

# Wearing Thin

The State of Pay in the Fashion Industry

2000-01

Labour Behind  
the Label



with the European Clean Clothes Campaign

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This report was produced by Labour Behind the Label.

Labour Behind the Label is the UK platform of the Europe-wide Clean Clothes Campaign. It seeks to raise public awareness of conditions in the global garment industry and to campaign for their improvement.

Members include the AEKTA Project, CAFOD, Central America Women's Network, Ethical Consumer, General, Municipal, Boilermakers and Allied Workers' Union (GMB), Homenet, the National Union of Knitwear, Footwear and Apparel Trades (KFAT), National Group on Homeworking (NGH), NEAD, Oxfam, Transport and General Workers' Union-Textile Section (TGWU), Traidcraft Exchange, War on Want, Women Working Worldwide as well as a number of individuals.

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***“ A living wage enables workers to meet their needs for nutritious food and clean water, shelter, clothes, education, health care and transport, as well as allowing for a discretionary income. It should be enough to provide for the basic needs of workers and their families, to allow them to participate fully in society and live with dignity. It should take into account the cost of living, social security benefits and the relative standards of other groups”.***

## **Executive Summary**

### **1. Introduction**

In 1999, European campaigns for payment of a living wage in the garment and sportswear industries were launched, in response to a global situation of deteriorating wages and poor working conditions. Despite high profit margins, major retailers were minimising costs by relocating supply to countries with low wages and minimal regulation, and by subcontracting to semi-regulated or unregulated sweatshops and home workers.

Retailers had begun to react to public pressure by formulating Codes of Conduct. These generally stated that suppliers should pay their workers the national minimum wage or the local prevailing industrial wage. Testimonies from workers' organisations demonstrate that legal minimum wages are rarely based on realistic cost of living calculations, are often set below subsistence levels to attract foreign investment, and often fail to rise with inflation. Piece rate workers in particular are commonly paid less than the minimum wage. Workers usually lack the right to free collective bargaining.

### **2. Company responses**

In October 1999, Labour Behind the Label, the UK platform of the Europe-wide Clean Clothes campaign, invited the public to send postcards to major retailers calling on them to commit to a living wage for all workers in their production chain; pay suppliers a price sufficient to cover a living wage for all workers; and ensure that workers have the opportunity to play their part in determining a living wage. 80,000 postcards were distributed to 12 major companies. Three of these had no Code of Conduct, 2 had Codes which made no reference to wages and 7 stated that their supplier must pay the legal minimum wage.

Seven companies responded directly to consumers, and four addressed follow-up questions from Labour Behind the Label. Whilst three companies demonstrated some concern to pay fair as opposed to minimum wages, most failed to answer specific living wage-related questions and none acknowledged the need to pay suppliers a price sufficient to cover a living wage for all workers.

### **3. Living wage campaigns around the world**

Living wage campaigns, involving coalitions of NGOs and trade unions and targeting local and multi-national companies, are currently active in the

United States, Switzerland, Belgium, and the Netherlands as well as in the UK.

#### **4. What is a living wage?**

Definitions formulated by trade unions, campaigners and academics demonstrate agreement that a living wage should cover basic needs, include an additional discretionary income and cater for dependents

There are two main approaches to quantifying a living wage. The “formula approach” (variously calculated on the basis of average household size, cost of basic needs per person and savings, or on a fixed proportion of the national median wage) has the advantage of simplicity – but fails to address diversity or to empower the workers whose lives it seeks to improve. The “negotiated approach”, based on consultations with workers, allows definitions to be tailored to local circumstances but it is problematic when unions are weak or suppressed. The onus in these circumstances is on companies to take concrete steps to demonstrate their commitment to fair remuneration in spite of the weakness of unions.

Workers’ wages generally constitute a tiny fraction of the retail price of garments and sportswear (from 0.5% - 4%) and company profits are considerable. Whilst in recent years consumers have demonstrated an increasing willingness to pay more for fairly traded products, it should be possible for companies to increase wages without increasing costs to consumers. Retail companies have a responsibility to pay suppliers sufficient to cover the cost of living wages, and to establish systems to ensure that increased payments to suppliers result in higher wages for workers.

#### **5. Ethical trading initiatives and the living wage issue**

In the late 1990s, 6 UK garment companies started working with the UK Ethical Trading Initiative (ETI). This requires company commitment to the ETI base Code of Conduct, including payment of living wages. Because of this commitment, these companies were deliberately not targeted in the Labour Behind the Label postcard campaign. However, responses to recent Labour Behind the Label questioning indicate that at least 3 companies are monitoring payment of minimum as opposed to living wages. While this is an appropriate first step in situations where suppliers fail to pay the minimum wage, it is only an adequate response if companies are also engaging in consultations as to what constitutes a living wage. None of the companies indicated awareness of the insufficiency of minimum wage rates. 3 highlighted the need to consult with local organisations although only 1 outlined the steps being taken to do this.

Members of the European Clean Clothes Campaign are also working with

retailers in France, the Netherlands, Sweden and Switzerland on the implementation of base Codes of Conduct which include living wage clauses. As in the UK, responses to Labour Behind the Label questioning suggest that progress will require a more explicit and pro-active commitment to living wages than at present on the part of some of the participating companies. Where the debate is sufficiently advanced, a key issue arising relates to ways of raising standards in countries where unions are weak, without further undermining the union position.

## **6. Survey: wages in supplier countries 2000-2001**

Between November 2000 and 2001, the European Clean Clothes campaign worked to update and expand its information on wages in the garment and sportswear industry. Evidence from 10 countries convincingly demonstrates that legal minimum wages are insufficient to cover the basic needs of even single workers – with the result that many are working excessive overtime. In each country, there is also evidence of suppliers paying less than the legal minimum wage. Workers' rights to form and join independent trade unions are commonly denied, suppressed or undermined by an increase in the use of casual and home workers, which severely affects workers' ability to negotiate living wages.

## **7. Recommendations**

Companies should:

- Signal to supplier countries that enforcement of labour standards, including increased wages, will not lead to automatic re-location in search of cheaper labour
- Carry out research on the value of workers' current wages
- Consult with local trade unions, human rights and other relevant organisations and academics to determine appropriate living wages
- Establish prices to suppliers which reflect the cost of paying living wages
- Press for the enforcement of workers' rights to organise and bargain collectively
- Negotiate the level of a living wage with genuine representatives of workers
- Strengthen transparency and accountability.

Ethical trading initiatives and campaigns should:

- Insist on the above
- Insist that company moves to improve wages are matched with improvement in the right to organise and bargain collectively
- Stress that where sourcing is from countries or factories where unions are weak, companies have a responsibility to arrive at an adequate measure of a living wage through study and consultation
- Strengthen alliances in order to maintain pressure on companies
- Strengthen transparency and accountability.

## **1 Introduction**

Campaigns for a living wage in the garment and sportswear industries were launched in Europe in 1999 against a global background of deteriorating wages and poor working conditions. While consumers were spending ever greater amounts on clothes, the evidence from workers' organisations all over the world was that most garment workers were struggling to survive on insufficient wages in spite of working often very long hours.

The industry's choice and location of suppliers were found to be largely determined by costs – with labour costs in several Asian, African and Eastern European countries as low as 0.5% of the retail price. Labour costs were kept low not only by relocating where labour is cheaper and regulations go un-enforced, but also by subcontracting to smaller production units and homeworkers who are paid considerably less than factory workers. In Europe, the supply chain has included an increasing number of semi-regulated or unregulated sweatshops and home workers. Overseas, the same process had led to results so complex that retailers at the top of the pyramid often had little idea where - and under what conditions - their clothes were actually being made.

Garment retailers, however, faced with increasing public pressure and media scrutiny, were soon obliged to recognise that relocating and subcontracting did not free them from their responsibilities with regard to working conditions. Their initial response was to formulate codes of conduct which, with few exceptions, stated that a company's suppliers should pay their workers the national minimum wage or the local prevailing industrial wage.

The legal minimum wage, when paid, has proved insufficient in most cases. Testimonies from workers' organisations made it clear that the legal minimum wage was rarely based on realistic cost of living calculations. Indeed, the evidence was that:

- countries had established legal minimum wages often with little or no relationship to the wages that were necessary to meet the basic needs of workers and their families;
- some countries had consciously set legal minimum wage levels below subsistence levels to attract foreign investment;
- minimum wage levels commonly failed to rise in line with inflation, which in some contexts was extremely high;
- factories operating within certain Export Processing Zones (EPZ) or Free Trade Zones (FTZ) were exempt from minimum wage laws.

In addition, workers all too often lacked the right to collective bargaining, leaving them without the power to negotiate increases in wages.

Whilst some will argue that it is the responsibility of the governments of supplier countries to set appropriate standards and enforce their own legislation, we should not overlook the role played by factors such as under-employment and debt repayment obligations in their failing to do so. Both are key factors in governments setting the legal minimum wage too low, failing to encourage compliance with the legal minimum wage, or even waiving the legal minimum wage – all in order to attract investment and boost export earnings and employment figures.

Replicated across the world, this situation has made for increasingly fierce competition between supplier countries:

*“We sell our people, we sell them through their quality, availability, literacy and competitive wage rates.”<sup>1</sup> (Company manager, Lesotho National Development Corporation)*

*“The buyers always say the market is bad and we have to lower the price; it’s their standard technique. So for the last few years, our costs have been rising, but prices haven’t. There’s always competition from China and now Indonesia and Thailand are cheap again. If the price is cheaper, buyers will go to that country.”<sup>2</sup> (Manufacturer in Bangladesh)*

*“We were told if we demanded too much money, the company would relocate to other countries. One factory moved to Laos recently. Are we paid too much? After ten years’ service, we take home about £13 for a 48 hour week.”<sup>3</sup> (Union activists, Thailand)*

Retailers take advantage of the situation to create downwards pressure on wage levels whilst maintaining high profit margins and spending vast amounts on marketing. Reports of brands and companies lobbying against the enforcement or raising of the legal minimum wage are not uncommon.

### **Living on or below the minimum wage: the impact on workers in 1999**

Workers in Bombay, **India**, reported finding their factories closed and the workforce dismissed after they had pressed their employers to pay the minimum wage. The same employers then re-opened elsewhere with new workers. *If* paid, the minimum wage covered food costs and little else. It did not cover the costs of education and healthcare, housing and caring for dependents, and was only upgraded every five years. Workers were constantly living on the edge, indeed were easily pushed beyond the edge by the need for housing repairs, the costs of illness or a marriage in the family.

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<sup>1</sup> Interview by SOMO, January 2001

<sup>2</sup> Green, D (1998), “Fashion Victims: the Asian Garment Industry and Globalisation”, CAFOD, p18  
There is evidence of ‘supplier-hopping’ as well as relocation across borders in order to reduce costs.

<sup>3</sup> op cit, p18

The priority of trade unions was to see the *legal minimum* wage implemented. To estimate a living wage seemed too unrealistic to contemplate<sup>4</sup>.

In **Vietnam**, where wages are fixed in US dollars but paid in Vietnamese currency, already low wages were found to have been adversely affected by fluctuations in exchange rates between the two currencies. Sport shoe workers earning £1.10 in 1998 had to work:

2¼ hours	to buy	6 eggs
3 hours	to buy	1 kilo beans
4 hours	to buy	1 litre of cooking oil
12 hours	to buy	1 kilo chicken <sup>5</sup> .

