BAUERNZEITUNG
Von Bauer zu Bauer.

Folgen Sie uns
www.bauernzeitung.ch

Beyond fair: Equal

Farmers around the world face similar problems: they do not earn enough for their products. An alternative way of defining the margins of all actors in a supply chain could improve the producers' situation and make farming more attractive by going beyond fair trade.

Image BauernZeitung

«At the moment, there are basically two options for milk farmers: either they somehow live with the low milk price, or they do direct marketing and do no longer have a life", explained Berthe Darras from Uniterre recently at the conference "From Farm to Fork" in Lausanne VD. Accordingly, farmers either find themselves at the market's mercy, or they decide to sell their products laboriously directly to obtain a livable price.

Yet, another solution exists. With the "Equal Profit" model, all actors in a supply chain can earn a fair living from the sale of a product. The respective profit is calculated by the model proportionally to the costs borne by each actor. Risks are included in the calculation. All data has to be transparent to all stakeholders and the selling price is negotiated collectively.

Fair prices to reduce rural exodus

This model was developed by Inès Burrus. In her PhD thesis at the University of Lausanne, she has investigated the question of "how farming could (internationally) be made more attractive to youth". Her conclusion: just prices are necessary to enable farmers to make a living. With that, we could also reduce the ongoing rural exodus and the "dying out of farmers" (Strukturwandel).

So far, the "Equal Profit Model" has been implemented on a cocoa value chain, where farmers are known to be poorly remunerated. Together with the NGO "OneAction" an organic chocolate bar was drafted, allowing Ecuadorian farmers get an equitable share of the profit made from each bar. The project goes beyond the economic aspect; farmers are being trained to make compost and to build-up an agroforestry-system. "OneAction" supports the development of the local cocoa cooperative, their income differentiation and product quality. Data collection along the cocoa supply chain is ongoing, because in Ecuador, farmers so far do not collect this kind of data, as Saskia Petit from "OneAction" explained.

High margins of retailers

Until now, market power within a supply chain dictates the profit of each actor. This system causes injustices. In cocoa merchandising, this injustice has been investigated, but also in Switzerland many milk farmers feel a similar aggravation; not enough of the profit from a product's sale comes back to them, it is claimed. A study by Sophie Réviron from Agridea on differentiation applied to the milk market shows, that the value captured by the processors and retailers grow in parallel to the product's final price. With well-known products, their margins can reach 35 to 50 percent, whereas the producer's nearly stay the same.

The "Equal Profit" sustainable pricing model fits well to this study's conclusions: it insists that the transparency of the margins would be improved by an observation agent, in order to ensure a fairer profit for producers.

