

Why the European Union should include Fair Prices in its policies

By Ruud Bronkhorst¹

The European Commission (EC) is now preparing its Sustainable Corporate Governance proposal. It is foreseen that in this proposal, directives will be included about companies' purchasing practices and the role of European Union (EU) policy in getting companies to improve their purchasing practices.

In this proposal the role of the payment of Fair Prices should be included as well. The obligation to pay fair prices is an automatic consequence of the [Declaration Universal of Human Rights](#), adopted by the United Nations in 1948. Besides, the problem of worldwide climate change makes it urgent to enable small producers, especially small farmers, to take measures to cope with the problem of climate change.



Universal Human Rights

In this Declaration, especially Articles 23 and 25 are relevant because it is stated that “Everyone who works has the right to just and favourable remuneration...” (Art. 23) and

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“the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services...” (Art. 25).

Since EU member governments have committed themselves to the Universal Human Rights, the fact that people get paid too little for their work to live decently cannot be accepted. This implies that EU rules should oblige companies to pay fair prices to their producers, who then in their turn will be able and must pay fair wages to their workers. This is not a matter that can be left to companies themselves as part of their right to free enterprise. The race to the bottom is a well-known phenomenon and is not acceptable when it comes to the livelihoods of the poorest parts of the population. Where no fair prices and wages are paid, the Sustainable Development Goals 1 ([No Poverty](#)) and 2 ([Zero Hunger](#)) cannot be achieved either. A decent standard of living can be achieved when the concepts of Living Wage and Living Income are made operational.

“A Living Wage is defined as the remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events” (definition of [Global Living Wage Coalition](#)).

A Fair Wage is at least a living wage. The living wage is the bottom line for a Fair Wage. Wage negotiations between workers and the company employing them should further specify the amount and conditions of the Fair Wage ([Bronkhorst](#)).

To be able to pay Fair Wages, the producer should receive a Fair Price for his products, whereby a ‘Fair’ Price is the minimum price the producer should receive to cover all production costs (fixed and variable costs) and be able to pay Fair Wages to all his/her workers on this product and himself/herself. It should also allow the producer to make necessary investments. In the case of agriculture, it should provide at least a ‘Living Income’ for the farmer.

Living Income has been defined by the ‘[Living Income Community of Practice](#)’ as “The net annual income required for a household in a particular place to afford a decent standard of living for all members of that household. Elements of a decent standard of living include: food, water, housing, education, healthcare, transportation, clothing, and other essential needs including provisions for unexpected events”. This definition is too narrow though and should be extended by adding to the calculation a percentage to enable additional investments to improve future yields.

Climate change

Poor countries suffer most from climate change. They must adapt to a changing climate. For small farmers in particular, this is difficult; they already can barely survive and have no financial resources to purchase new tools or seeds to invest in a higher production. According to FAO over 820 million people were undernourished in 2018 and climate change could push 122 million more people, mainly farmers, into extreme poverty by 2030 ([FAO](#)).

To adapt to climate change, farmers must invest even more than usual to be able to change to other production methods and different crops. Besides the plain fact that every worker should earn enough to live and not only survive, climate change is demanding

additional efforts of small farmers especially, to secure their future. To do so, farmers need funds to invest. A farmer who does not have a decent income is not capable to make these investments. This is why it is so important to add an extra percentage to the Living Income besides the usual basic needs for a decent standard of living. Where farmers are not able to invest, their yields and earnings will become less over time, leading to food insecurity, growing numbers of poor, social unrest, and migration to the cities or abroad, including countries of the European Union.

Conclusion: Payment of Fair Prices

Payment of Fair Prices and wages can lead to less poverty, economic development of the producing country because of multiplier effects, and a possibility to adapt to climate changes. This will have positive effects on both poor and rich countries. With more income, marginalized and deprived people can set their own priorities.

What can the EU do?

The EU should recognize the need to pay Fair Prices and wages to all producers and workers. The EC should formulate legislation to force all companies that deal with the EU to comply with these obligations. In that way, it will become impossible for companies to compete with one another on low wages. Besides, producer countries should be assisted by the EU to draw legislation to this end and be supported in their negotiations with third parties, such as World Trade Organization (WTO), to have fair prices paid to their producers that are different from those resulting from world prices. In the end, the EU will have to realize that it is also in its own long-term interest to include Fair Prices and wages in their legislation.

References

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