



# Existing and Potential Approaches for Fair Pricing in Domestic Fair Trade



Christian Eichert and Evelyn Mayer  
Universität Hohenheim and FH Eberswalde



Fachhochschule  
Eberswalde

19.-22.02.2009



BioFach 2009



# Contents

- Research question
- Preface
- Theory
  - Classification in the Neoclassic
  - Classification in the Game Theory
- Practical application
- Discussion & Outlook

# Research question



1

- How can fair prices be reached and practiced?



# Preface



2

- 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



3

## 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



4

## 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



6

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



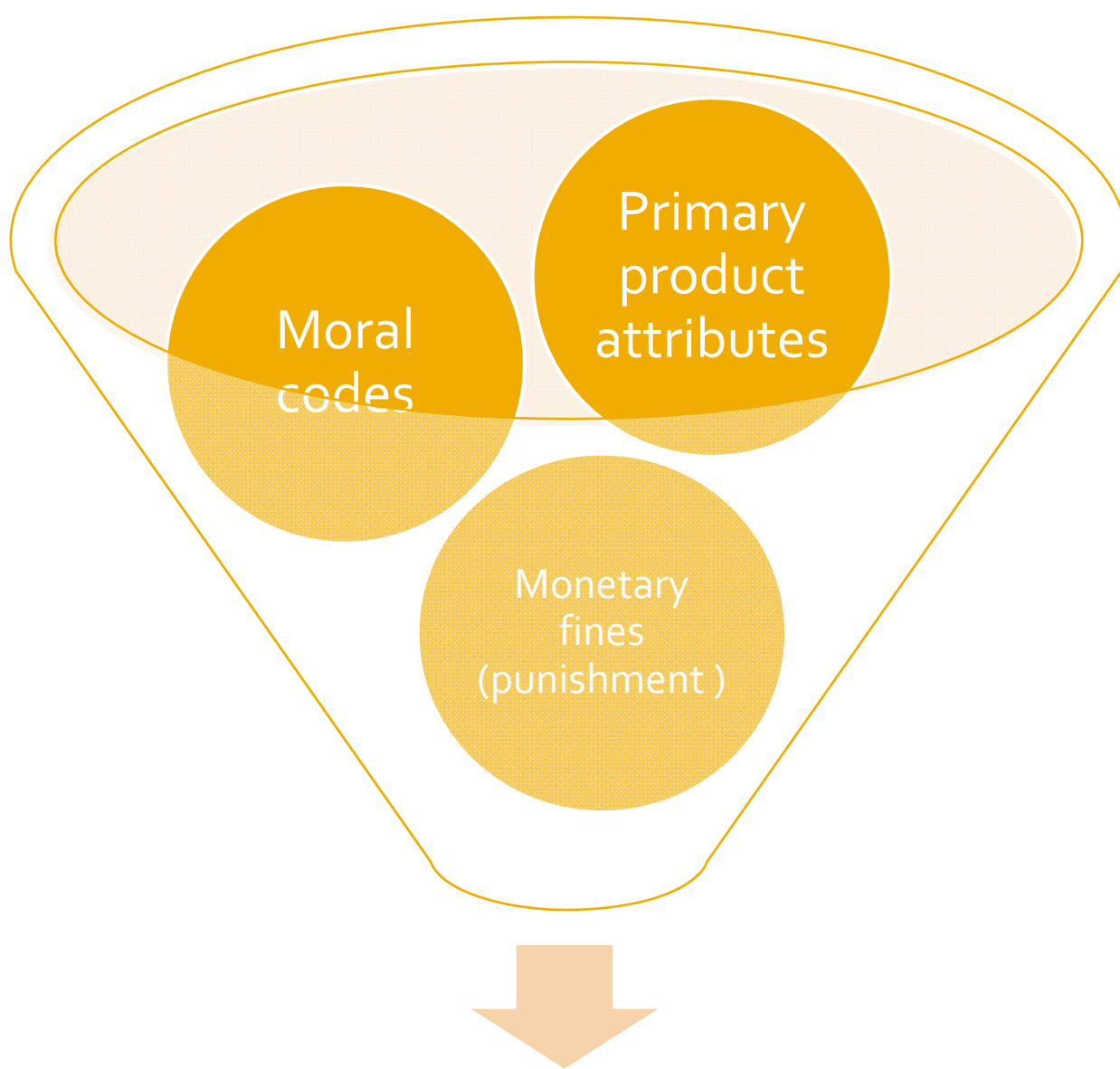
7

## 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



9

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?



