Which criteria to ensure fair pricing mechanisms?

Questionnaire

1. Introduction

The purpose of this document is to assist projects and initiatives in the agricultural and food sector which are in the process of - or wish to establish and ensure fair pricing mechanisms among involved actors.

Through a review of existing initiatives and literature, a list of potential criteria has been identified. A general overview of these criteria is presented below (Section 2). A detailed description of each criterion, along with some examples, is provided in Appendix 1.

It must be noted that this list constitutes a collection of *potential conditions* which contribute to fair pricing mechanisms. However, as each project is different and fairness is highly context-dependent, different criteria might be more or less important for different project. It is also worthwhile to note that the relative importance of criteria is likely to evolve along with a project's stage.

In light of the above, this document proposes a questionnaire (Section 3) whose aim is to help project stakeholders to identify which fair pricing criteria are more important and relevant to their project. In other words, what are the conditions to ensure that the project ensures fair pricing mechanisms for all stakeholders?

2. Overview of fair pricing criteria

As presented below, fourteen fair pricing criteria have been identified. They are grouped in three categories: *Production and market criteria ; Chain development ; Relationship between actors.*

A detailed explanation of every criterion is presented in Appendix 1.

Production and market criteria	Chain development criteria	Relationship between actors
1. Higher than conventional prices	**6. Allows for investments**	**9. Transparency**
2. Consistent with the production costs	**7. Risk-sharing and premium for innovation/risk taking**	**10. Fair value distribution**
3. Allows for a fair farmers' revenues level	**8. Stability and/or reassessment of price**	**11. Long term commitment of the actors**
4. Consideration for the added value compared to other crops		**12. Shared effort by all actors of the chain to guarantee commercial outlets**
5. Consumer acceptability of the price		**13. Fair governance mechanisms**
		14. Payment in a fair time

3. Questionnaire for fair pricing

Practicalities

The following questionnaire can have two purposes:

(1) **Identifying the most important criteria:** Stakeholders should identify the criteria which they consider as most important in an ideal or future situation.
(2) **Assessing current implementation:** Stakeholders can also use this questionnaire to assess the current implementation of each criterion in their project.

According to the specificities and needs of each project, actors can decide to carry out both or only one of these assessments.

In practice, the questionnaire below is subdivided in three parts:

(1) **Preliminary assessment:** As a first step, stakeholders are invited to carry out a preliminary , more intuitive assessment of the fourteen criteria, both in terms of an ideal situation (which criteria are the most important in theory?) and in terms of the current situation (which criteria are currently implemented?).
(2) **Individual assessment of each criterion :** In questions 1 to 14, each criterion is assessed individually. Again, a distinction is made between an ideal situation and the current situation.
(3) **Identification of additional criteria:** Stakeholders are invited to complement the initial list if they feel specific criteria are missing (question 15).

Each criteria is formulated as a statement, which must then be assessed by each stakeholder according to the following scales (either in **green** in terms of its importance and relevance towards ensuring a fair pricing mechanism ; or in **blue** in terms of its current implementation):

In an ideal situation, …

Strongly disagree – Disagree – Neither agree nor disagree – Agree – Strongly agree

In the current situation, …

Not implemented – Partially implemented – Implemented[1]

[1] A partial implementation of a criterion could for example refer to a situation in which the criterion used to be implemented, or is going to be implemented in the future.

Criteria ranking – Ideal situation

In your opinion, which are the most important criteria in an **ideal situation** (maximum 5) ?

	Criteria	Not important	Neutral	Important
	PRODUCTION AND MARKET CRITERIA			
1	Higher than a minimum price.	☐	☐	☐
2	Consistent with the production costs.	☐	☐	☐
3	Allows for a fair farmers' revenues level.	☐	☐	☐
4	Consideration for the added value compared to other crops.	☐	☐	☐
5	Consumer acceptability – Lower than a maximum price.	☐	☐	☐
	CHAIN DEVELOPMENT CRITERIA			
6	Allow for investments.	☐	☐	☐
7	Risk-sharing and premium for innovation/risk taking.	☐	☐	☐
8	Stability and/or reassessment of price.	☐	☐	☐
	RELATIONAL CRITERIA			
9	Transparency.	☐	☐	☐
10	Fair value distribution.	☐	☐	☐
11	Long term commitment of the actors.	☐	☐	☐
12	Shared effort by all actors of the chain to guarantee commercial outlets.	☐	☐	☐
13	Fair governance mechanisms.	☐	☐	☐
14	Payment in a fair time.	☐	☐	☐

Criteria implementation – Current situation

To what extent are the different criteria **currently** implemented in your project/initiative?

