Concepts of price fairness: Empirical research into the Dutch coffee market

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ABSTRACT

This paper researches perceptions of the concept of price fairness in the Dutch coffee market. We distinguish four alternative standards of fair prices based on egalitarian, basic rights, capitalistic and libertarian approaches. We investigate which standards are guiding the perceptions of price fairness of citizens and coffee trade organizations. We find there is a divergence in views between citizens and key players in the coffee market. Whereas citizens support the concept of fairness derived from the basic rights approach, holding that the price should provide coffee farmers with a minimum level of subsistence, representatives of Dutch coffee traders hold the capitalistic view that the free world market price is fair.

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Introduction

Price fairness is a topic that gets a lot of attention in the coffee market. Coffee prices paid by large Western roasters to coffee farmers have often been the subject of criticism. In the last decennia, several initiatives have been undertaken to improve the economic and social conditions of coffee farmers. In 1988 the Max Havelaar trademark was established in the Netherlands. The Max Havelaar Foundation claims that a ‘fair price’ is paid for coffee with the Max Havelaar trademark. Since 1988, the Dutch initiative has been copied by fair coffee trade organisations in twenty other Western countries. Some of them are also named Max Havelaar, others are named Transfair or Fairtrade Foundation (UK) or have a completely different name (Scandinavia) (Max Havelaar, 2007).

Recently, Douwe Egberts and other large retailers have also undertaken several initiatives in order to increase their societal legitimacy, such as applying codes of conduct for players in the coffee market. Still, there are very large differences in the purchasing policies of Douwe Egberts and fair trade organizations such as Max Havelaar. Whereas Douwe Egberts pays the world market price, Max Havelaar pays coffee prices that are substantially higher than world market prices. One of the reasons for the difference in policies may be a difference in views of coffee traders on the concept of price fairness. In philosophical literature, many concepts of fairness have been developed, representing various different aspects of fairness, varying from socialist views that stress equality in income to capitalist views that defend the fairness of free market prices. Coffee suppliers often use the term ‘fair price’, but very often these players do not clarify the exact meaning of this concept. It is interesting to find out on what principles of fairness their opinions are based.

The different policies of Douwe Egberts and Max Havelaar also indicate that there is a market for different policies. Economic research has shown that perceptions of fairness can influence economic behavior, especially in the retail sector (Alexander 2002, Auger et al. 2003, Maignan 2001, Brown and Dacin 1997, Handelman and Arnold 1999, Marymount University 1999, Smith 1990). Companies will therefore anticipate on the different fairness perceptions of consumers and adapt their marketing and trading policy accordingly. Since traditional coffee traders have by far the largest market share, we would expect that a majority of the customers agree that the world price is a fair price.

The purpose of this paper is twofold. The first purpose is to investigate the views of different coffee trade organizations on what constitutes a fair price in the coffee market. The second purpose of this paper is to investigate the perceptions of price fairness of consumers and see whether they correspond to the price policies of coffee trade organizations. We restrict the empirical test to the Netherlands, partly for practical reasons and partly because the Netherlands was the first country where ‘fair’ coffee was introduced on a large scale (see above). Therefore, familiarity with this type of coffee can be assumed to be greater in the Netherlands than in other countries.

The contents of the paper are as follows. We will first introduce some main concepts of fairness in philosophical literature that will be used in the empirical research. Section 3 presents some background information on the coffee market. Section 4 describes the methodology of our empirical research. We used two types of research methods. First, we interviewed several key players in the coffee market and studied some of their publications, such as annual reports, advertisements and websites in order to reveal price fairness perceptions of producers. The results of the interviews are described in section 5. Next, we developed and sent out a questionnaire to investigate the concepts of price fairness of citizens. The results are described in section 6. Section 7 provides a discussion of the results and the main conclusions.

Concepts of fairness in philosophical literature

Perceptions of price fairness seem to be first and foremost related to compensatory justice. Compensatory justice concerns the just way of compensating people for what they lose (Kouwenhoven 1981). A fair price can be seen as a compensation that is equal to the loss suffered by the person being compensated.

However, perceptions of price fairness often include distributive concerns beyond merely compensatory concerns. For example, Gielissen et al (2007) finds that price increases are judged to be fairer when they benefit poor or small agents than when they benefit rich or large agents, other things being equal. Therefore, we investigate several concepts of distributive justice rather than merely compensatory justice in the perceptions of price fairness. Distributive justice is concerned with the fair distribution of society's benefits and burdens. Compensatory justice can be interpreted as one particular form of distributive justice. In particular, as we will see below, one way of defining a just distribution is by relating one's share to one's contribution. The concept of distributive justice is therefore more general than the concept of compensatory justice.[1]

The formal principle of distributive justice (traditionally attributed to Aristotle) is that equals should be treated equally and unequals unequally. Or more precisely: 'Individuals who are similar in all respects relevant to the kind of treatment in question should be given similar benefits and burdens, even when they are dissimilar in other irrelevant respects; and individuals who are dissimilar in a relevant respect ought to be treated dissimilarly, in proportion to their dissimilarity' (Velasquez 1998). This principle is formal, because it does not specify the standards that are relevant for judging whether individuals are equal or unequal. Here the difficulty starts: when are people equal and when are they unequal? Which criteria should be applied to compare different persons?