In **Indonesia**, garment and sportswear factory workers who could not make ends meet earning the equivalent of \$2.40 (£1.50) a day in 1997 saw their purchasing power decline by 140% in 1998 as a result of massive inflation and devaluation of the rupiah. Some garment retailers and buyers rushed to cash in. *The New York Times* reported a US clothing company boasting that it was “enjoying a bonanza” because sourcing from

*“Asia is suddenly less costly, which means a windfall profit for the lucky retailer... Weaker Asian currencies make whatever is produced in the region less expensive in dollars. And rising unemployment in Indonesia, Sri Lanka and the Philippines holds down the wages of those who make [our] clothing there. Plus there is a spill over effect into other Asian countries, sensing competitive pressure and holding back on what they charge.”<sup>6</sup>*

Although the inflation rate had been stemmed by 1999, the Asian crisis left Indonesian factory workers budgeting for basic survival only as they attempted to recover from the previous year’s catastrophic fall in purchasing power. According to several studies by UN organisations and the Jakarta-based Urban Community Mission (UCM), Greater Jakarta at the beginning of 1999 would have had to more or less double the minimum wage in order to cover the basic needs of *single* workers. Many of Europe’s high street retailers and major international brands source from Indonesia.

In **Bulgaria**, the minimum wage in garment factories surveyed by the Clean Clothes Campaign (CCC) was below the official poverty line. There were considerable contradictions between the statements made by managers and those made by workers on the issue of wages. On the basis of the figures given by workers, they were having to work:

50 minutes	to buy	1 kilo of bread
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<sup>4</sup> Hensman, R (1999), “Wages in the Garment Industry in Bombay”

<sup>5</sup> Interfaith Centre on Corporate Responsibility, “Sport Shoe Production in China, Vietnam and Indonesia (1998), p.30

<sup>6</sup> Kernaghan C (1998), “Made In China: Behind the Label”, National Labour Committee, p41

1 hour 40 minutes	to buy	1 kilo rice
3 hours	to buy	250 g salami
10 hours	to buy	1 kilo pork.

Workers were making ends meet by growing their own food where they could and by making use of their rural connections, working on relatives' land at weekends in exchange for food. Some workers were found to be on half pay when orders were low.

In **the UK**, a report to the Low Pay Commission in November 1999 by the National Group on Homeworking revealed that

- 48% of the workers surveyed were not being paid the legal minimum wage;
- over half of homeworkers not receiving the legal minimum wage had not heard of the minimum wage or did not know it applied to them, particularly among workers of Asian origin;
- almost all workers not earning the legal minimum wage were being paid according to piece rate;
- 24% were found to be earning less than £1.80 an hour<sup>7</sup> against a legal minimum wage rate of £3.60.
- homeworkers from ethnic minorities were found to be receiving much lower rates of pay than white homeworkers doing similar work.

### **Other means of underpaying workers**

Piece rate does not necessarily mean underpaying but is frequently used to do so. There are many different schemes. Sometimes a basic rate is paid and bonuses added on a piece rate system, sometimes all is paid by piece rate. Sometimes a production target is set which workers have to reach within a given number of hours. Such targets are frequently set too high and workers have to work extra time – unpaid – in order to reach them. Piece rate workers are frequently paid less than the legal minimum wage. Research carried out among UK homeworkers in 1999 showed that piece workers were least likely to earn the legal minimum wage and that the method of calculating pay was a major factor in determining whether or not homeworkers received the legal minimum wage. This is echoed by several Asian case-studies.

In Indonesia in 1999, PT Tuntex and PT Tainan (then supplying Nike, adidas and the Gap) operated systems of extraordinarily high fines for mistakes:

- Rp5000 (72% of the daily minimum wage) for failure to turn off a machine, tidy up a work-top or for a sewing mistake
- Rp6000 (86% of the daily minimum wage) for taking menstrual leave (a religious requirement for some women, to which they are legally entitled) or being late
- Rp25000, or 3.6 times the daily minimum wage, for losing a tool!

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<sup>7</sup> Ellison, L (1999), "Monitoring the Introduction and Impact of the National Minimum Wage on Homeworkers", p5

The government of Thailand in the late 1990s introduced a new law enabling manufacturers, “in the event that an employer has to stop production, permanently or temporarily, for unexpected reasons” to pay employees 50 % only of their wage. Many manufacturers, among them Par Garment which in 1999 also supplied Nike, adidas and the Gap, have abused this law, announcing a temporary closure when orders were low. From September to November 1998, Par Garment workers were on half pay as the management announced closures on a total of 26 days.<sup>8</sup>

## **2 Company responses to the UK’s living wage campaign**

In response to this situation, Labour Behind the Label, the UK’s Clean Clothes Campaign, invited the public in October 1999 to join in putting pressure on companies by sending postcards calling on them to:

- commit themselves to a living wage being paid to all workers involved in the chain of production;
- pay suppliers a price which enables them to pay their workers a living wage;
- ensure that workers have the opportunity to play their part in determining what is acceptable as a living wage.

80,000 postcards were distributed in the UK. Twelve companies were targeted: adidas, Arcadia, Benetton, C&A, Etam, the Gap, French Connection, Nike, Reebok, River Island, Storehouse and Virgin Clothing.

Of the twelve companies targeted:

- 3 had no code of conduct
- 2 had codes which made no reference to wages
- 7 stated that their suppliers must pay the legal minimum wage.

This is how each company responded, or failed to respond, to the campaign.

### **Adidas**

#### **The company’s position in 1999**

“Business partners shall pay their employees the minimum wage required by law or the prevailing industry wage, whichever is higher, and shall provide legally mandated benefits.”

#### **The company’s response to consumers**

Adidas did not respond to consumers.

#### **Labour Behind the Label follow up**

Questions to adidas were as follows:

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<sup>8</sup> Ymprasert, J (March 1999), “The Case of the Par Garment Manufacture”

- how is your code of conduct implemented and monitored in relation to wages?
- given that in most supplier countries, the legal minimum wage is set too low to be termed a living wage, how do you satisfy yourselves that workers supplying your company are fairly remunerated?
- where you do not consider that the workers supplying your company earn a living wage, what is your company's strategy for making progress on this issue?
- a question was also asked about the wages of workers at PT Tuntex in Indonesia.

### **The company's response to Labour Behind the Label (April 2001)**

Responses are underlined, with our comments in italics:

- on the code of conduct of adidas, which now reads: "Business partners shall recognise that wages are essential to meeting employees' basic needs and some discretionary payments. In all cases, wages must equal or exceed the minimum wage or the prevailing industry wage, whichever is higher." *The recognition that wages must enable workers to meet their basic needs and have a discretionary income must be translated into the code as a call for a living wage. As yet, the company's code of conduct still calls on suppliers to pay no more than the legal minimum wage.*

- On monitoring wages: "We are presently developing a methodology to assess the buying power of wages [...]. Once a methodology has been finalised later in the year, our Standards of Engagement (SoE) Team will be able to monitor the buying power of workers' wages and to assess whether wages are fair. The right methodology should take into account an adequate definition of basic needs, the number of family members, the number of wage earners in a family, and the expectations of the society in question". *We look forward to the outcome of what could be a significant step forward - a company being pro-active in finding out what workers' buying power is on the wages that they are paid. The success and usefulness of such an exercise will, to an extent, depend on the methodology used to consult workers.*

- on wages in Indonesia: "Apparel factory workers in Indonesia have reported this month that they are earning more than twice the legal minimum wage".

*This sounds good but fails to tell us:*

*\* how many hours' overtime had to be worked in order to earn twice the legal minimum wage!*

*\* that the legal minimum wage in some parts of Indonesia is only 66% of what a **single** worker needs to cover her basic needs. Twice the minimum wage is still far from a living wage for a worker with dependents to support.*

- on overtime pay: "An important step, which we are monitoring closely, is to make sure that suppliers pay the right overtime rates, thus giving them a financial incentive to reduce the number of hours worked. For example, we are seeing factories avoiding Sunday working because workers have to be paid the legal rate of three to four times their usual salary". *A positive step forward if it goes hand in hand with a move to pay workers a living wage. Less*

*overtime is only good news for workers if they can earn enough to live on without working as many hours as they used to. The issue of working hours is inseparable from that of wages.*

## **Arcadia**

**(Burton Menswear, Dorothy Perkins, Evans, Top Man, Top Shop, Miss Selfridge, Wallis)**

### **The company's position in 1999**

"Suppliers must meet the local laws on conditions such as minimum wages, hours of work, overtime and deductions."

### **The company's response to consumers**

Arcadia did not respond to consumers.

### **Labour Behind the Label follow up**

Questions to Arcadia were as follows:

- how is your code of conduct implemented and monitored in relation to wages?
- given that in most supplier countries, the legal minimum wage is set too low to be termed a living wage, how do you satisfy yourselves that workers supplying your company are fairly remunerated?
- where you do not consider that the workers supplying your company earn a living wage, what is your company's strategy for making progress on this issue?

### **The company's response to Labour Behind the Label (March 2001)**

The company replied: "In answer to your request for information, we would remind you that Arcadia Group requires all its third party suppliers to sign up to its Code of Conduct. Corrective action is taken with any supplier failing to comply with the Arcadia Code of Conduct and has led us to cease trading with some suppliers. In addition, the Code is backed up with a process of self-evaluation and independent inspections".

*This reply ignores the specific questions asked by LBL as well as the issues raised by the campaign postcard.*

*Arcadia gives no indication that its suppliers should pay more than the mostly insufficient legal minimum wage nor does it acknowledge that this is not done on the whole.*

## **Benetton**

### **The company's position in 1999**

The company code made no reference to wages.

### **The company's response to consumers**

Benetton did not respond to consumers, at least not until LBL supporters wrote to the company again in 2001 to challenge its lack of response. It then replied that it had never received postcards on this issue. Postcards were sent to Benetton via its London-based PR agency. Indeed, a meeting was held in 1999, between Indonesian workers' representatives, LBL and the same PR agency, to discuss the issues raised by the postcards.

### **Labour Behind the Label follow up**

Questions to Benetton were as follows:

- how is your code of conduct implemented and monitored in relation to wages?
- given that in most supplier countries, the legal minimum wage is set too low to be termed a living wage, how do you satisfy yourselves that workers supplying your company are fairly remunerated?
- where you do not consider that the workers supplying your company earn a living wage, what is your company's strategy for making progress on this issue?

### **The company's response to Labour Behind the Label (1999)**

Benetton did reply to LBL at the time the campaign was launched with an assurance that "it requests absolute observance of the local laws' dispositions", ie Benetton call on their suppliers to pay the legal minimum wage. *This reply ignores the specific questions asked by LBL as well as the issues raised by the campaign postcard. Benetton gives no indication that its suppliers should pay more than the mostly insufficient legal minimum wage nor does it acknowledge that this is not done on the whole.*

## **C&A**

### **The company's position in 1999**

"Wages and benefits must be fully comparable with local norms, must comply with all local laws and must conform with the general principle of fair and honest dealings."

### **The company's response to consumers (2000-01, underlined) and LBL follow up (in italics):**

- on C&A's policy on wages: "wages and benefits must be fully comparable with local norms, must comply with all local laws and must conform with the general principle of fair and honest dealings." *C&A's code of conduct calls on suppliers to pay the legal minimum wage. As the legal minimum wage is, in most supplier countries, fixed too low to be in any way termed a living wage, how does C&A satisfy itself that workers are fairly remunerated? How does C&A define "fair and honest dealings"?*

- on monitoring wages: all that could be found in the 1998 SOCAM<sup>9</sup> report

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<sup>9</sup> SOCAM audits supplier companies' compliance with C&A's code of conduct. Although referred to

reads “the auditors also require information about terms of employment such as salaries, payment of overtime, and freedom of association. Although the views of staff on these matters are important, the auditors are highly aware of the possible victimisation which can be caused by inviting workers to speak to them directly”. *In the light of this comment, how is C&A’s code of conduct monitored in relation to wages? Assuming that workers are involved in such monitoring, what procedures do C&A use to ensure that those consulted are not victimised?*

- on living wage: “Even if one can define what a living wage is in each country, and that is not easy, how does one check that is what the worker receives?” *The monitoring of wage slips (including overtime payments), insisting on transparency in the way pay slips are presented, and comparing what wage slips and workers say about wages, are monitoring activities which do enable a company to check what workers are paid. These methods **are** made use of, and have been successful in uncovering a number of breaches of the law and of company codes of conduct.*

*Defining a living wage **is** difficult but not impossibly so where a company is willing to engage with workers’ organisations. This does indeed call for approaches which do not intimidate or endanger workers and we assume that C&A are aware of the strategies available to achieve this.*

### **The company’s response to Labour Behind the Label**

The company, which has since closed all UK retail outlets, has not responded.