Criteria		Not implemented	Partially implemented	Implemented
PRODUCTION AND MARKET CRITERIA				
1	Higher than a minimum price.	☐	☐	☐
2	Consistent with the production costs.	☐	☐	☐
3	Allows for a fair farmers' revenues level.	☐	☐	☐
4	Consideration for the added value compared to other crops.	☐	☐	☐
5	Consumer acceptability – Lower than a maximum price.	☐	☐	☐
CHAIN DEVELOPMENT CRITERIA				
6	Allow for investments.	☐	☐	☐
7	Risk-sharing and premium for innovation/risk taking.	☐	☐	☐
8	Stability and/or reassessment of price.	☐	☐	☐
RELATIONAL CRITERIA				
9	Transparency.	☐	☐	☐
10	Fair value distribution.	☐	☐	☐
11	Long term commitment of the actors.	☐	☐	☐
12	Shared effort by all actors of the chain to guarantee commercial outlets.	☐	☐	☐
13	Fair governance mechanisms.	☐	☐	☐
14	Payment in a fair time.	☐	☐	☐

Criteria assessment

1. A fair price should be higher than a minimum price, which serves as a reference (e.g. conventional/organic market price, etc.).				
In an ideal situation, I…				
☐ *Strongly disagree*	☐ *Disagree*	☐ *Neither agree nor disagree*	☐ *Agree*	☐ *Strongly agree*
Currently, in our project, this criterion is…				
☐ *Not implemented*		☐ *Partially implemented*		☐ *Implemented*

2. A price is fair if it is consistent with production costs.				
In an ideal situation, I…				
☐ *Strongly disagree*	☐ *Disagree*	☐ *Neither agree nor disagree*	☐ *Agree*	☐ *Strongly agree*
Currently, in our project, this criterion is…				
☐ *Not implemented*		☐ *Partially implemented*		☐ *Implemented*
a. If you (strongly) agree, are there key costs which should or should not be included in the production costs calculations? These can include direct production costs ; land renting costs ; hidden costs ; non production related costs, etc.______________________________ ______________________________ ______________________________ ______________________________ ______________________________				

3. **A price is fair if it allows for a fair revenue level (e.g. above 10€/hour).**

In an ideal situation, I...

☐ *Strongly disagree* ☐ *Disagree* ☐ *Neither agree nor disagree* ☐ *Agree* ☐ *Strongly agree*

Currently, in our project, this criterion is...

☐ *Not implemented* ☐ *Partially implemented* ☐ *Implemented*

a. If you (strongly) agree, do you have a specific objective or threshold which corresponds to a fair revenue level (in €/hour or other metric)?_______________

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4. **A fair price should take into account the opportunity cost of a particular crop (e.g. in case of crop diversification, taking a reference situation into account, which corresponds to the crop which would otherwise be grown).**

In an ideal situation, I...

☐ *Strongly disagree* ☐ *Disagree* ☐ *Neither agree nor disagree* ☐ *Agree* ☐ *Strongly agree*

Currently, in our project, this criterion is...

