

# Developing a Normatively-Grounded Research Agenda for Fair Trade: Examining the Case of Canada

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**ABSTRACT:** This paper examines two issues related to research of certified fair trade goods. The first is the question of how agendas for fair trade research should be developed. The second issue is the existence of major gaps in the fair trade literature, including the study of the particular features of fair trade practice in individual Northern countries. In taking up the first of these issues, the paper proposes that normative analysis should provide the basis for developing research agendas. Such an approach is important to ensure that the necessary types of questions to make normative judgments and policy decisions are posed and that biases which tend to favour mainstreaming practices in the generation of knowledge are minimized. The paper addresses the second research issue by examining the development of research agendas at the level of individual countries, using Canada as a case.

**KEY WORDS:** alternative trade, certification, co-operatives, development, fair trade, licensing, non-state regulation, social economy

**ABBREVIATIONS:**

ATO alternative trade organization  
 CCFT Canadian Coalition for Fair Trade  
 ED endogenous development  
 FLO fair labelling organization  
 FLO-IFair Labelling Organizations International  
 FF Fairtrade Foundation  
 FT (certified) fair trade  
 IFAT International Federation of Alternative Trade  
 NGO non-governmental organization  
 RIPESS International Network for the Promotion of the Social Solidarity Economy  
 SE social economy  
 SR socially responsible  
 TFC TransFair Canada  
 TFI TransFair International  
 TFUSA TransFair USA  
 WFTO World Fair Trade Organization

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This paper examines two issues related to the research of certified fair trade (FT) goods.<sup>1</sup> The first is the question of how FT research agendas should be developed, a topic that has received surprisingly little attention in the literature (Moore 2004). The second issue relates to another significant gap in FT research. This is the study of FT in the North and, more specifically, the trends and defining features of FT practice within individual countries.

This paper takes up the first of these issues from the perspective of applied ethics. Applied ethics is concerned with two basic tasks, making normative evaluations and guiding practice to bring it into conformity with justified goals and norms. From this perspective, research agendas need to be elaborated on the basis of a well-developed understanding of the normative issues at play as only such an understanding can systematically generate the data and analysis necessary for normative judgments and policy decisions that are likely to be effective in promoting practices and results in line with our norms and goals. The importance of a guiding role for normative theory is particularly strong in the case of FT for three reasons.

First, there is the complexity of the normative issues involved in FT. Not only is there a large number of issues involved, but there are qualitatively different types of normative questions (e.g., issues of procedure, conceptions of the good life, etc.) which need to be addressed (and prioritized). This allows for a wide variety of competing norms and goals within FT (not only across but within specific normative traditions), a situation which can be overwhelming for researchers. Without a clear statement of the nature of the normative issues, it is unlikely that researchers will systematically ask the types of questions that can supply the data and analysis that ethicists, policy makers and practitioners want.

Second, there is the complexity and range of data and analysis that needs to be produced. Without an overarching understanding of the normative issues involved, it is difficult to ensure that researchers from different disciplines and interdisciplinary fields will be able to work effectively together to generate the full range of data and forms of analyses that are needed to contribute to answers to complex normative judgments and policy decisions.

Finally, there is the project of FT itself, which seeks to generate alternative practices to support marginalized groups. Without explicit guidance from normative theory, there is a strong possibility that analysis from the social science (and professional) disciplines will be dominated by mainstream assumptions, methods and traditions. This could lead to a bias in the knowledge that is generated as such approaches may under investigate or even overlook important practices and institutions that (could potentially) provide important forms of support for the alternative strains of FT.

The paper addresses the second research issue – the lack of attention to the practice of FT in individual Northern countries – by examining the development of research agendas using the example of a single country, namely, Canada. In adopting this approach, the goal is not to provide a well-elaborated social science analysis of FT in Canada. Nor is it to offer a full normative evaluation. Rather, a particular country has been chosen to highlight the facts that FT practice varies across countries and that we have not generated the research on specific cases that is necessary to inform cogent normative evaluations and develop effective policy in particular contexts. We have chosen Canada for this task in large part due to our own familiarity with this case. In addition, however, Canada is of interest because of its patterns of socio-economic development, especially its strong social economy (SE)<sup>2</sup> tradition (MacPherson 2009), and the particular features of its FT practice, e.g., its governance structure, its licensee composition, etc.

In this examination of FT research agendas, we draw upon the tradition of critical theory (Habermas 1996, 1990; Reed 2009, 1999). We use this tradition not so much to provide criteria

for answering specific normative questions, but rather to borrow categories to differentiate types of normative issues. More specifically, we will distinguish: 1) the realm of morality which concerns questions of procedural fairness; 2) the realm of ethics which involves questions of the good life, and; 2) the realm of legitimacy which addresses issues of governance and the norms of democracy.

The paper proceeds in the following manner. Each of the following three sections examines one the three normative realms. In each section, the key normative issues are first identified. Next, an account is provided of how these normative issues relate to the Canadian context. Third, policy proposals are provided for the Canadian context which could potentially bring FT practice more in line with justifiable norms, while potential trade-offs (and possible conditions for success) are also noted. In the final section, a research agenda is developed based upon the information that would be required to make more informed choices regarding the adoption of specific policy proposals.

There are several caveats that should be noted. First, this paper does not attempt to examine all normative issues related to FT. The focus is on the major normative issues that arise in the practice of FT in Northern countries, especially Canada. Many issues relating more specifically to producers and certification processes are not discussed.<sup>3</sup> A number of other, less prominent Northern issues are also not dealt with. In addition, we have abstracted from many, but by no means all, issues relating to FLO-I. Finally, this paper does not address normative issues that arise at the macro-level of the international trade regime. While it is essential that such issues be analyzed (and that we not forget this larger context in which FT is situated), such a task is beyond the scope of this paper.

## I. FAIRNESS WITHIN FAIR TRADE

In the tradition of critical theory, morality refers to a realm of procedural fairness. The defining feature of moral norms is that they are universal in nature. They gain universal validity because all parties to a discourse must be able to consent to them. The reason that moral norms are only procedural in nature has to do with the fact that it would not be possible to get universal consent on more substantive norms relating to issues of the good life (as conceptions of the good life are inexorably linked to socialization processes within particular lifeworld contexts).

The practical use of moral analysis tends to play out not so much in efforts to assemble actors together to agree on procedural norms, but in the critique of norms which aspire to be universal, the evaluation of whether particular practices are in conformity with (potentially) universal norms (e.g., the conditions of ideal markets as norms for regulating actual markets) and the evaluation of whether we should have common procedural norms for actors when they operate in different circumstances (Reed 1999). It is in these latter two ways that we will address issues of fairness within FT.

### THE ISSUES

Before the advent of certification, fair trade was almost exclusively comprised of small SE actors who maintained close relations in very short value chains. With the introduction of certification, however, three major changes involving the participation of traditional firms have occurred to make the practice much more complex. One change was the incorporation of traditional retail outlets (first large grocery chains and later specialty shops and other retail chains). Initially, retail outlets were not involved as licensees, but over time there has been a

significant move in this direction. The second development was the entrance of large agro-food corporations, as well as small and medium-sized enterprises (SMEs), into the FT market as licensees. This first occurred in a significant way among retail coffee chains and service providers, but has now spread to other products as well. The third major change has been the incorporation of estate production within the FT network. While this move was initially seen as a concession to a shortage of production by small producers in some sectors, the use of estate production has grown rapidly in recent years. As these three developments have diversified the practice of FT, a variety of issues of procedural fairness have arisen. Most of these issues can be subsumed under three main categories (Reed 2009).

***Fairness in Licensing*** – One basic issue in FT is whether all actors of a certain category – for our purposes licensees<sup>4</sup> constitute the key category – should be treated identically. At first blush, the notion of fairness would seem to apply such equal treatment. Upon reflection, however, there may be important reasons for distinguishing between different types of licensees and treating them differently. In the case of licensees, there are two closely related reasons why some licensees might merit different treatment. The first reason is that some licensees might live up to higher standards than others (e.g., they purchase only FT goods, they provide additional benefits to small producers, they engage in FT education and promotion, etc.) and differential treatment (e.g., a different status, a lower fee structure, etc.) might encourage such desirable behaviour. The second reason to treat these licensees differently is that their more commendable practices may entail a higher cost structure and place them at a competitive disadvantage. Treating such licensees differently may offset this competitive disadvantage to some degree. Given such differences in practices between licensees, it might appear that a strong case could be made for differential treatment. Interestingly, however, the adoption of ISO 65 standards by FLO-I and many FLOs would actually seem to make it more difficult for these organizations to treat licensees differently (Tallontire 2009).

***Fairness in the FT Market*** – A second issue of fairness relates to the fact that FT markets tend not to approximate ideal markets. There are two basic concerns in this regard. On the one hand, there are information deficiencies. Consumers generally do not know much about FT licensees and how they differ (e.g., what their business strategies are, what levels of support they provide from small producers, etc.). More significant still, however, is the fact that corporate licensees may deliberately withhold information (e.g., what percent of their sales come from FT products) and actively seek to confuse consumers about what FT is and how it differs from more corporate-friendly, rival labels (Fridell 2007; Renard 2005).

In addition, licensees may also engage in anti-competitive practices. The types of anti-competitive practice which typically occur in the sectors in which FT products compete include exclusivity deals (where retailers or wholesalers can only contract from a given supplier), tying (which links products together which are not naturally related), dumping (selling products in competitive markets at below cost), limit pricing (setting artificially low prices to discourage new entrants) and the use of subsidies (in the case of FT this might involve cross-subsidization of FT products). In addition, companies might also gain unfair advantages by lowering costs in other problematic ways (e.g., policies and practices designed to undermine unionization). It is typically only larger firms with significant market power (oligopolistic status) that can effectively employ anti-competitive practices (Bagchi 1998). In FT markets, there are two types of actors in particular which are in a place to engage in anti-competitive practices, large agro-food corporations and large grocery retailers. They might do so either as licensees or not (Smith forthcoming).

