



Existing and Potential Approaches for Fair Pricing in Domestic Fair Trade



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Research question



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- How can fair prices be reached and practiced?



Preface



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- 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



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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* possesses freedom of action (e.g. alignment with social, ecological or other parameters)



Theory – Starting Point from the Neoclassic



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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



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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



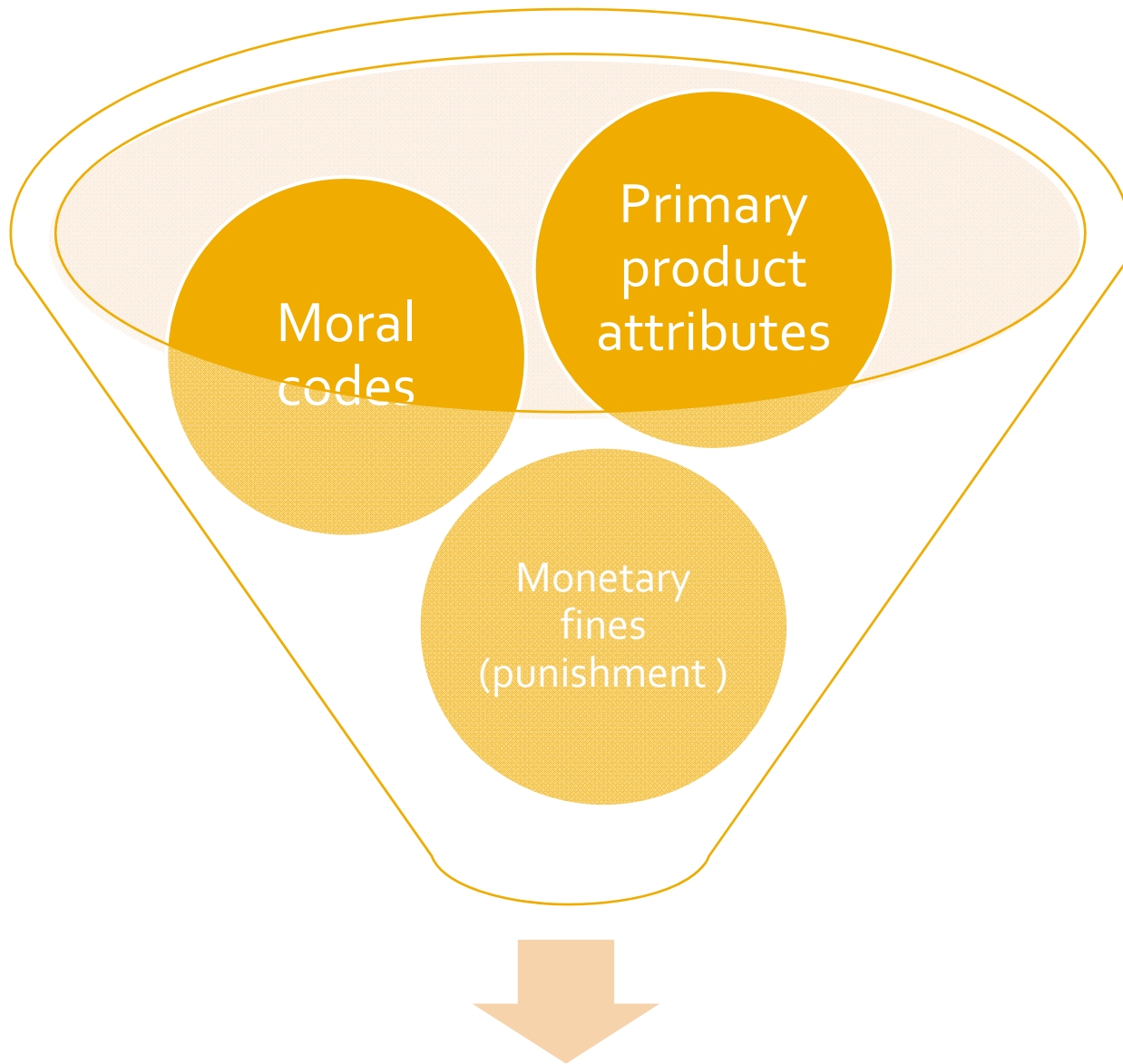
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Game theory analysis (Fehr and Gächter, 2000)

„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

Theory – Starting Point from the Game Theory



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- 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?



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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



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Classifying feasible DFT approaches for the central European organic market:

- Liberal approach
- Restrictive approach
- Transparent approach





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



Transparent approach

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







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

Thanks



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



Sources



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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)



Introduction und Background



- „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!

