What do Corporations have to do with Fair Trade?
Positive and Normative Analysis from a Value Chain Perspective

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ABSTRACT: There has been tremendous growth in the sales of certified fair trade products since the introduction of the first of these goods in the Netherlands in 1988. Many would argue that this rapid growth has been due in large part to the increasing involvement of corporations. Still, participation by corporations in fair trade has not been welcomed by all. The basic point of contention is that, while corporate participation has the potential to rapidly extend the market for fair trade goods, it threatens key aspects of what many see as the original vision of fair trade—most notably a primary concern for the plight of small producers and the goal of developing an alternative approach to trade and development—and may even be undermining its long term survival. The primary purpose of this article is to explore the normative issues involved in corporate participation in fair trade. In order to do that, however, it first provides a positive analysis of how corporations are actually involved in fair trade. In order to achieve both of these ends, the article draws upon global value chain analysis.

KEYWORDS: Fair Trade, value chain, commodity chain, corporate social responsibility, social economy, co-operatives.

ABBREVIATIONS:

ATO	alternative trade organization
EFTA	European Fair Trade Association
FINE	FLO-I + IFAT + NEWS + EFTA
FLO	Fair Labelling Organization
FLO-I	Fair Labelling Organizations International
FTF	Fair Trade Federation
GVC	global value chain
IFAT	International Federation of Alternative Trade
NAATO	North American Alternative Trade Organization
NEWS	Network of European Worldshops
NGO	Non-governmental organization
TNC	transnational corporation
UCIRI	Unión de Comunidades indígenas de la Regiódel Istmo (Union of Indigenous Communities of the Region of the Isthmus)
UFCO	United Fruit Company

Introduction

There has been tremendous growth in the sales of certified fair trade products since the introduction of the first of these goods in the Netherlands in 1988. Many would argue that this rapid growth has been due in large part to the increasing involvement of corporations. Still, participation by corporations in fair trade has not been welcomed by all. The basic point of contention is that, while corporate participation has the potential to rapidly extend the market for fair trade goods, it threatens key aspects of what many see as the original vision of fair trade—most notably a primary concern for the plight of small producers and the goal of developing an alternative approach to trade and development—and may even be undermining its long term survival. The primary purpose of this article is to explore the normative issues involved in corporate participation in fair trade. In order to do that, however, it must also provide a positive analysis of how corporations are actually involved in fair trade. In order to achieve both of these ends, the article draws upon global value chain analysis.

The article proceeds in the following fashion. First, an introduction to fair trade and its analysis is provided. The second section distinguishes four different variants of the fair trade value chain based upon forms of governance and levels of corporate participation and examines their differing affects on different fair trade actors. The third section explores the controversies around corporate participation in fair trade by differentiating between three distinct types of normative issues that arise in fair trade, questions of fairness, ethics and legitimacy. The article concludes by summarizing the importance of value chain analysis for developing a more comprehensive understanding of both the positive and normative issues involved in corporate participation in Fair Trade.

Analysing Fair Trade

In talking about fair trade, it is important to distinguish between broad social movements which are aimed at the reform of the international trading system and the more specific initiatives that seek to link more directly small producers in the South to northern consumers (Fridell, 2007). The latter initiatives have taken different forms over time and have been referred to by different names, including "fair trade." Over the last two decades, these latter initiatives have been increasingly, but not exclusively, organized around certification processes. The dominant product certification processes in fair trade, as discussed below, arose from the grassroots and has emerged and developed over time with the support of northern alternative trade organizations and producer organizations in the South. These actors constitute what Renard (2005) calls a "fair labelling network". One of the most significant dynamics in recent years has been the increasing interaction of corporations with this network and, more specifically, the fair trade certifying bodies. It is this latter dynamic which is the focus of this article. While the discussion of the fair labelling network—and the role of corporations in it—cannot be adequately understood apart from the broader discussion of efforts to reform the international trading system, in this article it has been necessary to largely abstract from the latter discourse, including discussion within the fair labelling network on this issue.

A) A Short Introduction to Fair Trade

Fair Trade Before Certification and Corporate Involvement—The origins of the fair trade movement are diverse and somewhat contested (see the article by Gendron, Bissaillon and Otero in this issue). While some locate the origins of fair trade in early European co-operative movement, the most commonly acknowledged antecedent is found 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. 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 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).

From the late 1960s through the 1970s and 1980s, significant changes occurred in the emerging fair trade network. First, there was a proliferation of actors. While different religious-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, began to appear in world shops. Fourth, a greater sense of partnership and shared responsibility between northern actors and southern producers developed (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, by the 1970s the political awareness of actors and organizations involved in fair trade was also beginning to change. Influenced by this new discourse on development and the calls for change, many of the existing and newly emerging fair trade organizations came to characterize themselves as *alternative trade* organizations (ATOs). In this context, it is not surprising that many alternative trade activists were supportive of governments and movements in the South that were attempting to promote alternative economic models, such as Tanzania in the 1970s and Nicaragua in the 1980s. One example of this support was the development of a Nicaraguan coffee (Café Nica) for the U.S. market by a small co-operative, Equal Exchange.[1] The explicit motivation of solidarity which underlay the production of this and similar products 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.[2] 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.

FLOs, Certification and Corporate Involvement—One of the most significant developments in fair trade was the introduction of product certification programmes. The Max Havelaar Foundation, established in 1988 in the Netherlands, is generally recognized as the first fair labelling organization (FLO). Initiated by the Unión de Comunidades Indígenas de la

Regiódel Istmo (UCIRI, Union of Indigenous Communities of the Region of the Isthmus), a coffee producing co-operative of indigenous people in Mexico, the primary figures involved in establishing Max Havelaar were Francisco VanderHoff Boersma, a Dutch priest who worked with the co-operative (see the article by VanderHoff Boeresma in this issue), and Nico Roozen, who worked with the Dutch ecumenical development agency Solidaridad (Waridell, 2002; Roozen and VanderHoff Boersma, 2001).

In line with most of the previous practice of fair trade, the basic goal of the certification programme was conceived of as "empowering" small producers in the South and their local communities. This empowerment was understood as having 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. Certification served to promote these various components of "empowerment" by ensuring consumers that the product that there were purchasing were produced under conditions that were favourable to small producers (Eshuis and Harmsen, 2003).[3]

The introduction of certified fair trade coffee into the Netherlands was an immediate success and Max Havelaar soon spread from there to neighbouring European countries such as Belgium, France and Switzerland. A similar certifying initiative, TransFair International, was organized by the European Fair Trade Association (EFTA) and TransFair Germany in 1992, with new Transfair 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 20 such FLOs (Eshuis and Harmsen, 2003), with more currently under development, including one in Mexico.[4]

While the introduction of certification schemes and the proliferation of FLOs did not logically nor necessarily imply significant changes to Fair Trade, including participation by corporations, in practice certification did facilitate such change. In the case of Max Havelaar, for instance, the founders believed that the fair trade market could not be substantially increased if it did not spread beyond alternative retail outlets to mainstream grocery chains. As a result, the certifying body was developed with the intent of incorporating major retailers into the fair trade distribution network. For its part, Transfair Germany would make another significant alteration to fair trade early on by certifying production on plantations. Later, other FLOs would accept corporations as licensees of fair trade products (Raynolds and Long, 2007; Waridel, 2002).