There are several possibilities, ranging from egalitarian principles that stress equality in income to the libertarian principle that gives priority to individual freedom (see Table 1).[2] The first type of norms for fairness is egalitarianism. Egalitarianism holds that all people are equal in all aspects. There are no relevant differences that justify unequal treatment. That implies an equal share in the benefits and burdens. Goods should be allocated to people in equal portions and this requires that income should be equal. An absolute egalitarian system may, however, be very harmful for the economy. When everyone receives the same income, the lazy person will earn as much as the industrious person. Hence, there will be no material incentive to work. A less extreme variant of egalitarianism therefore accepts differences in income provided that the least advantaged also benefit from these differences. This is the so-called maximin principle.[3] It is difficult to define a 'rule of thumb' that can be used to decide what prices are fair and what prices are unfair based on this principle. The borders of the area that contains 'fair prices' are not sharp, but rather vague. However, some guidelines can be given. In particular, prices should be set in such a way that the transactions benefit the weakest trade party rather than the richest trade party and in this way contribute to a reduction in income inequality.

Insert Table 1 here

The second principle does not relate to income distribution, but only defines a minimum standard of welfare that should be respected. This position can be derived from the positive rights ethics of Shue (1996), who argues that a minimum of subsistence is a basic right. By minimal subsistence – or economic security – Shue means a minimal cleanliness of air and water, adequate food, adequate clothing, adequate shelter and minimal preventive public health care. The basic idea is to have available for consumption what is needed for a decent chance at a reasonable healthy and active life of more or less normal length, barring tragic interventions. This means that people should earn a living wage.

The third and more capitalistic norm distributes benefits according to the value of the contribution that the individual makes. This principle is also called distribution according to moral desert. This principle states that each person should obtain what he or she deserves. Thus, when a person has performed labour on some property, he or she has engaged in an activity that either displays some sort of human excellence (such as working hard) or confers a needed benefit on surrounding others (like making an object they want to buy) (Christman 1998). Thus, when a worker adds value to the lives of others in some permissible way and without being required to do so, that person deserves a fitting benefit. There are several ways of measuring this value (Velasquez 1998). First, one can relate the contribution to the effort or costs of the producer. However, this approach encounters several problems, like problems of compensatory justice when people work hard and make high costs, but not in a productive way. A second approach has held that contributions should be measured in terms of productivity. The main problem with this second proposal is, however, that it is difficult to value one's productivity objectively, especially in a context where the individual contribution is highly complementary to the contribution of others. It is often not possible to determine the marginal contribution of the individuals involved. How should one then distribute the corporate added value to those who have contributed? In order to deal with this difficulty, some authors have suggested replacing productivity by the market price. The value of one's contribution then depends on the market forces of supply and demand and hence to the extent to which one's contribution is relatively scarce and is viewed as desirable by buyers. The total income reaped by an owner of production factors is then equal to the sum of the revenues from the capital goods, land and labour endowments he or she holds.

The fourth alternative standard for defining fairness is the libertarian standard. One of the authors who worked out the libertarian principle is Nozick (1974). Nozick does not accept any end-result principle. Justice only consists in an unhindered operation of the just procedures of justice in acquisition, transfer and rectification. Robert Nozick claims that the only basic right of any individual is the negative right to be free from interference of other human beings. Therefore, people should be left free to do what they want with their own labour. This implies that people must be left free to acquire property, to use it in whatever way they wish and to exchange it with others in free markets. Free markets are supposed to preserve the negative rights to freedom and to private property. According to Nozick, therefore, a price is fair when every party voluntarily agrees to it. A free market outcome or a bargaining outcome will thus be fair. However, Nozick's theory differs from the capitalistic principle of income in accordance to market price. For example, Nozick also accepts voluntary transactions that do not allocate income according to merit, like for example by inheritance or gifts, provided that these transactions are voluntary.

The coffee market: background information

The market parties

Coffee is nearly exclusively produced in developing countries, and is therefore a very important export product for those countries. Brazil and Colombia are by far the most important coffee producers; together they produce over 40 percent of the world production. Other important producers are Vietnam, Indonesia, India, Mexico, Guatemala, Ethiopia and Uganda (VNKT 2003). Exports of coffee account for a substantial part of these countries' foreign exchange earnings, in some cases over 80 percent (ICO 2005).

Around 30 percent of the world's coffee production is grown on large coffee plantations. Small-scale farmers grow the other 70 percent of the world's coffee production (North 2003). In the latter case, the production processes are very labour-intensive, and the farmers often live in poor economic and social conditions. The quantity of coffee they produce is too low to sell directly to large-scale foreign buyers. Furthermore, they often do not have the means to transport their coffee to harbours or other trade places. Therefore, they are dependent on distributive trades.

Large plantations, cooperatives and distributive trades sell coffee beans to foreign buyers. In most cases, the price is negotiated between buyer and seller on a free market. More than half of the world production of coffee beans is bought by just five big coffee roasters and traders: Nestle, Kraft, Tschibo, Proctor & Gamble and Sara Lee/DE. There are two main varieties: Arabica coffee and Robusta coffee. Prices are set on the world market: on the coffee exchanges in New York for Arabica coffee and on the coffee exchanges in London for Robusta coffee.

