CHAPTER FIVE

FAIR TRADE: A MODEL FOR INTERNATIONAL CO-OPERATION AMONG CO-OPERATIVES?

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Introduction

The practice of Fair Trade has been one of the most widely acclaimed movements for promoting local development in recent decades. Fair Trade links small producers in the South more directly to Northern consumers through the intermediation of Fair Trade Organizations (FTOs) that are committed to "Fair Trade Principles" and the development of more just trade practices. Through these principles small producers in the developing world are able to access higher prices for their goods and, perhaps more importantly, benefit from a range of financial, organizational, and technical support. These advantages expand the organizational and networking capacities of small producers, increasing their competitiveness in traditional markets and better enabling them to pursue an integrated local development strategy. A system of product certification has expanded the access to mainstream markets for these producers beyond the network of FTOs.

Initially, Fair Trade was entirely a social economy practice in which co-operatives played an integral role alongside NGOs and other social economy actors. Small producers are often organized into co-ops, as are many influential FTOs in the North. Financial and retail co-operatives are also intimately involved in the Fair Trade system. This presence of co-operatives in the movement, along with the compatibility of the values and principles of Fair Trade and co-operation, suggests that Fair Trade offers an important model for co-operation among co-operatives in a globalizing economy. The relevance of the model, however, is potentially called into question by recent developments, most notably the incorporation of large multinational corporations into the Fair Trade system in different capacities. Such involvement has led to a situation in which the movement is not characterized so much by a single practice or set of principles, but a variety of quite diverse activities, many of which are not consistent with co-operative values and principles. It is in this context that this paper seeks to examine whether Fair Trade can provide an appropriate model for promoting co-operation among co-operatives on an international level.

The chapter proceeds in the following manner. First, a short introduction to the origins and organization of Fair Trade is provided. The next section examines the role of co-operatives and the compatibility of co-operativism with the movement. Following upon this, there is a brief exposition of forms of participation by corporations in Fair Trade. The fourth section investigates how corporations engage with co-operatives and other social economy actors within the system. It does this by drawing upon value chain analysis to distinguish, based upon the relative roles of corporations and social economy actors, four different variants of the Fair Trade value chain. The fifth section argues that, insofar as only two of the four variants of the value chain are compatible with Fair Trade values and principles, Fair Trade activity should be restricted to these variants of the value chain. Moreover, it contends that as only these two variants of the value chain are consistent with co-operative values and principles, only they can serve as a model for actualization of the principle of co-operation among co-operatives. The concluding section exposits some of the advantages and potentials of the model, as well as suggesting some of its limitations and some of the challenges involved in implementation.

The Origins and Organization of Fair Trade

Charity Trade

The origins of the Fair Trade movement are diverse and somewhat contested. While some point to the early European co-operative movement as an antecedent,[1] the most commonly cited FTOs were founded in the post-World War II period. At this time a number of charitable organizations, many associated with Christian religious denominations, initiated programmes to sell handicrafts from developing countries.[2] Typically these organizations did not run on a commercial basis but were reliant upon volunteer staff. There was little control over the quality of the products, the emphasis being not on consumers but on helping the producers, whose particular status (as refugees, single women, etc.) was seen as the basis of their desperate plight. For these reasons, these early efforts have been characterized as charity or good-will trade (Tallontire 2000; Littrell and Dickson 1997).

Alternative Trade and Solidarity Trade

From the late 1960s through the 1970s and 1980s, significant changes occurred in the movement. First, there was a proliferation of actors involved in trading networks. While different religiously affiliated organizations continued to expand their involvement, other more politically motivated organizations also sprang up. Second, there was a sharp rise in the number of "third world" or "one world shops." Third, agricultural products, most notably coffee, gained increasing importance alongside handicrafts. And fourth, a greater sense of partnership and shared responsibility and partnership between northern actors and southern producers began to develop (Hockerts 2005; Kocken 2003).

Changes were also occurring in the broader political economy. As the optimism of the 1960s about development prospects began to wane and critiques of international trade policy spread, calls for radical reform began to emerge, such as the proposal for a New International Economic Order. As a result, the political awareness of actors and organizations involved in the movement was also beginning to change by the 1970s. Influenced by this new discourse on development and the calls for change, many of the existing and newly emerging trading organizations came to characterize themselves as alternative trade organizations (ATOs). In this context, it is not surprising that many trade activists were supportive of governments and movements in the South that were attempting to promote alternative development models, such as Tanzania in the 1970s and Nicaragua in the 1980s. One example of this support was the marketing of a Nicaraguan coffee (Café Nica) in the U.S. market by a small worker co-operative and FTO called Equal Exchange.[3] The explicit motivation of solidarity which underlay this and similar initiatives led some to characterize these practices as solidarity trade (Low and Davenport 2005; Leclair 2002).

While the 1970s and 1980s saw an increasing diversity within the developing fair trade movement, there were some commonalities. Among the most significant for our concerns is the fact that these organizations were all social economy actors. That is to say, there were engaged in economic activity with a distinct social purpose in mind.[4] This purpose was to help small producers in developing countries. In addition, over time these various actors came to see the roots of the problems that confronted small producers as systemic in nature. As a result, they were committed not only to working with small producers to sell their products in the North, but also to working to change the rules of the international trade system.

Fair Trade Product Certification

One of the most significant developments in Fair Trade was the establishment of organizations dedicated to the development of product certification programmes. The Max Havelaar Foundation, established in 1988 in the Netherlands, is generally recognized as the first *fairly traded product certifier* (FTPC). Instigated by UCIRI,[5] a coffee producing co-operative of indigenous communities in Mexico, the primary figures involved in establishing Max Havelaar were Francisco VanderHoff Boersma, a Dutch priest who worked with the co-operative and Nico Roozen who worked with the Dutch ecumenical development agency Solidaridad (VanderHoff Boersma forthcoming; Waridell 2002; Roozen and VanderHoff Boersma 2001).

In line with most of the previous practice of Fair Trade, the basic goal of the product certification initiative was conceived of as "empowering" small producers and their local communities in the South. This empowerment was understood to have a number of different components, including facilitating market access, increasing market knowledge, providing support for local infrastructure, strengthening internal organization, increasing product quality, developing contact networks, developing alternative sources of income (though vertical integration, specialization and diversification), increasing income and services for members, and increasing the number of participants and extending the benefits to the broader community. Significantly, it was recognized that in order to successfully engage the mainstream marketplace, small producers needed to organize, pooling production and resources through co-operation. Certification served to promote these various goals by ensuring consumers that the goods that they were purchasing were produced under conditions that were favourable to small producers (Eshuis and Harmsen 2003).[6]

The goal of empowerment was to be facilitated by certification rules for producers and licensing rules for importers in the following ways.

Under the scheme producers were required to pursue a goal of economic development, the producer organizations had to be composed of a majority of small producers, and they were required to have a democratic and transparent organizational structure that did not practise any form of discrimination. Producer organizations were also expected to meet basic business standards (for quality, logistics, and administration) and to have an environmental policy. Importers (licensees), meanwhile, were required to purchase directly from organizations of small producers, to offer pre-financing, to develop long-term relationships with producer organizations, to offer a minimum price for the product, and to offer an additional premium that would be used to contribute to support for local development (e.g., social and physical infrastructure). For its part, the functions of the Max Havelaar Foundation were to set the rules for producers and importers, to certify that these rules were followed, to ensure the integrity of the products traded under these rules, and to promote the products so certified in the marketplace (Eshuis and Harmsen 2003).[7]

The introduction of certified fairly traded coffee in the Netherlands was an immediate success and the model soon spread from the Netherlands to neighbouring European countries, such as Belgium, France, and Switzerland. A similar certification initiative called TransFair was organized in Germany in 1992, with similar organizations established soon after in Luxembourg, Japan, Canada, and the United States. Sweden, Finland, the United Kingdom and other countries would also establish their own certifying bodies. Currently, there are twenty such Fair Trade product certification organizations (Eshuis and Harmsen 2003), with more currently under development, including one in Mexico.[8]

The Fair Labelling Network and Fair Trade Movement

Quite quickly the different Fair Trade product certifiers came to realize the importance of collaborating more closely together. As a result, in 1997 seventeen FTPCs joined together to form the Fair Labelling Organizations International (FLO-I). The two primary goals in forming a new international organization were to develop greater consistency in standards and greater consistency in the certification process. During the initial years of its existence, FLO was responsible for both of these tasks, but in 2004, it split into two distinct organizations. FLO remained as the standard setting body and also continued to work with producer organizations, trade bodies, and other external experts in the promotion of Fair Trade, while FLO-Cert was established as a separate organization to provide arms-length certification.

