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## OF RAGS AND RICHES, A publication of the Clean Clothes Campaign - Part 3

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### OF RAGS AND RICHES (part 3)

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#### 3. FROM FACTORY TO HIGH STREET

##### 3.1 Buying

Garment retailers employ buyers. There are different buyers for men and women's wear and different buyers for different collections. The buyer can order directly from a factory, or make use of an agent or buying house in the city where the factory is located. Agents and buying houses are independent companies, which usually employ local people. A retailer, however, can also have its own buying house, for example in Hong Kong or Singapore.

The difference between a buying house and an agent is partly to do with size. Agents are usually one-person businesses, whilst buying houses are larger. A buying house can provide more services than an agent, such as price bargaining. An agent usually leaves the final price negotiations to the buyer and the producer. S/he is then present as intermediary (on the buyers' side). As there are as many strategies as there are buyers, it is impossible to be precise as to how the process is conducted, and where the role of the buyer begins and ends.

A retailer sometimes places orders through a buyer's association, which in turn employs buyers, or has its own buying house. It is also possible for orders to be placed with an Asian producer's sales house. Nowadays, some Asian producers establish sales houses in European countries, or Hong Kong or the USA. This enables them to play a more active role in marketing and makes them less dependant on the buyers. Different ways of buying can be used by the same retailer, even when buying from a single factory.

\*\*\* A factory in Sri Lanka employs 500 people. Out of its total production, 70% goes to C&A. C&A France buys through its own buying house Mondial, whilst C&A in other countries do their buying through independent buying houses. The relationship between the factory and Mondial, which has been a steady customer for many years, is good. However, Mondial only buys 10% of the total production. The prices paid by the other buying houses, which amount to 60% of the production, are lower.

The buyer usually visits the producer at least twice a year. This does not mean to say that s/he visits the factory itself. In Bangladesh, for example, almost all large producers have a luxurious office in a building in the centre, whilst production is located elsewhere in the city. Garment factories are often found in blocks of flats, with a different factory on each floor. Buyers are advised to visit the factory to obtain a better idea of the level of quality. In situations where long-term business relationships exist and large orders are placed regularly, the buyer will station someone in the factory permanently, or start her/his own buying house in the same city. This

person or buying house is then responsible for negotiations and organising the quality control.

\*\*\* "We prefer," says the manager of a factory in Sri Lanka, "direct contact with the retailer. Using an agent as a go-between means a lower profit margin, as part of the money goes to them. However, they can be useful in areas such as placing orders for material." "Dealing with and agent," comments another manager, "can complicate communication as the price the agent pays us is different from the price the retailer itself pays for the goods. We prefer doing business directly. But buying houses can work well too."

Bargaining usually starts when viewing a sample. The retailer employs designers who, for example, make a pair of trousers. The trousers go to the buying house or agent, who then looks for a factory to duplicate them. The factory has to be able to purchase the right sort of material and accessories. Sometimes the buyer will provide them her/himself, but this is not usual. When an acceptable duplicate has been made, the price bargaining can start. This is the final step in the 'pre-production' stage.

The production stage at factory level normally includes cutting (which is usually done by hand although the patterns are often computer-made), stitching, washing, ironing and packaging. The factory is also generally responsible for transport from the factory to the harbour or airport.

\*\*\* "Buyers always come and visit," comments a large company in Bangkok. "Large companies have someone stationed in Bangkok, whilst very big ones like Marks and Spencer even have someone in the factory. It all depends on the size of the buyer. In the beginning, Berghaus, a large customer of ours, always had someone in Bangkok. Nowadays, they travel around more as they are increasingly moving on to other countries, such as Laos, Vietnam and China. Buyers from the USA control everything, even fire extinguishers. Reebok especially are very particular. They even check the sleeping units. Others may send a questionnaire. The Germans make strict environmental demands, like CFC-free plastic. This is controlled by SGS, a Swiss company specialising in quality control. Marks and Spencer are strict, but are more concerned with whether something is neat and clean and less with workers rights. For them, appearance is everything."

### 3.2 Quality control

The retailer rarely leaves quality control to the factory. Although factories have their own system for monitoring quality, the buyer generally has an additional form of quality control which is carried out at different stages of the production process. We see this as a second 'channel' between the retailer and the producer, different and separate from the first channel of buying, as it follows a different time schedule and is also carried out by different people with a different task.

