



Aldi's clothing bargains – discount buys discounting standards?

Working conditions in Aldi's suppliers
in China and Indonesia

Suggestions for consumer and trade union action



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Contents

Preface by Margret Mönig-Raane, ver.di / German Services Union	4
Preface by Wilfried Neusel, Evangelical Church in the Rhineland	5
Summary	6
1. Introduction	7
2. Portrait of Aldi: Top textile and clothing retailer and discounter	10
3. Fiercer competition after the phase-out of the WTO Agreement on Textiles and Clothing.	22
4. Discounters and global structural change in the retail trade	27
5. Case study 1:	
Working conditions in Chinese supplier factories to ALDI	33
6. Case study 2:	
Working conditions in Indonesian supplier factories to ALDI	60
7. Statement by Aldi and SÜDWIND response	73
8. Companies' global social accountability	76
9. Suggestions for consumer and trade union action	80
Service section.	85
Bibliography	85
Abbreviations	88
Currency details	89
List of selected ILO Conventions	89
Glossary	90
Contact addresses	93

Preface by Margret Mönig-Raane, ver.di (German Services Trade Union)

People need clothes, people wear clothes – this is a basic need of civilisation. And clothing must be bought in a responsible way.

We all know the pictures of Asian factories and the miserable conditions, in which the workers, overwhelmingly women and also children, manufacture trousers, jackets and dresses for the global market. Much of this clothing ends up in discount stores such as Aldi, where, week after week, cheap socks, t-shirts or pyjamas are advertised in newspapers in large colourful pull-outs.

The largest discounter in Germany is epitomized by its isolation from the outside world. The sourcing of the clothes it sells and the conditions in which they are produced are something the company and its owners, the Albrecht brothers, have long cloaked in secrecy.

This brochure provides comprehensive information on the research by the SÜDWIND Institute, which has shed light on this shady area and discovered factories in Indonesia and China that produce clothing for Aldi. The business principles operating in these factories seem to be: employees are badly paid, have no rights and immediately lose their jobs if they dare to demand better conditions.

Together with several alliance partners, the service trade union “ver.di” has campaigned for many years for the implementation of internationally recognised social standards in trade and industry. Together with the Clean Clothes Campaign and Attac, we have recently publicised the sourcing conditions of goods being sold by Tchibo and Lidl. Together with church-based, environmental and developmental organisations, ver.di set up the CorA-Network for Corporate Accountability, which exposes poor working conditions and seeks direct discussions with the companies concerned.

However, we are convinced that as well as discussions and greater public transparency, politicians also have key responsibilities. Companies’ voluntary commitments to comply with social and environmental standards are not enough.

Politicians have the task of preparing and implementing demands for human and employer rights, and for social and ecological standards in international trade agreements and the rules for spurring the economy.

In the specific case of the discounter Aldi, ver.di backs the plan to exert pressure by running a campaign focusing explicitly on the company. The aim must be for Aldi to commit itself to a binding code of conduct that insists on decent working conditions in its suppliers’ factories. In view of the buying power of a company like Aldi, this can have a real impact on factory managers in China, Indonesia and other Asian countries, which trample all over employees’ rights.

But consumers also have a key role to play: bargain-seeking, “Geiz-ist-Geil” (Stinginess-is-Sexy) thinking has negative consequences for all sector workers. The loss of workers’ rights, low pay and growing pressure are the flip side of an ever-expanding, limitless discount economy. In a world, in which interrelatedness and mutual dependencies are continually growing, responsibility for this web of inter-reliance is also growing. Like many other organisations, ver.di has decided to face up to this task.

The need for affordable, fashionable and good quality clothing is something we expressly endorse. Yet all of us – consumers, retailers and suppliers – have it in our power to determine whether human beings manufacturing goods to meet our needs have to do so with no rights and no commensurate payment – or, whether their working conditions comply with social and ecological requirements. We can all make our own contribution.

*Margret Mönig-Raane,
deputy chair of ver.di*

Preface by Wilfried Neusel, Evangelical Church in the Rhineland

As the gulf between poverty and prosperity in Germany continues to grow, so, too, does the consumption of both cheap goods and luxury goods. Discount shops are springing up like mushrooms, outdoing one another in the bid to provide the cheapest possible special offers. A large number of Germans relies on shopping at discounters for their day to day survival.

In the case of Germany's biggest discounter, however, the picture is somewhat different. More than four fifths of the population shop here – i.e. not just the poor, but the higher earners, who actually represent the largest single group of customers in Aldi branches. Aldi appeals to all, also selling better value products at unbelievably low prices.

As the research findings from China and Indonesia demonstrate, Aldi's bargains, however, come at a high price.

Textiles and clothing for Aldi are produced in these countries under unacceptable working and living conditions. Under no circumstances can this situation be allowed to continue. As consumers, we cannot allow ourselves to be beneficiaries of violations of the human rights of sewing workers in the countries of the South, even if our household budget is stretched.

The Evangelical Church in the Rhineland, within the framework of the Conciliar Process, is committed to "Justice, Peace and the Integrity of Creation". This commitment is even anchored in our church constitution. One practical example of this kind of commitment is when consumers tell Aldi to campaign for decent conditions in the textile and clothing production.

*Wilfried Neusel,
Oberkirchenrat and Head of the Department
for "Ecumenism, Mission, Religions" of
the Evangelical Church in the Rhineland*



(Photo composition: Roland Müller-Heidenreich & Frank Zander)

Summary

This publication provides the first ever examination of the textile and clothing (T&C) business of the Aldi-Group, the biggest discounter in Germany and Europe.

To begin with, the enormous significance of the market power of the T&C retailer, Aldi, and its T&C sourcing both domestically and overseas are looked at against the background of the discount concept initiated by Aldi in grocery retailing.

At the heart of the publication, however, are the two case studies on working conditions in Aldi supplier factories in China and Indonesia, in which numerous violations against legal requirements and conventions of the International Labour Organisation have been recorded. These violations are in part well in excess of those recorded in research published in recent years into the situation of sewing workers employed by multinationals' T&C suppliers.

The nature and extent of Aldi's T&C business were helped, on one hand, by developments in the world T&C trade and, on the other, by international structural transformation in the retail trade.

The increased competition in the international T&C trade, liberalised in 2005, has led to multinational buyers exerting further price pressure on suppliers, at the cost of the workers. The modernisation and internationalisation of the retail trade within the framework of the policy of the World Trade Organisation is also having negative impacts on increasing numbers of workers.

Analysis of the worldwide debate on corporations' voluntary global social responsibility shows that, in the absence of a binding regulatory framework, this has remained ineffective. Thus, proposals for action include consumers' protests against Aldi's textile business as well as legal initiatives aimed at political decision makers.

1. Introduction

Almost completely unnoticed by large sections of the public, discounters have risen to the top of the textile and clothing (T&C) retail trade in Germany in recent years. One customer in two now buys T&C products from discounters – often alongside expensive designer labels. This trend is running parallel with the growing market share of discounters in other retail sectors.

For many years, the pioneer of the discount concept in Germany, the Aldi Group (Aldi North and Aldi South) was the leading discounter in the annual list of top German T&C retailers. But now, after almost 20 years, Tengelmann, including the discounters Plus and KiK, has taken over top position. While overall T&C consumption in Germany is declining, increasing numbers of discounters are making considerable headway, ensuring that competition is becoming increasingly fierce. There is no end to the amount of promotions/sale goods, special offers and bargains. The pursuit of consumers with money to spend is being stoked by one new concept after another. These include the artificial “rationing” of special offers/promotional goods available for only a few days, seasonal merchandise and a combination of goods, targeting exciting lifestyles. The methods used by discounters are becoming increasingly similar. Growing social polarisation between rich and poor is driving more and more consumers to discounters, which are also increasingly offering high quality goods at extremely low prices.

But what is right for the consumer, is anything but fair for the sewing workers producing these T&C bargains. As the results of the research in China and Indonesia included in this publication demonstrate, fundamental labour laws – especially in the case of Aldi’s Chinese suppliers – are being violated as never before. In principle, the phenomenon has become familiar: a large amount of clothing sold in Germany is often manufactured under unacceptable working conditions in developing and threshold countries. This usually applies to clothing produced for discounters as well as for designer labels – some-

thing numerous research studies from a broad range of sources have demonstrated in recent years.

In order to cut costs in the 1970s, the labour intensive stages in textile and clothing production were shifted from industrial countries to countries of the South – usually at a heavy price: the violation of labour and social rights. As a result of the predominant policy of market-opening and liberalisation since the phase-out of the Agreement on Textiles and Clothing of the World Trade Organisation (WTO) at the end of 2004, the industry’s international competition, based on the credo of cost cutting, has become even tougher.

The major clothing exporting country today is China, with a global market share of 25%. It is estimated that this could rise to over 50% in a few years if the last remaining trade restrictions against China are lifted. In the Chinese textile and clothing industry, labour law violations are commonplace and independent trade unions are still banned.

Labour rights are human rights (Mirja Batosiewicz; ver.di design competition, 2006)





From the documentary film "China Blue", directed by Micha X. Peled (Photo: BFILM Verleih/EYZ Media)

Although there have recently been some clear indications that this situation is beginning to be regarded as a problem and that new labour legislation is being prepared in China – according to which (at least in theory) employees rights are to be improved – it is doubtful if or when the employees will actually feel any positive change in their everyday circumstances.

For this to be achieved, legislation, e.g. on internal migration, would have to be changed. The 150–200 million migrants working in the industrial conurbations – with high numbers in the textile and clothing industry – are still branded illegal and exposed to exploitation.

As a result of Aldi's hostility to publicity over several decades, little of the normal business information, for example on turnover, profits and advertising budgets has found its way into the outside world, never mind on information on issues such as the identity of suppliers and sourcing channels. With the help of a broad range of contacts made by the SÜDWIND Institute in the course of its research into Aldi since the end of 2005, it has been possible, however, to confirm information about supplier factories in China.

In Indonesia, this concerns Aldi's indirect suppliers, i.e. suppliers to the German company Huber (with the "Hubermasche" brand name) which, in turn, supplies Aldi. The names of these suppliers are publicised in the study by

SÜDWIND's partner organisation in Indonesia "Urban Community Mission" (PMK) included in this brochure. However, the names of interviewed factory workers are omitted to protect them from possible repression. Shortly after the completion of the PMK research one of the four factories surveyed closed down. The expiry of the Agreement on Textiles and Clothing hit Indonesia particularly hard. Since 2005, around 100 factories employing over 100,000 workers have closed and, in the face of changing international competition, other factories are under imminent threat of closure.

In China, the research for this publication into the working and living conditions of workers in five clothing factories in the Jiangsu Province, near Nanjing, has been kept completely anonymous. For reasons of workers' security, the interviewed workers, the factories, Aldi's main Chinese supplier and the author of the study are not named. This must be understood against the background of state authorities' continuing widespread violence against democratic opposition in China. This, however, should not prevent Aldi from identifying the supplier and the supplier factories in the region, in order to introduce improvements. The practice of anonymisation also underlines the demands of the SÜDWIND Institute and the international Clean Clothes Campaign (CCC) for structural transformation of the global sourcing policies of multi-national retail and brand-name companies.

As a result of multinationals' policy of breaking business relations with exposed suppliers and hence of toying with the fate of thousands of workers, the CCC in recent years has also concluded that it is better to anonymise the studies into violations of labour laws in the global value chains. SÜDWIND wishes to use this publication, above all, to highlight typical malpractices in clothing factories in China and Indonesia, as well as Aldi's buying practices in order to clear the way for new structural solutions.

Alongside the main focus – the studies from China and Indonesia – the publication also includes a portrait of Aldi, not only outlining its T&C sourcing but its general discount policy. This policy is examined in an international context in the chapters focusing on the expiry of the WTO's Agreement on Textiles and Clothing and the structural transformation in the groceries retail sector. Putting the policy in this context is important since the future of retailers and discounters is becoming increasingly dependent on their international strategies.

The chapter on global social accountability outlines the beginning and progress of the global debate on the unethical global sourcing of multinationals and makes an interim evaluation of the situation. It has been demonstrated not only that public pressure has forced numerous

companies to introduce initial improvements for workers in individual factories, but also that voluntary approaches, however, such as company commitments are, on their own, not enough to provide long-term solutions. The chapter on possible consumer and trade union action, therefore, proposes measures that customers can use to take direct action against Aldi and that citizens can use to appeal to, and put pressure on, politicians.

Aldi is now known by almost 100% of the population in Germany with over 80% – both rich and poor – shopping at Aldi.

Higher-earners make up the largest single group of Aldi customers. Therefore, there is enormous potential for Aldi customers to exert pressure on the company if they were able to coordinate and target their views on decent work in supplier factories. The first signs of a break with Aldi's traditional policy of public isolation are already evident. The most recent discounter campaigns by ver.di, ATTAC and CCC have been successful in publicly challenging the rivals Lidl and Tchibo. The international CCC and partner organisations in the South are planning campaigns against discounters in the next few months – one of which is Aldi, the largest discounter in Germany and Europe.

(Photo: Frank Zander)



2. Portrait of Aldi: Top textile and clothing (T&C) retailer and discounter

2.1 T&C outsiders make advances – Aldi and discounters in the German and international T&C retail trade

There has been a development in recent years, the outcome of which has gone largely unnoticed by large sections of the German public: retailers new to the T&C retail trade, including the discounters Aldi, Lidl or Tchibo have risen to the top of the T&C retail trade.

Since 1987, Aldi has appeared in the specialist magazine *TextilWirtschaft's* annual list of top re-

tailers and, until 2004, was the leading discounter among the first ten companies. But now, other discounters are following in their footsteps. Increasing amounts of T&C goods are being sold in thousands of discount outlets. This was a result of the general expansion in the consumption of textiles and clothing for a short period only. For,

although overall textile consumption in Germany has been decreasing for several years, the sale of textiles and clothing among discounters is actually increasing. The result: fiercer competition not only in the T&C retail trade as a whole, but also among discounters selling textiles and clothing.

How has this rise of the discounter come about? Does it have anything to do with the development of the discount concept in the German retail trade, which Aldi put its stamp on almost 50 years ago? What are the international strategies pursued by Aldi and its competitors – on the global T&C market as well as within the retail trade in general? What role is played by the people working for Aldi and other discounters – in Germany and abroad?

These questions will be explored in the following chapters. But to begin with, this chapter will spotlight the significance of the Aldi group in the German and international T&C retail trade, its T&C sourcing and its policy towards its workers, before focusing on Aldi – the general discounter.



(Photo: Dominic Kloos)

2.2 Market position of the T&C retailer Aldi

The market share of discounters in the German T&C retail trade has grown constantly in recent years. Although the 38,000 member companies of traditional retailers continue to have the lion's share of the market, their sales of 29 billion euros in 2004 were almost half of what they were in 1992. Total sales in clothing and textiles in 2005 amounted to around 56 billion euros – compared with a total equivalent to 65 billion euros in 1995. Mail order with 14.5%, discounters with 13.2% and department stores with 12.8% were the specialist retailers' biggest competitors.

As a consequence of the aggressive pricing policy, especially by retailers new to the T&C trade such as Aldi, but also Tengelmann (KiK, Plus), Tchibo and Lidl, specialist retailers are being put under severe financial pressure. This trend corresponds with the overall market share developments of a variety of business formats in the retail trade, in which discounters are com-

ing to the fore. One customer in two in Germany now also buys clothes from discounters (*TextilWirtschaft 2005b*). Clothing bought from discounters is often being bought along with expensive designer labels.

The 22.4% drop in individual spending on T&C and shoes between 1995 and 2005 is also attributed to the fact that, with the introduction of quota reductions as part of the WTO Agreement on Textiles and Clothing (see chapter 3), T&C products became increasingly cheaper. Thus, clothing prices in Germany fell, for example, by 0.8% in 2004, by 2.2% in 2005 and by 1.4% in the first half of 2006 (*BTE 2006*). The more cramped the T&C market becomes, the more the competition between rivals increases.

