

TITLE:

**Estimating the hedonic price for FairTrade coffee in Sweden – revealed preference
evidence on ethical consumption**

ABSTRACT

This study applies the technique of hedonic pricing to estimate the impact of the FairTrade-label on the market for coffee in Sweden. In the past decades, the general public interest in products bearing some environmental or social responsibility label has grown considerably in the EU and Sweden is one of the countries where public awareness of development and labeling issues is particularly high. Consumers in the Nordic countries generally hold a positive attitude towards green products and eco-labels, and there is a high degree of trust concerning the main eco-labels. The analysis of labelled coffee suggests itself in this context because of the role as product leader that coffee traditionally has had for the FairTrade movement, and because of the strong preference for coffee in Sweden expressed in high per capita consumption of more than 3 cups/day that places the country among the world's top five. In a Swedish perspective, there are four FairTrade importing organizations and a FairTrade labelling organization (Föreningen för Rättvisemärkt) that was set up in 1996. The major share of the FairTrade market is made up of products sold under the Rättvisemärkt label. Despite considerable growth in recent years (between 2003 and 2004, net retail value grew by 40%), the market share for all products is still low. Awareness of the Rättvisemärkt label on the other hand is high, with 47% of Swedish consumers knowing the label. The sale of labelled products in regular supermarkets has increased significantly in Sweden since the turn of the century but despite growing supply and acceptance, a lot remains to be understood about the functioning of the market. So far, the vast majority of studies in the area of demand analysis for labelled products and consumers' willingness to pay relied on stated preference methods and their hypothetical survey techniques to reveal consumers' valuation for certain product features, often facing restrictions concerning data availability. Contrary to this, this study takes a revealed preference approach. The underlying analysis uses scanner sales data for the period from March 2005-March 2008 recently made available by the Swedish Retail Institute (HUI). Grocery shops larger than 100m² all over Sweden are covered and all major brands supplying roasted coffee are included. Hedonic estimates are obtained for what consumers pay for different characteristics as accessible from the package to achieve improved understanding of the market. Both the FairTrade-attribute as well as other eco-labels are distinct parts of the analysis. As far as the use of the FairTrade label as main variable of interest is concerned, the estimated coefficient is strongly significant and positive, showing that consumers in Sweden pay a considerable premium for this label. *Ceteris paribus*, the presence of the FairTrade label on the package increases the price of an "average grade" of coffee by 38%. This is an estimate much higher than those resulting from previous case studies in Italy and the UK, potentially pointing to higher awareness of the general public that reflects itself in the retailers' pricing policy.