☐ *Not implemented* ☐ *Partially implemented* ☐ *Implemented*

5. A fair price takes into consideration consumers' willingness to pay.
In an ideal situation, I… ☐ *Strongly disagree* ☐ *Disagree* ☐ *Neither agree nor disagree* ☐ *Agree* ☐ *Strongly agree* *Currently, in our project, this criterion is…* ☐ *Not implemented* ☐ *Partially implemented* ☐ *Implemented*

6. A price is fair if it is sufficient enough to allow for necessary investments (e.g. investments in production and processing infrastructure, general farm investments, etc.).
In an ideal situation, I… ☐ *Strongly disagree* ☐ *Disagree* ☐ *Neither agree nor disagree* ☐ *Agree* ☐ *Strongly agree* *Currently, in our project, this criterion is…* ☐ *Not implemented* ☐ *Partially implemented* ☐ *Implemented*
a. If you (strongly) agree, which type of investments should the fair price cover?______________________________ ____ ____ ____ ____

7. A fair price should support risk taking or ensure risk sharing by including a premium (i.e. supplementary payment) or any other mechanism.
In an ideal situation, I... ☐ *Strongly disagree* ☐ *Disagree* ☐ *Neither agree nor disagree* ☐ *Agree* ☐ *Strongly agree* *Currently, in our project, this criterion is...* ☐ *Not implemented* ☐ *Partially implemented* ☐ *Implemented*

8. A fair price should be defined in advance and include a clear and transparent reassessment mechanism for when conditions change (e.g. higher production costs, higher pricing opportunities, etc.).
In an ideal situation, I... ☐ *Strongly disagree* ☐ *Disagree* ☐ *Neither agree nor disagree* ☐ *Agree* ☐ *Strongly agree* *Currently, in our project, this criterion is...* ☐ *Not implemented* ☐ *Partially implemented* ☐ *Implemented*

9. **Transparency is a key aspect of fair pricing mechanisms.**

In an ideal situation, I…

☐ *Strongly disagree* ☐ *Disagree* ☐ *Neither agree nor disagree* ☐ *Agree* ☐ *Strongly agree*

Currently, in our project, this criterion is…

☐ *Not implemented* ☐ *Partially implemented* ☐ *Implemented*

a. If you (strongly) agree, which aspects of transparency are most important (e.g. transparency in terms of price setting calculations; transparency of decision making; transparency towards consumers, etc.)? ______________________________

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10. **A fair value distribution among supply chain actors is a key aspect of fair pricing mechanisms.**

In an ideal situation, I…

☐ *Strongly disagree* ☐ *Disagree* ☐ *Neither agree nor disagree* ☐ *Agree* ☐ *Strongly agree*

Currently, in our project, this criterion is…

☐ *Not implemented* ☐ *Partially implemented* ☐ *Implemented*

a. If you (strongly) agree, what is a fair distribution according to you? How can it be determined?____

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11. **A long-term commitment of the involved actors is a key aspect of fair pricing mechanisms.**

In an ideal situation, I...

☐ *Strongly disagree* ☐ *Disagree* ☐ *Neither agree nor disagree* ☐ *Agree* ☐ *Strongly agree*

Currently, in our project, this criterion is...

☐ *Not implemented* ☐ *Partially implemented* ☐ *Implemented*

a. If you (strongly) agree, how long should this commitment last? ______________

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12. **Communication and a shared commitment of all involved actors are key aspects of fair pricing mechanisms.**

In an ideal situation, I...

☐ *Strongly disagree* ☐ *Disagree* ☐ *Neither agree nor disagree* ☐ *Agree* ☐ *Strongly agree*

Currently, in our project, this criterion is...

☐ *Not implemented* ☐ *Partially implemented* ☐ *Implemented*

a. If you (strongly) agree, are contracts a necessary tool to achieve fair pricing mechanisms?____

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13. Fair governance mechanisms (i.e. how are decisions made and by whom?) are a key aspect of fair pricing mechanisms, for example in terms of price setting or value chain organisation.

In an ideal situation, I...

☐ *Strongly disagree* ☐ *Disagree* ☐ *Neither agree nor disagree* ☐ *Agree* ☐ *Strongly agree*

Currently, in our project, this criterion is...

☐ *Not implemented* ☐ *Partially implemented* ☐ *Implemented*

14. Fair payment conditions are key aspects of fair pricing mechanisms. This relates to minimum delays in payments and a possibility to consider pre-payment.

In an ideal situation, I...