Transparency of margins

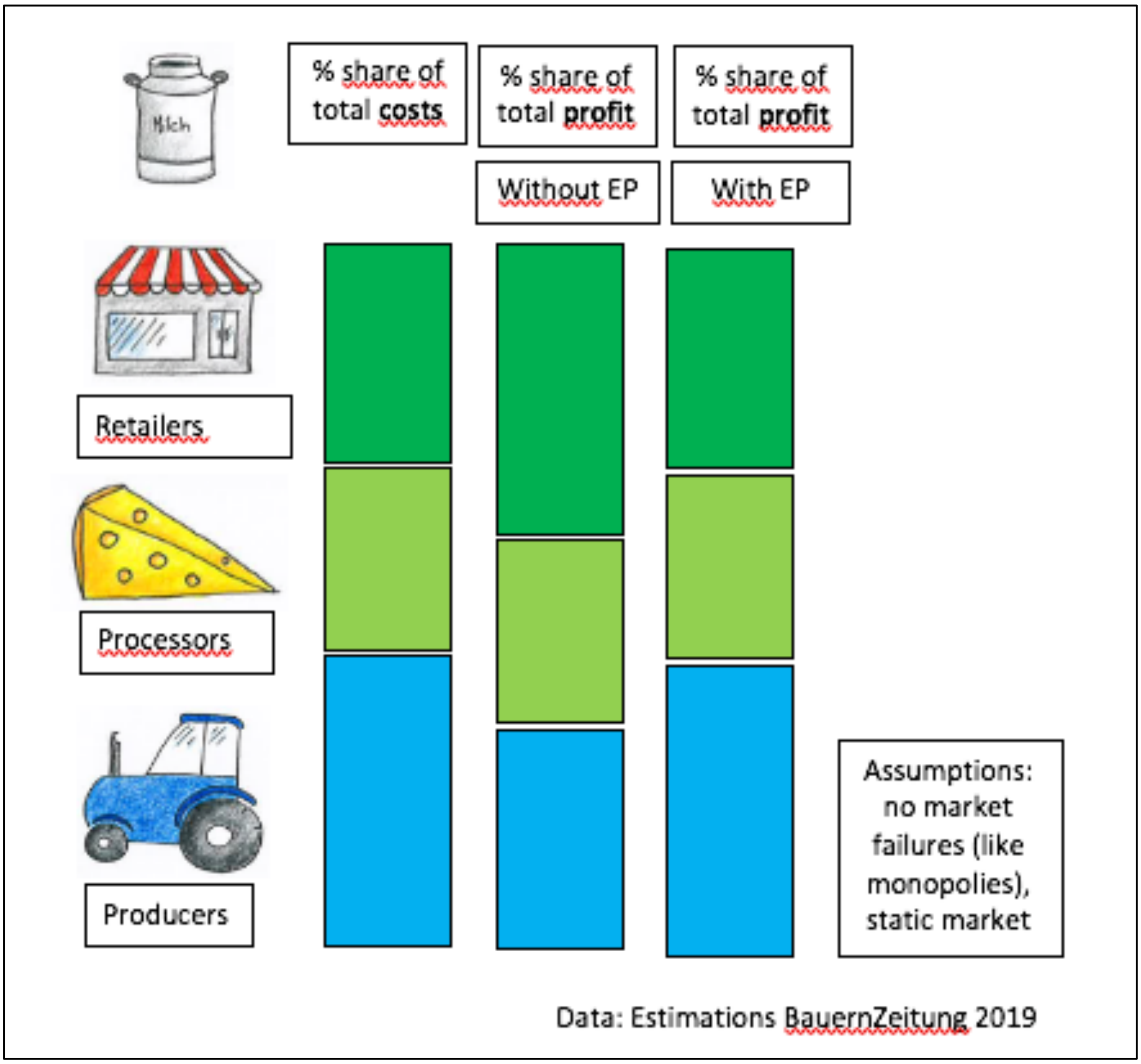
Such an observation agent is at the heart of Burrus' model of the "Equal Profit" platform. Within it, each actor has to publish their costs (transparently for the whole supply chain). The platform verifies the provided data and additionally discloses its own costs. Out of that, the total costs of each actor are calculated, including production and operating costs, but also interest and amortization etc. Based on this verified data the share of the total costs for producers, processors and retailers is calculated. The next step is to fix a product price. To this end, a detailed market study is conducted and an average price calculated. The profit (price minus total costs) is then distributed among supply chain actors: each actor gets the same percentual share from the profit as they have to bear from the total costs.

Definitions

Net total profit = total revenue – total costs
Net profit margin = net profit (per actor) / revenue (per actor)
Total costs = sum of all actors' costs
Costs per actor = operating and production costs + interests + taxes + amortization + (…)

The result is a uniform net profit margin along the supply chain; the profit per actor divided by his respective revenue is the same for all stakeholders. The more one contributes to the final product, the more they earn. If one actor is not happy with their profit, the product price has to be negotiated and adapted in line with the others in the chain

Beyond fair



The “Equal Profit” model goes beyond fair trade. Studies have repeatedly shown that fair trade alone cannot guarantee an adequate income for producers. Inès Burrus is now aiming to expand the project of the Ecuadorian chocolate to also include sugar producers. At the moment, the development of a software to implement “Equal Profit” in supply chains is ongoing. Additionally, Burrus is at the moment looking for Swiss actors (producers, processors and retailers) who would be willing to give the “Equal Profit” model a try for organic products. The label is already registered, and so far the PhD candidate does not see any legal or political barriers that wouldn't make Equal Profit's implementation in Switzerland possible.

Contact: join@equalprofit.org
More information: www.equalprofit.org

Jil Schuller