\*\*\* A buying house in Colombo says: "We export 100% of our production to Europe. The largest part goes to Great Britain, but we also export to Holland and Belgium. Our most important clients are C&A, New Look, Empire Stores, Littlewoods, New Fast and Graftons." The buying house has its own office in Britain, which places orders with the office in Colombo, which then places contracts with ten or fifteen regular factories. The buying house in Colombo carries out quality control through eight quality controllers who visit the factories every day. Several of its clients (retailers and factories) have been doing business together for a long time. The buying house is growing and the turnover currently amounts to 20,000 dozen garments per month, per factory. Most of the factories it buys from produce for no-one else. The buying house in Colombo has a fixed price dictated to them by their office in Britain, and negotiates the price with the factories to retain a profit margin itself. There are no regulations where working conditions are concerned. The buyers are only interested in quality and do not interfere with production. Their attitude is that what goes on in the factories is not their business, but the responsibility of the factory.

A factory also employs quality controllers who control quality at each stage of production (cutting, stitching, finishing). Only a certain number of faults are allowed in one consignment, otherwise the buyer has the right to return the whole batch and this, of course, has to be avoided.

Quality control usually takes place at three stages: at the pre-production stage, during the production process, and finally "off-factory" - shortly before shipment. The simplest way is for the buyer to have the garments checked by the agent or the buying house. Buyers regularly send teams over, sometimes instead of having quality control carried out by the agent, but usually as a form of extra control. The consequences of missed shipment dates or faulty sizing and production are such that they prefer to carry out double or triple controls rather than take any risks.

### 3.3 Potential for Improving Labour Conditions

The question of whether buyers and quality controllers should concern themselves with working conditions is often debated. Whether monitoring working conditions is possible in practice is another question. The fact that orders are often sub-contracted to factories and workplaces other than where the order was first placed can severely complicate matters.

\*\*\* A factory in the Philippines has Otto Versand, Mondial, Zeeman, Barrel, Marca and Alex Marcey as clients. Otto has a list of questions to the sub-contractors. They want to know what kind of work is put out to which factories and sweatshops, and for how much. They also ask questions on capacity, quality, logistics and environmental aspects, as well as what kind of products they make. The GAP asks everything you could possibly want to know. We're allowed to see the list of questions. They verify the answers by random checks. Instead of coming to count all the fire extinguishers, for instance, they make spot-checks at some departments to make sure they are all there.

\*\*\* "The Gap," says a factory manager in Sri Lanka, "requires a business profile to be completed. Then as the evaluation takes place, a quality controller comes to visit (via the buyer's office), and finally the order is placed."

The buyers sometimes also pay the sub-contractors a visit. This does not include GAP, who specify that their orders are not subcontracted. A manager at another factory in Sri Lanka comments: "Marks and Spencer visit about twice a year and check the canteens, toilets and washrooms. They also check safety regulations and medical facilities. They want to see workers are well paid and sharing in our success. Others, like Sears for example, make similar checks, but as we've been approved by Marks and Spencer the rest know that we're good enough for them, too." Marks and Spencer are known to make the highest demands. For many buyers, child labour is an important issue at the moment. The manager informs us that child labour does not take place in Sri Lanka. In Bangladesh, however, it does, he saw it himself in one of their factories four years ago. Marks and Spencer does not buy from the factory in Bangladesh.

It is clear from the examples above that only some aspects of working conditions are incidentally controlled. The main concerns are with child labour, fire safety and cleanliness. Environmental criteria are also occasionally applied. Checks are sometimes carried out by the buyers, sometimes through a (written) questionnaire or, in the case of environmental concerns, by an independent quality controller. A number of issues stand out as obviously being of greater concern. It is clear also that monitoring of working conditions is possible. It remains to insist that monitoring should take place in a structured and integrated manner, and in a way which can ultimately satisfy the consumer.

Why is child labour checked but not the condition of the machinery? Why is the presence of CFCs in packaging an issue but not the quality of lighting in the factory? This uneven approach can in some cases result in the workers' situation worsening instead of improving, as with the child workers once sent home from the factory: in Bangladesh, in 1995, a number of large (mainly USA) buyers conducted a series of extensive controls on child labour. Reports from, among others, UNICEF showed that the problems of the children concerned increased after they were dismissed. They were no longer able to support themselves, and family members partly dependant on their income also suffered. As a result, the ILO, the Bangladeshi federation of factory owners and UNICEF set up a combined programme. This programme stipulates that when inspected, a factory should provide a list of all children present. Rather than be dismissed, the children are to go to school, and receive an income for a certain period of time.

