

Elaboration and Implementation of a Domestic Fair Trade Concept in Switzerland

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Abstract: *Fairness is an integral principle of the holistic approach which characterises organic farming according to IFOAM. This affects both international trade and local food chains. Many initiatives in Western Europe and Northern America currently elaborate and implement principles of fairness in organic food and farming, adapted to the domestic conditions, as there seems to be a growing demand for combined fair and regional food chains. This paper first introduces philosophic and economic schools of thought to define fairness. Second, the Domestic Fair Trade (DFT) project coordinated by Bio Suisse, the leading Swiss organic farmers association is presented, and analyzed in comparison to the Code of Conduct (CoC) elaborated by the German Organic Processors and Traders Association (BNN), the “BNN-Kodex”. Using an organisation development approach, interviews and workshops were conducted with stakeholders from all parts of the Bio Suisse food chain in order to develop a CoC and to define a system for its implementation in the near future. The Bio Suisse fairness strategy integrates stakeholders along the food chain in round table discussions, constitutes principles in a CoC and defines few mandatory points in the standard. A DFT panel is planned to make the CoC more binding. The results are discussed both in terms of discourse ethics and economic theory. Perceived or procedural fairness and fair distribution are suggested as two dimensions to redefine fairness in the domestic context. Success factors for future, similar DFT approaches as well as limitations of the Bio Suisse strategy are illustrated.*

Keywords: *Domestic Fair Trade (DFT), Bio Suisse, discourse ethics, value debate in organic farming, neoclassic theory, organic plus approaches.*

Introduction

Many initiatives in Western and Central Europe but also in Northern America currently try to elaborate and implement principles of fairness, adapted to the domestic conditions. With the growing organic market there seems to be a growing demand for combined fair and regional food chains (cp. e.g. Hinrichs and Allen, 2008; Gottwald and Boergen, 2008, Padel and Gössinger, 2008; Eichert and Mayer, 2009). The Domestic Fair Trade (DFT) project presented in this study is coordinated by Bio Suisse, the leading Swiss organic farmers association and owner of the *Bud* label. The study aims to enhance a DFT concept drafted by Bio Suisse by (1) redefining fair trade for the domestic context in Switzerland, (2) discussing the Bio Suisse DFT draft with stakeholders along the organic food chain and (3) comparing the organizational processes which were initiated for elaborating a CoC at Bio Suisse and in the German Organic Processors and Traders Association (BNN).

The study applies the perspective of Organization Development (OD) in order to meet this topic’s complexity and its relation to practice. It first introduces philosophic schools of thought and economic theory in order to approach the notion of fairness and secondly describes the methodological approach used in practise. Thirdly, the results are presented and finally discussed on the basis of discourse ethics, economic and management literature.

Theoretical background

Several approaches can be used in order to define fairness. This section first takes a more general philosophic and economic perspective, second introduces considerations on the international fair trade and the organic movement and, third, explains the idea of organization development (OD) as a useful technique of decision-making.

From a philosophic point of view, John Rawls has established *A Theory of Justice* which he bases on contractualistic thinking. His basic assumption is that, due to a *veil of ignorance*, stakeholders in the so called *original position* are not able to foresee their social position in society or even their personal preferences. From the perspective of this *moral point of view*, Rawls draws two main principles which should lead to fairness for all and which refer to legal-political justice and socio-economic justice. He argues that, contrary to the utilitarian approach, individual freedom can never be overruled by economic utility (in Rawls' language: *lexical priority of liberty*). His second principle relates to inequality in societies. He states that the worst-off person in a society must always benefit from socio-economic inequalities (*difference principle*) (Rawls, 1979).

Jürgen Habermas has established his own moral philosophy, called *discourse ethics*. One of his basic assumptions is the rationality inherent to language which enables actors to legitimize norms in a non-coercive rational discourse. The term *discourse* used by Habermas is not a synonym for *discussion*. It means that actors are exchanging arguments and only the better rational argument may persist in order to find the truth. The concept of the *practical discourse* is, thus, understood as the *moral point of view* which allows for setting norms. However, certain idealizing assumptions are necessary to reach this *ideal speech situation* (Habermas, 1991).

