes place.

Assessment: An FTTSA-assessor or, in case of a conflict of interests, an external consultant visits the business and conducts an on-site evaluation to supplement and verify application information. An assessment normally lasts between 2 and 5 days, depending on the complexity and size of the business.

Adjudication: The report of the site assessment is again reviewed by the independent certification panel and a written feedback is provided. If the application is successful, the business has to submit an improvement action plan after 12 months and undergoes a re-assessment after 24 months. If the assessment fails, the applicant has to wait for 6 months before it can re-apply (FTTSA official website: How it works, 09.04.2013).

The costs of the FTTSA certification comprise, related to the site assessment, a daily assessor fee (ZAR 2,750 / approx. € 235⁴⁵) and 70% of the travel costs of the assessor (30% are paid by FTTSA). If there is more than one assessment conducted in the same area the costs may be reduced. Furthermore, if successfully certified, businesses have to pay an annual user fee that is calculated

⁴⁴ At the time of this research the certification panel is comprised of Lee-Anne Bac (Director, Grant Thornton), Bernie Meyer (Director – Tourism Unit, the dti), Chris Patton (Product Manager, SANParks), Katarina Mancama (Marketing Manager, FTTSA) and Hanneli Slabber (Country Manager, India – South African Tourism (SAT)).

⁴⁵ Amount in Euro is calculated on the basis of the exchange rate of 11/04/2013

either according to the number of staff employed, or on a sliding scale linked to rates and capacity⁴⁶. The greater of these two figures constitutes the annual user fee (FTTSA 2011: 1f).

5.3. Fair Trade in Tourism Labels

Since the market launch of the first Fair Trade Travel package (FTT-package) in 2010 two labels for fair trade in tourism have existed. The first marks individual tourism business and activities that have been certified against FTSA-standards and guarantees that the product is operated responsibly⁴⁷. The second label was invented to mark travel packages and therefore assures customers that all companies involved are FTSA-certified or FTT approved⁴⁸ (FTTSA 2010a).

Figure 14: Fair Trade in Tourism Labels

| <p style="text-align: center;">FTTSA-label (individual tourism products)</p> | <p style="text-align: center;">FTT-label (travel packages)</p> |
|---|---|
|  |  |

Source: FTTSA (2010a)

5.4. The theoretical *Upgrading* Chances of FTSA-Standards and their Relevance in Practice

5.4.1. The ‘Brand’ Fair Trade⁴⁹

5.4.1.1. Theory

As more and more labels started to emerge on markets, it has become increasingly difficult for consumers to connect them with certain characteristics and to differentiate between them. Thus, the influence of labels on purchase decisions and their marketing effect, respectively, have started to diminish (Lund-Durlacher 2007: 146f).

⁴⁶ An overview of the calculation schemes is provided in appendix 8.5.

⁴⁷ The certification process described above and this work in general focus on the label for individual businesses.

⁴⁸ The FTT-standards are listed in appendix 8.4.

⁴⁹ The following paragraph contains two different spellings of ‘fair trade’. The spelling ‘fair trade’ (in two words and with use of small letters) is used for the fair trade movement in general whereas ‘Fair Trade’ (in two words and with capitals) in this chapter refers to the FTSA-certification and the FTT-certification respectively.

However, fair trade labels do not seem to be so much affected by this issue, as the term 'fair trade' and the concept behind it have a long tradition (see 4.2.) and are already widely known, especially in Europe. The use of a fair trade label to market responsible tourism therefore has the advantage that many potential customers are already familiar with it and its implementation seems to be promising in respect of marketing effects.

This assumption is supported by the German Travel Analysis of 2007 which included a set of questions that concerned fair trade offers in tourism. The results showed that approximately one third of the population (32%) would appreciate fair trade offers in tourism and 27% of the population stated that they would book such travels. Figures of the core target group - people who travelled to a country of the Majority World in the last three years and have bought other fair trade products in the past – allow an even more optimistic assessment. 42% of all long-distance travellers (1.7 million) and 64% of long-distance travellers with fair trade experience (0.8 million) would appreciate fair trade offers in tourism and the majority of them (88.1%/89.1%) stated that they would even book such a holiday. In general the analysis concludes that approximately 1.5 million buyers of fair trade holidays can be expected from the German market and between 15 million and 20 million Germans have a positive stance towards fair trade offers in tourism, which makes them potential buyers (Aderhold 2007: 5).

This analysis, as well as the information given in chapter four on the fair trade movement, indicate the existence of a market for fair trade offers in tourism and thus point towards potential *upgrading* chances that come with a fair trade certification.

Firstly, the certification with the FTSA label, as part of the fair trade program, provides access to a specific market that operates in accordance with fair trade conditions, which again entail special advantages (see 4.3./4.6.).

A second advantage, which is related to the first aspect, is the opportunity for businesses to move into a more sophisticated product line once the certification leads to an enhanced quality⁵⁰ and/or helps to set a company's product apart from others.

Thus, the FTSA-label enables businesses to overcome *entry barriers* to a specific market with special advantages, fosters *product upgrading* and thus generates *marketing rents*.

In addition it can be assumed that due to special framework conditions the marketing potential of the FTSA-label is enhanced further. This is achieved firstly by the circumstance that labels, as a kind of quality assurance, are gaining importance in the global competition due to a loss of control in the course of globalisation (e.g. Jaffee 2003), and secondly by the fact that South Africa's biggest

⁵⁰ What quality improvements and *product upgrading* respectively can occur due to the Fair Trade certification will be outlined in the following sections.

overseas tourism source markets correspond with the biggest markets for fair trade products in general, namely the UK, USA, the Netherlands and Germany (see 3.2.2. and 4.4.).

5.4.1.2. Practice

In respect to **market entry** and possible barriers, all interview partners mentioned that especially the first application for the label was time consuming. When it comes to other 'cost' factors the experiences differ. Whereas *The Peech* and the *Mercure Midrand*, businesses of the upper and middle market segment, respectively, did not consider cost factors other than time as relevant, the two businesses from the youth tourism sector, *The Backpack* and the *Lebo's Soweto Backpackers*, as well as *Ocean Safaris*, an organiser of whale watching tours, gave relevance to the financial aspect of certification, although to different degrees.

The owner of *The Backpack* did mention financial costs, but for her it is rather a question of what you value than a question of affordability to get certified, especially in light of the circumstance that you can get funding for the certification. The manager of *Lebo's Soweto Backpackers* stated that the certification was and still is expensive for them, especially because the business accredits each of its two products (bicycle tours, accommodation) and therefore pays the fee twice and *Ocean Safaris* will not apply for the label anymore, citing costs as one reason for this decision. The interviews also revealed that when costs are a decisive factor it is the expenses for re-assessments and the annual fees that have to be paid rather than expenses connected to the first certification that are challenging.

None of the interview partners stated that they had expenses to adjust their business physically to the FTSA-principles, although the administrative requirements for the certification have affected the businesses. For *Lebo's Soweto Backpackers* administrative factors presented a challenge because the process of getting all the necessary permits and licenses was very difficult in the informal environment of the township. The general manager of the *Mercure Midrand* stated that a fair amount of paperwork was involved in the first assessment, which was time consuming. The owner of *Ocean Safaris* in turn mentioned that she already had the paperwork in place because she requires most of it for the whale watching license as well. For them getting certified was easy in this respect.

According to these results the entry barriers to the fair trade tourism market are, if anything, more of administrative and organizational character than consisting of expenses for physical or constructional adjustments.

When it comes to the **marketing effects** of the label the statements of the interview partners could not have been more diverse. The manager of *The Peech* highlighted the media presence that Fair Trade accreditation has given them and the contacts they have made with tour operators at the FTSA exhibition stand at INDABA. She stated that the certification makes them unique and that in the search for a fair trade hotel in Johannesburg in their price range, *The Peech* will definitely come

up. Although the market effects have not been that recognizable yet, she is convinced that with the ongoing growth in awareness for fair trade, their market opportunities will expand. The general manager of the *Mercure Midrand* expressed the same opinion when she stated that the certification is in line with the growing awareness about environmental and social aspects of tourism, and that she recognizes that clients start looking at what the business is doing in regard to its staff and the environment. The *Spier* hotel has also recognized that their guests are very much interested in the accreditation and some of them even expressed that this was the reason why they decided to stay at the hotel. The other three establishments that were interviewed had an entirely different opinion on the marketing effects of the FTSA-label. The owner of *The Backpack* stated that she is very disappointed in the marketing aspect of the label. She pointed out that in her opinion especially the youth tourism sector is neglected in the marketing efforts made by the FTSA. The manager of *Lebo's Soweto Backpackers* emphasised this statement when mentioning that she and other Fair Trade certified backpackers agree that there is no great marketing effect to the label, at least not for their type of accommodation business. Things are slightly different with *Lebo's* bicycle tour offer, as it has gained more recognition through the certification. Also, the owner of *Ocean Safaris* stated that there has not been a marketing effect whatsoever for her business resulting from the label. She has found that individual customers do not know what fair trade is and therefore the certification has no relevance for their purchasing decision. However, what she has experienced is that tour operators are informed about the label and that they want to know whether her business is Fair Trade accredited. This demand was one of the reasons why she decided to get certified. However, in the interview she did not mention that this interest has opened up any special market chances. Her statements rather indicate that the Fair Trade certification is becoming a necessity in the sector instead of a special advantage, considering the demand of tour operators.