History of coffee prices

The world market price for coffee has been very unstable and has often been at a low level for a long period of time. In the second half of the 1950s and early 1960s, coffee prices fell drastically. This led to an intergovernmental initiative to stabilize the market. This initiative resulted in the first International Coffee Agreement, which was agreed upon in 1962 by 63 member governments of the International Coffee Council. These agreements contained the application of a quota system whereby coffee supplies in excess of consumer demand were withheld from the market. They helped prices to remain relatively stable throughout the years 1963 to 1972, and production and consumption became more evenly balanced. In 1976, a new International Coffee Agreement was negotiated. Under this system, quotas were reintroduced in 1980. Also under an agreement closed in 1983, quotas and controls remained in effect. This agreement was successful in maintaining prices above the agreed minimum of 100 US dollar cents per pound. Negotiations for a new agreement were initiated, but proved inconclusive. In the absence of a consensus on price regulation, members concentrated on negotiating an agreement that did not set out to regulate coffee prices, but to focus on other forms of international cooperation. Since then, price regulations have never been part of an International Coffee Agreement.

Insert figure 1 here

In Figure 1, the world market price for a pound of coffee is depicted for the period 1985 – 2004. (ICO 2005). As can be seen, coffee prices were indeed quite high until the suspension of the quota system in 1989. The sharp rise in 1994 can be explained by the fact that a part of the Brazilian harvest was lost after a period of frost, which caused coffee supply to drop. Prices were relatively high for some years, but started to drop in 1998. This was caused by the simple fact that coffee supply exceeded demand for several years, as can be seen in Figure 2. Reasons for this phenomenon were the 'return' of Brazil as a great coffee producer and the vast quantities of coffee that were produced in the 'new coffee country' Vietnam. This decline in coffee prices is often referred to as the 'coffee crisis', since these low prices led to great income losses for the already poor countries. Many people lost their jobs and many people were living in great poverty. Also, governments had no money to invest in infrastructure, social security and health care (ICC 2003)

Insert Figure 2 here

Max Havelaar coffee

In 1988 the Max Havelaar trademark was initiated. The trademark is owned by a foundation (also called Max Havelaar). The goal of this foundation is to improve the social and economic position of small coffee farmers in developing countries. This is done by certifying coffee that was bought under conditions that are in accordance with the fair price concepts of the Max Havelaar trademark.

When a coffee brand carries this trademark, the coffee is bought directly from cooperatives of small coffee farmers in Africa and Latin America. Distributive traders are eliminated wherever possible. The farmers receive a price for their product that is considered to be 'fair' by the foundation. Also other trade conditions are beneficial to the coffee farmers. For example, long-term trade agreements are set, intended to bring security and continuity for the coffee farmers. Furthermore, coffee farmers can receive up to 60 percent of the price for their coffee in advance. This way, they are never forced to do business with middlemen who pay too low a price (Max Havelaar 2004).

The price that is paid by Max Havelaar is said to allow the coffee farmers to create better labour conditions, to produce in a way that is not harmful to the environment, and to build up a better future. How is this 'fair price', as Max Havelaar calls it, determined? First, Max Havelaar has set a minimum price that coffee farmers have to receive when the world market price for coffee falls below this minimum. Note that the idea of imposing a 'minimum price' is not new. It was part of the system that was agreed upon in several international coffee agreements. Furthermore, when the world market price is above this minimum, Max Havelaar pays a premium of five dollar cents per pound on top of the world market price. In 2003 the minimum prices were about 125 US dollar cents per pound for Arabica coffee and 110 cents for Robusta coffee (F.O.B. prices). These minimum prices are almost twice the world market price since 1998 (the outset of the coffee crisis).

In 1997, Max Havelaar and several other fair trade certifying organizations have agreed to participate in an international umbrella organization called 'Fairtrade Labelling Organization' (FLO). Since 1997, this organization is responsible for the certification of new ‘fair trade’ products[4]. In the future (when exactly has not been determined yet), the minimum price for coffee farmers will be calculated by using standards from the FLO.

Other initiatives

Recently, several other initiatives have been undertaken to improve the social and environmental conditions in the coffee sector. We will describe three of them: the Utz Kapeh Foundation, the Coffee Coalition and the Common Code for the Coffee Community (4C) .

The Utz Kapeh Foundation, which was founded in the Netherlands in 1997, is an initiative for ‘responsible coffee production’. It is a certification program that ensures that coffee is grown decently, with respect for producers and the environment. Coffee producers with an Utz Kapeh certification comply with the Utz Kapeh Code of Conduct. This is a set of economic, social and environmental criteria for responsible coffee production. For example, Utz Kapeh strives at a minimal and appropriate use of pesticides, protection of labour rights and access to education and health care in producing countries. Large coffee traders partly comply to this certification. For example, around 50 percent of the total coffee purchased by Simon Levelt has Utz Kapeh certification, whereas around 13% of the coffee purchased by Douwe Egberts is purchased in accordance with this code of conduct (see below). When the Utz Kapeh code of conduct is respected, the coffee should be regarded as a ‘better product’ by coffee buyers, which should therefore pay a ‘better price’. The premium that is paid for the Utz Kapeh certificate should be a positive amount that is explicitly mentioned in the contract between the seller and buyer of Utz Kapeh certified coffee. In most cases the premium is between one and ten dollar cents per pound.