## **Etam plc**

### **The company’s position in 1999**

It would seem that Etam did not have a code of conduct at the time the campaign was launched. However, attempts to confirm this with the company remained unanswered.

### **The company’s response to consumers (2000)**

was as follows: “I would like to assure you that Etam has for a long time worked with a written Code of Ethics which are strictly adhered to and revised regularly to keep them up to date. We are currently in the middle of such a review as our Code of Conduct will now have to meet international requirements. The basic right of the individual to earn an ‘acceptable living wage’ is one of the very basic guides”.

### **Labour Behind the Label follow up**

Our questions were as follows:

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as an independent monitoring system, the fact that SOCAM is financed by C&A and does not report to anyone but C&A means that it cannot be considered independent.

- how do you satisfy yourselves that workers supplying your company are being fairly remunerated?
- how do you define an 'acceptable living wage' and how was this definition arrived at?
- given Labour Behind the Label's definition of living wage (which was included), would you say that the workers supplying your company earn a living wage?

### **The company's response to Labour Behind the Label**

The company has not responded.

## **French Connection**

### **The company's position in 1999**

French Connection did not have a code of conduct.

### **The company's response to consumers**

French Connection did not reply to consumers.

### **The company's response to LBL**

The company did not respond to LBL's request for clarification of policy and procedures over the issue of wages.

## **The GAP**

### **The company's position in 1999**

"We do not do business with vendors who fail to comply with local laws and industry standards regarding wages and hours".

### **The company's response to consumers (2000-01)**

included nothing that related specifically to wages or which replied to the issues raised by the campaign postcard.

On how it monitors implementation of its code of conduct, the GAP said: "Our monitors generally visit factories at least once every three months and conduct random, unannounced inspections as well. They interview workers and supervisors, review payroll records, and assess overall conditions. When problems are identified, we work with factories to make sure they are fixed. If factories don't share our commitment to maintaining safe conditions and treating workers fairly, we'll quit doing business with them altogether".

## **Labour Behind the Label follow up**

Our questions were as follows:

- it is our experience that in most supplier countries, the legal minimum wage is set too low to be in any way termed a living wage. How do you satisfy yourselves that workers supplying your company are fairly remunerated?
- where you do not consider that the workers supplying your company earn a living wage, what is your company's strategy for making progress on this issue?
- a question was also asked about wages in specific supplier factories in Indonesia and Thailand.

## **The company's response to Labour Behind the Label**

The company did not reply.

There is ample evidence, however, that the GAP's much publicised internal monitoring team has failed to uncover wages below the legal minimum in a number of supplier factories. This was the case in factories in Thailand and Indonesia in 1999, in June Textiles, the factory featured by the BBC in a Panorama programme in 2000, as well as in three supplier factories surveyed in Lesotho in spring 2001. The workers interviewed in the Lesotho factories estimated that they needed the minimum wage to be at least double what it is now to meet their basic needs and that of their families.

## **NIKE**

### **The company's position in 1999**

(The Contractor) "provides each employee at least the minimum wage, or the prevailing industry wage, whichever is higher; provides each employee a clear, written accounting for every pay period; and does not deduct from worker pay for disciplinary infractions".

### **The company's response to consumers (2000-01)**

Consumers who sent in postcards received a letter and copy of the Nike code of conduct. The letter, as well as being a general summary of measures Nike has taken in the past few years to improve conditions and combat the intense international campaign it has been the target of, addressed the issue of wages as follows (responses underlined, our questions and comments in italics):

"Nike has pledged to pay workers who manufacture its products a fair wage":  
*How does Nike define a fair wage? How does this differ from Labour Behind the Label's definition of a living wage? Are the workers of Kuk Dong in Mexico earning a fair wage... and were the reports that they were paid less than the legal minimum wage incorrect?*

"In most cases, entry level workers in our contract facilities earn above the entry level compensation package offered by our manufacturing partners".

*This comparison is of little use as we do not know how adequate the wages offered by Nike's manufacturing partners are. The real question is: does the entry level wage offered by Nike enable workers to cover their and their family's basic needs?*

"Using research and other reliable measures, we continually assess the wages we pay to overseas workers to determine if their basic needs are met". *Are you able to say what methodology was used to carry out such research? How, for instance, were workers consulted? What are the general conclusions of this research? Are the findings of this research available to organisations such as Labour Behind the Label?*

### **The company's response to LBL**

The company did not respond to Labour Behind the Label.

However, we found some of the answers to our questions on Nike's own website and in the many reports published on the company's activities:

Workers at the Kuk Dong factory in Mexico (which supplies Reebok as well as Nike) were being paid less than the legal minimum wage in January 2001. A report by the US Workers' Rights Consortium (WRC) stated that: "The Kuk Dong wages are grossly insufficient to meet the barest needs of a family of three. A worker with one dependent would fall below the commonly-recognised line of 'extreme poverty'. Kuk Dong wages compare unfavourably with wages earned by similarly situated workers in the apparel and textile industry in this region of Mexico". That Kuk Dong paid below the legal minimum wage was confirmed by Verité, an auditing agency commissioned by Nike to produce an independent audit of working conditions at the factory.<sup>10</sup>

Another report, again paid for by Nike and produced by the Global Alliance for Workers and Communities in 2001, revealed that Nike workers in Indonesia were forced to leave their children with families in rural areas as they could afford neither to pay for childcare nor to live on one wage only. The workers interviewed saw their children a couple of times a year.

In November 2000, the Urban Community Mission of Jakarta testified in the European Parliament that Indonesian supplier PT Tuntex, which supplies adidas and the Gap as well as Nike, was paying overtime rates below the legal rates. The previous year, PT Tuntex had been found to pay below the legal minimum wage as well.

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<sup>10</sup> Workers at the Kuk Dong factory, now renamed Mex Mode, won independent representation by the union of their choice on 21 September 2001. Nike currently has no orders at the factory and is only promising to "consider further orders in future". Tim Connor, Nike-list e-mail, 19 October 2001.

Also in 2000, it was reported that workers in Thai factories supplying Nike could only meet the basic needs of a single worker on the legal minimum wage, static for several years.<sup>11</sup>

Much was made in 1998 of Nike's (and Reebok's) decision to raise the wages of Indonesian sport shoe workers twice - to 271,000 rupiahs (Rp) for a 40-hour week plus Rp 61,000 in additional benefits, compared to a legal minimum wage of Rp 231,000 at the time in Jakarta. While we welcomed this move as a step forward at the time, it is telling that Nike and Reebok are still, three years on, using these increases as evidence that they pay fair wages:

- the 1998 increases have to be viewed next to the substantial gains realised by companies sourcing from Indonesia when the rupiah tumbled from being worth 2,500 to 9,500 to the dollar in just a few months;
- with inflation running at 78% during 1998, footwear workers in Nike and Reebok supplier factories were still considerably worse off after these increases than they had been the previous year.

Of late, Nike is more likely to use the example of Vietnam to demonstrate that it pays fair wages: "in Vietnam, the average wage is about \$260 annually; average earnings in Nike contract factories is approximately \$660 which is more than a teacher earns", wrote Nike to one LBL supporter; "in Vietnam, factory earnings are greater than a number of other jobs such as teaching", Nike told another<sup>12</sup>.

A report published in 2001 suggests that Nike is inappropriately comparing garment workers' wages - overtime included - with the *base* wage of teachers and doctors which in Vietnam remains low. Teachers and doctors, however, usually "supplement their income by taking on private students and patients, and by doing so are able to earn wages substantially higher than those paid in Nike factories<sup>13</sup>".

## REEBOK

### **The company's position in 1999**

"Reebok will seek business partners who share our commitment to the betterment of wages and benefit levels that address the basic needs of workers and their families so far as possible and appropriate in the light of national practices and conditions. Reebok will not select business partners that pay less than the minimum wage required by local law or that pay less than the prevailing local industry practices".

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<sup>11</sup> Ymprasert J. and Candland C., 2000, "Can Corporate Codes of Conduct Promote Labour Standards? Evidence from the Thai Footwear and Apparel Industries"

<sup>12</sup> Correspondence between Nike and LBL supporters, May and August 2001

<sup>13</sup> Connor, T (2001), "Still Waiting For Nike To Do It". p 60

### **The company's response to consumers (2000-01)**

A substantial package of information was sent to consumers who had sent in living wage card. It included some references to wages – mostly detailing Reebok's wage increases to Indonesian footwear workers in 1998.

As explained in greater detail above, both Nike and Reebok awarded two wage rises to footwear workers that year, a move for which they were commended but which must be seen in context: the workers concerned still earned less after these increases than they had a year previously; Reebok and Nike benefited greatly from the devaluation of the rupiah; garment workers were granted no such increase.

### **Labour Behind the Label follow up**

Questions to Reebok were as follows:

- How does Reebok define fair wages? How does this differ from LBL's definition of a living wage? (The wage section of Reebok's code of conduct is headed *Fair Wages*).
- The wages on Indonesian footwear workers have been said to be 43% above the legal minimum wage for a 40-hour week. Are you satisfied that this amounts to a fair wage, given that only last year the Indonesian Minister of Labour accepted that in some parts of the country the legal minimum wage only met 66% of the basic needs of a *single* person?
- Are the workers of the Kuk Dong factory in Puebla, Mexico, earning a fair wage and were the reports that they were paid less than the legal minimum wage incorrect?
- Where you do not consider that the workers supplying your company earn a living wage, what is your company's strategy for making progress on this issue?

### **The company's response (April 2001) to LBL**

Responses are underlined, with our comments in italics:

- *No definition was given of a fair or a living wage. Reebok's code still does not request that suppliers do more than pay the legal minimum wage. Indeed, Reebok gives no indication that they think suppliers should pay anything more than the mostly insufficient legal minimum wage.*

- on wages in Indonesia: as from 2000, Reebok no longer requires that the basic wage in Reebok-supplying factories should exceed the legal minimum wage by 20-25%. This is because it considers that Indonesian unions are now able to negotiate their wages directly with management. According to Reebok, "while minimum wages are higher than the government-mandated minima, the unions have negotiated a combination of increases that in many cases focuses as much on skills and productivity incentives as it does on the basic minimum wage." *Labour Behind the Label very much welcomes Reebok relying on unions to negotiate better wages and will be asking its Indonesian partners for their assessment of the success of that process. The Indonesian government itself recognised in 2000 that the legal minimum wage is well below what is needed for workers to meet their and their dependents' basic needs, and recommended that trade unions should negotiate substantially*

*higher wages. It will be essential, however, for Reebok to ensure workers in supplier factories are indeed able to exercise their trade union rights fully and freely. In spite of clear improvements in the political situation of Indonesia and the legalising of a number of unions, the new Trade Union Law passed in 2000 is thought by many to still limit the activities of unions.*

*While the Indonesian government itself has a role to play in ensuring that the rights to organise and bargain collectively are enforced, it will be constrained in doing so by the knowledge that higher wages may mean loss of foreign investment. Companies such as Reebok need to signal to supplier countries that their policy will no longer be to relocate once governments choose to enforce their labour legislation more forcefully or raise the minimum wage.*

- on wages in Mexico: Reebok assert that Kuk Dong workers were being paid “slightly more than the region’s minimum wage”. *Both the Workers’ Rights Consortium and Nike-commissioned Verité reports confirm that Kuk Dong workers were being paid below the legal minimum wage when the dispute broke out.* Reebok and Nike both refer to additional, in-kind benefits boosting the earnings of workers. “The factory”, Reebok explains, “provides workers with transportation, a light breakfast, and a full lunch”. *It is our understanding that the very poor quality of food in the Kuk Dong canteen had been one of the sparks to ignite the dispute in January 2001.*

- on company strategies for making progress on the issue of wages, Reebok replied that “we continue to follow discussions on the living wage issue amongst academics, governments, international agencies and NGOs so that we can further understand the role and opportunities available to us to play a constructive role”.