FLO-I and the Fair Labelling Network—Over time, different fair trade actors have come together to develop organizations and a larger network. A key moment occurred in 1997, when seventeen FLOs joined together to form the Fair Labelling Organizations International (FLO-I). The two primary goals in forming a new apex international organization were to develop greater consistency in standards and greater consistency in the certification process. During the initial years of its existence, FLO-I was responsible for both of these tasks, but in 2004, it split into two distinct organizations. FLO-I remained as the standards-setting body and also continued to work with producer organizations, trade bodies and other external experts in the promotion of Fairtrade, while FLO-Cert (see 2007) was established as a separate company to provide arms-length certification.[5]

While FLOs were expanding and co-operating more closely from the late 1980s onwards, so too were other fair trade organizations. In 1989, the International Federation of Alternative

Trade (IFAT), initiated by several prominent European ATOs, brought together ATOs from the North and producer organizations from the South. Shortly thereafter, in 1990, eleven European fair trade importers formally came together after years of informal collaboration to form 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). As these developments show, European actors were the dominant players early on in the consolidation of the fair trade movement. More recently, there have been further developments in the South, most notably perhaps, the emergence of three regional (Asian, African, and Latin American and Caribbean) organizations within IFAT (Wilkinson and Macarenhas, 2007; Low and Davenport, 2005; Kocken, 2003).

These apex fair trade organizations not only work with their own members, but with each other. In 1998, for example, IFAT, NEWS and EFTA established an informal alliance with the FLO-I which is known by the acronym FINE. Through this alliance the member organizations work together on the harmonization of fair trade standards and monitoring, and the harmonization of their information and communication systems, advocacy work and campaigns (Kocken 2003).

Tensions Within the Fair Labelling Network—While the various fair trade organizations work together and have come to constitute an influential network, there are tensions within and between the dominant organizations on a variety of issues. Among the key issues under dispute within the network are the role (and influence) of small producers in the decision-making structures, competing (radical and reformist) understanding of what fair trade is and, closely related to the latter, the role of corporate participation and plantation production within fair trade (Raynolds and Murray, 2007).

One place where these tensions are visible is with regard to public statements on what fair trade is. In 1999, for example, FINE offered a definition of fair trade as aimed “at sustainable development for excluded and disadvantaged producers”.[6] In 2001 FINE revised its definition to refer to fair trade as “offering better trading conditions to, and securing the rights of, marginalised producers *and workers*—especially in the South [emphasis added]”.[7] Similarly, the 1999 definition refers to fair trade 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 [emphasis added]”. Many see these changes in the definition as aimed at making fair trade more palatable to corporations and paving the way for plantation production. It is also worth noting that neither of these definitions invokes the term solidarity, this in contrast to the IFAT standards of fair trade which speak of fair trade organization as maintaining “long-term relationships based on solidarity, trust and mutual respect” (IFAT, 2006).[8]

Another place where these tensions are visible is in discussions about decision-making structures. In the case of FLO-I, one source of tension has involved the relative weight of the voices of southern actors vis-à-vis northern ones. When FLO-I was founded its board consisted entirely of representatives from the FLOs with only one non-voting member from producer organizations. There have been some changes over the years so now the Board consists of five representatives of the FLOs, four representatives from fair trade producer organizations (with at least one each from Asia, African and Central and Latin America), two representatives from among traders, and two external members. These changes came about in large part from pressure by IFAT and its African, Asian and Latin American regional bodies. Producers are still not happy with this distribution and still feel that FLO-I takes decisions in an arbitrary fashion. At

the level of the FLOs there are also tensions, most notable between what might be described as movement and market actors. The former consist of the ATOs, NGOs (non-governmental organizations) and other actors that built up the fair trade movement, while the latter largely consists of the professionals who have been recruited to run the increasingly complex and technical certification and monitoring programmes. The movement actors typically feel that the FLOs do not adequately consult with them and are deviating from the original values and purpose of fair trade. The FLOs, they charge, have become inordinately concerned with increasing sales and, as a result, are overly subject to corporate influence. For their part, the market actors argue that if they do not grow the markets, then they cannot help small producers, and corporate actors will join rival certifying schemes with much weaker standards (Renard and Pérez-Grovas, 2007; Raynolds and Murray, 2007).

Competitors to the Fair Labelling Network—There are a variety of rival certifying schemes that corporations use that compete with the Fair Labelling Network. One approach that some large companies have adopted in the face of consumer and activist pressure is to develop their own programmes which mimic some of the aspects of fair trade production. Perhaps the best known example of these programmes, which typically involve first party certification and lower standards, is Starbuck's preferred client programme. A second approach that corporations use is to work with (and even support the development of) rival third party certifying programmes. These rival certification programmes, such as Utz Kapeh and the Rainforest Alliance's certification programmes for coffee and bananas, also mimic FLO certification in some ways but differ in that they are oriented almost exclusively towards corporations (rather than ATOs), do not offer price subsidies to small producers, and are much more amenable to the use of plantation production. A third strategy that corporations employ is to use other socially responsible labels instead of FLO certification. These labels, some of which complement FLO certification, typically place a stronger emphasis on environmental features of the product and production. In addition to organic certification there are other more specialized labels (e.g., bird-friendly and shade grown coffee certification programmes). These programmes differ from FLO certification in that they have much less rigorous social standards and do not pay minimum price guarantees (Renard, 2005; Ponte, 2004; Hudson and Hudson, 2003).

B) Analysing Fair Trade

In order to understand the normative issues regarding corporate participation in fair trade, it is first necessary to understand how corporations are involved. The rise of the fair trade, however, cannot be understood apart from the larger political economic context in which it has arisen and grown. This context has been largely constituted by significant changes in business practice and the regulation of national and international economies over the past few decades. The analysis of these changes in the global economy—characterized by many as the rise of a neo-liberal form of economic globalization—has benefited greatly from the development of commodity chain analysis (Taylor, 2005). Commodity chain analysis provides a way to understand the diversity of production in the rapidly globalizing international economy and how different actors get integrated into this economy based upon a variety of different factors.

One example of the richness of commodity chain analysis is provided by an influential distinction by Gary Gereffi. Early on, Gereffi (1994, 1995) distinguished between two basic forms of commodity chains, "producer-driven" commodity chains (typical of capital- and technology-intensive industries in which trans-national corporations (TNCs) control the core

technologies, frequently through vertical integration) and "buyer-driven" commodity chains (typical of larger retail and brand-name corporations which are able to control the structure and processes of production without actually owning any manufacturing facilities).

Recently, Gereffi along with Humphrey and Sturgeon (2005), two other leading figures in the field, have further expanded their understanding of what they call global value chains (GVCs) by focusing on the organizing principles, or governance, of these chains. More specifically, they have developed a global value chain model which distinguishes five different types of value chain governance. Their work draws upon the classic transaction theory distinction between hierarchy and market mechanisms as two distinct approaches to governing value chains. It then goes on to insert three network-based approaches to governing value chains—modular, relational and captive—between the polar extremes of market and hierarchy. The first of these, the modular value chain, is characterized by suppliers who make products to customer specifications. Such suppliers use generic technology, which they supply themselves and of which they take full responsibility for competencies involved in production. The second type, the relational chain, involves complex relations between buyers and sellers. It typically involves high levels of asset-specificity and mutual dependence. The third type, the captive value chain, involves small producers who are dependent upon much larger buyers. These producers typically use technology provided by the buyer and, as a result of this captivity, have high switching costs. The authors posit that the choice of different governance options will be related to three key factors: 1) the complexity of information and knowledge transfer required for transactions; 2) the degree to which information can be codified; and 3) the capabilities of actual and potential suppliers with respect to the transactions required.

