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
Theory

Existing exemplifications for Fair Trade

- **Starting point from the Neoclassic**
  - Concept of *homo oeconomicus*: Trader enters market to maximize utility
  - Expanding on additional utility aspects

- **Starting point from the Game Theory**
  - *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
Cooperation / "Fair" behaviour in the market

- Moral codes
- Primary product attributes
- Monetary fines (punishment)
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“ → cost-neutral market mechanisms
- Documentation of increased performance → TC

- Most existing European Fair Price Models follow this approach
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
Practical Application

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
  - „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
Thanks

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Sources

Thank you very much for your attention!
Practical Terms

- *Domestic Fair Trade* = DFT
- Application of Fair Trade concept in industrialized countries
- (focus on central Europe)
„Excess value“ debate:

- Consumer scrutinizes 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?
DFT = „Core of Organic“?
„Back to the roots“?
Organic+Local • Organic+Fair

"Aus nationaler Herkunft", "Handelsklasse I"

"aus kontrolliertem / integriertem Anbau"

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

"Discount "-Organic

Öko-Eigenmarke (z.B. Alnatura)

Öko-Markenhersteller

Öko-Association

Organic+Local+Fair

Fair Trade

Slow Food

Konventionalisierung?

Ökologisierung?