Existing and Potential Approaches for Fair Pricing in Domestic Fair Trade

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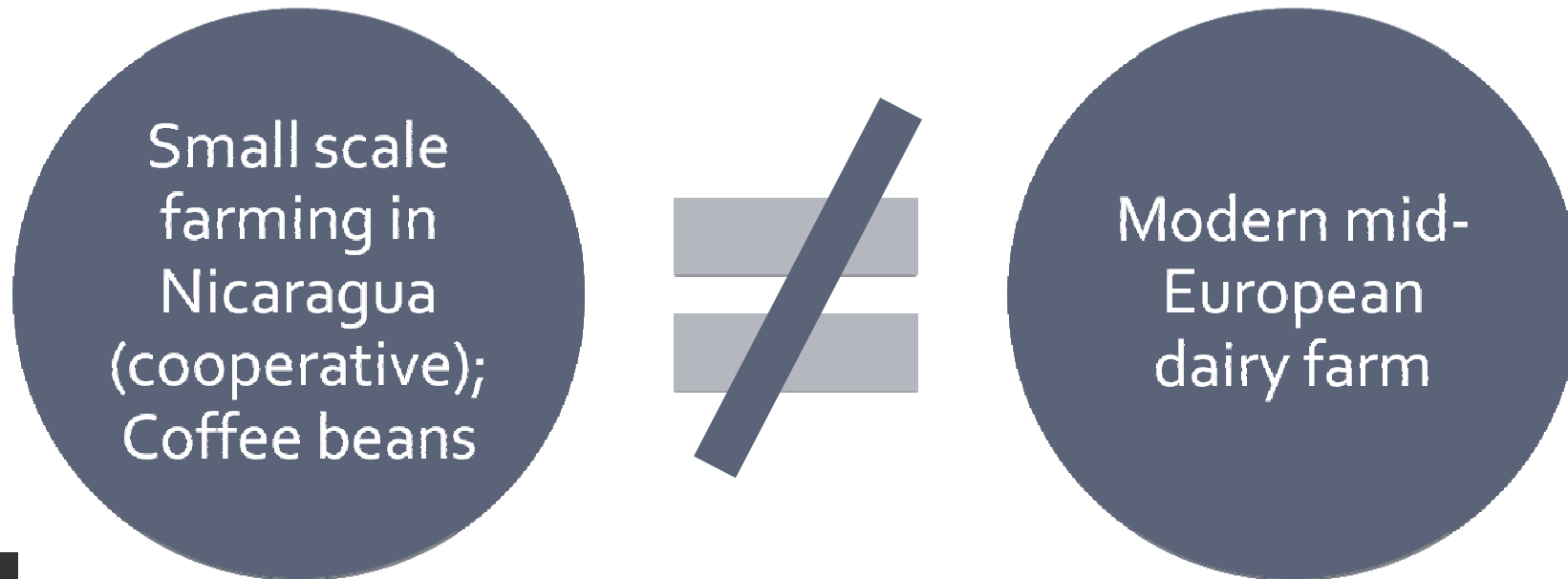# Research question

☐ How can fair prices be reached and practiced?

Preface

- DFT is fundamentally different to the well known approaches of the *Fair Trade in the South*

e.g.

Small scale farming in Nicaragua (cooperative); Coffee beans ≠ Modern mid-European dairy farm

Existing exemplifications for Fair Trade

- <u>Starting point from the Neoclassic</u>
  - Concept of *homo oeconomicus*: Trader enters market to maximize utility
  - Expanding on additional utility aspects
- <u>Starting point from the Game Theory</u>
  - *Homo oeconomicus* posseses freedom of action (e.g. alignment with social, ecological or other parameters)

Theory – Starting Point from the Neoclassic

Neoclassic (Steinrücken and Jaenichen, 2007)

- „Even a rational consumer would choose a fair traded product if certain assumptions are fulfilled"