While product certifiers were expanding and co-operating more closely from the late 1980s onwards, so too were the Fair Trade Organizations that had pioneered the model itself. In 1989, the International Federation for Alternative Trade (IFAT), initiated by several prominent European FTOs, brought together trading and marketing organizations from the North as well as producer organizations from the South (IFAT has since changed its name to the International Fair Trade Association). Shortly thereafter, in 1990, eleven European Fair Trade importers formally came together after years of informal collaboration to form the European Fair Trade Association (EFTA). In 1994, the Network of European Worldshops (NEWS) was founded, as was the North American Alternative Trade Organization (NAATO), later to become the Fair Trade Federation (FTF). While European actors were the dominant players early on in the consolidation of the Fair Trade movement, more recently there has been growing engagement by organizations representing the global South. A notable example is the emergence of three regional (Asian, African, and Latin American and Caribbean) groupings of FTOs within IFAT (Wilkinson and Macarenhas 2007; Low and Davenport 2005; Kocken 2003).

These apex Fair Trade associations not only work with their own members, but also with each other. In 1998, for example, IFAT, NEWS, and EFTA established an informal alliance with the FLO that is known by the acronym FINE. Through this alliance, member organizations work together on the harmonization of Fair Trade principles, standards, and monitoring, as well as collaboration on information and communication systems, advocacy work, and campaigns (Kocken 2003). These bodies, together with the various actors associated with them at different levels, form what Renard (2005) has called the “fair labeling network.” In addition, one can distinguish a broader Fair Trade movement which includes other civil society players that are not formally incorporated into any of the above organizations, such as student organizations, social justice groups, labour organizations, and development NGOs.

Fair Trade and Co-operatives

The Role of Co-operatives in Fair Trade

Co-operatives have played an integral role in the history of Fair Trade. From the beginnings of the movement in the production and marketing of handicrafts, small producers were often organized into co-operatives. And as Fair Trade extended into more food items and product certification was introduced, it became a requirement that small producers be organized into co-operatives or similar forms of organization. Indeed, it was a Southern co-operative that initiated the first product certification scheme. In the agricultural product markets in the global South, one often finds two- and three-tier levels of organization. Individual producers are organized in smaller, primary co-operatives to pool production and transportation. These local co-operatives are then organized into a second and third level federation to collect, process, and export their products.

In the North, most of the first FTOs were not co-operatives but faith-based NGOs that started by importing handicrafts from refugee communities. Co-operatives became more involved in a significant way with the development of agricultural markets and were key players in the growth of the movement during the 1980s and 1990s. Among the earliest co-operatives to enter the market in the North were FTOs like Equal Exchange in the United Stakes (1986) and Equal Exchange in the United Kingdom (1990). In countries such as Canada, worker co-operatives have played a particularly important role in opening up the market for fairly traded products, with Just Us! Coffee (1998), Planet Bean Coffee (1998) and La Siembra (1999) being among the first licensees of certified Fair Trade products such as coffee, cocoa, and chocolate. There are also examples of purchasing co-ops such as Co-operatives Coffees, which has members in the United States and Canada (in this case to import green coffee beans).

In addition to the processing, marketing and distribution of fairly traded products, co-operatives in the North have played two other key roles. Financial co-ops such as Shared Interest in the United Kingdom and Rabobank in the Netherlands have provided crucial financial support for the pre-harvest credit aspects of the Fair Trade system. Co-op retailers have also been very important in expanding the market for fairly traded goods. Typically, they have been much quicker to put such products on their shelves than have conventional grocery store chains. Indeed, it has been argued that the reason that places like Switzerland and the United Kingdom have the highest awareness and per capita sales of Fair Trade products is directly related to the participation of co-operative grocery retailers (Wilkinson 2006). In the United States, independent food co-ops offered fairly traded products long before they were available in mainstream grocery store, and the former remain among the most committed retailers.

The Compatibility of Co-operatives and Fair Trade

The participation of co-operatives in Fair Trade should not be surprising, especially when one considers the common goals and values of these two often intertwined movements. Co-operative principles have been heavily influenced by the early definitions of Rochdale (established in 1848), and have been propagated and upheld by the International Co-operative Alliance (ICA) over the years, along with its various national and regional affiliates. In its most recent updating of the co-operative principles in 1995, the ICA issued a statement on "co-operative identity" that not only offers a definition of a co-op and a list of revised principles, but also provides a list of values in which the principles are rooted (see Figure 5-1).

The Fair Trade movement does not have as long a tradition of setting out common goals as the co-operative movement. But over time, FTOs have developed a set of principles that have guided their conduct and which formed the basis for product certification. The first broadly accepted definition of Fair Trade that bridged these two aspects of the movement was issued by FINE in 1999 and stated the priority of "sustainable development for excluded and disadvantaged producers."[9] In 2001, FINE revised its definition to refer to Fair Trade as "offering better trading conditions to, and securing the rights of, marginalized producers *and workers*—especially in the South"[10] (emphasis added). Similarly, the 1999 definition refers to the movement as "an *alternative* approach to conventional international trade" whereas the 2001 definition speaks of "a trading partnership, based on dialogue, transparency, and respect that seeks *greater equity* in international trade" (emphases added). Many see these changes in the definition as aimed at making Fair Trade more palatable to corporations as well as paving the way for increased plantation production. It is also worth noting that neither of these definitions invokes the term "solidarity."

Statement on the Co-operative Identity

Definition
A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.
Values
Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative

members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles

The co-operative principles are guidelines by which co-operatives put their values into practice.

1st Principle: Voluntary and Open Membership—Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control—Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation—Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence—Co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information—Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6th Principle: Co-operation among Co-operatives—Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community—Co-operatives work for the sustainable development of their communities through policies approved by their members.

Fig. 5-1: ICA Statement on Co-operative Identity

Somewhat in contrast to the FINE definitions are the principles established by IFAT, the association of FTOs that includes trading organizations in the global North and producer organizations in the South that are characterized by a commitment to Fair Trade on an organizational and mission level. Among other things, these principles speak of Fair Trade as being characterized by “long-term relationships based on solidarity, trust and mutual respect”[11] (IFAT 2006). Figure 5-2 illustrates how closely the principles map onto to co-operative values and principles and defined by the ICA.

In recent years, this affinity between the values and principles of the co-operative and Fair Trade movements has become more widely recognized. For example, *Co-operating Out of Poverty*, a joint campaign document of the International Co-operative Alliance (ICA) and the International Labor Organization (ILO), notes:

> there is a close relationship between Fair Trade and co-operatives. The principles of Fair Trade are quite compatible with the principles of co-operatives. For both the ultimate goal is to improve the living conditions of workers. That is why most of the time producer organizations involved in Fair Trade are co-operatives. (2005: 16)

Fair Trade and Corporations

The question of whether Fair Trade provides a good model for co-operation among co-operatives is complicated by the fact that Fair Trade has evolved in such a way as that it is now inclusive of traditional business, including large multinational corporations (MNCs). As noted above, in the beginning Fair Trade exclusively involved social economy actors engaged in trading networks. With product certification, however, traditional businesses became engaged in Fair Trade. Indeed, part of the goal of certification was to help expand the market by facilitating this participation. The forms of involvement of traditional business, however, have changed over the years. When Max Havelaar was founded in 1988, it sought to expand the market by moving fairly traded products (especially coffee) beyond world shops and retail co-ops and into mainstream supermarkets. While not all actors in the movement are in agreement with this strategy for extending the market, the majority would come to support this approach to expanding access for marginalized producers. More recently, this strategy of market extension has expanded to directly involve multinational corporations including processors, marketers, distributors, and retailers. Some of these, most notably Nestlé’s, have been controversial because the corporations in question are viewed by many as having a history of being socially irresponsible (Bezençon 2007).