## **River Island**

### **The company’s position in 1999**

“All suppliers shall ensure that wages, benefits and employment practices are fully comparable with local standards and conform to all local laws and regulations.”

### **The company’s response to consumers**

River Island did not respond to consumers.

### **The company’s response to Labour Behind the Label**

LBL asked:

- whether River Island’s code of conduct had been revised (we were told in 1998 that it was under review);
- what were the company’s guidelines in relation to wages among their supplier factories;

- how they satisfied themselves that workers in their supplier factories were fairly remunerated given that the legal minimum wage is often set too low to meet workers basic needs?

The company has not responded.

## **Storehouse plc**

### **The company's position in 1999**

The company's code of conduct, which we were told was under review, contained no reference to wages.

### **The company's response to consumers (2000-01)**

The company's new code of conduct states that "wages and other benefits must meet or exceed any national legal standards". The accompanying letter adds that "in implementing this code and monitoring the conformance of factories, both Bhs and Mothercare endeavour to ensure that wages and other benefits are sufficient to meet basic needs and provide some discretionary income. Bhs and Mothercare will continue to review and strengthen their policies and procedures in this area".

### **Labour Behind the label follow up**

LBL congratulated Bhs on recognising the need for wages to provide more than the means of subsistence. LBL requested further information as to how Bhs<sup>14</sup> :

- satisfies itself that wages paid cover basic needs and a discretionary income
- has strengthened policy in the area of wages
- defines a fair wage and how this might differ from LBL's definition of a living wage
- monitors wages and benefits.

### **Response to Labour Behind the Label**

The company has not responded.

## **The Virgin Clothing Company**

### **The company's position in 1999**

The company did not have a code of conduct.

### **The company response to consumers (1999-2000)**

The card sent by consumers asked companies that:

- they should demand their suppliers pay a living wage

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<sup>14</sup> The companies which formed Storehouse in 1999 are now independent.

- they should pay suppliers prices that enable them to pay a living wage
- they should ensure workers are involved in determining the level of a living wage.

Virgin Clothing replied with a postcard which stated that:

- all their suppliers pay a living wage
- Virgin Clothing pay suppliers a price that enables them to pay a living wage
- Virgin Clothing visits all suppliers regularly and take clients with them.

### **The company's response to Labour Behind the Label**

The company did not respond to LBL's request for further information.

***Not one company has commented on Labour Behind the Label's call on them or acknowledged the need "to pay suppliers prices that enable them to pay workers a living wage".***

## **3 Living wage campaigns around the world**

In the **United States** in 1998, a coalition of organisations hosted the Living Wage Summit at the University of California in Berkeley to "increase understanding of how to determine a living wage and develop coordinated strategies for winning a living wage in the global garment and sportswear industry"<sup>15</sup>. Over 50 participants attended, including human rights groups, trade unions and other worker organisations, women's organisations, civil and immigrant rights' organisations, student groups and academics from North and Central America, Hong Kong and the Netherlands. Discussions among the participants led to the drafting of one of the first living wage formulae to be proposed.

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<sup>15</sup> Sweatwatch, December 1998, "A Working Living Wage Methodology"

Since then, Global Exchange has put the wage issue at the centre of its 'Stop GAP Sweatshops' campaign, linking the wage issue to the right to organise and to workers' ability to negotiate living wages. In late 2000, former professional footballer Jim Keady (fired from his job as a university coach for refusing to wear the Nike swoosh) and activist Leslie Kretzu, spent a month in Indonesia trying to live on the full time wages of Jakarta footwear factory workers. They shared that experience, which left them hungry and exhausted, with thousands of US students and briefed members of the Congress on their findings.

In **Switzerland**, the Clean Clothes Campaign integrated the living wage issue into a campaign calling on Triumph to pull out of Burma and another on working conditions in the company's Filipino supplier. The Filipino workers complained that their wages have fallen from 500 to 310 pesos due to daily production targets set so high that they could not be met during basic working hours.

In Flemish-speaking **Belgium**, the Clean Clothes Campaign integrated the wage issue into its Euro 2000 campaign, targeting adidas in particular as one of the official suppliers to the tournament. Workshops, street actions and a 15,000-strong youth rally were organised, while 50,000 people were photographed displaying a badge calling for a living wage to be paid. The photos were collated and presented to adidas.

The Clean Clothes Campaign in the **Netherlands** highlighted a living wage as one of the key demands of the last two years' campaigns. It featured high on the list of demands made of sponsors during Euro 2000 and related campaign materials. A national coalition of Dutch NGOs and trade unions members of the Clean Clothes Campaign put their name to a poster calling for a living wage to be paid, of which 180,000 were distributed. The public was asked to donate a symbolic amount of money as an indication of its wish to see wages increased in the sportswear and garment industry. Nike and adidas were asked to convey that money to workers. No response came from adidas while Nike informed the CCC that they would not accept the cheque.

#### **4 What is a living wage?**

##### **Defining a living wage**

A number of consumer campaigns have been calling for a *living* wage to be paid to workers in the garment and sportswear industries. Yet the majority of companies still do no more than call for the *minimum* wage to be paid. Either they insist that the legal minimum wage is adequate to live on - whilst often failing to ensure that it is paid; or they object that neither they nor campaigners know what a living wage is, and that they therefore cannot be expected to comply with criteria on which nobody agrees.

The situation, happily, is not as confused or as confusing as some companies have suggested. While there is as yet no consensus as to how to *quantify* a living wage, there *is* broad agreement as to how to *define* a living wage.

Labour Behind the Label, as it launched its 1999 campaign, framed its definition as follows:

***“ A living wage enables workers to meet their needs for nutritious food and clean water, shelter, clothes, education, health care and transport, as well as allowing for a discretionary income. It should be enough to provide for the basic needs of workers and their families, to allow them to participate fully in society and live with dignity. It should take into account the cost of living, social security benefits and the relative standards of other groups”.***

Looking at the model codes formulated by trade unions and campaigners, at the formulae conceived by academics and at definitions such as above, it appears that all agree a living wage should

- cover basic needs
- include a discretionary income
- cater for dependents.

Corporate opposition to the campaign argues that it is of little use to compare European with Asian wages, or the wages of Indonesian footwear workers with the sponsorship enjoyed by André Agassi, David Beckham, Venus Williams or Tiger Woods. It is appropriate, however, to argue that workers producing for companies able to pay out such endorsements, should not have to work excessive overtime just to raise their income above subsistence level. There can be no question of a wage being termed a living wage where workers are paid so little that they cannot adequately feed and educate their family, or cannot consider *having* a family at all.

### **Calculating a living wage**

The UK's Ethical Trading Initiative (ETI), in a paper entitled “The Living Wage Clause in the ETI Base Code – How to implement it” (June 2000), identifies two main approaches to quantifying a living wage.

### **The formula approach**

Some examples:

- Participants in the US Living Wage Summit<sup>16</sup> in 1998 drafted the following formula for determining a living wage, which takes into account the average number of family members and adult wage earners per family in a region, as well as integrating the costs included in the definition of Labour Behind the Label. The formula assumes that the total required is to be met from adult take-home pay, after deductions but before overtime.

Average household size    x    cost of basic needs per person  
\_\_\_\_\_ + savings

<sup>16</sup> See page 22

average number of adult earners per household

Savings are estimated at 10% of income.

- The SA 8000 formula<sup>17</sup> assumes two earners per household, multiplies half their combined earnings by food costs, then multiplies these two figures by the ratio of food costs to the average total household expenditure. Savings are again added.

Half average household size      x      cost of food per person      x  
total expenditure: food expenditure ratio + savings

Since the proportion of income spent on food varies with the level of prosperity, this formula effectively indexes the level of a living wage to a country's increases in per capita income. SA 8000 does stress that this formula specifically does not preclude consultation with workers as to the level at which a living wage should be fixed.

- The Purchasing Power Index (PPI) methodology formulated by CREA (Center for Reflection, Education and Action) in the US starts from the premise that the minimum wage *ought* to be sufficient for workers and their dependents to live in dignity. PPI studies:
  - quantify the average cost of living in a given area for a family of two adults and two children, with one adult only in full time work on the understanding that if another member of the family is in work the benefit should accrue to the family rather than the company. A PPI study begins with listing the commodities needed in a particular culture and location, consumable and non-consumable. This list is drawn in collaboration with workers and worker organisations and other NGOs. According to CREA's latest PPI study in Mexico<sup>18</sup>, the adult providing for a family of four in Mexico's Region C<sup>19</sup> needs to earn 895 pesos per week;
  - translate these living costs into the number of working minutes that will need to be worked *at the existing minimum wage rate*. Thus in Mexico's Region C, it would take 11,245 working minutes to sustain a cost of living of 895 pesos a week. Given that an average 48-hour working week provides only 2880 working minutes, it is immediately clear that the minimum wage cannot sustain a family of four;
  - calculate the wage rate required to provide a "sustainable living wage" on the basis of the hours available in a *normal* working week, ie before overtime.

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<sup>17</sup> SA8000 is a social standard formulated by Social Accountability International (SAI). It is based on a number of ILO conventions and international agreements. It is intended to be applicable to all sectors, all sizes of enterprise and all regions. SAI's advisory board includes business, NGO and trade union representatives.

<sup>18</sup> Executive Summary of 'Making the Invisible Visible: A Study of the Purchasing Power of Maquila Workers in Mexico' (2001)

<sup>19</sup> Mexico is divided into three wage regions – A, B and C. Garment factories are present in all three areas. Region C is where Kuk Dong, the garment supplier referred to in section 2 in relation to Nike and Reebok, is situated.

In Mexico's Region C, the present minimum wage provides only 25.6% of the sustainable living wage required.

- New York City Council passed a bill in March 2001, the main provision of which is that "producers of apparel and textile producers for the City must pay wages that at least take workers above the national poverty line for a family of four". The "non-poverty wage" has been set at \$7.50 - \$8.75 where the employer does not provide health benefits. The law, which was backed by NGOs and trade unions, is intended to be applied to non-US suppliers by indexing the US non-poverty rate to a country's standard of living - on the basis of World Bank per capita income figures and the levels of consumption of the country concerned.

According to US trade union UNITE, this methodology pitches the non-poverty wage higher than most legal minimum wage rates but lower than most estimated living wage rates.

- In the UK, the main call for a living - as opposed to a legal minimum - wage has come from UNISON, the country's biggest trade union. UNISON is calling for the living wage to be set at half of male median<sup>20</sup> earnings, at present \$14.15 (£9.25) per hour, but does not specify what such a figure would be intended to cover - indicating concern with equality of distribution rather than with evaluating and meeting the needs of the poorest. An experiment with the East London Community Organisation to establish a 'living wage zone' has concluded that a living wage for a family of four with one parent in full-time work and one in part-time work would require an hourly rate 53% higher than the present minimum wage level.

Those who support the formula approach often highlight its uniformity as easy to understand and making for (relatively) easy implementation. This ignores the fact that no such uniformity exists in the industrialised North. The ETI highlights significant variations in the purchasing power afforded by various minimum wage rates (double in Australia what it is in Spain, for instance) as well as in the relationship of the minimum wage to that of median earnings: 31% in Japan, 56% in the UK, 57% in France<sup>21</sup>.

### **The negotiated approach**

Opposition to the formula approach is more likely to be based on the fact that the formula is above all a 'top down' approach: trade unions and NGOs agree that its main disadvantage is that, as a methodology, it does nothing to empower the workers whose lives it seeks to improve.