10

## **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



11

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



- Camerer, C. F. (2003): Behavioral Game Theory. Russell Sage Foundation, New York.
- De Roover, R. (1958): The Concept of the Just Price: Theory and Economic Policy. Journal of Economic History 18:418-434.
- Fehr, E. and Gächter, S. (2000): Cooperation and Punishment in Public Goods Experiments. American Economic Review 90(4), S. 980-94.
- Padel, S. and Gössinger, K. (2008): Farmer Consumer Partnerships Communicating Ethical Values: a conceptual framework. CORE Organic Report Nr. FCP 1, Aberystwyth University, Aberystwyth and University of Natural Resources and Applied Life Sciences, Vienna.
- Rippin, M. (2008): Analyse von Forschungsergebnissen im Hinblick auf die praxisrelevante Anwendung für die Vermarktung und das Marketing von Öko-Produkten. Schlussbericht zum Projekt o6OE301. Bundesprogramm Ökologischer Landbau, BLE, Bonn.
- Steinrücken, T. and Jaenichen, S. (2007): The Fair Trade Idea: Towards an Economics of Social Labels. Journal of Consumer Policy 30:3.





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!

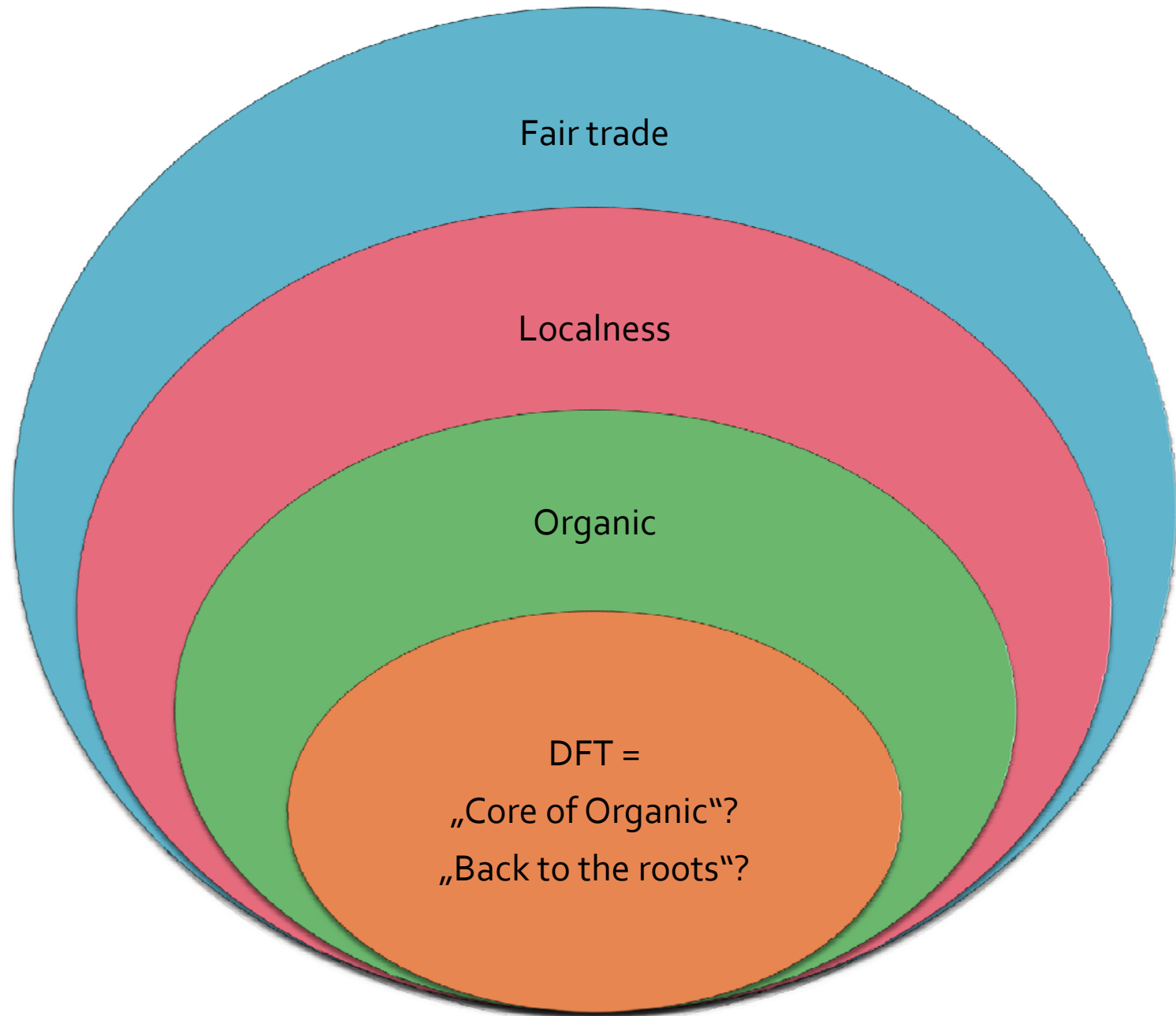


# Preface



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





Organic+Local+Fair



Organic+Local

Organic+Fair

Organic+ Association

Öko-Markenhersteller

Öko-Eigenmarke (z.B. Alnatura)

„Discount“-Organic

Freiwillige Umweltauflagen (z.B. Best Alliance / REWE, Vorerntebeprobung / EDEKA Südwest)

„aus kontrolliertem / integriertem Anbau“

„Aus nationaler Herkunft“, „Handelsklasse I“

no name product