Fair Trade Principle (IFAT)	Co-operative Values	Co-operative Principles
1. Creating Opportunities for Economically Disadvantaged Producers. Fair Trade is a strategy for poverty alleviation and sustainable	• *Self-Help* • *Solidarity*	• *Member Economic*

development. Its purpose is to create opportunities for producers who have been economically disadvantaged or marginalized by the conventional trading system.	• *Social Responsibility* • *Caring for Others*	*Participation* • *Concern for Community*
2. Transparency and Accountability. Fair Trade involves transparent management and commercial relations to deal fairly and respectfully with trading partners.	• *Solidarity* • *Honesty* • *Openness*	• *Democratic Member Control* • *Co-operation among Co-ops*
3. Capacity Building. Fair Trade is a means to develop producers' independence. Fair Trade relationships provide continuity, during which producers and their marketing organizations can improve their management skills and their access to new markets.	• *Solidarity* • *Self-Help* • *Self-Responsibility*	• *Education, Training & Information*
4. Promoting Fair Trade. Fair Trade Organizations raise awareness of Fair Trade and the possibility of greater justice in world trade. They provide their customers with information about the organization, the products, and in what conditions they are made. They use honest advertising and marketing techniques and aim for the highest standards in product quality and packing.	• *Honesty*	• *Education, Training & Information*
5. Payment of a Fair Price. A fair price in the regional or local context is one that has been agreed through dialogue and participation. It covers not only the costs of production but enables production which is socially just and environmentally sound. It provides fair pay to the producers and takes into account the principle of equal pay for equal work by women and men. Fair Traders ensure prompt payment to their partners and, whenever possible, help producers with access to pre-harvest or pre-production financing.	• *Equality* • *Solidarity*	• *Co-operation among Co-ops* • *Concern for Community*
6. Gender Equity. Fair Trade means that women's work is properly valued and rewarded. Women are always paid for their contribution to the production process and are empowered in their organizations.	• *Equality* • *Equity*	• *Education, Training & Information*
7. Working Conditions. Fair Trade means a safe and healthy working environment for producers. The participation of children (if any) does not adversely affect their well-being, security, educational requirements and need for play and conforms to the UN Convention on the Rights of the Child as well as the law and norms	• *Social Responsibility* • *Caring for Others*	• *Concern for Community*

in the local context.		
8. Child Labour. Fair Trade Organizations respect the UN Convention on the Rights of the Child, as well as local laws and social norms in order to ensure that the participation of children in production processes of fairly traded articles (if any) does not adversely affect their well-being, security, educational requirements and need for play. Organizations working directly with informally organised producers disclose the involvement of children in production.	• *Social Responsibility* • *Caring for Others*	• *Concern for Community*
9. The Environment. Fair Trade actively encourages better environmental practices and the application of responsible methods of production.	• *Social Responsibility*	• *Concern for Community*
10. Trade Relations. Fair Trade Organizations trade with concern for the social, economic and environmental well-being of marginalized small producers and do not maximise profit at their expense. They maintain long-term relationships based on solidarity, trust and mutual respect that contribute to the promotion and growth of Fair Trade. Whenever possible producers are assisted with access to pre-harvest or pre-production advance payment.	• *Solidarity* • *Social Responsibility* • *Caring for Others*	• *Co-operation among Co-ops* • *Concern for Community*

Fig. 5-2: Fair Trade Principles and the Co-operative Identity

Perhaps the most famous case of a mainstream corporation becoming involved in Fair Trade has been that of the specialty coffee company Starbucks.[12] As licensees, corporations are able to purchase and import (and frequently process and wholesale) products from registered producers rather than purchase them from an FTO. They are then able to apply a seal to the product identifying it as fulfilling Fair Trade standards. Many such licensees, Starbucks being the most notable case, were initially uninterested in offering fairly traded products and even resisted pressure to do so. Indeed, Starbucks only agreed to become a licensee after an intensive campaign led by Global Exchange and other NGOs.[13] The case of Starbucks and other licensees is even more controversial for many than the case of McDonald's because some believe that licensees should be held to higher standards than stores that merely sell some fairly traded products alongside conventional items. More specifically, they believe that licensees should live up to Fair Trade values on a substantial portion of their product lines, while the vast majority tend to use their small percentage of fairly traded products as an opportunity to market their social responsibility credentials.

In addition to corporate licensees of product certification, the involvement of plantation production with the Fair Trade system lays open the possibility for large corporations becoming certified to produce fairly traded products. Plantations already provide some certified fairly traded products such as bananas and tea, where such production historically has been more dominant than in sectors such as coffee and cocoa.[14] As indicated below, in their discussions with the fair trade product certifiers large MNCs have been pushing for plantation production as a condition for entering the Fair Trade market. Again, many of these corporations, such as Dole which recently started selling certified bananas, have come under particularly severe criticism for their corporate responsibility records (and in Dole's case, especially its record on labour relations practices). More controversial still, however, is the fact that plantation production displaces small producers from Fair Trade markets and exacerbates the very social and economy inequities that the movement purports to address.

Four Variants of the Fair Trade Value Chain

In order to assess the potential of Fair Trade to serve as a model for international co-operation among co-operatives, it is necessary to better understand how Fair Trade operates and, more specifically, how it is able to incorporate both traditional corporations and social economy actors under the same certification scheme. To explicate this situation, it is helpful to employ value chain analysis. Value chain analysis has been developed to investigate how different goods are produced in our increasingly globalized economy in different ways by different actors and with different distributional outcomes. At the name suggests, this form of analysis focuses on how value is added at different sites throughout the chain, from the procurement of raw materials to the final sale to consumers (Reed forthcoming).

Recently, Gereffi et al. (2005) have developed a version of "global value chain" (GVC) analysis which emphasizes how different types of value chains have different governance structures (which indicate how different chains are organized in different ways according to different principles depending upon the power of key actors). Below, we adapt their approach to GVC analysis in order to examine the Fair Trade value chain. The key adaptation that we make involves the fact that GVC analysis is used to analyse corporate value chains. Fair Trade, however, involves social economy actors as well as corporate actors, a fact which allows for the incorporation of a different form of governance in the value chain, one that is based upon solidarity. On this basis, it is possible to distinguish four versions of the Fair Trade value chain, which indicate not only different approaches to governance, but also different levels of corporate involvement in the value chain. The first two can be characterized as social economy variants of the chain, while the other two are dominated by corporate actors and have more in common with the conventional corporate value chains.

A) Fair Trade Without Corporate Participation

The value chain that was created by the various strands of the Fair Trade movement before certification was one entirely without corporate actors. It was based upon an exclusively social economy form of production (see Figure 5-3). As such, it can be characterized as an alternative or social economy value chain. Underlying the difference between social economy and corporate value chains is a basic difference in goals. Whereas traditional corporate-dominated value chains are oriented towards maximizing profits for shareholders, the Fair Trade chain has been oriented towards maximizing the value that goes to small producers and, even more importantly, empowering small producers within the global food system. In this chain, Northern FTOs are engaged in a movement to support small producer organizations in the South. For their part, producers' organizations have not sought to capture the benefits of trade exclusively for themselves, but rather have attempted to extend these benefits to their larger communities and to neighbouring communities as well (Renard and Pérez-Grovas 2007; Roozen and VanderHoff Boersma 2001). As a means toward the ends of maximizing small producer value and empowerment, the Fair Trade value chain aims to be as short as possible, reducing the number of profit-generating nodes between small producers and consumers. It also seeks to help producer organizations capture more of the value further up the chain. As noted above, the original product certification standards were designed to ensure these practices and outcomes (Eshuis and Harmsen 2003).