The International Textile, Garment and Leather Workers Federation is clear as to the key role workers must play in the process: "Less emphasis should be put on developing a universal formula for calculating a living wage and more on consulting with workers as to what they think they need to provide for themselves and their families"... The same point is made by Canada's

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<sup>20</sup> If we call the median wage x, 50% of the population earn more than x, 50% earn less.

<sup>21</sup> Steele, D (June 2000), "The Living Wage Clause in the ETI Base Code – How to implement it" p 3

Maquila Solidarity Network, whose position is that “while the call for companies to pay a living wage is a legitimate demand, the decision as to what this is has to rest with the workers.”

The ETI, having considered the advantages and disadvantages of both approaches, concluded:

*“The formula approach has a number of advantages, particularly the possibility of providing a stricter standard in situations where it is hard for workers to negotiate for a fair wage. Unfortunately, the formulae also contain the weakness of trying to apply average household sizes and average numbers of income partners per household to situations which are likely to be extremely diverse socially and economically. In some circumstances (eg a workforce composed predominantly of single people), the resulting wage would be comfortably above the level needed, while in others (eg where there is a predominance of single income households) the result would be far too low.*

*The negotiated approach, on the other hand, offers the possibility of tailoring the definition of the living wage to actual circumstances of the localities and workforce in question. Its weakness is that it may be too flexible in situations where workers don’t have the power to negotiate improvements<sup>22</sup>”.*

All agree that the negotiated approach is problematic where the supplier country does not allow, or actually represses, the functioning of independent trade unions. Where companies have chosen to source from countries known to be poor enforcers of labour standards however, the onus is on those companies to demonstrate a commitment to the fair remuneration of workers in spite of the weakness of unions. This they can initiate by:

- No longer signalling to supplier countries that the enforcement of labour standards (particularly the legal minimum wage and freedom of association) or the *raising* of the legal minimum wage risks relocation to countries with cheaper labour costs and a weaker enforcement record;
- carrying out research as to the value of workers’ present wages: what *can* workers afford on the legal minimum wage set by supplier countries? What can they afford on their current wage?
- working with fledgling unions and other forms of workers’ organisations, with local and regional organisations (labour/human rights organisations, community groups, local authorities), with academics of appropriate expertise and ILO representatives, to assess what is needed to meet the basic needs of workers and their dependents;
- fixing the prices paid to suppliers *in function of* what is needed for them to pay a living wage;

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<sup>22</sup> op. cit., p 9

- negotiating, where possible, the level of a living wage with genuine representatives of the workers; where not possible, auditing against a level which is acceptable to the local and regional organisations consulted *whilst working to facilitate the functioning of independent unions*.

Where the political will exists to remunerate workers fairly, the negotiated approach will be seen as an opportunity to consolidate the right to organise and to bargain collectively. Where that will is lacking, a negotiated approach is likely to be seen as unrealistic.

### **Who Pays for a Living Wage?**

That hundreds of thousands of workers in the global clothes industry should be paid a *living wage* rather than a wage on which they merely survive is increasingly finding support in mainstream society. Who, however, is going to pay for the extra costs incurred? In the rare cases that they do indicate a commitment to a living wage, codes of conduct do not specify where the financial responsibility lies.

The capacity for absorbing these costs, Labour Behind the Label believes, is to be found first and foremost among retail companies and brand owners.

In a Bangladeshi factory visited by CAFOD (Catholic Fund For Overseas Development) in 1998, the wages earned sewing large, quilted Nike ski jackets, based on figures provided by the management, came to 51p per jacket. A similar jacket on sale in the UK costs £100<sup>23</sup>. The women workers earned half a per cent of the jacket's final price. With Nike's net profits in 2000 reaching \$579 million<sup>24</sup>, the wages of the women sewing these jackets could have been doubled without the extra cost needing to be passed on to consumers. Certainly the argument used by Nike that higher wage rates would cost jobs is difficult to justify considering the above figures.

Where labour costs are higher (they represent 4% of the retail price in sport shoe manufacture), it may be that some of the cost incurred in paying workers higher wages would need to be passed on to consumers. Paying Indonesian sport shoe workers a living wage, for instance, would raise the cost of a \$65 pair of sport shoes to \$70<sup>25</sup>. It is unlikely that a \$5 increase would lead to a substantial fall in sales and cost jobs as Nike has argued. Indeed, sport shoe brands need not pass the entirety of the increase on to consumers. Consumers, on the other hand, may well be willing to pay extra in the knowledge that the workers who made the shoes are to benefit from the

<sup>23</sup> Green, D (1998), "Fashion Victims: the Asian Garment Industry and Globalisation", CAFOD, p 9

<sup>24</sup> Connor T, (2001), "Still Waiting For Nike To Do It", p 52. Corporate profits such as Nike's \$579 million are mostly destined for shareholders and are rarely re-invested in improving working conditions, let alone wages. Yet the reverse logic of reducing production costs to maximise profits goes unchallenged.

<sup>25</sup> Op.cit., p 58

increase<sup>26</sup>.

Supplier companies of course share with retailers the responsibility of ensuring that their workforce is paid a living wage. Concerns have been expressed that suppliers may not pass on the financial resources made available to them to pay higher wages. Where an agreement has been entered into with suppliers, retailers or the buyers they are using are surely able to set up systems which will enable them to verify that the rates paid are those that were agreed.

More urgently, it is up to companies to ensure that they pay their suppliers prices high enough to include the costs of paying workers a living wage. Trading 'ethically' is not compatible with looking for the lowest possible labour costs, as demonstrated by the case of one European garment retailer: the company had received much favourable publicity for agreeing to experiment with independent monitoring systems, but at the same time notified its Asian suppliers of a 30% cut in the prices paid to them! How were these suppliers then to offer decent pay working conditions?

## **5 Ethical Trading Experiments and the living wage issue**

There is broad agreement, if no single formula, as to what a living wage should cover. Where the will exists to remunerate workers fairly, what is now required is to create the space necessary for the debate to develop, for consultation with the relevant local stakeholders and for negotiation, where possible, with those who genuinely represent the workers' interests. Some

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<sup>26</sup> The significant growth in fairly traded products' share of the market in recent years in Europe<sup>26</sup> testifies to consumers being prepared to pay more where they can be sure that the premium benefits the workers and small producers. In the UK alone, according to the Fairtrade Foundation, retail of fairly traded products grew by 31% in 1998-99 and by 51% in 1999-2000.

companies, having realised that a 'business-as-usual' approach is unlikely to satisfy consumers, have made that commitment.

### **The Ethical Trading Initiative**

In the UK, six garment retailers committed themselves to paying a living wage when they became members of the Ethical Trading Initiative (ETI) in the late 1990s. After some debate, it was decided that LBL's living wage campaign would not target these companies: it was understood that they would instead work within the ETI to formulate and experiment with strategies for delivering on their commitment to the principle of a living wage as part of the ETI base code.

The ETI in June 2000 recommended that "companies should consult widely with the local community about the appropriate level of the living wage, then negotiate the precise amount with representatives of the workforce in a manner consistent with the freedom of association and right to collective bargaining provisions of the ETI base code (ILO Conventions 87 and 98)<sup>27</sup>".

In "situations where the negotiating power of the local workforce is weak because union representation is undeveloped or because the labour market is over-supplied", specifies the ETI, "the responsibility of the company to arrive at an adequate measure of the living wage (through study and consultation) is proportionately greater"<sup>28</sup>.

LBL approached the six garment retailers who are part of the UK's Ethical Trading Initiative - Asda (George), Levi Strauss, Littlewoods, Marks and Spencer, Monsoon and Pentland Group - and asked what processes they were using to determine what a living wage is and what progress has been made in making a living wage a reality for garment workers. Four out of the six companies approached - Levi Strauss, Marks and Spencer, Monsoon and Pentland Group - have responded. Their response is as follows:

- 3 out of the 4 companies responded that they still monitor against a minimum wage requirement rather than their commitment to a living wage. While this is an appropriate first step in a situation where many suppliers still fail to pay the minimum wage, it **is only an adequate response if companies are also enacting the strategy proposed by ETI – to pro-actively engage in consultations and ascertain what, in a given locality, would constitute a living wage.**
- 3 out of the 4 respondents did highlight the need to consult with local organisations:  
Pentland Group: "Our strategy is to focus on problem areas with local organisations for sustainable solutions".

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<sup>27</sup> Steele, D (June 2000), "The Living Wage Clause in the ETI Base Code – How to implement it", p

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<sup>28</sup> op. cit, p 12

Levi Strauss: “The subject is complex and there are wide differences in defining what constitutes a living wage and how it is calculated, and requires significant cooperation among external stakeholders, including governments, industry, NGOs, universities and multilateral organisations”.

Marks and Spencer: “We believe that living wage is an issue which should be examined locally, within the country and by people who understand the basic needs. We have successfully established benchmarking groups in five production countries so far. These groups are charged with solving local problems [...]. [They] involve local stakeholders such as local labour departments, training departments, lawyers and where available the ILO (International Labour Organisation). These groups are an excellent forum for discussing all worker issues including living wage”.

The companies did not, apart from M&S, say what they have set in motion with regard to consulting local organisations and with what result, so that no assessment is possible as to what progress if any has been made. It is not possible to judge whether LBL’s decision not to target ETI members was justified without access to more information on

- how the consultation processes referred to are evolving
- how workers themselves are consulted as part of the processes described
- what changes are resulting from these consultations.

M&S in particular describes a process which, although it does not appear as yet to include workers, has considerable potential for moving forward on the living wage issue. If M&S consider that such progress is already being made, LBL and its supporters would like to hear more.

- No respondent indicated that they were aware of how grossly insufficient the legal minimum wage is in general – although one did acknowledge that the legal minimum wage did not keep up with inflation in one supplier country. Yet at least 3 out of the 4 respondents are sourcing from Indonesia, where the government itself has accepted that the legal minimum wage fails to cover the basic needs of a *single* worker and has publicly called upon unions to negotiate better wages.
- Only one respondent acknowledged the role unions are to play in determining a living wage: “Many of the factories producing for M&S are unionised and wages may therefore be subject to collective bargaining agreements. In other countries where unions may not be the norm, we encourage factories to implement and work with workers’ councils, so that workers can be appropriately represented”.
- One respondent cited ‘incentive pay’ as their preferred way to raise

wages. While LBL is not against incentive pay in principle, a living wage must be understood to be a *basic* wage which enables workers to meet their needs and those of dependents, not a function of productivity.

- One respondent favours contractors who provide additional benefits (clinics, school supplies for workers' children, child care support). It remains to be seen how workers themselves view such benefits. Meal and transport allowances apart, unions appear to favour workers being paid a living wage and deciding how to spend their own earnings rather than be partially rewarded through schemes which may or may not correspond to their needs.
- Marks and Spencer appear to be saying that they can only contribute to higher wage costs by helping suppliers to increase efficiency. The position of LBL however, is that companies such as M&S must pay prices for their goods which are high enough for suppliers to be able to pay their workforce a living wage. As yet, initiatives such as ETI do not appear to have addressed the "who pays" question.

### **The ethical trading experiments in France, the Netherlands, Sweden and Switzerland and the living wage issue**

Garment retailers in France, the Netherlands, Sweden and Switzerland are working with the European Clean Clothes Campaign to experiment with implementing base codes of conduct which all include a living wage clause. The garment companies concerned accept responsibility for working conditions along their entire supply chain and are engaged in pilot projects to verify implementation of the codes of conduct to which they are committed.

Labour Behind the Label asked each initiative to sum up its strategy on the wage issue, and to indicate what progress was thought to have been made by the companies participating in its pilot projects.

Most of the garment retailers and distributors involved in the 'De l'Ethique sur l'Etiquette' Collective (the **French Clean Clothes Campaign**) initially committed themselves to the principle of a living wage. However, in the absence of any work as yet to assess what a living wage consists of in a given locality, most are at the moment monitoring against legal minimum wage requirements. The Collective reports that there is little debate so far as to what approach should be adopted over the wage issue. Its emphasis on enforcing and consolidating the right to organise, however, will prove an essential building-block when it comes to establishing living wage rates and negotiating the implementation of a living wage<sup>29</sup>.

