



Analysis of ACT (IndustriALL MOU with Garment Brands) June 2019

I. Global Garment Production and Dominance of Lead Firms (Brands)

Most of the world's production takes place through global production networks (GPN) also called global supply chains or global value chains. In this structure transnational companies (TNCs) do not formally own the overseas subsidiaries or franchisees but outsource production to them, without the burden of legal ownership. **The GPN is the organizational form of a monopoly capitalism from which the risks have been removed for the Lead TNCs (Brands).**

Garment Brand TNCs profit from two aspects of market control that they can exercise simultaneously: one, they dominate consumer markets in the Global North, and the other, they can also access cheap production sites in the Global South.

Asia manufactures 60 per cent of the world's clothing. In terms of scale of production, size of workforce, access to raw materials, technology, diversity of skills, and labour cost, Asia offers the greatest competitive advantage. Asia holds the largest workforce and represents most of the global working poor, among which women comprise an increasingly significant proportion.

II. Value Distribution in Garment Global Commodity Chain

Garment brands profit through simultaneous control over the consumer market in the Global North and low-cost production areas in the Global South. This profit is disproportionately distributed between local/Asian producers and the global buyers via the price mechanism. At one end of the chain, in the consumer market in the Western world with higher purchasing power the brands essentially invest and compete for consumer market share. At the production end, there is competitive pressure among the suppliers in developing countries for contracts from brands, leading to a race to the lowest level of production costs. **The buyer–supplier price mechanism links the two ends and constitutes the node at which the disproportionate sharing of the profit takes place.**

The FOB (Freight-on-Board meaning till goods reach the ship's board) price – essentially the transfer price from production area to consumer area – hides the unequal exchange. **This nodal point provides the possibility of a wage rise in the export sector in the garment sector in production**

countries. Therefore, in any bargaining by workers to raise wages to a living wage level, FOB price has to be brought into the ambit of the collective bargaining process.

III. National Wage Setting & Living Wage in Production Countries in Asia

Minimum wages or wages set by national governments in the Asian region operate within a **comparative and competitive regional framework**. Since wages are deciding factors in whether a country gets sourcing contracts from brands, the industry and governments monitor the wages in competing countries carefully keeping in mind the **risk** of brands relocating their orders. The threat of relocation of capital or sourcing that the workers face, when unionizing, is with regard to the regional labour market and in the context of regional competition for sourcing contracts. For unions, this threat is the principle impediment for Freedom of Association and Collective Bargaining.

Given the context of relocation danger, unions' struggles for higher wages, and governments' imperatives, the national wage setting in garment industry has reached a ceiling. Experiences over decades of struggle show that national minimum wages address poverty levels; but are not able to address living wage due to the regional competitive framework brought about by global production. On an average, living wage benchmarks such as the Asia Floor Wage are three times the minimum wages.

IV. Analysis of ACT¹

Given the above analysis, AFWA's position regarding living wage for garment workers is that it has to be negotiated extra-nationally within a regional bargaining framework in order to offset intra-regional competition in a global supply chain framework. AFWA's analysis is that the difference between statutory minimum wages (national) and living wages (defined regionally) must be paid by brands. Brands have the economic power and they set prices (FOB price) too low for supplier factories and for living wages; they need to fix this imbalance and level the playing field. The AFW is formulated based on the paying capacity of the global industry (namely, the global brands) whereas, national wage definitions arise from an analysis of prevailing wages within the country.

a) Broader Context of Labour Relations

The ACT (Action Collaboration Transformation) Memorandum of Understanding (MoU) "aims at creating a cooperation...in order to achieve living wages for workers in the global textile and garment industry supply chains through mature industrial relations, freedom of association and collective bargaining."² Asia Floor Wage Alliance (AFWA) is in agreement that the goal of living wages is inseparable from "mature industrial relations, freedom of association and collective bargaining."

b) Definition of Living Wage

ACT is premised on the belief that there is no consensus on living wage. In the last ten years we have witnessed multiple studies and formulations of living wage benchmarks by credible scholars and movements. The AFW is one such benchmark that has been built through trade union consensus and has now become established globally as one of the industrial benchmarks. **ACT could choose even the lowest one of the existing benchmarks to start with; it prefers to ignore all.**

The problem however is deeper.