In this article, GVC analysis will be employed to explore the functioning of the fair trade value chain and to understand the normative questions that arise due to the participation of corporations in it. Value chain analysis has been used frequently in the study of fair trade, in order to investigate such issues as: 1) the factors that lead to its rise; 2) its advantages over traditional corporate production;[9] and 3) its relative advantages vis-à-vis other types of certification programmes.[10] It has not, however, been systematically employed to look at the role of corporate participation in fair trade. A key feature of my use of value chain analysis in this article will be a distinction between social economy and corporate variants of the value chain. This distinction will enable a positive exploration of how the original fair trade value chain has been changing with increased levels of corporate participation, resulting in a conceptual framework that facilitates a better understanding of the core normative issues involved in corporate participation in fair trade.

Positive Analysis of Corporate Participation in Fair Trade

As noted above, GVC analysis allows for a distinction between different variants of the corporate value chain based upon different forms of governance. Below we adapt this approach to GVC analysis by making a basic distinction between social economy and corporate value chains. On this basis we delineate 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 conventional corporate value chains.

A) Fair Trade Without Corporate Participation

The Nature of the Value Chain—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. As such, it can be characterized as an alternative or social economy value chain. Underlying the difference between social economy and corporate values 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 the social goals of maximizing the value that goes to small producers and, even more importantly, empowering small producers. In this chain, northern ATOs have engaged in fair trade to support small producers in the South. For their part, small producers have not sought to capture the benefits of fair 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 to the ends of maximizing small producer value and empowerment, the alternative fair trade value chain aims for a chain that is as short as possible through a reduction in the number of profit-generating nodes between small producers and consumers. It also seeks to help small producers move up the chain in order to capture more value. As noted above, the original fair trade certification regulations were designed to ensure these practices and outcomes (and see Eshuis and Harmsen, 2003).

Figure 1: Four Variants of the Fair Trade Value Chain

Nature of the Value Chain	Level of Corporate Involvement	Model of Governance
100% social economy	none	relational (solidarity)
social economy dominated	retail	relational (solidarity)
corporate dominated	licensing & retail	modular
100% corporate	production, licensing & retail	relational (balance of power), hierarchical

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 five models that Gereffi et al. (2005) distinguish (see Figure 1: Four variants of the fair trade value chain). While the governance of the fair trade values chain is very much based upon networks, it differs from the network forms that Gereffi et al. distinguish. Networks within the fair trade chain are premised upon long-term relationships rather than a view of 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, not captivity. Technology is to be shared, not controlled. While the form of governance employed in fair trade might be best 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).

Before the certification period began in 1988, 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). With certification, however, this variant of the chain did not disappear, for a couple of reasons. First, certification did not extend to all fair trade products, most notably the handicraft sector (which was initially the largest fair trade market). Second, even in those markets where certification did develop, not all ATOs decided to become licensees (or to continue on as licensees) and not all small producers were in a position to become certified producers. Yet, they continue to uphold the basic principles and standards of fair trade—which is to say, they continued the practice of fair trade, but outside of the certification process. Third, while many ATOs and small producers did become licensees and certified producers, this did not change their relationships. They continued to be linked as before in a basic social economy chain without the introduction of any corporate involvement (Grodnik and Conroy, 2007; Fridell, 2007; Waridel, 2002).

The reasons for ATOs 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 and is based upon an understanding that corporate involvement runs counter to the values and principles upon which fair trade was founded (e.g., solidarity, the direct relationship between producers and consumers). Another consideration is more strategic in nature. Some ATOs 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[11] (Grodnik and Conroy, 2007; Byrne, 2006; Randall, 2005; Waridel, 2002).

Potential Benefits and Risks—There are a number of potential benefits to excluding corporate participation from fair trade. First, this form of chain would seem to be more consistent with the stated principles and values of fair trade (e.g., of direct relations with small producers, eliminating intermediaries, etc.). From a strategic perspective, there is also the concern that the introduction of any corporate involvement will lead to significant changes in the movement that may eventually transform it beyond recognition (as some critics claim has already happened). In a related vein, not allowing corporate participation would help to ensure that there is no reason (e.g., a fear of offending corporate retailers or licensees) for not pursuing the broader political goals of fair trade (e.g., the promotion of reforms to the international trade system).

There are, however, also significant risks to not allowing the involvement of corporate participation. The most widely agreed upon of these is the contention that a failure to engage with corporations will leave the movement as a marginal force unable to both effectively promote growth and incorporate any significant proportion of small farmers into the network. (This means that the movement would primarily have a symbolic value.) Given the rapid growth of fair trade after certification and the involvement of corporations, it seems hard to deny that such participation has played a major role in the recent successes of fair trade. It is possible, of course, that advocates of this version of the chain could have developed and more effectively implemented alternative strategies, for example, public purchasing policies (see the article by Davenport and Low in this issue), increased professionalization of alternative distribution outlets (Randall, 2005), social marketing (Golding and Peattie, 2005) and so on, to better promote growth of the movement. It seems uncertain, however, that increased growth generated in these ways would have matched the gains from corporate retail involvement (Murray et al., 2006).

B) Fair Trade with Corporate Retail Participation

The Nature of the Value Chain—This variant of the value chain is closely tied to the introduction of the first certification label, Max Havelaar. As noted above, one of the key goals of certification was to make fair trade products more readily accessible to consumers by getting them on supermarket shelves. While there was some initial opposition to this strategy, this largely dissipated quite quickly. Many, if not most, ATOs seem to have come to accept the idea of participation by corporate retailers because of the promise it holds out for increasing the volume of fair trade sales (and because of the support it tends to receive from small producers). For their part, small producers desperate to increase their sales at the fair trade price have been equally if not more supportive of retail participation (Renard, 2005).

While the initial response by retailers in the Netherlands to fair trade goods was much better that anticipated, overall retailers have been slow to accept fair trade. They have had to be convinced that there was a market for such goods and that ATOs 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 fair trade goods (Barrientos et al., 2007; Waridel, 2002). It is also the case that the presence of co-operative grocers carrying fair trade products has helped to spur corporate retailers to carry fair trade goods (Develtere and Pollet, 2005).[12] As their concerns about the existence of a market and reliable suppliers have been addressed, corporate retailers have warmed to the prospect of offering fair trade products (Renard, 2003). Initially most retailers did so by engaging with ATOs (who were already importing fair trade coffee and, later, other products) on the basis of market transactions.

This willingness on the part of retailers to engage with ATOs 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 ATOs and small producers is able to persist, with ATOs retaining their commitment to supporting small producers 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.[13]

Potential Benefits and Risks—As indicated above, the key benefit that corporate participation at the retail level can offer is the expansion of the market for fair trade products, and many ATOs seem willing to work with corporate retailers for this reason. If corporate actors are willing to engage with fair trade solely on the basis of arms-length market relations with ATOs, then changes to the social economy nature of the value chain should not be a major concern. For small producers in the South, such an arrangement would not directly affect the basic social economy form of production, which would still be governed by FLO requirements and implemented on the basis of their relations with northern ATOs.