Summing up, the opinion on the marketing effects of the label range from 'a very positive stance towards it' to 'no effects recognized', as well as to an increase of pressure as it starts to be demanded on the part of tour operators. At this point it also has to be stated that none of the businesses have recognized any effect on pricing or occupancy rate, neither positive nor negative, resulting from their Fair Trade accreditation.

5.4.1.3. Discussion

When comparing the theoretical *upgrading* chances concerning market entry and marketing with the results from the interviews, discrepancies become obvious. Some additional information can help not only to get a better understanding of the situation presented, but also to improve the assessment of the statements.

When it comes to the aspect of **market entry** it has to be pointed out that despite the results of the interviews, which suggest that entry barriers are relatively low in respect of financial investment,

this is probably not true for all aspects. The results of other research suggest that it is common that the first companies to apply for a label are those which already meet numerous of its criteria (Font 2003: 11). The answers of the interview partners when asked about their motivation to apply for the label demonstrate that exactly this might be the case with the FTSA certification program. The *Mercurie* hotel chain was actively searching for an independent accreditation to label their social and environmental business policies, which were already in place. Also, the owners of the *Spier*, *The Backpack* and *Ocean Safaris* were aware of the fact that they were already running their business more or less in accordance with FTSA-criteria when they first applied for the label. *The Peech* and *Lebo's Soweto Backpackers* in turn were approached by the FTSA when the organization became aware of how these two establishments do business. In consideration of this information it is not surprising that none of the interview partners mentioned costly adaptations, which however does not mean that the fair trade tourism market is easy to enter.

In respect to the rather minor **effect of marketing** on the economic performance of the businesses interviewed – they all stated that there has been no effect on pricing or occupancy rate resulting from the label – the following aspects have to be considered.

Firstly, the market potential for fair trade offered by tourism is probably overestimated. The results of the German Travel Analysis as well as those of other studies concerning social and ecological aspects are very likely to be affected by social desirability, a disruptive factor of surveys, with the result that consumers' purchasing claims and actual purchasing behaviour differ. Therefore, the market assessment for fair trade tourism offers has to be a qualified one.

Secondly, temporary and geographical aspects have to be considered when assessing the marketing effect of the label. Although fair trade has a relatively long tradition in craft markets and the agricultural sector in the western hemisphere, it is quite a new concept for South African consumers and for tourism products in general. Hence, it is probably too early to assess the marketing effect of the Fair Trade label, especially when taking into account the results of a study carried out by the *International Ecotourism Society* (TIES), which concludes that it takes approximately eight to fifteen years, sometimes even twenty years, for customers to become aware of a certification system and to start to considering it in their purchase decision (Bien 2005f: 16 qtd. in Font/Epler Wood: 2007: 154).

The marketing effect on image and recognition of businesses does exist, but according to the interviews this is not true for every establishment. One explanation why the estimations of the label's marketing effect in this respect vary so much between the interview partners can be provided by a short analysis of the Fair Trade travel packages⁵¹ that are currently offered. Two hotels, both

⁵¹ A list of all FTT-packages including name of tour operator and participation of interviewed businesses is provided in appendix 8.2.

with a very positive stance towards the marketing effect of the label, also established a strong presence in Fair Trade packages. The *Spier* is part of four out of eight travel packages that are offered for the Cape Town region, and *The Peech* is even part of four out of five travel packages that include visits to Johannesburg. The representation of the *Soweto Backpackers*, and its bicycle tour in particular, is difficult to estimate because all five packages that include Johannesburg as a destination include bicycle tours in Soweto. However, *Lebo's Soweto Backpackers* and bicycle tour is only twice mentioned explicitly. *The Backpack* is only part of one package and the *Ocean Safaris* does not appear in any of them (see appendix 8.2.).

The attitude of the different interview partners towards the label's marketing effect correspond more or less with their presence in FTT-packages, with the exception of the *Mercure Midrand*. The reason for this exception can probably be explained by the fact that the *Mercure Midrand* mainly focuses on business people and therefore the participation in package tours is less relevant for them. Furthermore, the statements of the general manager considering the positive marketing effects not only refer to the *Mercure Midrand* but also to the *Mercure hotel chain* as a whole as well as to the *Accor group*. The fact that the FTSA has held conferences at the *Mercure Bedfordview* and that the *Mercure Nelspruit* is part of a travel package might have had, in addition to the manager's own positive experience, an influence on her opinion towards the marketing effect of the label.

In summary, entering the fair trade market and the FTSA-label's marketing effect have not resulted in an economic advantage yet. Although some interview partners believe that this will change with people's growing awareness of fair trade and sustainability, and social issues in general. In respect to improvements of image and recognition the experiences differ between the interview partners. There is, however, some evidence that the type of business and its ability to become part of FTT-packages has an influence on this aspect.

5.4.2. Meeting the Standards

5.4.2.1. Theory

Bolwig et al. (2010) mention that *matching standards and certifications* can in themselves be seen as a form of *upgrading*. Among other things, Font (2003: 2) points out that certification programs can be tools for developing '*structures to encourage and support improvement of business units*' and for providing '*peace of mind from beyond legislation compliance*'.

Whereas the relevance of the first aspect in regard to *upgrading* seems to be obvious, the significance of the latter might create doubts. However, it gains in importance when considering the growing public concern about climate change and other ecological, but also social impacts of current economic and consumption behaviour. Issues like sustainability and social justice have started to gain relevance in the political sphere, as sections 3.4. demonstrate, and fair trade and FTSA-standards

meet these concerns. Therefore, complying with fair trade standards and with current political developments can not only result in a first mover advantage in respect to future legal and administrative directives, but also in a better relationship with external stakeholders such as local communities, ecological groups, media, unions and governments, which in turn can minimise the potential of conflicts and costly disputes.

Furthermore, the growing awareness of current negative social and environmental developments has led to the emergence of socially responsible investment forms. These funds can offer a capital source for FTSA certified businesses, because the certification most likely also facilitates the accreditation to this special capital market (cf. Ambec/Lanoie 2008; Font 2003: 8).

In light of this socio-political framework the certification with the FTSA-label can provide a **first mover advantage, improve relationships, minimise conflicts** and therefore enhance businesses to generate not only *relational* but also *financial rents*. Furthermore, the possible **development of structures that encourage business improvements** due to the certification can result in *process upgrading* and in course thereof *organizational rents* (cf. Font 2003:2; Kaplinsky/Morris 2002: 28).

5.4.2.2. Practice

Considering adjustments due to a certification that lead to the **development of structures that foster improvement** of business units as suggested by Font (2003:2), the interviews revealed the following:

For *Ocean Safaris* the certification involved the formalization of some business processes which did not make sense for them. Due to the small size of the business most things have been organized informally and formalizing was perceived as a pointless effort that sometimes did not work anyway. The owner of *The Backpack*, on the other hand, stated that the first assessment was very helpful. The business had been quite disorganized and the first assessor was very experienced and gave them a lot of valuable information. However, the owner attributes this overall positive experience to the assessor, who was somebody from the Sustainable Institute of Stellenbosch with a lot of experience and knowledge, rather than to the certification process in general. She stated that the first assessment was 'priceless', whereas now the certification is a cost factor rather than a means of support. For *The Peech* and the *Mercure Midrand* the preparation for the certification definitely comprised positive structural changes. The manager of *The Peech* mentioned that the certification gained organizational advantages, and the general manager of the *Mercure Midrand* pointed out that the certification helped them to implement documentation systems that now simplify general business routine and furthermore also facilitate other certifications and controls. For these two establishments the formalization and organization of some business processes in course of the FTSA-certification turned out to be advantageous.