Given these differences, it will not be surprising to find that the governance of a social economy value chain differs significantly from any of the four models that Gereffi et al. (2005) distinguish (see Figure 5-3). While the governance of the Fair Trade value chain is very much based upon networks, it differs from the network forms that Gereffi et al. distinguish. Networks within this chain are premised upon *long-term* relationships rather than the view seeing small producers as modular units that can be replaced as soon as lower-cost options are found. Partnerships are oriented towards broad capacity building of small producers and their organizations rather than captivity. Technology and market information are to be shared, not controlled. While the form of governance employed in Fair Trade might best be termed relational, it is not *relational* in the sense that Gereffi et al. use the term to describe corporate dominated chains. In the latter, the relations in question are based upon convenience, necessity and/or past history and represent a balance of power between partners. In the social economy value chain, the relational form of governance is based upon values of solidarity and social justice (IFAT 2006).

Nature of the Value Chain	Level of Corporate Involvement	Model of Governance
Pure Social Economy	None	Relational (Solidarity-Based)
Social Economy Dominated	Retail	Relational (Solidarity-Based)
Corporate Dominated	Retail, Licensing	Modular
Pure Corporate	Retail, Licensing, Production	Relational (Balance of Power), Hierarchical

Fig. 5-3: Four Variants of the Fair Trade Value Chain

Before the advent of product certification, this completely non-corporate form was the only variant of the Fair Trade value chain. With certification things began to change, as corporate retail participation was promoted as part of the introduction of the first certification initiative (Roozen and VanderHoff Boersma 2001), to be joined by corporate involvement in procurement, processing, and marketing as well. However, this non-corporate variant of the chain did not disappear, for a couple of reasons. First, certification did not extend to all fairly traded products, most notably those in the handicraft sector (which was initially the largest aspect of the movement). Second, even in those markets where certification did develop, not all FTOs decided to become licensees of product certification and not all small producers were in a position to become certified producers. Some FTOs have even made the decision to discontinue certification of their products. Yet, these organizations, relationships, and products continue to uphold the basic principles and standards of Fair Trade; that is to say, they continue to represent the goals, principles, and practice of Fair Trade, but outside of the product certification process. Third, while many FTOs and small producers did become licensees and certified producers, this did not change their relationships with each other. They continue to be linked as before in a basic social economy chain that serves as a counterweight to the growing corporate influence in the product certification aspect of the movement (Grodnik and Conroy 2007; Fridell 2007; Waridel 2002).

The reasons for FTOs in this variant of the chain not engaging with corporations are varied. For some, it is just a question of size. They are small operations which have not grown to a point where they can engage with corporate retailers. For others, however, the decision not to engage with corporate retailers is a more principled one, based upon an understanding that corporate involvement runs counter to the values and principles upon which Fair Trade was founded (e.g., solidarity, producer empowerment, and the direct relationship between producers and consumers). Another consideration is more strategic in nature. Some FTOs are concerned that allowing any form of corporate participation represents the proverbial “nose of the camel” and will inevitably alter the practice of Fair Trade in ways which undermine its original intents (Grodnik and Conroy 2007; Byrne 2006; Randall 2005; Waridel 2002).[15]

B) Fair Trade with Corporate Retail Participation

This variant of the value chain is closely tied to the introduction of the first product certification label, Max Havelaar. As noted above, one of the key goals of certification was to make fairly traded products more readily accessible to consumers by getting them on supermarket shelves. While there was some initial opposition to this strategy, this has largely dissipated. Many if not most northern FTOs seem to have agreed with the idea of corporate retail participation because of the promise it held for increasing the volume of Fair Trade sales for small producers’ organizations. For their part small producers, desperate to increase their sales at the fair trade prices, have been equally if not more supportive of corporate retail participation (Renard 2005).

While the initial response by mainstream retailers in the Netherlands to certified goods was much better than anticipated, in other countries retailers have been much slower to accept them. They have had to be convinced that there was a market for such goods and that FTOs could be reliable suppliers of quality products. Education and advocacy NGOs have played a key role in convincing retailers of the existence of a market for fairly traded goods (Barrientos et al. 2007; Waridel 2002). It is also the case that the presence of such products on the shelves of co-operative grocers demonstrated consumer demand and presented sufficient competition to help spur corporate retailers to carry them (Develtere and Pollet 2005).[16] As their concerns about the existence of a market and reliable suppliers have been addressed, corporate retailers have warmed to the prospect of offering fairly traded products. Initially most retailers did so by engaging with FTOs (who were already importing fairly traded coffee, tea, chocolate and, later, other products) on the basis of market transactions.

This willingness on the part of retailers to engage with FTOs on the basis of market transactions means that this version of the Fair Trade value chain is similar to the variant above. The only difference is that corporate retailers are included along with alternative outlets as part of the distribution network. The inclusion of corporations in the chain in this ways does not significantly affect the social economy nature of the chain. Under these conditions, the same relational form of governance involving FTOs and small producers is able to persist, with trading organizations retaining their commitment to the support of producers' associations in the various ways noted above (with educational and advocacy NGOs also continuing to supply support). While this variant of the value chain does not contain only social economy actors, it is still dominated by them.[17]

C) Fair Trade with Corporate Licensees

Corporate actors have been slow to participate in Fair Trade. As noted above, major supermarket chains had to be persuaded to offer fairly traded products. The same situation has arisen in retail outlets, most notably high-end coffee retailers. A number of coalitions campaigned very actively over a number of years in order to convince corporations in this sector to offer such products. NGOs such as Oxfam, Christian Aid (U.K.), Global Exchange (U.S.), and Équiterre (Canada) were able to mobilize a wide range of other actors in their efforts to induce corporations to offer fairly traded goods, including student organizations, church groups, labour unions, and environmentalists (Waridel 2002; Wilkinson, 2006). These coalitions have been relatively successful in their efforts as major coffee specialty retailers eventually succumbed to pressure to offer Fair Trade coffee (although it continues to constitute an insignificant percentage of their total sales). Pressure is now being placed upon the four large coffee giants (viz., Kraft, Procter & Gamble, Nestlé, and Sara Lee) to follow suit (Fridell 2007), with Procter & Gamble and Nestlé already launching limited lines of fairly traded coffees.

There is, however, a major difference between specialty coffee retailers and the large coffee producers, on the one hand, and the large supermarkets chains on the other. The former have typically adopted active approaches to governing the value chain, somewhat in contrast to grocery retailers (at least until recently). These corporations, Starbucks being the best example, are only likely to agree to offer fairly traded products if they can do so as licensees, that is, without altering the central purpose and structure of their businesses. The reason for this condition is that being a licensee provides them with greater opportunities for influencing the governance of the value chain and thereby being able to maximize profits.[18] The reason that they want greater control over the value chain (rather than just working through arms-length market relations) is that the production characteristics of the commodities in which they deal (e.g., low levels of technology, the possibility of codifying information) naturally tend to favour a modular approach to governance in which suppliers are regularly inserted into and extracted from the chain based upon cost and quality considerations.

There are two concerns in particular that lead these companies to adopt modular production. First, these companies have a concern about the quality of production. This is particularly the case insofar as they are dealing with niche products. Many of the products that they would be dealing with may be described as such in two senses. On the one hand, all Fair Trade products are niche products in that they appeal to a select group of consumers that is willing to pay more for a product that is produced under more ethical conditions and which provides more just outcomes. On the other hand, some Fair Trade products (especially coffee, tea, and chocolate) tend to operate primarily or exclusively in the higher end of the market and appeal to consumers who are willing to pay more for quality (Taylor et al. 2005; Ponte 2004).