## The Canadian Context

During its first two years of operation, 1997-1998, TransFair Canada (TFC) licensed 13 businesses. All of these initial licensees were SE enterprises with a strong commitment to FT. In this regard Canada is similar to most other FT markets. One difference between Canada and some of the European markets, however, is the lack of a dominant role by NGO-initiated FT social enterprises (Krier 2008). In Canada, Oxfam Canada was actively involved in running a FT social enterprise, but the experiment did not last long and the business was eventually sold to former members of the management team (Fridell 2007). Subsequently, Oxfam Quebec would later establish its own FT business and brand (Équita). While prominent in the Quebec market, this enterprise has not reached the scale of its European counterparts.<sup>5</sup>

By 2000, for-profit businesses, including the first corporate licensees, had started to enter the market. The influx of traditional business into FT has helped to sustain a continual growth of licensees in Canada (see Table 1) and has resulted in Canada having one of the highest per capita densities of licensees (135,412) of any country (see Table 3). More significant, perhaps, is the fact that the average sales of licensees has continued to grow even with the addition of new licensees. On the other hand, however, it must be noted that the average per capita sales of FT goods (€2.42 in 2007) remains relatively low in comparison with leading FT markets such as Switzerland (€21.06) and the UK (€11.57). (Krier 2008)

**Table 1: Growth of TransFair Canada Licensees**

Type of Licensee \ Year	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07	'08
New Licensees	5	8	17	41	25	20	25	12	24	45	59	38
Total Licensees	5	13	30	65	77	97	110	124	145	185	239	264
Net Increase (%)		160	130	117	18	26	13	13	17	28	29	10
Avg. Sales/ Licensee ('000s \$CDN)				73.2	110.5	141.9	201.9	254.5	321.7	431.2	480.0	757.6

Source: TransFair Canada (2005), Krier (2008)

In order to examine issues of fairness, it is necessary to categorize FT licensees. As the issues identified above concern differences in practices among licensees (and how this might lead to different cost structures) as well as differences in their size and market power, two basic types of criteria would seem to suggest themselves. The first are those that offer a measure of the commitment to licenses to FT, while the second provide a description of the basic business structure of licensees. From the literature (e.g., Huybrechts and Defourny 2008, Raynolds 2009), one might derive a set of criteria to measure the commitment of firms to FT that includes: a) the percentage of their sales deriving from FT certified products; b) the nature of their relationship with and support for small producers (as indicated by the principle of governance of the value chain) and; c) their commitment to growing the fair trade movement (as measured by their commitment to education and advocacy work). The second set of criteria to differentiate business types might involve standard distinctions made in the analysis of business, including size (large, medium, small), purpose (for profit, not-for-profit) and form of incorporation (privately-held corporation, publically-held corporation, cooperative, not-for-profit enterprise). Based upon these criteria, it is possible to distinguish three broad categories of licensees, each containing several subcategories (see Table 2).<sup>6</sup>

**Table 2: Fair Trade Licensees in Canada<sup>7</sup> (2010)**

Commitment to FT		Fair Trade Businesses	Socially Responsible Businesses	Profit-Driven Businesses	Total
Business Type					
Social Economy Enterprises	Co-operatives	6	2		8
	Social Enterprises	4	3		7
	SMEs (social entrepreneurs)	25	60		85
	Partnerships & Mixed Ventures	1			1
Traditional Firms	SMEs (traditional firms)			111	111
	Corporations (Privately-held)		1	26	27
	Corporations (Publicly-held)			8	8
TOTAL		36	66	145	247

Source: TransFair Canada (2010)

***Fairness in Licensing*** – The distinction of the various types of licensees in Table 2 incorporates significant differences in practices. The first broad category, FT businesses can be subdivided into four groups; FT co-operatives (including buyer and worker coops), FT social enterprises (established by NGOs as not-for-profit businesses to promote FT), FT social entrepreneurs (who have set up their own SMEs with the purpose of promoting FT) and mixed FT enterprises (with ownership by a group of SE businesses dedicated to promoting FT). What these businesses have in common are: 1) a near 100% commitment to selling FT products; 2) a direct relationship with small producers based upon solidarity and a commitment to capacity building and; 3) a commitment to building the fair trade movement through education and advocacy work. All of these firms can be categorized as SE enterprises.

Second, there are socially responsible (SR) businesses.<sup>8</sup> These firms are characterized by a commitment that falls short of that of FT businesses in at least two of the following ways: 1) they do not sell FT products exclusively; 2) they do not have direct relations with small producers based upon solidarity and/or; 3) they do not demonstrate a strong commitment to growing the FT movement. Four types of SR business can be distinguished; cooperatives (which transform or distribute some FT products, but do not do so exclusively); social enterprises (which are committed to selling FT products, but whose revenue is primarily directed oriented towards a different social purpose), social entrepreneurs (who try to balance FT with making profits and/or other social causes) and socially responsible corporations (which have a significant commitment to FT sales, but well short of 100% and which tend not to have direct relationships with small producers and little commitment to building the FT movement). All of these firms, except the last type could be categorized as SE enterprises.

Third, some businesses are engaged in FT primarily because of the relatively high profit margins that FT can generate as a niche market (and possibly also for image washing purposes). None of these firms maintain close relationships with producer organizations and none is committed to promoting the FT movement. Included in this category are SMEs and privately- and publicly-held corporations. Among these firms corporations rarely if ever sell high percentages of FT products, but SMEs which focus more exclusively on niche markets may.

***Fairness in the FT market*** – In Canada, the number of corporate licensees has been expanding in recent year, but their presence has not been as prominent as in the US or UK. In particular, some of the larger companies which have historically been accused of anti-competitive and socially irresponsible practices do not (yet) have a presence in the Canadian market. Thus, for example, while Cadbury recently announced (before being bought out by

Kraft) that it would enter the Canadian market, its larger rival Nestlé has not yet indicated any such intentions (Sampson 2009). Similarly, while some of the largest transnational corporations in the fruit sector have become licensed in other countries, such as banana giant Dole (in the US), they have not yet entered the Canadian market. On the retail side, Wal-Mart has also not yet entered the Canadian market as a licensee. Exceptions to this trend have been Minute Maid (Coca-Cola) and the coffee retail giant Starbucks which has a significant presence in the Canadian market.

The extent to which such corporate licensees<sup>9</sup> tend to withhold information from consumers and engage in non-competitive practices has not been widely studied, though some individual cases have been examined.<sup>10</sup> Nor has the impact of their participation in the FT market been well documented. Most notable for our concerns in this regard is the extent to which they are growing the market, squeezing out SE licensees or both.

## **POLICY PROPOSALS**

TFC could potentially address the types of normative issues raised above by adopting its own policies and/or advocating within FLO-I for policy changes. Whether the implementation of policies will lead to successful fulfillment of the intended goals can depend upon a range of actors and factors. Moreover, there is also the prospect that success will only be partial and may involve undesirable consequences as well. In deciding on particular policy proposals, therefore, decision-makers need to be able to identify the conditions for and likelihood of successful implementation. In what follows, some policy proposals are proffered which could potentially address the key normative issues raised above, along with an indication of some of the trade-offs and conditions for success that may be involved. The list of proposals is clearly not exhaustive.

***Fairness in Licensing*** – TFC could introduce three basic policy reforms to address issues of fairness in licensing. The **first** would entail distinguishing between types of licensees. There are two basic criteria on which licensees might be distinguished: 1) whether they source from estates or small producers, and; 2) the degree of their commitment to FT (as measured, for example, by the percentage that FT sales comprise of their total sales). Currently, most consumers do not seem to be aware of such differences in FT practices (or their potential implications). Providing consumers such information through differentiated labels could potentially improve fairness by enabling FT business licensees to market the additional “ethical value” that their products supply (McMurtry 2009). The primary trade-off involved in adopting such a proposal for a differentiated label is that it might discourage participation by corporate licensees in FT and induce a drop in FT sales. Another concern is that such a distinction might further contribute to confusion among consumers as to what FT is.

A **second** policy proposal that TFC could potentially implement to promote greater fairness would involve measures designed to reduce the cost disadvantages that FT business licensees face when trying to live up to what they see as the spirit of FT. Particular reform measures here might include a differential fee structure, more marketing/public relations support from TFC, etc. Assuming that such a policy could be effectively implemented, the basic trade-offs involved would include costs to TFC (e.g., the opportunity costs of not using such funds for other purposes) and its potential to induce defection by corporate licensees. The likelihood of such a policy being effectively implemented would depend upon the mix of measures and the costs structures of FT business licensees.

A **third** policy proposal that TFC could adopt would be to increase the licensing requirements for all licensees. Of particular importance in this regard might be establishing



significant minimum purchasing requirements. Such a policy, depending upon where the minimum standards was set, could limit the ability of corporations to unfairly draw upon their status as a FT licensee for public relations and marketing purposes while procuring the bulk of their product under non-FT conditions. Again, the obvious potential disadvantage of such a proposal is that it might reduce the propensity of corporations to participate in FT (inducing a drop in sales and fewer opportunities for small producers to participate in FT). The extent to which minimum purchasing requirements would induce such a reaction from corporate licensees is not immediately evident, but it may be telling that TransFair USA (TFUSA) felt the need to drop an informally agreed upon 5% minimum purchasing level to induce Starbucks to sign on as a licensee in 2000). (Jaffee 2007)

***Fairness in FT Markets*** – The traditional markets in many of the sectors in which FT products have been introduced (e.g., coffee, bananas, cocoa) have long been dominated by large agro-food corporations which have historically engaged in uncompetitive practices. When these large corporations decide to move into the FT market, they bring with them the same potential for using their market power to limit restrict competition. An urgent question for FT is what can be done to ensure that that these corporations compete fairly in the FT market. In principle, TFC could try to establish its own monitoring system to ensure fair market competition. Given resource constraints, however, a more feasible policy approach might be the development of a complaints mechanism. Small licensees (and possibly even producer organizations) could use such a mechanism to report potentially anti-competitive practices on the part of their larger, more powerful rivals (and partners). While a complaints mechanism might be a lower cost option to a full monitoring system, there could be trade-offs in terms of the effectiveness of inhibiting anti-competitive practices (Ascoly and Zeldenrust 2003).

A second problem relating to fairness involves the lack of information available to consumers and efforts by corporate licensees to confuse consumers through their participation in rival labelling bodies. An obvious policy option to address the former issue would be for TFC to require licensees to provide more information as a condition of licensing (e.g., what percent FT sales make up of their total sales). With regard to the latter issue, TFC could choose not to license companies that participate in rival certifying programs. Once again, the trade-offs involved in adopting such policies come in the form of potential losses in sales due to corporate defections from FT (and the resulting impacts on small producers).

## **THE NEED FOR RESEARCH**

Developing policy proposals based upon a full range of normative questions allows for the elaboration of a more complete research agenda, around which individual (and groups of) researchers can orient their work. It also facilitates the identification of specific research questions that are important for the effective promotion of FT. Developing and following through on more complete research agendas may involve a wide range of methodological approaches, including action research.