In regard of the effect of certification on the relationships with external stakeholders, the compliance with legal standards and the **minimising of conflicts and legal disputes**, respectively, is mirrored, inter alia, in light of the B-BBEE Score Card (see 3.4.1.2.). Although the non-compliance with the B-BBEE charter does not have immediate legal effects, it makes it difficult, if not impossible, for businesses to obtain national licenses or to participate in tendering procedures, and thus will have a negative effect on business performance in the long run (CBBL 1. November 2012 official website, 12.03.2013). The owners of *Ocean Safaris* and *The Backpack* explicitly mentioned the demand for B-BBEE compliance due to their Fair Trade certification and, as FTSA-requirements include *employment equity* and the implementation of legal acts that concern this aspect, it can be assumed that also the other businesses meet this requirement to a certain degree. Therefore, due to the FTSA-certification, businesses are already run in accordance with this important governmental agenda.

Another condition for Fair Trade accreditation that is likely to minimise conflicts and legal disputes is *community engagement*. All of the interviewed businesses are engaged in one or more community projects that range from supporting homes for children or disabled people and clubs to organizing clean-up operations or providing business opportunities for local people. At the *Spier*, where community engagement affects the immediate surroundings of the business, its involvement does not only foster staff moral but also results in a good relationship with the community, as the interview with one of their employees revealed. On the other hand, at *The Backpack*, where community engagement is not connected to the staff, it has no influence on the business, at least not in respect of staff attitude.

5.4.2.3. Discussion

There is evidence that the implementation of FTSA-standards leads to *process upgrading* and *organizational rent*, at least for some of the companies. The results of the interviews justify the assumption that the size of the company is a decisive aspect when it comes to the realization of this *upgrading* chance.

In regard to the issue of minimising conflicts and legal disputes in the course of meeting FTSA-standards, the following has to be considered. First of all, this aspect is not per se an *upgrading* chance but can rather form a precondition for it and/or can help to eliminate obstacles in the course of *upgrading* efforts (e.g. getting the necessary licenses). Therefore, the effect of the certification in this regard has more of a preventive character, which is hard to measure.

Aggravating this situation is the fact that the questionnaire did not explicitly contain questions regarding advantages that might entail legal compliance or community engagement due to FTSA-certification. The same applies to the potential *upgrading* chances of improved access to capital market and *financial rent*.

Given these circumstances, the rather limited evidence of these potentially advantageous aspects of FTSA-accreditation in practice does not allow any conclusions in the course of this work.

5.4.3. Being Part of the Fair Trade Community/Network

5.4.3.1. Theory

In section 2.1.5. *improving value-chain co-ordination* is mentioned as one way of *upgrading*. In more detail, Riisgaard et al. (2010) name two forms of co-ordination that can support *upgrading* efforts. The first form, *vertical contractualisation*, means 'to get a better deal' through long-term and close relationships with trading partners. *Vertical contractualisation* is therefore closely related to the advantages other researchers associate with *relational governance*. *Horizontal contractualisation*, the second form of co-ordination named in the paper, describes the co-operation of actors on the same level of a chain in issues like marketing, input provisions and certification or assurance to improve their position in the chain with joined forces.

Becoming part of the FTSA-community bears the potential for *vertical contractualisation* as well as for *horizontal contractualisation*. In respect of the latter, FTSA especially emphasises the advantage of **joint marketing** that is connected to the certification. In 2020/11 37,050 people visited the FTSA-website, the FTSA-database had a monthly average of 7,095 active subscribers, regular media releases were sent to a total of 507 active media contacts, FTSA participated in three international trade shows (ITB Berlin, Indaba, TTW) and recorded 148 media appearances (FTSA official website: Benefits of FTSA Certification, 09.04.2012; FTSA 2011: 3). Apart from FTSA's PR activities, which should benefit its members, being part of the FTSA-network can improve the **exchange of information, experiences and/or advice on actual problems between businesses**.

With the market launch of the first FT-packages the certification also enhances *vertical contractualisation*. The label opens up the possibility of becoming part of a special value chain that operates in addition to fair standards that concern the relationship between participating businesses. FT-requirements that are potentially beneficial for participating businesses are, for example, the establishment of long-term access to markets under viable conditions, the sharing of market intelligence and other information on the part of supply chain traders with service providers, or the assurance that each party of the package receives its fair share (see appendix 8.4.).

The certification with the FTSA-label therefore has the potential to foster *upgrading* through *improved co-ordination* not only for businesses of the same value chain level but also along the chain.

5.4.3.2. Practice

None of the businesses within the higher price range (*The Peech, Spier, Mercure Midrand*) stated having much interaction with other certified businesses apart from meetings organized by the FTSA or when participating in official representations, e.g. at the tourism trade show INDABA. Cooperation

and interaction between the establishments of the youth tourism sectors (incl. *The Backpack*, *Lebo's Soweto Backpackers*), however, seem to be quite different, as the interviews with the two representatives of this line of business revealed. The backpackers have organized themselves within the Fair Trade community and one outcome of this cooperation was the invention of the *Fair Trade Travel Pass*, a product that connects the different certified backpacker businesses and some adventure activities along different routes⁵². The *Pass* is kind of a package tour that is designed for young travellers and that is promoted directly by the businesses themselves, rather than by a tour operator. The incentive for the development was the desire to represent the youth tourism sector at INDABA. As the participation fee for the show exceeded the budget of these rather small businesses, they were looking for a way of sharing the costs and decided to represent the different establishments through one product. The participating businesses are not only part of the FTSA-community but are also members of SAYTEC. These two memberships were decisive for becoming part of the group that currently consists of nine businesses including the interviewed *The Backpack* and *Lebo's Soweto Backpackers*. On the one hand, the certification with the Fair Trade label was a unifying element, but also one of exclusion to keep the group small. The *Fair Trade Travel Pass* enabled them to do collective marketing and, in addition to that, to participate in an international trade show. Also, in the area of HIV training and staff education, exchange between FTSA certified backpackers takes place. The owner of *The Backpack* mentioned that at the *Coffee Shack*, a FTSA certified backpacker located on the wild coast, they managed to elect an 'HIV-Champion', a person who is HIV positive but has learned to deal with it and to improve his/her health status. This HIV-Champion now visits other certified backpackers and informs staff about how to get help and about the positive aspects of disclosing their HIV-status to their employer. Another example of cooperation in this area is the joint HIV-training that *Ocean Safaris* conducted with another Fair Trade certified tour organizer. In respect of cooperation efforts in staff education, *The Backpack* as well as *Lebo's Soweto Backpackers* mentioned an informal exchange program for their employees, meaning that their staff has the possibility of going to other backpackers from the Fair Trade community for training, and in turn they also invite employees from other establishments.

However, apart from the close interaction within the youth tourism sector, there seems to be no overall networking taking place within the Fair Trade community.

When it comes to *vertical contractualisation* some of the interviewed businesses are involved in FTSA-packages offered by several international tour operators (see appendix 8.2.). However, none of the interview partners that are part of these packages (*Spier*, *The Peech*, *Lebo's Soweto bicycle tour*, *The Backpack*) explicitly mentioned their involvement, let alone any benefits that resulted from this participation. Only the manager of *The Peech* stated that through their participation in INDABA they

⁵² For more information visit <http://www.fairtradetravelpass.com>

have managed to get into contact with tour operators, which made a big difference, but did not explain these differences in detail.

Apart from the formalized *vertical contractualisation* through FTT-packages the owner of *The Backpack* mentioned a close business relationship with the FTSA certified operator of shark cage diving tours *Marine Dynamics* but also did not mention special advantages that derive from this cooperation for her business.

5.4.3.3. Discussion

The interviews show that *horizontal* as well as *vertical contractualisation* can be found in the FTSA business community. In addition, it seems that in the accommodation sector the type of business has an influence on the form of *contractualisation* being pursued. Whereas businesses of the youth tourism sector practice *horizontal contractualisation* and join forces not only in respect of marketing but also in respect of staff education and HIV-training, hotels in a relatively higher price range do not seem to interact with other FTSA-businesses on the same value chain level. However, these establishments seem to be more successful in *vertical contractualisation* as they form part of FTT-packages.

On the chain level of tour organizers evidence for networking of FTSA certified businesses is rather low due to the fact that only one of these establishments (*Ocean Safaris*) was interviewed in the course of this work. Apart from the close cooperation between *Marine Dynamics* and *The Backpack*, as mentioned by the latter, and the HIV training that was jointly implemented by *Ocean Safaris* and *Ocean Blue Adventures*, no evidence for contractualisation of tour organizers was provided. However, as FTT-packages include activities like shark-cage-diving, whale-watching and/or township tours it can be assumed that *vertical contractualisation* does take place in this business sector to a certain degree.

The question of what advantages networking and *contractualisation* respectively can have for the performance of businesses could not exactly be clarified in course of these interviews.

The *Fair Trade Travel Pass*, a product of *horizontal contractualisation*, has only recently been invented and its success cannot yet be estimated. However, the circumstance that the participating businesses were able to present themselves at INDABA can be counted as a successful outcome of *horizontal contractualisation*.