The Coffee Coalition (in Dutch: ‘De koffiecoalitie’) was founded in 1999 by several Dutch non-governmental organizations (NGOs), such as *HIVOS*, *NOVIB* and ‘*FNV Bondgenoten*’. Their goal is to improve the economic and social conditions of coffee farmers in developing countries. This is done by asking large coffee roasters and traders (especially Douwe Egberts) to “take their responsibility” for the wrongs in the first stages of the coffee chain. The Coffee Coalition pleads for corporate social responsibility throughout the coffee chain. This should be implemented by good codes of conduct that are inspected by independent organizations. Furthermore, ‘good trade conditions’ and ‘fair prices’ should be offered to coffee producers in developing countries. The Coffee Coalition does not sell coffee itself. The Coffee Coalition only tries to improve the situation of coffee farmers in developing countries by inducing coffee roasters and traders to show more corporate social responsibility.

The Common Code for the Coffee Community (4C) is a joint initiative from coffee producers all over the world, trade and industry, trade unions and social as well as environmental NGOs to develop a global code of conduct, aiming at social, environmental and economic sustainability in the production, processing and trading of mainstream coffee. Organizations participating in the code include Kraft Foods, Nestle, Sara Lee / DE and Tschibo; these are four of the worlds biggest coffee traders. Also Utz Kapeh, the International Coffee Organization (ICO) and the World Bank are amongst the participating members. 4C is a set of agreements to which several large players on the coffee market have committed themselves, including anti-trust regulations that prohibit any form of agreements on price premiums or fixed prices. The main interest of the code lies in the reduction of costs in order to enable farmers to receive higher margins. This is tried in two ways: first, sustainability practices according to 4C should enable farmers to optimize their agricultural and management practices to make the coffee production more efficient. A second way of trying to achieve this is making the value chain in producing countries more efficient. This is done by setting measures to improve transparency along the value chain. In this way, less money goes to distributive trades, which implies that coffee farmers receive a greater part of the 'free on board' price.

Concluding, fairness is an important issue in the coffee trade. The decline in coffee prices has led to great income losses for the small-scale coffee farmers. As a result, many of them are living in great poverty. Coffee traders have responded to the situation in various ways. On the one hand, fair trade organizations such as Max Havelaar have developed a price policy that provides merchandise prices that substantially exceed the world market price and meet the basic needs of small coffee farmers. On the other hand, the large coffee trade organizations largely maintained their price policies, but provide partial support to certification programs that ensure that coffee is grown decently, with respect for producers and the environment. Both types of coffee suppliers consider that their price policy is 'fair', but very often these players do not clarify the meaning of this concept. It is interesting to find out on what principles of fairness their price policies are based. The second question that we want to research is how the suppliers' views relate to the price fairness perceptions of citizens. Do they coincide or not?

Methodology

Instrument design

In order to research the perceptions of price fairness of coffee traders, we conducted interviews with seven managers of key players at the supply side of the coffee market and studied several of their publications, such as annual reports, advertisements and websites. The Dutch coffee roasters in our sample together have a market share of over 65% (IS, 2003). This implies that the interviews are representative for the Dutch industry. The advantage of interviews is that it is a flexible method that allows the researcher to probe the answers of the respondents, which sheds light on their perceptions of fair price (Emans, 2004).

The interviews were conducted using a question list including, amongst others, the following questions:

- How is the price that your company pays to suppliers of coffee beans determined?
- When is the coffee price fair?

Because of the labor-intensiveness of this research method, the sample is necessarily much smaller than samples obtained by other research methods, such as questionnaires. Since the number of key players in the coffee market is limited, interviews suffice to obtain a more or less representative picture of the perceptions of coffee producers.

However, for investigating the perceptions of the much larger sample of citizens, interviews do not suffice. For that purpose, a questionnaire is more apt. We therefore developed and conducted a questionnaire among Dutch citizens. The questionnaire consists of eight questions (see below).[5] One question relates to the perceptions of an unfair price using the concepts introduced in section two. Four other questions specifically deal with the fairness of the merchandise price of Max Havelaar coffee, its consumer price and the perceived quality of Max Havelaar coffee. In the last part of the questionnaire, we asked three questions about gender, age and income.

Data collection

The interviews were conducted during the first half of 2005. The interviews took approximately one and a half hours per person.

The questionnaire was put on a website and could also be filled out and sent online. Initially, people were asked by the researchers to visit the website and to fill out the questionnaire. On the website, people were asked to invite as many other people as possible to also fill out the questionnaire. The questionnaire was available on the website for a period of three weeks. Hence, this was a convenience sample, since the respondents were conveniently available to provide the data (Sekaran 2003). In total, 307 people filled out the questionnaire.

Sample design of producers

The managers that were interviewed, were a product specialist coffee of Max Havelaar, the head of the purchase department of Simon Levelt, the head of the communication department of Douwe Egberts, a project coordinator of the Coffee Coalition, the head of the communications department and the assistant marketing coordinator of Utz Kapeh and a project manager of 4C. Together these seven respondents provide a good representation of the supply side of the coffee market, because the sample covers both representatives of fair trade organizations, such as Max Havelaar, Utz Kapeh, the Coffee Coalition and 4C as well as representatives of two large companies, Simon Levelt and Douwe Egberts. Simon Levelt is a company that produces and sells 'coffee specialties'. Levelt has its own coffee stores, but its products are also sold in some other stores and supermarkets. Levelt buys its coffee directly from producers in developing countries. Douwe Egberts (DE) is part of the bigger company 'Sara Lee'. DE is the largest coffee brand on the Dutch market. The major part of its coffee is sold under the brandname "Douwe Egberts", but DE also sells other brands, such as "Kanis en Gunnik", "Van Nelle" and "Senseo" coffee. DE has a partnership with Utz Kapeh. 13 percent of its coffee is purchased in accordance with this code of conduct. Furthermore, DE runs a foundation that sets up projects to improve the durability of coffee production and the quality of coffee.

