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Farmer share and fair distribution in food chains from a consumer's perspective

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ABSTRACT

Discussions about fair revenue distribution in food supply chains gained importance in 2008 when European milk producers entered a strike against dairy processing companies (EU milk strike). A broad discussion in the media emerged, provoking civil society as well as politics to get involved in a debate over fair prices for farmers. During the milk strike, consumers in Germany were to a large extent sympathetic with the farmers, while food retailers were seen as the main cause of the problem. However, the question what fairness and a fair revenue distribution in food production meant remained unanswered. Hence, this study aims to analyze consumer perceptions of what a fair revenue distribution is in food chains and to determine what factors contribute to fairness perceptions of the farmers' share. Through an online survey conducted in November 2012, German consumers were asked to estimate the distribution of the food dollar among different supply chain partners and to indicate what a fair distribution should look like. This paper contributes to the literature of the perceived unfair compensation of farmers and provides empirical examples of the concepts of distributive, procedural and interactional fairness. The findings of the survey showed that farmers are mainly perceived as being treated unfairly in supply chains and should get more compensation from a consumer's point of view. Food retailing should mainly lose shares in this context. A fair distribution of revenues is influenced by distributive considerations, process control and interactional fairness, revealing that non-monetary aspects are also influencing fairness perceptions of revenue distribution in food chains.

1. Introduction

Discussions on fairness, justice and equity (terms are used interchangeably) are not a new phenomenon but date back to antiquity. In the case of food production, questions of fair producer prices and fair revenue distribution have gained new importance in recent years. In 2008, dairy farmers in the European Union (EU) marked a turning point in the debate on price fairness by going on strike against dairy processing companies and protesting low producer prices. As a result of this strike, media and civil society entered into a broad discussion on the topic. Citizens mainly sympathized with farmers, while food

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retailers were seen as the main culprits for the existing situation (Böhm & Schulze, 2010). EU politicians also got involved in the discussion and subsequently the EU Commission implemented the "High Level Expert group on milk" (HLG). The HLG aims to stabilize market prices and producers' income as well as enhance transparency in the market (EU Commission, 2010). In 2012, the Milk Package, a series of measures such as the possibility for member states to make written contracts between farmers and dairy processors compulsory or the possibility to negotiate contract terms collectively between producer organizations and dairy processors, was designed. The aim was boosting the position of dairy producers in the supply chain. The Milk Package also served to prepare the sector for a more market-oriented and sustainable future in light of the end of the milk quota system in 2015 (EU Commission, 2014).

Against the background of widely criticized low farmer prices, the distribution of proceeds in food supply chains has also reached the public agenda. The European Parliament published a resolution highlighting the decreasing farmer shares in the EU. The resolution stated that farmer shares did not accurately reflect the changes in the distribution of costs in the supply chain. Recommendations were taken by the Parliament that the reduction of farmer share and the development of food markets should be addressed. Furthermore, it was acknowledged that the role of farmers needed to be strengthened to maintain high quality food production in the EU (EU Parliament, 2009).

In the marketplace, fair trade labeled products, which signal fairness for farmers in terms of prices and working conditions, already exist for the end-consumer. However, the focus of these labels remains on farmers in developing countries. Therefore, through buying a fair trade labeled product (predominantly used on coffee and cacao products), the consumer decides to allocate a revenue surplus to the farmers. For EU farmers, those labeling programs are nearly non-existent. However, during the phase of very low farm prices for milk and meat in 2015, some new initiatives for "domestic fair trade labels" started in a couple of EU countries.

In fairness research there are several theories that explain factors leading to fairness judgments, but to our best knowledge research on perceptions of fairness regarding revenue distribution in food chains and farmer share remains fairly unknown. In laboratory experiments and in the field, researchers have found that citizens have concerns over inequality, referred to as the distribution of relative payoffs (Chang & Lusk, 2009). Citizens also seem to be concerned about the distribution of outcomes in food supply chains (Briggeman & Lusk, 2011), in particular when comparing the relative pay-offs of small farmers to the pay-offs of others (Chang & Lusk, 2009). Especially in the market of locally produced food, Toler, Briggeman, Lusk, and Adams (2009) found some evidence that fairness considerations influence food choices. They concluded that there is a potential market for products from local farms through highlighting how fairness aspects are taken into account in farmers markets and grocery stores. This is supported by findings that indicate that consumers' fairness preferences can be observed in other instances, aside from just fair trade labeled products. There are hints that people are interested in food that is fairer in terms of revenue shifting to (family) farms and fair prices for farmers (Chang & Lusk, 2009; Rimal, Moon, & Bralasubramanian, 2006; Zander & Hamm, 2010 and Briggeman & Lusk, 2011 for organic products; Toler et al., 2009 and Schneider & Francis, 2005 for local food). This is in line with the "underdog hypothesis", describing biased support for small, disadvantaged but passionate brands or companies (Paharia, Keinan, Avery, & Schor, 2011). Ellison, Lusk, and Briggeman (2010a, 2010b) found that people favor direct payments given to small family farms rather than to larger farms, even if they believe those farms are financially better off than themselves.

Therefore, our aim is two-fold: first is to determine a fair distribution of the food dollar (the revenues each supply chain partner receives from one dollar spent in a grocery store) from a consumer's point of view. Second is to find factors that build consumers' fairness judgments in food chains, with a focus on the farmer share. It is currently unknown how people perceive the distribution of revenues in the food chain and what a fair food supply chain, with a fair revenue distribution, should look like. This is of great importance for the development of fairer strategies for food markets, for example as part of Corporate Social Responsibility (CSR) strategies or socially acceptable policy decisions. Additionally, it can provide hints as to how to exploit further consumer segments, such as through labeling fair prices for socially sustainable agriculture in developed countries.

This study is done for the case of Germany, where the combination of a high share of discount retailing and a comparably high share of alternative production methods (mainly organic) provides a good background for fairness debates.

2. Theoretical approaches to fairness and their applicability in food chains

Fairness can be interpreted differently, but most models in the literature relate fairness to people's aversion to inequity. Fehr and Schmidt (1999) model fairness as "a self-centered inequity aversion of a person", which means that people who consider fairness as important resist inequitable outcomes and consider their own pay-off in comparison to others (1999: 819). Thereby, people's preferences for fair actions cannot be understood individually, but must be understood in the context of an economic environment that largely affects individual perceptions. For example, in game theory, one selfish player can affect inequity-averse players to the extent that they also behave more selfishly as a response (Fehr & Schmidt, 1999). To frame fairness judgments, individuals use reference outcomes (Xia, Monroe, & Cox, 2004). These are based on complex social comparison processes, whereby a person's comparative relative pay-offs affect the perception of their own material well being as well as their behavior (Fehr & Schmidt, 1999: 821).

Based on organizational justice research, Colquitt, Conlon, Wesson, Porter, and Ng (2001) summarized that *distributive* and *procedural fairness* can be differentiated, which is explained in more detail below. *Interactional fairness* is sometimes