From an economic point of view, fair prices have been an issue since at least the middle ages. Various scholars, in particular Thomas Aquinas (1226-1274), have discussed the *just price*. His understanding of the just price can be interpreted as cost-based in some of his descriptions and as market-based in others (Hollander, 1965). Neoclassic theorists assume purely market-based pricing mechanisms, which are traced back to Adam Smith's *invisible hand*. The neoclassic concept of the purely rational *homo oeconomicus* is increasingly criticized because it disregards the sense of justice inherent to human beings and modern cultural developments (e.g. Sanfey et al., 2003; Stehr, 2008).

Growing criticism of the social consequences of the current international trading system inspired the Fair Trade movement, which elaborated certifiable rules for fair, cost-based minimum prices and a premium for socio-economic ends (cp. FLO, 2009). The minimum prices are set individually for each country and product. The Fair Trade approach includes farmers, processors and traders. The final retailer is not included in the scope of rules. Generally, the Fair Trade scheme has had a large positive impact in poor countries (cp. Le Mare, 2008). However, the need-based Fair Trade economy usually leads to increased production incentives and, thus, to overproduction of fair trade products. Hence, somebody has to decide on the market access of new fair trade producers. The Fair Trade movement is criticized for lacking fair criteria to transparently take this decision as well as for lacking efficiency (cp. Mann, 2008).

The international organic umbrella organization IFOAM has defined fairness as one amongst four integral principles of organic farming as follows: "*Organic Agriculture should build on relationships that ensure fairness with regard to the common environment and life opportunities*" (IFOAM, 2005). This principle addresses equity, respect, justice and stewardship of the resources shared between stakeholders along the food chain as well as between people and other living beings and the environment.

Introduction of new concepts such as establishing principles for Domestic Fair Trade or managing other changes within organizations requires some knowledge on Organization Development (OD). OD is an approach to improve the decision-making in and self-renewal of organizations (e.g. companies or NGOs) through action research. An OD program consists of (1) system diagnosis, (2) action (so called interventions) and (3) maintaining the change process (French and Bell, 1982). Different methods from social sciences can and should be included in the action research process and transparent documentation of the process is essential (Gerber and Hoffmann, 2007).

Methods

The study was conducted over a five month period at Bio Suisse in Basel (Switzerland) in 2009, within the framework of a Master-thesis (Schumacher, 2009). The Swiss organic food chain was analyzed

and interviews and workshops with stakeholders from all parts of the organic food chain were conducted. Both Bio Suisse staff members and other stakeholders of the organic food chain were interviewed, and existing information and documentation was studied. In order to ensure stakeholder participation, a survey-feedback-approach for OD was used (Fig. 1). This included data collection, feedback workshops and written feedback loops with a group of stakeholders from all parts of the food chain. In order to form the feedback group, letters were sent to all Bio Suisse licensees informing them about the project and asking for their participation. Three feedback workshops with producers and licensees were conducted in June 2009 in order to develop a Code of Conduct (CoC) and to discuss implementation of the system in the near future. The two written feedback loops were conducted via e-mail in June 2009. They aimed to capture written comments and opinions on the DFT concept and especially in respect to the CoC (see Fig 1).

The comments given in the written feedback loops were bundled by the project coordinator and integrated into the next draft of the CoC. New passages were highlighted and questions were posed on some of the conflicting issues in the second round. Additionally, all comments made by the stakeholders were sent to the stakeholder group in an anonymous form.

Next, the implementation process of the *BNN Kodex* was reconstructed through qualitative, unstructured interviews with the CEO of BNN, and a personal interview with the process consultant. Furthermore, files and documentation from the Schweisfurth Foundation in Munich were examined, whose director had been consulted for the *BNN Kodex* implementation process.

The approaches of BNN and Bio Suisse were compared using criteria of process design and supervision, as well as an analysis of the criteria for measuring social sustainability used by Böhmer et al. (2007) of *potential participation* and *extent of actual participation*.

