

CHEAP CLOTHING – AT WHAT COST?

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Rana Plaza, home to five garment factories which were supplying clothes to Western retail companies, collapsed on the morning of 24 April in a suburb of Dhaka in Bangladesh. This tragedy drew the attention of the public once again to the inability of companies to control every stage of their supply chain; it also brings to mind other similar problems regarding subcontracting in the industry. This has prompted people, in light of such a tragic event, to question how to bring about change in the textile industry’s global supply chain, and which players should be responsible for initiating such change.

On the morning of 24 April 2013, Rana Plaza, an eight-story building, collapsed in the Dhaka suburb of Savar, Bangladesh. The building was home to five garment factories which were supplying Western brands and employing at least 3,500 people. The death toll has reached to more than 1,100. Unfortunately, this tragedy is not the first of its kind in Bangladesh, happening as it did; only five months after a fire in another garment factory (Tazreen Fashions) caused the death of 111 people.

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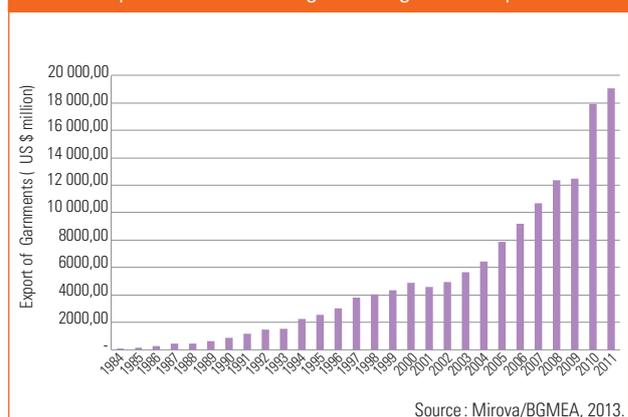
An avoidable accident?

According to several news reports, cracks in the building had already been seen on the day before the disaster. However, factory owners told their employees to ignore the cracks in the walls and to continue working in spite of workers’ protests to enter the building. Would the workers have obeyed if they had been represented by a union? Unfortunately, unstable buildings housing textile factories are a common sight in the country. According to Sam Mahers from Labour Behind the Label, it is common to see extra floors being added illegally and many buildings have absolutely no proper emergency escape routes. Campaigners for better working conditions in Bangladesh say that the rapid expansion of the garment industry in the past few years has played an important part in the lack of safety measures. According to senior government official, Mainuddin Khondker, 50% of garment factories are located in premises that are deemed unsafe. Khondker heads a task force which has been inspecting garment factories since the fire at Tazreen Fashions in November 2012. Despite the existence of this task force, Khondker admits that no action had ever been taken, either against a factory for the violation of safety rules and inadequate emergency fire systems, or against landlords for the violation of building codes.

The garment industry in Bangladesh

The importance of the garment industry to Bangladesh’s economy is not to be overlooked. According to the Bangladesh Garment Manufacturers & Exporters Association (BGMEA) ready-made garments make up around 17% of the country’s GDP and roughly 77.1% of the country’s total exports, with more than three-quarters heading to stores in Europe and the US. Over the past 30 years, the volume of exports has increased radically, from exports worth \$131 million in 1985 to \$19 billion in 2012. Consequently, the industry has been able to take on four million workers, four-fifths of whom are women. This growth can be attributed to the country’s main competitive advantage – cheap labour. The national minimum wage is currently among the lowest in the world and has not been increased since 2010 (Milne, 2013).

Graph 1. Growth in Bangladesh’s garment exports



Due to its economic importance, many have argued that the Bangladesh government sees the industry as an asset to be protected at all costs. At the same time, the BGMEA has worked to increase its presence and its influence on the government. A number of factory owners are beginning to enter the political arena. More than 10% of the parliamentary deputies are factory owners, while many others, and also some government officials, have financial interests in the industry.

The role of companies

While it is the government's responsibility to ensure that buildings adhere to the required safety regulations, it is also up to the companies to perform audits to ensure that no human rights violations are being committed within its supply chain.

The increasing trend for fast fashion, whereby in-style items of clothing are quickly available in stores at affordable prices has had an impact on the industry's supply chain, causing it to become multi-layered and thus, allowing companies to change their suppliers more easily to keep production costs as low as possible. Consequently, there is generally no relationship between the retailers and their manufacturers that would leave room for open communication between the two parties to gain better transparency. Certainly, audits are often carried out to ensure that suppliers adhere to the company's internal code, but these audits rarely check the security and integrity of the buildings housing the workshops. Before Bangladesh became involved in the supply chain, building stability and safety were not often a problem.

‘ The global supply chain of the retail industry must change.