In the list of the "Largest Textile Retailers in Germany 2005" (*TextilWirtschaft 2006a*) (see Figure 1), the Aldi group was in 8th place, followed by Tchibo and Lidl. Between 1992 and 2002, the Aldi group's T&C sales had increased

Figure 1: The largest textile retailers in Germany, 2005 (extract)

Ranking	Company	Turnover in million euros 2005	2004	Change in %	Remarks
1.	KarstadtQuelle, Essen	4424	6584	-33.8	Mail order by catalogue and internet with Quelle, Neckermann, Peter Hahn, Madeline, Atelier Goldner Schnitt, Hess Natur and a range of other specialist senders. Fixed location activities with 143 department and sports stores, under the name of Karstadt, Alsterhaus, KaDeWe, Wertheim, Hertie and Karstadt Sport. Further fixed location units of the various senders
2.	Otto-Group, Hamburg	3650	3793	-3.8	Mail order by catalogue and internet as well as fixed location retailing with around 150 branches, including Sport Scheck, Frankonia, Bonprix, Witt. Although not consolidated, the turnover of Zara Germany (41 branches) and Massimo Dutti (5 branches) were included
3.	Metro, Düsseldorf	3245	2901	11.9	117 Metro Cash&Carry, 252 Real self-service department stores and Extra cut-price supermarkets and 127 Kaufhof stores. Consolidated for the first time is Adler with 108 branches
4.	C&A, Düsseldorf	2700	2600	3.8	353 branches
5.	Hennes&Mauritz, Hamburg	2120	1965	7.9	288 branches
6.	Peek&Cloppenburg, Düsseldorf	1453	1408	3.2	88 branches of the Peek & Cloppenburg and Anson's
7.	Tengelmann, Mülheim/R.	1244	782		1950 branches of the T&C discounter Kik. For the first time including the turnover in T&C goods of the grocery discounter Plus with around 2,840 branches
8.	Aldi-Group, Essen/Mülheim/R.	1095	1100	-0.5	Aldi North and South with 4,108 branches together
9.	Tchibo, Hamburg	1077	987	9.1	Around 1,000 branches, 20 "Percent" shops (clearance items), 1 Richard underwear shop, mail order and internet
10.	Lidl, Neckarsulm	1055	1040	1.4	2,750 branches
11.	Takko, Telgte	770	718	7.2	807 branches
12.	Klingel, Pforzheim	720	740	-2.7	Mail order by catalogue and internet as Klingel, Wenz, Mona, Meyer, Babista, Vamos, Wellsana and Diemer. Also 5 fixed location units in Pforzheim
13.	SinnLeffers, Hagen	563			Listed for the first time since the sale by KarstadtQuelle. 49 SinnLeffers stores as well as franchise shops Hugo Boss (2), Gerry Weber (9) and Mango (1)
14.	Rewe, Köln	545	545		Turnover in T&C goods with Toom self-service department stores, Rewe cut-price supermarkets and the T&C branch concept Kressner
15.	Mulliez-Group, Willstätt	530	540	-1.9	Turnover in T&C goods with 248 Orsay branches, 161 Pimkie branches, 73 Xanaka branches and 7 Decathlon branches
16.	New Yorker, Braunschweig	513	426	20.4	273 branches
17.	Esprit, Ratingen	490	400	22.5	110 branches
18.	Peek&Cloppenburg, Hamburg	460	450	2.2	26 branches, new opening in Lübeck (5,000m ²) in February 2005

Source: www.twnetwork.de

by 222% (Erlinger 2004a). In 2005, the T&C sales of the 4,108 branches of Aldi South and Aldi North in Germany amounted to almost 1.1 billion euros, which, compared with 2004, was a drop of 0.5% (and of 22% compared with 2003), while most other discount rivals in the list recorded sales growths.

The figure below clearly shows the growing competition between rival discounters in the German T&C retail trade (see Figure 2).

The position of top discounters in terms of T&C goods, held by Aldi for many years, was taken over for the first time in 2005 by KiK and Plus,

both part of the Tengelmann group. It is striking that the T&C sales of Aldi, Tchibo and Lidl are almost identical, even if there are marked variations in their proportion of total sales.

Just as Aldi's T&C sales have fallen since 2003, so, too, have their proportion of total sales from 4.6% to 3.2% (2005). In the case of Tchibo, this proportion increased from 6.7% in 2000 to 12% in 2005. Among German discounters in 2004 the T&C proportion of all merchandise groups amounted to 4.9% (EHI 2006: 304).

In recent years, the proportion of T&C and hard goods (i.e. non-food-products) in Aldi

Figure 2: T&C rankings, T&C sales and total sales of discounters

	1999	2000	2003	2004	2005
Aldi					
Ranking:	8	9	6	7	8
T&C sales:	€931 m.	€966 m.	€1.4 b.	€1.1 b.	€1.1 b.
Total sales:	€18.6 b.	€19.2 b.	€30.5 b.	€32.5 b.	€35 b.
Tchibo					
Ranking:	11	13	8	9	9
T&C sales:	€624 m.	€665 m.	€881 m.	€987 m.	€1.08 b.
Total sales:	€9.8 b.	€10 b.	€3.3 b. (*)	€8.3 b. (**)	€8.78 b.
Schwarz					
Ranking:	14	14	9	8 (Lidl ***)	10 (Lidl)
T&C Sales:	€522 m.	€542 m.	€1.0 b.	€1.04 b. (Lidl)	€1.05 b. (Lidl)
Total sales:	€32.5 b.	€36.0 b.	€40.0 b.
Tengelmann					
Ranking:	17	26	12 (KiK ****)	10 (KiK)	7 (KiK & Plus)
T&C sales:	€442 m.	€350 m.	€652 m. (KiK)	€782 m. (KiK)	€1.24 b. (")
Total sales:	€27.7 b.	€27.3 b.	€26.6 b.	€26.8 b.	€26.3 b.

(*) Sale of Reemtsma, 2002.

(**) 2004 first full consolidation of the part of the concern Beiersdorf.

(***) TextilWirtschaft publishes from 2004 data only on Lidl, the discount division of the Schwarz group, to which the self-service department stores Kaufland and Kaufmarkt as well as the consumer markets Handelshof and Concord also belong. The total sales, however, relate to the Schwarz group.

(****) The data from TextilWirtschaft for 2003 and 2004 relate only to the T&C discounter KiK, for 2005 to KiK and Plus, alongside which, however, A&P, OBI and others also belong to Tengelmann. Total sales relate, however, to the Tengelmann group.

Sources: TextilWirtschaft rankings "The Largest in the Textile and Clothing Retail Trade" in Germany 1999, 2000 and 2003-2005, and www.twnetwork.de/unternehmenundmaerkte/firmenprofile, on 23.1.2007, and Liedtke 2001/2006/2006 (partly estimated total sales).

Figure 3: International top discounters selling apparel (2004)

Retailer	Retail format	Worldwide turnover in US \$ billions	Number of stores worldwide
Wal-Mart (USA)	General merchandise	285.22	5,700
Carrefour (Frankreich)	General merchandise/ hypermarket	99.12	11,000
Metro AG (Deutschland)	Wholesale, hypermarket	76.94	2,400
Costco (USA)	Wholesale club	48.11	400
Target (USA)	General merchandise	46.84	1,330
Aeon (Japan)	Discount / off-price speciality	39.24	2,900
Sears (USA)	Discount department store	36.1	1,970

Source: Juste Style.Com 2005: 8

stores sold as “Promotions” and “Special Buys” fell from about 20% of the total sales of 35 billion euros (2005) to 10–12% (*Freitag 2006*). At the same time, however, the frequency of Aldi’s non-food special buys rose from 3 articles in 4 weeks previously to the current level of 25 articles every week (*Rickens 2006*).

Both developments are also an indication of the intense competition among T&C discounters, in which Lidl, Tengelmann and Tchibo, in particular, are gaining ground. Like its rivals, Aldi

is also increasingly offering higher priced hard goods, including T&C products, e.g. cashmere pullovers and outdoor jackets.

In terms of total sales and T&C sales, the Aldi group is also in a leading position among international T&C discounters. So, although Aldi does not appear in the corresponding top list produced by the trade magazine *Just Style.Com* in 2005, according to the above data it should, however, be in 8th place.

2.3 T&C sourcing

Since the founding of the first Aldi discount outlet in 1960, there has been much speculation about the company’s product sourcing. From the outset, Aldi sold discount products almost entirely under its own private labels. Even today, Aldi prefers to remain silent about the source of its products.

However, there is a wide range of literature available, particularly on its grocery suppliers in

Germany, which are often reputed to be brand-name companies (*Bertram 2006, Schneider 2005*). Aldi – following the concept of its main rival Lidl – now gives more prominence to brand-name products, which today amount to about 10% of total groceries.

T&C products, however, are sold entirely under its private labels (see box). Yet Aldi maintains its silence on the origins of these products. In a

similar vein, trade literature vis-à-vis Aldi has also largely ignored the issue of T&C sourcing.

The reason given is that the global sourcing channels of companies involved in the T&C retail trade have been heavily internationalised since the 1970s and that T&C supply chains have become increasingly complex (see chapter 3), thus making the identification of production plants and suppliers to T&C retailers more difficult. Today, only around 10% of clothing sold in Germany is manufactured domestically.

The following findings of the SÜDWIND research into the T&C sourcing chains of the Aldi group are based on an examination of general and trade publications, discussions with scientific, media, trade union and retail experts, test buying of Aldi textiles and clothing, contacts with partner organisations in developing countries as well as interviews with Aldi, its German suppliers and trading partners since the end of 2005.

Unfortunately, with the exception of one company, neither suppliers nor trading partners were prepared to provide information on the Aldi group's T&C sourcing policy to the SÜDWIND Institute. What follows, therefore, is not a systematic exposé, but rather an introductory framework of information, based partly on estimates.

Although Aldi South and Aldi North are independently operating companies with their own buying divisions, they do co-operate with each other on product buying (*Freitag 2006: 31*).

In terms of T&C sourcing, experts believe these products come mainly from China and Bangladesh, but also, e.g. from Indonesia and Turkey.

Through partner organisations in China, Indonesia and Germany, SÜDWIND was able to identify some of Aldi's supplier factories:

- In China: five clothing factories in the Jiangsu T&C region (see chapter 5) and the supplier "Guangzhou Quanxin Knitting" in Guangdong Province.
- In Indonesia: four supplier factories for the German Company Huber (Hubermasche), an Aldi supplier, were found in the Greater Jakarta area (see chapter 6).

- In Bangladesh: the "Divine Sourcing Ltd" factory in Dhaka was identified as an Aldi supplier.

Since 2005, the Clean Clothes Campaign's Urgent Action Network has identified three Aldi suppliers in Bangladesh: Basic Apparels, Sayem and SAS Fashion (see www.cleanclothes.org and www.saubere-kleidung.de).

An article in the TextilWirtschaft trade magazine reported on supplies to Aldi and Lidl from Turkey, which have declined by about 80% since 2005 (*Reinhold 2006: 34*).

Sourcing in these countries is not done through buying offices, but trading agents or indirectly via the sourcing channels of Aldi suppliers in Germany or trading partners.

Aldi suppliers in Germany

According to one Aldi supplier, Aldi has around 10 T&C suppliers in Germany (*Albaum 2004: 20 ff.*) which, in turn, have a global sourcing network.

An article in TextilWirtschaft from 1/4/04 speculated on textile and clothing producers that possibly supply Aldi. The following were named:

Rieker in Bodelshausen,
JCK Holding in Quakenbrück,
Gebra in Bochum,
Miles in Hamburg,
Promtex in Hamburg,
Baumhüter in Rheda-Wiedenbrück,
Multiline in Düsseldorf, and the
Miro Radici AG in Bergkamen

The Miro Radici company, which may be linked to the "Radici Trading GmbH" (see below) an Aldi trading partner, was identified from the packaging of Aldi textiles and clothing, which bore the same address. Of the above companies, Miles was the only one to respond to SÜDWIND's request for information. However, Miles neither confirmed its supply relationship with Aldi nor provided any information about its own suppliers.

Alongside the above-mentioned manufacturer, Huber, retail experts named the Güldenpfennig company as a further German Aldi supplier. It has the same address as JCK Holding. In the past, Aldi was also supplied by Trigema, which manufactures exclusively in Germany.

Aldi trading partners in Germany

Various test visits to Aldi branches between mid 2005 and the beginning of 2007, came up with the following names and addresses of Aldi trading partners in Germany, found on the packaging of textile and clothing products.

T&C trading partners of Aldi (Selection):

"Furlano Textilhandelsgesellschaft mbH"
 in Albstatt,
 "emwegetex" in Albstadt,
 "Face to Face GmbH & Co. KG"
 in Bodelshausen,
 "Hanson Im- und Export GmbH"
 in Norderstedt,
 "Euromod GmbH" in Stuttgart,
 "Radici Trading GmbH" in Bergkamen,
 "Dario Markenartikelvertrieb" in Hamburg,
 "S&R Textil" in Rheine,
 "Florett Textil GmbH & Co. KG"
 in Mülheim/Ruhr,
 "European Clothing Company" in Bonn.

This makes no claim to be an exhaustive list.

None of these companies' packaging gave any indication of the producer or country of origin. However, some products were stamped with the environmental seal "Öko-Tex Standard 100", which has relatively low standards used solely to test finished products and not their production.

Like the Aldi suppliers, these Aldi trading partners also refused to answer SÜDWIND's questions on their sourcing policy and business relationship with Aldi.

Aldi T&C private labels

Textiles and clothing are sold by Aldi North and Aldi South under private labels; here is a selection:

Aldi South T&C private labels

(Selection 2005 / 2006):

Skin to Skin – pyjamas
 Blue Motion – bras
 Dormia – bed linen
 Flagship – men's leisure shirts
 Bourbon – men's socks
 Watson's – men's leisure shirts
 Royal Class – men's shirts
 Mary Anne – girl's summer dresses
 Laura Stein – women's knitted pullovers
 Crane Sports – sportswear
 Face to Face – women's overalls/pullovers
 (Company Karl Rieker)
 Linda Clifftort – women's panties
 (Company Huber, label "Hubermasche")
 Patrick O'Connor – polo shirts.

Aldi North T&C private labels

(Selection 2005 / 2006):

Luciano – menswear
 Enrico Mort – underwear
 Queentex – underwear
 (Company Huber, label "Hubermasche")
 Pocopiano – children's clothing
 Papagino – children's clothing
 Cecilia Classics – socks
 Novitesse – bed linen
 Sanfor Knit – bed linen
 Shamp – sportswear.

Queentex is also the name of a clothing company in Hong Kong, which has a clothing factory in Guangdong. It is suspected that this is most likely an Aldi supplier.

Whether the principles of fairness and quality guarantee – which, according to earlier declarations by Aldi, are key features of its general sourcing policy (see former Aldi manager, Dieter Brand's statements in his 2006 bestseller *“Die 11 Geheimnisse des Aldi-Erfolgs/The 11 Secrets of Aldi's Success”*) – also apply to its T&C sourcing, must be doubted. However, the latest responses from Aldi to questions from ver.di and SÜDWIND

appear to indicate some awareness that there is a problem concerning the company's unethical T&C sourcing practices. SÜDWIND hopes that this brochure, including the research findings from case studies on working conditions in Aldi suppliers in China and Indonesia, not only increases this awareness but also contributes to effective changes in Aldi's buying practices.

2.4 Global social accountability and Aldi

In line with its almost universal practice of non-transparency – if not hostility – towards publicity about its business practices, Aldi has so far refused all requests to collaborate on the issue of “Corporate Social Responsibility” (CSR).

The most recent example was the ethics questionnaire from the “International Consumer Research and Testing Association” (ICRT) conducted among 21 discounters and discount suppliers in Germany, Austria, Spain, Portugal, France, Italy and Belgium in 2006, by the IMUG GmbH in Hannover. Aldi failed to co-operate by refusing to complete the questionnaire. As a reflection of the response in the other six countries,

the survey findings in Austria are given below (see Figure 4).

Aldi und Lidl come off worst in the survey in the seven countries, while there is evidence that Plus and Penny are making progress towards environmental and social policies.

Aldi has rejected any co-operation whatsoever not only with the ICRT, but also with the *Stiftung Warentest* (German testing institution) and the External Trade Association of the German Retail Trade (AVE) with regard to CSR in recent years. The Aldi group has no code of conduct, through which the company could publicly demonstrate

Figure 4: Discounters in ethics test

Company	Hofer (Aldi Süd)	Lidl	Penny	Plus	Best in Europe (1)
Environment	C	C	B	C (2)	A
Employee relations	C	C	C (2)	C	A
Products with labels (3)	B	B	B	B	A
Guidelines for suppliers	C	C	B	C	B
Reporting	C	C	B	B	B
Responses to questions	B	B	B	A	B
Questionnaire completed	Nein	Nein	Nein	Nein	Nein

Key:

(1) = Colruyt, Belgium; (2) at group level B; (3) Bio or Fair Trade;
A = met expectations; B = partly met expectations; C = no information supplied.

Source: “Konsument” 12/2006: 33

compliance with social standards among its global suppliers.

However, recent specific requests to Aldi for information on CSR have occasionally received a response. A response from Aldi South to a request from SÜDWIND Institute, included the following:

"For more than two years, we have been working very intensely at the Aldi South international level on the development of social and ecological guidelines as well as on processes required for their implementation. As you know from your own involvement in the issue, the introduction and implementation of social and ecological standards in a global trading context is extremely complex and requires longer term timescales, if a sustainable reorganisation of production processes and working conditions are to be truly accomplished. In line with our philosophy – whatever we do, we do it thoroughly – we are currently analysing the actual conditions for the introduction and implementation of social and ecological standards, so that, together with our business partners, we can successively develop the required structures and processes. Only once we are sure that we have established the appropriate structures and continuity in the availability of sustainable produced goods, will we considerate an appropriate time to announce this publicly. We, therefore, ask for your understanding in our choosing to distance ourselves from premature PR statements." (Email 26/2/07).