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<sup>29</sup> From conversations with Olivier Chabrol (3 October 2001) and Pascal Erard (13 November 2001)

**Sweden's Clean Clothes Campaign** had also integrated the living wage principle into its base code. The companies participating in Sweden's independent verification pilot project declined, however, to alter their recently formulated codes of conduct in relation to the wage requirement as these formed the basis of contracts recently entered into with suppliers. The company codes stipulate that suppliers must abide by the legal minimum wage of the supplier country. Although it accepted this 'exemption', the Swedish CCC is now proposing a revised code, which would require that workers be paid "decent wages and benefits for a standard working week [which] shall meet at least legal or industrial minimum standards and always be sufficient to meet the basic needs of workers and to provide a discretionary income". If accepted by the companies (which include H&M), this will represent a stronger commitment than to present company codes. It is the only base code, however, which is not explicit about the need for a living wage to include provision for dependents. Although the Campaign reportedly intends that 'decent wages' should include providing for dependents, it may be difficult to hold companies to a commitment which is not clearly and explicitly stated at the outset.

Three companies are working with the **Swiss Clean Clothes Campaign** - Mabrouc, Migros and Veillon - in a pilot project to independently verify that suppliers and sub-contractors abide by the code the three companies are committed to.

In supplier areas where the authorities have not officially determined a wage which can be termed a living wage (defined by the Swiss campaign as the legal minimum wage plus some discretionary income and sufficient to provide for dependents), or "where no reliable and recent study has been conducted by credible parties, the pilot project will mandate trustworthy organisations and/or individuals to carry out the necessary investigations and research and determine such a living wage for a given location". The results of this research will be used as benchmarks in assessing compliance with the Code of Conduct.<sup>30</sup>

The **Dutch Fair Wear Foundation (FWF)** differs from all other projects considered here in that it is the only one to propose a company label as the outcome of its independent monitoring experiments. The proposed label means that there will have to be clear standards to meet with regard to wages as with every other aspect of the FWF code.

The Foundation, which is in the process of drafting its certification manual and is still, therefore, defining policy, intends that where unions are in a bargaining position, salaries should be negotiated through collective bargaining. The FWF would of course need to ascertain that the union concerned is genuinely in a position to negotiate and that collective bargaining agreements (CBAs) are implemented and in the actual interests of workers. Audits of supplier factories and resulting improvement plans

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<sup>30</sup> From an e-mail of the Swiss Clean Clothes Campaign, 10 October 2001.

would work to support CBAs<sup>31</sup>.

Where collective bargaining is not in place, improvement plans will call for wage increases set "in consultation with competent and relevant local authorities, unions, business associations and NGOs. Since these increases will in the first few years fall short in most cases of what could be considered a living wage, FWF expects to have the time to build up its contacts with local stakeholders and together with them define more precisely the concept and implementation of a living wage in specific countries"<sup>32</sup>.

## Issues arising

Some of the companies participating in verification initiatives still use the pretext of "not knowing what a living wage is " in order *not* to address the issue. This is no longer a tenable position. A company which has committed itself to the principle of a living wage should:

- pro-actively consult workers and local organisations and comprehensively study what constitutes a living wage;
- negotiate standards with genuine representatives of the workers or, where that is not possible, audit against standards which have been found acceptable by the organisations consulted;
- explicitly recognise the relationship between the price paid for its goods and the ability of suppliers to pay living wages.

Where the debate is sufficiently advanced, the key difficulty emerging is, unsurprisingly, how to balance the need to raise standards in supplier countries where unions are weak, against the danger of supplanting the role of these already weak unions. This difficulty, however, can be minimised where progress towards a living wage is understood to be inseparable from the right to organise. This must mean in practice:

- \* company efforts to improve wages being matched by efforts to enforce and consolidate the right to organise and to bargain collectively;
- \* signalling to suppliers and supplier countries that companies *favour* the enforcement of the right to organise and bargain collectively;
- \* stressing that where companies have chosen to source from countries or factories where unions are weak, the onus is on them "to arrive at an adequate measure of the living wage - through study and consultation". It should be clear to companies wishing to be considered leaders in the field of ethics, that moving towards a living wage will be more easily achieved where unions are genuinely able to negotiate.

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<sup>31</sup> Fair Wear Foundation Certification Manual, October 2001 draft.

<sup>32</sup> From an e-mail of the Fair Wear Foundation, 22 October 2001

In November 2000, the European Clean Clothes Campaign decided to update and expand the information it held on wages in the garment and sportswear industry. A questionnaire was circulated among the campaigns' partners and has yielded the following information. Minimum, actual and estimated living wage figures will be found in the tables which form the second part of this section.

### **Bangladesh<sup>33</sup>**

Almost a million jobs have been created in the garment industry in Bangladesh in the last fifteen years. There are an estimated 2,700 factories employing a workforce of mainly young women. The garment sector is extremely important to the Bangladeshi economy, accounting for 73% of export earnings. 55% of these exports go to the US, 45% to the EU.

57% of the workers interviewed are single, 35% are married. 57% have between 1-3 dependents, 43% up to 6 dependents. 70% live with family, 29% with friends. All workers surveyed are full time. They are factory-based as homeworking is rare in Bangladesh. 90% are machinists. They are all permanent workers although this does not afford them any particular rights compared to temporary workers.

82% of the women surveyed reported that there is a daily target to meet, and that these targets increase when deadlines have to be met. There are no pay incentives to meet these targets.

Wages are often paid several months in arrears, making it difficult to leave without the risk of losing a significant amount of money in back wages<sup>34</sup>.

### **China<sup>35</sup>**

By the late 1990s, China had become the world leader in the export of garment and shoes. Much of the production is now situated in Southern China, where a booming sector of foreign-owned, private, unregulated, low wage factories employs millions of young people, who for the most part have migrated from rural areas. These workers visit their families once a year or less.

The workforce of GuangDong City, capital of Guang Dong province in Southern China, is of 160,000 indigenous workers - 1,600,000 once migrant

<sup>33</sup> Sources: from a survey conducted by Syed Tamjid ur Rahman, Development Consultant, for the Clean Clothes Campaign -Sweden in Jan-Feb 2001; and "Bangladesh: Ending the Race to the Bottom", a report by the National Labor Committee (NLC), October 2001

<sup>34</sup> Sewing It Together, War on Want, 2000.

<sup>35</sup> From research conducted for Labour Behind the Label by the Hong Kong Christian Industrial Committee (HKCIC) between September 2000 and October 2001.

workers are included. The majority are young women aged 17-25, who work between 3 and 5 years before returning to their villages to get married or set up small businesses. Migrant workers are not entitled to social security protection.

Standards of living in China vary significantly from region to region and even within regions. GuangDong province itself has ten administrative regions, each with a different legal minimum wage rate.

Most of the workers live in dormitories, some rent accommodation outside the factory for approximately RMB150. The young women work such long hours that they are unable to cook for themselves, which is in any case mostly forbidden in dormitories. It costs approx. RMB365 a month to eat from street stalls, RMB50 to phone home and RMB100 to cover tax, insurance and other payments to the governments, as well as personal necessities such as clothes. Excessive overtime - 100 hours a month – is workers' main grievance.

### **India<sup>36</sup>**

The worker interviews used here were conducted in Tirupur, often called *T-shirt town* because of its enormous production of knitted cotton garments. Tirupur is one of the major export centres in India. Located in South India in the state of Tamil Nadu, the town and its surroundings, known as the Tirupur belt, have grown very rapidly in the last ten years - both in terms of production and population.

Tirupur exported 48% of India's knitted cotton exports in 2000. Its estimated 200,000 to 300,000 garment workers are employed both in the informal sector and in the town's 4,000 garment factories.

Many workers in the Tirupur region are migrant workers from the poor rural areas of Tamil Nadu, where there is not enough employment and wages are extremely low. In most cases, the whole family moves to Tirupur to find employment in the garment sector. As the income of the head of the family is not sufficient to live on, women and often children have to work too.

Of the 80 women surveyed, 71% were married, 60% had families of up to 6 people. Tirupur women work in the garment industry to cope with Tirupur's fast rising cost of living. Inflation is high as are the costs of housing, water and transport. The survey found that garment workers are not granted statutory benefits and that women's pay suffers from gross gender inequality. Particular areas of work are often reserved for them (eg packing), which are paid less than those reserved for men (eg machining).

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<sup>36</sup> From a survey conducted by SAVE, an NGO based in Tirupur, Southern India, for the Clean Clothes Campaign Sweden in Jan-Feb 2001 and from "Reality Behind the Code" a report compiled by SOMO (Centre for Research on Multinational Corporations) in June 2001

The regular working day is ten hours, six days a week, plus three hours' overtime. At peak times (September to December), workers often have to work late into the night - finishing work at 1.30am.

Homeworking is becoming increasingly popular as employers realise that it is a cheaper option: there are no labour disputes, there is no need to find space to accommodate workers, who can be paid less and are not entitled to any benefits.

## Indonesia

Indonesian workers are still very much affected by the financial crisis of 1997-98, which in 1998 left them struggling against an annual inflation rate of 78% with wage increases of 16%.

The situation in post-Suharto Indonesia has improved in that there is greater political will to improve living and labour standards. Even the unpopular Minister of Labour Bomer Pasaribu did recognise, in April 2000, that after regional increases of between 15 and 55%, *single* workers, let alone workers with dependents, would still not be able to meet their basic needs. "The government concedes", he said, "that workers' purchasing power continues to weaken and that significant increases in the minimum wage still only barely cover the basic needs of a single person"<sup>37</sup>. In December 2000, the minimum wage in Jakarta covered 81% of a single worker's basic needs<sup>38</sup>. Indonesian workers tend to regard the legal minimum wage as a tool provided by government to assist companies in keeping wages low. The legal minimum wage is increased every April.

Indonesia's Director General of Industrial Relations and Labour Standards in 2000 urged that "unions should no longer focus their struggle on just regional minimum wages but should intensify bipartite negotiations with employers to help improve workers' social welfare", wages included. "The legal minimum wage", he added, "was valid only for [new] workers and workers with zero experience"<sup>39</sup>.

This call on unions to bargain for higher wages is, however, impeded by:

- the relative fragility of Indonesian unions
- the restriction of trade unions activity due to a continued climate of intimidation and to new, restrictive labour legislation
- the fact that employers themselves are constrained by high cost bureaucracy including corruption payments
- retailers' continued failure to pay prices that enable a living wage to be paid.

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<sup>37</sup> Jakarta Post, 22 February 2000

<sup>38</sup> Id

<sup>39</sup> Jakarta Post, 23 December 2000

Indonesian trade union SBSI<sup>40</sup> has called for the outdated criteria used in determining regional minimum wage rates to be replaced by criteria negotiated with workers<sup>41</sup>. The minimum wage has, since January 2001, been set by tripartite regional committees consisting of representatives of unions, employers and officials from the Ministry of Labour.

According to Garteks<sup>42</sup>, workers spend considerably less on food and personal necessities when earnings are down (when, for instance, inflation is high) while the amount sent to relatives remains constant at \$6.5 (Rp 50,000).

### **Lesotho<sup>43</sup>**

Approximately half of the population of Lesotho lives below the poverty line. In recent years, Lesotho has built up its manufacturing base considerably. Most of the capital recently invested has come from Taiwan. Investors are drawn by:

quota-free entry into EU and US markets (most companies come to Lesotho to bypass the quotas set in their home countries or in other countries they operate in)

low labour costs for a highly-skilled, well-educated workforce

- weak trade unions
- a reasonably stable social and political environment
- government incentives.

