

## FAIRNESS AND ALTERNATIVE FOOD NETWORKS IN ITALY

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### ABSTRACT

A fairer and sustainable distribution of added value and information along the food supply chain is becoming a relevant issue. Extensive literature has analyzed the development of distributions models, commonly called Alternative Food Networks (AFNs), that short-circuit the long, complex and rationally organized industrial chain, emphasizing their meanings in terms of economic, environmental and social sustainability. The purpose of this paper is to present some preliminary results from an on-going research that aims to investigate on rules and criteria for a fairer market. In particular we propose an analysis of AFNs in Italy, using Fair Trade as benchmark, according to their capacity to carry out fairer relationships between producers and consumers. AFNs evaluation, based on a qualitative analysis carried out looking for a representative sample of cases, has been done considering their results in terms of: distribution of value along the chain; price fairness and transparency; access to markets for small producers; compliance of products to social standards; relationships between consumers and producers (involvement, stability and trust). Three types of AFNs are discussed: Direct selling, Farmers' Markets, Partnership between producers and consumers (in the form of Solidarity Purchasing Groups).

### INTRODUCTION

A fairer distribution of added value and information along the food supply chain are becoming major issues in the EU economic policy agenda for raising its overall efficiency, competitiveness and sustainability (European Commission, 2009; European Parliament, 2010).

Extensive literature has analyzed the development of distributions models, commonly called Alternative Food Networks (AFNs), that short-circuit the long, complex and rationally organized industrial chain, emphasizing their meanings in terms of economic, environmental and social sustainability. As Venn et al. (2006, p.256) suggest "describing anything that is not a conventional retailer outlet as an AFN is perhaps not sufficient, as this undermines the depth diversity of this growing sector and does not give credit to the array of creative/innovative relationships orchestrated through new consumers-producers partnership". A narrower definition leads to identify strong AFNs which are characterized by three common traits: i) they redistribute value through the network in the opposite direction of bulk commodity system; ii) they re-instill trust between the producer and the consumer; iii) they create a space for new form of political association and market governance which inherently challenge the conventional system (Follen, 2009).

Considering these premises, the purpose of this paper is to present some preliminary results from an on-going research that aims to investigate the rules and criteria for a fairer market (Covino et al, 2010). In particular we analyze AFNs in Italy according to their capacity to carry out fairer relationships between producers and consumers.

The work is organized into two sections. The first one presents the conceptual framework used as references for our research. We overview the results of some research, recently published, that have analyzed if consumers' food choices are influenced by an income distribution along the food chain. After this, we focus on fair price determination and price transparency as two main conditions for a fairer income distribution and consumers awareness. Finally we consider Fair Trade as a best practice of a strong AFN. In the second section, the features of Italian AFNs are described and analyzed, considering three types: direct selling, farmers' market and partnership between producers and consumers. In particular, considering a sample of cases of Italian AFNs, we highlight their capability to achieve "strong" relationships versus other situations in which a redistribution of income is the only remarkable goal.

### CONCEPTUALISATION

#### Fairness and Food Choice

Many experimental games have demonstrated that in several economic activities people make economic/social decisions taking into account not only their material self-interest, but also the interest of other individuals affected by their decisions. This means that people display "other-regarding preferences": the well-being of others, the fairness and the equity of outcomes all matter in the final choice of individuals. One of the novelties of this approach (Fehr and Schmidt, 1999)

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compared to the neoclassical, is to highlight the social or distributive preferences: a person, taking his decisions, also cares about the impact of his actions on the final payoff of the other people (altruism), or the difference among payoff to self and to the other (inequity aversion).

The introduction of other-regarding preferences in empirical studies regarding the agrofood system is quite recent. Altruism, fairness and concern for inequity have showed useful to better understand food choice behaviour. The majority of the empirical studies is referring to theoretical framework proposed by models of social or distributive preferences.