Utility through consumption

+

Added benefits through production conditions

→

Total utility conventionally traded product

Theory – Starting Point from the Neoclassic

Production and trade of fair products → credence goods

- If consumer has the opportunity to check *Good Deed* (at least theoretically) willingness to pay rises

- Are Farmer's Associations already delivering these services today?
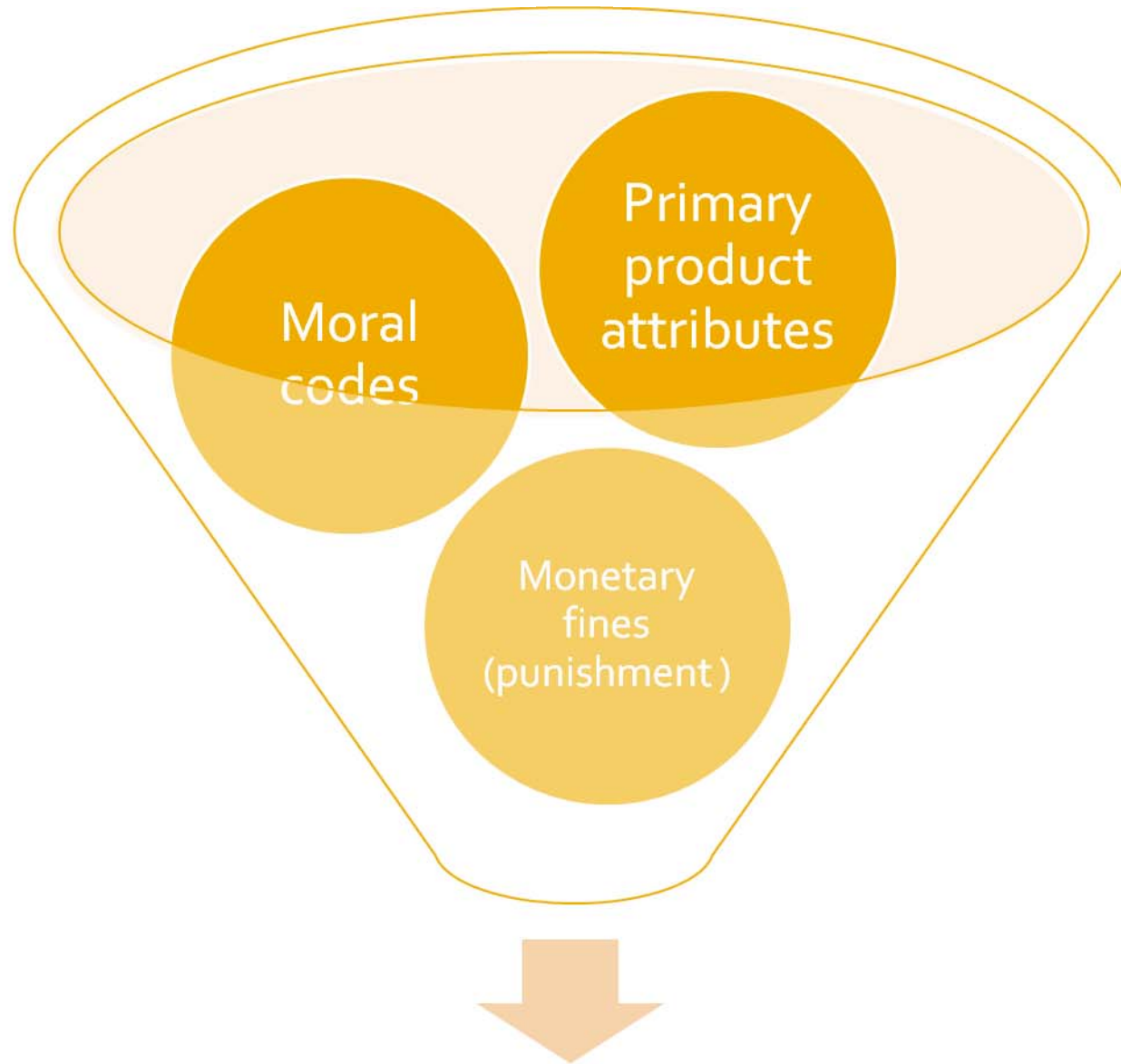
Theory – Starting Point from the Game Theory