ACT is based on the premise that living wage can only come about through "*continuous wage growth*" at a national level which is essentially benchmarked to the minimum wage in a

¹ https://actonlivingwages.com/wp-content/uploads/2018/11/ACT_COMMS_Factsheet_11-2018-WEB.pdf

² "Memorandum of understanding between ACT Corporate Signatories and IndustriALL Global Union on establishing within global supply chains freedom of association, collective bargaining and living wages", March 5th 2015

country.³ So this concept is no different from incremental minimum wage growth at national levels which we already know to be far removed from living wage realization. Minimum wage definitions in developing countries are **linked to poverty levels** unlike developed countries where minimum wages are linked to **average national income or mean wage level**. Therefore through national processes it is no longer possible to achieve significant **growth in minimum wages as a pathway to living wage**.

This is the reason why living wage today is about three times national minimum wage.

The MOU says that signatories “will make joint approaches to governments in support of higher minimum wage outcomes” which is fine in the context of a minimum wage struggle in a country where unions are trying to raise incrementally this wage. It does not solve the problem of living wage.

The MOU makes “higher minimum wage outcomes” contingent on “brand commitments to continued sourcing, taking into account the gap between the minimum wage and a living wage, cost of living increases, productivity and efficiency gains and the development of the skills of workers, carried out in cooperation with unions at workplace level.” AFWA believes that such brand commitments should be extended to living wage and not just confined to “higher minimum wage outcomes”. Moreover the MOU conflates “higher minimum wage outcomes” with “minimum wage” and “living wage” keeping all of them in a state of vagueness that does not bode well for implementation and creates more ambiguity and confusion between distinct concepts of minimum wage and living wage.

c) Mechanisms for Living Wage within Regional Competition

The MOU specifies “two sustainable mechanisms....to deliver freedom of association, collective bargaining and living wages to any scale, while setting a level playing field.” One of this is “industrywide collective agreements.” The AFWA, from its inception in 2006/7, has been promoting this strategy with the difference in our approach being the following: in our view the FOB price is set at a regional level and so collective agreements have to be both regional and industry-wide.

The MOU specifies the second sustainable mechanism for achieving living wages as “National minimum wage fixing enforcement mechanisms.” However, within the framework of global supply chains, as long as sourcing countries are in a regional competition for brand contracts with low FOB price, no single country in will stick its neck out on a living wage figure. It is difficult to agree with the strategy of the MOU that remains within a singular national frame. In the last few years we have seen that minimum wage struggles have reached a limit in Indonesia and Cambodia which proves the argument AFWA has been making. In fact, there is a counter-offensive by the government to undermine to undermine the capacity of the union to negotiate making it more difficult to just confine bargaining with suppliers and government as the principle actors.

ACT brands state the “need to take wage out of competition”.⁴ However, they fail to address the most important factor in competition – the **FOB price**. Brands fix and negotiate the FOB price within a regional context (in this case, Asia); therefore, the field of competition is the region (Asia) and not a single country. The competition that supplier factories face in Asia is the regional competition for brands contracts at low FOB price. FOB price determines also the wage level of workers; so, **unless FOB price is part of the bargaining**, it is impossible to take “wage out of competition” as ACT brands claim to be doing.

In short, ACT does not address the most important factor that would help raise wages. AFWA through its insistence that FOB price needs to be brought into negotiation, directly addresses the most important competition factor.

³ Presentation by ACT, Berlin, November 6, 2018

⁴ Presentation by ACT, Berlin, November 6, 2018

d) Role of Brands or Lead Firms

AFWA argues that in the global garment industry, global buyers (or brands and retailers) purchasing practices cause wages to be adversely affected. So, brands should take responsibility for decent wages for workers in the industry.

Central to the demands of the AFW is, therefore, the need for a concerted effort by brands and retailers to address the issue of unfair pricing (the FOB or Freight-on-Board cost), as an important first step towards the implementation of a living wage in the garment industry. The proposed demand is living wage for Asian garment workers in conjunction with fair pricing that would make living wage possible.

ACT is based on the premise that negotiations for living wage need to take place nationally between suppliers, governments and unions resulting in a collective bargaining agreement: "Agreement on a living wage should be reached through collective bargaining between employers, workers and their representatives, preferably at national industry level." ACT promises that once the CBA is done, brands will lend their support by "linking" their purchasing practices to the needs of the CBA.⁵ The MOU states "We will work together to develop contractual or other mechanisms through which brands can support that their suppliers implement the negotiated wage" -- here the role of the brands is limited by the word "support." The MOU says "Corporate signatories will ensure that their purchasing practices facilitate the payment of a living wage as defined in this document." However, given the extremely broad notion of "purchasing practices," and the unclear word "ensure", the roles and responsibilities of brands are vague. It essentially allows brands to **evade** the responsibility of contributing to living wage.