***Fairness in Licensing*** – The key issue of fairness in relationship to licensing raised above concerned the facts that FT businesses have different goals (to drive as much value to small producers as possible) and different costs structures than corporate licensees. One proposal for addressing this issue was to develop a separate label for estate production. The first requirement for assessing the feasibility of such a proposal is an analysis of the nature and impact of the current practice. Specifically, it is necessary to know the extent of sales that come from estate production in given sectors and how these sales are realized (i.e., in what types of

retail outlets, at what price and margin, etc.). Following on from this, it is necessary to calculate the degree to which these sales are currently displacing sales from small producers and what the long term trends might be (Bacon 2010). To this end, case studies of retailers in particular sectors could be used to determine whether they have switched from FT business licensees (and small producer suppliers) to corporate licensees (and estate production). A second approach to investigating the feasibility of this proposal is to gather information from consumers (through surveys, interviews, focus groups) on their preferences for supporting small producers (and FT business licensees) over estate production (and corporate licensees) and at what cost. A third step in evaluating the desirability of such a proposal would be to estimate the costs entailed in its introduction and operation (as well as the likelihood of consumers following through on any expressed preferences they have for small producer production).

**Figure 1: Researching Issues of Fairness**

Issue	Canadian Context	Proposal	Research Agenda
Licensing	<ul style="list-style-type: none"> <li>licensee growth</li> <li>prominent SE license sector</li> <li>no dominant SE licensees</li> <li>increasing corporate presence</li> </ul>	<ul style="list-style-type: none"> <li>label for estate production</li> <li>support for 100%ers</li> <li>minimum. requirements (e.g., procurement)</li> </ul>	<ul style="list-style-type: none"> <li>displacement of small producers?</li> <li>displacement of SE licensees?</li> <li>consumer support?</li> <li>SE licensee cost structures</li> <li>costing of proposal</li> </ul>
Competition	<ul style="list-style-type: none"> <li>overall sales growth</li> <li>relative contribution of sales <ul style="list-style-type: none"> <li>estates vs. small producers?</li> <li>SE vs. corp. licensees?</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>complaints mechanism</li> <li>licensing restrictions (e.g., disclosure)</li> </ul>	<ul style="list-style-type: none"> <li>competition strategies of estates &amp; corporate licensees</li> <li>impact on small producers &amp; SE licensees</li> <li>effectiveness of (non-state) anti-competitive measures</li> </ul>

A second proposal to address issues of fairness involved TFC offering support to FT businesses to help them offset their costs differentials. To evaluate the viability of such a proposal basic cost-benefit analysis can be used. This would require estimating the effectiveness of such measures (e.g., reduced licensing fees, promotion of licensees) in boosting the competitiveness of FT business (vis-à-vis corporate licensees). If the benefits are likely to be marginal, then funds that would be required could probably be put to better use.

A third proposal to increase fairness in licensing consisted of increasing standards for all licensees (e.g., a high minimum sales requirement, stricter pre-financing requirements, etc.). This could potentially reduce the possibilities of corporate licensees cross-subsidizing their relatively small FT offerings (Fridell 2009). It is not clear, however, whether such a proposal is more likely to level out costs structures and significantly increase the competitiveness of FT businesses than it is to induce corporate flight from FT. To estimate its impact, it would be necessary to undertake a series of case studies of firms in different FT sectors to determine what factors induce or inhibit corporate participation and what weight individual factors tend to carry.

***Fairness in the FT Market*** – In order to address the issue of fairness in FT markets – and the possible need for a complaints mechanism – it is first necessary to develop an accurate understanding of the extent of the problem of anti-competitive practices. This requires case studies and sector studies of practices in both traditional and FT markets.<sup>11</sup> Such analysis needs to focus both on the level of production as well as the level of distribution, including the relationship between large agro-food processors and grocery distribution chains (Renard forthcoming; Smith forthcoming). A second related area of research involves the manner in which FT business licensees are being impacted by the entrance of corporate licensees, in

particular, whether and to what extent they are being squeezed out of mainstream distribution channels. A third area of research essential for evaluating such a proposal entails the study of regulatory measures designed to try to control anti-competitive practices, including efforts by other non-state regulatory initiatives to implement complaints mechanisms (e.g., the Workers' Rights Consortium). (O'Rourke 2006) A final requirement for evaluating the feasibility of such a proposal entails a costing of different variants of complaint mechanisms (as well as the estimation of the likely impact of imposing such a system on participation by corporate licensees in FT).

Similarly, efforts to evaluate a policy to prohibit participation by FT licensees in rival labelling bodies need to first gather data on the extent of this practice and then develop an analysis of how the practice fits into corporate strategies (e.g., whether it is intended to undermine FT standards, to squeeze out FT business licensees, etc.). On this basis – along with estimates of the potential impact on sales – a more informed decision can be made about the trade-offs involved in this policy.

## II. ETHICAL ISSUES

In the tradition of critical theory, the notion of ethics refers to issues of identity and substantive conceptions of the good life. Because our conceptions of the good life are not independent of the context in which we have been socialized, it is not realistic to expect universal agreement on questions of ethics. There can, however, be rational discourse on what the good life is and some degree of consensus may be arrived at in particular communities.

There are a number of components which may be involved in conceptions of the good life (e.g., the importance of maintaining traditional lifestyles, culture and language, the meaning of work, the form of one's relationship with the natural world, etc.) Such complex conceptions of the good life may themselves be categorized in different ways. In the context of FT, one such category that is particularly relevant is the notion of normative conceptions of development. In this section we will contrast competing normative conceptions of development to explore the nature of the ethical issues within two key realms of FT.

### THE ISSUES

***The Ethics of Production*** – While there are a number of ethical issues relating to FT production, the over-arching point of contention is the existence of two distinct forms of production, namely, by small producers and by large, privately-owned estates (Renard and Pérez-Grovas 2007). This situation is of great importance from an ethical perspective because these different forms of production can largely determine the prospects for pursuing different models of local development. For the sake of simplicity, we can contrast two different normative models of local development that correspond to these two different models of production in FT (Mukherjee Reed and Reed 2009a).

As a normative model, endogenous development (ED) advocates that local actors be viewed as the primary protagonists in the development enterprise and highlights the importance of their participation in ownership and control over the local economy. These substantive values of control over the local economy also have an important instrumental value in terms of allowing local communities to pursue other, related substantive goals (e.g., preservation of culture, language and traditional life forms, etc). The basic features that define an ED model are SE enterprises that are linked together in a self-reinforcing network of relations and an openness to

collaboration with outside actors (Ray 1999).<sup>12</sup> As a local development strategy, ED encourages the movement up the value chain into primary and secondary processing, the diversification of production into different sectors and the development of local and national as well as export markets. Underlying the strategy of ED is the assumption that local communities can draw upon local physical and human resources to develop innovative production strategies (“repertoires”) that are grounded in SE relations and that enable local communities to react to external challenges in the global economy. It is this model of development that seems to be most compatible with the aspirations of small producer organizations, especially in Latin American (VanderHoff Boerszma 2009; Wilkinson and Mascarenhas 2007a, 2007b).

In contrast to ED, the dominant market based models of local development rely upon corporate actors to generate growth and employment. As normative model, variants of the corporate-led growth perspective typically do not explicitly hold any strong substantive values apart from an emphasis on the freedom of economic activity. Among such models, two are most important for our purposes. On the one hand, there is a neo-liberal variant which seeks to minimize regulatory interference in markets, while on the other hand there is a socially regulated variant which seeks to introduce voluntary restraints on corporations (back up by consumer pressure) to ensure conformance to minimum labour and/or environmental standards (Mukherjee Reed and Reed 2009a).

It is the latter variant of the model, socially-regulated corporate-led growth, which is promoted through the use of estate production in FT. In this version, development is understood in terms of income levels (though there is still the requirement of a social premium which workers control) and respect for basic labour rights. Empowerment means increasing the ability of workers to use the industrial relations process to negotiate a better contract (as well as initiating social development projects though the social premium). Empowerment, however, does not extend to participation in decision-making regarding production, investment and marketing strategies. Nor does it entail participating in other decisions about the development of the local economy (in ways that the small producer model of production might). (Renard and Pérez-Grovas 2007; Shreck 2005)

The existence of two distinct production models in FT which benefit two different marginalized groups and which tend to promote two different models of development raises some basic questions of priorities. Specifically at issue are two related questions. Should FT favour one group (agricultural workers or small producers) over the other? Should FT favour one development model (socially regulated corporate led growth or endogenous development) over the other? The most obvious option between the apparent dilemmas might be not to choose. This is in fact what FLO-I has done by allowing both forms of production. The concern that small producers have, however, is that the decision not to choose may in fact be a choice which results in estate production ultimately displacing small producers from FT. To the extent that estate production has a lower cost structure, *ceteris paribus*, traditional business licensees and retailers will tend to prefer it over small producers. For this reason, many small producers have been adamantly opposed to the increasing expansion of estate production within FT (Renard and Pérez-Grovas 2007).

***The Ethics of Exchange*** – There are two basic models of exchange that can occur within FT markets. On the one hand, there is a liberal notion which evaluates exchange in terms of procedural fairness as defined by the basic conditions for ideal markets. Underlying such a liberal conception is a formal agnosticism about the good. Exchange is a purely instrumental function, with no strong ethical significance. This is the dominant understanding of exchange in

traditional businesses, including those operating as FT licensees. In contrast to this liberal notion, market exchanges can also be understood as having ethical import in their own right. This can occur in exchanges between SE enterprises which have a social purpose for being in business. When such firms share a common purpose, market exchanges express relationships of solidarity and serve as a method for achieving a common goal (not just a means for maximizing individual interests in a fair way). This is the understanding of exchange that commonly exists among SE licensees and small producers (where the common goal is typically the promotion of a model of ED).

The basic ethical question relating to exchange is whether FT should favour one or the other of these types of exchange. Historically, of course, alternative trade movements favoured the latter model. Concerns about the need to expand the market, however, led some producer organizations to compromise the promotion of such relationships in order to grow sales (and to better enable more producer organizations to engage in ED), the strategy embodied in the establishment of Max Havelaar, the first FT labelling body. The nature of these compromises, including their relevance today, can be more clearly explained in terms of different variants of the FT value chains (Reed 2009).

Before certification, the practice of fair trade (commonly referred to as alternative trade) was characterized by short values chains composed entirely of SE enterprises. When Max Havelaar developed the first certifying body for the coffee sector, traditional businesses, including large corporate actors, entered into the value chain. Three types of large traditional businesses would become involved in FT, namely, large retail grocery chains, large agro-food processing companies and large agricultural estates (see Figure 2).<sup>13</sup> While the original alternative trade value chains (1) would continue to exist with the introduction of FT certification, as some alternative trade organizations (ATOs) embraced the notion of expanding distribution through such distribution channels, in the process creating a new variant of the FT value chain (2). With the entry of large agro-food corporations in FT, another variant of the FT value chain would emerge (3) as corporate licensees distributed their products through grocery retailers or (as was the case with coffee retail chains) through their own distribution networks. Finally, the introduction of estate production would lead to another development in the FT value chain (4).<sup>14</sup>

**Figure 2: Four Variants of the Fair Trade Value Chain**

Type of the Value Chain	Level of Corporate Involvement	Nature of Exchange
(1) wholly social economy	none	solidarity-based relations
(2) social economy dominated	retail	solidarity-based relations
(3) corporate dominated	retail, licensing	socially-regulated market relations
(4) wholly corporate	retail, licensing, production	socially-regulated market relations

In terms of our concern with the ethics of exchange, what should be noted at this stage is that two quite distinct groups can be distinguished among these four variants of the FT value chain. On the one hand, the first two variants continue to be (predominantly) characterized by exchange relations based upon solidarity between SE actors (except for the inclusion of traditional corporate retailers at the end of the first chain). On the other hand, the latter two variants are based upon liberal exchange relations between traditional business and small producer organizations (3) or just liberal exchange relationships between traditional businesses (4). In the section on policy proposals, the nature of the trade-offs involved in choosing between

these different variants of the FT value chain will be further developed.