☐ *Strongly disagree* ☐ *Disagree* ☐ *Neither agree nor disagree* ☐ *Agree* ☐ *Strongly agree*

Currently, in our project, this criterion is...

☐ *Not implemented* ☐ *Partially implemented* ☐ *Implemented*

15. Are there other criteria which you currently implement/consider key to ensure fair pricing mechanisms?

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Appendix 1. Fair pricing criteria – extended

The list below provides a detailed explanation of fourteen criteria which have been identified as potential conditions to ensure fair pricing mechanisms. Potential links between criteria are indicated (in green).

CATEGORY 1 – Production and market criteria

Criterion 1. Higher than a minimum price.

Considering reference prices, such as the average conventional or organic market price, local products' prices, competing products' prices, etc. can contribute to evaluating and setting a fair price.

Criterion 2. Consistent with the production costs.

Estimating production costs and integrating them in the price definition is a way to ensure a fair price.

This implies considerations in terms of :

- **Scope of included costs:** Which production costs are included in the calculations? Are costs considered exclusively at crop-level (operational/variable costs) or at the whole farm-level (structural/fixed costs)? Specific costs which can be considered include :
  - **Direct production costs:** Machinery, inputs, labour, etc.
  - **Land renting costs:** This is particularly important in geographical areas with very expensive land prices (e.g. Flanders, where land prices reach 500-1000€/ha), which has an important impact in terms of competitiveness with other (EU or non-EU) production areas.
  - **Hidden costs:** In some cases, projects might benefit from currently non-paid or non-valued work or services (e.g. volunteer work ; unpaid transportation ; free milling services ; etc.). It is nevertheless important to be aware and account for these "hidden" costs which represent additional costs if sudden external changes (i.e. if these free services disappear).
  - **Non production-related costs :** How are costs such as knowledge acquisition and trainings ; maintenance of soil fertility and health (e.g. green manure) ; etc., which are not directly related to productive activities, accounted for? Are fixed costs included ?
- **Transparency and governance:** Ideally, the calculation mechanisms (i.e. which costs are included in the calculations) should be transparent (see crit. 9) and co-determined (crit. 13).

Criterion 3. Allows for a fair farmers' revenues level.

Ensuring that farmers get a minimum revenue level (e.g.: above 10€/hour) can contribute to achieving a fair price. This minimum revenue level can be integrated in the production cost calculations or considered on its own, as a specific criterion. It entails a reflexion on the quantity of labor needed and on what a fair revenue is (e.g. 12 €/hour? 20 €/hour?).

Criterion 4. Consideration for the added value compared to other crops.

When farmers undertake crop diversification, taking the opportunity cost into account might contribute to a fair price. In other words, a comparison to a reference crop (i.e. the crop which would otherwise be grown) may help defining a threshold value regarding the crop added value while factoring in the additional risk level and organisational burden (implementation of new techniques, etc.).

Criterion 5. Consumer acceptability – Lower than a maximum price.

A fair price needs to be fair for consumers too. Hence, the acceptability and affordability for consumers should be taken in to account when setting a price, for example by estimating the consumers' willingness to pay.

CATEGORY 2 – Chain development criteria

Criterion 6. Allow for investments.

Ensuring that sufficient benefit levels are reached, thereby allowing for further farm investments, might contribute to fair prices.

The relevance of investments should be evaluated against a reference cost (e.g. cost of investment vs. cost of relying on an external entrepreneur/company for a particular service) and depending on the context of the project (e.g. presence of- and relations between actors: entrepreneur/co-farmers/etc.).

Criterion 7. Risk-sharing and premium for innovation/risk taking.

Innovative projects, for example crop diversification projects, might require significant levels of innovation and risk taking. Hence, accounting for this in the price might contribute to a fair price, for example through a premium for innovation and risk-taking.

This entails two considerations:

- How is the investment risk shared (e.g. Barn supermarkets offer micro loans to farmers)?
- How to assess the level of the premium (e.g. arbitrary? 10%?) ?

Criterion 8. Stability and/or reassessment of price.

Is the price stable? Or regularly assessed as to be adapted in the case of changes at market level or regarding production costs? Reassessment can both lead to increases or decreases in price.