The question if *vertical contractualisation* had a positive effect on business performance must be answered in the negative when considering the answers of the interview partners. None of them mentioned their involvement in FTT-packages and all of them said that there was no effect on pricing whatsoever resulting from the certification.

However, it has to be pointed out that the questionnaire did not directly comprise questions about business involvement with tour operators and therefore decisive information, for example

about FTT-packages in general and beneficial differences in contracts made in the course of FTT-packages in comparison to others, has not been collected.

5.4.4. Improvement of Natural Resource Management

5.4.4.1. Theory

For tourism businesses an intact environment is indispensable for long-term success. In value chain approaches environmental aspects are often not included or are treated as being external to the chain. However, especially in tourism, where nature, landscapes and wildlife often form an integral part of the product, this exclusion of environmental issues is unjustifiable. Thus, environmental protection measures are indispensable for tourism businesses if they do not want to jeopardize their existence in the long run.

From this perspective environmentally friendly behaviour is not directly linked to *upgrading*, but rather forms a precondition for it. However, studies⁵³ on the effects of environment protection measures on the economic performance of businesses have revealed that 'being green' can directly influence *upgrading* chances. Ambec and Lanoie (2008) analysed the current literature on this subject and identified seven ways of how environmental practices can lead to better economic or financial performance. Some of these aspects already turned up in previous sections but will be outlined in more detail in connection with environmental protection measures.

The research of Ambec and Lanoie (2008:47ff) has shown that environmental protection measures can lead to an **increase of revenues** by

Facilitating access to certain markets: Reducing environmental impacts can increase the image or prestige of a company. This can have an effect on customers' loyalty or sales efforts as purchasing policies of public and private organizations increasingly set great store by green performance of their suppliers.

Differentiating products: Businesses can enter niches in environmentally conscious markets when using the green attribute of their products and services to set themselves apart from others.

Selling pollution-control technology: When businesses develop technologies that improve their environmental performance they might be able to sell them to other businesses.⁵⁴

The second mechanism that can turn environment protection into an economic or financial advantage for a company is **cost reduction**. Ambec and Lanoie (2008: 50ff) mention the following opportunities for reducing cost:

⁵³ e.g. González-Benito/González Benito 2005; Porter/Van der Linde 1995; Schaltegger/Synnestvedt 2002; Segarra-Oña et al. 2012

⁵⁴ This form of making profit through environment protection is probably less relevant in the tourism sector as it is not a technology intensive industry.

Cost of material, energy and services: Porter states that '*reducing pollution is often coincident with improving the productivity with which resources are used*' (Porter/Van der Linde 1995: 98). Although it is not true for the 'whole' economy, Lanoie and Tanguay (2000) found evidence that it is possible for companies to reduce pollution as well as the cost of resources, energy and services.

Cost of capital: The growing number of green/ethical mutual funds offers special and exclusive access to capital for green businesses. Furthermore, numerous banks have started to check the environmental performance of potential borrowers before granting a loan. There is also evidence that the environmental performance of businesses can have an influence on stock market prices, especially in the light of environmental disasters like Exxon Valdez or Deepwater Horizon.

Cost of labor: Environmentally sensitive performance might have an influence on labor cost, especially when emissions can have an effect on a company's workforce, when businesses try to attract young, well-educated employees who are often environmentally conscious, and when companies are located in areas where sensitivity to environmental concerns is more acute. Studies and interviews suggest that an improved image of a company (e.g. through environmentally and socially sensitive behaviour) has a positive effect on the atmosphere in the workplace, on job performance, morale, recruitment and on turnover (Ambec/Lanoie 2008: 50ff).

Risk management and relations with external stakeholders: Environmental performance, and especially reduced pollution can diminish liability costs and avoid potentially costly litigation and fines. Furthermore, risks associated with the tightening of regulations in the future can be reduced. Businesses can even push for tighter standards in order to get a strategic first mover advantage.

Since the requirements for receiving the FTSA-label include environmental protection measures (see appendix 8.3.), the advantages outlined above also apply to the certification. Whereas most of the *upgrading* chances inherent in environment protection measures also occur for other FTSA-standards, the cost related advantages of resource conservation add new aspects to the analysis. These can foster *process upgrading* when attempts to reduce pollution (e.g. savings in material, energy and services consumption) lead to an increase of efficiency in resource consumption and productivity.

5.4.4.2. Practice

The *Spier* realized cost savings through the implementation of environmental protection measures and of measures for controlling electricity and water saving consumption. The manager of the *Mercurie Midrand* also mentioned cost savings. The implementation of a towel policy - only towels which are put on the floor by guests will get washed – resulted in savings which are now donated to a project that plants trees in the Sahel.

The other interview partners, however, could not confirm that the implementation of environmental protection measures had any effects on the economic performance of their business.

5.4.4.3. Discussion

In respect of this rather disappointing result, it has to be mentioned that certain characteristics of the sample are likely to have had a decisive influence on this outcome.

The Peech had undergone structural renovation and when it reopened in 2008 environmental protection measures like solar geysers and a grey water systems were already in place. There is no comparable data from the time before these measures were implemented. In Soweto, in turn, the lack of infrastructure makes it difficult, not only to implement measures, but also to monitor resource consumption. Thus, in these two cases possible cost saving effects resulting from environmental protection measures would not have been detected.

Ocean Safaris, as an organizer of whale watching tours, has a resource consumption pattern quite different from that of accommodation facilities. The possibilities for implementing environmental protection measures are limited, not least because the business is situated in a rented property and changes in physical structure are not possible. They reduced their paper consumption, but the effect of this measure on expenses was mentioned to be negligible.

Therefore, due to monitoring problems and external circumstances the *upgrading* chances inherent in environmental protection measures in regard to cost savings were hard to estimate in this sample.

5.4.5. Human Resource Development (HRD)

5.4.5.1. Theory

The quality of tourism products and the success of a tourism business in general rely heavily on the skills of its workforce (cf. Christian et al. 2011). The importance of HRD for *upgrading* thus seems to be obvious. Especially interpersonal skills like language and communication skills, courtesy, ethics, friendliness, good behaviour, discipline, conscientiousness, self-confidence, adaptability, creativity and punctuality are identified by the ILO as central qualities for employees in tourism (ILO 2010: 62).

Despite the importance of well-educated and trained people for developing a well-functioning tourism industry, many countries of the Majority World face challenges in providing adequate educational institutions and trainings. Because of the lack of qualified instructors and a poor understanding of the soft skills required, the main responsibility for job training rests with the respective company and the private sector in general (cf. Christian et al. 2011: 4). Programs like the FTSA-certification that prioritize and demand the implementation of a good human resource (HR) policy, including the development of skills and career prospects for employees as well as the creation of a good workplace culture (e.g. good communication practices, keeping of ethical principles, non-

discrimination) can help businesses not only to cope with institutional shortcomings but also to foster **quality improvements**. The **competitiveness** and **productivity** of a business **can be enhanced** when a business's HR policy leads to an increase of the staff's professionalism and skill level as well as to an enhanced commitment to the workplace, which again can lead to a reduction of absenteeism and employee turnovers (cf. ILO 2010: 60).

Therefore, staff development, as it is required by FTTSA-certification, does not only hold the potential for *process upgrading* when workflows, coordination and motivation, and hence the productivity of staff increases, but can also foster *product upgrading* when the overall quality of service improves. Thus, good HRD holds the potential to generate not only *human resource rents* but also *organizational and relational rents*.

5.4.5.2. Practice

All interviewed businesses attach great importance to skills development and a management style that are based on explanation rather than on simply delegating tasks. Depending on company size and resources available, the way in which HRD is implemented varies between the different establishments.

With five employees *Ocean Safaris* is the smallest business interviewed and communication is rather of informal character. All staff started with no experience in the business and got trained on the job by the owner herself or with her financial support. One employee got the chief skipper licence, most of them have been trained and are now licensed as tour guides for whale watching tours and one is doing a marine biology diploma. They all know about the work of their colleagues and therefore can and do switch jobs occasionally. *Lebo's Soweto Backpackers* also does staff training. However, because of budget restrictions this does not consist of professional courses but of workshops and trainings that are offered for free by certain networks. Their employees can also go to other Fair Trade certified backpackers for training, and one of the employees went on the *Fair Trade Travel Pass* to evaluate the product, get the experience of travelling herself, and to be enabled to advertise the product to potential customers afterwards. Also, *The Backpack* offers trainings at other certified backpackers. The more formally structured businesses like *The Peech* and the *Mercure Midrand* pursue a policy of job rotation. They also do skills training offering, for example, management and computer courses and advertising vacant positions first within the company, which provides their employees with career prospectives.