### THE CANADIAN CONTEXT

In examining the ethics of production and exchange in Canada, there are two basic issues to touch upon. The first is the nature of the actual practices (namely, the extent of estate production vis-à-vis small producer production and the extent of the role of FT business licensees vis-à-vis traditional business licensees). The second is the understanding of and support by key stakeholder groups for the underlying ethical positions to which these different forms of production and exchange are linked.

***Ethics of Production*** – There have been no studies done on the extent of the sales of FT products in Canada produced under estate conditions. Of course, as in other countries, the majority of FT sales in Canada historically has not come from products grown under estate conditions because key sectors (coffee, cocoa, cotton) have not been certified for estate production. In those sectors that are so certified, however, there has been tremendous sales growth in recent years, especially in fruit (bananas) and tea (TFC 2008). While there are small producers operating in these sectors, the capacity of their organizations is being dwarfed by the increasing number of estates that are being certified. In the case of bananas, for example, while much of the original FT production came from small producers in the Caribbean, in recent years there has been a large shift to estate production from Latin America (Frundt 2009; Robinson 2009).

While we do not have data, the recent incorporation of large grocery retailers into FT in Canada as licensees might lead one to assume that most of the production in sectors such as tea and bananas is coming from estates. There would be two good reasons for such an assumption, based upon what has happened in other FT markets. First, there may be cost considerations which would make estate produced FT products cheaper (Renard and Pérez-Grovas 2007). To the extent that corporate retailers are primarily driven by profits, then they will choose the least cost option. Second, even if corporate retailers do want to support small producers (either because of consumer demand or out of some sense of social responsibility), they may find these organizations incapable of meeting their demands (Robinson 2009). Under such circumstances, it is not unreasonable to anticipate that small producers (and their Northern FT business partners) operating in these sectors will be forced to subsist in alternative distribution outlets (whole food stores, world shops, etc.), even if they are able to develop new, innovative ownership and capacity building strategies.<sup>15</sup>

With regard to public awareness and support for different forms of production (and exchange) within FT, the available data is best described as limited and partial. This is especially true with respect to consumers. In Canada, very little empirical work has been done on consumers, while that which has been undertaken focuses narrowly on a general awareness of FT, the price elasticity of consumer demand and other related factors which might affect the willingness to buy FT products, e.g., convenience, quality, etc. (Hira and Ferrie 2006; Arnot et al. 2006). No effort has been made to probe consumers' understanding of how FT operates and the existence of different practices within FT.

In development organizations, not surprisingly, there are much stronger indications of awareness of the existence and implications of different modes of production in FT. This understanding is rooted in a significant shift in their understanding of development dating back to the 1970s and 1980s. At that time, as the prospects for the modernization project in the South were being called into question, development organizations began to see their mandates less in

terms of philanthropy and more in terms of social justice. Local people were increasingly perceived as collaborators rather than recipients of aid (Navarro-Flores 2009; Hira and Parfitt 2004). The 1990s saw a further shift in the understanding and practice of development organizations, induced largely by processes of economic globalization and the reaction to these changes by local communities. In a climate of decreased government support and increased economic distress, local communities not only developed sharp critiques of national and international structures, but turned increasingly to self-organization to promote their development aspirations. In this context, development organizations increasingly came to see local communities in the South as partners in a shared agenda of global justice (Navarro-Flores 2009; Favreau 2008). For many such organizations, the FT relationships between small producers and Northern consumers and ATOs have come to symbolize this understanding of partnership.

Another key population in Canada among which the awareness of and support for FT has grown significantly in recent years is the SE sector. SE actors, especially cooperative bodies, have long been actively involved with local partners in the South in the promotion of local development (MacPherson 2009). Among Canadian provinces, the role of Quebec has been particularly prominent in recent years, especially with the development of international SE networks such as RIPESS (Favreau 2003).<sup>16</sup> FT has played an increasingly large role in these efforts in recent years, with a variety of national and provincial level organizations becoming actively involved, including the Canadian Community Economic Development Network (CCED-Net) and the anglophone and francophone co-operative associations. This involvement not only includes support for their individual members that are FT businesses, but also extends to active participation in education and advocacy activities. The Manitoba chapter of CCED-Net, for example, has worked closely with Fair Trade Manitoba in the development of a provincial purchasing policy. They have also been active in developing provincial wide campaigns to promote sales of FT goods. Similar activities and levels of involvement have been co-ordinated in Quebec by the provincial wide SE organization, “*Le Chantier de l’économie sociale du Québec*. In engaging in FT, these organizations have done so with an eye to supporting locally controlled development models in the South (Lemay 2004; Favreau 2003; Mendell 2002).<sup>17</sup>

***The Ethics of Exchange*** – In Canada, as in most other Northern countries, the original FT licensees were SE enterprises committed to developing long-term trade relationships based upon solidarity. Today, we can see that SE enterprises still comprise a large percentage of FT licensees in Canada (see Table 2). What is less clear, however, is the actual contribution of such licensees to total sales of FT goods and, therefore, the degree to which alternative trade relations actually characterize FT practice within Canada. One particularly significant feature of this question may be the degree to which the practice of FT varies within Canada itself. This question is potentially important because different patterns of practice within Canada might map on to other differences in the Canadian economy (most notably support for the SE more generally from consumers, citizens, governments, etc.) and provide insights into the role of the larger SE in supporting FT and FT business licensees. One point of entry into examining this issue is to look at the regional distribution of different types of FT licensees (see Table 3).

**Table 3: Distribution of Licensees in Canada (by province<sup>18</sup> and type, 2010)**

Prov	Fair Trade Business				Socially Responsible Business				Traditional Businesses			Total	Pop/ Licensee
	Coop	Soc Eprz	SEnt	Mixed	Coop	Soc Eprz	SEnt	Corp	SME	Pvt Corp	Pub Corp		
AB							3		6			9	325,922
BC			4				17		15	6		42	109,540
MT							1					1	1,207,959
NB							1		2			3	249,100
NL									1			1	253,947
NS	1						2		3			6	117,288
ON	2	1	4		1		23		31	12	4	78	152,105
PEI							1					1	139,818
QC	3	3	13			3	11	1	50	4		88	83,338
SK									1			1	1,015,985
YK			1						1			2	16,572
Foreign <sup>1</sup>			3	1	1		1		1	4	4	15	N/A
Total	6	4	25	1	2	3	60	1	111	26	8	247	N/A
RoC <sup>2</sup>	3	1	12	1	2		49		64	22	8	153	N/A

Source: TransFair Canada (2010)

<sup>1</sup>Foreign = 3<sup>rd</sup> party + foreign TFC licensees

<sup>2</sup>RoC = Rest of Canada (Total - Quebec)

The results of such a mapping are suggestive. The one feature that stands out clearly is the difference in SE involvement in FT across regions. Most notable in this regard is the fact that Quebec, the province widely regarded to have the most dense SE network and the strongest public support for SE enterprises, has the highest per capita level of FT businesses of any province. While it might appear reasonable to try to extrapolate from such a distribution of FT business licensees to support for such licensees by other actors (consumers, citizens, development NGOs, others SE actors) in their region, two points should be noted. First, we do not have the data to support such projections. As noted above, there is very limited survey data on FT and the data that does exist does not indicate preferences for particular types of FT licensees. Second, the number of SE firms may be a poor estimator of public support for FT licensees (and FT more generally). The province of Manitoba, which has one of the strongest SE traditions in the country,<sup>19</sup> would seem to be a case in point. While there is only one FT licensee, it is the only province with its own provincial FT organization (which is closely tied to the regional community economic development organization). Also, its legislature is currently considering a province wide FT purchasing policy, another first in Canada. What this means is that the existing distribution of FT licensees probably underestimates the level of popular support for FT in some regions, including the potential for marshalling support for new and existing FT businesses.



## POLICY PROPOSALS

*The Ethics of Production* – TFC could pursue two basic policy options to deal with the ethical concerns in this area. The **first** of these would be not to license firms that source from estates (and to advocate that FLO-I not certify estate production). This option – which effectively eliminates the fourth variant of the FT value chain distinguished above – would have the practical effect of incorporating more small producers in FT and enabling them to pursue an ED strategy. The related benefits of such a strategy for TFC could include solidifying its core mission (of supporting small producers), bringing its mission more in line with its public image and increasing brand integrity and consumer confidence. If adopted more widely within the FT network, this strategy would greatly alleviate tensions between small producer associations and the labelling organizations (Renard and Pérez-Grovas 2007).

Such a policy would likely also have costs. One of the groups that could be adversely impacted would be agricultural workers. The extent to which they would be affected, however, is difficult to evaluate. It would depend largely on whether those estates that were formerly FT certified chose to join a rival label (e.g., Rainforest Alliance, Utz Certified, etc.) and the degree to which these rival organizations differ in practice from FT estate production. Such a policy would likely impact sales of FT goods as well, especially in the short run as the infrastructure for incorporating small producers in the sectors affected is underdeveloped. The extent to which the capacity of small producers could be significantly and rapidly increased to meet the demands of large retailers and avoid their defection to rival ethical certification schemes is an open question (Robinson 2009). TFC would also be impacted by such a policy change as a drop-off in sales would imply decline in licensing fees (which could impact on its ability to offer services to licensees, engage in promotion, etc.).

The **second** policy option would be (to advocate in FLO-I for) the adoption of a differentiated label which clearly identifies whether a product has been produced by small producers or whether it has come from an estate. This policy should represent an improvement over the current situation for small producers as it would better enable them to distinguish their products. The effectiveness of such a policy, however, would depend upon the ability of consumers to recognize the difference between the variants of the FT labels, their having a preference to support small farmers and the existence of competitive markets which would respond to this demand. There are two closely related concerns about such a policy. On the one hand, it could merely serve to merely slow down the process of squeezing out small producers from these sectors of FT trade. On the other hand, such a differentiated label could facilitate extending estate production into the remaining FT sectors in which it is not currently permitted (coffee, cotton, cocoa and honey). Such scenarios could eventually eliminate any role for FT in promoting alternative forms of development (Renard and Pérez-Grovas 2007).