Sample design of citizens

The sample of the questionnaire on the Internet consists of 183 males (59,6%) and 124 females (40,4%). People were also asked to indicate whether their family income was 'below average' (18%), 'average' (35%) or 'above average' (43%).[6] Relatively many respondents are younger than 30 years. This can be explained by the fact that, like in many other empirical studies of business ethics, (e.g. Angelidis and Ibrahim 2004, Conroy and Emerson 2004, Kennedy and Lawton 1998) students formed a relatively large part of our sample. However, since the response of students may not be representative for the Dutch population, we also did substantial effort to include other groups in the sample. As a result of our efforts, more than 60% of the sample consists of non-students aged 30 years or older. This allows us to test the possible bias resulting from using students in the sample. Furthermore, since the sample consists of relatively many males and people with a family income that is above average, we have also tested for statistical differences between different gender and income groups. The test statistics show, however, that there are no significant differences between any of these subgroups (see below). This implies a more representative sample of the Dutch population will not produce results that differ from our estimates.

Analysis of producers' concepts of price fairness

In this section we describe the results from the interviews with key players in the coffee market. Table 2 gives an overview of the results. In accordance to Table 1, we distinguish five different standards of price fairness. Below we will describe the different concepts of fairness of these organizations in more detail.

<u>Insert Table 2 here</u>

According to Max Havelaar, a price for coffee is always unfair when it is under the minimum price, because coffee farmers will not be able to reach the standard of living that is considered to be 'decent' by the foundation. Market situations, such as coffee supply that structurally exceeds demand, cannot change this view. This view corresponds with the 'positive rights' ethics that a minimum level of subsistence should be provided. Coffee farmers should not only be treated as a means to make profits, but the goal of Western corporations should also be to make sure that the coffee farmers can have a decent standard of living from the money that is paid for their coffee.

The Coffee Coalition combines a positive rights view with a free market view. According to the representative of the Coffee Coalition "the price should always be high enough to cover production costs, and should enable coffee farmers to take care of themselves and the environment". This resembles the positive rights view of Max Havelaar. However, the Coffee Coalition does not argue for minimum prices. Supply and demand should influence prices, because otherwise overproduction will be encouraged. "In our view, a price is only fair when it is based on supply and demand and is also at a reasonable level." In fact, the Coffee Coalition want the best of both worlds. Coffee prices are unfair when they do not cover production costs and the costs of living of the farmer. However, the prices are also unfair when they are not determined by supply and demand. This indicates that the Coffee Coalition uses a mixture of capitalistic and positive rights notions of fairness.

Utz Kapeh elaborates the free market view on price fairness: "The fair price is the prevailing market price". However, the representative of Utz Kapeh thinks it is fair that a higher price is paid for certified coffee than the world market price for regular coffee. Since the Utz Kapeh code of conduct requires decent labour and environmental conditions, it does more than just respecting the negative rights to freedom and the free operation of markets. It also protects some of the positive rights that workers should have, in their opinion. In doing so, Utz Kapeh also tends to apply a mixture of positive rights and capitalistic concepts of justice.

The Common Code for the Coffee Community supports a capitalistic concept of fairness that combines moral desert according to effort and moral desert according to market price. The project manager of the 4C initiative states that "a price is fair when it is the outcome of a fair and efficient market process. And, according to him, the market process is unfair when (for example) a disproportional part of the F.O.B. price goes to distributive trades." With proportionally is meant: according to labour and money that has been put in. This indicates that the Common Code for the Coffee Community combines two capitalistic concepts of price fairness: the world market price is the fair price, but the distribution of the surplus between the coffee farmers and distributive trades should reflect their respective contribution in terms of effort (labour and money).

Simon Levelt expresses a similar combination of concepts of price fairness. Simon Levelt claims on its website that "producers, with whom close trade relationships exist, can count on a fair price for their products". Levelt states that a "fair price is based on the world market price for coffee". However, in some cases it can be fair to deviate from this world market price. This is the case when the coffee is of high quality, for example because it was produced according to Utz Kapeh standards, but also when it took a lot of effort or costs to produce the coffee. Although this may lead to some inefficiency (coffee should be produced – and bought - where it is produced at the lowest costs), Levelt chooses to let this notion play a role in the determination of the price in order to compensate the coffee farmers (to some extent) for extra costs or effort, because they feel that this is fair. The concept of fairness of Levelt is therefore mainly capitalistic. First, the market mechanism is used as a tool to set a fair reference price. This corresponds to capitalistic justice, in which the contribution is related to market prices. However, contribution in accordance with effort or costs is also taken into account, because Levelt applies a premium for the effort or costs the farmer has put in.