The head of the ver.di trade union, Frank Bsirske, received a response on 26/4/06 from Aldi South to a letter in which he had complained about labour law violations in Aldi supplier factories in Bangladesh. The company contested the existence of supply relations with these factories, while taking the opportunity to stress its policy of fair partnership-based business relationships in clothing producing countries.

Aldi North answered a similar question from an interested party by saying that it expected certification from all suppliers, in order "to rule out that unacceptable working and production conditions were prevalent in producing countries" (Aldi response 12/4/06). It is not known what certification was being referred to.

As a customer from Aldi in Austria ("Hofer") discovered, its local branches offer not only organic

produce but also fair trade bananas and coffee (*Konsument* 12/2006: 32).

Even if the above responses from the Aldi group are based on claims that cannot be verified or being merely used as an excuse, it has at least demonstrated that the CSR is a burning issue that has made an impression on the company and that its isolationist policy with regard to public scrutiny appears to be something it cannot maintain. In this respect, Aldi will have closely observed the recent transformation in the CSR policy of its rivals Lidl and Tchibo.

One consequence of the two-year campaign by ver.di and ATTAC focusing on Lidl's deplorable employment practices in Germany and Europe, has been the company's decision to become a member of the European "Business Social Compliance Initiative" (BSCI).

Although the BSCI is not an independent institution that monitors compliance with member companies' codes of conduct in supplier factories throughout the world, this step, however, is proof that public pressure does have an impact. Tchibo went even further than Lidl, when, as a result of a joint campaign by the Clean Clothes Campaign, trade unions and grassroots groups in Bangladesh in 2005, it set up its own CSR department and introduced measures to improve conditions in individual supplier factories.

Even if these steps by its competitors are not particularly sustainable or comprehensive – Aldi is still a long way away from taking a public position on CSR. Without naming names, the company, in its letter to SÜDWIND, indirectly distances itself from the prevailing CSR practices of its rivals. However, whether Aldi, after an "appropriate" preparation phase will implement a publicly credible ethical sourcing policy within a context of global competition, remains to be seen. Such a policy cannot be credible or sustainable if it does not go beyond internal controls and applies throughout the entire supply chain, or is not embedded in a binding legal framework. If the voluntary CSR policy is not linked to global social accountability, it will really be nothing more than a PR manoeuvre (see chapter 7).



2.5 Basic information on the general discounter Aldi

The origins and development of the market power of the T&C retailer Aldi must be looked at against the background of Aldi's overall company concept. The following, therefore, seeks to provide some general information and data on the discounter Aldi and its position in relation to domestic and foreign competitors.

In 1960 in Dortmund, the brothers Theo and Karl Albrecht opened their first **Albrecht-Discount (Aldi)** shop. The network of branches expanded quickly: from 600 in 1972, over 2,000 in 1990, to over 7,000 outlets worldwide by the end of 2005, 2,800 of which were overseas. In 2005, 45% of Aldi's sales were made abroad. Aldi now has branches in 16 countries (see box below) and is expanding, not only in these countries, but also in new regions, including Eastern Europe.

Countries with Aldi branches:

Australia
Belgium
Denmark
Germany
France
Great Britain
Ireland
Luxemburg
Netherlands
Austria ("Hofer")
Poland
Portugal
Switzerland
Slovenia
Spain
USA

- a limited core product range, beginning with an initial range of 400 – now 700 – basic everyday articles (a standard supermarket has about 25,000 articles),
- a relatively small sales area: initially around 200m², up to about 600m² today,
- establishing branches in town centres,
- simple presentation of merchandise,
- low personnel and service expenditure,
- no specialist personnel and no trainees,
- high pressure levels for employees and widespread anti-trade union practices,
- an almost exclusive use of own label products, which are often reputed to be expensive brand-name articles.

This concept guaranteed a quick turnaround of products. Labour costs amounted to only 6.7% of total costs – 14.4% in supermarkets (see **Figure 5**). Aldi benefited from new municipal regulations governing sales area in Germany at the end of the 1960s, intended to protect small and middle-sized retailers: the regulations prevented large-sized businesses of more than 700 m² from moving into town centres and contained guidelines on product range (*Wortmann 2003: 8*).

Because of the huge quantities involved, products for the rapidly expanding Aldi branch network were bought at low prices. Enormous pressure was also applied to suppliers. Thus, at a conference in 1983, Aldi had to admit to having sold merchandise below cost price (*Klusmann/Schlitt 2003: 38*). All these factors led to extremely low selling prices, which helped the business to flourish.

The Aldi brothers are the pioneers of the Hard Discount concept in the German retail trade.

The core elements of their founding business philosophy from 1960 are:



Figure 5: Performance and cost data of grocery retailers, 2004/2005

Performance/cost data	Self-service units up to 399 m ²	Supermarkets from 400m ²	Discounters	Total
Turnover per sales unit in thousand €	1,290	3,813	2,741	3,480
Sales area per sales unit in m ²	308	966	558	842
Sales area productivity in €/m ²	4,188	3,948	4,865	4,133
Number of employees	7.8	19.4	7.2	16.8
Turnover per employee in €	165,385	196,084	378,867	207,389
Turnover per working hour in €	98	120	230	141
Sales area per employee in m ²	39.5	49.7	77.9	50.0
Personnel costs per employee in €	30,119	28,230	25,356	28,094
Personnel costs as % of turnover	18.2	14.4	6.7	13.5
Rental costs as % of turnover	4.9	5.3	3.6	5.1
Other premises costs as % of turnover	2.3	1.9	1.0	1.7
Stock turnaround	10.0	12.4	26.5	14.5

Source: EHI 2006: 287

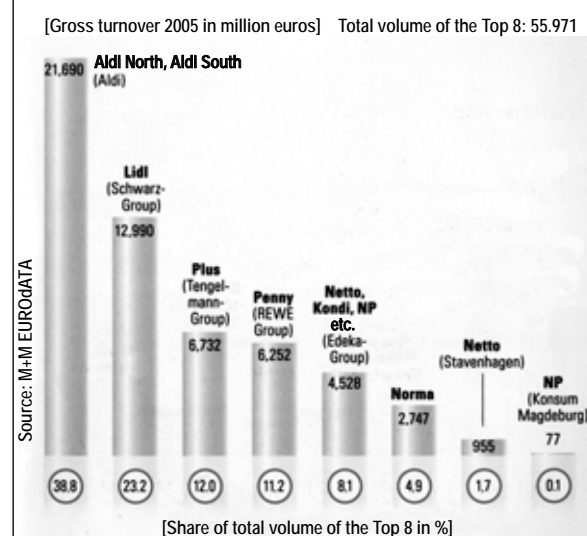
The name recognition-rating of Aldi among consumers in Germany today is around 99% (KPMG Study in the FR 23/8/05). Three out of every four households in Germany shop at Aldi (website Aldi 11/1/07) – other sources even suggest a customer range of 85% (Klusmann/Schlitt 2003: 38) or 86% (*Handelsblatt* 24/8/05) in comparison with 75% in the case of Lidl. The largest single group of Aldi customers – 49% – is that of the higher earners (*Rabenstein* 2003).

In terms of total sales, Aldi lies in fifth place behind Edeka, Metro, REWE and the Schwarz group (Lidl and Kaufland) (*Metro Group* 2006: 15). Among discounters in Germany, however, Aldi is in first place, as **Figure 6** shows.

In a European comparison of grocery discounters, the Aldi group is in first place (*EHI* 2006: 115). Worldwide, the company is one of the largest retail trade companies: currently in tenth place (*EHI* 2006: 56). In both cases, the Schwarz group is in an almost identical position. In Europe, Germany was in top position in 2005, with a 40% discount share of the food market (*Metro Group* 2006: 53). In 2006, Germany's market share rose to 42% (*FR* 1/3/07). This high discount share can be largely attributed to the

failure of the US-American trading giant, Wal-Mart, to establish itself in Germany. In July 2006, after only nine years, Wal-Mart's 85 self-service department stores were taken over by the Metro group.

Figure 6: The largest discounters in Germany



Source: Metro Group 2006: 25

The concept of private label policy has been increasingly successful in the German retailing in recent decades, as **Figure 7** shows.

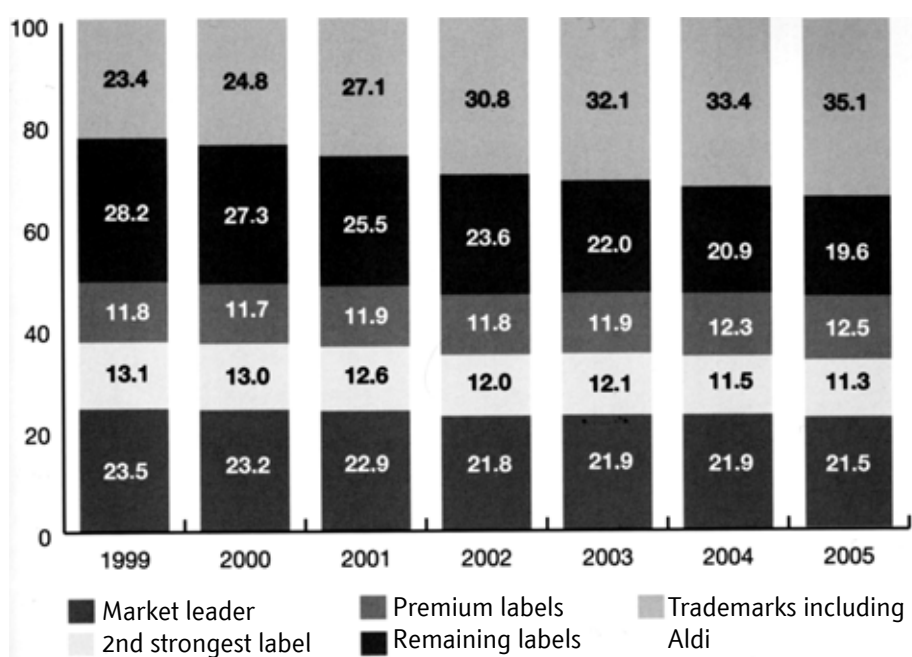
By cleverly splitting up the Aldi group into legally independent subsidiary companies, the company has managed to largely evade the obligation to publish key business information and trade union controls.

In 2005, Aldi's worldwide sales were estimated to be 35 billion euros and its profit to be one billion euros. Owing to its corporate and regional structure, Aldi is not considered a business group and is therefore not obliged to publish a consolidated balance sheet.

Its business is conducted through regional companies (GmbH & Co. KG / GmbH & Co. oHG). They have been obliged to publish business results only since 2001, an obligation they have only partially and belatedly complied with, as *Managermagazin* research revealed at the

beginning of 2006. According to this research, only 33 of Aldi North's 66 regional companies had submitted information to the appropriate district court in 2004. On the basis of the registered average annual profit per Aldi branch of 230,000 euros, the total profit for the approximately 4,000 branches in Germany was estimated to be about 920 million euros (*Freitag 2006: 31*). The Aldi group spends 0.3% of turnover each year on advertising (*Brandes 2006: 159*), i.e. around 105 million euros – an extremely low amount compared with brand name companies (adidas spends around 15% of annual turnover on advertising). The Aldi group of companies is 100% family owned, allowing the two Albrecht brothers to move into the echelon of the world's richest men. In 2005, their estimated joint fortune was around 30 billion euros (*Rühle 2005*), thereby enabling them to fill the top two places in Germany and putting them in third (Karl Albrecht) and 14th (Theo Albrecht) place among the world's richest men (*Albaum 2004: 25*).

Figure. 7: Market share of industry brands and trade labels 1999–2005



* Average price \geq price of the market leader (labels)

Basis: Average value-based market share in 150 FMCG product categories in %.

Source: 17,000 GfK Hauspanel ConsumerScan; 21,500 GfK ConsumerScan Individual

Source: *EHI 2006: 301*

Aldi employees

Due to its corporate structure, the 190,000 Aldi employees – approximately 50,000 in Germany – have no right to set up a group works council.

As a result of its hostility to trade unions, Aldi South's operations in Germany are almost entirely "trade union and works council free zones". In contrast, most of Aldi North's German branches, central stores and vehicle fleets do have works councils. While in northern Germany the trade union ver.di provides the majority of members in these works councils, their counterparts in eastern Germany are firmly in the hands of the "Action Alliance of Independent Works Employees" (AUB). The AUB has 32,000 members nationwide – of which 19,000 are works council members – and pursues a policy of dialogue and consensus, openly distancing itself from the policies of the DGB (German Trade Union Federation) trade unions (*FR 29/3/07*). The longstanding – and recently resigned – chairman of the AUB is currently on remand on suspicion of accepting illegal payments from the Siemens group amounting to between 14 and 34 million euros (*Balser 2007, Magenheim 2007*).

In contrast with Aldi South, Aldi North is a member of the employers' associations in the respective Federal Länder. Aldi now trains employees to become retail salespeople.

Aldi employees' pay – with certain reservations about Aldi South – are above collective labour agreements (CLA) levels. However, in German retailing these levels are among the lowest in the country (e.g. the wage in North Rhine-Westphalia in 2006: 1,601 euros gross monthly pay for a full-time job). The Aldi group's wage costs are estimated to account for less than 10% of turnover (*Liedtke 2006: 20*). In addition to this basic wage, employees can also expect productivity bonuses, a 13th full wage, holiday pay, travel expenses, benefits and a company pension (*Wikipedia 18/1/07*). These arrangements, however, are linked to unpaid overtime. Employees sometimes have to work unpaid, e.g. for 30–45 minutes per day in till preparation and cashing up (*Bormann 2005: 16*). As a result of the increasing price war among discounters, over-CLA level payments for Aldi employees are being progressively eroded.

New trends in the discount concept

As a consequence of the increasingly fierce competition from the discounters established in the 1970s – (Tengelmann), Penny (REWE) and Lidl – the Aldi group's position as top discounter not only in Germany but also overseas has started to waver. Since groceries discounting in Germany, with a total annual volume of around 250 billion euros, has gone about as far as it can go with its current concepts, Lidl, principally through opening up new markets abroad, attracting new customer groups and adopting new sales strategies, has conquered new ground.

Prompted by this, Aldi is also beginning to gradually abandon the Hard Discount Concept, which it itself developed. The innovations include:

- a broader product range,
- improved presentation of goods,
- a higher proportion of brand goods,
- more tempting offers (special buys),
- more convenience articles,
- e-commerce (internet sales).

Social pressure in recent years has already been successful in motivating discounters such as Aldi, Lidl and Plus to include organic produce in its product range. Whether it will be possible in future, to extend this pressure to make them consider products that have been fairly produced and traded, remains to be seen.



(Photo: Dominic Kloos)

3. Fiercer competition after the phase-out of the WTO Agreement on Textiles and Clothing

On account of its global sourcing of textile and clothing products (T&C products), Aldi is subject to the system of regulations of the international T&C trade.

This trade is a significant economic sector: Its total value of 479 billion \$US (*WTO 2006*) represents 7% of worldwide exports. In 2000, consumers spent around 1 billion \$US on clothing. Worldwide, approximately 27 million people work formally in the T&C industry, with 5 to 10 times that amount informally – two-thirds of them women.

For 40 years, under the system of the “General Agreement on Tariffs and Trade” (GATT) and of the World Trade Organisation (WTO),

this trade was subject to privileged conditions for industrial nations, from which T&C retailers and brand-name companies based in these countries benefited in particular.

After the phase-out of the WTO Agreement on Textiles and Clothing on 31/12/04, a new wave of liberalisation was introduced to the T&C sector, which has led to fiercer international competition. Retailers such as Aldi have been among the winners as a consequence of this structural transformation.