*Ethics of Exchange* – In the case of exchange, two similar policy proposals could be introduced. The **first** would be to restrict licensing to FT business (and other SE) licensees, a proposal which would eliminate the third version of the FT value chain described above. Such a proposal would help to ensure that FT trade is based upon relations of solidarity, a practice which in turn would help to ensure that small producers can pursue an ED strategy. Such effects would also bring the practice of FT more in line with its public image (associated with the empowerment of small producers) and eliminate the practice of “fair washing” and any negative impacts that it has had on the FT brand (Renard 2005).

Again, the implementation of such a policy would probably be accompanied by considerable costs. The most significant would likely be a sizeable drop in sales of FT goods,

especially in the short term. The extent of the drop in sales and the prospects for recovery in the medium to long term are not immediately evident for a couple of reasons. First, we do not know what the current contribution of such licensees to FT is (as such data is not readily obtainable). Second, it is not easy to estimate the extent to which losses in sales by corporate licensees might be made up by FT businesses. Third, there is the prospect that additional measures could be taken to promote FT which could help to recoup some of the lost sales.

The **second** policy proposal which could be developed to address the ethics of exchange is for a differentiated label which clearly distinguishes FT businesses from traditional business licensees. Unlike the previous proposal, this one compromises support for trade relations based on solidarity with an eye to growing sales (more rapidly). Under this proposal, small producers not only can continue to maintain their relationships with FT businesses licensees, but consumers can more readily identify and patronize such licensees, while the small producers can also continue to enjoy the benefits of an expanded market which comes from the participation of corporate licensees.

The potential costs of such a proposal take the form of two significant risks. On the one hand, by not eliminating corporate licensees, the prospect remains for them out-competing FT businesses and eventually driving them out of the market. This would result in the end of alternative trade based upon relationship of solidarity. In addition, there is the possibility that the continued presence of corporate licensees in FT, through their lobbying for extending the practice of estate production to all FT products, could eventually result in the elimination of small producers themselves from FT trade (Renard and Pérez-Grovas 2007).

## THE NEED FOR RESEARCH

There are three basic research tasks which need to be undertaken with respect to issues of ethics in production and exchange. These are data collection relating to current practices and models in Canada, the analysis of these practices and the investigation of the potential resources for promoting SE alternatives (to estate production and corporate licensees).

***The Ethics of Production*** – Proposals to restrict the participation of estate production in FT highlight in the first instance the need to collect data. On the one hand, it is important to establish the extent of the presence of estate-produced goods in the FT market in Canada (and elsewhere). On the other hand, it is necessary to generate data on how workers fare under estate production (both in FT and rival labelling bodies).

In terms of analysis, there are two key features that require investigation. In relation to estate production, it is essential to develop causal explanations of the growing presence of this mode of production in FT (e.g., the interests of large agro-firms and national labelling bodies, the role of market structures, etc.) and how the practices of actors in estate-based value chains impact the ability of small producers to penetrate the Canadian market (e.g., the setting up of barriers to entry).<sup>20</sup> With respect to small producers, it is necessary to investigate the various weaknesses that can arise in the value chains in which they operate (e.g., especially factors that limit the ability to grow FT businesses that can effectively meet the demand of large retailers for FT products commonly produced on estates, e.g., tea, bananas, etc.).

Finally, there is a need to analyze strategies employed elsewhere, e.g., in other countries (such as the FT Universities campaign in the UK) and other movements (e.g., “no sweat movement”), and identify potential resources in Canada that can be deployed to improve the competitiveness of small producer-based value chains. This is an area where action research could be particularly important. On the demand side, efforts to promote such value chains could

include SE and other civil society actors engaging in campaigns to pressure tradition retailers (to offer small producer-based FT products) and public institutions (to adopt FT procurement policies which support small producers) as well as SE actors committing to source as many inputs and products as possible from small producers. On the supply side, it could involve SE actors supplying more support (e.g., financial, organizational, technical) through their apex international organizations (e.g., Canadian Cooperative Association) and other international SE networks (e.g., RIPPSS). A particularly intriguing question is whether larger cooperatives in Canada (perhaps with coordination through their apex bodies) could play a similar role that development NGOs have played in the Netherlands and the UK in developing new multi-stakeholder ownership models (e.g., solidarity cooperatives) to involve small producers in the South in ownership of FT retail and distribution networks in Canada (Davies 2009; Doherty and Tranchell 2007).

**Figure 3: Researching Ethical Issues**

Issue	Canadian Context	Proposal	Research Agenda
Production Relations	<ul style="list-style-type: none"> <li>• no distinction among producers</li> <li>• strong support for ED models by SE actors/development NGOs</li> <li>• consumer support?</li> </ul>	<ul style="list-style-type: none"> <li>• only small producers</li> <li>• differentiated label</li> </ul>	<ul style="list-style-type: none"> <li>• development impact of estates               <ul style="list-style-type: none"> <li>○ FT vs. rival estate production</li> <li>○ FT estate vs. small producers</li> </ul> </li> <li>• weak links in SE value chains</li> <li>• Northern SE actors untapped potential               <ul style="list-style-type: none"> <li>○ generating demand</li> <li>○ support services for producers</li> <li>○ N-S joint ownership schemes</li> </ul> </li> <li>• consumer knowledge/support</li> </ul>
Exchange Relations	<ul style="list-style-type: none"> <li>• no distinction among licensees</li> <li>• significant no. of SE licensees</li> <li>• no dominant SE licensees</li> <li>• strong SE sector in Canada</li> <li>• consumer support?</li> </ul>	<ul style="list-style-type: none"> <li>• only SE licensees</li> <li>• differentiated label</li> </ul>	<ul style="list-style-type: none"> <li>• sales and distribution networks               <ul style="list-style-type: none"> <li>○ SE vs. corporate licensees</li> </ul> </li> <li>• Northern SE actors untapped potential               <ul style="list-style-type: none"> <li>○ developing new SE licensees</li> <li>○ supporting existing licensees</li> </ul> </li> <li>• consumer knowledge/support</li> </ul>

*The Ethics of Exchange* – Proposals to restrict licensing point to the need to better understand the generation of sales in the FT market. The first task in the endeavour is gathering more detailed data on sales. More specifically, it is important to establish the breakdown of sales on the basis of different types of licensees (namely, FT businesses vis-à-vis corporate licensees), both across sectors and geographic regions within the country. Such data should be able to provide the basis for a mapping of the changing patterns of licensee involvement, including analysis of the extent to which FT businesses are being squeezed out or marginalized with the entrance of corporate licensees. Moreover, when combined with case study analysis (from within Canada and abroad) and more sophisticated data on consumer demand, this data should provide for causal accounts of these changing patterns, including an analysis of the conditions under which FT businesses can survive and grow (and the likely costs of restricting or eliminating corporate licensees).

The other key areas of research involve the analysis of existing practices in other places to support SE licensees and of the resources potentially available in Canada for this purpose, especially among socially economy actors (Becchetti and Costantino forthcoming). On the demand side, this can involve more concerted efforts on the part of SE actors to support SE licensees (e.g., through education campaigns, procurement policies), while on the supply side it might involved more systematic efforts to supply financial and other resources to new and

existing SE licensees (e.g., establishing capital funds), as well as large, successful SE enterprises (e.g., dairy cooperatives, insurance cooperatives, credit unions, etc.) becoming involved as licensees themselves (e.g., in stakeholder cooperatives). Again, action research projects could be particularly important in this area.

### III. ISSUES OF LEGITIMACY

Discourse can in principle provide us with norms for procedural justice based upon consensus and, in more limited cases, can help us to articulate shared understandings of the good life. As noted above, however, conceptions of the good life are inherently linked to particular contexts in ways which make it unlikely that we can have universal conceptions of the good life. Moreover, disagreements can arise as to how to apply shared values and procedural principles in particular circumstances, especially in a timely fashion. In such instances we cannot rely upon consensus, but must have procedures which allow us to cut off discourse and engage in decision-making in a fair manner. From a critical theory perspective, this is what the institutions and practices of political democracy enable. They allow us to channel societal discourses, in which all competent actors have the right to participate, through democratic institutions in ways that provide us with legitimate rules (law) that we can act upon. What grounds the legitimacy of the rules is the fact that they have emerged from a process of discussion in which all actors have an equal opportunity to participate and in which power differentials (based upon economic resources, status, military might, etc.) do not play a role. Only the better arguments win. The formal decision-making processes are primarily a way of channelling public discourse, not the primary criteria for evaluating democratic practice.

In the section we investigate the question of the legitimacy of decision-making processes and institutions in FT. While, FLO-I, the umbrella decision-making body within FT, is an obvious object of concern, our focus is primarily on the national FLOs, especially TFC, and the legitimacy of their decision-making processes.

#### THE ISSUES

In taking up the question of the legitimacy of non-state bodies such as TFC and other FT labelling bodies, several issues would seem to arise. The first, and most fundamental, is whether democracy is the necessary basis for legitimacy. If it is conceded that the legitimacy of NGOs needs to be founded on democratic practice, then other questions follow as to what democracy means in non-governmental organizations (NGOs). Of particular concern in this regard are the problems of defining the constituencies of the decision-making bodies and designing the decision-making institutions. Below, these three questions are examined in turn.

***The Basis of Legitimacy*** – In contemporary societies democratic practice has become the ultimate basis of legitimacy for nation states, as well as at other levels of government. While the literature on democratic theory quite diverse in nature, there does tend to be a broad agreement on some basic principles. These include the notions that governments derive their legitimacy from their constituents (popular sovereignty) and that they do so on the basis of establishing and ensuring basic rights to and procedures for participation, including the election of representatives (Cunningham 2002).<sup>21</sup>

While democracy is nearly universally acclaimed as the only valid basis of legitimacy for governments, not everyone would agree that the legitimacy of NGOs, such as TFC, has to be

grounded in democratic practice. Some scholars argue that NGOs, especially those working with marginalized populations, might base their legitimacy on a combination of competency, the merits of their mandate and certain procedural norms (some of which may be key components of democratic practice, e.g., transparency). There are two basic grounds for not having democratic practice as the basis for legitimacy. First, it could be argued that such NGOs are essentially socio-economic, not political organizations and, therefore, what is more important is the question of efficacy (i.e., how well they are able to fulfill their given mandate). Second, one might contend that while democratic practice is a long term goal, in the short to medium run it is not practical when marginalized groups are involved (as they are not able to effectively represent themselves). Thus, in the short to medium run at least, legitimacy must be based upon other criteria, e.g., the importance of its goals, transparency, competence, efficacy, etc. (van den Burghe 2006, Attack 1999)

The latter argument does not so much challenge the importance of democratic practice as argue that the conditions for its implementation are not always in place (and in their absence people still need to act to support marginalized communities). The former argument more directly challenges the necessity of democracy for NGO legitimacy. The problem with this argument is that it does not adequately distinguish between the different tasks NGOs engage in. For NGOs involved in relief services, for example, the notion of legitimacy may not apply in the same way as it does for rule-making NGOs. Insofar as the former do not generate rules which they expect different parties to be able to accept, they may not need to legitimate their own practice through democratic procedures. Their requirements for legitimacy may only extend to living up to existing legitimate law (which typically requires standards for transparency, accountability, etc.). For NGOs which seek to develop norms of action, however, the situation is arguably different. Insofar as they expect parties to consent to their norms, then the validity of these norms need to be justified through democratic practice.