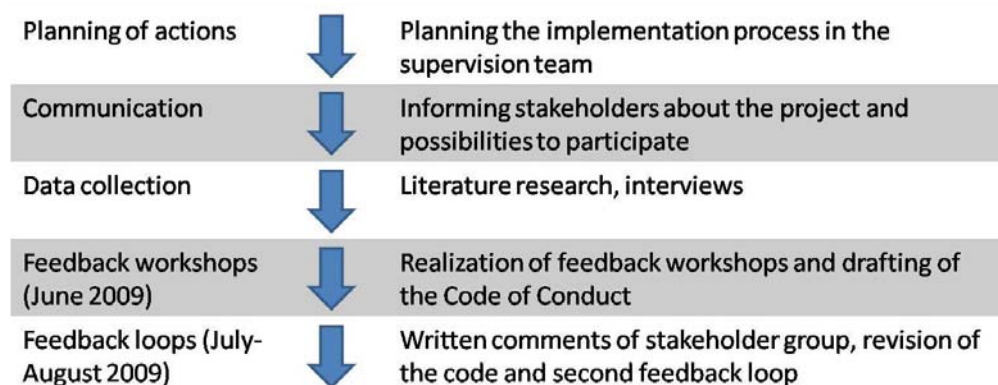


Figure 1. Survey-feedback-process used for discussion of the Bio Suisse Domestic Fair Trade Strategy.

Organic Agriculture in Switzerland

It seems necessary to briefly explain the socio-economic and legal framework for organic farming in Switzerland, before assessing the food chain of Bud labeled products and discussing the DFT concept. The organic food chain consists of the producers, traders, processors, retailers and consumers. In 2008, about 5600 Swiss farms were registered under the Bud label and approximately 770 companies were licensed to use the Bud label. Turnover of Bio Suisse products was 1.44 Billion Swiss francs (ca. 960 million Euros) in 2008, representing a 4.9% share for organic foods within the total food market. The retailer *Coop* accounts for about 50% of the turnover, the retailer *Migros* about 25%. Bio Suisse actively shapes markets by so-called “bio pools” and advisory commissions which try to bundle products or negotiate price recommendations. Bio Suisse licensees are not democratically organized and not entitled to actively participate in decision-making of the association.

The legal framework for agriculture in Switzerland is determined by the Swiss agricultural law. It takes into account the multi-functionality of agriculture by assigning direct payments; for example,

farmers are rewarded for demonstrating ecological practices. However, there is no program to promote organic farming in particular.

Results

The issue of fair prices has been discussed at Bio Suisse for several years. The association has launched a diploma thesis and a master thesis in order to develop a fairness strategy (Staub, 2008; Schumacher, 2009).

A draft of the Bio Suisse DFT strategy was conceptualized after finalization of the first thesis. This draft was discussed and adjusted in the feedback workshops, the feedback loops and interviews described in the previous section. The planned DFT strategy (Fig 2) comprises of: a.) round table discussions with stakeholders along the food chain; b.) a Code of Conduct (CoC), which includes the principles of DFT elaborated in a participatory process with all partners; c.) a brief standard covering basic requirements, such as participation in the roundtable discussions and compliance with the CoC; and d.) a DFT panel including representatives from all parts of the food chain. Additionally, an instrument for measuring fairness and allowing self-assessment of stakeholders was planned for the future (mirror).