Product certification serves some of the functions of modular governance with respect to both of these concerns, as it sets standards both for the process and the quality of the product. While the ethical concerns about the production process tend to be addressed well by FLO standards, corporate licensees have expressed concerns about the quality of fairly traded products (Murray et al. 2006). As licensees, corporations are in a better position to directly encourage higher quality, both by directing the support that they are required to give small producers towards quality improvement and by shifting between different suppliers on the basis of quality. While, in principle, Fair Trade is based upon long-term relationships, in practice product certification requires that contracts need to extend only for one growing season. This fact allows corporations the possibility of switching among producers to ensure better quality. Because there is a glut of products in most major Fair Trade commodities, small producers have a strong motivation to comply with the signals being sent by the licensees and to invest in ways that improve quality rather than in, say, social development programs (Taylor et al. 2005; Ponte 2004).[19] By offering premium prices for quality and pitting individual producers against one another, corporate buyers may be able to break the level of solidarity within producers' organizations and impact their ability to bargain collectively.

Second, corporate licensees also have concerns about costs related to Fair Trade. Like all licensees, corporations are required to pay at least a minimum price and premium for a specific commodity, so there is no opportunity to directly drive down prices by competition among small producers when the price is above this minimum. When market prices are above this minimum, however, market pressures are reintroduced and traditional strategies can again be implemented by buyers. As licensees, corporations have other cost advantages that they do not have as retailers. As licensees they are competing against FTOs and to the degree that they can minimize their costs vis-à-vis them, they will have a cost advantage in the Fair Trade market (whereas, if they were confined to acting as retailers they would have to accept the higher cost structure of social economy actors).

There are two basic ways that corporations may enjoy such cost advantages as licensees. First, because social economy actors are committed to Fair Trade principles on all of their trading activities, they often incur higher overall costs. This situation is exacerbated by the fact that FTOs typically exceed Fair Trade product standards and take on other activities that are not required (e.g., paying above the required Fair Trade minimum, investing in producer education, and providing credit beyond required levels). Corporate licensees, by contrast, typically incur much lower costs because they are committed to Fair Trade standards on a fraction of their products. Second, some standards are not strictly enforced (such as a commitment to long-term contracts, providing organizational and technical support, and the provision of pre-harvest credit), so corporations can cut costs in these areas as well. This is not to say that corporate licensees do not provide any support for small producers. Their support, however, is more targeted, focusing almost exclusively on how to improve product quality and marketing advantage rather than developing more general organizational capacities that might be transferable to other areas of activity (Fridell 2007; Murray et al. 2006; Renard 2005; Waridel 2002). Fair Trade product certification, unfortunately, does not communicate these differences to the consumer, leaving FTOs at a disadvantage. It is for this reason that some FTOs have discontinued certification of their products.

D) Fair Trade with Plantation Production

The use of plantation production in Fair Trade was permitted very shortly after the start of product certification. It was individual certifying organizations that first made the decision to allow for the participation of plantations before the emergence of FLO.[20] This was initially done in a very selective manner. The initial intention in was not to encourage participation by large transnational corporations. Rather, it was the recognition that it would be difficult to open up some agricultural markets to Fair Trade if plantation production was not allowed, because small-scale farmers have historically represented a small portion of the production in these sectors, e.g., tea (Renard and Pérez-Grovas 2007).

Over time certification for plantations has extended to other sectors, even when there has been sufficient production by small producers' co-operatives and associations.[21] In some of these cases, it was northern social economy organizations that were the importers of the products. These FTOs, such as AgroFair (which was established by the Dutch NGO Solidaridad, with 50 per cent ownership by small producers in Africa and Latin America), took special care in order to select plantations that had strong labour representation and reputations for corporate responsibility (La Cruz 2005; Shreck 2005; Murray and Raynolds 2000) even when they represented a minority of the production.

More recently, however, the logic of allowing plantation production seems to be more closely tied to encouraging greater corporate participation and the more rapid launch of newly proposed products such as fruit, flowers, and vegetables. This is perhaps most evident with the initiatives in the United States in the banana market. TransFair USA (TFUSA), the U.S. affiliate of FLO, has recently been in talks with Chiquita to try to convince them to offer fairly traded bananas. There are a couple of particular reasons why TFUSA is keen to encourage corporate participation in this sector in addition to the more generic concern about increasing Fair Trade sales. One of these reasons relates to the dominance of corporate producers in this sector in which sales are largely controlled by three major producers—Chiquita, Dole, and Del Monte. The second reason is that the initial inroads made by Fair Trade in the banana market are being eroded by competition from other certification programs, especially Rainforest Alliance (Raynolds 2007). This competition in the product certification arena is now spreading to other products once the exclusive domain of the FLO.

For their part, Chiquita and other large producers will not be inclined to participate in Fair Trade if it involves significant changes to the manner in which they govern the value chain, as such change could adversely affect their profit margins.[22] Historically, the banana chain has been controlled in a couple of different ways. Early on, large corporations such as United Fruit (later Chiquita) and Dole were able to employ a vertical integration approach to governance. This entailed ownership of plantations and control over transportation and distribution. It was only retail distribution which was not fully owned by the corporation. As ownership of plantations became more risky due to political considerations in sourcing countries (especially in Latin America) a shift in the form of governance occurred. Major banana producers moved to a relational form of governance as they were placed in a form of mutual dependence between themselves and large plantation owners (Frundt 2005).

While TFUSA has not yet come to an agreement with Chiquita or any of the other major producers based upon the widespread use of plantation production, it is clear that there is a great deal of momentum to move in this direction.[23] Such an agreement, if it comes, would essentially allow large corporate producers to enter the Fair Trade market without altering their existing manner of governing the value chain in any qualitatively significant way. What this means—whether the corporations in question employ a hierarchal approach or a relational model of governance—is a fundamental change to the original Fair Trade value chain in which social economy actors are completely eliminated.

If this development occurs, the question that many will ask is on what basis this form of the value chain can continue to be characterized as Fair Trade. The elimination of social economy actors from the chain represents an evolution toward something much more like "ethical trade" as practised in the apparel industry (Smith and Barrientos 2005). Like ethical trade, it has basically begun to take on the form of corporate accountability,[24] the primary goal of which is to regulate the activities of corporations (rather than to promote socio-economic development by social economy actors). Although it still differs from ethical trade in a couple of ways (this version of Fair Trade still provides a social premium and a minimum price which is designed to help ensure plantations move towards paying a "living wage" to workers), this form of regulation appears much more similar to ethical trade than social economy variants of the Fair Trade value chain—and is a far cry from the original goals and principles of the movement.

Consequences of the Dichotomy in Fair Trade

The existence of different commodity chains in the practice of product certification in Fair Trade means that there are really two significantly different forms of production. In the first two versions of the commodity chain outlined above, social economy actors from the North work exclusively with small producer organizations in the South to help them increase their capacity not only for becoming integrated in the international economy, but also for promoting local development. To the degree corporations are integrated, it is only as retailers at the end of the commodity chain. This does not affect the basic governance of the chain that is based upon Fair Trade principles and on helping small producers maximize the value added that they can get from the chain and apply those resources to community development. These two variants of the chain represent a social economy trading network.

The second two variants of the value chain outlined above are dominated by corporate licensees of product certification. Corporations are not committed to Fair Trade principles—rather, engagement in the movement represents an opportunity to gain competitive advantage in a marketplace increasingly concerned with social and environmental impact. In engaging in Fair Trade, they do so to the degree that it will help them with their primary obligation, maximizing return to investors. While product licensing and certification agreements impose certain requirements on corporations—which, to the degree they can be enforced, will make them operative in a more socially accountable manner—it does not change their basic motivation for being in business nor their basic business strategies, including how they try to govern value chains. As a result, these versions of the commodity chain represent a corporate accountability trading network.