Chang and Lusk (2009) results show that consumers may prefer to buy organic food because of their concern to avoid inequality of monetary payoffs for small farmers – which are associated with organic foods – with respect to big producers. If fairness considerations are so important to consumers, a certification system for organic product recognizing the commitment to a “fairer” value distribution along the supply chain could help consumers to make better choices and would afford a new differentiation tool. The addition of social criteria to the standards of the organic regulatory authorities is an issue that has long been addressed in literature (Browne et al, 2000) and is gaining increasing importance in the economic policy agenda (Padel et al, 2009).

Toler et al. (2009) research indicates that at least a portion of the willingness to pay for “locally grown” products can be attributed solely to other-regarding preferences for local farmers. Moreover, they found that consumers exhibited a preference for fairness in the distribution of benefits in the food supply chain and preferred money allocations going to local farmers as opposed to identical allocations going to non local farmers, with not significant difference between farmers market and grocery store shoppers.

### **Price: Fair and Transparent**

As the allocation of income, along the supply chain, is an issue for consumers, it is necessary to deepen the meaning of a fair price. According to marketing literature, fair is a global measure of price acceptability (Maxwell, 2002). Considering only the economically fair price, it can be said that a selfish and utility maximizing buyer will judge the fairness of a price according to the criterion of the most convenient or cheapest price. It is widely recognized that a more exhaustive fairness definition should consider the economic as well as the social aspects of production and trade. Social fairness has been defined as “according to the rules”, involving a judgment of social acceptability of a given price or conduct according to community rules.

In the social fairness literature (Maxwell, 2002) there exist three types of rule-based fairness: (i) rules of outcome; (ii) rules of process; (iii) effect of power. As a result it is possible to define a rule-based fair price model as a chain reaction process: a fair price judgment involves a comparison between prices (i.e. reference price) and/or procedures (pricing process) and/or type of sellers (power exercised along the supply chain) and it will lead to the willingness to purchase.

In this process the role played by information distribution is fundamental. In fact, when seller pricing strategies are not observable to the buyers, evaluating whether a pricing process was fair is more difficult for the buyer and it could lead to a lower willingness to purchase.

Price transparency defined as “information revealing the allocation among agents in a supply-chain of proceeds from the sale of a product or service” by Carter and Curry (2010), would avoid the consequences of informational asymmetry.

In a transparent pricing scenario, the buyers are capable of judging the seller’s pricing effort as “in conformity to rules” and they could be willing to pay a premium price. For a firm this premium surplus represents an increase in revenue without a corresponding increase in cost, due to a buyer’s willingness to pay for a product/service in which he/she recognizes an added value in terms of fairness.

This pricing process has also benefits in terms of consumers differentiation among sellers: a buyer would choose to pay, voluntarily, more for the good of a given seller, apparently identical to other ones, if he/she thinks that the allocation of price revenues among supply chain agents is appropriate.

### **Fair Trade as Best Practice**

Fair trade (FT) experience provides many insights for organizing fair oriented relations in the food supply chain. FT is a response to the failure of conventional international trade to deliver sustainable development opportunities for people in developing countries, whether as producers in family-based production units or as hired workers (Gendron et al, 2009). It is interesting here to focus on two unique characteristics of fair trade: sustainable and equitable trading relationships and consumers awareness rising.

Sustainable and equitable trading relationships are realized through: criteria for price setting, stability of trade relations and favourable payment terms. Prices set by FT are not indexes of scarcity and are not affected by the bargaining power of the contractors. Producers agree on prices which are calculated to cover the costs of a process carried out in accordance with social (i.e. sustainable livelihood for producers and workers; decent working conditions) and environmental standards. Long-

term contracts, which include forms for pre-financing, allow to build partnership between producers and buyers (information sharing, planning investment, stabilize revenues).

Consumer awareness is promoted by the large set of information provided with the products that allow: to disclose revenue allocation along the supply chain and to evaluate all of the social and environmental features that make a FT product different from a conventional one.

