
Paper on Fire, Safety and Labor Issues in the apparel supply chain: Implications for Pakistan

The apparel supply chain was already under pressure over several fire incidents which killed hundreds of workers in Bangladesh and Pakistan last year but with the collapse of Rana Plaza building in April 2013, which killed more than 1,100 workers, a lot of changes are being brought about. The incident forced more than 30 brands, predominantly European retailers, to sign the Accord on Fire & Safety in Bangladesh (AFBSB). Prior to the incident, activists had been campaigning for two years but only one major buyer had agreed to sign this agreement on a condition that at least three other buyers also sign up for funding. Some important signatories to the accord are Benetton, C&A, Carrefour, Esprit, Inditex (Zara), Next, Primark, PVH (Tommy Hilffiger, Calvin Klein), Sainsbury's, and Tesco. Major US-based retailers, on the other hand, decided not to sign the agreement.

The Accord

The agreement aims to establish a fire and building safety program in Bangladesh over a five year period. Under this agreement the initial inspection of all participating factories would be carried out within two years. It envisages a central role for the International Labor Organization (ILO) as the monitoring body. The agreement aims to create a self-financed project with each signatory company contributing a proportion to its annual buying volume towards the project. According to the agreement, signatory companies are bound to place “comparable or greater volumes” as a binding commitment towards maintaining a “long-term sourcing relationship” with Bangladesh. This condition was added because of concerns that buyers may start shifting their orders out of Bangladesh which may destabilize the industry that employs millions of workers, mostly women. The accord aims to help Bangladesh build its National Action Plan on Fire Safety (NAP).

In a separate but related development, the ILO and the World Bank refused to let Bangladesh join their textile industry monitoring and safety program, the Better Work program, until the country improves conditions for labor unions and overhauls its labor laws. Better Work program requires unannounced, independent inspections of participating textile companies and is being run in several countries. Bangladesh applied to join the Better Work program but was refused entry because of the country's weak labor laws and treacherous conditions for labor unions. ILO and the World Bank have demanded major changes before approving participation into the program.

Under the AFBSB agreement role of the Bangladesh government is limited. The agreement states to establish a fire and building safety program, which will build on tripartite NAP. The NAP focuses on legislation and policy, administrative work and practical activities. Under the NAP's legislation and policy activities, a National Occupational Health Safety and Safety Policy will be formed by April 2014. Review and adjustment of relevant laws will be done by December 2014 and a taskforce on fire safety will be formed by May 2014 to upgrade the relevant industrial infrastructure. NAP's administrative activities include recruitment of building inspectors and other staff. Until now the country had only a few dozen fire inspectors to check some 5,000 stitching factories and ever since the Rana Plaza incident more than a thousand new appointments have been made.

Bangladesh's situation in terms of its labor practices and safety regulations is not unique. There are several other garment producing countries, such as Pakistan and Cambodia, where almost the situation exists. In these countries, the state either does not have the capacity or is not committed to implement these laws over fear that it will drive away investment. This situation is in contrast to China, the largest garment producer in the world. According to the ILO, China has witnessed continual improvement of occupational safety and health over the past decade. In China OSH laws are enacted by the National People's Congress (NPC); administrative regulations are enacted by the Central People's Government of China (The State Council); local regulations are made by the People's Congress at province level and departmental rules are enacted by departments working under the State Council.

In countries like Bangladesh and Pakistan the local governments are either non-existent or ineffective. A study by the UNDP (2010) on local government in Bangladesh admits that although the constitution of Bangladesh is one of the most progressive ones in the region as far as the emphasis and importance to local government is concerned but it is not accompanied by effective powers and a political culture to enact the legislation. As a result, all tiers of local government are yet to be run by the elected bodies. In Pakistan factory inspections are covered under the Factories Act of 1934 which was banned in 2003 by the provincial government of Punjab and followed by other provinces.