There might be some adverse affects on northern social economy actors, however, most notably those that rely heavily upon retail sales of fair trade products. As retailers they will now be in direct competition with large corporate retailers. This leaves open the possibility that they could be squeezed out of the market over time. That prospect is not inevitable, however, but will likely depend upon a range of factors (including the markets in which they are involved). Moreover, if northern social economy actors are not only retailers, but also importers and wholesalers, then corporate retail participation may actually be beneficial to them, if they are

able to supply the corporate retail market.

Corporate retail participation, however, has some potential to adversely affect the fair trade brand. One problem is that corporations with particularly bad reputations for social responsibility may become retailers. Another issue is the move by some retailers to incorporate fair trade into their own brands. The concern here is that the fair trade certification may be used to give legitimacy to a retail brand which does not live up to fair trade standards across its entire product range (Doherty and Tranchall, 2005; Moore, 2004; Davies and Crane, 2003).

Another risk with corporate retail involvement is that retailers may become less willing over time to merely engage with ATOs on the basis of arms-length market relations and will seek to take a more active approach to governing the fair trade commodity chain. The move towards own-label fair trade brands by large corporate retailers can be seen as a first step down this path (Taylor et al., 2005; Renard, 2005). The basis of the desire for more active control over the commodity chain would seem to be rooted in an emerging strategy within the retail sector to promote produce markets as niche markets (Dolan and Humphrey, 2004). Such a strategy, which bears the promise of generating higher profit margins, would seem to be more amenable to a modular form of governance of the value chain. When ATOs are the only licensees, as was the case early on in most fair trade markets, corporate retailers are somewhat limited in the influence that they can exert on the governance of the value chain. The problem as many see it, however, is that corporate retailers increasingly have other options in the form of engagement with corporate licensees or becoming licensees themselves.[14] As discussed below, significant changes to the value chain can occur when corporate retailers begin to exercise these options.

C) Fair Trade with Corporate Licensees

The Nature of the Value Chain—Corporate actors have been slow to participate in fair trade. As noted above, major supermarket chains had to be prodded to offer fair trade 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 fair trade products. NGOs such as Oxfam, Global Exchange (U.S.), and Équiterre (Canada) were able to mobilize a wide range of social actors in their efforts to induce corporations to offer fair trade products, 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 only a miniscule per cent of their total sales). Pressure is now being placed upon the four large coffee giants (namely, Kraft, Procter & Gamble, Nestlé and Sara Lee) to follow suit (Fridell, 2007).

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 fair trade products if they can do so as licensees. The reason for this condition is that being a licensee provides them with greater opportunities for influencing the governance of the value chain.[15] 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.

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 fair trade products that they would be dealing with are niche products in two senses. On the one hand, all fair trade products are niche products in that they appeal to a select group of consumers who are willing to pay more for a product that is produced under more ethical conditions and provides more just outcomes. On the other hand, some fair trade products (especially coffee 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).

Fair trade 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 the FLO standards, corporate licensees have expressed concerns about the quality of fair trade 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 fair trade suppliers on the basis of quality. While, in principle, fair trade is supposed to be based upon long-term relationships, in practice contracts need to extend only for one growing season. This fact allows corporations the possibility of switching between producers (at least in some markets like coffee) to ensure better quality. Because there is a glut of products in most major fair trade markets, 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 programmes (Taylor et al., 2005; Ponte, 2004).[16]

Second, corporate licensees also have concerns about cost. Like all licensees, corporations are required to pay the fair trade price and premium, so there is no opportunity to directly drive down prices by competition among small producers. As licensees, though, corporations have cost advantages that they do not have as retailers. As licensees they are competing against social economy actors 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 values, they often incur higher costs because typically they exceed fair trade standards (e.g., paying higher than the fair trade premium) and take on other activities that are not required. Corporate licensees, by contrast, do not typically take on such costs because they are not committed to fair trade values. Second, some fair trade standards are not strictly enforced (such as a commitment to long-term contracts, provision of organizational and technical support), so corporations can cut costs in these areas as well (vis-à-vis social economy producers). 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 rather than the development of more general organizational capacities that might be transferable to other areas of activity (Fridell, 2007; Murray et al., 2005; Renard, 2005; Waridel, 2002).

Potential Benefits and Risks—There are no doubt important benefits that have occurred as a result of corporate licensing. As noted above, even though corporate licensees only purchase a very small percentage of their product under fair trade conditions, participation by corporations

as licensees has significantly increased the market for fair trade products. Moreover, licensing has moved fair trade outside of grocery stores and into other types of commercial retail outlets—most notably specialty coffee shops—and has helped to give fair trade a much higher public visibility, something that may not have happened, at least as quickly, without corporate licensing (Grodnik and Conroy, 2007).

Corporate licensing, however, can also pose significant risks for traditional fair trade actors as well as for the fair trade brand itself. The nature of these risks depends in large part on the how corporate licensees choose to pursue a strategy that tries to impose elements of a modular approach to governance upon the alternative fair trade value chain. Two basic options seem possible. Within the first option, corporate licensees can adopt a modular governance approach while still respecting the fair trade brand. That is to say, they can operate transparently with regard to their production processes, indicating, for example, what percentage of their sales involve certified fair trade products, which of their product lines are certified fair trade (and which are certified in some other fashion), indicating the conditions under which the rest of their products are produced, etc. If corporate licensees operate in this way, then one set of consequences follow.

First, the consequences for small producers would primarily take the form of less support for a social economy form of production and a more diversified local development strategy. An almost exclusive emphasis on improving quality, for example, can lead licensees to discourage small producers from diversifying into other areas of production (Ponte, 2004). It can also affect the nature of capacity development that is promoted, leading to a focus on more technical aspects of production (which are less transferable) than on more general organizational capacities. Concerns about profit margins mean that that corporate licensees are less likely to encourage small producers to move up the value chain (for the more of the chain that corporate licensees can control, the more value added they capture). More generally, the tendency of corporate licensees to provide the minimum required by FLO standards (e.g., financing, price, etc.)—rather than attempt to exceed them as ATOs regularly do—provides fewer resources to small producers and their local communities and inhibits their ability to diversify and develop other aspects of the local economy. Corporate licensees are also unlikely to provide support for the FLO-mandated requirement that small producers be democratically organized. Similarly, they are less likely to encourage greater civic and political activity by producer communities for they relate to small producers as nodes in their value chain rather than as the purpose for the value chain. Accepting these relatively less advantageous conditions from corporate licensees (vis-à-vis the relations they enjoy with ATOs) in order to sell more of their produce at the fair trade price definitely represents a trade-off for small producers. However, given that their only other option is to sell the remaining part of the produce on traditional markets (at substantially less than the fair trade price), most small producers would be willing to accept this trade-off if it meant that they could sell a significant amount of their crop at fair trade prices (Renard, 2005).

Second, for northern ATOs, this scenario subjects them to a new form of competition. While northern ATOs also compete against each other, the competition with corporate licensees is different in that the latter are likely to enjoy significantly higher profit margins. This is a situation most northern ATOs might reconcile themselves with if they were certain that corporate participation was significantly expanding the market (rather than just squeezing them out).[17] The extremely small percentage of total sales that fair trade products constitute for corporate licensees, however, would seem to indicate that there is not a commitment to growing the fair trade market. It also leaves open the risk that corporate licenses may have longer term aspirations

of forcing northern ATOs out of the market.