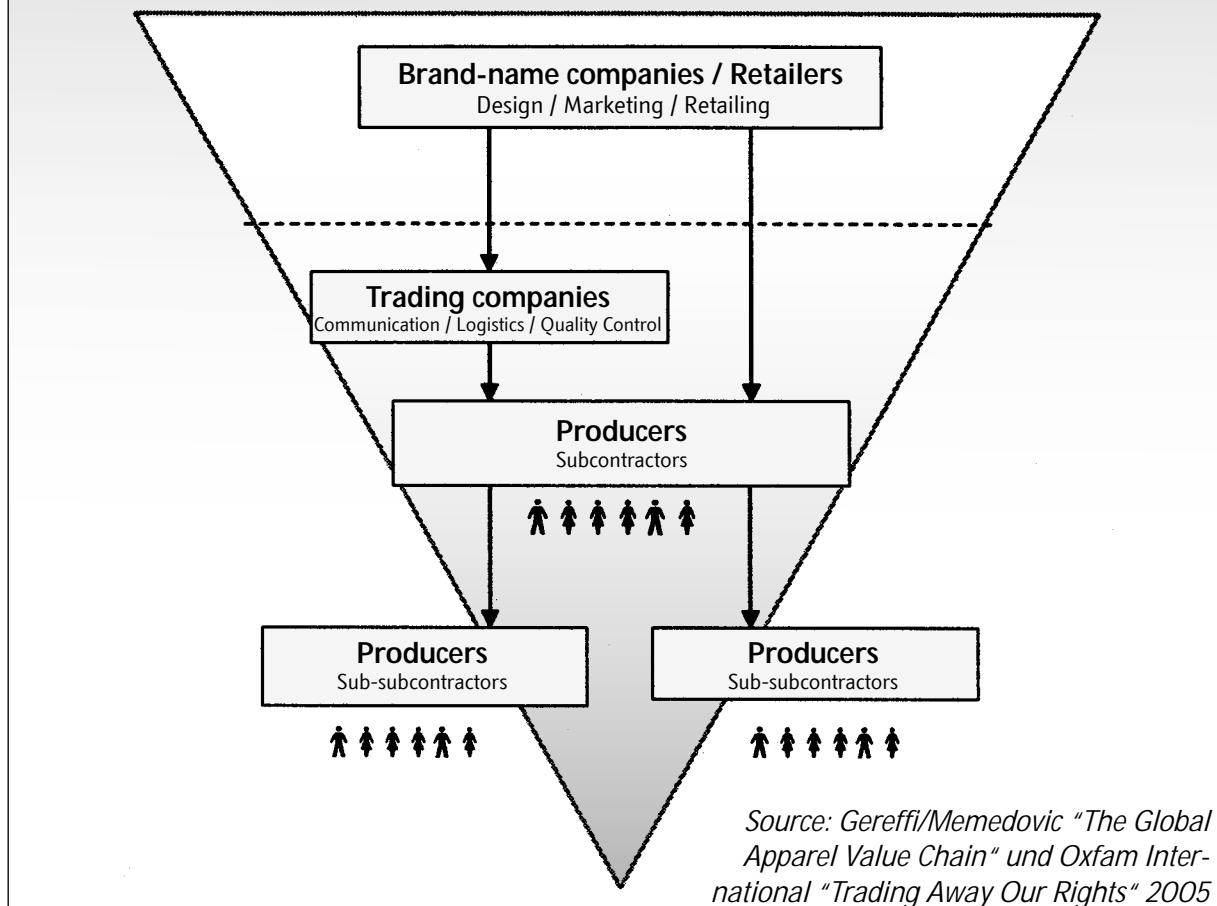
This chapter will attempt to outline these processes and the consequences for workers and attempt to offer an interim evaluation.

Sewing workers in a market hall in Phnom Penh, Cambodia (Photo: Frank Zander)



3.1 Quotas in the international T&C trade and the consequences for workers

Figure 8: Structure of the global value chain in the global textile trade



Counter to the doctrine of Free Trade, industrial nations, since the 1960s, had written exception clauses into the GATT trade regime against T&C imports from developing and threshold countries. Through these quotas – i.e. quantitative restrictions – on cheap imports, they were able to protect the remnants of their own T&C industries, after the majority of labour intensive production had been shifted to countries in the South. The benefits to these countries in terms of millions of new jobs was accompanied, however, by an erosion of hitherto socially protected employment in these industries (ILO 1996). Much of this production takes place in "Export Processing Zones" and the growing shadow economy, in which the mainly female employees, largely with no social protection, work on an informal basis (Wick 2005b). Industrial nations retained the

capital-intensive elements of T&C production, for example, design development and marketing. In the course of this new international distribution of labour, value chains developed, with retailers and brand-name manufacturers at the top, controlling production in the countries of the South through an intricate system of global sourcing practices.

The GATT quota system accelerated the internationalisation of T&C production and allowed the industry to become a perfect example of the social and economic contradictions of neo-liberal globalisation (Ferenschild/Wick 2004). The 1974 Multi-Fibre Agreement (MFA) provided for annually fixed quotas for developing countries' T&C exports to industrial countries. In order to circumvent the restrictions of the quota system,

T&C producing countries (e.g. Japan, Taiwan and South Korea) radically internationalised their production – resulting in the development of 160 production countries, which up to the present day are competing against one another for the major sales markets (USA, EU and Japan).

This competition was to the advantage of T&C retail and brand-name companies such as Wal-Mart, Aldi or adidas, since in their global sourcing of goods, they were able to choose from a range of cheap suppliers and supplier countries and play them off against one another, in order to reduce costs. Those suffering most as a consequence were the workers in the clothing factories throughout the world, on the backs of whom this competition was played out.

The downward social spiral resulting from this internationalisation has been the subject of countless studies and publications in recent years.

On one hand, the GATT quota system put the brakes on countries with a strong T&C industry (e.g. China) and reduced export earnings. On the other, it made it easier for less competitive countries such as Bangladesh or Cambodia to develop T&C industries, whose exports to industrial nations were relatively protected by the quota system. In some of these countries, the T&C industry became a major economic sector – to the extent that overall exports have become highly dependent on T&C exports, making them extremely vulnerable to world market fluctuations.

The founding of the WTO in 1995 also marked the beginning of the ten-year Agreement on Textiles and Clothing which liberalised the T&C trade in a series of steps. After 31/12/04, the T&C trade became subject to the normal liberalisation rules of the WTO.

3.2 Developments since 2005

As expected, after January 2005, the T&C exports of China – the world's top supplier in this industrial sector – increased dramatically. Compared with the previous year, Chinese exports in 2005 rose by 47% to the USA and by 43% to the EU. Simultaneously, China's market share of global clothing exports rose from around 20% to almost 27%.

As a result of this boom, the USA, the EU, Turkey, Brazil and South Africa imposed new quotas on China, which will remain in place until the end of 2008, or, in the EU's case, until the end of 2007. The new quotas are based on stipulations contained in China's accession protocol to the WTO in 2001, which allowed quantitative restrictions to be imposed on China in the event of severe market disruption, until 2008. Even after 2008, restrictions can still be imposed on China, even if they are smaller in scale. Complete liberalisation of the T&C global market will not actually come into effect until 2015.

The new quotas up to the end of 2008, allow a measure of respite to those countries which either suffered great losses after the expiry of the WTO Agreement on Textiles and Clothing or

will be at risk in the future. The biggest losers include developing countries in Latin America and Africa, but also in Asia and the Middle East, such as Mexico, Guatemala, Honduras, El Salvador, the Dominican Republic, South Africa, Namibia, Mauritius, Nepal and Mongolia.

They all experienced export losses – up to 13% – in 2005 (*WTO 2006*). Although some Asian countries, e.g. Bangladesh, Indonesia und Cambodia were able to increase their exports to the USA, they also simultaneously recorded losses, however, in exports to the EU. There were also frequent increases in exports in production categories, which in trade with China, were subject to the new US and EU quotas. This means that these exports will come under pressure at the end of 2007/2008, since the Chinese industry is more productive and more cost efficient. Furthermore, export increases were not inevitably identical to an increase in value, since the prices of T&C products fell. Between January and May 2005, e.g. the average price per article of previously quota-regulated T&C imports by the EU from Bangladesh fell by 15.2%, from Pakistan by 8.9% and from Thailand by 7.4%.

Throughout the world, in countries that were *winners* as well as *losers*, there were also factory closures, job losses and deterioration in working conditions. This must put the sustainability of the initial positive developments in some Asian countries since the beginning of 2005 in serious doubt (*Adhikari/Yamamoto 2006: 2; Busser/Grossrieder 2006: 11*).

Factory closures and job losses

The many thousands of workers in the global T&C industry, who have lost their jobs since 2005 as a result of factory closures and the relocation of production, include almost 70,000 in South Africa and more than 100,000 in Indonesia. Since there has been no systematic statistical analysis of the effects of the liberalised T&C industry on worldwide social and employment policies, we have to rely on estimates of the scope of job losses: these suggest a total approaching 300,000. After the expiry of the new quotas in 2008, it is feared that the destruction of workplaces and jobs will be even greater.

Multinationals such as Aldi tighten global sourcing

In the absence of the constraint of quota regulations, multinationals have begun to curtail their global supply chains and to restrict their production to fewer countries and suppliers, in an attempt to cut time and costs.

In the last two years, e.g., Adidas has jettisoned over 200 suppliers throughout the world and focused its production predominantly to 5-6 strategic countries (from 60 countries previously). Responsibility for what is to be done about the other suppliers and employees is largely passed on to local industries and governments. Aldi's cancellation of 80% of contracts with Turkey since 2005, as reported in the trade magazine *TextilWirtschaft* on 1/6/06, clearly demonstrates that Aldi has also been involved in the global relocation of production since the end of the WTO Agreement on Textiles and Clothing.

Falling social standards

Against this background, threatened factory closures and the relocation of production to more cost-effective production locations also function as instruments of pressure on the workers. Increased international competition among producers encourages multinational buyers in their dealings with suppliers, to use buying practices which are oriented to more cost-effective locations. This pressure in the form of prices, flexibility and supply deadlines, is passed on to the employees, who complain about increasing violations of fundamental labour law standards (*ILO 2005; Busser/Grossrieder 2006: 5-6*). Chinese workers in the T&C industry for example, mainly from, and still registered in, rural regions, often live illegally in the cities, with no social and labour rights protection and are exposed to extreme exploitation (*Busser/Grossrieder 2006: 5; amnesty international 2007*). Yet China's competitiveness is based on more than this exploitation and includes other factors, which most other competitors are unable to provide: China has an almost complete production cycle domestically, technologically advanced fabric and clothing manufacturing, a good infrastructure and a system of state subsidies.

It is estimated that, within a few years, China could increase its global market share from 25% today to more than 50% (*Ianchovchina/Martin 2001*).

T&C trade in the WTO

Since the end of the Agreement on Textiles and Clothing in 2004, the international T&C Trade has been integrated into the WTO negotiations on Non-Agricultural Market Access (NAMA). Within these negotiations there is still uncertainty as to whether the T&C trade is to be treated as a special case, for which exemption regulations from the proposed general tariff reductions can be agreed. Similarly to the general WTO negotiations, however, the NAMA negotiations have also ground to a halt since 2005, which has meant that as well as the future application of tariff policy, the policy of preferences in the international T&C trade is also in the balance. Some of the NAMA tariff reduction formulas negotiated so far would be catastrophic for many develop-



ing countries with competitively weak T&C industries, which are currently able to protect their markets with high tariffs on cheap imports.

According to the Swiss tariff reduction formula, e.g. higher tariffs would be reduced by more than lower tariffs, in order to achieve harmonisation. As a result of this, tariff preferences

– which industrial countries currently grant to many developing countries – would also either be removed or reduced. This scenario already clearly demonstrates how precarious the situation of developing countries, T&C industries and their employees would be if these proposals were to become reality.

3.3 Using change for new policies

Under the conditions of international competition for production location, the current neo-liberal recipes for threatened T&C industries in many developing countries are no solution: the development of increased productivity and international competitiveness, as demanded, for example, by the OECD (*Audet 2004*) and the WTO (*Nordas 2004*), will mean that, within the context of over 100 production countries fighting over a few sales markets, only a few can be successful. This, as experience has shown, will come at a price: the violation of elementary social standards. Moreover, only a relatively small number of countries have so far succeeded in using the prevailing export-orientation of T&C production as an impulse to develop their domestic economies.

Numerous trade unions and civil society groups throughout the world have been active since 2003 in fighting against the threatened social upheaval of a liberalised international T&C trade. Their key demands are:

- binding compliance with core labour standards and social rights for employees working in the industry, in order to put a stop to the international cut-throat competition;
- in the event of factory closures and job losses, multi-national buyers as well as manufacturers and governments should implement social plans guaranteeing employees new jobs and social security;
- the WTO should not adopt any further liberalisation measures, until it has collected social and labour policy data on the impact of its policy thus far.

(*Ferenschild/Wick 2004: 52–58; ITGLWF 2005a*).

Since 2004, the international “MFA Forum” has been aiming at the avoidance – or at least mitigation – of the negative impacts of the end of the quota regime in the international T&C trade.

The MFA Forum includes brand-name companies and retailers such as Nike and GAP, international organisations such as the ILO and UNDP, trade unions such as the ITGLWF, non-governmental organisations such as Oxfam and the Maquila Solidarity Network and multi-stakeholder initiatives such as the Ethical Trading Initiative and the Fair Labor Association. Up to now, as well as publishing research results, the MFA has organised conferences in various countries such as Bangladesh and Lesotho, seeking to realise its demands. In its action plan from March 2005, the MFA Forum came up with detailed proposals to be addressed to industries, governments, brand-name companies and retailers, trade unions, non-governmental and international organisations.



(Photo: Frank Zander)

4. Discounters and global structural change in the retail trade

After looking at the background to the international activities of the textile and clothing (T&C) retailer Aldi in the previous chapters, our focus now turns to global structural change in (grocery) retailing. For, it was principally in this core business that the Aldi Group, from the 1960s on, built up its outstanding market power at home and abroad and created the conditions for its T&C division, which did not acquire greater economic significance until around 20 years ago.

The main elements of the international structural transformation in retailing in the last five years are:

- the development of new retail formats at store level,
- the merger of wholesaling and retailing ("vertical integration") as well as increasing concentration at company level,
- a new division of labour between producers and retailers in conjunction with an optimisation of commodity flow,

- international expansion and sourcing (Wortmann 2003).

The prerequisites for these processes were the opening up of national markets through the liberalisation policies of GATT and the WTO and the groundbreaking innovations in information technologies.

These processes were accompanied by the growing flexibilisation and precariousness of employment relationships.

The portrait of Aldi in chapter 2 has already outlined the distinctive features of the discount concept developed by Aldi in 1960. In contrast with other retail formats, discount shops enabled unprecedented savings to be made in material and personnel costs (see Figure 5 in chapter 2). It is, therefore, no coincidence that many of the world's leading retailing companies are discounters (REWE, Schwarz Group and the Aldi Group). The world's largest company, Wal-Mart, also has a significant discount sector.

Figure 9: The world's top 10 retailers in 2005

Ranking	Company (base)	Number of sales outlets	Turnover in US\$ billions	Country Presence
1	Wal-Mart (US)	6,380	312.4	AR, BR, CA, CN, CR, DE, GT, HN, JP, KR, MX, NI, PR, SV, UK, US
2	Carrefour (FR)	12,179	92.6	AE, AR, BE, BH, BR, CH, CN, CO, CY, CZ, DM, EG, ES, FR, GP, GR, ID, IT, KR, MG, MY, NC, OM, PF, PL, PT, QU, RE, RO, SA, SG, SK, TH, TN, TR, TW
3	Tesco (UK)	2,365	69.6	CN, CZ, FR, HU, IE, JP, KR, MY, PL, SK, TH, TR, TW, UK
4	Metro (DE)	2,458	69.3	AT, BE, BG, CN, CS, CZ, DE, DK, ES, FR, HU, HR, GR, IN, IT, JP, MA, MD, NL, PL, PT, RO, RU, SK, TR, UK, VN
5	Kroger (US)	3,726	60.6	US
6	Ahold (NL)	6,422	55.3	CZ, DK, EE, LV, LT, NL, NO, PL, SE, SK, US
7	Costco (US)	460	52.9	CA, JP, KR, MX, PR, TW, UK, US
8	Rewe (DE)	11,242	51.8	AT, BG, CH, CZ, DE, HR, HU, FR, IT, PL, RO, RU, SK, UA
9	Schwarz-Group (DE)	7,299	45.8	AT, BE, CS, CZ, DE, DK, ES, FI, FR, GR, HU, IE, IT, LU, NL, NO, PL, PT, RO, SE, SK, UK
10	Aldi (DE)	7,788	45.0	AU, AT, BE, CH, DE, DK, ES, FR, IE, LU, NL, SI, UK, US