The decision by the ILO and the World Bank to refuse Bangladesh joining the Better Work program is inline with research carried out by Locke, et al (2012) which suggests that a mixture of public and private interventions is necessary to improve working conditions and environmental standards within global supply chains. The research concludes that private voluntary regulatory systems cannot function without efforts by state and non-governmental actors to enforce labor and environmental standards. This was also pointed out by Dan Rees, director of the Better Work program, that it is a mistake to see these initiatives (AFBSB) as an alternative to good governance. There is no alternative to good laws (which are) well enforced, he said.

The global apparel industry can adopt voluntary regulatory systems implemented in other industries such as auto or electronics but unlike other industries, the global apparel industry is highly fragmented with many buyers and manufacturers; therefore, a tailor made solution is required. The signatory brands of the AFBSF agreement cover only a fraction of the global industry, critics point out. According to Clothesource blog, 40 or so top signatories of the agreement account for about a third of Europe's apparel imports. The blog also shows the percentage coverage of AFBSF with respect to some major markets as shown below:

Market	Apparel market size (\$bn)	Apparel imports from BD (\$mn)	% in AFBSB
USA	362.6	4567	1.6
China	270.6	104	0.5
Japan	109.4	350	0.6
Germany	82.1	3933	14.9
UK	75.1	2149	30.1
Russia	68.9	270	0.9
Italy	62.8	875	4.5
Brazil	57.7	117	1.2
France	53.6	1184	6.3
India	48.8	41	0.5
Canada	37.3	951	5.2

Source: Clothesource

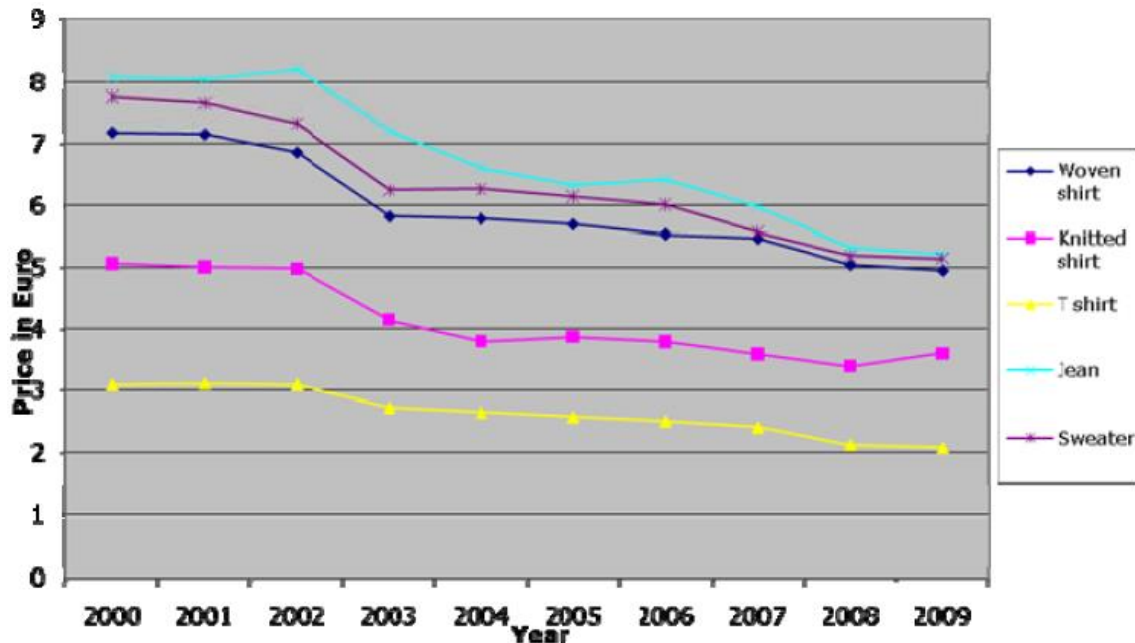
Impact of AFBSB will also be limited because only the major European and North American brands are being pushed to sign up while brands in other markets, such as Japan, is not targeted by activists. Also, the absence of smaller western brands and importers from the agreement means a large chunk of Bangladesh garment factories will remain outside of the accord. The agreement can help Bangladesh legislate and implement its labor laws and, on the other hand, it will help reduce public criticism major brands are facing over labor conditions in Bangladesh.