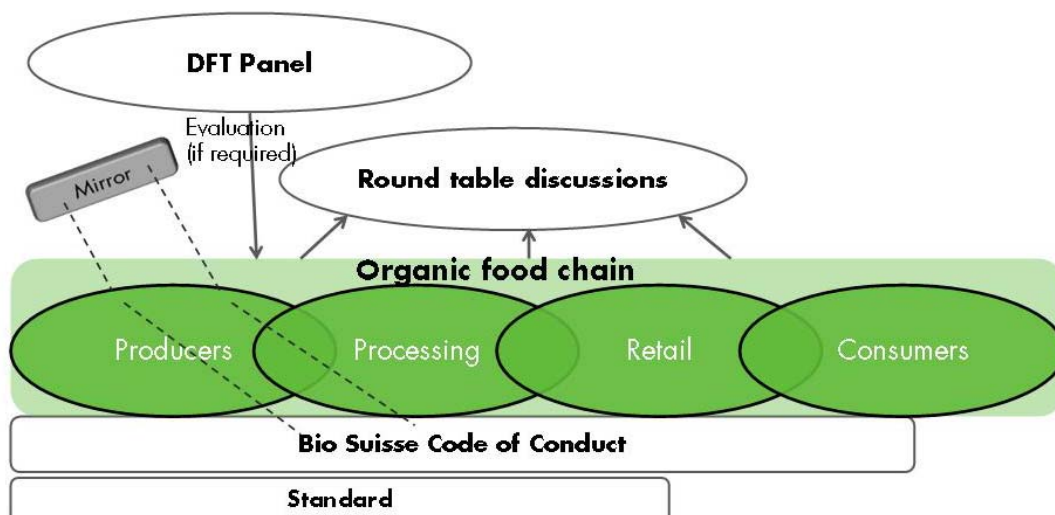


Figure 2. Bio Suisse Domestic Fair Trade (DFT) strategy.

Stakeholders had diverging opinions on whether the DFT panel is meant to foster fair domestic trade practices by mediation or to ensure them by strict sanctioning. Another point of disagreement was how to conduct the round table discussions; stakeholders stated that in the value chains of certain products it would be very difficult to get retailers to participate on a regular basis.

The last draft of the CoC in 2009 was structured into three sections: (1) Self-conception and basic values, (2) guidelines and (3) instruments for implementation. The guidelines consist of the sections (a) cooperation and negotiation of contracts, (b) fair price, (c) quality orientation and (d) social and environmental commitment. Instruments consist of the round table discussions, the DFT panel and a self-assessment process.

The discussions and comments showed that statements of the Bio Suisse stakeholders relate both to fair pricing and to issues of cooperation and negotiation, such as tactical behavior of purchasing agents, which was sometimes perceived as dishonest. Several producers stated they negatively perceived the market power of the purchaser in price discussions which sometimes leads to dictating of prices. Forming a trading relationship based on partnership and the willingness to find solutions was important to producers. Some licensees were critical of being obligated to help balance risks (for

producers) or of agreements to guarantee purchase of certain quotas. Transparency was an important point for producers and consumers, yet most stakeholders explained it would be difficult to achieve price transparency.

Stakeholders had conflicting opinions on what constitutes fair prices. On the one hand, cost-covering prices were perceived to be fair, while on the other hand prices determined by the market were also seen as a fair solution. Furthermore, production efficiency, effective marketing and communication were suggested as relevant preconditions for fair prices. The CoC sections on quality and social commitment were not widely discussed in the feedback loops. Most comments were integrated into the second draft of the CoC by the project coordinator. Therefore, the second draft, compared to the first draft was twice as extensive.

The code of the BNN consists of three sections: the first section describes the basic values of the association; the second section illustrates compulsory norms already enforced by the natural food sector; and the third section comprises issues which are to be implemented in the coming years.

Some differences were found when comparing the organizational processes which were planned and implemented by BNN and Bio Suisse in order to elaborate these codes. While the BNN decided to involve an external, professional process consultant, the managing director of Bio Suisse facilitated the implementation process of domestic fair trade by involving two students writing their theses (Staub, 2008; Schumacher, 2009).

In terms of potential and actual participation of stakeholders included, BNN consulted a working group selected by their steering committee and a plenary meeting of its members, while Bio Suisse invited and included licensees and consumer organizations to join the stakeholder feedback group who are not organized in an association. The extent of actual participation of Bio Suisse licensees in the feedback group (20 licensees) and in the feedback workshop of Bio Suisse licensees was relatively low.