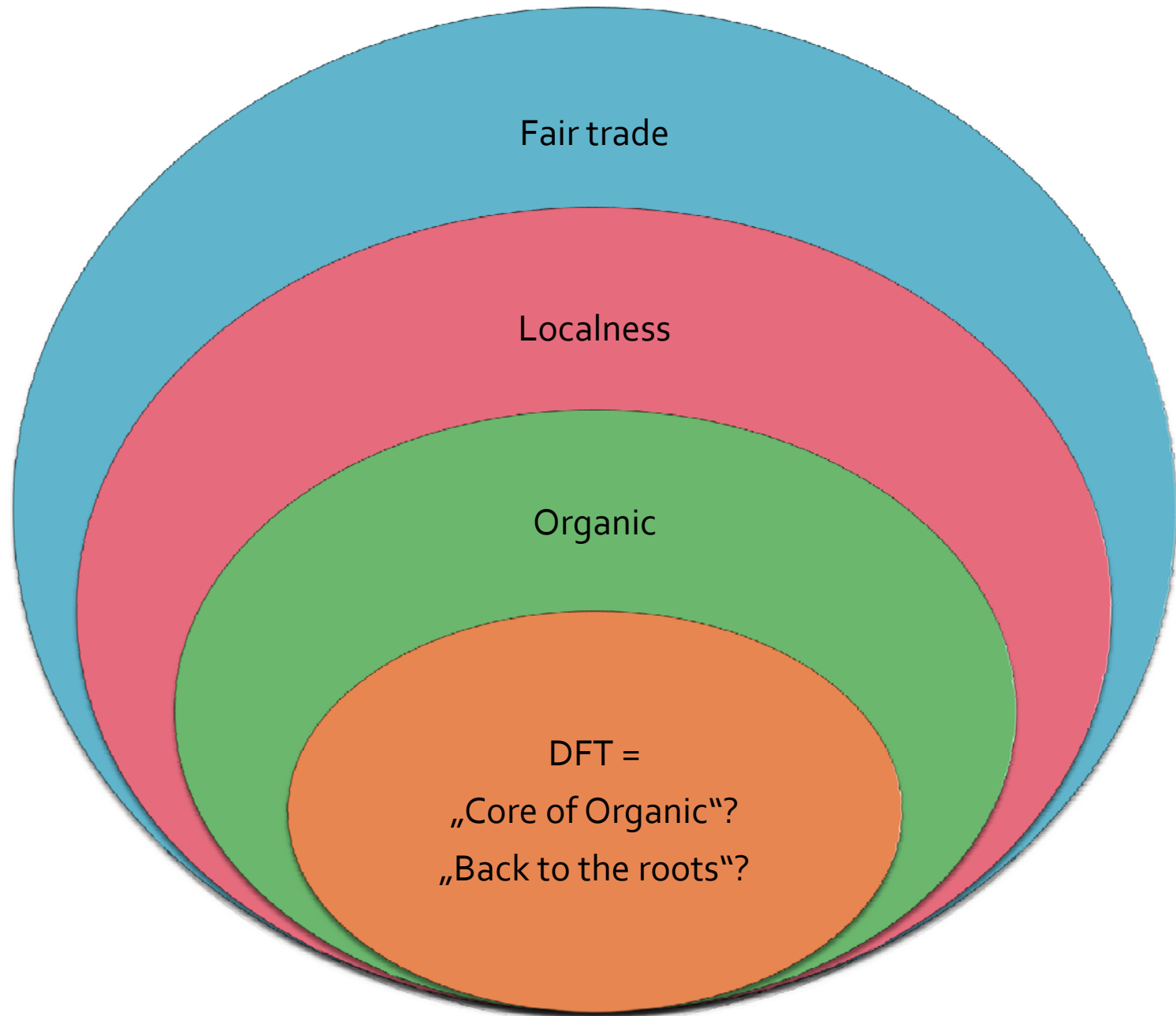


Preface



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





Fair trade

Localness

Organic

DFT =
„Core of Organic“?
„Back to the roots“?

Organic+Local+Fair



Organic+Local

Organic+Fair

Organic+
Association

Slow Food

Öko-Markenhersteller

Fair Trade

Öko-Eigenmarke
(z.B. Alnatura)

„Discount“-Organic

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

„aus kontrolliertem /
integriertem Anbau“

„Aus nationaler Herkunft“,
„Handelsklasse I“

no name product