Game theory analysis (Fehr and Gächter, 2000)

„Existence of unspoken moral codes that each and every individual follows"

☐ Introduction of a monetary directory increases likelihood for compliance in the long run

Moral codes

Primary product attributes

Monetary fines (punishment)

Cooperation / „Fair" behaviour in the market

Theory – Starting Point from the Game Theory

Fehr and Gächter (2000); Game Theory analysis carried over to Fair Trade: Fair Price model should foresee monetary fines for non-compliance of operators in order to assert itself

☐ Opportunistic behavior makes moral codes of fairness and solidarity in the form of regulations essential

☐ Who enforces compliance of regulations ?

Who enforces compliance of regulations?

Analysis of *Fair Prices* (De Roover, 1958):

„A guild in the middle ages that was responsible for the assessment and compliance of fair prices for all parties"

☐ In the case of extortion or others who deviate from moral ideals, opportunistic behavior created the need for laws

☐ Guilds of modern organic farming = producers as the carriers of these ideals?

Practical Application

Classifying feasible DFT approaches for the central European organic market:

- Liberal approach

- Restrictive approach

- Transparent approach

Practical Application

Liberal approach

- Price negotiations „on the market" $\rightarrow$ cost-neutral market mechanisms

- Documentation of increased performance $\rightarrow$ TC

- Most existing European Fair Price Models follow this approach

Practical Application

Restrictive approach

- State or other institutional regulations

- Barriers to market access: only actors who conform to specifications are permitted
  - Additional control costs

Practical Application

Transparent approach

- Market prices based on transparent *point system*
- Price fixing is flexible, measures *real* performance
    - Acknowledges *real* product performance during production and processing

© Zorn (2008)

Transparent approach (cont.)

☐ Advantage:

- ☐ Disclosure of product and process attributes is transparent and corresponds as closely as possible with actual performance

☐ Disadvantage:

- ☐ Maintaining *System* requires relatively high TC's
- ☐ *ad hoc* detection not easy, *search costs*

Discussion & Outlook

Ethical trade seen as future trends

- E.g. Gottlieb Duttweiler Institute – European Food Trends Report (2008)

- „*Genuine*" CSR

- Consumer interest

Discussion & Outlook

- *Domestic Fair Trade* alternative for organic farming economy and commerce
- Possibility to separate from *discount organic*
- DFT could prove pioneering role of OF&F

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Thanks

- □ to Markus Arbenz (BioSuisse) for valuable input and frank discussions!

Sources

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Thank you very much
for your attention!

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Practical Terms

- *Domestic Fair Trade* = DFT
- Application of Fair Trade concept in industrialized countries
- (focus on central Europe)

Introduction und Background

- „Excess value" debate:
  - Consumer scrutinzes higher prices and attaches this to concrete expectations
  - Consumer connects purchase of organic products with compliance to fair production and trade conditions

Introduction and Background

- Does „Organic" imply unrealistic expectations to the consumer? or

- Discrepancy between expectations and performance?