There are two questions that naturally arise from this analysis. The first is how has this situation arisen? There are three groups of actors that have primarily been involved in the increased role of corporations as licensees. In the first instance, a number of groups, most notably NGOs, have actively campaigned to convince corporations, especially large specialty coffee chains, to offer fairly traded products. As noted above, NGOs like Global Exchange, Oxfam, and Équiterre have been relatively successful in their efforts—especially in the coffee sector—as major corporate producers and specialty retailers have become product licensees and now offer their own Fair Trade coffee lines (Waridel 2002; Wilkinson 2006). Secondly, small producers' co-operatives have often accepted the notion of corporate licensees. They do this almost exclusively because it provides them higher prices. While they prefer to deal with social economy actors, the desperate nature of their plight leads them to deal with corporate licensees. Third, the product certifiers and FLO have shown an increasingly strong tendency to favour growing the Fair Trade market at the expense of upholding its historic values and principles. This has led them to court large corporations—including ones with particularly questionable reputations for corporate responsibility—rather than promoting co-operatives and other Northern social economy actors. This concern for sales and growth has also led to the introduction and increasingly extensive use of plantation production. Some would argue that it has also led some of the Fair Trade certifiers to act in an increasingly bureaucratic fashion, without the involvement of FTOs and other movement actors (Raynolds and Murray 2007). For their part, small producers' organizations have long argued that the FLO has excluded them from any significant decision-making role in the network. These recent moves have made small producers more wary of corporate participation in Fair Trade and have helped to stir them to organize more effectively through regional association and collaboration with FTOs through associations such as IFAT. As a result of such strategies, small producers have gained significant representation on the FLO board and within international Fair Trade associations (Renard and Pérez-Grovas 2007).

The second question that emerges from the existence of two distinct trading regimes within Fair Trade is what is wrong with this dichotomy? There are at least two ways to approach this question. One is to adopt an explicitly normative approach that takes the values of the movement seriously. From such a standpoint it could be argued that it is wrong to include organizations (viz., corporations) in Fair Trade as licensees or producers if they not committed on an organizational mission level to its values and principles. To do otherwise, it could be argued, is hypocritical. For if Fair Trade is supposed to be a trading relationship that is based upon certain values and some organizations do not even pretend to aspire to those standards, then they obviously should not be "licensed" or "certified" to engage in such arrangements.

The second approach is to focus more on the original goal of Fair Trade and ask whether the incorporation of corporations as licensees is likely to promote this goal over the long term. If the core goal of the movement is to increase the ability of marginalized small producer groups to increase their productive capacities and assume greater control over their own development strategies, then there are two serious concerns which corporate participation raises. The first of these is that the participation of corporate licensees may significantly devalue the Fair Trade "brand" in relationship to consumers. One part of the problem here is that many consumers do not associate Fair Trade with corporations, believing that product certification represents a broader organizational commitment to its principles. Many would and do object when they find out about the nature of corporate participation in the movement. Fair Trade product certifiers do not help consumers understand the distinctions between these different approaches. And corporations, for their part, may actively contribute to the devaluation of the Fair Trade brand through "fairwashing," which involves the use of deceptive practices that are designed to confuse consumers into thinking that the products being sold are certified fair trade products (or are equivalent) when they are not (Mutersbaugh 2005). These include: 1) parallel production (where MNCs purchases a small amount of its product on Fair Trade terms, but then promote an image of the firm as a "fair trade company" on par with FTOs); 2) standards dilution (whereby licensees attempt to pressure FLO to reduce its standards and/or use other certification programmes with less stringent standards in their mix of ethical products); and 3) captive certification (certification-like schemes which are not independent and reflect corporate interests) (Renard 2005).

The second major concern is that corporate participation in the movement may marginalize or even eliminate the two groups that have been most responsible for Fair Trade and thereby ultimately undermine any prospect of achieving its goals—social economy actors in the North and small producers' associations in the South. The problem with respect to social economy actors is that by seeking to live up to their basic mandate of maximizing return to small producers, they inevitably suffer comparative disadvantages vis-à-vis corporate licensees (which do not sell only fair trade products, do not pay above the fair trade premium, do not expend resources on educating consumers, etc.). Moreover, corporate actors have significant influence with retailers that they can exercise to displace social economy actors. When corporate fairwashing practices are added to the mix, it can be difficult for these FTOs to survive, let alone grow the movement. The primary concern with regard to small producers is the increasing pressure that (potential) corporate licensees are applying to FLO and its members in order to permit plantation production. Plantations inevitably place small producers in a disadvantageous position as they do not have the same access to capital or productive capacity as large landholders or corporations, not to mention the historic conflict between oligarchs and small agricultural producers and their associations. Even if some established small producers' organizations can survive, the introduction of plantation production means that many fewer small producers will be able to participate in Fair Trade, even if sales continue to grow. There is, of course, no small irony to the prospect of corporations and large landowners squeezing small producers out of fair trade production.

Reclaiming Fair Trade as a Social Economy Trade Network?

Given the increasing influence of corporations within the product certification system and the implications this has for FTOs, including small producers' associations and Northern social economy actors, it is not surprising that there has been an increasing effort by many actors to emphasize the original vision of Fair Trade as a social economy practice. While some have felt that it is necessary to reject FLO certification to do this, others continue to think that product certification is important but that the FLO needs to be held more accountable to the movement and that corporation participation needs to be seriously constrained if not eliminated.[25] It is not clear, however, whether there is sufficient will or organizational savvy to put the corporate genie back into the Fair Trade bottle. It is likely to be difficult even to get Fair Trade certifiers to develop policies which favour Northern FTOs over corporate licensees (e.g., a fee structure which rewards licensees for a higher percentage of fairly traded products).

There is one recent development, however, that may bring a new dimension to the movement. Recognizing the need to distinguish FTOs from product certification, IFAT launched its own member accreditation programme in 2004. In contrast to the FLO certification scheme, which certifies products as having been produced under Fair Trade conditions, IFAT's new certification programme accredits businesses as FTOs—that is, as social economy enterprises with Fair Trade at the core of their missions. While IFAT membership is not restricted to co-operatives, it is based upon confirmation of compliance with the association's principles. One of the reasons for the development of this initiative has to do with the fact that it has proven difficult to develop product certification criteria and procedures for some fairly traded goods, most notably handicrafts (which for many years represented the largest sector of such products). Accrediting producer organizations rather than products helps to eliminate this problem. There is, however, an additional significance to this development. Because IFAT principles hold organizations—including producers, traders, and marketers—to specific principles, they limit involvement to social economy actors and exclude the possibility of corporations being certified without completely altering their core purpose, conduct, and activities. While it is unlikely that IFAT's accreditation system will replace product certification (except, maybe, in products that have not been previously certified), it may serve as an important complement to FLO certification, one which could indicate to consumers that the products in question are truly part of a social economy value chain.

A Co-operative Trade Network?

Fair Trade has opened up new possibilities for co-operatives to internationalize, both through the FLO product certification system and through the new IFAT organizational accreditation system. While most of the exchange within the Fair Trade system is between the global North and South, there is increasing interest in South-to-South trade as well as "domestic fair trade" in industrialized countries (Crowell and Sligh 2006; Renard and Pérez-Grovas 2007). The latter development, in addition to being important in its own right, could serve as an important learning ground for helping new FTOs internationalize. In addition, but not unrelated to these opportunities, Fair Trade has some general lessons for the co-operative movement, lessons that might open up a new strategy for internationalization.

One important sphere in which Fair Trade can provide lessons for the co-operative movement is with regard to marketing. Marketing has, in one area, been a great strength of the movement. Since their rise in the 1920s and 1930s, agricultural co-operatives have proven to be one of the most important sectors of the movement. Marketing in this context, however, has largely been business-to-business marketing involving undifferentiated products (though that is of course changing with the rise of New Generation Co-operatives). In other sectors, however, especially those that produce final products, co-ops have historically been quite weak when it comes to marketing (Cornforth et al. 1988). Despite the fact that they are generally viewed very positively by the public, co-operatives have not take advantage of what should be obvious marketing strategies (e.g., relationship and character marketing). While there has been some push in recent years to better promote the "co-operative advantage," this has largely involved individual firms rather than a more organized approach by co-operative sectors as a whole (Webb 2000).

