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Domestic fair trade

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In our economics classes we are taught that in a capitalistic or free market society, two parties voluntarily exchange or trade commodities or services. For example, when we buy a cup of coffee we receive the cup of coffee for a set price. We don't often think about what happens to the money we gave to the retailer and how that money goes back to the original provider of the commodity; in this case the coffee grower. When people become more aware of how profits are divided, they begin to think about things such as "fair trade" and "fair wages" to those providing the original commodity and the processes that occur between the original production and the final consumption.

"Fair trade" coffee has been around for awhile and the concept of domestic fair trade is beginning to become more noticed and talked about. So what is needed to have domestic fair trade? First and foremost, the agreed upon exchange price has to cover not only the cost of production and marketing to the original grower, but also a "fair" return to his/her land, labor, and management. It is up to each individual grower to determine what "fair" means based on their particular monetary and non-monetary goals. Regardless of goals, transparency is critical to the "fair" pricing dialogue that needs to take place between the buyer and seller.

How do we achieve transparency? The first thing that needs to be done is the grower has to know how much it costs him/her to produce and market the product for sale. Secondly, all parties need to be transparent in the dialogue. The grower has to share production and marketing costs with the buyer when discussing price. The informed grower will be able to state a price that covers not only costs, but includes the economic returns needed to reach the established goals.

In a Sustainable Agriculture Research and Education funded project, four Iowa Community Supported Agriculture businesses tracked what they provided in their weekly share boxes and "valued" those products by using local grocery store prices. The weekly valuations occurred for 20 weeks and a final evaluation was determined for the share box subscription. This information can be used to develop a competition-based price comparison. The next step for the growers would be to add premiums to the base price for attributes such as product quality, organically-produced, home-delivery, and any other product differentiation between the grocery store and share box products (the publication detailing the study will be out later this year).

But how high do the premiums need to be? Again, the growers need to determine the cost of producing and marketing their share boxes and then add a "fair" return. Once costs are known, then the growers can share information with their share box membership. If the consumers of the share boxes value the local food (i.e., their receipt of the exchange), then they will be willing to trade their dollars for local food at a "fair" price.

Updates, continued from page 1

Internet Updates

The following updates have been added to www.extension.iastate.edu/agdm.

Grain Storage Alternatives: An Economic Comparison – A2-35

Condominium Grain Storage – A2-36

Leasing Arrangements and Self-employment (Social Security) Tax – C2-41

Managerial Costs – C5-209

Opportunity Costs – C5-210

Product Life Cycle – C5-211

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