The basic fairness principle that Douwe Egberts defends is that a price is fair when it is based on supply and demand and when buyers and sellers voluntarily agree on the conditions of a transaction. This view corresponds to Nozick's view of procedural justice as well as to capitalistic fairness relating contribution to market prices. Douwe Egberts refuses to pay an above-market price. In Douwe Egberts' view coffee prices are low, because there is structurally more supply than demand (as we have indeed seen above). Paying an above-market price will only encourage farmers to produce more coffee, and will therefore only aggravate the problem. Areas where coffee production is least efficient or quality is very low should rather invest in diversification. Douwe Egberts only increases the price when the quality of the coffee is above average, for example because it is produced in accordance with the Utz Kapeh code of conduct. However, since only 13 percent of the coffee of DE has the Utz Kapeh certificate, protection of positive rights plays a minor role.

Summarizing, on the production side most respondents support the capitalistic concept of price fairness that a price is fair if it is determined by the free interaction of demand and supply on the coffee market. Only Max Havelaar disagrees with this concept and, instead, relates price fairness to the positive right to a subsistence income of coffee farmers. The Coffee coalition (in which several NGOs participate) and Utz Kapeh also support the positive rights view to a certain extent, whereas some other producers, 4C and Simon Levelt, lend some support to the capitalistic notion that prices should reward effort. The libertarian view is presented by Douwe Egberts that relates price fairness both to market operation and free consent of market parties.

Analysis of citizens' concepts of price fairness

In order to investigate the price conceptions on the demand side of the coffee market, the first question in the questionnaire asked the respondents the conditions under which a price is considered to be unfair. In accordance to Table 1 and 2, five options are distinguished. The respondents could fill in one or more options. The results are reported in Table 3.

Insert Table 3 here

First, just as the coffee producers, the respondents are not very concerned about income equality as such. The egalitarian view that prices should foster a more equal income distribution does not receive much support.

The second option is, however, supported by a large majority of the respondents. Almost 70% of the respondents supports the positive rights standard that each person has a right to a minimum level of subsistence. Apparently, consumers have a quite different view on price fairness than most coffee producers. This is an interesting result, since the market share of Max Havelaar, whose price policy is in line with this view, is only about 3 %.

This result also seems to be in contrast to the final result of Table 3, which shows abundant support for the libertarian concept of fairness that prices should be agreed upon in freedom. It should be noted, however, that we cannot exclude the possibility that respondents interpret the concept of 'freedom' used in the question in a non-libertarian way. This is indicated by the response to the other questions. In particular, only 31 percent and 43 percent of the respondents support the capitalistic concept of fairness that the price should reflect effort respectively be determined by the free interaction between demand and supply on the market. This might indicate that most respondents interpreted freedom in the last option to mean freedom as a positive right, rather than a negative right as in Libertarian theory and that many citizens feel that the free operation of the market does not sufficiently guarantee the positive right to freedom.

Finally, in order to test whether the high support of the positive right view on fairness is due to a selectivity bias, we split up the sample in several groups. Table 4 shows that if we split the sample in two age categories, < 30 and ≥ 30, the results are almost similar. Using a chi-squared test[7] we find that the differences between the two age groups are indeed not statistically significant. The corresponding $\chi 2$ value equals 8.7 (which is below the critical value of 9.5). Therefore, there is no indication that the consumers' views on price fairness in Table 3 is due to a sample bias because of the use of students. Non-student groups have a very similar view on price fairness. Also differences in gender and income level do not matter. The corresponding values for the $\chi 2$ test are 0,9 respectively 2.0, which are well below the critical value of 9.5 respectively 15.5.

Insert Table 4 here

Perception of fairness of Max Havelaar coffee

In order to test the respondents' views on price fairness further, we added four more specific questions about the fairness of Max Havelaar coffee. The first question asks for the respondent's knowledge about Max Havelaar. In our sample 96,4 percent of the 307 respondents is familiar with Max Havelaar.

The second question tests the perception of different qualities between Max Havelaar and other coffee trademarks. According to Table 5, consumers perceive no difference in quality of the coffee. Although almost 50% has never consumed Max Havelaar coffee, of those who had consumed Max Havelaar coffee more than 90% considers the quality of Max Havelaar coffee to be equal to the quality of other trademarks. Quality differences therefore will not affect the differences in price fairness judgements.

Insert Table 5 here

The third question tests the acceptability of the price of Max Havelaar coffee compared to Douwe Egberts coffee. The price premium for Max Havelaar coffee is 25%, which is quite substantial. Nevertheless, the vast majority of the respondents consider this price premium to be acceptable. Only 1 out of 5 respondents judges that the price premium is too large. A null-hypothesis stating that 50% of the population finds the price difference (very) acceptable, and another 50% of the population finds the difference too large or unacceptable, can be rejected with statistical significance ($\alpha < 0,01$).

The fourth question sheds more light on the reason for this. The respondents estimate that the merchandise price that Max Havelaar is paying to coffee farmers is just sufficient to provide for their livelihood. This indicates that they consider Max Havelaar's price policy as being consistent with the positive rights view on fair prices that they support. Apparently, the respondents think that paying a merchandise price that is sufficient for coffee farmers to support themselves provides sufficient and legitimate reason to demand higher consumer prices for Max Havelaar coffee.

Finally, we have repeated the $\chi2$ test for testing the robustness of the findings for different age, gender and income groups. Again we find no significant differences. All $\chi2$ values are all below their critical values (see Table 6). This implies that the results are independent of age, gender or income and also hold for samples that are more representative of the Netherlands.