This understanding of the need for rule-making NGOs to have democratic legitimacy is not an abstract question for the organizations in question. To the contrary, it is very much an on-going topic of debate, especially among civil society initiated, non-state regulatory initiatives. Indeed, many organizations, such as the Forest Stewardship Council, have not only acknowledged the need for democratic legitimacy, but have established elaborate structures and practices (Dingwerth 2008).<sup>22</sup>

In the case of FLO-I, there has been an implicit acknowledgement in recent years of an initial democratic deficit and significant governance reforms. When FLO-I was initially constituted in 1997, the discussions leading up to its formation were dominated by the national FLOs who decided that only they would be full voting members. Such an apparent contradiction within the organization – which was committed to the empowerment of small producers, but which did not provide the latter with opportunities to take part in decision-making – was unacceptable to small producer organizations who continued to press for representation. As a result of their pressure, FLO-I has undertaken a series of institutional reforms which have resulted in the current structure in which small producer organizations are recognized along with the national FLOs as members of FLO-I and have the right to elect four of the 14 members to the FLO-I board. They also have representation on key FLO-I committees, most notably the standards committee. The national FLOs, however, still retain a plurality of the votes and one of their representatives serves as the Chair (features which small producers oppose). (Renard and Pérez-Grovas 2007)

Despite the on-going debate as to whether reforms in FLO-I have gone far enough, there is no doubt that these reforms reflect an (implicit) acknowledgment of the part of FLO-I of the need to base its legitimacy on democratic practice. Such a commitment to democratic practice, albeit implicit, is not a defining feature of all of the national FLOs, however. Here there seem to be two different tendencies. On the one hand, in some FLOs founding organizations (typically national development NGOs) have the right to elect members to the board of the labelling body. In this model, these member organizations function as the key constituencies of the FT network and the board is responsible to them (FF 2010). While such FLOs might be criticized with respect to the make-up of their membership, these structures reflect a certain degree of democratic practice. In contrast, other FLOs, TFUSA being the most notable example, do not have member organizations. In these cases, the board is a self-appointing institution. The practice of the board choosing its own members means that it is not formally accountable to any other actors. In such cases, the organizations seek to justify its structures and practice not on the basis of democratic practice, but rather on its efficacy in promoting FT (as measured, for example, through sales, the number of licensees, etc.). (Jaffee forthcoming)

**Key Constituencies** – Non-governmental regulatory bodies differ from governmental bodies in that they have a much more limited mandate. They are voluntary organizations that are established for a particular purpose. If we accept the notion that such bodies should seek their legitimacy through democratic practice then there would seem to be two criteria which could combine to establish the constituencies of the organization, namely the commitment to democratic practice and the mission of the organization.

In relation to the mission of the organization, there would seem to be a basic distinction between two types of constituencies. On the one hand, there may be constituencies that the organization seeks to support as part of its mission. In the case of FT the two groups that are most commonly identified as such constituencies are small producers and agricultural workers. On the other hand, there may be a range of potential constituencies whose status derives from their commitment to contributing to the fulfillment of the organization's mission. In the case of FT, these would typically include FT businesses, development NGOs, environmental groups, student associations, social justice organizations, cooperatives, community economic development organizations, labour unions etc. A strong case could be made that traditional businesses should not be considered constituencies as their primary goal is making profits which can conflict with the promotion of FT (and the demands of democratic practice).

With respect to legitimacy, a key question that arises is whether there should be any distinction made between the status and rights across or within these two types of constituencies. Insofar as the mission of FT entails empowering specific groups (small producer and agricultural worker organizations), it would seem that these groups have the strongest claims to representation in the governance structure of the FT bodies (unless for some reason it can be shown that they are unable to take on the tasks of self-representation). Historically, this has not been the practice. As noted above, Southern producer organizations (though not workers associations) have recently been granted the right to elect their own representatives to the FLO-I board. The national FLOs, however, have not yet adopted a similar practice, with the notable exception of the Fairtrade Foundation (FF) in the United Kingdom. The FF recently decided to have three representatives of producer organizations on their board, one each from Africa, Asia, and Latin America and the Caribbean (FF 2010b). Unlike in the case of FLO-I, however, the producer organizations from these regions do not have the right to elect their own representatives (T. Matthews, personal communication).

In terms of distinctions within these two types of constituencies, there is a major controversy in FT with regard to whether both small producers and agricultural workers should be seen as key constituencies (or as having the same status as constituencies).<sup>23</sup> At issue is whether small producers have some priority due to their pioneering role in developing the first FT labelling body and/or their status as the initial target group identified by FT labelling bodies. On either basis, it could be argued that it was illegitimate for FLO-I to support the recognition of agricultural workers (along with small producers) as key constituents in FT, without the consent of small producers themselves (Renard and Pérez-Grovas 2007; VanderHoff Boeresma 2009).

A final question regarding constituencies and democratic legitimacy is the extent and nature of the commitment that organizations should have to democratic practice in order to participate in the governance of FT. In the case of producer organizations (and agricultural workers), they are required (as part of the certification process) to have internal democratic structures. The same is not true, however, of institutional members of the FLOs. The question is whether it is sufficient for institutional member to participate in democratic practice within the governance of FT, without practicing it in their own institutions.

**Governance Structures** – There are a wide variety of issues relating to the governance of NGOs, including the nature of the basic responsibilities of board members (strategy formation, policy, oversight, etc.). The most significant for our purposes, however, is the nature of their governance structures. The key criteria, again, for developing governance structures are the mission of the organization and need to root legitimacy in democratic practice. On this basis, three key criteria can be posited evaluating FT governance structures.

The first criterion is the provision that the key constituencies have the form of representation to which they are entitled. Of particular importance here are those constituents that are the object of the FT mission, namely, small producers (and, possibly, agricultural workers). At issue is not the right of such groups to representation as much as the extent of their right to representation. Insofar as they are the object of the network's mission (which includes promoting their empowerment) and arguably have the most at risk in the decisions being made, a strong case could be put forward that they should have some form of special status in the decision-making structures (e.g., a majority/plurality of votes, veto power on key issues), at least at the level of FLO-I.

Insofar as the mission of TFC also is oriented toward supporting small producers, a *prima facie* argument would seem to exist that small producers also have a right to representation on the TFC board (and to choose their own representatives). The implications of this argument with respect to representation, however, are potentially complicated by the fact of their representation in FLO-I, especially at the practical level. Depending upon the level of representation that they have within FLO-I (and the degree of centralization of decision-making), small producers may not require extensive representation in national FLOs. Minority representation might be more appropriate, though a case might still be made for some form of veto over major policy issues at the national level.<sup>24</sup>

A second criterion that democratic legitimacy would seem to imply is that the governance structures should allow all of the Northern constituencies a fair opportunity to participate in governance. As we noted above, some FLOs do have governance structures which allow for democratic representation and accountability through the mechanism of institutional membership. The primary concern with this system is the fact that in many instances the range of representation has been quite narrow, with most members being Christian-based development NGOs (in the case of the FF, for example, such member organizations included Oxfam, Christian

Aid and the Catholic Agency for Overseas Development). To the extent that there are other sectors which have a strong interest in and commitment to FT, there would seem to be no compelling case to deny them the opportunity to participate in governance (e.g., as institutional members TFC).

A final criterion that follows from the FT mission is that the governance structures should ensure that the board will be composed of individuals with the requisite skills (professional, technical, organizational, etc.) to effectively promote its goals. Democratic elections may allow for such results, but do not necessarily guarantee such an outcome. For this reason, other provisions may need to be put in place to allow for the effective functioning of the board (e.g., an ability of the board itself to appoint outside members with particular expertise and/or experience, as needed).

### THE SITUATION IN CANADA

The emergence of a Canadian labeling organization occurred in a context in which several competing labeling initiatives in Europe – Max Havelaar, TransFair International (TFI) and the FF– were in talks to develop an international umbrella organization. It was in this context that TFI began to look beyond Europe in an effort to grow the FT market and assert its influence. In early 1994, Martin Kunz, the TFI Secretary-General wrote to the Managing Director of Bridgehead Trading enquiring if there might be interest in a fair trade certification label in Canada.<sup>25</sup> In October 1994, TFI, anxious to get a toe-hold in the North American market, accepted Fair TradeMark Canada as its Canadian member (Thomson 1995).

Fair TradeMark Canada was incorporated very quickly using Industry Canada's standard non-profit membership based corporation by-laws. The small group initially responsible for its launch gradually expanded its membership through informal efforts to involve Canadian churches, unions and NGOs as board members and donors. Board members were chosen on the basis of their willingness to volunteer skills and time, and at times as informal “representatives” of sectors, e.g. churches.

***The Basis of Legitimacy*** – The speed with which it was organized, and the perceived urgency of its task, initially discouraged TFC from developing the institutional membership which might have provided it with a democratic basis for its legitimacy. In the absence of such a basis for legitimacy, TFC has employed several other strategies. The first of these has been to appeal to the nature of its mission as a promoter of FT. Second, TFC has sought to use its association with umbrella bodies – first TFI and later FLO-I – to demonstrate that it is part of a broader international network. Third, these umbrella organizations have provided TFC with claims to a certain professionalism. TFI, for example, provided a fledgling TFC with a basic model for running a labeling body (including offering basic “templates” for contracts, license agreements, etc.). (Thomson 1999, 1995) In a similar vein, FLO-I has initiated developments that TFC has been able to copy. Most significant among these, perhaps, has been TFC’s formation of a separate certification branch which is moving towards becoming compatible with the ISO 65 compliant systems of FLO-CERT.