Ideally, the evolution of the price should be transparent (see crit. 9) and could be related to strategic objectives (e.g. agreeing on a price reduction as production costs are expected to fall after initial implementation steps). The terms of these reassessments and their frequency are specific to each project.

CATEGORY 3 – Relationship between actors

Criterion 9. Transparency.

The transparency of relationships and processes relates to several elements :

- Actors should commonly define which aspects have to be transparent and to which actors (see crit. 13).

- In particular, transparency often applies to the value repartition (see crit. 10) ; the production costs and the methodology for their calculation (what is taken into account or not; see crit. 2) ; as well as the governance mechanisms (who is involved in the decision-making processes? ; see crit. 13).
- Apart from the inherent importance of transparency for fairness, its positive indirect impacts should be taken into account, both on the relationships within the supply chain e.g. (between producers and processors; see crit. 12 and 13) as with consumers (see crit. 5). It is an important factor which contributes to long-lasting relations.

Criterion 10. Fair value distribution.

A fair distribution of value and profit among actors can contribute to fair pricing mechanisms. Several elements must be considered:

- **Vertical distribution:** Relates to the distribution of value along the supply chain (farmers – processors – distributors – …). This vertical distribution can be pursued through a quantitative objective, i.e. the farmer gets a minimum percentage (e.g. 40%) of the final consumer price.
- **Horizontal distribution:** Apart from vertical distribution (along the supply chain), horizontal distribution should be considered too. Are all participants of the same "level" (e.g. farmers) treated equally? Are differentiated treatments compatible with overall fairness?
- **Fair distribution mechanisms:** One possibility to achieve a fair distribution of value is that it reflects the inputs and efforts of each supply chain partner (in terms of workload, financial inputs, risks, commitment, responsibility, etc.) (see crit. 7, 12, 13). Ideally, the mechanism which sets the distribution level should be transparent (see crit. 9) and co-determined (crit. 13).

Criterion 11. Long term commitment of the actors.

A long term commitment of actors can contribute to fair pricing mechanisms. Hence, the relationship between the producers and the first buyer (processor or other) must be clearly defined to ensure stability and reliability (see crit. 8) as well as to ensure that the relationship persists even in bad years (see crit. 7).

Criterion 12. Shared effort by all actors of the chain to guarantee commercial outlets.

This criterion relates to the fact that mutual, bilateral relations can be an important factor of fair pricing mechanism. Two major aspects must be considered:

- **(a) Shared commitment:** The shared aspect refers to the fact that all actors must make an effort to maintain the chain and guarantee a product's commerciality. Involved actors must therefore adopt a certain degree of flexibility (e.g. keep processing a cereal even though the protein content is not optimal). All involved actors are mutually responsible for the success of the value chain. This can be guaranteed through formal contracts but not necessarily.
- **(b) Communication and common understanding of needs and expectations:** Apart from a shared commitment, it is important that all actors understand each other's needs and expectations (in terms of quality, duration and timing aspects, quantities, risks, opportunities etc.). Communication, common understanding and access to information are crucial.
- Related to Transparency (see crit. 9) and Governance mechanisms (see crit. 13)

Criterion 13. Fair governance mechanisms.

This relates to the way decision-making mechanisms are put in place (e.g. does everyone have a say ? Are decisions made unilaterally ?). It applies to price setting and to all decisions in general (such as quality, payment times, etc.). In general, people have a greater fairness perception if they feel included and heard in decision-making processes.

- An example of governance mechanisms relates to the process of price-setting, i.e. how is the price determined and by who? Is the price set unilaterally by farmers ? Or by the processor? Or is the price set bilaterally, by a mutual agreement between farmers, processors and other involved actors?.
- Related to Transparency (see crit. 9) and Communication and common understanding (see crit. 12.b)

Criterion 14. Payment in a fair time.

This criterion includes two aspects:

- (a) **Minimum delay :** There should be a minimum delay between the delivery of the primary product and the payment.
- **(b) Pre-payment:** If necessary, pre-payment (total or partial) should be an available option too.