In the FT market the higher price is mirrored by higher social requirements. Consumers purchase not only the physical product but also a certain quality of relations which do not involve them themselves, there is a willingness to pay for fair relationships along the chain (Mann, 2007).

In the literature is well documented that ethical credential (social and environmental) of products and retailers are key choice criteria for a growing proportion of consumers (McGoldrick, 2008).

## THE ROLE OF FAIRNESS IN ITALIAN ALTERNATIVE FOOD NETWORKS

### Methodology

In this research we propose an analysis of AFNs in Italy, using FT as benchmark, according to their capacity to carry out fairer relationships between producers and consumers.

AFNs evaluation has been done considering their results in terms of: distribution of value along the chain; price fairness and transparency; access to markets for small producers; compliance of products to social standards; relationships between consumers and producers (involvement, stability and trust).

The qualitative analysis has been carried out looking for operational examples: case studies, initiatives and projects. Information sources have been: academic journals, previous research, Internet and newspapers. Due to the often highly localized nature of the subject, the examples collected certainly do not represent the entire universe, but a representative sample.

Three types of AFNs are discussed: Direct selling, Farmers' Markets, Partnership between producers and consumers.

### Results

Direct selling is a shortening of the channel that allows the farmers (even small ones) to get a better price and to build trust-based relationships with the consumer.

In Italy, direct selling is growing rapidly, but it is still weighing less than in other EU countries (eg. Great Britain and France). According to recent estimates (2009), about 63,600 farms (7.4% of those registered in the Trade Chambers) sell directly and the turnover is approximately 3 billion Euros. Farmers' commitment to search for direct outlets to the market is proved by the increasing product differentiation, a larger product selection that includes not only wine and olive oil, as in the past. Nearly 70% of agricultural enterprises don't have a dedicated space for sale, but a growing number of farms increases the organization level by running a shop. E-commerce, vending machines (mainly milk) and stronger ways of consumer involvement (i.e. pick your own) are growing as well.

The results of some empirical research show that farmers use direct sales to increase and stabilize income and then to promote the product. Overall income expectations are met with significant differences between products, on average farmers are able to negotiate a higher price (45-50% more compared to sales to wholesaler; 25-30% more compared to sales to large retailers). Consumers choose to buy directly from farms mainly to get genuine and fresh products, nevertheless it is also important the opportunity to establish direct relationship with the farmer and to support local economy and to purchase safer products. More convenient prices are the last reason which influences buyer choice.

For Farmers' Markets, operating rules are a significant element for an evaluation of fairness not only related to a redistribution of income along the chain. The results depend on the existence of rules for: pricing, vendor selection, products quality and consumers involvement.

In Italy farmers' markets are developing rapidly, with very different features in terms of actors, goals and organization<sup>1</sup>. Besides the initiatives promoted and managed directly by producers (mainly organic and biodynamic), in recent years several other ones have been launched and supported by public authorities, Farmers' Organizations, Non-Governmental and advocacy organizations.

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<sup>1</sup> According to the most recent data (2010) in Italy there are around 1250 Farmers' markets, 705 of whom operating on a regular basis, in which are involved more than 16000 firms. The turnover is approximately 320 million Euros. More than 50% of the Farmers' market are located in 4 regions of North Centre Italy.

Only recently (in 2007) a national legal framework was established; the implementation and the regulation of farmers' markets is committed to local level. The farmers' markets sponsored by public authority aim: to create a direct market access for local producers, to enable consumers to purchase at lower costs, to promote healthier consumption patterns.

On the basis of our investigation, farmers' markets have been mainly promoted as a way to get cheaper prices for consumers, therefore the attention is focused on the price control.