Fair Trade, by contrast, has employed marketing as its key competitive strategy. Not only this, but it has marketed itself on the basis of its values (which, as noted above, overlap extensively with co-operative values and principles). The key to the strategy has been developing Fair Trade values and principles into a recognizable brand, which it has been able to do on the basis of product certification and labelling programs. The FLO label enjoys widespread recognition throughout countries in Europe, with an average of 46 per cent of the population in a sample of 13 countries familiar with the mark (Kohler 2007). While the consumer awareness in other countries may not be as strong, it continues to grow; and while certifying organizations do not have significant budgets for advertising, they have been able to make tremendous use of public relations, activists, and products to build recognition among consumers. They are able to attract free media attention on a regular basis by organizing campaigns and public events. Underlying this ability is the fact that they can count on the resources of not only licensees, but also on the energy and time of the broader movement of activists and NGOs, all of whom have been mobilized on the basis of a commitment to Fair Trade values.

A second lesson from Fair Trade relates to inter-cooperation (see Figure 5-4). Co-operation among co-operatives can be directed towards a variety of tasks and involve different levels of engagement. Much of the collaboration that occurs among co-ops involves federations within particular sectors and is oriented towards strengthening the voice (and market power) of the co-operatives within that sector. Interco-operation can also be employed towards the goal of influencing public policy relating to co-operatives, a function that is particularly well promoted at the level of apex bodies. Another key area of inter-cooperation—one which can be exercised from the level of individual enterprises all the way up to apex bodies—is the provision of support for co-operative development (e.g., establishing loan funds, educational programmes, etc.). Interco-operation can also entail co-operatives working together in commercial ventures. Most commonly this happens at the level of individual co-operatives (e.g., strategic alliances or even joint ventures) on a one-off basis. Less common is the development of large, diverse co-operative groups involving different sectors (e.g., Mondragón Co-operative Corporation) or networks (e.g., La Lega).

The experience of the Fair Trade movement suggests that such networks of co-operatives are not only feasible, but that they can be readily extended internationally. Moreover, Fair Trade is based upon the premise that such networks can include small, under-resourced, fledgling co-operatives under the right conditions, and can result in the effective development of these co-ops. One key in developing the Fair Trade network has been linking up the various strengths of the co-operative movement to fill gaps in the value chain. Thus, the movement has involved inter-cooperation not only among small producers' co-ops in the South and co-operative FTOs in the North (along with various social economy actors), but also with co-operative finance organizations and retailers (Crowell 2006). Without the support of the latter, the Fair Trade movement could not have grown nearly as fast as it has.

Another essential component, as noted above, has been the development of a product certification system. The certification system functions not only at the end of the market to identify fairly traded products to consumers, but also has been essential in linking actors together in a network. The network provides them with essential information and contacts. Following on from these general lessons is the strategic possibility of co-operatives developing their own international trading network that connects the movement in active commercial exchange. What might such a network look like? Drawing upon the first lesson from the Fair Trade movement above, co-operatives need to take advantage of the positive public image that they already have and find ways to build on this. An obvious way for co-operatives to do this would be to develop their own label—ideally a single label that would be used across different countries—and a certification programme based upon established co-operative values and principles.[26] Such a label (along the lines of the IFAT label) could clearly identify co-operatives to consumers. Moreover, a certification programme would enable the co-op movement to ensure that its members actually do live up to their principles and values, a goal in line with the calls by some for adding a principle of compliance to the current identity (Birchall 2005). The infrastructure for such a certification programme is largely in place in that it could be co-ordinated by the national-level apex bodies.

The certification of co-operatives and the development of a common label could by itself help to stimulate international inter-cooperation to some degree. This would likely be most efficacious for co-op retailers, who could import agricultural produce from other countries more easily (and use this as part of a branding strategy). In order to create a more dense international trading network, however, one which helps to integrate participation throughout more complex commodity chains, additional steps would probably be required. A separate, co-op trading label would probably have to be developed, one which indicated that the production of the goods in question involved the international participation of multiple co-operatives across the whole chain. As well, a special certification organization (perhaps as a branch of the ICA) might have to be established which could develop an international co-operative trade label. Its functions might include promotion of the label, monitoring the use of the label, facilitating information flows within the network (e.g., maintaining a registry of exporters/importers, funding sources, etc.), and etc.

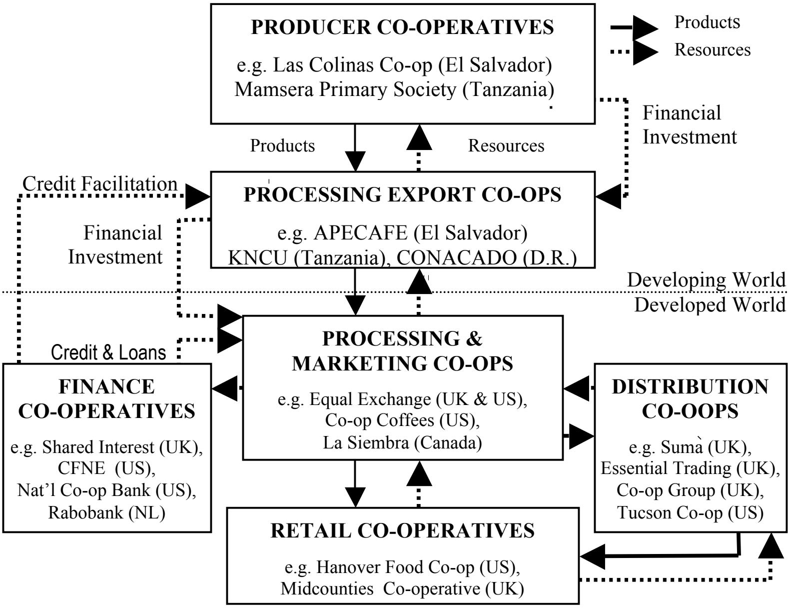

Fig. 5-4: Decentralized Global Co-operation in the Fair Trade System

The development of an international co-operative trading network, while it would not solve all the problems of internationalization, would be important for several reasons. First, as a trading network, it entails the simplest form of internationalization, namely, importing and exporting. This means that it can facilitate participation in the international economy for more co-operatives—even small, under-capitalized associations (as occurs in Fair Trade)—with relatively little risk. Second, it can contribute to an increased density of the co-operative sector which in term can help to broaden representation in different economic sectors. Third, with increased density and diversity, it provides the possibility for the development of more complex commodity chains (e.g., in manufacturing) that involve (almost) exclusively co-operative participation. It may also provide an important basis for other developments, such as the formation of transnational co-ops. Fourth, it provides a model of internationalization that is entirely compatible with co-operative values. Many co-ops that have undertaken internationalization strategies have engaged in practices (e.g., joint ventures with investor-owned firms, wholly-owned subsidiaries, etc.) which would seem to run counter to basic co-operative principles. A wholly co-operative trade network, by contrast, would not only be compatible with the values of the movement, but would also capitalize on them as a key competitive advantage. Finally, the emergence of a co-operative trade network would be an important complement to the Fair Trade movement. Not only would it provide the example of another mode of Fair Trade practice, but it could also spur the co-operative movement to become more involved in dealing with the larger agenda of international trade reform, a goal which is ultimately essential in order to deal with the problems of unfair markets and of business practices that often spur the rise of co-operatives in the first place.

Notes

1 The International Fair Trade Association (IFAT), which represents Fair Trade Organizations (FTOs) on a global level, points to the parallel development of the co-operative and Fair Trade movements in its historical account:

> Where did it all begin? Some people say that alternative trade began in Italy and in the UK towards the end of the 19th century with the development of the co-operative movement which tried, and still tries, to build an integrated cooperative economy right the way through from production to retail outlet (IFAT 2003: 1).

2 Self Help Crafts, now known as Ten Thousand Villages, is often described as the first FTO and was founded by the U.S.-based Mennonite Central Committee in 1946. At almost the same time, the Church of the Brethren, also in the U.S., established SERRV ("Sales Exchange for Refugee Rehabilitation and Vocation," now known as A Greater Gift), also a pioneering FTO. Both of these organizations continue to be leaders in the Fair Trade movement and play significant roles in organizations such as IFAT and FTF.

3 Café Nica was the initial venture of the three founders of Equal Exchange, a worker-owned co-operative which is now one of the largest FTOs in the world. To get around a trade embargo imposed on the Sandinista government of Nicaragua by the Reagan administration, Equal Exchange worked with a Dutch FTO which imported the beans into the Netherlands and then re-exported them to the U.S. (Simpson and Rapone 2000).