The collapse of the Rana Plaza, deemed to be Bangladesh's worst industrial accident in history, could bring about a change in the industry, especially in the relationship between the retailer and the manufacturer. While the immediate reaction of the companies affected was to compensate the victims' families, it took the retail industry as a whole nearly two weeks to react in a more proactive manner. Before the collapse, only two retailers, Germany's Tchibo and America's PVH (owners of Calvin Klein and Tommy Hilfiger), had signed the Accord on Fire and Building Safety in Bangladesh. Now, 43 retail companies have signed the accord, with H&M, the largest retailer sourcing from Bangladesh, leading the way. The accord is a legally binding agreement that commits its signatories to help finance the fire safety and building improvements necessary in Bangladeshi factories (up to third-tier suppliers) and the training of their employees for the next five years. Certain major American retailers, such as Wal-Mart and Gap, have declined to sign the accord citing that it was too ambiguous, particularly as regards to the legal liability of the signatory companies. Only three American retailers, Esprit, PVH and Abercrombie & Fitch have signed the accord, the remaining retailers being mainly European. For their part, Wal-Mart and Gap have decided to lead a coalition to create a new Bangladesh safety pact. Although nothing is yet known about the content of this pact, it is highly unlikely that it will be a legally binding document, considering that this was one of the factors which influenced these companies to refuse to sign the original accord.

Mirova's insights

Due to the labour intensity of garment manufacturing, retail companies are exposed to the risks of human rights violations. This was highlighted in the 1990s by the child labour scandal involving Nike. Since then, the industry has been under close scrutiny to ensure that their supply chains respect human rights.

The Rana Plaza tragedy and other similar prior events reveal how, despite the implemented audits, global retail companies are not yet able to ensure humane working conditions in all the factories of their suppliers. While companies' individual efforts can bring about positive changes, the frequent recurrence of such tragedies shows that the desired safety measures and improvements call for a broader range of systematic solutions that entail constructive engagement between the different players in the industry. Accordingly, retailers need to take action together in order to have a greater and longer lasting impact in improving the current state of the factories.

The Accord on Fire and Building Safety in Bangladesh has the potential to be an example of this involvement – an industry-wide collaboration to improve the building safety and security of the factories. Companies would each pay a contribution of a maximum of \$50,000 a year to finance the independent inspection of the factories and the training of top-tier factory employees. Combining the resources of the retailers allows for a more efficient way of deploying them where they are most needed. Furthermore, combining the economic strength of the signatory companies allows them to increase pressure on the government to speed up the implementation of reforms particularly relating to the development of building regulations and the freedom of association.

The global supply chain of the retail industry obviously has some way to go in the development of its practices. Guaranteeing global consumers a supply of low-cost and up-to-the-minute fashion by competing to find the cheapest possible manufacturing contracts has proved to have a much higher, unaccounted-for cost. Whether in Bangladesh or in other countries such as China and Vietnam, companies need to acknowledge their responsibilities relating to human rights as articulated in the UN Guiding Principles on Business and Human Rights (cf. Prof. John Ruggie). In fact, while it is the government's responsibility to protect human rights, it is for the company to ensure that these rights are respected and that there are available remedies in case of abuse. The international collaboration that started with the safety of textile factories in Bangladesh is a first step. Nevertheless, much needs to be done as the accord does not cover all necessary topics and geographical locations. Companies will thus need to collaborate further to ensure that no problems relating to human rights issues are found throughout their entire supply chains.

As a responsible investor, Mirova pays particular attention to human rights issues.

Firstly, in terms of analysis, labour conditions form an important factor in our evaluation of corporate social responsibility (CSR) policy and practices within companies. Unfortunately, the supply chain management systems currently in place are often still inadequate and are significantly in need of improvement.

‘ Integrate human rights into the core business of companies.

We additionally do not include certain companies in our SRI funds if their management of risks relating to human rights is inadequate. This is mostly the case with companies active in emerging economies, but also with certain American companies. Where risk management practices are deemed to be acceptable but could still be improved, we start an active dialogue with the companies present in our SRI funds, with the aim of encouraging them to improve their practices.

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In the dialogues we conduct, we naturally call on retailers to sign the Bangladesh accord where appropriate, but also to collectively undertake to implement the necessary improvements to ensure the health and safety of the workers in their factories through the following actions:

- Working with the governments of the countries where their suppliers are located, so that building regulations are followed, employees are allowed freedom of association in their countries and the national minimum wage is at a level that allows employees a decent standard of living.
- Moving towards more standardised audits at an industrial level instead of multiple audits carried out by individual companies.
- Customising audit methods so that they take into account the local conditions specific to certain countries and locations, and publishing the results of these audits.
- Increasing transparency by publishing a list of all their suppliers in all geographical locations.
- Guarding against the risks of illegal subcontracting.

By encouraging companies to integrate the respect of human rights into their core businesses, Mirova aims to contribute to an improvement in the quality of CSR policies within companies and within the entire global supply chain of the retail industry.

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Milne, R., 15 May 2013, *H&M chief calls for annual minimum pay revisions in Bangladesh*, *Financial Times*.

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