The general managers of the *Mercure Midrand* and of *The Peech* mentioned organizational improvements due to inputs by their staff. Also, the advantages of job rotation and cross department training for the businesses, namely the increased flexibility in case of absence of an employee, were mentioned by both of them. The owner of *Ocean Safaris* furthermore stated that doing on-the-job-training has the advantage that the employees can be trained in accordance with the needs of the

business. Although some kind of HRD was already in place before the certification, the managers of the *Mercure Midrand* and *Lebo's Soweto Backpackers* mentioned that skills development and communication has improved due to the FTSA-certification.

The most detailed information in regard to HRD was provided in the interview with the HR manager of the *Spier*. The business is putting a lot of effort into skills, but also into personality development. Strengthening the confidence, skills and knowledge of their employees is of high priority to the management. This priority is put into practice via various forms of trainings and through an open information policy. New employees go through a five day induction training, which is carried out in cooperation with the already mentioned Sustainability Institute of Stellenbosch. During this training people do not only learn about how the business is run as a whole, but also take several theoretical courses about the negative and positive impacts of globalization in general, and about what they can do as individuals to make a difference. They visit the hotel's vineyard, its vegetable garden and its farm, as well as the Stellenbosch landfill site. The *Spier* aims to raise awareness and to get people to understand what sustainability is about and how the business is situated and run in this context. Also, staff who are already working for them is allowed to go on re-induction if they like to.

Furthermore, a range of other trainings focusing on skills development are offered. One is called 'personal development season ticket' and includes, among other things, language, communication and management trainings which staff can attend during working time. They are also running a program called 'my customer, my pride', which deals with knowledge of the business, service and sales. Every person that works for the hotel has to do this training. The knowledge component includes a visit to the different working places in order to find out what is happening in the various business areas. The service component is about looking at your own confidence, about learning how to step in and offer help when necessary, and in general about enabling staff to interact with guests. Finally, the sales component of this training is to inform and propose the different offerings of the *Spier* to guests.

According to the HR manager, this HR policy has resulted in staff participation, meaning that employees express suggestions for improvements and come forward with proposals for problem solutions or for new environment protection measures (e.g. new recycling opportunities). An additional interview with one of their staff members confirms the manager's statements. The employee stated, inter alia, that the sustainability training fosters the commitment to the business and its working practice, and repeatedly mentioned the good working atmosphere and the opportunities offered at the *Spier*. Furthermore, the manager stated that, according to their guests' feedbacks, the positive atmosphere is recognized and highly appreciated by their customers.

The only business that also mentioned obstacles that come with staff involvement was the owner of *The Backpack*. She stated that, due to cultural differences and to traditional etiquette, equal participation and staff meetings can turn out to be delicate.

5.4.5.3. Discussion

The interview with the HR manager of the *Spier* demonstrated how good HR policy can be put into practice and how it leads to *process upgrading* due to staff participation as well as to an overall *product upgrading*, when the good workplace atmosphere and staff motivation are recognized by customers. Also, the statements of the managers of *Mercure Midrand* and *The Peech* support the theoretical assumption that HRD leads to organizational improvements and to enhanced flexibility. The owner of *Ocean Safaris*, furthermore, pointed out the positive aspect of on-the-job-training.

Although the manager of *Lebo's Soweto Backpackers* and the owner of *The Backpack* did mention staff education, no special advantages were pointed out, and the latter even mentioned some difficulties when implementing staff participation.

Although the interviews show improvements due to HRD, the findings lead to the assumption that the more resources are available for HRD, the better its outcome. Therefore, in respect to evaluating the exact *upgrading* potential of a good HR policy, it will be necessary to analyse the cost-benefit ratio of the respective policy.

5.4.6. Local and Regional Procurement

5.4.6.1. Theory

In general, the main reason for fostering local and regional procurement (LRP) is the assistance in the development of local livelihoods rather than the improvement of the situation of businesses. However, in the context of *upgrading*, it is exactly the question of the advantages that businesses gain from LRP which is of relevance. This leads to a source problem as most of the studies discussing LRP are conducted in the realm of food aid, where purchasers are national or international institutions rather than private businesses (cf. Hanrahan 2010; OECD 2005; Walker/Coulter/Hodges 2007; WFP 2006). One exception is the study of Bienabe and Vermeulen (2007), which analyses the procurement schemes of two rural-based supermarkets in South Africa that source fresh vegetables locally from small-scale farmers.

Regardless of their differences in the field of research, all these studies conclude that LRP in general is more cost-effective than the procurement from long distance suppliers and also **more flexible** in case of a change in demand. Furthermore, the study of Bienabe and Vermeulen (2007) showed that LRP can result in **good cooperation** and close relationships between supplier and purchaser, which can simplify the communication of specific wishes and criteria. The study also

revealed that LRP can have a **marketing effect** when customers value locality, as was the case in the respective research.

On this basis the following *upgrading* chances can result from LRP. First, it can contribute to *process upgrading* when cost savings or an increase in flexibility can be achieved. Secondly, it can contribute to *upgrading* when a marketing effect can be generated. Especially tourists who are concerned about environmental aspects and the social impacts of their holiday might value LRP. Thus LRP can generate *organizational, marketing and relational rent*.

5.4.6.2. Practice

The interviews revealed that, in addition to pricing, all businesses take the aspects 'locality', 'fair trade' and 'environmental friendliness' into account when looking for suppliers. To which extent it is eventually possible to purchase according to these criteria depends on price, type of product, availability, and on the location of the purchasing business itself. Food products are generally purchased according to the aspects 'local' and/or 'fair trade' by all businesses. With other supplies, this is sometimes difficult to achieve. The general managers of the *Mercure Midrand* and *The Peech* stated that they have not been able to find a local supplier for guest amenities that meets their expectations regarding quality and price. *Lebo's Soweto Backpackers* purchases most of its products at local markets, but due to its location this is sometimes challenging. *Ocean Safaris* has a quite different supply-chain, since businesses from the accommodation sector generally do not purchase a great number of products. Nevertheless, the things they need are normally purchased locally, with the exception of products like boat motors, which they can only get in Johannesburg. In this case they try to find a supplier who meets at least some social standards, such as the B-BBEE-charter.

The supply-chain of the *Spier* differs from the other interviewed businesses because most parts of the chain are integrated in the estate. They have their own vegetable garden, their own farm and their own winery, which is also fair trade accredited. The remaining products and services needed are purchased from local suppliers, which are carefully examined to make sure that they produce according to the *Spier's* social and environmental standards.

When it comes to advantages and disadvantages connected to local procurement, only the general manager of the *Mercure Midrand* explicitly stated that they appreciate the flexibility and the personal relationship which they have been able to build with their suppliers due to LRP.

None of the interview partners mentioned disadvantages connected to local procurement. Only the fact that it is simply not always possible to purchase locally because of availability or pricing was pointed out.

5.4.6.3. Discussion

The effect of LRP in respect of its economic influence has to be considered as neutral according to the interviews. This is not surprising as statements of the managers of the *Mercure Midrand* and *The Peech* indicate that pricing is still a decisive factor in purchasing decisions, and thus they only procure locally when there are no major disadvantages attached. When it comes to cost advantages due to LRP, none were mentioned.

Although there seems to be no direct monetary value in LRP, the managers of the *Mercure Midrand* and the *Spier* mentioned other advantages, e.g. the increase of flexibility and the ability to build personal relationships with suppliers. In the interview with the *Spier*, an additional advantage of LRP was revealed, namely an increase in control due to locality as the management likes to examine the production conditions themselves.

6. Conclusion

The starting-point of this work was the question whether the certification of a tourism business with the FT TSA-label has an impact on its *upgrading* possibilities. As the previous chapter revealed, there is no simple answer to this question.

Theoretically, many of the FT TSA-standards contain *upgrading* chances. In practice, however, their effect varies in intensity as well as from business to business, and some *upgrading* possibilities did not occur at all, according to the interviews.

In theory it was assumed that the FT TSA-label comprises marketing effects and better market chances. According to the interviews this is only partly true in practice. Whereas the establishments of the middle and upper price range recognized positive marketing effects, the businesses of the youth tourism sector and the interviewed tour organizer could not confirm this statement. However, there is consensus that the certification has not affected pricing or occupancy rate so far. One explanation for the discrepancy between theory and practice is provided by temporary and geographical characteristics of the fair trade market. Firstly, tourism is one of the latest fair trade products with no historical basis, and secondly, fair trade is a new concept for South African consumers in general, which is why it is probably too early for a final estimation of the marketing effect of the FT TSA-label.