A professional organization (Coldiretti) is playing a leading role as a body that coordinates and supports a network of markets (called Campagna Amica). These Farmers' markets have common regulations which provide, among others, the control of maximum prices charged (as determined by a framework agreement with leading consumer associations). Producers commit themselves to assure at least a 30% saving compared with the reference price supplied by SMS Consumatori<sup>2</sup>. Higher prices must be justified by higher quality (eg. organic, traditional varieties, etc.).

In a small number of markets<sup>3</sup>, that could be defined as "fairer oriented", there are operating rules that pay special attention to:

- criteria for determining the price, that refers not only to the price paid by consumers but also to a fair price to producers (to be assessed on the basis of the calculation of average production costs at local level market) and price transparency;
- access for small producers, the physical presence of farmers is not mandatory but shared farm booths are provided and form of alternative certifications are accepted<sup>4</sup>;
- quality of products, in addition to the credentials normally required (locally grown, organic, Gmo-free, geographical indications etc.) products are required to comply with social standards (proper remuneration and working conditions);
- consumers' involvement, that is pursued through education and information activities.

Finally, partnership between producers and consumers, where decision about production process, risk and rewards of farming are shared, can achieve the higher level of fairness.

In Italy, the Solidarity Purchasing Groups (SPG) represent the largest and most established form of partnership between consumers and producers. Since the first experience in 1994, there has been a rapid development and the SPG have been organized in a network<sup>5</sup>. The SPG are groups of citizens who share the concept of solidarity. There is not a single model but some goals are shared, that is to say: critical consumption and responsible practices, attention to social and environmental issues, support to small and very small producers and to local agriculture.

The SPG choose small producers, with production processes that meet environmental and social sustainability criteria. Relationships are based on trust and transparency, which has roots in sharing information on production processes and product features. A central aspect is the procedure for pricing, prices are proposed by the farmers and then evaluated by consumers taking into account both production costs and market prices. This scheme makes it possible to define a fair price for both. Moreover, prices are stable over time and supply relationships have a long term perspective.

The SPG are based on forms of relationships with suppliers similar to the Fair trade, although only some of them offer pre-financing.

## CONCLUSION

In our research we have started a survey and an evaluation of Alternative Food Networks experiences in Italy which may represent best practices in terms of implementation of fairer relations in the food supply chain.

Solidarity Purchasing Groups represent the most advanced expression of a fair relationship between producers and consumers based on trust and transparency, which has roots in sharing information on production processes and product features and in a participatory process to define the prices. Farmers' markets are successful experience of a more favorable value added distribution for farmers along the supply chain. Nevertheless, as occurred in few markets, some operating rules could be implemented to achieve a fairer relationship between producers and consumers. These rules allow to: determine a fair price for both consumers and producers; provide opportunities for easier access to small producers; ensure social sustainability of the products; increase consumers' awareness.

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<sup>2</sup> SMS Consumatori is a price information tool operated by the Ministry of Agriculture <http://www.smsconsumatori.it/>.

<sup>3</sup> i.e.: i) Il Mercatale del Valdarno di Montevarchi <http://www.ilmercatale.it/>; ii) I Mercati della Terra di Slow Food <http://www.mercatidellaterra.it/>; iii) Il Mercato Terra/TERRA <http://terraterra.noblogs.org/>

<sup>4</sup> Organic certification is often prohibitive for small farmers, especially in terms of bureaucracy and costs. Among the alternative certifications are distinguished: Group Certification (ICS) and Participatory Guarantee System ([www.ifoam.org](http://www.ifoam.org); [www.terramadre.info](http://www.terramadre.info)).

<sup>5</sup> The number of Solidarity Purchasing Groups involved in the network Rete nazionale di collegamento dei Gas (<http://www.retegas.org/>) are more than 350.

For fairness in the supply chain further theoretical and empirical studies have to be carried out: i) rules and criteria to achieve a fair price; ii) how social standards (i.e. sustainable livelihood for producers and workers; decent working conditions) could be implemented; iii) how to disclose the social credentials of products (inter alia, transparent pricing).

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