- Rippin (2008): Credibility as a basis for all marketing initiatives → Harmonize expectations with actual performance!
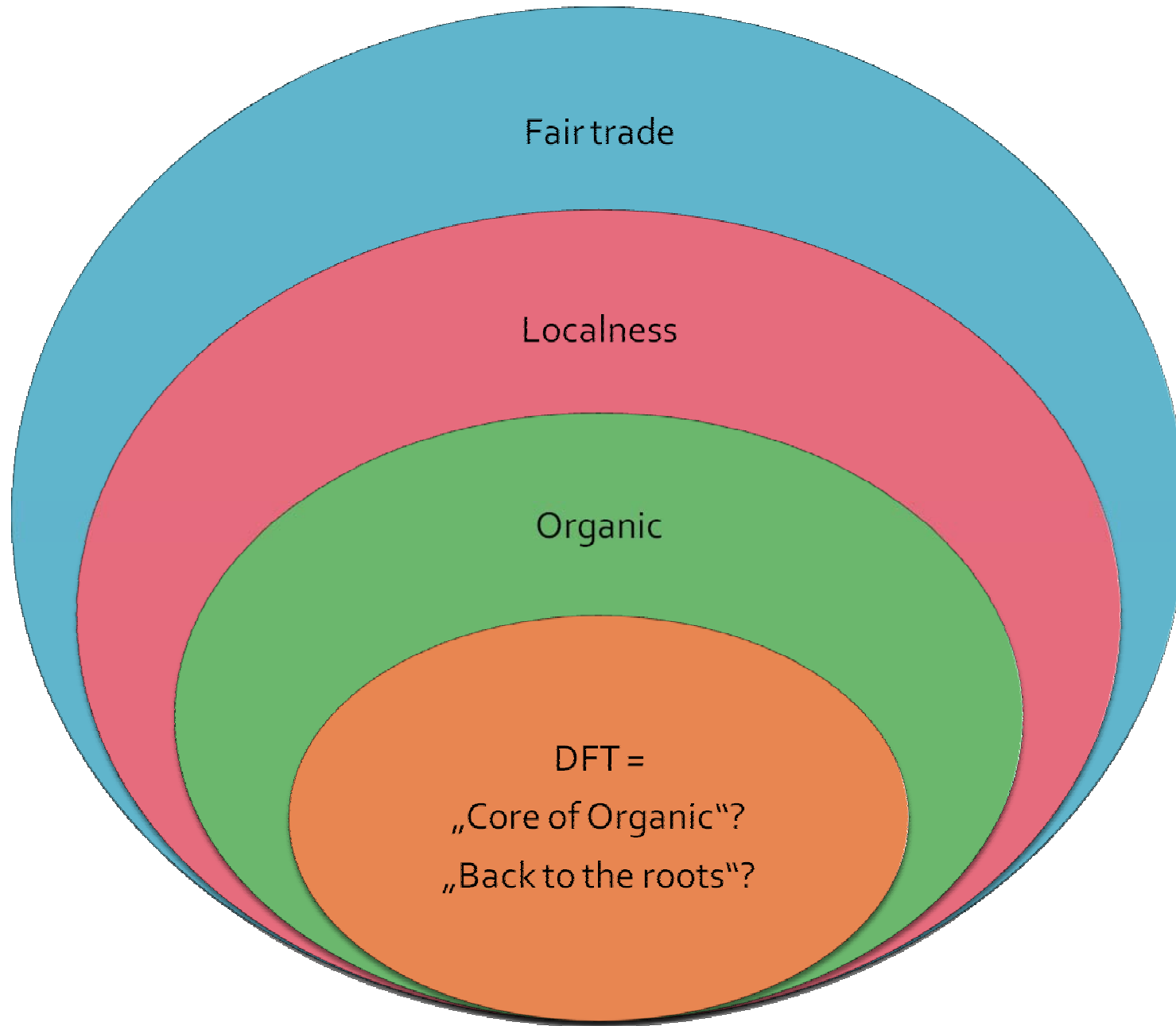
Preface