Although this is an obvious improvement, it does nothing to improve the general situation of workers in factories. Neither does the retailer share in the responsibility of keeping to such a programme. As producers and especially sub-contractors (it is generally the less visible, small-scale sub-contractors who make use of child labour) are the ones who are expected to support the programme financially, it is they who get into financial difficulties and do their utmost to evade the regulation.

\*\*\* A sub-contractor in Bangladesh produces Umberto Giordino blouses for the USA. The factory does a lot of work for the USA and some for Norway and Korea. The factory is crowded and warm. The sewing machines are Brothers and reasonably new. The lighting is good. This subcontractor receives US\$2.25 (£1.18) for a dozen blouses. The factory which has put out the order receives US\$6 (£3.15) from the buying house, which in turn is paid by the Americans. A helper receives 500 to 600 taka a month, whilst a stitcher receives 1,200 to 1,800, overtime not included. Sometimes the factory is closed on Friday, sometimes not. A worker starts her day at the factory at 8.00 in the morning and expects to work until 20.00 in the evening. She works as a stitcher and has been at the factory for about nine months. She receives 1,100 taka a month. About 20 children, between ten and fourteen years old, are in the factory. A week ago, the inspection team arrived unexpectedly and made a list of all the children's names. The children were told that they were to go to school and would receive money. As they were not given a date, no one knows when this is to be, and the children are still at the factory. Of the nineteen children, fifteen work as helpers and earn between 500 and 600 taka, and four are operators who earn between 1,200 and 1,400 taka monthly. Later, a similar story is told at another sub-contractor's, where 500 people are employed. When the inspection team arrived, almost all the children were on the roof. The six children in the factory were put down on the list. The forty others on the roof are now being threatened with dismissal, as they are a potential liability for the owner. If they lose their jobs they won't get anything at all.

Even the companies which do make demands concerning working conditions never speak to the workers themselves or to their representatives. In none of the approximately fifty factories we visited in autumn 1995 did we hear of a buyer or a quality controller ever speaking to the workers themselves. Why speak to the manager but not to the trade union or the workers? The question has to be asked as to why this has not yet been done.

\*\*\* In the Women's Centre on the edge of an industrial zone in Sri Lanka, we talked to about 20 women working in various factories. We asked them about the buyers' visits and whether the buyers ever talk to the employees, but no one had ever heard of this happening. What does happen, they tell us, is that the factories are given a huge clean before the buyers' visit.

Later, we are told the same thing. In Bangladesh, we talked to a trade union and decided to visit the factory they told us about. It took us about a week to gain entrance, during which time we met the trade unionists several times. They told us that they'd spent two days cleaning the factory, and that the workers had been told to put on clean clothes on the day of our visit.

Pressing large retailers at the top of the chain to take responsibility for working conditions all the way through the subcontracting chain, is the only way to avoid the smaller contractors at the bottom of the chain having to pay the price for improving workers' rights. It is also reasonable to expect and demand less from the (small) producer at the bottom of the chain, than from the large factory. The failure to hold retailers responsible for working conditions at each stage in the contracting chain will lead to more and more subcontracting by the large

factories as a way to cut costs.

\*\*\* At a factory in the Philippines C&A has been paying the same prices for the last three years, even though the costs of raw materials (not to mention the costs of labour) have gone up substantially. The factory has, since September, been negotiating for a higher price from Mondial in Manila and at first expected a positive outcome. However, Mondial refuses to pay a penny more than last year. So work for C&A is no longer being accepted. This has caused a big drop in income. HIJ (Netherlands) and OTTO (Germany) are now the factory's most important buyers. Besides these two, it also produces for Woolworths and 3 Suisses. The relationship with HIJ is direct, OTTO is dealt with through the buying house. With both of them, there is a business relationship in which not only money, but also 'performance' is important. With C&A, money is the prime consideration. It is relatively easy, with HIJ and OTTO, to reach an agreement on price. OTTO sends quality controllers from their office in Manilla (through the agent), who control everything. As HIJ has no office where the factory is located, everything is based on trust and the factory's own quality control is considered to be strict enough. When work was accepted from C&A, it sometimes sent someone to check quality, and an inspection was always carried out before shipment took place.