***Key Constituencies*** – In Canada, a wide range of actors have been involved in the promotion of FT and the development of a broader fair trade movement over the years, including FT business licensees and WFTO members, development NGOs, environmental groups, student associations, social justice organizations, cooperatives and community economic development organizations, among others. In 2008, representatives of these different sectors have come together to form a national organization, the Canadian Coalition for Fair Trade (CCFT). This



newly formed organization is still not fully consolidated in that it is still trying to decide upon an organizational structure, it has not issued a detailed mission statement and it does not have functioning caucuses or sub-committees.

For its part, it is not entirely clear who TFC sees as its primary constituencies or, correspondingly, what the dominant aspects of its mission are. There are some groups, however, which would appear to get more of its attention than others. First, TFC seems to maintain close relationships with small producer organizations (especially in Latin America). It regularly sponsors tours or producer groups and highlights them in its promotional materials. In contrast, agricultural workers seem to be much less prominent in the education and outreach materials of TFC. In a similar vein, TFC maintains close relationships with the small FT business licensees (most of whom sell FT products exclusively), while being more distant from its traditional business licensees. This may be in large part due to the fact that the latter do not show much interest in the promotion of FT. It is only the former that attend licensee meetings and that are willing to participate in promotional and educational events (B. Barrett, personal communication). It may not be totally surprising then that TFC tends to highlight these licensees in its own promotional and educational materials. TFC has also nurtured close working relationships with various movement actors involved and has been supportive of the development of the newly-formed CCFT. It remains unclear, however, how its relationship with this new organization will develop and what status it will perceive the CCFT as having.

***The Governance Structure*** – As noted above, TFC did not develop institutional membership in the same way that many European FLOs did. In this regard, its governance structures, which include a self-appointing board, would formally seem to most closely resemble those of TFUSA. In practice, however, there are arguably some noticeable differences between the two organizations. First, while it has not had institutional members, TFC has maintained a practice of having a diverse board which is largely drawn from civil society (but does not include any licensees). (Thomson 1999) Unlike TFUSA, TFC has not been accused of having lost contact with movement actors, nor of having a board dominated by corporate interests (Jaffee forthcoming; Reynolds and Murray 2007). One of the most important contributing factors here has probably been the practice of hiring key staff members who come out of the FT movement. This seems to have contributed to a much greater willingness on the part of TFC to engage with movement actors and to not view itself as the dominant representative of fair trade in Canada. On the other hand, TFC has not been particularly innovative in developing its governance practices and structures, nor has it followed some of the more progressive practices of other FLOs (e.g., the FF's initiative of appointing directors from producer organizations).

## **POLICY PROPOSALS**

***The Basis of Legitimacy*** – The most obvious way for TFC to address any perceived legitimacy deficits would seem to be to introduce more democratic governance practices. The most significant step in this regard would be a requirement that the board of directors be elected by key constituencies within the FT network and the broader fair trade movement. As noted above, such a practice already exists to some degree in some of the other FLOs. In addition to providing greater legitimacy, such reforms could have several other positive impacts. First, they could generate greater public (and consumer) confidence in TFC (especially vis-à-vis rival labelling organizations). Second, they could promote greater accountability with the organization. Specifically, they could help to address any “agency problems” that exist. Third, they could induce member organizations to deepen their commitment to FT, including their

commitment to providing human and material resources. Fourth, it could have important benefits for channelling more information, especially from the grassroots into decision-making structures.

There are, on the other hand, potential trade-offs that could occur with the requirement of an elected board. Perhaps primary among these is the prospect that an electoral process might result in a board which does not have an appropriate mix of the requisite experience and professional and/or technical skills. In such a scenario the board may prove ineffective in fulfilling some of its key responsibilities (e.g., determining strategic directions, developing effective policies to implement strategy, etc.). Such a lack of effectiveness could serve to undermine confidence in the labelling body and decrease participation by licensees as well as sales by consumers.

**Constituencies** – A second important step that could enhance the legitimacy of TFC is to clearly define its key constituencies, all of whom should have opportunities for participating in governance. **One** proposal to this end would be to define small producers as the primary constituents toward which FT is oriented. So acknowledging small producers and their rights to participate in governance is in line with democratic practice and reduces the possibilities that any vestiges of paternalistic relationships will endure. The proposal that only small producers should be considered a key constituency, and not agricultural workers, is based on two closely related issues.<sup>26</sup> The first is the fact that it was small producers that were involved in initiating the first FT label (to promote their products) and the decision to expand the label to plantation production was done so without their consent. The second issue is the fact that the inclusion of agricultural workers into FT (and its justification of plantation production) is not a benign event. It fundamentally changes the practice of FT in ways which seriously threaten the interests of small producers. Not including agricultural workers as primary stakeholders in FT, of course, could have negative consequences impacts, as noted above (e.g., diminished life prospects for workers, a drop in FT sales, negative publicity, etc.).

A **second** proposal to improve the legitimacy of TFC could state that key domestic constituencies should be broadly defined on the basis of a demonstrated commitment to the mission of FT and to democratic practice in the governance of FT. The key rationale for defining domestic constituencies on this basis is that it is consistent with democratic principles.<sup>27</sup> More practically, however, it might also serve as an effective means of bringing in more resources into the labelling body and increasing the tangible commitments of different constituencies to the cause of FT. Broadening representation, however, could have some negative effects in the form of fractionalization within the movement (which could result in less confidence in the label).

**The Governance Structure** – Several key proposals could be developed to bring TFC governance structures in line with normative concerns regarding legitimacy. The **first** of these would be the development of a board structure which provides appropriate representation to the key constituency of FT, small producers. This need not involve a dominant position (i.e., a majority or plurality of votes), but should allow for an effective veto on key issues. Some of the practical side effects of increasing the legitimacy of the label in this way could include increased consumer confidence and a greater willingness on the part of SE and other civil society organizations to collaborate in FT. Producer representation could also potentially increase TFC's access to on the ground information. There would seem to be relatively few potential negative impacts of incorporating producer representatives into the TFC board, apart from the expenses involved in their participation (travel, translation, interpretation, etc.).

A **second** proposal would be to develop a system that enables all domestic constituencies to have the possibility to participate in governance (through the ability to nominate board members and to vote on nominees) and ensures wide spread representation on the board of different constituencies. The advantage of such a system is, in the first instance, its compatibility with democratic values. Such a system, as noted above, might also further serve to encourage greater commitment from constituencies (in terms of time, resources, etc.) and spur more constituencies to become involved. Some possible negative outcomes of more representative structures could include a decrease in the professional and technical competencies of board members, less well-connected board members, more cumbersome decision-making processes, etc.<sup>28</sup>

### THE NEED FOR RESEARCH

*The Basis of Legitimacy* – The question of the proper basis of legitimacy for TFC cannot be determined solely on the basis of the opinions of the affected actors, but rather involves a much larger discourse about democratic practice in an age of globalization. Still, it is important to know whether actors conceive of democracy as a necessary basis for legitimacy. If none of the key actors see the need for democracy as the basis for legitimacy, then any proposal for governance reforms is unlikely to go forward. A more likely scenario, however, is that there are divergent opinions on this point. It is necessary to know how support for democratizing governance is distributed (especially any differences between Southern actors and Northern actors) and what factors condition such support (in principle and in practice).

A variety of methods might be used to generate such knowledge (e.g., case studies of TFC and other FLOs), opinion surveys, focus groups, in-depth interviews. An important concern in investigating this issue is to be able to track how opinions on this subject change over time (i.e., whether learning occurs with experience). Such studies might indicate the degree to which ideological perspectives, location, the length of involvement in (and degree of knowledge of) the network, particular experiences in the network and other factors influence support for democratic practice in governance. Such knowledge could have a significant impact on debates about the need for governance reforms, especially insofar as it can determine the extent to which opposition to more democratic practice is well grounded in empirical studies (e.g., demonstrating inefficiencies in democratic structures) or whether it reflects particular ideological positions and/or vested interests.

**Figure 4: Researching Issues of Legitimacy**

Issue	Canadian Context	Proposal	Research Agenda
Basis of Legitimacy	<ul style="list-style-type: none"> <li>• mission</li> <li>• professionalism</li> <li>• network links</li> <li>• efficacy</li> </ul>	<ul style="list-style-type: none"> <li>• democracy</li> </ul>	<ul style="list-style-type: none"> <li>• studies of stakeholder opinions</li> <li>• analysis of the dynamics of stakeholder opinion formation</li> </ul>
Constituencies	<ul style="list-style-type: none"> <li>• no preference for small producers over agric workers</li> <li>• no formal domestic constituencies</li> </ul>	<ul style="list-style-type: none"> <li>• small producers</li> <li>• range of domestic groups</li> </ul>	<ul style="list-style-type: none"> <li>• studies of stakeholder opinions</li> <li>• analysis of the dynamics of stakeholder opinion formation</li> </ul>
Structures	<ul style="list-style-type: none"> <li>• self-appointing board</li> </ul>	<ul style="list-style-type: none"> <li>• election by constituencies</li> <li>• role for small producers</li> </ul>	<ul style="list-style-type: none"> <li>• studies of other FLOs</li> <li>• studies of producer organizations</li> <li>• studies of other organizations</li> </ul>

**Constituencies** – Two types of constituencies were identified above as potentially having a role in the governance of FT. The first of these were Southern actors who are understood to be the beneficiaries of FT. It was proposed on the basis of particular normative arguments that only small producers (and not agricultural workers should be included in this category). To determine whether such a proposal should be adopted it is necessary to confirm that the small producers themselves agree with this stand (and to what extent). While some producer organizations would seem to hold this position (e.g., in Latin America), it is not clear that there is the same support in other regions (Renard and Pérez-Grovas 2007; Wilkinson and Mascarenhas 2007a). Any such differences in levels of support not only need to be determined, but accounted for as the causes of these differences (e.g., the more diverse nature of the Asian producer organizations, their more recent origins) may impact on our evaluation of their normative weight.<sup>29</sup>

With regard to potential Northern constituencies, it would be important to investigate the opinions of different stakeholders. The reason for this is primarily pragmatic in nature, in that while there is no a priori reason to exclude groups who meet the criteria elaborated above, it is important to understand why some stakeholders may want to limit participation in governance.

**Governance Structure** – It was proposed above that small producers should have the right to representation on the board of TFC, and even some form of special status. In deciding whether to adopt and implement such a proposal, one key area of investigation relates to whether small producers actually see such participation as desirable and what factors condition their views on this matter (e.g., their prospects for effectively inserting their concerns into policy, opportunity costs of expending their limited resources in this way, etc.). A closely related area that needs examination is the experience that small producers have already had in the governance of other FT labelling bodies (namely, FLO-I, FF), especially the identification of the features of these institutions which have facilitated/inhibited effective participation (e.g., representation structures, power differentials between actors, etc.). Another topic of investigation should be the examination of other decision-making models, especially ones in which marginalized groups have participated in the design (including the producers' own organizations).