The second theoretical assumption was that meeting FT TSA-Standards can help businesses to develop advantageous organizational structures, to provide a better compliance with future legal and administrative directives as sustainability and social justice are gaining more and more importance in the political sphere, and that it can in general minimise conflicts with external stakeholders like local communities or labour unions (Bolwig et al. 2010; Font 2003). Whereas the interviews provided evidence for organizational advantages resulting from the FT TSA-certification, positive effects due to law compliance and minimization of conflicts were both harder to detect and to measure. However, not only the circumstance that FT TSA-certification already demands compliance with the new government agenda B-BBEE indicates the existence of this advantage, but also the fact that all interviewed businesses are engaged in local communities gives reason to presume that certain FT TSA-standards help to improve the relationship with external stakeholders.

Networking and the related positive effects (e.g. joint marketing, spreading costs, good relationship with suppliers) were considered to constitute another theoretical *upgrading* chance of FT TSA-certification (Riisgaard et al. 2010). Almost all of the interview partners confirmed networking activities. Whereas businesses of the middle and upper price range seem to be more successful in implementing good relationships up and down the value chain, establishments of the youth tourism sector organized themselves on a horizontal level and joined forces in marketing activities and even

implemented a common product. However, it has to be stated that, according to the interviews, neither *vertical* nor *horizontal contractualisation* has resulted in an immediate economic effect yet.

As environmentally sound business performance forms an integral part of FTSA-certification, advantages connected to it were interpreted as theoretical *upgrading* chances. On the one hand, green management and operations can result in cost reduction when resources are used more efficiently, and on the other hand can lead to an increase of revenue when the green attribute of products and services becomes a competitive advantage, or improve the image of a company which can have an effect on customers' and employees' loyalty and sales efforts, respectively. In practice only the cost effect of environment protection measures could be confirmed to a certain extent. On the basis of the interviews one would come to the conclusion that effects of environmental considerations are minimal. However, this conclusion would be misleading as difficulties in data collection and monitoring problems were encountered in the research of this *upgrading* aspect.

Tourism is a labour intensive sector and a company's productivity and the quality of its product depends very much on its human resources (ILO 2010; Christian et al. 2011). Therefore, *upgrading* in tourism is linked to a great extent to good HRD and HR policy, which is a central aspect of FTSA-certification. All of the interviewed companies put effort into the development and the promotion of their employees, and some of them mentioned direct improvements due to staff involvement, such as simplifying organizational tasks or process improvements.

The last aspect of FTSA-certification that was theoretically connected to *upgrading* was LRP. It was assumed that cost savings or/and an increase in flexibility can be gained through shorter and more direct supply chains, and furthermore that marketing effects can be generated by promoting the locality of a company's products. In practice, proof of this assumption was rather weak as only two businesses mentioned increased flexibility and improved relationships with suppliers, and none of them confirmed cost savings due to LRP.

Another important finding of this investigation was that most of the positive aspects mentioned by the interview partners are connected to the certification, but are not caused by it. This circumstance was revealed when all business representatives stated that most of the standards that are required by FTSA were already in place when their business applied for the label. The certification itself solely helped the businesses to structure, improve and mark specific features of their business which were already in place, rather than leading to substantial changes. Thus, merely two *upgrading* chances are directly generated through FTSA-accreditation, namely marketing and organizational advantages⁵⁵. *Product upgrading* occurs through marketing because the label differentiates the respective product from others and connects it to characteristics that are already

⁵⁵ In this context organizational advantages include networking as it is as a way to get organized outside of the own business.

to a certain degree advertising-relevant, but in particular holds significant future potential. *Process Upgrading* arises through organizational improvements as the certification helps to structure and simplify business processes. However, the latter seems to be more of a positive side effect rather than a main reason for getting certified.

Therefore, on the basis of this study, it can be concluded that the FT TSA-certification in practice is, contrary to fair trade certification programs in the agricultural sector⁵⁶, above all a marketing tool for gaining competitive advantage with regard to future trends rather than a way of gaining direct economic advantages.

Nevertheless, aspects like good HR policy or environmental protection measures are conditions for receiving and for keeping the label, and therefore their effects on *upgrading* cannot be neglected. However, the focus of the present study were the certification and the changes connected to it rather than the processes preceding it, with the result that *upgrading* chances for standards already implemented at the time of the accreditation were hard to quantify in the course of this work. This is also the case for consequences that are related to the compliance with a combination of several FT TSA-standards, namely access to socially and environmentally responsible funds, and the improvement of the relationship with external stakeholders, as the questionnaire was developed on the basis of the individual FT TSA-standards rather than in respect to their combined effects.

Therefore, in order to estimate the *upgrading* chances of the FT TSA-certification more comprehensively, future research should focus more on processes previous to the actual certification and include combined effects of the different FT TSA-standards.

Furthermore, the integration of different research units – not only businesses but also, for example, representatives of local communities, unions or environmental protection groups – would probably provide another perspective on the effects of the FT TSA certification program.

⁵⁶ e.g. Stephan/Stamm 2010; Taylor 2005

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SATSA (Southern African Tourism Service Association) official website:

- *Why SATSA:* <http://www.satsa.com/pages/About.asp> [03.04.2013]

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- *About SAYTC:*
http://www.backpackingsouthafrica.co.za/index.php?option=com_content&task=view&id=121 [03.04.2013]
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WFTO (World Fair Trade Organization) official website:

- *Sixty Years of Fair Trade* (25. July 2011):
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World Committee on Tourism Ethics official website:

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- *Who we are:* http://www.wto.org/english/thewto_e/whatis_e/who_we_are_e.htm
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WTO (World Trade Organization) (s.d.): General Agreement on Trade in Services. [PDF] http://www.wto.org/english/docs_e/legal_e/26-gats.pdf [11.10.2012]

WTO (World Trade Organization) Statistical Program:

- *Total merchandise trade 2011, exports:*
<http://stat.wto.org/StatisticalProgram/WSDBViewData.aspx?Language=E> [22.11.2012]
- *Merchandise trade by commodity, exports, agricultural products & food*
<http://stat.wto.org/StatisticalProgram/WSDBViewData.aspx?Language=E> [22.11.2012]

WTTC (World Travel and Tourism Council) official website:

- *Our mission:* <http://www.wttc.org/our-mission/> [06.12.2012]
- *Strategical priorities:* <http://www.wttc.org/our-mission/strategical-priorities/freedom-travel/>;
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8. Appendix

8.1. Interview Partners

| Business | Interview Partner | Type | Location | Number of Employees | Price |
|--------------------------|-------------------|--|--------------------|---------------------|--|
| <i>Spier</i> | HR Manager | Hotel & Winery | Stellenbosh | 252 | 1,700 – 2,700 ZAR (approx. 146 – 232 €) ⁵⁷ per room incl. breakfast |
| <i>Mercure Midrand</i> | General Manager | Hotel chain (Accor) | Johannesburg | 17 | 588 – 807 ZAR (approx. 50 – 69 €) per room |
| <i>The Peech</i> | General Manager | Boutique Hotel (Accor) | Johannesburg | 27 | 2,250 – 2,650 ZAR (approx. 193 – 228 €) per room incl. breakfast |
| <i>Soweto Backpacker</i> | Manager | Backpacker & Tour Operator – Township tours | Soweto | 30 | 145 – 360 ZAR (approx. 12 – 31 €) per person and night |
| <i>Ocean Safari</i> | Owner | Tour Operator – Whale Watching | Plettenberg Bay | 5 | |
| <i>The Backpack</i> | Owner | Backpacker | Cape Town | 23 – 30 | 160 – 600 ZAR (approx. 13 – 51 €) per person and night |

⁵⁷ The following amounts in Euro are calculated on the basis of the exchange rate of 10/04/2013

8.2. FTT-packages

| Tour Operator | Tour | Interviewed Businesses involved |
|-----------------------------------|---|--|
| <i>SKR Reisen (Germany)</i> | Gardenroute Fair & Fine | Spier |
| <i>Baobab Travel (UK)</i> | Fair Trade Cape & Gardenroute | |
| | Fair Trade Drakensberg Hiking Trail – Melholding Hiking Trail – fully community owned | |
| | Fair Trade Magical Whale Watching Tour | |
| | Fair Trade Wildlife, Myths & Legends | The Peech, Lebo`s bicycling tour |
| <i>Kuoni CH</i> | Fair Reisen auf der Garden Route | Spier |
| <i>Kuoni UK</i> | Fair Trade South Africa Garden Route | Spier |
| <i>Travel Unique</i> | Limpopo Fair Trade Package | The Peech |
| <i>Dreamtime Travel CH</i> | Südafrika Fair Trade Reise | Mercure Hotel Nelspruit, The Peech |
| <i>Reise Service Imagine Bern</i> | Fair Trade Travel Cape Town | The Backpack |
| | Fair Trade Travel Cape Town (luxeriös) | Spier |
| | Fair Trade Travel Garden Route | |
| | Fair Trade Travel Limpopo Krüger | Lebo`s Soweto Backpackers |
| <i>TUI Netherlands</i> | Footprints in het Noorden | The Peech |