While government incentives such as tax holidays and free repatriation of profits are an advantage, it is the absence of quotas which most attracts investors. This will be further enhanced by the Africa Growth and Opportunities Act (AGOA), passed in 2000 by the United States, which gives Lesotho quota- and duty-free access to US markets. The AGOA is thought to be the main factor behind present rates of expansion.

The garment factories are found in industrial zones in Maseru and Maputso which are similar to Export Processing Zones (EPZs). They are difficult to access, are secured by (sometimes armed) guards and have with their own police stations. Companies established on these industrial zones take advantage of the lax implementation of labour laws. The aim for the Lesotho National Development Corporation (LNDC) is to market its people. "We sell them", said a representative of LNDC, "through their quality, availability, literacy and competitive wage rate".

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<sup>40</sup> SBSI is the Indonesian Workers Welfare Union, one of Indonesia's largest national federations of unions, led by Muchtar Pakpahan, the former labour dissident detained by the Suharto regime.

<sup>41</sup> Jakarta Post, 23 February 2000. All Jakarta Post cuttings supplied by Jeff Ballinger of Press for Change.

<sup>42</sup> Garteks is a sectoral organisation within SBSI, bringing together factory-level trade unions in the garment, textile and shoe sectors.

<sup>43</sup> From research by the Netherlands-based Centre for Research on Multinational Corporations (SOMO) carried out research in Lesotho in January 2001

## **Mexico**

A coalition of Mexican and US NGOs produced in June 2001 a report highlighting the poverty wages earned by Mexican maquiladora workers. The study shows that workers cannot meet the cost of transport, housing, food and other needs, even working considerable overtime.

According to Martha Ojeda, a former maquiladora worker now director of the Coalition for Justice in the the Maquiladoras (CJM), the study found that "in community after community, maquiladora workers can afford only to live in make-shift houses without water, electricity, and to even talk about nutritious diets for themselves and their children is a luxury. They work long, productive hours for the world's biggest corporations and still cannot provide the most basic needs for their families". This is in violation of Mexico's Constitution, which guarantees a living wage<sup>44</sup>.

According to Dr. Rosenbaum of CREA (Centre for Reflection, Education and Action), the study found "that workers are paid low wages and the cost of living is high," and "refutes the commonly-stated rationale of officials of US-based companies that workers are paid less in Mexico because the standard of living is lower and products and services are cheaper." In the areas surveyed, the legal minimum wage provided approximately 25% of what a family of four needs to live on.

## **Philippines<sup>45</sup>**

Garment and textile production employs between 20-25% of the total labour force. Although it is the second biggest export earner with 16.2% of annual Philippine exports, the value of the garments exported is in decline and thousands of small and medium-sized companies have closed since the mid 1990s. Garments exports declined by 4.16% in 1998, and by 2.75% in 1999.

The trend is for manufacturing units to employ less permanent workers and more casual workers. For instance, a company such as Karayom Garments Manufacturing Industries (ranked 44<sup>th</sup> in the Philippines), employs 700 regular workers and 300 casual workers. This ratio is worse in sub-contracting units, which employ only a core of permanent workers for maintenance and administration. The rest of their workers are employed on a casual basis and paid piece rate, which results in them being paid less than the legal minimum wage. The average salary of \$3 a day in sub-contracting units is below the official poverty line. Over 60% of families have only one adult in work.

As a result, it was found that:

- workers are not eating the number of calories that they need (the *quantity* rather than quality of the food increases when earnings go up)

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<sup>44</sup> From press release relating to launch of Making the Invisible Visible: A Study of Maquila Workers in Mexico – 2000, CREA.

<sup>45</sup> From research conducted for Labour Behind the Label by independent consultant Harry Reyes of the Philippines Resource Centre in Manila, in October 2000 and September 2001.

- workers do not own their homes and cannot afford education, medical care or entertainment.

The legal minimum wage has not gone up since 1996 – except for an increase to Manila workers in 2001, some think to consolidate the position of the new President in the face of major grievances by workers. Wages in Southern Tagalog and Central Luzon where, Manila apart, the bulk of garment production takes place, remain the same. Only 16.5% of Filipino garment workers were therefore eligible for this increase.

Although wages in the Philippines are higher than in neighbouring countries, the higher cost of living means that they do not benefit Filipino workers. Indeed, according to the Philippines Central Bank, wages have depreciated by 33-47% since the last minimum wage increase of 1996.

### **Sri Lanka<sup>46</sup>**

Garment production takes place in both Export Processing Zones (EPZs) and in villages and rural districts. Garments account for 52% of all exports from Sri Lanka. 34% of garments exports are to the EU.

280,000 garment workers are employed in 890 factories, a figure which does not include women working as homeworkers or in factories producing for domestic consumption. The majority of workers inside the EPZs are single women, mostly from the rural areas, who contribute financially to their families. Women working in factories have a poor image and marriage ads often state “no factory girls”.

Inside the EPZ, workers report excessive overtime, production targets set too high, difficulties in obtaining the leave they are legally entitled to, sexual harassment and the right to organise openly discouraged. Outside the EPZs, working conditions are poor and wages are lower. There is, however, greater freedom to organise and workers live in better conditions as they remain within their village community. Approximately a third of workers are married.

In May 2000, the Emergency Regulations were extended and used to ban “all activities designed to encourage terrorism and disrupt the normal activities of people”, which include demonstrations, pickets, strikes and some public meetings. Existing labour legislation goes un-enforced while the breakdown of the judiciary due to Sri Lanka’s civil war means that workers have virtually no right of redress.

Sri Lanka’s civil war has had an impact on the cost of living and prices have increased dramatically during 2000 - especially cooking gas, electricity and water. Workers interviewed indicated that when overtime was not available, they ate cheaper food and reduced expenditure on clothes and

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<sup>46</sup> From research conducted for the Clean Clothes Campaign by Tie-Asia and the Dabindu Collective, in September and December 2000.

entertainment.

### **United Kingdom<sup>47</sup>**

The National Minimum Wage (NMW) was introduced in the UK in April 1999. Minimum wage levels are arbitrary figures based on political expediency and “what business can afford” rather than on how much people actually need to live on. The Government accepts that, on its own, the National Minimum Wage (NMW) is not enough to live on and benefits are available to guarantee working families an “adequate income”. The need to establish a standard for an “adequate income” is reinforced by the European Commission which has requested its member states to set a level “considered sufficient to cover essential needs and respect human dignity”.

The garment industry typically involves a combination of a relatively low fixed rate, supplemented by bonuses based on piecework, which makes it difficult to assess changes in pay levels. In some cases, the changes have been in the way pay is structured rather than in the overall amount earned. In some companies, the introduction of the NMW in 1999 has meant not so much an overall increase as a *decrease* in the proportion of performance-related earnings, which were consolidated into a basic rate at or above the minimum wage. Although this may have meant little overall increase in pay, it has meant a higher proportion of workers with guaranteed minimum earnings.

A survey of the impact of the NMW carried out by the National Group on Homeworking between July 2000 and January 2001 paints a different picture for homeworkers. Although 95% of those surveyed knew that they were entitled to the NMW, only 27% were in receipt of rates of pay equivalent to the NMW or more. The majority had earned higher rates of pay before the introduction of the NMW.

Only one homeworker among those surveyed who described their origin as other than white reported earning the NMW.

A significant number of the UK’s smaller factories, often employing immigrant workers, fail to pay the NMW. Trade union KFAT (Knitwear, Footwear and Apparel Trades) found garment workers in Leicester factories earning \$2.45 (£1.60) an hour.

### **Vietnam<sup>48</sup>**

The Vietnamese General Confederation of Labour estimates at one million the number of workers in Vietnam’s 800 garment factories, of which 70% are women. Garment and footwear is the fastest growing sector in the national economy, having grown in 1999 and 2000 by 29% and 39% respectively, and

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<sup>47</sup> From research conducted for Labour Behind the Label by Women Working Worldwide in July 2001.

<sup>48</sup> From research conducted for the CCC-Belgium by Magasins du Monde-Oxfam.

accounting, according to the World Bank, for 30% of the country's total exports. Footwear exports go mainly to Europe (UK, France, Germany and the Netherlands), garment exports to Asia (Japan and Taiwan) and Europe (with France in the lead).

Health and safety, productivity and wages are worse in Vietnamese-owned companies. Lack of access to benefits (especially sick leave and annual leave offered in by Vietnamese employers), excessive overtime, physical and verbal abuse and sexual harassment occur more often in joint ventures and foreign-owned companies.

Most of the young women employed in garment factories are from the rural areas, working to earn money to support the families they have left behind.

Although overtime is usually compulsory, the Vietnam garment sector is at present working under capacity. Orders being seasonal, overtime tends to be required when orders need completing and are usually followed by "forced holidays" as factories await further orders. Vietnam's Labour Code allowance for a maximum of 200 hours' overtime per year is therefore difficult to monitor.

Workers appear to be paid a very low basic wage, on top of which they are paid piece rate. If workers do not meet the target set for them, the extra time worked in order to meet that target will not be considered overtime.

Some companies organise a canteen, or transport and even dormitories, which are charged to the workers. Vietnam has a social security system that all employees are able to contribute to and benefit from.

Country	Legal minimum wage (MW)	Actual wage, including overtime	Living wage (LW)
<b>Bangladesh<sup>49</sup></b>  Chittagong and Dhaka  (January-February 2001)	Per month, in Export Processing Zones:  <ul style="list-style-type: none"> <li>- \$45 for sewing operators</li> <li>- \$38 for helpers (cutting loose threads, etc)</li> </ul>	Between <b>\$26.15 and \$55.70</b> (1500-3200 takas) a month.  Including <b>51-75 hours</b> (compulsory) overtime a month (up to 125 hours in Dhaka).  Only 15% of the women surveyed had a day off every week.  98% sent money home every month.  The women surveyed spent an average <b>75%</b> of their income on food and accommodation.  95% said their wages did not meet their needs.	Two thirds of the women interviewed estimated that they needed to earn between \$52 and \$104 (3-6000 takas), ie twice their present wage. <i>The survey did not specify what these figures would cover.</i>  Women interviewed on behalf of NLC estimated they needed \$70 (4000 takas) a month.
<b>Bulgaria<sup>50</sup></b>  (2001)	\$46 a month.	\$113	\$130 for a single worker, ie more than double the minimum wage. \$520 for a family of four.

<sup>49</sup> Sources: survey conducted by Syed Tamjid ur Rahman, Development Consultant, for the Clean Clothes Campaign -Sweden in Jan-Feb 2001; and "Bangladesh: Ending the Race to the Bottom", a report by the National Labor Committee (NLC), October 2001

<sup>50</sup> Sources: surveys conducted by Bettina Musiolek for the Clean Clothes Campaign between April 2000 and September 2001

Country	Legal minimum wage (MW)	Actual wage, including overtime	Living wage (LW)
<p><b>China</b><sup>51</sup></p> <p>Guang Dong province, Southern China</p> <p>2000 - 2001</p>	<p>On average: \$54 ( RMB450) a month.</p>	<p>On average <b>\$84</b> (RMB 700) a month during peak times. Income in low season can be as low as <b>\$20</b>. An average figure was not available. The National Labor Committee<sup>52</sup> in early 2000 uncovered monthly wages as low as <b>\$13.5</b>.</p> <p>This includes very long hours of overtime – <b>approx. 100 hours per month</b>. At peak times, most workers only get one day off per month.</p> <p>Workers spend an average <b>72 % on food and accommodation</b>. Most send money home to their families.</p>	

<sup>51</sup> Sources: research carried out for Clean Clothes Campaign by Hong Kong Christian Industrial Committee (HKCIC) between August 2000 and October 2001.