Based on decades of experience of garment workers and labour rights activists as well as industry's own experiences, it is well-known that national level negotiations on living wage would not go beyond a limited growth in minimum wage (if that at all) in the absence of brands and lead firms being part of the negotiation and bound to its outcome. Brands linking their purchasing practices after the negotiation would lead to continuing low wages (as brands are not at the table) and non-binding voluntary promises by brands (which history has shown as not effective).

The MOU states "We recognise that business security and commitment to production countries and suppliers are a key enabler for paying living wages in conjunction with all other pillars of our joint approach." If brands do recognize business security as a key enabler then they would need to commit to be part of the collective bargaining process from the beginning and not after.

AFWA proposes a joint bargaining process that includes and binds brands from the beginning. Once the binding agreement including brands is signed, a national process can be worked out for its implementation. A sequential process will not work as brands, the key enablers, would be absent and only join later in a voluntary capacity.

V. Labour Rights Organisations and Campaigns and Information sharing

The MOU states that "we require solutions to achieve our goals and requirements, including all actors, not limited to ILO, governments, brands, unions, suppliers and their relevant constituencies. Against this background, we intend to develop our strategies and actions jointly in a sphere of innovation". The signatories "recognise the need to catalyse global support for a fair and stable global industry."

However, the MOU is silent on the role of labour rights organisations, women's organisations, and workers' collectives that play a powerful role in fighting for the rights of garment workers who are primarily women. The garment industry has low union density and non-union organisations play a critical role in furthering garment workers' rights, using multiple and innovative strategies. The AFWA,

⁵ Presentation by ACT, Berlin, November 6, 2018

for this reason has built a social alliance of unions and non-union organisations, so as to maximize grassroots workers' voices and build on consumer power. The real innovation will be to enable social movement and labour rights institutions to become part of an alliance with unions to build power and take responsibility in monitoring and accountability of brands as part of an agreement.

The MOU states that "The corporate signatories will exchange the necessary information for this programme regarding their strategic supplier factories with IndustriALL for the purpose of effective implementation in the target countries." The global labour rights movement to strengthen garment workers' rights has been calling for supply chain transparency for decades, which includes revealing supplier factories names. However, the MOU does not call for this transparency keeping it limited to "strategic" suppliers and to revealing this only to IndustriALL.

VI. Enforceability and Accountability

The signatories promise to "advocate that industrywide, collective agreements that result from this process be registered and legally enforceable under national laws." However an agreement on living wage would need to be binding and enforceable with regard to brands also, who need to be within its purview. In ACT the brands are not part of any agreement that can be upheld by national law; without the accountability of brands it is not possible to deliver living wage.

AFWA proposes a) global agreement with brands to which local unions are a party and that is b) legally enforceable under national law by local unions who are best positioned to enforce the agreement.

VII. Conclusion

The ACT MOU lacks clarity on wages – minimum wages, living wages, and statutory wage. It has no quantifiable definition of living wage and claims, without substantiation, that incremental and continuous growth in minimum wage or nationally bargained wage will lead to living wage.

ACT insists on national-level solutions for what is a global supply chain problem. It claims to take wage out of competition but in fact, it does just the opposite. **By refusing to acknowledge the regional nature of competition and FOB price as the node of competition, it essentially distracts and diverts from the core issue.**

ACT keeps brands out of the ambit of enforceable binding agreements by claiming that brands will support once the national actors sign the binding agreements. This is a "national process" being forced by brands on self-selected pilot countries without any binding action on their part.

The danger runs deeper. Brand signatories use ACT to claim that they are involved in paying living wage when in fact, they are only involved in national processes for incremental increase in minimum wage or bargained wage which are inadequate in delivering living wage within a global supply chain context.

ACT can provide incremental minimum wage increase or bargained wage but its claim to provide for living wage is not consistent with the mechanism and strategy provided in the ACT. However in the current scenario ACT is being used as an alibi for brands to exempt themselves from genuine living wage delivery processes.