(Source: FTSA official website: Fair Trade Travel Packages, 11.04.2013)

8.3. FTTSA-Standards

| | | | |
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| 1. | LEGAL & GENERAL | 1.1. | FTTSA-certified businesses must comply with all relevant national laws. |
| | | 1.2. | FTTSA-certified businesses must carry sufficient liability insurance cover. |
| 2. | LABOUR STANDARDS | 2.1. | FTTSA-certified businesses must demonstrate compliance with national and/or international labour standards and legal requirements, whichever are higher, particularly in relation to child labour, freedom of association, forced labour, non discrimination, minimum wages and basic conditions of employment. |
| | | 2.2. | FTTSA-certified businesses must apply fairness and transparency in day-to-day management of workplace issues and labour relations. |
| 3. | HUMAN RESOURCE (HR) PRACTICE | 3.1. | FTTSA-certified businesses must establish and maintain an appropriate HR policy regime. This should include written and/or verbal policies as appropriate to the business. |
| | | 3.2. | FTTSA-certified businesses must ensure that all staff have sufficient access to and knowledge of HR policies. |
| | | 3.3. | FTTSA-certified businesses must approach HR management with consistency, fairness and transparency, particularly in relation to recruitment and selection; discipline and grievance; performance management; the distribution of tips; the management of incentives; and retrenchment. |
| | | 3.4. | FTTSA-certified businesses must ensure that internal reporting channels are secure and, where appropriate, confidential, so that staff are not punished or prejudiced for using them. |
| 4. | SKILLS DEVELOPMENT | 4.1. | FTTSA-certified businesses must show commitment to using skills development as a mechanism for redressing the legacies of colonialism and apartheid. |
| | | 4.2. | FTTSA-certified businesses must invest sufficient time and finance in skills development. |
| | | 4.3. | FTTSA-certified businesses must invest in both human development and workplace skills development. |
| | | 4.4. | FTTSA-certified businesses must demonstrate fairness in the allocation of training. |
| | | 4.5. | FTTSA-certified businesses must ensure that staff are adequately involved in the planning and execution of training initiatives. |
| 5. | EMPLOYMENT EQUITY | 5.1 | FTTSA certified businesses must comply with national Acts and requirements regarding employment equity. |
| | | 5.2 | FTTSA-certified businesses must ensure that staff have sufficient knowledge of and access to equity plans, reports and other relevant documentation. |
| | | 5.3 | FTTSA-certified businesses must provide equal opportunities in the workplace. |
| | | 5.4 | FTTSA-certified businesses must affirm HDIs in the workplace. |
| | | 5.5 | FTTSA-certified businesses must be committed to improving |

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| | | | the representation of HDIs in the workplace and in management. |
| | | 5.6. | FTTSA-certified businesses must provide sufficient employment opportunities for local residents. |
| 6. | OWNERSHIP & CONTROL | 6.1. | FTTSA-certified businesses must clearly define business ownership and control. |
| | | 6.2. | FTTSA-certified businesses should increase HDI equity in the business wherever possible. |
| | | 6.3. | Where tourism relies on communally held assets like land or indigenous knowledge, FTTSA-certified businesses must ensure that the community is adequately and genuinely represented in the ownership and control of the business. |
| | | 6.4. | FTTSA-certified businesses must take steps to ensure that HDIs are equitably represented in decision-making structures including but not limited to top management. |
| | | 6.5. | FTTSA-certified businesses must take steps to ensure that staff interests are adequately represented in decision-making structures. |
| | | 6.6. | FTTSA-certified businesses must manage executive remuneration including salaries and incentives in a non-discriminatory and transparent manner. Executive remuneration must not impact negatively on the profitability of the business. |
| 7. | PROCUREMENT | 7.1. | FTTSA-certified businesses approach operational procurement in ways that affirm and support HDI-owned, local and small business suppliers of goods and services. |
| | | 7.2. | FTTSA-certified businesses give preference to South African organic, Fair Trade and environmentally-friendly products and services (as applicable) in their procurement. |
| | | 7.3. | FTTSA-certified businesses ensure that staff are adequately involved in procurement decisions. |
| | | 7.4. | FTTSA-certified businesses actively promote linkages with neighbouring tourism enterprises and enable guests to spend money in the local economy. |
| | | 7.5. | FTTSA-certified businesses charge a fair price on goods sold and charge fair commissions on bookings made on behalf of other tourist products. |
| 8. | COMMUNITY BENEFITS | 8.1. | FTTSA-certified businesses invest in community development initiatives. |
| | | 8.2. | FTTSA-certified businesses involve beneficiaries in planning and implementation of community development initiatives. |
| | | 8.3. | FTTSA-certified businesses create opportunities for guests to become involved in community development activities, wherever possible. |
| | | 8.4. | FTTSA-certified businesses contribute (where applicable) to the promotion of indigenous knowledge systems and to the protection of local site of historic, archaeological, cultural and spiritual significance and ensure that the local community has access to these. |
| | | 8.5. | FTTSA-certified businesses ensure that basic services (e.g. water, energy, sanitation) are not jeopardised by their |

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| | | | operations. |
| 9. | CULTURAL SENSITIVITY | 9.1. | FTTSA-certified businesses ensure that local communities are consulted regarding activities that the business conducts in the area/s in which they reside. |
| | | 9.2. | FTTSA-certified businesses manage their operations so as to avoid negative cultural impacts on both local people and landscapes. |
| | | 9.3. | FTTSA-certified businesses respect the historical and cultural heritage of host communities. |
| | | 9.4. | FTTSA-certified businesses respect human rights within host communities. |
| | | 9.5. | FTTSA-certified businesses provide information about South African culture to tourists. |
| | | 9.6. | FTTSA-certified businesses incorporate local art, architecture and / or cultural heritage into their business operations, where possible. |
| 10. | ENVIRONMENTAL MANAGEMENT | 10.1. | FTTSA-certified businesses comply with all relevant national and local regulations in relation to planning, building and management of tourism infrastructure; in relation to trading in artefacts and wildlife products; and in relation to keeping wild animals captive. |
| | | 10.2. | FTTSA-certified businesses ensure that buildings and infrastructure are built in a way that is consistent with locally-appropriate principles of sustainable construction. |
| | | 10.3. | FTTSA-certified businesses monitor their consumption of resources (including consumables, water and energy) and implement measures to minimise this, especially the use of scarce and non-renewable resources. |
| | | 10.4. | FTTSA-certified businesses identify operational areas where pollution is possible (e.g. greenhouse gas and carbon emissions, wastewater and solid waste disposal, harmful chemical substances, erosion, ozone-depleting compounds, etc) and implement measures to reduce and / or eliminate these sources of pollution. |
| | | 10.5. | FTTSA-certified businesses ensure that interaction with wildlife is conducted in a way that avoids disturbance to wild animals and natural ecosystems. |
| | | 10.6. | FTTSA-certified businesses, especially those operating in environmentally-sensitive contexts, invest in biodiversity conservation initiatives. |
| | | 10.7. | FTTSA-certified businesses give preference to indigenous plants for landscaping and take measures to avoid the introduction of alien vegetation (especially invasive species). |
| | | 10.8. | FTTSA-certified businesses are committed to improving environmental knowledge and awareness among staff, guests and the wider community, as appropriate to the business context. |
| 11. | HEALTH & SAFETY | 11.1. | FTTSA-certified businesses must comply with national Acts and legal requirements regarding health and safety within the workplace. |
| | | 11.2. | FTTSA-certified businesses must provide staff with a safe and |