<sup>52</sup> See garment and shoe sections of National Labor Committee's Made in China report, (2000)

Country	Legal minimum wage (MW)	Actual wage, including overtime	Living wage (LW)
<p><b>India<sup>53</sup></b></p> <p>Tirupur, Southern India</p> <p>(January-May 2001)</p>	<p><b>Top of the scale:</b> \$43.25 (Rs 2820) a month for a cutter/machinist, for ironing and packing</p> <p>\$22.45 (Rs 1465) for unskilled work.</p>	<p>Tirupur factories: between <b>\$23 and \$34.5</b> (Rs 1500-2250) , overtime included. 10% earned less than \$23.</p> <p>Tirupur homeworkers: between <b>\$23 and \$38.35</b> (Rs 1500-2500), working between 11-15 days a month. 10% earned less than \$23.</p> <p>The maximum a <i>skilled</i> Tirupur worker can earn is \$65 (Rs 4250), provided s/he works 25 days a month with overtime, and the employer pays the legal minimum wage, which is the exception rather than the rule in India.</p> <p>Overtime is approx. <b>75 hours a month</b>, more at peak times.</p>	<p>Factory workers surveyed estimated that they needed to earn two to three times their present wage.</p> <p>70% of homeworkers surveyed estimated that they needed to earn twice their present wage.</p> <p><i>(The surveys did not specify what these figures would cover).</i></p> <p>The Tamil Nadu based Peace Trust estimated in 1999 that <b>a family of four living in Tirupur needed \$91.25 ( Rs 5950)</b>, of which 50% would be spent on food and accommodation.</p>

<sup>53</sup> Sources: survey conducted by SAVE, an NGO based in Tirupur, Southern India, for the Clean Clothes Campaign-Sweden in Jan-Feb 2001 and from "Reality Behind the Code", a report compiled by SOMO (Centre for Research on Multinational Corporations) in June 2001

Country	Legal minimum wage (MW)	Actual wage, including overtime	Living wage (LW)
<p><b>Indonesia</b><sup>54</sup> Jakarta  (2000)</p>	<p>In Jakarta: \$38 (Rp 286,000 )<sup>55</sup> a month.</p> <p>Nike basic wage to footwear workers: \$40 + benefits. To garment workers: \$33 .</p> <p>According to the Ministry of Labour: \$58 (Rp 437,000) is needed.</p> <p>There have been many reports of Indonesian companies not paying the minimum wage.</p>	<p>Actual wages in Jakarta are on average <b>\$53</b> ( Rp 400,000).</p> <p>This includes 4 hours overtime per day, or approx. <b>100 hours a month.</b></p> <p><b>60% is spent on food and accommodation.</b></p>	<p>Labour rights NGO UCM estimates a living wage (LW) at \$76 (Rp 572,000) a month, ie double the minimum wage. Unions estimate the LW at \$100 (Rs 758,000) a month. These figures do not specify what a LW would cover.</p> <p>Garteks (part of SBSI union) estimate a living wage at \$300 for a single worker (of which 52% would be spent on food and accommodation) and at \$665 for the average family.</p>

<sup>54</sup> Sources: communications from UCM, Garteks, press cuttings from Tim Connor of Nike Watch and Jeff Ballinger of Press for Change (2000)

<sup>55</sup> Regional minimum wage increases in January 2001 were as follows: Jakarta: 24% increase to Rp426,250 or \$45.8. Across the country, the increase was on average of 33.5%. These increases were not included in the above table as we did not have up to date figures for actual and living wages.

Country	Legal minimum wage (MW)	Actual wage, including overtime	Living wage (LW)
Lesotho <sup>56</sup> (2001)	\$67 (526 Maloti) a month.	<p>Workers interviewed earned between \$60- 71 (469-560M) a month basic wage. Many were paid a basic wage below the legal minimum wage.</p> <p>After overtime, they earned between <b>\$ 83-133</b> (650-1050M). a month. Overtime (mostly compulsory) was of about <b>108 hours</b> a month.</p>	Workers interviewed estimated that they needed to earn between \$102 and \$154 (800-1200M).

<sup>56</sup> Sources: "Selling Our People: Garment Production in Lesotho", a report by SOMO (July 2001)

Country	Legal minimum wage (MW)	Actual wage, including overtime	Living wage (LW)
<b>Mexico</b> <sup>57</sup>  Region C (includes Puebla, where Kuk Dong <sup>58</sup> is situated)  (2000)	\$2.66 (32.70 pesos) a day, or \$18.65 (228.90 pesos) a week.  This is 25.6% of the estimated living wage for a family of four.		For a family of four (2 adults and 2 children): \$10.42 (127.86 pesos) needed a day, \$ 72.95 (895 pesos) a week, of which 78% would be spent on food and accommodation.
<b>Philippines</b> <sup>59</sup>  (2000-2001)	\$175 a month in Manila.  Between \$87 and \$ 157 a month outside Manila.  According to the Philippines Central Bank, wages have depreciated by 33-47% since the last increase in 1996.	In Manila: <b>\$146</b> (P73,500) a month including overtime.  Of this, <b>70% was spent on food and accommodation.</b>  Casual workers were earning \$108 a month.	The IBON Foundation estimated the needs of a family of 6 <ul style="list-style-type: none"> <li>- at \$365 a month, ie double the minimum wage, in Manila;</li> <li>- at between \$273.5 and \$289 outside Manila, ie between 2 and 3 times the</li> </ul>

<sup>57</sup> Sources: "Making The Invisible Visible: a study of the purchasing power of maquila workers in Mexico", Center for Reflection, Education and Action (2001)

<sup>58</sup> See Nike and Reebok, pages 15/16 and 18/19

<sup>59</sup> Sources: research conducted for Labour Behind the Label by independent consultant Harry Reyes of the Philippines Resource Centre in Manila in October 2000 and September 2001

			minimum wage.
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Country	Legal minimum wage (MW)	Actual wage, including overtime	Living wage (LW)
Sri Lanka <sup>60</sup>  (2000)	<p>Outside Export Processing Zones (EPZs), depending on grade and length of service, between \$29 and \$40.</p> <p>The minimum wage is often unpaid in factories outside EPZs.</p> <p>Inside the EPZs, depending on how skilled worker is, between \$39 and \$42. Mostly, the minimum wage is paid inside the EPZs.</p>	<p>Between <b>\$56-\$62.50</b> including overtime pay.</p> <p>This includes overtime of two hours a day, 6-7 hours at peak times. 65% of women surveyed work between <b>25-40 hours overtime per month.</b></p> <p>The workers interviewed spent <b>66% on food and accommodation.</b></p>	<p>Sri Lankan unions estimates a LW at \$87.50 a month for a single worker, \$250 for a family of four. Of this, 36% would be spent on food and accommodation.</p> <p>Discussions with workers pitched a living wage for a single worker at double to triple the present minimum wage. It is thought that these figures do not include savings.</p>

<sup>60</sup> Sources: from research conducted for the Clean Clothes Campaign by Tie-Asia and the Dabindu Collective, in September and December 2000

Country	Legal minimum wage (MW)	Actual wage, including overtime	Living wage (LW)
<p><b>United Kingdom<sup>61</sup></b></p> <p>(2000-01)</p>	<p>\$6.25 (£4.10) an hour</p>	<p>According to Greater Manchester Low pay Unit: All machinists surveyed in the area earned the minimum wage.</p> <p>According to Knitwear, Footwear and Apparel Trades (KFAT) union and Birmingham-based AEKTA project: there are numerous instances of small and medium enterprises not paying the legal minimum wage. Some workers in Leicester found to be earning \$2.45 ( £1.60) an hour.</p> <p>Homeworkers<sup>62</sup> : Only 27% of homeworkers surveyed received the legal minimum wage or more. None of the non-white homeworkers surveyed earned the legal minimum.</p>	<p>Several unions campaigning for an immediate minimum wage rate of \$7.65 (£5).</p> <p>East London Community Organisation campaigning for living wage rate of \$9.65 (£6.30) an hour for family of four with one parent in full time work, one parent in part time work. That is 1.5 time the legal minimum wage.</p>

<sup>61</sup> Sources: from research conducted for Labour Behind the Label by Women Working Worldwide in July 2001.

<sup>62</sup> Survey by National Group on Homeworking, July 2000 and January 2001

<p><b>Vietnam</b><sup>63</sup></p> <p>Ho Chi Minh and Hanoi</p> <p>(2001)</p>	<p>Foreign-owned and joint ventures:</p> <p>Ho Chi Minh and Hanoi: \$45</p> <p>Provinces: \$35</p> <p>State-owned: \$15</p> <p>Numerous articles in the press suggesting the MW is not paid everywhere..</p>	<p>Ho Chi Minh garment workers:</p> <p>13% earned between \$35-50</p> <p>60% earned between \$21-35</p> <p>25% earned less than \$21</p> <p>Hi Chi Minh footwear workers<sup>64</sup>:</p> <p>34% earned between \$35-50</p> <p>65% earned between \$21-35</p> <p>Given that the above figures include overtime, the majority of workers are not paid the legal minimum wage.</p>	<p>Ho Chi Minh researcher estimated a LW at \$120 a month for a family of three.</p> <p>The Nike Campaign estimates a LW at \$3 a day or \$91 a month for a single worker.</p>
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<sup>63</sup> Sources: from research conducted for the CCC-Belgium by Magasins du Monde-Oxfam.

<sup>64</sup> From "Situation of Female Labour Safety and Health in Ho Chi Minh City", Research Centre for Gender and Family, November 2000

## 7 Conclusions and Recommendations

### Conclusions

- The evidence that the legal minimum wage is insufficient, even to cover the needs of a single worker, is overwhelming.
- There is evidence that suppliers fail to pay workers the legal minimum wage in every one of the countries reviewed in this report.
- The following means of underpaying workers are also used:
  - o piece rate is used to pay less than factory wages or the legal minimum wage
  - o workers are increasingly employed on a casual basis to pay lower wages and avoid paying benefits
  - o daily production targets are set too high to be reached in a normal working day. The extra time needed to reach those targets is sometimes not paid for.
- Trade unions are weak, therefore the potential for negotiating living wages is minimal. The right to form or join *independent* unions is either denied (as in China and Vietnam) or suppressed (in the past twelve months, the Clean Clothes Campaign has received reports of violations of the right to organise in Mexico, Lesotho, Bangladesh, Philippines, Indonesia and Sri Lanka); or workers' right to organise is undermined by the increasing use of casual labour and homeworkers (as in the Philippines, Lesotho, India and the UK).
- Workers are compelled by poverty to work all the hours that they can: around 100 hours a month in China, Indonesia and Lesotho.
- Only very few retail companies have begun the process of consulting with local trade unions, human rights and community organisations, and academics to establish what a living wage should be. It is possible that more companies have begun this consultation process than we know of, but the information to which we have been given access to does not enable us to conclude that this is the case.
- The majority of companies are not addressing the problem of low pay. They attempt to demonstrate that what workers are paid is adequate, or use the pretext that "nobody knows what a living wage is" to do nothing, or simply ignore the concerns of workers and consumers.

## Recommendations

### Companies should

- stop signalling to supplier countries that the enforcement of labour standards and the raising of the legal minimum wage will lead to automatic relocation (to countries with cheaper labour costs and a weaker enforcement record);
- carry out research into the value of workers' current wages
- work with fledgling unions and other workers' organisations, local and regional labour, human rights and community groups and academics of appropriate expertise, to assess what is needed to meet the basic needs of workers and their dependents;
- negotiate, where possible, the level of a living wage with genuine representatives of the workers; where not possible, audit against a level which is acceptable to the workers and organisations consulted *whilst pressing for the enforcement of the right to organise*
- fix the prices paid to suppliers in function of what is needed for them to pay a living wage;
- increase transparency and accountability.

### Ethical trading initiatives and campaigns should

- insist on the above
- insist that company moves to improve wages be matched by efforts to enforce and consolidate the right to organise and to collective bargaining
- stress that where companies have chosen to source from countries or factories where unions are weak, the onus is on them "to arrive at an adequate measure of the living wage - through study and consultation"
- strengthen alliances so that the overall pressure on companies does not weaken
- increase transparency and accountability.