Source: EHI 2006: 56

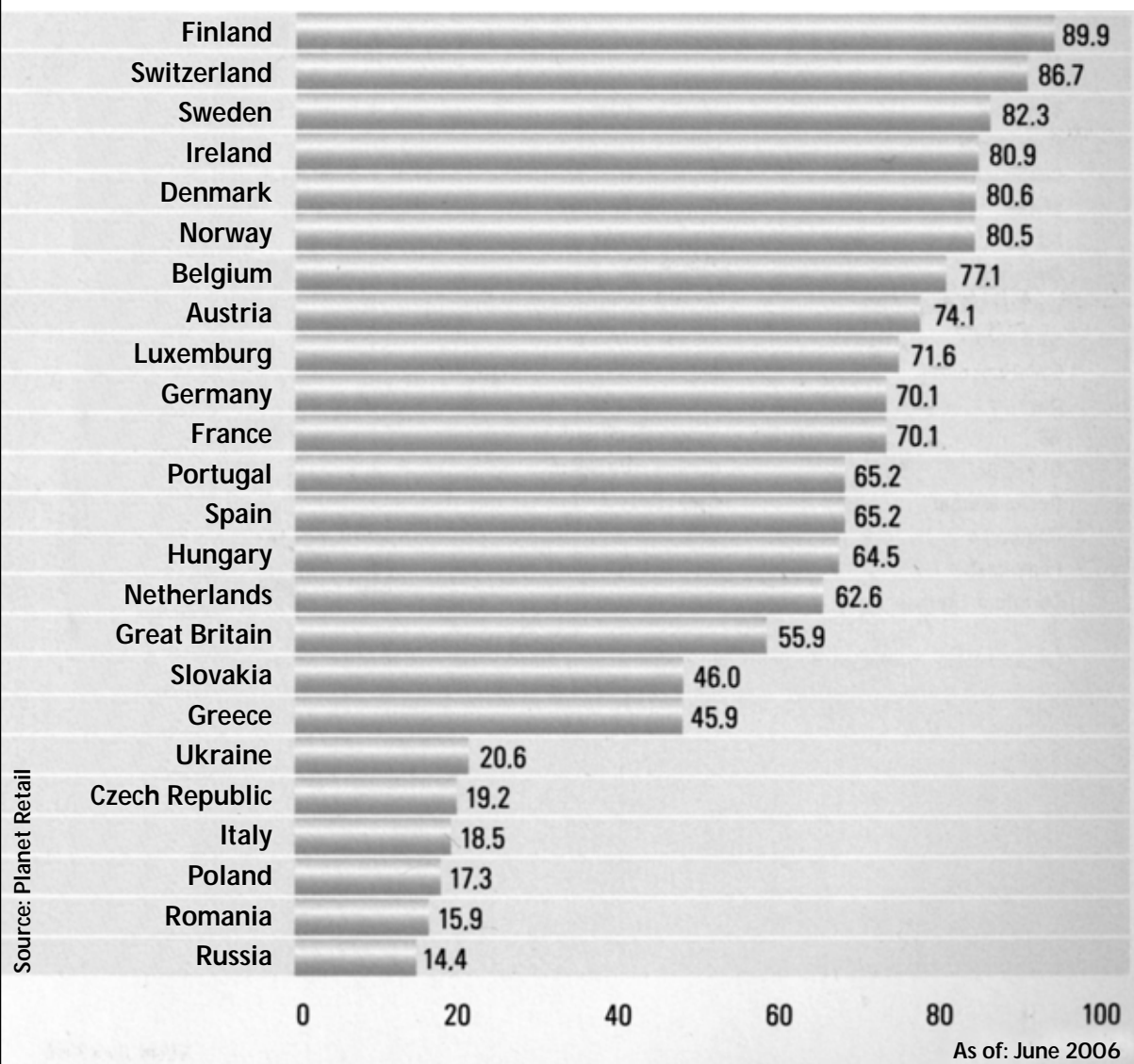
The retailer, Metro, owes its leading position in German and international retailing, in part to bringing wholesale and retailing together under one roof, e.g. Cash&Carry (wholesale) and Real / Galeria Kaufhof (retailing). Today, approximately 50% of all German retailers are part of corporations, which themselves operate as wholesalers (*Wortmann 2003: 4*).

Increasing concentration in retailing in recent years has led to a decrease in the number of companies: in Germany, for example, from 325,348 in 1995 to 292,767 in 2003 (*Metro Group 2006: 5*) and an increase in the market share of large companies, as **Figure 10** shows.

Along with the growth in power of the retail trade and the development of private labels, a new division of labour with suppliers also developed. Alongside their traditional function as commodity suppliers, retailers are also increasingly transferring such service functions as marketing, logistics and design to suppliers.

Since commodity quality and quantities can only be guaranteed from specific suppliers, production is adjusted to the stipulations of the trade. The concentration of retailing is also leading to a concentration of production. The boundaries between retailing and manufacturing are becoming blurred.

Figure 10: Concentration of companies in European grocery retailing
– Market share of the top 5 in the respective food sales in 2005 in %



Source: Metro Group 2006: 45

Figure 11: Development of private labels in Europe 2000–2005
Private labels share of sales in %

Country	2000	2001	2002	2003	2004	2005
Belgium	-	-	-	-	22.7	23.2
Germany	24.8	27.1	30.8	32.1	33.4	35.1
France	23.2	25.7	26.2	26.6	28.0	28.9
Great Britain	39.6	39.2	38.8	39.7	39.9	39.9
Italy	6.9	7.2	7.6	8.9	9.6	10.9
Netherlands	-	23.1	23.1	26.1	27.6	29.3
Austria	13.6	14.7	16.4	17.4	18.5	19.9
Switzerland	39.4	39.3	39.4	39.8	40.0	41.0
Spain	18.6	20.9	24.2	26.7	28.1	29.4

Source: EHI 2006: 302

By utilising new information and communication technologies, retailing companies were able to optimise their flow of goods.

In the mid-1980s, the first companies started introducing electronic barcode scanners (Aldi as late as 2003!), which, in conjunction with electronic data exchange, allowed sales data to be passed on to suppliers and the flow of goods to be accelerated. The “lean retailing” concept was reliant on the greatest possible reductions in delivery times and stock levels to reduce costs. The next wave of rationalisation – across-the-board self-scanning tills, where customers scan in their purchases and pay at automated tills – has already begun. Remote-controlled labelling is in the pipeline. And e-commerce is becoming increasingly important for retailers.

In contrast to commodity production, internationalisation of the retail trade itself began relatively late. The first real thrust in the internationalisation of retail trade companies came at the end of the 20th century with the introduction of new distribution and sourcing systems.

*You are what you eat (Nils Grube;
1st prize in the ver.di design competition 2006)*

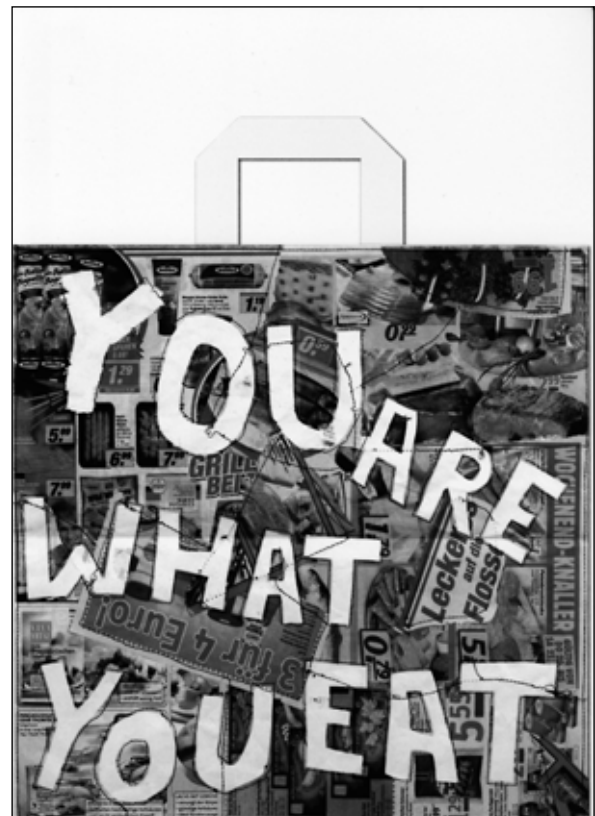


Figure 12: Internationalisation status of selected retailers in 2006

	Western Europe	Eastern Europe	NAFTA	Latin America / South America	Asia	Oceania and Africa	Middle East	Total number of countries
Metro Group	14	11			4		1	30
Schwarz Group	16	7						23
Carrefour	8	2		3	6			19
Wal-Mart	2		3	8	2			15
Aldi	12	1	1			1		15
Tengelmann	7	7	1					15
Rewe Group	5	9						14
Casino	1	1	2	4	3		1	12
Tesco	3	4			5			12
Auchan	5	3			2		1	11
Ahold	3	6	1					10

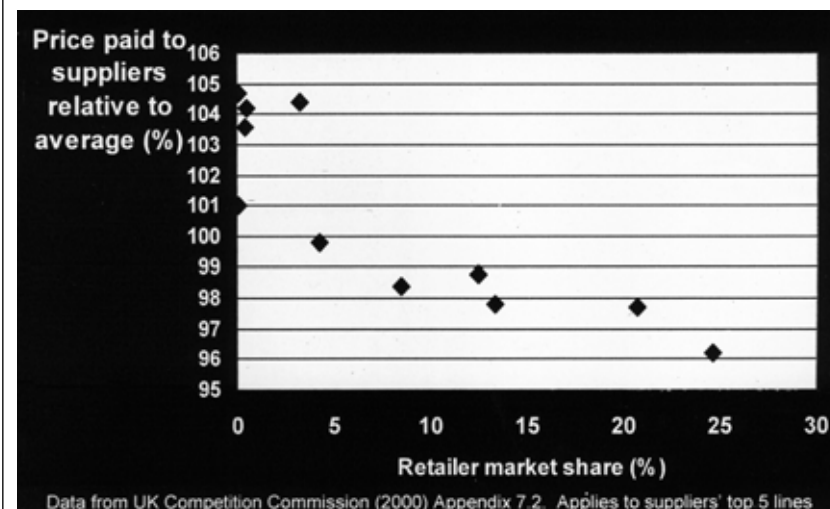
Source: Metro Group 2006: 72–73

With the growing global liberalisation of trade and services, retailing companies expanded overseas and opened branches in new markets and/or took over local companies.

As long ago as 1967, Aldi took over an Austrian company and, as “Hofer”, has since then continued to expand its operations in Austria. Today, it has a 19% share of grocery retailing. In most other markets, however, Aldi expanded by opening new stores and attempting to force rivals out of business. The more the market power of retailers

grew, the greater the price pressure on suppliers and their dependency on these companies. This dependency is illustrated in **Figure 13**.

Parallel to the expansion of business networks overseas, retailers also globalised their sourcing. The dependency of suppliers and trade control of supply chains also grew at an international level. On account of their growing global sales, retailers such as Wal-Mart or Aldi have reached a position of economic dominance in global value chains.

**Figure 13: “Economies of scale”:
extracting more favourable terms from suppliers.**

Source: Vorley 2007

The workers

The enormous savings in personnel costs by discounters in comparison with other retail formats (see “Aldi Portrait” chapter) are achieved at the expense of the workers. Although the opening of new branches is creating jobs, the labour and social rights of most workers are diminishing. The growing competitiveness among retailers, especially among discounters, is usually achieved at the expense of the – predominantly female – workforce.

An integral component of the structural transformation in retailing is the dissolution of traditional employment relationships, which at least in industrial nations until after the Second World War were the norm for employees in many sections.

Even if wages in the retail trade – as an archetypal woman’s domain – were among the lowest in Germany, the workers enjoyed a measure of protection of labour and social rights into the 1960s.

With the decline in the state regulation of the labour market since the 1970s, however, part-time work, mini-jobs, loan and on-call work in retailing increased and, with this, the amount of employment with no social security protection and increased pressure on performance. Wages, in real terms, sank. As a rule, German discounters do not provide training (*Wortmann 2004: 435*). Although a flexibilisation of work often goes some way to meeting the needs of the predominantly female personnel in retailing, allowing them a better balance with household and family working commitments, its very precariousness acts, however, as an obstacle to the need for social security.

Of the 2.5 million employees in German retailing – 70% women – about one third of them in 2003 worked with only minimal protection of labour and social rights. This proportion has risen by 50% between 2000 and 2003. Through flexibilisation and the outsourcing of processing to external businesses (e.g. cleaning, IT, security personnel etc.), representation of workers’ interests is made more difficult. Hostility to trade unions is a matter of policy for Wal-Mart, Lidl, Aldi-South and Schlecker.

Pressure on workers is not only exerted in retailers own branches – especially in the case of discounters – but also in supplier factories in Germany and overseas. These producers pass the price and delivery pressure from buyers on to the weakest link in the chain – the workers. What this actually amounts to, in terms of Aldi’s sourcing of textiles in Chinese and Indonesian clothing factories, will be looked at in detail in chapters 5 and 6.

Retail trade profits from the liberalisation policy of the EU and WTO

The structural transformation of retailing in the last 50 years has been supported by political legislation. The abolition of the German law on rebates in 2001, for example, helped ensure that the price war among competing companies intensified.

Many EU member states still have legislation providing employees and consumers protection, e.g. the laws against dishonest competition and restrictions on competition in Germany.

*Clothing factory Shuihaier in Beijing
(Photo: Klaus Murawski)*



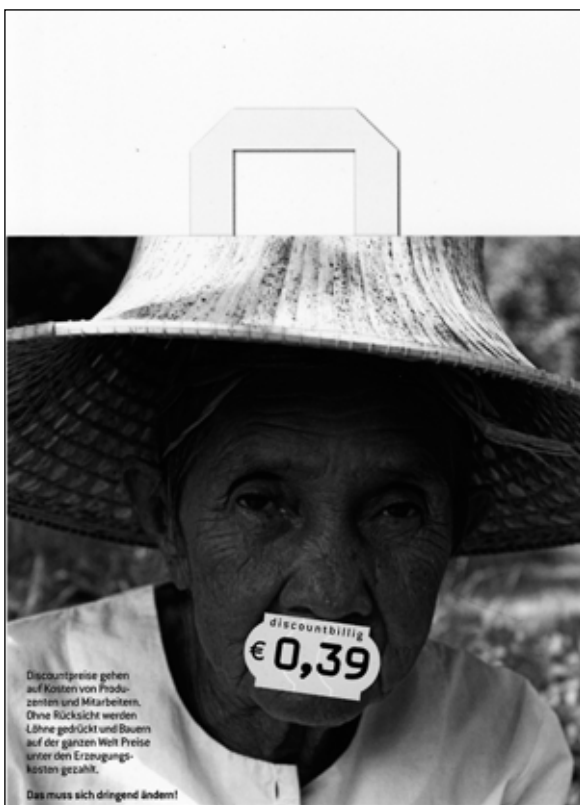
Yet, as a result of the liberalisation policies of the European Commission and the WTO, these laws are coming under increasing pressure. The EU conducts a policy that seeks the harmonisation of national laws for the benefit of European companies' interests, demonstrated in 2005 in its support for the Bolkestein Guidelines (see Glossary), which massive trade union resistance was able to moderate, at least initially. According to the country of origin principle originally contained in these Guidelines, collective labour agreements and trade union rights in companies, providing services for a limited period in another EU member country, would have been circumvented and the municipal/national regulations governing companies' right of establishment undermined.

Yet, in recent years, the EU has increasingly liberalised retailing and made it easier for non-European companies to set up business. In this respect, Germany has relinquished control over

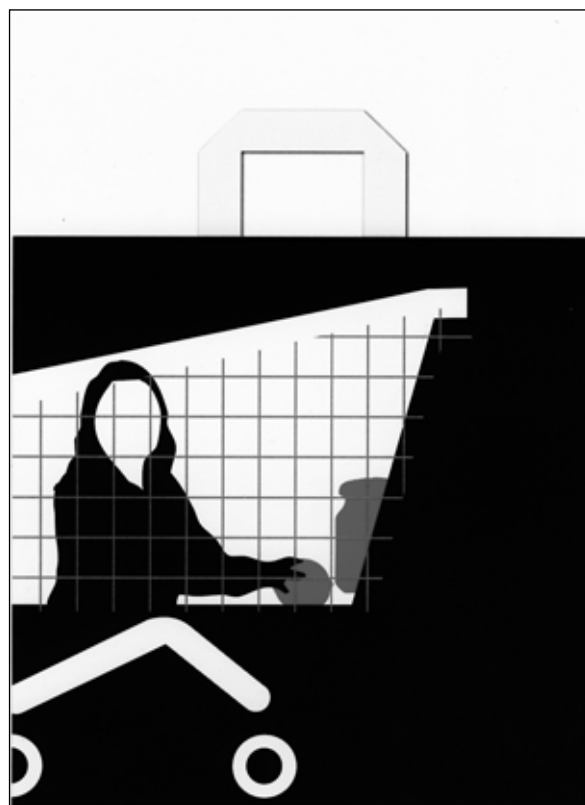
the establishment of companies – in contrast, for example, to Sweden or Finland, which have asserted national self-interest. In Germany, for example, it is no longer possible to impose restrictions on non-European retailers opening branches in certain regions.

In the WTO, the global liberalisation of retailing is being carried out within the framework of the "General Agreement on Trade in Services" (GATS) which, since 2000, is being renegotiated.

Although liberalisation is theoretically voluntary, governments of industrial nations are, in effect, exerting pressure on other WTO countries to successively open up their services (retailing, education, health etc.) to private capital and revoke national regulations (Hütz-Adams 2003). Existing national protective provisions for employees and consumers are thus being increasingly eroded.