At another factory near Colombo in Sri Lanka, Mondial are quoted as demanding that child labour is not used. Fire regulations are implemented. Nowadays, we are told, all companies have their own check-list. The buyers who make extra demands on working conditions, however, do not pay more and the manager thinks that there are limits to the demands that can be made: "It does not help business in Sri Lanka. The political situation makes buyers move on to 'quieter' countries anyway, and besides that, costs of labour are too high here. We cannot compete with China and Vietnam. The infrastructure here is one thing that is good, though. But if Vietnam lowers its import-tax, the USA will be over there right away, in spite of what they say about boycotts because of the POWs (Prisoners of War)." Fortunately, businesses sometimes move "the other way up". He knows of a French buyer who moved from Bangladesh to Sri Lanka, because there were too many problems with delivery times in Bangladesh.

\*\*\* In the Netherlands, 1.6 (€0.6 billion) out of the 17 billion Dutch guilders (€6.8 billion) spent on clothing, is spent on jeans. For a pair of Diesel jeans, the factory is paid 25 guilders (€10). The importer buys the jeans for 48 guilders (€19.20) from the buying house and sells them to the retailer for 60 guilders (€24). The final shop price is 159 guilders (€63.60).

According to most factory directors, their profit margin is decreasing. This is not only due to low prices, but also to the size of the orders. Smaller and smaller orders are increasingly being made, and smaller orders mean relatively greater costs for the factory.

\*\*\* "The price varies from one buyer to the next," says a factory manager. "Some of them are terrible. Our profit margin is under pressure, it's difficult to make investments. The market is changing. More small orders are being placed with shorter delivery times. The costs (for the samples and administration) are higher, but we're not better paid. In fact, the opposite is true. Larger orders are better paid. It's not the case that some countries pay better than others, the difference is in the buyers themselves."

It also depends on which production country is favoured at a given time. As we've already seen, many companies are moving on to China, Vietnam and Laos. That is why long-term relationships are mentioned by all factory directors as being a priority.

\*\*\* "During the last 5 years, profit margins have been put under increasing

pressure. We no longer produce shirts and shorts for Europe as we can only compete in the top range of the market. The remaining share of the market is supplied by Bangladesh and China. In Sri Lanka, we can't possibly make the shirts for the price we're offered. We have one factory where we produce a million garments a year and employ 280 people. We work at full capacity. We get express orders which means we put work out to contract and always have to work overtime. The overtime comes to about 40 to 80 hours a month: two hours a day and sometimes another two hours which means working weeks of 50 to 60 hours."

A producer can earn a lot of money by employing sub-contractors.

\*\*\* 28,000 people work in the Mactan Processing Zone on Cebu in the Philippines. If the work done by all sub-contractors in the zone is included, another 12,000 people are employed indirectly. Although the Philippines' labour code is valid in the zone (minimum wage, number of working hours, overtime, safety, health and environment), sub-contractors are not bound by it. They are only obliged to observe legal requirements which apply to the whole country. Since neither implementation of the labour code nor the general labour legislation are monitored, it is debatable how effective they are.

Captions

All photographs are by Clean Clothes Campaign or SOMO unless otherwise stated.

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Worker wearing improvised dust mask in Weavel factory in Indonesia. Many garment workers have lung problems due to the dust and fluff they inhale all day. Factories usually do not provide dust masks.

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The GoGo Garments factory in India closed down in September 1995 and re-opened in March 1996 under a different name. It had already done this in 1994. This closing and re-opening is used a lot in the garment industry to get rid of trade union activists, who are not re-employed.

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Dyeing unit in Manila Bay Hosiery factory in the Philippines. This factory produces socks and panty hoses.

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The Trillindo factory in Indonesia supplies C&A among others.

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The other side of the '501': this garment factory in a slum of Dhaka in Bangladesh supplies Levi Strauss. Each house shelters an extended family which can be up to eight adults plus children. Most of them work in the garment industry. In front, an open sewer. Photo: Steve Bent, Mail on Sunday.

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Entrance gate to the San Marcos Zona Franca in El Salvador. The mainly Korean garment factories in this zone are known for their extremely poor working conditions.

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Another booklet is available in Dutch, German and French, entitled 'Garments on the Move - the Labour Behind the Label'. It charts the different stages of the production, from cotton production to the manufacture of jeans.

#### Sources

1. Unless otherwise indicated all examples and quotes on garment production in Asia come from research done by SOMO in the period november-december 1995, in the Philipines, Bangladesh, Thailand and Sri Lanka. Material has only been used where interviews were conducted with both factory managers and workers, the last out of hearing of management or outside the workplace, and where a personal visit to the shopfloor could be made.
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