Third, the consequences for the fair trade brand include the fact that demand may be adversely affected since some consumers are opposed to corporate participation in fair trade generally and others are opposed to the participation of particular licensees (e.g., Nestlé) about which they think have a history of particularly questionable practices (Raynolds and Murray, 2007).

Operating transparently and respecting the fair trade brand is only one option that corporate licensees have. In a second option, they can also engage in more deceptive practices that are designed to confuse consumers into thinking that the products being sold are certified fair trade products (or are an equivalent) when they are not. These practices, on the basis of an analogy with similar "greenwashing" practices concerning environmental-friendly and organic products, have been referred to as "fairwashing".

A number of fairwashing strategies exist (Mutersbaugh, 2005). One is parallel production. This entails corporations, like Starbucks, becoming a fair trade licensee, but then only purchasing a small amount of its product in the fair trade market. On the basis of their status as licensee, however, the company then tries to project an image of itself as socially responsible and even as a "fair trade company" while only paying the fair trade price and living up to other fair trade standards on a very small percentage of its sales. A second tactic is standards dilution, whereby licensees attempt to pressure the FLO-I to reduce its standards or to shop around for other certification programmes with less stringent standards (and include these in their mix of ethical products[18]), or both. A third and closely related tactic that corporations use is captive certification. This can involve a corporation setting up their own in-house certification schemes (such as Starbuck's "privileged provider" programme) or co-operating with other industry players and NGOs to set up certification bodies that more closely reflect industry concerns, such as the Ahold's role in establishing Utz Kapeh (Renard, 2005). Again, employing these programmes with much lower standards in combination with fair trade certification enables corporations to capture the fair trade market without incurring the full fair trade costs (Renard, 2005).

These fairwashing practices represent a real threat to the fair trade value chain. For small producers, this means that they are not receiving the full benefits that they should from the fair trade brand, as corporations are siphoning off profits from consumers who think they are contributing to small producers through fair trade when they are not. For northern ATOs, it means that they are placed at a huge competitive disadvantage, as corporate licensees pass their products off as fair trade (or equivalent thereto) without actually paying the full costs of certification. This threatens their ability to grow (and to support small producers in the South) and may eventually force many of them out of the market. Finally, there are also implications for the fair trade brand. Consumers will become more confused and even leery of the worth of fair trade as it is increasingly portrayed as just one among many equivalent certification schemes, all of which seem closely tied to large corporations. Such results could eventually undermine the value of the brand entirely (Murray et al., 2006; Hudson and Hudson, 2003).

D) Fair Trade with Plantation Production

The Nature of the Value Chain—The use of plantation production in fair trade was permitted very shortly after the start of certification. It was individual FLOs that first made the decision to allow for the certification of plantation production before the emergence of the FLO-I

in 1997.[19] This was initially done is a very selective manner. The initial intention in allowing plantation production 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 producers were historically not engaged in these sectors, for example, tea (Renard and Pérez-Grovas, 2007)

Over time certification for plantations has extended to other sectors, most notably bananas, even when there has been production by small producers.[20] Still, even when plantation production was initially used in this sector, it was northern ATOs who were the importers. These ATOs, such as AgroFair (which was established by fair trade NGOs 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, 2005; Shreck, 2005; Murray and Raynolds, 2000).

Recently, however, the logic of allowing plantation production seems to be more closely tied to encouraging greater corporate participation in fair trade. This is perhaps most evident with the initiatives in the U.S. in the banana market. In the U.S., TransFair USA has recently been in talks with Chiquita to try to convince them to offer fair trade bananas. There are a couple of particular reasons why TransFair USA 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 dominated 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 programmes, especially Rainforest Alliance (Raynolds, 2007).

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 this could adversely affect their profit margins.[21] Historically, the banana chain has been governed in a couple of different ways. Early on, large corporations such as United Fruit Company (UFCO, 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 corporate actors. As owning 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 with large plantation owners (Frundt, 2005).

While TransFair USA has not yet come to an agreement with Chiquita or any of the other major producers based upon the use of plantation production, it is clear that there is a great deal of momentum to move in this direction.[22] 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 as social economy actors are completely eliminated from the chain.

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 makes this version of fair trade look much more like "ethical trade" as practiced in the apparel industry (Smith and Barrientos, 2005). Like ethical trade, it has basically become a form of corporate accountability,[23] 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 would still differ from ethical trade in a couple of ways—this version of fair trade would provide 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.

Risks and Benefits—There are two major potential benefits that might result from fair trade that permits plantation production. First, it might contribute significantly to ameliorating the plight of a large, marginalized sector, viz., landless agricultural workers. To the degree that fair trade could effectively impose appropriate standards on corporations, potential benefits for agricultural workers would include better protection of basic rights (health and safety, right to organize, etc.), higher incomes, and some limited social development provisions. Second, incorporating plantation production may be an important key to promoting the growth of fair trade. Not only is it the case that plantation production could significantly increase growth in key sectors (e.g., bananas, tea), but it is also possible that growth in these sectors could have knock-on affects in other sectors by increasing the profile of the fair trade brand (Renard and Pérez-Grovas, 2007).

There are, however, major risks associated with incorporating plantation production into fair trade. One of these is that it may further compromise the brand. There will inevitably be greater confusion about what the fair trade brand represents. Fair trade is widely associated with helping small producers. To the degree that plantation production is permitted (and small producers are correspondingly not the beneficiaries of fair trade), the brand increasingly resembles rival certification processes. Even if fair trade has higher standards than these rivals, the distinction with regard to what the brand represents will be blurred. There will be a greater lack of consumer confidence due to the increased participation by corporations, especially as more corporations with questionable corporate responsibility reputations are incorporated, e.g., Dole in the fair trade banana market (Renard and Pérez-Grovas, 2007; Raynolds and Murray, 2007).

Another major risk is that in those markets where plantation production exists side by side with production by small producers, the latter may eventually be squeezed out of the fair trade market (or forced to exist once again exclusively in alternative retail outlets). Such a demise of northern ATOs, along with a preference by corporations for plantation production, could effectively eliminate the access of small producers to the fair trade market over the long term (Murray et al., 2006; Frundt, 2005; Murray and Raynolds, 2000).

An additional risk in allowing plantation production in some markets is that it might spread to all fair trade markets, including those, such as coffee, which have until now been able to restrict production to small producers. There has already been pressure to extend plantation production to the coffee sector (Murray et al., 2006; Renard, 2005). If this pressure is eventually successful in this and other markets, this would likely signify the end of the original mandate of fair trade to help small producers as there is a strong possibility that corporate variants of the fair trade value chain will also eventually squeeze out the social economy actors operating in these markets. For many, this would signify the end of fair trade.

Normative Analysis of Corporate Participation in Fair Trade

Corporate participation in fair trade raises a variety of normative issues. Elsewhere,

drawing upon Habermas, I have argued that it is helpful to categorize normative issues under three headings: fairness (morality) refers to procedural norms,[24] the good life (ethics) deals with substantial values relating to our conceptions of the good life, while democratic process (legitimacy) relates to rights, procedures and institutions that allow for fair compromises to be made when no prospects for consensus are likely (Reed, 1999). In what follows, the basic normative issues that corporate participation in fair trade raises in each of these three normative realms are examined.