- How can *Domestic Fair Trade* be integrated into the organic values chain?
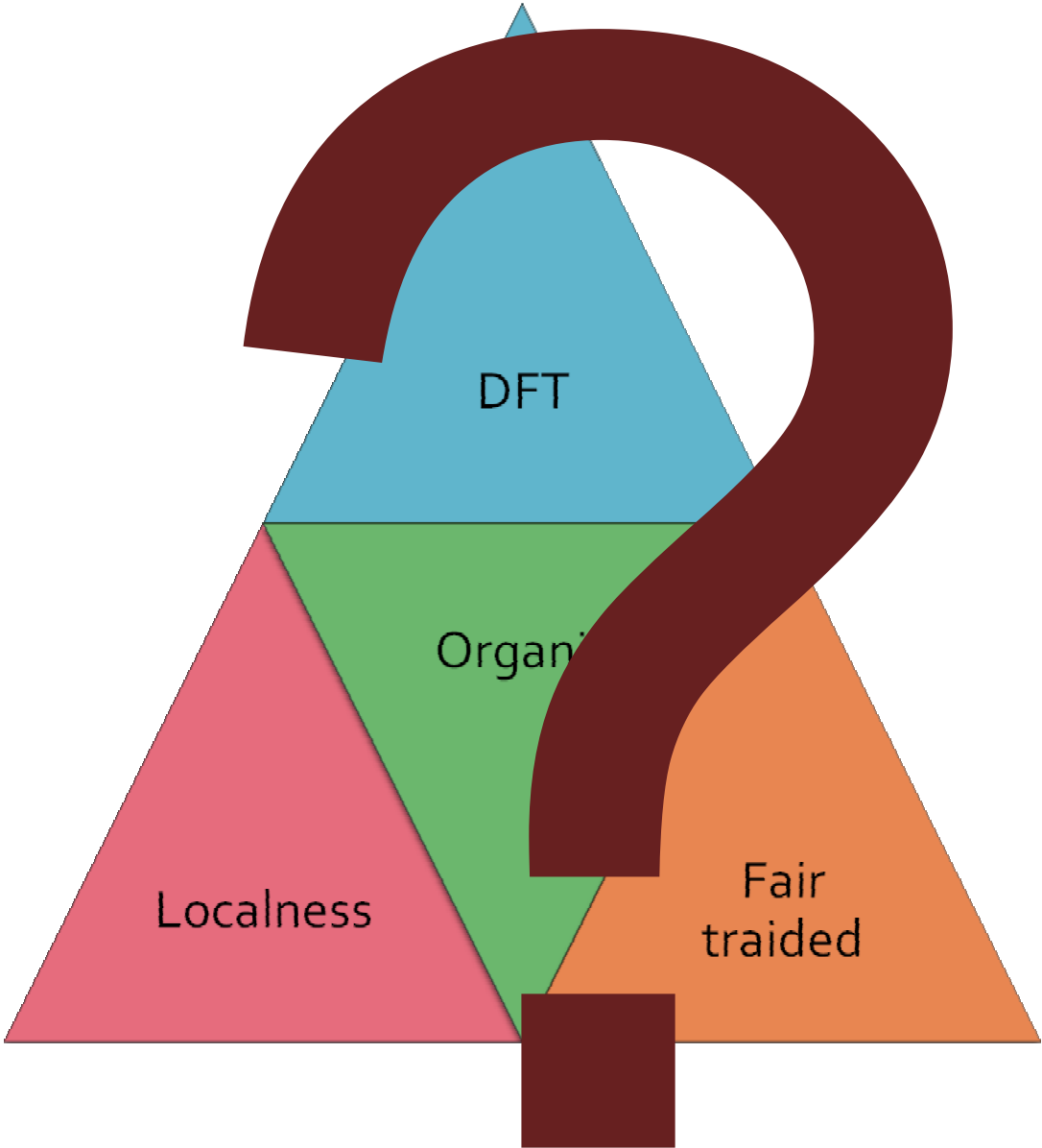
- Is a integration possible and/or logical?

Fair trade

Localness

Organic

DFT =

„Core of Organic"?

„Back to the roots"?

Organic+Fair

Organic+Local | Organic+Fair

Organic+Association

Öko-Markenhersteller

Öko-Eigenmarke (z.B. Alnatura)

Slow Food

„Discount"-Organic

Fair Trade

Ökologisierung ?

Freiwillige Umweltauflagen (z.B. Best Alliance / REWE, Vorernte-beprobung / EDEKA Südwest)

„aus kontrolliertem / integriertem Anbau"

„Aus nationaler Herkunft", „Handelsklasse I"

Konventionalisierung?

no name product