4 The notion of what constitutes the social economy is a subject of dispute. Broad understandings include virtually all actors that have a social goal (rather than generating profits) as their primary end. This would include non-profit organizations, social entrepreneurs, and para-statal organizations as well as co-operatives, mutual associations, etc. (Quarter et al. 2003). A more restricted

understanding characterizes social economy organizations as: 1) primarily engaging in economic activities; 2) being constituted as voluntary associations; 3) setting limits on the distribution of the surplus; and 4) having a democratic decision-making structure (Bouchard et al. 2006). The latter is the sense in which we employ the term here.

5 Union of Indigenous Communities of the Region of the Isthmus (Unión de Comunidades Indígenas de la Región del Istmo).

6 Under the scheme, producers were required to pursue a goal of economic development, the producer organizations had to be composed of a majority of small producers, and they were required to have a democratic and transparent organizational structure. They also had to meet basic business requirements (for quality, logistics, and administration) and to have an environmental policy. Importers (licensees), meanwhile, were required to purchase directly from organizations of small producers, to offer pre-financing, to develop long-term relationships with producer organizations, to offer a minimum price for the product, and to offer an additional premium that would be used to contribute to support for local development (e.g., social and physical infrastructure). For its part, the functions of the Foundation were to set the rules (for producers and importers), certify producers, and promote Fair Trade (Eshuis and Harmsen 2003).

7 In 1997 when the various national Max Havelaar organizations would join with certifying bodies in other countries to form the FLO-I, generic standards were developed that drew heavily upon the original Max Havelaar standards. In addition, however, FLO-I had to draw up a second set of generic standards because some of the other national certifying bodes had been certifying products produced on plantations. One of the key differences between these two sets of generic standards relates to the manner in which "democratic control" is exercised. While small producers are organized in democratically controlled co-operatives or associations, workers on plantations have much less control over production, their rights to democratic organization being limited to the right to form a union.

8 The Mexican labelling initiative Comercio Justo México is an associate member and does not yet have full membership rights within FLO. Other initiatives are being developed in Brazil, Peru, Ecuador, South Africa, and India. For a discussion of the implications of southern FLOs, see Wilkinson and Macarenhas (2007), Wilkinson (2006), and Renard and Pérez-Grovas (2007).

9 The full statement offered by FINE included the following definition: "Fair Trade is an alternative approach to conventional international trade. It is a trading partnership which aims at sustainable development for excluded and disadvantaged producers. It seeks to do this by providing better trading conditions, by awareness raising and by campaigning." The goals of Fair Trade according to fine are:

> To improve the livelihoods and well-being of producers by improving market access, strengthening producer organizations, paying a better price and providing continuity in the trading relationship.

To promote development opportunities for disadvantaged producers, especially women and indigenous people, and to protect children from exploitation in the production process.
To raise awareness among consumers of the negative effects on producers of international trade so that they exercise their purchasing power positively.
To set an example of partnership in trade through dialogue, transparency and respect.
To campaign for changes in the rules and practice of conventional international trade.
To protect human rights by promoting social justice, sound environmental practices and economic security."

10 The full 2001 definition is as follows: "Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers—especially in the South. Fair Trade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade. Fair Trade's strategic intent is:
deliberately to work with marginalized producers and workers in order to help them move from a position of vulnerability to security and economic self-sufficiency;
to empower producers and workers as stakeholders in their own organizations;
actively to play a wider role in the global arena to achieve greater equity in international trade."

11 IFAT originally adopted its "Standards for Fair Trade Support Organisations and Fair Trade Networks" in 2005, at which time the statement included nine standards. The following year it adopted a tenth standard on "trade relations."

12 Not only have large specialty coffee retailers come under pressure, but so too have the big four coffee companies which dominate the mainstream market. While initially very resistant, three of the four now have limited participation in the Fair Trade market through specialty brands. The most controversial case is that of Nestlé, which introduced a Fair Trade brand in the United Kingdom after it came under pressure from Oxfam. The controversy surrounding Nestlé's entry into the market was based upon the firm's perceived historic lack of commitment to responsible business practices in developing countries (Wilkinson 2006).

13 In Canada, Équiterre led a similar campaign against Van Houtte, which also resulted in the company agreeing to offer a Fair Trade brand (Waridell 2002).

14 It is, of course, not the case that all production of these products is carried out on plantations or that plantation production is synonymous with corporate production. Indeed, much of the banana production undertaken by groups such as AgroFair (an NGO established by Max Havelaar when it first introduced Fair Trade bananas in the Netherlands) involves small producers. As well, the

initial plantations that were certified were specially selected for their reputation as responsible producers. Nor were they importing through large corporations.

15 In 2003, IFAT developed a different approach to certification. Unlike FLO-I, which certifies products in a way that allows for corporate participation, the IFAT mark identifies *enterprises* as Fair Trade Organizations. Corporations would not be able to participate in this form of accreditation (Wilkinson and Macarenhas 2007).

16 In the Switzerland and the United Kingdom, for example, early involvement by co-operative supermarkets was key to making these the two European countries with the highest net value of retail spending on certified products and the highest per capita spending (Wilkinson 2006).

17 Examples of this variant of the value chain include the most prominent FTOs such as CaféDirect, Day Chocolate Company, Equal Exchange, etc.

18 There is an important distinction here between the specialty coffee market and the regular market. Almost all certified coffee is high quality specialty coffee. This is true not only of speciality coffee retailers, but also of the four large processors. Thus, some large processors have agreed to offer Fair Trade coffee as part of their specialty lines (e.g., Procter & Gamble's Millstone brand), but they have not yet been willing to introduce Fair Trade into their dominant brands and seem unlikely to do so, unless they are permitted to use plantation production (Renard and Pérez-Grovas 2007; Ponte 2004).

19 Estimates for the amount of their production that registered producers can sell in the Fair Trade market vary, but in the coffee market, for example, they are consistently below 50 per cent (Renard 2005; Hudson and Hudson 2003).

20 The first plantation production was certified by TransFair Germany in 1993 for tea.

21 In the Fair Trade banana market in the United Kingdom, for example, most of the supply has come from small producers from the Caribbean. Moreover, when plantation production was first used, it was northern FTOs who were the importers. These organizations, such as AgroFair (which was established by the Dutch NGO Solidaridad, with 50 per cent ownership by small producers in Africa and Latin America), took special care in order to select plantations that had strong reputations for corporate responsibility (La Cruz 2006; Shreck 2005; Murray and Raynolds 2000).

22 They will be all the less inclined to participate in Fair Trade if the competing certification programmes do not require such changes, as is the case with Rainforest Alliance. As it turns out, negotiations between TransFair USA and Chiquita did not result in an agreement and Chiquita decided to have all its bananas certified by Rainforest Alliance (Raynolds 2007).

23 There are other, non-corporate actors who advocate the certification of plantation production, many of whom are more closely associated with the labour movement. They include plantation workers, labour unions, and sympathetic NGOs. These latter groups are not opposed to FLO's traditional focus on small producers, but do want it expanded to include plantation workers (Frundt 2005).

24 Corporate Accountability is a movement that opposes the dominant neo-liberal

globalization strategy and seeks to reverse it by imposing new forms of regulation that imply greater social control over corporations (rather than the self-regulatory methods typical of neo-liberal regimes). See Utting (2005).

25 Some members of the coffee importing co-operative, Cooperative Coffees, for example, have given up certification through TransFair USA because of its active courting of multinationals, while others have continued to use product certification (Raynolds and Taylor 2007; Wilkinson 2006).

26 It is worth noting that the "twin pines," a co-operative symbol that is familiar in the Americas, is in use not only among farmer co-ops in the Fair Trade system but has also been utilized in the marketing efforts of co-operative FTOs such as Equal Exchange (U.S.) and Just Coffee, as well as Pachamama, a co-op of Fair Trade producer co-ops that markets its products directly to the U.S. market.

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