A) Fairness Within Fair Trade

At the heart of fair trade is the issue of the fairness of the international trade regime. It was changes to the international trade system in the 1970s and 1980s that spurred the growth of fair trade and have made it such a salient issue worldwide. Above, in our positive analysis of fair trade, it was not possible to review the nature of these macro economic changes in detail. Similarly, it is also not possible to explore issues of fairness in this broader realm here. It is, however, important to emphasize that fair trade actors generally see the current system of international trade as unfair and believe part of the mandate of fair trade is to promote change to the system. What is less clear, however, is what type of change is required to make the current system fair, or whether a complete overhaul is required (Fridell, 2007).

Within the fair labelling network there are a variety of specific issues of fairness (e.g., what the fair trade price should be, what levels of pre-finance should be required, whether licensees are effectively required to live up to their obligations, etc.) which relate to small producers. Perhaps the overarching issue with respect to corporate participation, however, is whether corporations enjoy an unfair competitive advantage vis-à-vis ATOs. One basis for making such a charge, as ATOs point out, is that they are the ones that worked to establish certifying bodies and build the fair trade brand. This involved a range of costs. Not only were there the financial costs involved in supporting the certifying body, but also the costs associated with educating consumers about fair trade as well as all the work involved in supporting fledgling fair trade producers in the South (including technical and organizational support, financing, paying above fair trade prices, etc.). ATOs claim that current guidelines now allow corporate licensees to enter the market and take advantage of the brand that the ATOs have largely built without contributing to the costs involved in building and maintaining the brand. Corporate licensees, they argue, are not required to invest in the education of consumers or provide the level of support to small producers that they typically supply. Moreover, because there are no minimum levels of fair trade products that they have to purchase, corporate licensee take very little risk and can manage any problems that arise in the fair trade market by subsidizing this niche sector with earnings from the rest of the enterprise (Barrientos et al., 2007; Fridell, 2007).

In examining these charges, it seems that the distinction between different forms of the fair trade value chain may be helpful in addressing the claims of ATOs. What seems clear is that most of the claims are largely addressed to fair trade licensees rather than retailers. It is also the case that most ATOs (and small producers) are even more concerned about the prospect of corporate licensees being able to employ plantation production (Barrientos et al., 2007; Renard, 2005). What GVC analysis suggests is that the greater control that corporations have over the fair trade value chain, the greater competitive advantage they will be able to exercise. If this is the case, then it might have implications for how to best address the concerns of ATOs.

There are two basic approaches that might be adopted for addressing the issues of fairness that ATOs raise. The first would be to develop regulations that would offset the competitive advantages that corporations tend to have over ATOs. Such measures might include minimum purchase requirements (i.e., a minimum percentage of total product sold must be fair trade certified), differential licensing fees for ATOs that sell only fair trade products, a diversified labelling structure which distinguishes 100 per cent fair trade companies from other licensees, more stringent monitoring and enforcement measures, etc. Such measures may offer some relief to ATOs. They do not entirely address the fairwashing practices of corporate licensees, however. Moreover, they cannot deal with the basic root of the problem, which is that corporate licensees have a different goal than ATOs do. It is this fact which inevitably provides corporations with competitive advantages and these advantages will persist even if fair trade regulations are strengthened and monitoring and enforcement are shored up.

The second approach to the problem, which would be more systemic in nature, would be premised upon the notion that it will be extremely difficult to develop effective regulations to address the competitive advantages of corporations. Not only are the power differentials between corporations and ATOs too great, but their different missions do not allow for fair competition. On this basis it could be argued that the only way fairness can be assured is by restricting (or eliminating) corporate participation in fair trade. If corporate participation were limited to the retail level, this would eliminate competition between corporations (as licensees) and ATOs (and help to eliminate the pressures that corporations place upon small producers).

B) The Ethics of Fair Trade

Just as there are issues of fairness at the micro and macro level in fair trade, so too issues of ethics come into play at these different levels. At the macro level the key ethical issue is what the purpose of international trade is. More specifically, the question is whether we are to conceive of the international trading system in terms of neo-classical economics in which the primary purpose is to more effectively promote exchanges between *rational agents* (by breaking down barriers to trade set up by national governments) or whether we can use international trade for other purposes, including the active promotion of local development and the advancement of marginalized groups. Again, it is beyond the scope of this article to address this issue at this macro level.

At a more micro level of the firm and relationships between firms, the basic ethical question regarding corporate participation in fair trade is what substantive goals and values fair trade wishes to promote and how corporate participation affects the prospects for advancing these goals and values. This basic question is complicated by a couple of different factors, including ambiguity and contestation over what the goals and values of fair trade are. One particular point of ambiguity relates to the question of whether small producers are to be considered the primary stakeholders in fair trade. As noted above, historically fair trade has been associated with support for small producers, while more recently there has been a move in some quarters to incorporate agricultural workers into fair trade in ways that threaten the status of small producers as the primary stakeholders.

A second major point of ambiguity has to do with the relationship between the social goal of helping small producers (and possibly agricultural workers) and basic fair trade values, perhaps most notably the values of solidarity and participation (IFAT, 2006). At issue here is whether these values, which are very consistent with the social economy forms of organizations

that ATOs have adopted, are inherent in fair trade or whether they are more incidental. This question relates again to the purpose of fair trade and, more specifically, whether it is concerned with developing an alternative, social economy form of production and trading or whether the primary goal is to help ensure increased income and productive capacity among small producers (and agricultural workers), whatever the form of production.[25] This latter question is complicated by the fact that other factors come into play when decisions about the importance of fair trade values are made, most notably the urgency deriving from poverty that may lead small producers (and agricultural workers) to prioritize an increase in their incomes over other longer-term goals. These various ethical debates in fair trade may be illuminated by reference to how an ethical case could be made for each of the four different variants of the fair trade value chain analysis distinguished above.

An ethical argument for the exclusion of corporate participation could be based upon the history of the fair trade movement and, specifically, the social economy nature of all the early fair trade actors. This case might then be supported by the values and principles of fair trade (as expressed, for example, in the IFAT standards). On the basis of the latter, one could argue that it is not possible to have trading relations based upon solidarity if corporations are involved. This position is weakened by a number of factors, however. Perhaps the most compelling argument against this position is that it does not adequately distinguish questions of justification and application. It may very well be the case that most small producers would aspire to these norms but think that in the short to medium term it is more important to grow the movement by broadening the distribution network. Indeed, the small producers who initiated the first certification process did so for this very reason (Roozen and VanderHoff Boeresma, 2001). If the primary beneficiaries of fair trade see this as an issue of application (i.e., more of a strategic than normative question), then in the absence of a stronger argument for maintaining the purity of the social economy chain, the case for not incorporating retail participation becomes less compelling. It could also be argued that corporate retail participation in fair trade—by facilitating the participation of more small producers though increased fair trade sales—does more to advance fair trade values than a purer but much less extensive fair trade market.