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| | | | healthy working environment. |
| | | 11.3. | FTTSA-certified businesses must proactively identify dangers and educate staff to prevent accidents and injury within the workplace. |
| | | 11.4. | FTTSA-certified businesses must provide staff with protective clothing and equipment, and must ensure that this is suitably and regularly maintained. |
| | | 11.5. | FTTSA-certified businesses must ensure the health and safety of guests and other third parties. |
| 12. | QUALITY & RELIABILITY | 12.1. | FTTSA-certified businesses deliver reliable and consistent services to guests; communication of these services to the market is accurate. |
| | | 12.2. | Where relevant, FTTSA-certified businesses are encouraged to be star-graded annually by the Tourism Grading Council of South Africa (TGCSA). |
| | | 12.3. | FTTSA-certified businesses solicit guest feedback and manage this feedback in a consistent and transparent fashion. |
| | | 12.4. | FTTSA-certified businesses take steps to improve access for guests with disabilities. |
| | | 12.5. | FTTSA-certified businesses should be economically viable. Where this is not the case, they must be taking appropriate steps to improve economic viability |
| 13. | WORKPLACE CULTURE | 13.1. | FTTSA-certified businesses must ensure that staff have the right and opportunity to participate in decision-making processes that concern them. |
| | | 13.2. | FTTSA-certified businesses must ensure that staff and other parties have sufficient access to information that concerns them. |
| | | 13.3. | FTTSA-certified businesses must ensure that workers and guests are not unfairly discriminated against and the rights of all are protected according to the values and principles set forth in the Constitution of the Republic of South Africa. |
| | | 13.4. | FTTSA certified businesses must create and maintain a working environment based on tolerance and non-discrimination. |
| 14. | HIV / AIDS & RELATED ISSUES | 14.1. | FTTSA-certified businesses must not discriminate against people who are either infected or affected by HIV/AIDS or any other debilitating health condition. |
| | | 14.2. | FTTSA-certified businesses must implement appropriate HIV/AIDS prevention measures, especially in relation to preventing infection / re-infection amongst staff. |
| | | 14.3. | FTTSA-certified businesses must take steps to support to staff who are either infected or affected by HIV/AIDS. |
| 15. | TOURS: EQUITY & SOCIAL IMPACT | 15.1. | FTTSA-certified tours have consistent and fair written agreements in place with 3rd party suppliers (i.e. those involved in the tour). |
| | | 15.2. | FTTSA-certified tours ensure equitable and transparent distribution of tour income. |
| | | 15.3. | FTTSA-certified tours interact with 3rd parties on the tour in a respectful and transparent manner. |
| | | 15.4. | FTTSA-certified tours ensure that social impacts of the tour are positive, e.g. respect for local residents, especially children, and |

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| | | | support for local businesses. |
| 16. | VOLUNTOURISM | 16.1. | FTTSA-certified voluntourism programmes ensure that volunteers are appropriately screened for personal history and relevant skills. |
| | | 16.2. | FTTSA-certified voluntourism programmes ensure that volunteers have appropriate documentation and finances in place, are adequately briefed prior to their arrival and that they are managed effectively for the duration of their assignment. |
| | | 16.3. | FTTSA-certified voluntourism programmes and volunteers respect human rights and historical, cultural and natural heritage of host communities. |
| | | 16.4. | FTTSA-certified voluntourism programmes interact with volunteers post-assignment to solicit feedback about the programme as well as what follow-up support they identify for beneficiaries. |
| | | 16.5. | FTTSA-certified voluntourism programmes ensure that local labour is not displaced by their activities and that volunteers' skills are transferred locally as appropriate. |
| | | 16.6. | FTTSA-certified voluntourism programmes have well-established relationships with beneficiary communities and these communities are consulted to identify needs and capacities as well as to plan, implement, monitor and evaluate projects, where appropriate. |
| | | 16.7. | FTTSA-certified voluntourism programmes are designed to enable community participation and input in the actual volunteer activities. |
| | | 16.8. | FTTSA-certified voluntourism programmes ensure transparency in the pricing of their programmes and distribution of related benefits. |

(Source: FTTSA 2010b, 11.04.2012)

8.4. FTT-Standards

| TRADE STANDARDS (Apply to all contractual relationships in the package) | | | |
|---|-------------------|------|--|
| 1. | SERVICE PROVIDERS | 1.1. | All supply chain traders must demonstrate commitment towards Fair Trade Travel principles. |
| | | 1.2. | The airfare component of the package is not included in the audit. |
| 2. | CONTRACTS | 2.1. | Contractual obligations between service providers and supply chain traders, as well as between supply chain traders, must be mutually agreed, well documented and clearly understood by the contracting parties. They must include at a minimum agreed quality, price, exchange rate policies, payment and cancellation terms. |
| 3. | SUSTAINING TRADE | 3.1. | Trade partnerships should enable service providers to have long-term access to markets under viable conditions. Supply chain traders are encouraged to share market intelligence and other information with service providers. |
| 4. | PAYMENT | 4.1. | Deposits, if applicable, should be paid in accordance with |

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| | | | the agreed Terms & Conditions. |
| | | 4.2. | Supply chain traders must pay service providers 100% of the price before arrival of the guests. |
| | | 4.3. | Balance of account (for extras, over and above contract rates) must be paid within 30 days of invoice. |
| 5. | PRICING | 5.1. | A Fair Trade Travel premium equivalent to 5% of STO rate is payable to an agreed development fund. |
| | | 5.2. | Each party to the package should receive their fair share. |
| | | 5.3. | Carbon offsetting must be calculated for all flights through a Gold Standards agency and offered transparently to the client. |
| COMPANY STANDARDS (Apply to all companies in the package: tour operators, transport providers and other (tourism products - accommodation, activities and attractions - have to be FTSA-certified)) | | | |
| 1. | LEGAL & GENERAL | 1.1. | All supply chain traders must comply with relevant national laws. |
| | | 1.2. | All supply chain traders must carry sufficient liability insurance coverage. |
| 2. | LABOUR | 2.1. | All supply chain traders must demonstrate compliance with national and/or international labour standards and legal requirements, whichever is higher, particularly in relation to child labour, freedom of association, forced labour, non-discrimination, living wages and basic conditions of employment. |
| 3. | HUMAN RESOURCES | 3.1. | All supply chain traders must establish and maintain an appropriate Human Resources (HR) policy regime. This should include written and/or verbal policies as appropriate to the business. |
| 4. | ENVIRONMENTAL MANAGEMENT | 4.1. | All supply chain traders must comply with all relevant national and international environmental regulations, and demonstrate commitment towards sound environmental practices. |
| 5. | HEALTH & SAFETY | 5.1. | All supply chain traders must comply with national acts and legal requirements regarding health and safety within the workplace, and demonstrate commitment to providing safe working conditions. |
| 6. | COMMITMENT TO FAIR TRADE | 6.1. | All supply chain traders must demonstrate commitment to human rights. |
| | | 6.2. | All supply chain traders must demonstrate commitment to preventing sexual exploitation of women and children in tourism. |
| | | 6.3. | All supply chain traders and service providers must demonstrate commitment to preventing corruption. |
| 7. | COMMITMENT TO COMMUNITY INVESTMENT AND INTERACTION | 7.1. | All supply chain traders must show commitment to community investment and interaction. |

(Source: FTSA s.d., 11.04.2013)

8.5. Calculation Schemes

Annual User Fee (Based on Staff Numbers)

| Overview of Minimum Annual User Fee Based on Number of Staff | | | | |
|--|-------------------|-------------------|-------------------|--------------------|
| | Number of staff | March 08 - Feb 09 | March 09 - Feb 10 | March 10 - Current |
| Micro enterprise | 1 - 5 staff | R550 | R605 | R665.50 |
| Very small enterprise | 6 - 10 staff | R1,100 | R1,210 | R1,331 |
| Small enterprise | 11 - 50 staff | R2,500 | R2,750 | R3,025 |
| Medium enterprise | 51 - 100 staff | R5,000 | R5,500 | R6,050 |
| Large enterprise | 101 - 200 staff | R11,000 | R12,100 | R13,310 |
| Very large enterprise | 201 or more staff | R16,500 | R18,150 | R19,965 |

Annual User Fee (sliding scale based on rate & capacity)

| Category | Daily capacity (e.g. number of beds or seats that can be filled in one day) | Weight (W) | User Fee = W (weight) x R (where R is the highest daily rack rate charged, per person) |
|----------|---|------------|--|
| A | 1 - 4 | 1.0 | R x 1.0 |
| B | 5 - 12 | 1.2 | R x 1.2 |
| C | 13 - 24 | 1.5 | R x 1.5 |
| D | 25 - 52 | 2.0 | R x 2.0 |
| E | 53 - 104 | 2.5 | R x 2.5 |
| F | 105 or more | 4.0 | R x 4.0 |

(Source: FTSA official website: What it costs, 11.04.2013)

8.6. Curriculum Vitae

Personal Information

Name: Veronika Hämmerle
Contact: veronika.haemmerle@gmx.at
Date and Place of Birth: December 23th, 1984, Lustenau, Austria
Nationality: Austria

Education

since 2005 Studies in International Development, University of Vienna
2007 - 2013 Studies in Economics, Vienna University of Economics and Business
1999 – 2004 Secondary Academic School for Economics, Rankweil
1996 – 1999 Lower Secondary School Hasenfeld
1995 – 1996 Secondary Academic School Dornbirn Schoren
1991 – 1995 Primary School Reihndorf

2004 – 2005 Stay Abroad, Santiago de Chile, Au pair & Language Course

Language Skills

German (mother tongue)
English (fluent)
Spanish (good basic knowledge)