Insert Table 6 here

Discussion and conclusions

The goal of this paper is to identify perceptions of price fairness in the coffee market.

Most representatives of producers in the coffee market support the free market view of fair prices. This holds particularly for large coffee traders such as Douwe Egberts. DE does not stand alone in its defence that the free world market price of coffee is fair. Also Simon Levelt uses the world market price as a tool to set a fair reference price. This corresponds to capitalistic justice, in which the contribution is related to market prices. However, Levelt also takes account of another capitalistic element of fairness, because it applies a premium for the effort or costs the farmer has put in. The fairness concepts of the coffee coalition and 4C are mainly capitalistic as well. They both stress the importance of the market process as well as benefits according to contribution defined in terms of effort. Utz Kapeh also allows world market prices to play a role, but this organization implicitly defends the protection of the positive social and environmental rights of coffee farmers as laid down in its certificate.

In contrast, Max Havelaar applies and defends a minimum price that respects the positive right of coffee farmers to a minimum subsistence level of welfare. This seems much more in line with citizens' concepts of price fairness. The outcomes of the questionnaire indicate that Dutch citizens tend to support the positive rights view. 70 percent of the respondents considers a price to be unfair when it does not provide the producer with a minimum level of subsistence. Only 43 percent links price fairness to the free operation of markets.

The question arises then, why Max Havelaar coffee has such a small market share. The market share of Max Havelaar coffee on the Dutch market has never exceeded four percent. Why can Douwe Egberts afford to pay prices to coffee farmers that are considered to be unfair? The same phenomenon was encountered by the SWOKA Institute, which had done market research before the introduction of Max Havelaar coffee in 1989. They predicted that Max Havelaar coffee would get a much larger market share. After 1989, when the results were somewhat disappointing given this prediction, further market research was conducted by this institute. Still, the discrepancy between attitude and behaviour could not be explained (Kuiper et al 1991).

This passive attitude of customers is maybe due to a lack of information. Many consumers still seem quite ignorant of the social features that comprise the products they consider and purchase (Auger et al. 2003). Our results indicate, however, that ignorance does not explain the passive attitude of consumers. Most respondents are familiar with Max Havelaar coffee, endorse the positive rights standard of justice and estimate that Max Havelaar just pays enough to guarantee a subsistence level of welfare. Nevertheless, almost half of the respondents do not buy Max Havelaar.

Another explanation is that the additional price to be paid for these 'social' goods provides an incentive to free riding for most consumers: although they value the positive social consequences of these goods, their self-interest is more served when other consumers pay the price for these goods.

A third explanation is that citizens (and thus consumers) are not really interested in the positive social effects of the goods they consume and that the response to the questionnaire is subject to social desirability response bias. Although they agree that the price of Max Haverlaar is fair, they are not prepared to pay the price that is implied by their concept of fairness. However, this explanation is not very plausible, because the questionnaire was anonymous. Moreover, we would then have expected social desirability bias in the response of the interviewed persons as well, but most of these respondents did not support the positive rights approach.

A final explanation is incommensurability in preferences caused by different social roles (Anderson 1993). For example, Dutilh et al. (2005) distinguish between the way people act in their role as citizens and in their role as consumers. The consumer / producer is the 'homo economicus' who acts to obtain the highest possible well-being for himself. He is the driving force behind the market mechanism. The citizen, on the other hand, influences the market not by buying or selling products, but for example by voting, supporting NGOs, demonstrating, writing articles etc. A person has the role of a consumer or producer when he is involved in the transaction that is being judged. When a person making a judgement is not involved in the transaction, he will judge from a citizen's point of view.[8]

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Tables

Table 1 Alternative standards for fairness

Egalitarianism	Equal incomes for all
Positive rights	Right to minimum subsistence
Principle of moral desert	Benefit according to contribution. Contribution measured by: • effort • market price
Libertarianism	Transactions are fair when they are voluntary

Table 2 Producers' concepts of price fairness

Standard	Question: A price is unfair when it:	
1 Egalitarianism	1 Does not lead to a more equal income distribution	
2 Positive rights	2 Does not provide the producer with a minimum level of subsistence	Max Havelaar, Coffee coalition, Utz Kapeh
3 Moral desert: in accordance with effort	3 Does not reward the effort of the producer	4C, Simon Levelt
4 Moral desert: in accordance with market price	4 Is not determined by the free interaction of demand and supply	Coffee coalition, Utz Kapeh, 4C, Simon Levelt, Douwe Egberts
5 Libertarianism	5 Is not agreed upon in freedom by buyer and seller	Douwe Egberts

Table 3 Citizens' perceptions of price fairness[a]

Standard	% of respondents that agreed
1 Egalitarianism	25
2 Positive rights	69
3 Moral desert: in accordance with effort	31
4 Moral desert: in accordance with market price	43
5 Libertarianism	76

[a] The respondents could fill in several options.

Table 4 Perceptions of price unfairness: Outcomes per group[a]

Options	income			Age		sex	
	high	average	low	≥30	< 30	male	female
1	24	26	27	20	31	27	23
2	68	73	74	67	72	70	68
3	31	33	33	25	39	30	33
4	41	45	44	42	45	44	42
5	81	78	67	80	72	75	78

[a] In %. For the options, see Table 3.