With respect to representation by domestic actors, it was proposed that all groups with a demonstrated commitment to FT and democratic practice should have the opportunity to participate in the governance of FT. The only potentially cogent argument against such a proposal would seem to be that participation by such a broad spectrum of actors could adversely affect the mission of the FT network. A first research task then would be to identify the manners in which such a model of participation could have any adverse impact on performance. A second task would be to examine whether there is actual evidence of such impacts on performance within FLOs and other related organizations which do encourage wide-spread participation in governance. A final task would be examine whether the decisions of FLOs (and other related bodies) to restrict participation in governance are based upon genuine (and substantiated) concerns about efficacy or whether they reflect other factors (e.g., inertia, ideology, agency issues, etc.).

## **Conclusion**

FT is a complex and highly contested socio-economic practice. From the perspective of applied ethics, there are two tasks involved in the analysis of FT; the evaluation of current practices and the promotion of measures that will bring current practice more in line with

justified norms and the achievement of desired goals. Both of these tasks require the generation of two types of knowledge. On the one hand, there is normative knowledge in the form of the nature of the key normative issues involved in the practice of FT. A key feature of such normative analysis is the identification of the tensions involved in trying to address distinct types of normative issues which involve multiple norms and goals. In this paper we have laid out part of the range of such normative issues (i.e., those that more directly concern the practice of FT in Northern countries). Establishing the nature of the normative issues involved in FT is an essential task both in undertaking the normative analysis of current practices and the promotion of measures to promote more normatively acceptable practices. On this basis, particular criteria can be proposed in a more systematic way for the evaluation of current practices and for guiding policy proposals. In this paper, we have not systematically engaged in the evaluation of current practice, but we have put forth specific policy proposals (based upon specific normative criteria) to show how the explicit formulation of normative criteria is necessary for the generation of social science analysis necessary for more effective policy.

This leads to the second type of knowledge that is necessary from an applied ethics perspective, social science analysis. For the evaluation of current FT practice and the development of effective policies to guide future practice we need to know how FT actually functions, what the available resources are for improving current practice and what obstacles exist that are likely to inhibit the desired changes. Asking these questions is logically posterior to the normative questions addressed above. Evaluating current practices and the development of strategies and tactics to promote FT should be predicated upon a sophisticated understanding of the issues involved in FT and the elaboration of well-defined norms and goals. A complicating factor, as noted above, is that in FT there can be multiple norms and goal which compete with each other. While the elaboration of priority rules can potentially resolve most of the tensions involved in making evaluations of current practice, the evaluation of policy proposals is complicated by the fact that contingent factors (e.g., the profile of specific markets, the available of key resources, etc.) can affect the optimal balance of different values and goals that are likely to be achieved (over different possible time frames) by different strategies. From the perspective of applied ethics, it is the understanding of these factors (and how they vary over time and space) that should drive the social science research agenda of FT. In this paper, using the example of Canada, we have tried to illustrate the development of one such research agenda and how it should best provide decision-makers the information that they need to evaluate which policies will mostly likely provide results compatible with the most desirable balance of competing norms and goals.

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- 1 There are two commonly recognized fair trade networks. One is centered around a labelling body, the Fair Labelling Organizations International (FLO-I), which was established by national fair labelling organizations (FLOs). FLO-I certifies agricultural products. The other, the World Fair Trade Organization (WFTO), is a member-based organization composed of small producer organizations committed to fair trade. Its member have historically focused on handicrafts, but more are now moving into agricultural products as well. In addition, there are rival, business-friendly and business-initiated rival labelling bodies. In this article we are primarily concerned with the FLO-I network.
  - 2 There is much debate about the definition of SE enterprises. While a social purpose is one agreed upon criterion, there is significant debate over whether the definition should include: 1) offering of products or services in the market, and; 2) democratic control of the enterprise (Defourny and Develtere 1997). We are using an intermediate definition here which assumes SE enterprises have a social purpose and offer goods and/or services in the market, but does assume that they are democratically controlled.
  - 3 One particularly important issue is that of gender equality, which arise at different levels within FT, from the family all the way up to participation in apex producer organizations (McMurtry 2009).
  - 4 We focus on the role of licensees, because historically they have been the actors which have been most capable of influencing relationships in the value chain. As Smith (forthcoming) point out, however, larger grocery retail chains in the UK have increasingly been able to dominate FT value chains without being licensees.
  - 5 The disparity can be seen by comparing the 2006 sales of Équita (1.8m €) with those of European social enterprises such as Agrofair (62.1m €) in the Netherlands, CaféDirect (32.8m €) in the UK, Oxfam Belgium (18.8m €), Ethiquable (17.8m €) in France, etc. (Krier 2008)
  - 6 We have primarily relied upon information from web-sites in making this categorization, but have also consulted with FT practitioners familiar with particular licensees.
  - 7 In 2009, TFC started to distinguish between: 1) licensees; 2) sub-licensees (with fewer reporting obligations); 3) third party licensees (which are licensed in a third country, but have signed an agreement with TFC to use its label, and; 4) cross border licensees (who sell products in Canada using a mark from another FLO). (TFC 2010) This table includes all of the first three categories. Although there are some licensees in the fourth category (e.g., Divine), TFC does not list such firms unless it has information on their operations. When we refer to Canadian licensees, we will include all of the above (unless otherwise indicated).
  - 8 Unlike Reynolds (2009), we speak of SR SMEs (rather than “mission-driven SME’s”), because some “mission-driven” SME’s (i.e., artisanal vintners and coffee roasters) are primarily interested in quality and sell FT products for this reason rather than out of any strong social or environmental commitments.
  - 9 While the largest sector of traditional business licensees is comprised of SMEs, we will largely focus on corporate licensees in our analysis. This is because of their potential to influence the governance of FT value chains.
  - 10 Starbucks in particular has come under sharp critique for its misuses of the FT label and its efforts to undermine unionization (Fridell 2009, Renard 2005).
  - 11 In many sectors, there is a lot of historical evidence of such practices, which have lead to the current oligopolistic market structures. See, for example, Striffler and Mober (2003) and Fridell (2007).
  - 12 The ED model is closely associated in the literature with the experience of Northern Italy (the “Emilian model”) and similar European contexts in which industrialization is a key component of the model (Ash 1999). The practice, however, is much wider than the European experience.
  - 13 FT practice is more complex than this model suggests, especially with the more aggressive role that large grocery retailers have adopted in controlling value chains and the addition of new products with longer value chains (e.g., cotton). These complexities do not alter the basic point about the existence of different types of exchange (and production) relationships within FT, which result in products of different ethical value.
  - 14 Initially SE actors introduced estate production very selectively to supplement supplies in the face of a lack of small producers in some sectors (Murray and Reynolds 2000). It is with the influx of corporate licensees (and their support for it), however, that estate production has really expanded and created a fourth variant of the FT value chain (Frundt 2009).
  - 15 The case of the large Canadian grocery retailer Loblaws is instructive. When Loblaws originally decide to source FT bananas, they contacted the FT business Oké USA (a joint venture of three SE enterprises, Equal Exchange, the Red Tomato and southern producers). While Oké was keen to work with Loblaws, the problem was that they were not a large enough organization to meet the demands of a national supermarket. By way of

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compromise, Loblaws decided that it would source from Oké for its stores in the eastern part of the country and would use a traditional firm to source for its store in the west. Eventually, Loblaws found that this compromise was not working and switched all their sourcing to the larger traditional firm (J. Rosenthal, personal communication).

- 16 RIPESS (Réseau Intercontinental de Promotion de l'Economie Sociale et Solidaire) is the French (and Spanish) acronym for the International Network for the Promotion of the Social Solidarity Economy ([www.ripesslac.net](http://www.ripesslac.net)).
- 17 In addition to these groups, students have play an especially import role in the promotion of FT in Canada, most notably through the Canadian Student Fair Trade Network and Engineers Without Borders.
- 18 In Canada, there is a distinction between provinces and territories. The latter have much smaller populations and are less economically developed. All three territories are located in the northern part of the country. Only the Yukon has any FT licensees. There are none in Nunavut or the Northwest Territories.
- 19 See, for example the recent survey by Communication Services Manitoba (2009) on cooperatives.
- 20 In addition, it is necessary to collect data on the understanding of producer organizations with regard to their development aspirations and support for different development models.
- 21 The focus of democratic theory on the nation state has come under increasing attack in recent years. Democratic theorists have been challenged to expand their purview with the rise of globalization and increased contestation of the legitimacy of multilateral bodies and agreements, as the burgeoning literature on transnational democracy attests (McGrew 2004). Nor is it only multilateral bodies that have become the object of scrutiny. As transnational NGOs have sought to advocate for marginalized groups, the question of their status has also been challenged (Hudson 2001). In this regard, the situation of FLO-I is not unusual.
- 22 One of the critiques of many such “stakeholder” models (especially from a critical theory perspective) is that when they incorporate corporate actors as participants, they fail to neutralize power relations in governance and, therefore, cannot ensure the conditions for fair and open discourse (Mukherjee Reed and Reed 2009b).
- 23 A similar question could be asked in terms of domestic constituencies as to whether some organizations should have a different status than others. While it is more difficult case to make, it could be argued that founding members of FLOs should have some special rights (e.g., when it comes to changing the mission of organizations that they have helped to found). In the case of Canada this would be a moot point, insofar as there were no founding institutional members.
- 24 In the case of the FF, while they do not have formal veto power, the three small producer representatives feel that they can exercise effective veto power when they act in concert (T. Matthews, personal communication).
- 25 After a meeting in May, between Kunz and several actors associated with Bridgehead, a decision was taken to incorporate Fair TradeMark Canada (later to be renamed TFC). Its board included Bill Singleton, a former Bridgehead general manager, Pina Gianneschi, the manager of the Toronto Bridgehead store and Bob Thomson, a former Bridgehead board member who would serve as the organization’s executive director.
- 26 These same arguments would hold for efforts to include Northern producers in FT through the development of domestic FT programs.
- 27 There is also the question raised above of whether this commitment to democracy need only to apply to the governance of FT bodies or should also extend to the internal structures of the organizations in question. If the later is the case, then many organizations (e.g., some Christian based development NGOs) might not meet this criterion.
- 28 One way to address concerns about the board having access to the necessary technical, professional and organizational skills that it needs to effectively fulfill its mandate would be to include provisions for the board to elect a limited number of independent directors (to fill in gaps that it feels might be missing).
- 29 Even if it could be argued that Southern producer organizations alone should have the right to determine whether there should be estate production, it would also be important to establish the level (and nature) of support for such a proposal among Northern constituencies. The reason for this is that Southern producers may not want to follow through on exerting such a right for pragmatic reasons (e.g., if they feel that there is not significant support for it among Northern constituencies and pursuing it might jeopardize their relationships with these constituencies).