Discussion

Several critical points were identified in the Bio Suisse process. Participation of the Bio Suisse licensees, which is crucial to the process as a whole, was relatively low. However, important stakeholders were integrated in the discussions. Interests of small and medium sized enterprises may not have been adequately assessed, because participation in the stakeholder feedback group required active response to the information letter and time to comment on the CoC drafts. However, by means of the interviews which were conducted, also some perspectives of small enterprises could be captured. The feedback group which commented on the CoC did not meet face-to-face due to the low participation in the feedback workshop for licensees. Thus, a consensus in practical discourse could not be reached. Furthermore, the wording of the CoC was drafted in an early state of discussion with the consequence that some stakeholders of the feedback group seemed to understand the code as being decided or fixed, although it was actually meant to be a starting point for discussions on DFT principles. Despite the weaknesses in the process, the survey-feedback-approach has revealed important contrasts in the perceptions of stakeholders and has therefore been helpful for future implementation of the DFT strategy.

The comparison of the two organizational processes of Bio Suisse and BNN has shown that Bio Suisse chose a different approach and, regarding the status of the CoC, is in an earlier phase of development than the BNN. Bio Suisse as a farmer association aims at the participation of stakeholders along the food chain in order to reach a wider consensus about fairness principles. The BNN as a retailer and processors association focused on internal orientation. The BNN Kodex comprises both the norms which are already implemented and future issues to be discussed within the association. With the latter element a continuous improvement process is anchored in the BNN Kodex. Such an element is not defined in the Bio Suisse CoC but the round table discussions could lead to a similar process in the future.

Looking at the Bio Suisse DFT strategy from a philosophical point of view, the *difference principle* stated by Rawls, suggests that the weakest part of the food chain should be supported by those actors of the chain that benefit more from the total value created. The Bio Suisse principle “fair producer prices for all” which is included in the Bio Suisse *mission statement* (Bio Suisse, 2009) corresponds to this definition. The concept does not only focus on farmers but also takes into account processors, traders and consumers.

It seems one of the most difficult challenges of the Bio Suisse DFT concept to find agreement on common principles for fairness between the stakeholders of the food chain. Once such principles are found and recorded in the CoC as guidelines, they are valid for every situation in which agreement about pricing, cooperation etc. has to be found between the partners.

Such norms could help to mitigate the power disparities between partners and to reach fair agreements (Gottwald, 2009).

According to Habermas, consensus about such principles can be reached in practical discourse if the idealizing assumptions for the *ideal speech situation* are met. Similar to the Bio Suisse CoC, these idealizing assumptions are often tried to be met in practice by asking discussion partners to act in accordance to certain guidelines during the discourse. For example, using certain procedural guidelines for decision-making is suggested for the integration of values in the EU organic regulation (Padel et al., 2009). Röcklinsberg (2006) suggests the following five principles: respect for each discussion partner, context sensitivity, respect for arguments including emotions, a shared picture of the situation, and relating theory (normative values) and practice.

Once accepted by the Bio Suisse assembly of delegates, the Bio Suisse standard on DFT provides a framework for the development and reflection of ethical values. Ethical reflection, however, can only be done by the stakeholders themselves (Freyer, 2008). Thus, the standard and the principles set in the CoC can be interpreted as a *vessel* which is filled individually by each stakeholder or stakeholder group, for example, by target agreements (Schmid, 2009).

An important issue to be resolved in the future process is to establish a platform or stronger linkages between the licensees in order to better represent their interests.

Looking at the Bio Suisse DFT strategy from the perspective of neoclassic economic theory, it is important to determine the added value which consumers are willing to pay for. If the fairness strategy leads to higher prices, consumers must have willingness to pay for the efforts of promoting the development and cultivation of values as well as fair pricing procedures and rules within the food chain by means of round table discussions and the CoC. Many middle European DFT initiatives and also the *BNN Kodex* transparently demonstrate what added value their products have and determine prices by the market mechanism. This procedure can be called the *liberal approach* of domestic fair trade (Eichert and Mayer, 2009). To ensure credibility it seems necessary to communicate a process of development and not only the existence of fair domestic trade relationships. In the further process integrating consumer preferences and expectations towards fair trading relations should be treated with high priority.