Price gag
(Manuel Haugke; ver.di design competition 2006)



Behind bars
(Asye Gökmenoglu; ver.di design competition 2006)

5 Case study 1:

Working conditions of Chinese garment supplier factories to ALDI

July 15th, 2006

Retailers from the EU and elsewhere are sourcing more and more of the clothing they sell from Chinese factories. This promotes a degree of prosperity for nations at either end of the commodity chain. However, indexes of economic growth hide the costs of these economic trends

from the average onlooker. The movement of manufacturing to nations like mainland China is tied to efforts to exploit workers at all costs. The transnational scope of business makes it difficult for consumers to know how the outsourcing strategies of private enterprises affect workers'

■ Summary

In early summer 2006, on behalf of the SÜDWIND Institute for Economics and Ecumenism, a survey of workers was carried out in five clothing factories belonging to a large Chinese company in Jiangsu. Jiangsu is one of the top three clothing export regions in China. This Chinese company was a supplier to Aldi until at least 2005.

On the basis of the respective ILO conventions, the workers were asked questions about the following range of topics: freedom of employment, wages, discrimination in the workplace, employment of juveniles and minors, freedom of association, the right to collective bargaining, working hours as well as health and safety standards. For reasons of security, all names are kept anonymous in the following report into the findings of the survey (the interviewed workers, the factories, the Chinese company and the author).

The statements of the predominantly female workers from the five clothing factories are also looked at in detail in relation to the relevant Chinese labour laws.

Labour law violations, described in the report, are far worse than any recorded so far in Chinese factories. In addition to the frequently ascertained excessive working hours, wages be-

low the legal minimum level and trade union repression, this report also contains evidence of:

- employers withholding wages for weeks at a time,
- workers paying security deposits for the privilege of working in the factory,
- minors working in the factories having to hand over part of their wage as a recruitment fee to schools,
- workers having to sneak away from factory dormitories at night, afraid they will not be granted permission to quit by the management.

The report does not wish importers such as Aldi to stop sending orders to these factories. The intention, instead, is to stimulate them to enforce better conditions for workers in the factories, to revise their textile and clothing sourcing strategies and to agree to effective systems of accountability.

(NB: The photos in this report do not relate in any way to the five factories surveyed, but to Aldi's supplier factory "Guangzhou Quan Xin Knitting" in Guangdong Province and to the factory "Shuihaier" in Beijing! Regarding wage figures in Yuan, see the notes on currency on page 89).

lives. And as a result, discussions of this sensitive topic tend to fall into tired stereotypes that neither fairly represent the economic realities of the world nor help us develop solutions to address the serious violation of workers' rights we are witnessing.

This survey records the conditions of a group of Chinese workers manufacturing apparel for retailers in the EU. The hope is that the survey

will help promote the dialogue and action that is required to establish a more socially responsible economic system. The report pays particular attention to Chinese law to counter potential criticisms that Chinese standards are different from those of the EU, that efforts to enforce Chinese workers' rights only represent the imposition of foreigners on the Chinese, etc.

5.1 Introduction: Outsourcing, the EU and mainland China

Partially as a result of the movement of Hong Kong apparel enterprises to the mainland, the Chinese overtook Hong Kong to become the most prominent exporters of apparel worldwide in 1994. At the time, Chinese apparel exports amounted to \$23.7 billion and represented 16.7% of apparel exports worldwide. Germany was the 4th ranking importer of Chinese apparel.¹

Since then, the rise in the Chinese apparel & textile sectors continues. For example, Chinese textile exports were 25% of the worldwide total in 2005.² And according to Chinese economic planning for 2006–10, Chinese exports of apparel & textiles will grow at a rate of approximately 50% to amount to \$180 billion by 2010.

In 2002, \$131.18 billion worth of Chinese apparel went to Japan. At the time, Hong Kong took \$128.79 billion in Chinese apparel imports, and United States and EU imports amounted to \$70.7 billion and \$64.17 billion respectively. These figures, however, underestimate the volume of Chinese apparel entering the EU since a substantial portion of Hong Kong imports from mainland China are re-exported. To estimate this, consider that the EU receives approximately 30% of Hong Kong apparel exports with Germany representing 6–7% and the UK, 10% of that total.³ In 2004, imports from mainland China represented 61% of Hong Kong apparel exports.

The expiration of the Multi Fiber Agreement in 2004 prompted a sudden rise of Chinese apparel exports. Imports of T-shirts to EU member states rose 164% in the first 3 months of 2005. Imports of pullovers rose a more surprising 534%.⁴ This led the EU to institute a new system of quotas to limit Chinese exports. There is evidence, however, that the quotas are weak and not likely to significantly affect the rising tide of the Chinese apparel & textile sector. After the first 6 months of 2006, only 1 of 10 quotas on restricted Chinese apparel imports is close to 50%. The next quota closest to full, the quota for cotton fabrics, is 31.25% full. Unless these quotas come close to filling, they will have few effects on business growth.

- 1 "The Development of the China Apparel Industry," China Textile University & Harvard Center of Textile & Apparel Research (Nov 1999).
- 2 "China released the 11th five-year development plan for the textile industry," Textile & Apparel Weekly (30 June 2006) at <<http://textination.de/en/Information%20Pool/China%20News>>.
- 3 "Profiles of Hong Kong Major Manufacturing Industries: Clothing," Hong Kong Trade Development Council (6 Jan, 2006) at <<http://www.tdctrade.com/main/industries/jplot.htm>>.
- 4 "EU warns China on textile exports," BBC News (24 April, 2005) at <<http://news.bbc.co.uk/1/hi/business/4478101.stm>>.

Figure 14: Quota exhaustion for China a long way off

	kilos/ piece	Quotas 2006	2006 EU Chinese imports –31 May	% of quota	2006 EU Chinese imports –28 Jun	% of quota
Cotton fabrics	kg	61,948,000	16,276,887	26.28	19,358,698	31.25
Knit shirts/ T-Shirts	p	540,204,000	108,285,881	20.05	133,333,972	24.68
Pullovers	p	189,719,000	18,451,644	9.73	30,757,875	16.21
Trousers	p	338,923,000	56,754,608	16.75	76,723,950	22.64
Bed linen	kg	15,795,000	3,424,381	21.68	4,210,996	26.66
Brassieres	p	219,882,000	47,990,893	21.83	61,678,614	28.05
Flax yarns	kg	4,740,000	1,800,704	37.99	2,486,719	52.46

Source: "Quota exhaustion for China long way off," Emerging Textiles.com (29/6/2006) at <<http://www.emergingtextiles.com/?q=art&s=060629Qmark&r=free&n=1>>.

In this context, firms from Germany have accelerated efforts to invest and source in mainland China. Within months of Chinese accession to the WTO in 2002, the Chinese overtook the Japanese to become Germany's most substantial trading partner in Asia. Germany is ranked 7th

worldwide for the size of its Chinese investments and is the most prominent foreign investor from Europe in China. What is more, a survey of the most prominent firms in Germany suggests that German investment in China could double to attain a level of €20 billion by 2010.⁵

5.2 Overview: A survey of 5 factories

The following are the findings of a survey of workers from 5 factories. The factories were selected since they belong to a firm that is one of the top Chinese exporters of apparel and received orders from ALDI as recently as 2005. In the Spring of 2006, interviewers asked workers at the factories a variety of questions concerning their employment and living arrangements. The report juxtaposes workers' lived experience as they tell it with the requirements of Chinese laws. Identifying traits of interviewed workers and the factories were kept anonymous to safeguard workers' employment and security.

It is not the intention of this report to motivate apparel firms to stop sending orders to a specific supplier. Apparel firms frequently point to the rights' violations of Chinese suppliers to avoid taking responsibility for their own actions. For example, though Chinese suppliers resort to fraud to employ adolescents, prevent work-

⁵ "Foreign direct investment in China – good prospects for German companies?" Deutsche Bank Research (24 August, 2004) at <http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD000000000178546.pdf>.

ers from quitting etc., it is the pressure of foreign firms on the price of apparel that forces Chinese suppliers to lower wages to the point that factories have to resort to extreme tactics to maintain a sufficient workforce. Similarly, though Chinese suppliers fine and fire workers if they do not accept excessive overtime, foreign firms frequently impose deadlines on their suppliers that no supplier could meet without excessive overtime. And foreign firms will expect suppliers to meet these tight deadlines without raising expenses. Even responsibility for Chinese employers' refusing to pay overtime wages rests on the shoulders of retailers.

When apparel retailers shift orders from supplier to supplier, they lower expenses and deny responsibility for the effects of their choices on workers. If this report were to motivate a retailer to simply shift orders once again, it will do nothing to improve workers' lives since the rights violations reported here are not unique. Retailers and suppliers will have to stabilize their orders if we are ever going to address workers' rights and develop effective systems of accountability.

Since the report refers to a complex set of laws, it is worth introducing the structure of the Chinese system. Chinese law is multitiered. National law represents the highest authority, and though this level of law does delineate some detail, national laws frequently include loose statements of principle. The governments of different regions extend national laws into more specific requirements and address concrete issues of implementation when the national law does not. Thus, the governments of different provinces, cities and even districts within cities are allowed to develop their own standards. This allows for the development of different standards in neighboring regions. In principle, the governments of one level are obliged to respect the requirements of the governments at a higher level. Township governments should respect the laws of their cities; cities should follow the requirements of their provinces and so on.

Though the Chinese had a relatively elaborate system of government long before anything of the sort emerged in Europe, the promotion of a system of law akin to those in Europe and the States is a recent phenomenon in Chinese society. Unavoidably, new laws are written too loosely, and experts realize this only after trying to imple-

ment the law. As a result, the government frequently amends the law when it finds deficiencies in existing standards. This is why Chinese government releases "opinions" and "short term" rules and so forth. These documents supplement existing laws till new laws are completed.

All the factories of this survey are situated in Jiangsu, a center of Chinese apparel & textile manufacturing. Jiangsu is one of the top three regions for Chinese apparel exports, after Zhejiang and Guangdong. Jiangsu textiles are similarly substantial. In the first 4 months of 2006, Jiangsu exported \$1.55 billion worth of textiles to Japan, and \$880 million and \$840 million to the EU and United States respectively.⁶

Four of the factories in this survey are direct subsidiaries of a top Chinese supplier to apparel retailers in Europe and the United States. Site #5 is a joint venture of this Chinese supplier and one of its United States partners. The Chinese supplier owns 51% of Site #5 and is responsible for arranging its exports. Sites #1, #2 and #3 manufacture trousers, casual apparel and coats. Sites #4 and #5 are part of a cluster of 4 factories manufacturing trousers, shirts, coats and jackets.

6 "Jan–April: Jiangsu textile exports," Textile & Apparel Weekly (9 June, 2006) at <<http://textination.de/en/tiw/2006/TIW06092006.pdf>>.

Figure 15:
Chinese apparel exports by region 2004

Zhejiang	22%
Guangdong	18%
Jiangsu	16%
Shanghai	12%
Shandong	9%
Fujian	5%
Others	18%

Source: "Analysis & Report on Chinese Industries: Apparel," China Economic Publishing House (2004): 5

Figure 16: Data on workforce of investigated factories

	# of workers	Gender proportions of workforce [male/female]	Proportion of migrants in workforce [migrant/permanent resident]
Site # 1	1,000	33%/66%	90%/10%
Site # 2	500	40%/60%	60%/40%
Site # 3	300	40%/60%	50%/50%
Site # 4	2,500	not confirmed	90%/10%
Site # 5	1,000	not confirmed	90%/10%

With the exception of Site #3, these factories export to Europe and the United States for brands including ALDI, Betty Barclay, ESPRIT, FULL MARK and NAUTICA. Though Site #3 does not export, we include it in this survey since it belongs to the group of firms that owns the exporting facilities. This helps to show the management strategies common to the larger enterprise and the apparel sector more widely. What is more, workers from Site #2 were quitting in groups

to seek what workers believe is a better working environment at Site #3. A portrait of Site #3 serves as a point of reference for the conditions at Site #2 and helps show the limits of Chinese workers' employment options.

Working a minimum of 11 hours a day with only 2 to 4 days of rest a month for wages that are sometimes not even 50% of Chinese minimum wage requirements, neglect of health & safety

South Chinese Aldi supplier factory Quanxin Knitting (Photo: Winfried Fleischmann)



issues, repression of unions and other violations of workers' rights are common to Chinese factories. The factories of this survey, however, go beyond these low norms. Site #3 expects workers to work their first month for free to foster workers' commitment to the firm. Sites #1, #4 and #5 employ minors, sometimes with the participation of schools that collect recruitment fees from the wages of child workers. At Sites #4 and #5, management actively helps minors falsify their

identities and trains them to lie about their age. Still worse, at Sites #4 and #5, workers who no longer want to accept the terms of their employment have to sneak away from the dormitories at night to avoid drawing the attention of security and management. For a more comprehensive understanding of workers' plight, however, we must delve into the details. It is to these details that we now turn.

5.3 Restrictions of freedom of employment

The Chinese authorities have not ratified ILO Conventions 29 and 105 on workers' freedom to choose employment.

Security deposits

Even if the conditions of employment are terrible and workers do not have a way to organize

Figure 17: Deposits, withheld wages and restrictions on workers

	Security deposits	Wages employers withhold from workers who do not have "permission" to quit	Restrictions on workers in the dormitories
Site # 1	400 yuan for some workers; nothing for others	1 month & 2 weeks	No workers allowed to enter/exit the dormitories after 23:00
Site # 2	No	1 month & 3 weeks	No workers allowed to enter/exit the dormitories after 22:00
Site # 3	Workers receive no wages for their first month of work	1 month & 3/3½ weeks	No workers allowed to enter/exit the dormitories after 21:00
Site # 4	200 yuan deposit for dormitories	1 month & 3/3½ weeks	Quitting workers have to slip away at night to avoid security
Site # 5	200 yuan deposit for dormitories	1 month & 3/3½ weeks	Quitting workers have to slip away at night to avoid security

(1 yuan = 0.1 euro - see currency details on page 89).



Clothing factory Shuihaier in Beijing (Photo: Roland Müller-Heidenreich)

to fight for their rights in mainland China, workers still have the ability to walk away from a job. Chinese employers try to prevent this by restricting workers' freedom of employment. This minimizes interruptions to the manufacturing schedule and the expense of seeking new employees. One employer's method is to require workers to guarantee they will not quit by surrendering a set amount of money to the employer for a set period of time. If a worker walks away from a job within this set period of time, the employer keeps this deposit.

Article 24 of the Opinion on a Few Questions Concerning the Continuous Implementing of the Labor Law explicitly prohibits employers from collecting this kind of security and other economic guarantees to employment. If employers do collect money from workers as a condition to their employment, the article specifies that the authorities will oblige the employer to return workers their money at once.

According to workers, Site #1 explicitly requires a security of 400 yuan from some of its workers who apply for employment without the introduction of recruiters. Management returns this money to workers only after 3 months of employment. At Site #3, enterprise rules state that workers will not receive wages for their first month of work. With workers' monthly earnings approximately 1,000 yuan a month, the employer is requiring workers to pay what is effectively a 1,000 yuan security for the privilege of working at the site. At sites #4 and #5, workers who live in the dormitories are required to pay a "dormitory fee" of 200 yuan. Since the majority of workers are migrants to the region and wages are low, workers have few alternatives to the dormitories. The dormitory fees therefore effectively restrict workers' freedom of employment since it represents a sum of money the employer will withhold in the event of a disagreement. In addition, Site #4 advertises a "training" program on the internet. Workers are required to pay 400 yuan for



*South Chinese Aldi supplier factory Quanxin Knitting
(Photo: Winfried Fleischmann)*

the program; 100 yuan for the expense of certifying workers' completion of the training, and 300 yuan as a security the employer will return to workers if they continue their employment at the factory for a full 3 years after the training. These practices are a violation of workers' right to freedom of employment.

Withheld wages

To prevent workers from walking away from their jobs, employers look for excuses to withhold workers' wages. To fight this, Article 50 of the Labor Law requires that employers promptly pay workers "monthly" wages. Article 7 of the Short Term Rules on Payment of Wages specifies workers should receive wages "at least once a month". The phrasing, "monthly" and "at least once a month", prohibits the practice of some employers to pay workers only at the end of a season or after extended trial periods of employment.

Most Chinese employers set wage periods of one month. In principle, employers have the right to choose a wage period exceeding one month. Some Chinese employers prefer, for example, to count workers' wages for the entire year at the end of the year. However, the law requires that at least once a month, workers receive a part

of their wage, and that monthly portion should meet or exceed the minimum wage required in the region. Employers could pay workers a minimum wage every month, keep anything beyond the minimum wage and settle accounts with workers at the end of the year by paying them a bonus. However, most manufacturing workers do not get paid even the required minimum wage. Since the law requires employers to pay a minimum wage every month, most factories could not lawfully hold on to a portion of workers' wages.

In addition to requiring employers to pay workers a minimum wage at least once a month, Chinese labor law give employers a set period of time to tabulate wages after a wage period. For example, a Chinese employer might institute wage periods of one month, and the law might permit that employer one month after the wage period to do their accounting. So a worker who starts work on the first day of a wage period would receive their first wage two months after their first day of work.