It is these latter objections to the prohibition of retail production from the fair trade value chain which have led the vast majority of small producers and ATOs to accept retail participation (Renard, 2005). Such a stance, it could be argued, is still consistent with a social economy value chain as there is still a relational form of governance based upon solidarity. Allowing retail participation is a small concession which does not (necessarily) affect the governance of the value chain, but does make a huge difference for the growth of the network.[26] (Moreover, insofar as small producers largely favour this move, it would be hard for ATOs to justify not supplying corporate retailers.) On the other hand, advocates of this position of restricting corporations to retail participation would argue that the next step for involving corporations in licensing does significantly change the nature of the fair trade value chain, as discussed above.

Ethical arguments, however, can be made for corporate licensing. One approach would be to uphold fair trade values and the ideal of the social economy value chain while arguing that the exigencies of the plight of small producers makes corporate licensing acceptable under the circumstances.[27] A second argument might contend that fair trade values only require a social economy form of production by small producers (e.g., rights to democratic participation) and not throughout the whole chain. It could be argued that this interpretation receives some support from the actual fair trade requirements (which do require small producers to be organized on a democratic basis, but not licensees). If this interpretation can be upheld, then it follows that there

is no problem with corporate licensing in principle. The problem with this interpretation, however, is that it is difficult to conceive of corporations as licensees engaging in relations based upon solidarity (which is how IFAT defines fair trade). A third form of argument might insist that what is central to fair trade is helping small producers: What unites people in fair trade is not particular values or a particular form of organization, but merely the common desire to help small producers.[28] The weakness of this argument, of course, is that it ignores the basic values and principles professed by most actors in the network.

Finally, an ethical argument can also be made for plantation production. To make such an argument, it seems necessary to alter the traditional goal of fair trade and to ignore the importance of fair trade values. As noted above, there has been a move to redefine the goal of fair trade in ways that downplay the exclusivity of emphasis on small producers and highlight more the plight of agricultural workers. Advocates of such a move have two apparent bases on which to make such an argument. The first is to point out that agricultural workers were given consideration previously in fair trade. This was done, however, in relationship to their status as seasonal employees of small producers. The second strategy is to argue that agricultural workers are as marginalized as small producers, if not more so. Such a claim is, of course, hard to contradict. Nor would those fair trade advocates who oppose plantation production within fair trade deny that agricultural workers need support. The question is whether support for them should work through fair trade certification. Opponents of plantation production will argue that to try to address the plight of plantation workers in this way is both unethical (in that it contravenes the values on which the movement was founded and the original commitment to small producers) and impractical (in that it will largely be the plantation owners and corporate licensees which benefit from certified plantation production).

Given the different ethical arguments than can be made in favour of different variants of the fair trade value chain, the obvious question that arises is how a choice is to be made. In modern societies a democratic process is the recognized manner for deciding against competing positions. Members of such societies are willing to acknowledge decisions that come out of such processes as legitimate if they are confident that the procedures for electing decision makers and making decision are fair. While there is much discussion about the rules and conditions that states need to uphold in order to be deemed legitimate, some basic principles are widely acknowledged. It is much less clear, however, how legitimacy in civil society organizations can be established. An examination of this question follows.

C) The Legitimacy of Fair Trade Institutions

Just as there are larger questions of fairness and ethics at the level of international trade that condition the normative problematique at lower levels of organization, so too there are questions of legitimacy at the realm of the international trade system. For their part, developing countries have argued vociferously for many years that the system is not legitimate, contending that it is dominated by northern, industrialized countries that only consult with the South after the major decisions have been made. Again, while it is beyond the scope of this article to address issues of legitimacy at this level, it is important to remember that the fair trade movement is arguably in large part a reaction to what is perceived to be an illegitimate trading system.

At the level of the fair labelling network itself, there are also significant issues of legitimacy. To understand the nature of these issues (and how they relate to corporate involvement) it is helpful to remember that the normative analysis of legitimacy is typically the

realm of political theory, and more specifically of democratic theory. Historically, democratic theory has focused on the nation-state. While democratic theory is quite diverse in nature, there does tend to be agreement on some basic principles. These include the notions that governments derive their legitimacy from their constituents 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).[29]

Significant complications arise, however, when democratic theory leaves the realm of the nation-state. These complications call into question the degree to which NGOs can ever attain democratic legitimacy in the same way that states do.[30] Two such problems seem particularly thorny. The first has to do with defining the constituencies of NGOs. In the case of nation-states, there is a quite distinct set of constituents, composed of the citizenry. In the case of multilateral bodies, their constituencies can be defined (not without some problems) in terms of nation-states. Transnational NGOs, however, typically do not have such clearly defined constituencies for whom they are advocating. The second problem is that, although transnational NGOs may advocate for the interests of marginalized groups, they cannot be said to "represent" these groups in any strong sense of the term consistent with most democratic theory, while many of these groups cannot effectively represent themselves (Edwards, 1999).[31] Environmental NGOs may provide the best example of the nature of these problems. On the one hand, it is often difficult to clearly define constituencies because of the dispersed effects of environmental damage (which make a wide range of groups potential constituents), while on the other hand, the most vulnerable groups (such as indigenous peoples) are often unable to effectively represent themselves in key fora. These problems raise the question as to whether NGOs can really be legitimate in any strong sense of the term (Hudson, 2001).[32]

These two areas of concerns, defining constituencies and facilitating representation, which while not insignificant, at first glance might seem to be less intractable within the fair labelling network. First, with regard to the problem of defining the key constituencies, the situation seems relatively straightforward. The main constituency would clearly seem to be small, marginalized producers (at least historically it has been). Fair trade was established with the principal intent of empowering this sector. It primarily promotes itself in terms of its support for small producers (and consumers identify fair trade with this support). This is not to say that there are not other constituencies that have interests in the functioning of fair trade and to which fair trade institutions also may have responsibilities. Agricultural workers would be one such group. Another would be northern ATOs that have been key actors in the development of fair trade. Yet another might be ethical consumers and activists groups which promote fair trade. Second, the problem of democratic representation also seems to be less problematic in fair trade than it does in the case of many other transnational NGOs. As noted above, small producers are already organized not only on the basis of individual co-operatives, but through larger regional and international bodies such as IFAT. A clear identification of constituencies would seem to provide FLO-I and the FLOs the possibility of adopting a democratic structure based upon its key constituencies, while the key constituencies, for their part, seem to have the capacity to represent their own interests.

In practice, however, several problems remain. With regard to defining the key constituencies of fair trade, the basic issue is not identifying them so much as determining their priorities. In particular, there is the question of the relative importance of small producers vis-à-vis other actors, especially agricultural workers. Given the clear historic association of fair trade with small producers, the question arises as to the conditions under which an expansion of the

key constituencies of fair trade is appropriate. More specifically, given the history of the movement and the stakes that small producers have in this issue (viz., its potential to change fair trade from a social economy movement centered on small producers to a corporate accountability movement involving plantation production), the question is whether any decisions to change the understanding of the key constituencies can be undertaken without small producers having a dominant influence over how such a decision is reached.

The issue of constituencies carries over in the question of representation. While there are a number of constituencies that can be identified that should potentially have representation in fair labelling organizations, it is not clear what the structure of the representation should be. As noted above, FLO-I started with a huge legitimacy deficit insofar as it was founded by the FLOs and as southern producers had no formal input into how the original standards and procedures were determined. While FLO-I has made changes in their board structure in recent years to incorporate participation by small producer organizations, the FLOs still have the largest representation on the board, while the president of the board is selected from among the FLO representatives (Wilkinson and Mascarenhas, 2007). Thus, the question remains whether, in an organization which was founded to empower small producers, small producers should have a more significant role in determining the direction of the network (see the article by VanderHoff Boeresma in this issue).