During the feedback round, a consumer protection organization and several retailers expressed their concern that the DFT strategy would increase prices of Bud labeled products. There would be a disadvantage for them if other companies would refuse to join the DFT program.

If higher prices are to be avoided other utilities must arise that will otherwise compensate those in the production chain who will face higher costs. For example, it is possible that benefits will emerge from cooperation, and that companies can benefit from the reputation resulting from following the DFT principles or from social capital (e.g. companies becoming more attractive for qualified labor). Further studies could assess the possibility of integrating these kinds of capital in practice into sanction mechanisms for cases of non-compliance. It is known that in cases where reputation plays an important role, sanctions have a deterring effect without having to be actually applied (Rockenbach and Milinski, 2006).

Two dimensions of fairness can be distinguished in the DFT strategy by Bio Suisse and can be used for a redefinition of fairness in the domestic context. *Fair distribution* and perceived or *procedural fairness* are in complex interaction with each other. Fair distribution includes principles and rules for identifying and paying fair prices and margins. Therefore, the stronger partner must be willing to take responsibility for the weaker one and realize that Bio Suisse trading partners are dependent on each other in the long run in order to produce organic products of good quality. However, an absolute answer on fair prices seems difficult as they depend on the general market situation, the quality of trade relationships and transparent communication with consumers.

Procedural fairness or perceived fairness includes improved trade relationships over the long-term. Kumar (1996) identified six principles when assessing procedural justice in the international supply chains of the automobile industry: bilateral communication, impartiality (equal chances for trading partners), refutability (the weaker partner can criticize the decisions of the stronger one), explanation (of decisions and channel politics), familiarity (knowing local conditions of the supplier) and courtesy. Duffy et al. (2006) have successfully applied these principles for assessing fairness in the supply chain of the conventional retail food sector in the UK. They can also be applied to the Bio Suisse food chain to measure fairness, since many statements of the feedback group can be related to these principles and the draft of the CoC already includes most of them. They could be considered again by stakeholders in the ongoing development of the CoC and in elaborating monitoring tools for self-assessment and enhancing cooperation in the Bio Suisse food chain.

It is a special challenge to develop sanctions and incentives which are adequate and acceptable for stakeholders and ensure adherence to the CoC. Corporate codes of conduct are effective tools for corporate development only if they are combined with complementary measures (Talaular, 2007). The Bio Suisse approach includes such complementary measures in the form of roundtable discussions and the DFT panel. Codes of conduct can be designed to be principle-based or rule-based. Principles are more difficult to monitor and sanction than rules because they can only be approximated and the trading partners have a certain scope of discretion (Talaular, 2007). Consequently, stakeholders in the Bio Suisse process suggested that certain points should be concretized, such as the principle that *prices are negotiated based on partnership* which was suggested in the CoC. However, principles can cover a wider scope of application than rules can. They should be amended by rules once experience has shown how they can best be made more concrete (Talaular, 2007).

Conclusions

The Bio Suisse fairness strategy is an attempt to move towards more cooperative and fairer market relations for all partners along the food chain. This study shows that it is possible to define DFT principles, but that these should be used to define clearer definitions and realistic rules over time in ongoing discourses amongst stakeholders in roundtable discussions. Stakeholders should reflect on the meaning and relevance of the consensus-based principles and rules set in the CoC on a regular basis.

It is a major challenge to agree on adequate sanctions and incentives in order to ensure that stakeholders act in line with the principles of the CoC and at the same time not to create a debilitating system which discourages self-reflection and accountability for constructive trade relations.

The Bio Suisse project and for other, similar DFT projects should focus on selecting a variety of stakeholders in order to hear a wide range of opinions and define realistic principles in a CoC and to keep stakeholders informed and actively involved in the discussion. Internal and external communication should emphasize the developing process towards fairer market relations.

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