The most stringent rules on the tabulation of wages are those of Shenzhen. Article 11 of the Shenzhen Rules on the Payment of Workers' Wages requires employers implementing a system of monthly wages to pay workers wages within 5 days of the end of every wage period. In the event of financial difficulties, Article 17 gives employers a right to postpone wage payments an additional 5 days. To postpone wage payments beyond this limit, the employer is required to secure the written agreement of workers' representatives or workers themselves, and the postponement of wages should never exceed 30 days. Most other regions, however, give employers one month to tabulate wages. So for example, article 12 of the Nanjing Rules on the Payment of Enterprise Wages simply gives employers 30 days to tabulate workers' wages.

Site #1 pays wages on the 15th of the month following a payment period. Workers, for example, are paid on the 15th of May for their work from April. At Site #2, workers receive their wages on the 20th of the month following a payment period. Sites #3, #4 and #5 pay workers between the 20th and the 25th of the month. These systems meet the requirements of the law where the timing of wage payments is concerned with one exception.

Employers at Site #4 and #5 withhold a portion of workers' overtime wages for 6 months. The law permits employers to tabulate wages on periods longer than a month, and therefore, employers are not violating the law by withholding a portion of workers' overtime wages. However, the law does require employers to pay at least a minimum wage every month. We will see in the section on wages that Sites #4 and #5 violate this standard. In this context, the withholding of a portion of workers' wages is a restriction of workers' freedom of employment since poverty effectively prevents workers from looking for alternative employment, quitting, etc.

Asking "permission" to quit

Though Chinese employers at times withhold workers' wages for months, this is not the common experience of manufacturing workers. This is more common in the construction sector, and it is why authorities have developed rules prohibiting the withholding of wages in the construction sector including, for example, the 2004 Rules on the Payment of Wages of Peasant Workers in the Construction Sector.

Manufacturing workers experience a softer, more pervasive system of withholding wages. Chinese labor laws permit employers in most regions to pay wages 2 months after a day of work. That is, employers institute a 1 month payment period and have 1 month to tabulate wages. As a result, at any time in a payment period, employers have between 1 and 2 months of workers' wages in their pockets. Employers frequently refuse to pay workers this unpaid portion of their wages if workers quit, effectively preventing workers from freely choosing their employment. For example, if Site #2 pays wages on the 20th of every month, a worker who quits after receiving April wages on the 20th of May will lose 20 days of wages for the month of May if the employer refuses to pay their unpaid wages. A worker who quits before or after the 20th will lose anywhere from 21 to 50 days of wages.

Employers use their ability to refuse to pay unpaid wages to restrict the timing and frequency of workers quitting. To quit, Chinese employers require workers to ask permission. If work schedules are tight, if workers want to quit in groups or managers simply do not want to spend time

looking for new employees, they do not give permission. Ordinarily, workers without "permission" are free to walk away from their jobs. They just have to accept the loss of their unpaid wages. Employers term this "leaving of one's own volition." Of the factories of this survey, all required workers to get management permission to quit. Workers at Sites #4 and #5 were especially strident in commenting that their employers do not easily give workers permission to quit.

This is a violation of Chinese labor law. Article 31 of the Labor Law requires only that workers give 30 days notice to their employer to unilaterally terminate their employment agreement. If workers give 30 days notice, they are entitled to all of their wages from previous work. More interesting, however, is Article 32 of the Labor Law. This article gives workers the right to terminate their employment agreement without prior notice to the employer in the following situations:

Crane Sportswear production for Aldi in the south Chinese supplier factory Quanxin Knitting (Photo: Roland Müller-Heidenreich)



- a worker is still within their trial period of employment
- the employer resorts to violence, threats or other illicit methods to restrict the freedom of the worker
- the employer fails to pay wages or the terms of employment do not meet the terms of the written agreement signed by the employer and worker

Article 19 of the Labor Law specifies that all workers should sign a written agreement with their employer and requires employment agreements to specify workers' rights and the terms of employment. Article 18 specifies that employment agreements are null and void if the terms of this agreement violate the law.

Essentially, the law requires employers to sign agreements with workers that bind the employer to enforce the labor law. If workers have not signed a written agreement with employers, they have no obligation to give employers prior notice before quitting. If workers have signed a written agreement and either the terms of that agreement or the reality of the work environment do not meet the requirements of the labor law, workers have no obligation to give prior notice to the employer when they quit. Employers who violate the labor law have *no right to refuse permission to workers who want to quit and must pay workers all of their unpaid wages*.

All the factories violate this standard, especially Sites #2, #4 and #5. At Site #2, low wages were motivating workers to quit in groups and putting significant pressure on management to stem the tide of workers out of the workforce. At Sites #4 and #5, the difficulty of attracting workers to the neighborhood led managers to even attempt to physically prevent workers from quitting [discussion of this is in the next section]. All the factories of this survey require workers to get permission to quit. Yet all of these factories seriously violate the labor law. According to the law, these factories do not have a right to refuse paying unpaid wages even to workers who do not give employers 30 days notice before quitting.

Dormitory restrictions & freedom of movement

Article 96 of the Labor Law stipulates that the employer is subject to arrest and fines if they resort to violence, threats or other methods to restrict workers' freedom of movement beyond what is permitted by law. The article forbids the employer from using humiliation, physical punishment and unlawful searching and detainment to restrict the freedom of workers.

Though the law is not explicit on just what constitutes lawful and illicit restrictions of workers' freedom, there is at least some foundation for discussing a subject that is on workers' minds: dormitory rules. Some factories require workers to live in enterprise dormitories to more effectively supervise workers' lives. In some regions, workers have few alternatives for living outside of employer provided dormitories, especially if they are migrants. Typically, rent is too expensive for workers, and employers refuse to subsidize the rent of workers who live outside the dormitories. In other regions, apartments available outside of the dormitories are too far away, and the time and expenses for transportation to and from work prevents workers from renting apartments outside the dormitories. Most of the time, workers are at the mercy of managers when they supervise workers' lives in the dormitories.

Chinese employers have a number of motives to restrict workers' lives in the dormitories. The two most prominent motives relate to organizing and pregnancies. Employers like to prevent outsiders from entering the dormitories to limit workers' ability to discuss their work environment with workers from neighboring factories and other outsiders. Managers look vigilantly for signs that workers are organizing protest actions, and by confining workers to the dormitories, managers raise the likelihood that they will prevent protests. The supervision managers have over workers' private lives similarly helps managers single out and fire "agitators" who motivate their peers to fight for their rights. This is why Chinese workers frequently mention worries they will lose their job as a reason for not asking employers, for example, to raise wages to meet minimum wage requirements.

In addition, employers actively try to prevent pregnancies. Most employers are not afraid of



Accommodation for workers in the clothing factory Shuihaier in Beijing (Photo: Roland Müller-Heidenreich)

maternity benefits since they know no one enforces these benefits in China. It is not the expense of 90 days of maternity benefits that concerns employers. What worries employers is that pregnant workers work less overtime and quit. Women who quit might not return to the factories after they are married and pregnant. Even women who return to the factories after giving birth frequently look for a job with a different employer. Pregnancies force employers to seek new employees and raise expenses. As a result, most employers design dormitory rules to prevent workers from having romantic relations with the opposite sex.

Though workers at the factories of this survey were reticent to talk of these issues, all the factories of this survey prohibit non-employees from entering the dormitories and restrict the movement of workers living in the dormitories. Site #3 requires workers to return to their dormitories before 21:00. At Site #2, workers are

not allowed to enter/exit the dormitories after 22:00. Managers at Site #1 were more generous, allowing workers to return to the dormitories till 23:00. Especially since workers frequently work overtime till 21:00 or 22:00, these restrictions seriously limit the time workers have to spend time with friends outside of management supervision.

Employers and even workers sometimes justify these rules, alleging that they exist to guarantee workers' safety. However, workers naturally resist the severity of these restrictions, and this forces workers to risk their safety to enjoy private lives. When workers at Site #2 want to spend time with friends, they sometimes simply decide not to sleep all night since they are not permitted to freely return to their room if they linger outside too long. At Site #1, there was a set of walkman headphones hanging from the electrical wires beside one of the walls outside the dormitories, a sign that workers are climbing

the walls at night when they have stayed out past the bedtime management imposes on them.

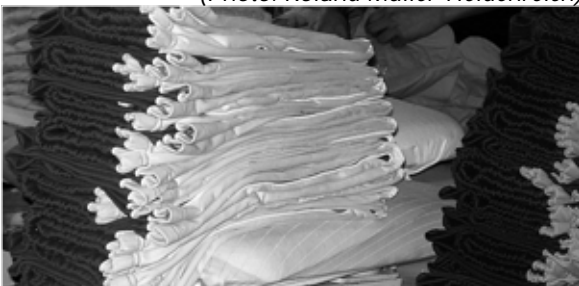
Most disturbing, however, is the practice of Sites #4 and #5. There, workers said that security restrictions are so tight that workers who want to quit have to sneak away from the factories at night to avoid the attention of the guards. This is a gross violation of workers' freedom of movement and violates the law that prohibits employers from detaining workers.

Forced overtime

Article 41 of the Labor Law requires employers to consult with workers and unions to extend working hours. Article 70 of the Opinion on a Few Questions Concerning the Continuous Implementing of the Labor Law specifies workers' right to refuse excessive overtime. Yet typically, Chinese employers fine workers if they refuse to work overtime whenever the employer asks it. Most employers rationalize these fines, stating that Chinese workers want overtime. It is true that wages are so low – typically in violation of the law – that workers prefer to work excessive overtime in violation of the law. However, it is also true that workers do not always want excessive overtime. This is, after all, why employers have to resort to fines to get workers to comply with the work schedules employers impose them.

Workers at all the factories reported that they are fined to varying degrees if they do not have management permission to not work overtime. The most excessive fines were at Site #5 where the employer fines workers 50 yuan if they miss a day of work. This is a fine equivalent to 10% or more of some workers' monthly wage. And the fines for missing a day of work are a serious matter to workers who are forced to work long hours of overtime and enjoy only 2 days of time off a month.

(Photo: Roland Müller-Heidenreich)



5.4 Discrimination

The Chinese authorities have ratified ILO Convention 100 on issues of discrimination, though they have not ratified Convention 111.

Laws against discrimination are less developed in China. Article 12 of the Labor Law prohibits employers from discriminating against workers for their sex, ethnicity and religion. Of all these topics, sex discrimination receives the most attention. There are no rules restricting discrimination against workers for their age, height, health status and ties to different regions, though these forms of discrimination are common in China.

Focus on women's rights

Article 13 of the Labor Law states that employers are not allowed to use sex as a pretext for excluding women from recruitment efforts except for specific forms of employment that are "not suitable" for women. Articles 59 & 60 of the Labor Law specify that employment in mines, employment at high heights, low temperature, cold water and work that meets a standardized level of extreme intensity is "not suitable" for women. Article 22 of the Law on the Protection of the Rights of Women similarly prohibits employers from excluding women from recruitment "except for work positions that do not suit women."

Article 24 of the Law on the Protection of the Rights of Women specifies the standard of equal wages for equal work. The principle of equivalent wages for equivalent work regardless of sex is actually embodied in the Chinese Constitution. However, this principle is not enough to protect women from discrimination. In China, at the moment, some of the most serious effects of sexism manifest themselves through sex segregation. Employers recruit women for less skilled work that fits the stereotype of subservient women with nimble fingers; they tend to recruit men for more skilled work especially if it involves manufacturing equipment. Since men and women perform different duties, employers and even workers believe their employment meets the standard of "equivalent wages for equivalent work" even when employers actively keep women out of the

skilled positions where workers enjoy higher wage rates, more employment stability and at times even a relatively relaxed work rhythm.

Article 26 of the Law on the Protection of the Rights of Women specifies that women workers are entitled to protection when they are menstruating, pregnant, giving birth and giving milk. Article 23 of the Law on the Protection of the Rights of Women explicitly prohibits employers from discriminating against women according to whether they are married or pregnant. Article 27 prohibits employers from lowering women workers' wages and unilaterally terminating agreements when they marry or fall pregnant. Women workers who marry or fall pregnant are permitted to unilaterally terminate their employment agreement. Article 29 explicitly forbids employers from firing workers who are receiving treatments for disease/injuries, workers who have lost the ability to work as a result of disease/injuries sustained at work, and women workers including women who are pregnant, recovering from childbirth and breast feeding.

Workers frequently report that employers in the apparel sector discriminate against men. For example, a manufacturing site owned by the group that owns the factories of this survey advertises positions on its sewing lines on the internet. The advertisements state explicitly that they only employ women. Since Chinese laws against discrimination tend to address only the rights of women, there are fewer explicit protections for men on this issue. Employers view men as difficult to manage and more likely to act collectively to raise wages. For low skilled positions, employers therefore prefer women workers, and frequently refuse to employ men if women are available.

Workers at Sites #4 and #5 reported that the employers frequently refuse to employ men and have only started to employ more men when they felt the supply of available new employees was shrinking. Other evidence of these practices exists. Site #4 advertises a training program on the internet for sewing workers and states that only unmarried women are eligible. Site #4 simi-



larly advertises on the internet for positions of executive manager, manufacturing manager and customs and inspection manager and limits eligibility to men only.

Sites #1, #2 and #3 employ a relatively even proportion of men and women (60% women). This is most likely a reflection that the factories are situated in less developed zones where new employees are difficult to find. However, these even proportions hide the effects of sex segregation. It is common for employers in the apparel sector to employ only men in the ironing and cutting workshops and in the warehouses. Positions on the sewing line are frequently paid very low piece rates and women have to work at a punishing rhythm to earn enough to support themselves. Men working in the warehouses are ordinarily paid a set daily wage and enjoy a more leisurely rhythm of work. The cutting and ironing workshops require the skilled use of equipment, and the men at these workshops ordinarily receive higher wages. This sex segre-

gation is common throughout the apparel sector and often times rationalized by stereotypes like: "Men are better suited to the warehouses since they are more adept at math," "women are not suited for machines," etc. Interviewers confirmed these patterns exist at the factories of this survey. For example, though women work in the cutting workshop at Site #2, only men work the ironing workshop, and it is they who are paid wages as "skilled" workers.

Discrimination against married women is similarly evident at the factories of this survey. The training program advertised on the internet for Site #4 explicitly states that married women are not eligible. Similarly, Sites #4 and #5 require health examinations of workers who are married. Though workers were not sure of the content of those health examinations, there is a strong likelihood that the employer is testing to see whether married workers are pregnant and discriminating accordingly.

South Chinese Aldi supplier factory Quanxin Knitting (Photo: Roland Müller-Heidenreich)



In addition, although employers are required to provide women workers with maternity benefits, none of the workers interviewed were aware of the maternity policies of their employer. This seriously undermines the long term employment of women workers. For example, interviewers talked to a worker who met and married a woman working at Site #2. When she fell pregnant and could no longer meet the requirements of overtime, she felt obliged to quit. The employer never offered and she never expected maternity benefits, and this no doubt seriously affected her employment options. This is a form of discrimination since it is a self conscious strategy of the employer to avoid the expense of employing women when they are pregnant. This is precisely the time when the law entitles women to social security benefits and prohibits restrictions on their employment.

The question of age

Pervasive discrimination against manufacturing workers out of their 20s is a significant influence on employment patterns in China. Employers discriminate against older workers even while expressing anxiety about the short supply of new employees, and the factories of this survey are no exception. The training program Site #4 advertises limits eligibility to workers of ages 16 to 23. Job advertisements for other factories belonging to the group that owns the factories of this survey state explicitly that only women from the ages of 17 to 22 are eligible for employment on the sewing lines. Advertisements from Site #5 explicitly limit eligibility for a cashier to someone between 22 and 35. In this context, when Site #1 touts the strength of its workforce on the internet, stating 90% of its workers are not yet in their mid 30s, it seems likely they actively discriminate to attain that aim.

Although no Chinese laws prohibit age discrimination, workers do have some support within existing Chinese laws to fight age discrimination. One of the most prevalent forms of age discrimination is actually a reflection of sex and marriage discrimination. Employers know that workers tend to marry, settle and have kids in their mid 20s. Chinese law actually defines the youngest age at which Chinese citizens are permitted to marry – 22 for men; 20 for women. It seems less than coincidence that employers

frequently limit employment eligibility for the manufacturing line to workers 22 or younger. And discrimination against workers for their sex or marriage status is against the law.

Sites #2 and #3 are distinct from similar sites in Shenzhen and even Sites #1, #4 and #5. Situated as they are in what still qualifies as a farming district, they are isolated from the more frequent paths of migrants. When migrants in their teens and 20s are not available, these factories have to set aside their preference for unmarried migrants and employ older permanent residents. Most frequently, these employees are women in their 40s. They have already raised families and their kids are often employed themselves. Interviewers talked to a permanent resident who worked at Site #2 when her son was still in school. She felt forced to quit Site #2 since she could not afford to pay tuition for her son on her low wages of 800 yuan a month. Thus, even when apparel factories are forced to hire older employees, they ensure that they will avoid the responsibility of paying workers enough to support families.



5.5 Employment of juveniles & minors

China ratified the ILO Conventions 138 and 182 on the employment of minors.