Table 5 Perceptions of quality, consumer price and merchandise price of Max Havelaar coffee (% of respondents)

How do you estimate the quality of Max Havelaar coffee compared to 'normal' coffee? It is:			
Lower	Equal	Better	No experience
6	40	4	50
The consumer price of Max Havelaar coffee is 1,99 euro. The consumer price of a comparable Douwe Egberts product is 1,59 euro. This price difference is:			
Very acceptable	Acceptable	Too large	Unacceptable
18	60	21	1
How do you consider the merchandise price that Max Havelaar pays to coffee farmers? It is:			
Too low	Rather low, but sufficient for living	High, exceeds living wage	Very high
10	83	5	2

Table 6 $\chi 2$ test statistics for robustness of results for different groups[a]

	Young vs old	Male vs female	Low vs medium vs high income
Quality of Max Havelaar	1,1 (6,0)	4,9 (6,0)	3,9 (9,5)
Acceptability of price of Max Havelaar compared to Douwe Egberts	2,8 (7,8)	5,0 (7,8)	4,8 (12,6)
Sufficiency of merchandise price of Max Havelaar	1,5 (7,8)	0,4 (7,8)	2,9 (12,6)
Fairness of price components	11,0 (11,1)	3,3 (11,1)	9,6 (18,3)

[a] The critical values are mentioned between brackets

Figures

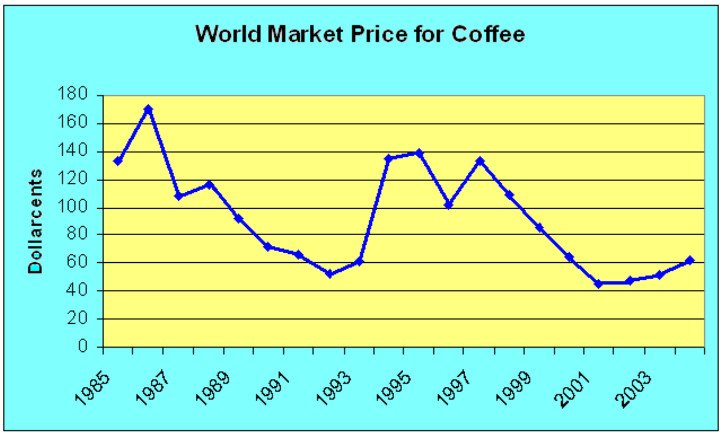

Figure 1: World Market Price for coffee, 1985 – 2004

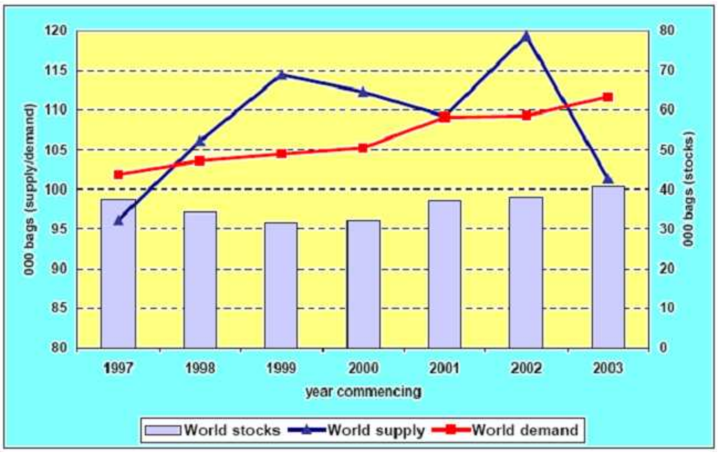

Figure 2: World demand and supply for coffee, 1997 - 2003

Footnotes

[1] Velasquez also distinguishes retributive justice, which refers to the just imposition of punishments. Obviously, retributive justice is related to compensatory justice: the wrongdoer must compensate the victim. But a just punishment may include additional elements beyond mere compensating those who were wronged.

[2] For a more extensive overview of these principles of distributive justice, see Velasquez (1998) and Graafland (2007). Velasquez (1998) also discusses socialist justice based on needs and abilities, but we have replaced this concept by the positive rights concept of Shue because, although related to socialist justice, the positive rights view better fits the concept of fair prices hold by fair trade organizations. Graafland (2007) adds three other principles of distributive justice, namely one derived from utilitarianism, one derived from the capability theory of Sen and the principle of equal opportunities. However, the implications of these principles for price fairness are more complex and cannot easily be operationalized in a questionnaire. Moreover, in our interviews we did not find indications of respondents referring to these more complex standards of justice. Therefore, we did not include them in our questionnaire.

[3] The maximin principle is similar to the difference principle of Rawls (1999): whereas the maximin principle requires maximization of the utility of the least advantaged, the difference principle requires maximization of an index of primary social goods, which any rational being wants (Graafland, 2006).

[4] FLO also trademarks other products than coffee, for example: tea, honey, cacao, sugar, rice and orange juice.

[5] The questionnaire was part of a larger questionnaire. In this paper, we will only discuss the part of the questionnaire that is related to the coffee market.

[6] 4 percent did not fill in this question.

[7] A chi-squared 'goodness of fit' test estimates the probability of finding the obtained test results in case the null-hypothesis is true. In our case, the null-hypothesis is that there are no differences between the subsamples. We have tested whether our test results are in-line with these null-hypothesis for $\alpha = 5\%$.

[8] Another explanation is that customers are loyal to existing brands (De Lange and Winkler, 2000).