Clothesource blog also points out the reason for interest of European brands in AFBSB as compared to the North American brands. According to the blog, European brands are interested in pursuing AFBSB because of Bangladesh's low wages, its extensive manufacturing capacity and its duty-free access into Europe. But for American buyers a garment made in Bangladesh gets the same import duty as one from China. For American brands Bangladesh's higher production costs along with risks involved by the country's instability poses a risk of country becoming uncompetitive. According to Gap Inc. spokesman AFBSB would "open legal flood gates" for plaintiffs to sue US companies, because the US "is a more litigious culture than its European counterparts". Gap has said it would sign the accord only if changes are made to the way disputes are resolved in the courts. Wal-Mart also showed its reservations and decided to go its own way. The legally binding clause of placing more order in Bangladesh may also be the reason that many buyers reluctant to join the accord.

Living Wage

Another critical but more complex issue facing the global apparel industry is the debate over living wage or the floor wage for garment workers. Apparel manufacturers are, most often, given specifications of a certain product by the buyers along with a price thus leaving little room for negotiations. This influence of buyers and other factors have resulted in falling import prices of apparel in the past decade as shown in the graph below:

Import price trends on selected garments from non-EU countries into the UK, 2000-2009:



Source: Clothesource

Miller (2013) argues that manufacturers know that the labor component in the total cost of the apparel is negligible but it is the only component that manufacturers can control. All other components such as fabric or yarn prices, exchange rates, utilities, freight costs, etc are determined by market forces.

Miller's research demonstrates that it is possible to incorporate living wages of garment workers in the product cost which may have an impact of approximately 1%-3% on the retail price but concerns regarding transparency that the living wage paid by the buyer may not be passed on to the workers is difficult to answer especially when workers unions are not present. Moreover, suppliers work with multiple buyers which makes it difficult to justify when some buyers pay living wages while others do not.

It should also be noted that price increase of 1-3% on account of living wages is for stitching workers only, which is the final stage of manufacturing. If living wages for upstream workers such as weaving, spinning and ginning sectors are considered the price increase would be substantial. Moreover, the problem in labor costing in spinning and weaving is that it is difficult to break down the manufacturing process in the same way that can be done for stitching process.

In comparison to the problem of living wage, the issue of occupational health and safety (OHS) in supply chain seems easier to solve because work related safety can be visibly improved and photographed. The question related to OHS is to determine whether it is possible to measure compliance cost of health and safety? If yes, then how can it be shared in a multi-buyer manufacturing environment?

Implications for Pakistan

- From a buyers' perspective, Bangladesh and Pakistan have similar problems with regards to fire and safety and labor issues in the garment industry. The only difference is that Bangladesh is under spotlight because of its global position while Pakistan is not considered as a major supplier. But it can be argued that wage structure in Pakistan is much higher than Bangladesh. Also generally speaking the working conditions are better. Having said that improvement is very essential.
- As Pakistan is qualifying for GSP Plus, the EU will most likely pressurize Pakistan to improve factory conditions with respect to fire and safety and to update its labor laws.
- As a precautionary measure, it is recommended that Pakistan should also join the Better Work program jointly run by the ILO and the World Bank but before submitting an official application, the government should consult the ILO lest it has reservations on our Labor Laws. In case Pakistan is refused admission into the Better Works program it may create an awkward situation in front of buyers and also may create hurdles for our bid for GSP Plus.
- The government and the industry should realize that Pakistan's textile and garment industry should not continue to work at the bottom of the value chain. Serious brain storming is required in order to compel the industry for value addition and the government should devise a strategy through which Pakistan's value added garment exports can increase.
- One way to enhance value addition is through liberal import policy for fine quality yarns, fabrics and accessories which are not available locally. Moreover, imports of man-made and polyester fabrics from India and China should be encouraged. The government should consider revamping DTRE rules for temporary importation of raw material for exports.

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<http://clothesource.blogspot.com/>