The situation in the FLOs is more problematic. Unlike FLO-I, the FLOs have generally not adopted any form of democratic representation based upon constituencies. Typically, there is an understanding that the board should be composed of members from a range of different constituencies. There are no democratic processes, however, through which these constituencies can elect members to the board. Often, key constituencies such as ATOs and advocacy groups, feel that they are not (adequately) represented on the boards of the FLOs. In this context, some FLOs, perhaps most notably TransFair USA, have come under sharp criticism for not upholding a commitment to fair trade values and practices and for not listening to the concerns of actors in the fair trade movement (Barrientos et al., 2007). As noted above, some critics associate this problem with an overriding concern with increasing sales of fair trade products. This inordinate concern with sales, such critics fear, means that corporations are having too large an influence on the governance of the fair labelling network. They point to the increasing openness of FLO-I and the FLOs to plantation production as the most visible sign of this influence (Renard and Pérez-Grovas, 2007). In effect, such critics are contending that FLO boards are increasingly content to try and base their legitimacy on professional competencies (and sales) rather than conformity to traditional fair trade values and democratic practice. In doing so, they seem to be not merely providing corporations with more influence but mimicking their behaviour to a large degree.

Conclusion

The fair labelling network has grown tremendously since the start of certification programmes just two decades ago. This growth, which has come in part from the increasing involvement of corporations in fair trade, has been accompanied by tremendous change in the *practice* of fair trade. These changes are sometimes defined in rather vague terms such as “mainstreaming”. In this article, I have tried to be a bit clearer about the nature of the changes that have occurred by focusing on the different ways that corporations are becoming involved in fair trade. By analysing their participation through the lens of value chain analysis, it was possible to distinguish different variants of the fair trade value chain and explain how different

levels of corporate involvement have changed the original social economy variant of the fair trade value chain to different extents. While increasing forms of corporate involvement in fair trade are arguably not without their benefits, they also carry risks, most notably in the form of a compromising of the original social economy goals and values of the fair trade movement. The use of value chain analysis helps to clarify the nature of these risks and provides a better basis for evaluating potential trade-offs.

In this article, I have also used the distinctions of different variants of the fair trade value chain to examine some key normative issues that are arising within the changing practice of fair trade due to increased corporate involvement. I have done this in the context of a distinction based in critical theory between three different normative realms. Distinguishing these different realms and the different practices of fair trade allows for a more nuanced and comprehensive understanding of the normative issues that arise through corporate participation in fair trade.

Notes

1. 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 ATOs 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 firm which imported the beans into the Netherlands and then re-exported them to the United States (Simpson and Rapone, 2000).
2. 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-profits organizations, social entrepreneurs, para-statal organizations, as well as co-operatives, mutual associations, and so on (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 I employ the term here.
3. 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).
4. 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).
5. FLO-I has two different sets of standards which govern certification, generic standards and product specific standards. The generic standards include four different areas involving

production by small producers: social, economic, environmental and labour. These draw in large part from the original Max Havelaar standards. However, due to the introduction of plantation production for some products, FLO-I had to develop two different sets of generic standards, one for production by small producers and one for plantations. One key difference between the two relates to the manner in which "democratic control" is exercised—co-operatives vs. union participation. The product specific standards can add more stringent requirements than those contain in the generic standards. They also establish trade standards for the product, including the fair trade price and the fair trade premium.

6. The full statement offered by FINE included the following definition and goals:

> 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 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.

7. 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.

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

9. A number of authors have contrasted a social economy model of fair trade (as an alternative commodity chain largely without corporate participation) with traditional corporate dominated commodity chains (Redfern and Snedker, 2002; Raynolds, 2000).

10. This has been done both across sectors, e.g., Taylor's (2005) contrast between fair trade and the Forest Stewardship Council, and within the same sector, especially in coffee, e.g., Ponte (2005).

11. 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 certifies producer organizations as fair trade businesses. Corporations would not be able to participate in this form of certification (Wilkinson and Macarenhas, 2007).
12. 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).
13. Examples of this variant of the value chain include the most prominent ATOs such as CaféDirect, Day Chocolate Company, Equal Exchange, etc.
14. Thus, when McDonalds introduced fair trade coffee into Switzerland, for example, it was “inevitable” that they would use a corporate licensee with whom they were already involved in a joint venture (Bezençon, 2007).
15. 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 producers. Thus, some of large producers have agreed to offer fair trade coffee as specialty brands (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).
16. Estimates for the amount of their produce that 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).
17. Low and Davenport (2005) cite the case of fair trade coffee in Denmark, where the original ATO that imported fair trade coffee was squeezed out of the market by commercial importers.
18. Murray and Raynolds (2000) cite, for example, the case of a dramatic drop-off in the sale of fair trade bananas in Denmark after the decision of the largest Danish retailer to sell Rainforest Alliance’s certified organic bananas.
19. The first plantation production was certified by TransFair Germany in 1993 for tea.
20. 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 ATOs who were the importers. These ATOs, 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, 2005; Shreck, 2005; Murray and Raynolds, 2000).
21. They will be all the less inclined to participate in fair trade if the competing certification programs 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).
22. 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).
23. 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).
24. The use of discourse in the context of morality can, in principle, be used both to try and generate valid norms by achieving consensus on universal interests or as a critical test for uncovering non-generalizable interests. It is clearly the latter option that Habermas intends and which I employ here to examine whether the rules of fair trade could be accepted by all actors involved.
25. This is the apparently the view of some development NGOs and research institutes. See, for example, International Institute for Environment and Development (2000).
26. Within this position, it is still possible to argue that specific retailers (Sam's Club, Shell, etc.) should not be allowed to offer Fair Trade products because of their poor CSR records (Barrientos et al., 2007; Davies and Crane, 2003).
27. One variant of this strategic argument is that if corporations are not included as licensees, then they will join rival certification processes (Utz Kapeh, Rainforest Alliance, etc.) and this will serve to further weaken the fair labelling network.
28. This argument is at least implicit in the development field that sees the real promise of fair trade as increase the competitiveness of small producers so that they no longer need to participate in fair trade (see, for example, IIED 2000).
29. The almost exclusive 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.
30. It could be argued that NGOs are in some sense delegated by states to take up the functions that the states themselves y are shedding. This is a hard position to uphold (Van den Berge, 2006).
31. The problem of representation is being increasingly recognized, and many transnational NGOs are backing away from claims to "represent" local groups. The broader questions then become what are the nature of the relations between local communities and NGOs and whether these relations can provide legitimacy to NGOs. Perhaps the most that such communities can do is enter into agreements to collaborate with such organizations, while for their part perhaps the most that NGOs can aspire to under such circumstances is not legitimacy, but the responsible use of the power that they have (Hudson, 2001).
32. Given the lack of democratic legitimacy based upon representation, most NGOs seek to justify their role on the basis of other criteria (e.g., expertise, values, transparency, history, etc.) (Hudson, 2001). There is not room to analyse such attempts here. It should be noted, however, that the lack of democratic legitimacy still leaves them open to critique such as charges of acting paternalistically.

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