

The Costs of Fair Trade Textile Certification

– A Global Value Chain Perspective

By Hannes Grassegger¹

This paper analyses the economic reasons behind the discrepancy in observed and predicted price differentials for Fair Trade certified apparel. By applying a Global Value Chain (Gereffi et al. 2005) perspective, two hitherto unexplored cost effects of Fair Trade certification are explained, namely a change in intermediary prices of Fair Trade components and a change in the transaction costs for Fair Trade processors. From a Fair Trade producer's point of view, these effects add to the direct costs of compliance and the certification fees commonly demanded. Understanding Fair Trade cost effects in complex value chains such as textiles can be useful for the further development of Fair Trade certification systems.

¹ Many thanks to Adrian Muller, faculty of economics, University of Zürich, for his very helpful comments, and to the Postgraduate Course on Developing Countries (NADEL) at the Swiss Federal Institute of Technology Zurich (ETH), Switzerland, and the Swiss Academy of Humanities and Social Sciences (SAGW) as well as the Universitärer Forschungsschwerpunkt Ethik (UFSP) at the University of Zürich for their financial support.