Article 15 of the Labor Law explicitly prohibits employers from recruiting minors younger than the age of 16. Article 58 of the Labor Law permits the employment of juveniles ages 16 to 18. However, the law requires employers to actively supervise the health of juveniles. Articles 64 and 65 prohibit employers from employing juveniles for more strenuous work, work with poisonous materials and specifies that the employer is responsible for ensuring juveniles receive regular health examinations.

Article 4 of the Rules on the Prohibition of Child Labor requires employers to verify the age of workers they recruit by checking their identity papers, and employers must keep records of workers' identity papers. Article 8 states that employers failing to keep these records and those who falsify records of recruitment are liable to fines of 10,000 yuan. Article 13 allows schools and similar institutions to organize internships and training for minors if they follow appropriate rules.

In China, the employment of juvenile and minors is tied to difficulties recruiting workers to less developed sites. In Shenzhen, factories are

more densely situated, and migrants there frequently walk the streets looking for employment opportunities advertised at the gates of factories. In this context, employers have less need to recruit juveniles and minors, and although Shenzhen employers do hire minors from time to time, it is not common.

Managers are more likely to risk employing juveniles and minors if they have difficulties recruiting more experienced adults. All the factories of this survey are situated in districts where fewer migrants are likely to pass through looking for employment. For example, though Site #2 is in a development zone, most of the factories registered in the zone have yet to be built and the town still qualifies as farming territory. Site #2 is situated more or less in the middle of a field by a new highway. Farmers tend plots within view of the manufacturing site, and the closest housing is a small grouping of concrete structures built to give permanent residents of the town short-term housing before they move to a new neighborhood. A neighboring site, Site #3, is on a new highway. Although factories dot the length of the highway, the housing, restaurants and stalls that typically cluster close to factories to serve migrants' needs do not exist. Workers looking for employment are less likely to come to these neighborhoods to look for jobs unless they know a job exists.

In this context, it is not surprising that employers resort to employing juveniles and even minors. With the exception of Site #3, interviewers confirmed that all the factories of this survey employ juveniles. Though the law requires employers to restrict the employment of juveniles to protect their health, juveniles at the factories of this survey work excessive overtime beside their older peers and do not receive health examinations according to the requirements of the law.

If interviewers could not confirm the employment of juveniles/minors at Site #3, it was only since workers seldom exit the manufacturing site. This is the site where there are few options for eating outside the factory and workers are required to return to their dormitories by 21:00. However, it is the youngest workers from Site

Figure 18:
Employment of juveniles and minors

	Employment of minors [under 16]	Employment of juveniles [ages 16–18]
Site # 1	confirmed	confirmed
Site # 2		confirmed
Site # 3		
Site # 4	confirmed	confirmed
Site # 5	confirmed	confirmed

#2 that quit and transfer to jobs at neighboring factories. A young resident of the neighborhood explained the movement of workers out of Site #2 like this: "They're just kids. They've never had anyone to look after them, and they have a hard time working overtime. They get news of a job at another factory and they think there, things will be different." At the time of the interviews, workers from Site #2 were quitting to apply for jobs at Site #3. Interviewers confirmed juveniles working at Site #2 and in the surrounding neighborhood. In the context of Site #3's isolation, the likelihood that juveniles from Site #2 are getting jobs at Site #3, and the wide employment of juveniles in the neighborhood, it seems likely Site #3 employs juveniles without meeting the requirements of the

law where juvenile employment is concerned.

Interviewers confirmed the employment of minors younger than the age of 16 at Sites #1, #4 and #5. What is more, at Sites #4 and #5, the employer lets workers know that they will willingly employ minors. The factories offer workers 100 yuan if they recruit new employees. Workers recruit their young friends to apply for employment knowing that their friends only have to tell managers that they do not have their identity papers. Managers of Sites #4 and #5 will then go to neighboring factories to borrow and forge the identity papers of workers employed there. Management then instructs the minors they employ on how to falsify their new name and identity.

5.6 Freedom of Association/Collective Bargaining

The Chinese authorities have not ratified ILO Conventions 87 and 98 on freedom of association and collective bargaining.

Article 7 of the Labor Law guarantees workers' right to participate in and form unions. Article 3 of the Trade Union Law similarly guarantees the right of workers of all enterprises and organizations within Chinese territories to participate in and form unions and prohibits all organizations from restricting that right.

Article 10 of the Trade Union Law similarly allows for the establishment of union federations in towns and neighborhoods where enterprise workers are numerous. Unions from one or similar sectors similarly have the right to establish federations for a region or nationally. The All China Federation of Trade Unions is designated to represent the unified organization of unions nationally. Similarly, Article 11 requires all unions of various levels to register and seek approval from a higher ranking union, and Article 2 of the Trade Union Law requires all unions to work within the framework of the All China Federation of Trade Unions.

Interestingly, Article 10 of the Trade Union Law states that all enterprises and organizations with

in excess of 25 employees "should" establish a "union committee." Article 41 of the Labor Law requires employers to consult with unions and workers to extend working hours. Article 70 of the Opinion on a Few Questions Concerning the Continuous Implementing of the Labor Law similarly requires employers to consult with unions and workers on questions of overtime, and further specifies workers' right to refuse overtime that exceeds the limits of the law. That is, according to the law, factories employing hundreds of workers and needing extensive overtime should have developed some organization to negotiate with workers. Nonetheless, a substantial proportion of private enterprises do not have unions. In the few factories that do have unions registered, it is common for workers to know neither that the union exists nor what function it serves.

Article 6 of the Trade Union Law states the responsibility of unions to defend workers' rights within the law. It requires unions to maintain close ties to workers; listen and voice their opinions and requests; to help workers resolve issues and otherwise "serve" workers. The law requires enterprise unions to organize specific activities to meet the requirements of the law. For example, if employers unilaterally appoint managers to rep-



resent the union at their enterprise, this violates the law. Article 9 of the Trade Union Law specifies that either a meeting of union members or union member representatives is to democratically elect the members of a union committee. The law similarly recognizes conflicts of interest between management and union members by prohibiting the relatives of people in positions of responsibility for the enterprise from getting elected to a union committee.

None of the workers at the factories of this survey were aware of a union at their enterprise. One worker from Site #1 mentioned explicitly that workers are not permitted to organize a union. Even if the factories of this survey have registered unions and workers are not aware of them, this violates the standard of Chinese laws that requires unions to actively seek out and represent workers and requires employers to negotiate overtime with workers or their representatives.

Union busting

Discrimination against workers on the basis of their sex, marital status, age, etc, tends to determine whether workers get employed at all. The victims of discrimination are typically not at the factory for interviewers to interview. There is another common form of discrimination, however, that affects workers at the manufacturing site. To prevent workers from acting collectively to effectively negotiate with management on such issues as wages and work schedules, employers fire and threaten to fire workers who “organize” or “agitate” their peers to pressurize management.

There are no rules explicitly protecting, for example, workers who file petitions to the government without the support of a registered union. However, there are rules explicitly protecting worker representatives. Article 51 of the Trade Union Law prohibits employers from arbitrarily dismissing or transferring union representatives who fulfill their responsibilities to the union within the requirements of the law. Other forms of retaliation against union representatives including humiliation, slander and physical injury are expressly prohibited.

Similarly, worker representatives receive a minimum of protection from laws on the termi-

nation of employment agreements. Article 25 of the Labor Law specifies that employers have the right to unilaterally terminate employment agreements with workers only if:

- a worker does not meet the requirements of recruitment during a trial period of employment
- a worker seriously violates the rules of the employing unit
- the employer experiences significant losses due to the dereliction of duty of a worker
- a worker is under investigation for a crime by authorities

Articles 26 and 27 of the Labor Law list a few further conditions within which employers have the right to terminate employment agreements. However, in these conditions, employers are obliged to give workers 30 days notice of their termination, and Article 28 specifies that employers have obligations to recompense workers.

Article 3 of the 1995 rules concerning severance agreements states that if the employer terminates a written agreement with workers without meeting the requirements of the law (regarding discrimination and 30 days notice, for example) and this results in a loss of wages to the worker, the worker is entitled to receive wages according to the norm of their previous earnings (not a minimum wage) and 25% additional recompense. Article 2 specifies that this applies to employers who fail to sign a written agreement with workers.

5.7 Hours of work

China has not ratified ILO Convention 1 on working hours.

The workweek & overtime

Article 36 of the Labor Law sets a standard for working hours of a maximum 8 hours a day, not to exceed 44 hours a week. Article 3 of the State Council Rules on Working Hours adjusted the standard workweek to 8 hours a day, 40 hours a week. This standard is reiterated elsewhere. For example, Article 2 of the Supplementary Rules to the Short Term Rules on the Payment of Wages specifies a workweek of 8 hours a day, 40 hours a week. Article 38 of the Labor Law specifies that workers shall have at least 1 day a week off from work. Article 41 of the Labor Law sets a maximum limit on overtime of 3 hours a day and 36 hours a month.

According to workers, all factories implement extensive overtime. At Site #1 and Site #2, for example, workers typically work from 8:00 to 21:00 with 1 hour for lunch and 1 hour for dinner through the workweek. Only when they work on the weekend do workers work only 8 hours a day. That is, workers work 3 hours of overtime on days of the workweek, and 8 hours overtime on the weekend. This is approximately 95 hours

of overtime per month – $[(21 \text{ workweek days} \times 3 \text{ hours}) + (4 \text{ weekend days} \times 8 \text{ hours})]$ – and close to 3 times the minimum set by the law. Sites #1 and #2 guarantee workers a day off per week, and generally limit overtime not to exceed 3 hours a day in the workweek. However, workers at Site #1 do at times work in excess of 3 hours of overtime in the workweek. On a day of interviews at Site #1, workers were at work till 23:00. These working hours are a flagrant violation of the law.

The situation is more serious at Sites #4 and #5. There, workers enjoy only 2 days off a month. On a day of interviews, workers actually had a day off since foreign clients were visiting the facilities. Sites #4 and #5 represent a cluster of 4 factories and overtime varies between them. At the facilities making pants, workers work from 7:45 to 22:00. At the shirt manufacturing facilities, workers work till 22:00 and at times even till 24:00 even on weekends. This represents overtime of 4 hours a day during the workweek and 12 hours of overtime on the weekend. Workers at these facilities work 156 hours of overtime a month – $[(21 \text{ workweek days} \times 4 \text{ hours}) + (6 \text{ weekend days} \times 12 \text{ hours})]$. Every week, these factories exceed the maximum overtime hours permitted in a month!

Figure 19: Hours of work

	Overtime hours in a typical day	Days worked per week	Overtime hours in a typical workweek	Paid vacation
Site # 1	3–5	6	23	No
Site # 2	3	6	23	No
Site # 3	not confirmed	6	not confirmed	No
Site # 4	2–5	6/7	12–35	No
Site # 5	4–6	6/7	24–42	No



From the documentary film "China Blue", directed by Micha X. Peled (Photo: BFILM Verleih/EYZ Media)

The question of seasonality

Article 39 of the Labor Law and Article 5 of the State Council Rules on Working Hours provide the possibility for employers to implement alternative work schedules. Employers have the right to petition the government and explain why the nature of their sector or the restrictions of their manufacturing system require them to exceed the standards on working hours set in the law. If approved, employers have the right to tabulate working hours "comprehensively." This standard is explained in Article 5 of the Approval Methods for Enterprises Implementing Systems of Irregular Working Hours and Comprehensive Tabulation of Working Hours and Article 65 of the Opinion on a Few Questions Concerning the Continuous Implementing of the Labor Law. Essentially, average hours should never exceed the requirements of the law for a standard work week. If workers work excessive overtime one week, the employer should arrange for workers to enjoy the equivalent time off at another time.

If the authorities approved the request of these factories for flexible scheduling, we should expect arrangements something like this. Workers at Sites #1 and #2 work approximately 95 hours of overtime per month. For every month workers work on these terms, workers should have close to 2 ½ weeks of time off guaranteed. Workers at Sites #4 and #5 who work in excess of 150 hours of overtime a month should have close to 4 weeks of time off for every month they work. On these terms, if workers work excessive hours through a peak season, they will soon accumulate significant amounts of time off.

According to workers, the employers at all of these factories do not tabulate time off according to the extent of overtime workers work in the peak season. Workers work according to the ebb and flow of manufacturing orders.

Holidays & time off

Article 40 of the Labor Law sets national holidays. These are the new year, the Spring Festival, Labor Day and the National Festival. Workers at the factories in this survey frequently work through a portion of the national holidays. This is lawful if employers pay appropriate wage rates, and we will discuss this in the next section.

Article 45 of the Labor Law gives employees employed continuously for 12 months and longer the right to a paid vacation. Article 2 of the Announcement on Questions Concerning Employee Time Off only specifies that enterprises should set different terms for paid vacations depending on the responsibilities and experience of the employee and that the maximum period for a paid vacation is 2 weeks. Even experienced workers at the factories in this survey have never heard of their right to paid vacation for employees with 12 months or more of experience.

5.8 Wages

China has ratified ILO Convention 26, not ILO Convention 131.

Fines

Article 50 of the 1994 Labor Law explicitly forbids employers to “deduct” from workers’ wages. Article 26 of the Rules for the Execution of Labor Guarantees, effective since 2004, states that the government will fine employers if they “deduct” from workers’ wages. Though these articles seem to prohibit employers from fining workers from their wages, there is confusion in the law that allows employers to fine workers if they meet a few conditions.

The first condition concerns the topic of the fine. In 1995, article 15 of the Short Term Rules on the Payment of Wages permit employers to remove money from workers’ wages to pay the following items: tax fees, insurance fees, fines ordered by arbitration committees and the courts and other items “explicitly permitted in the law.” Article 16 of the rules permits employers to fine workers responsible for the enterprise suffering “economic losses.” A less generous law effective since 1982 specifies a number of other “permitted” fines. Article 11 of the Rules on Enterprise Employee Awards & Fines states, if workers “do not correct their actions after going through criticism & education,” employers have the right to fine workers for violations of rules including but



not limited to: frequent tardiness, not attending work, not meeting production requirements, assembling others to disruption, fighting, violations of production process requirements and safety systems, damage to equipment, corruption, etc.

To receive the support of the law, however, employers' fines must meet two other conditions. Article 16 of the Short Term Rules on the Payment of Wages states that fines should never exceed 20% of workers' wages, and workers should always receive at least the minimum wage required in the region.

All the factories of this survey fine workers' wages. Workers receive fines for not arriving on time at work, for cooking in the dormitories, for eating in the workshops, etc. Workers tend to accept the futility of resisting employers' deductions from their wages. So only at Site #5 were workers fined seriously enough – for example, 50 yuan for missing a day of work – that workers wanted to raise the issue.

Tardiness is explicitly mentioned in the Rules on Enterprise Employee Awards & Fines. Similarly, cooking in the dormitories and eating in the workshops are safety and production issues. Therefore, the topic of these fines is permitted in the law. However, the law still requires employers to guarantee workers receive a minimum wage *after all fines*. A substantial number of workers, if not most workers at the factories of this survey do not receive the minimum required by law. Therefore, all fines for these workers are a violation of the law.

Trial period of employment – length of time

Chinese laws specify the maximum extension of a trial period of employment according to the effective term of the employment agreement signed by the employer and workers. In 1994, Article 21 of the Labor Law limited employers to setting a trial period of employment not in excess of 6 months. The governments of different regions, however, have refined this requirement. For example, Jiangsu rules specify a trial period of employment not exceeding 15 days for a contract of 6 months; not exceeding 30 days for a contract of 12 months and so on. Shanghai

rules specify that only employment agreements extending at least six months are allowed to include a trial period of employment. The employer is allowed to set a trial period not exceeding 1 month for contracts of 6 to 12 months, etc.

None of the workers interviewed at Site #1, #2 and #3 signed employment agreements with their employers. The employers therefore have no right to justify restricting workers' terms of employment through a trial period of employment. Workers from Sites #4 and #5 said they signed a written agreement though they were not sure of the time the agreement covered. Factories typically sign agreements with manufacturing workers valid for 12 months. The trial period for these agreements should not exceed 1 month. One worker from Site #4, however, thought the agreement he signed was to cover a period of 3 years. Such a document only gives employers a right to impose a 2 month trial period of employment. Thus, the 3 month trial period of employment at Sites #1, #4 and #5 all violate Chinese laws.

Trial period of employment – a minimum wage

Employers typically extend workers' trial period of employment to rationalize paying new workers a wage that does not meet minimum wage requirements. Site #3, for example, rationalizes not paying workers a wage their first month this way. The law expressly prohibits this. Article 57 of the Opinion on a Few Questions Concerning the Continuous Implementing of the Labor Law specifies that a worker working a full work-week is entitled to a wage that meets minimum wage standards regardless of whether they are apprentices or in a trial period of employment. Article 14 of Jiangsu rules on employment agreements specifies that workers in their trial period of employment should receive wages equivalent to at least 80% of lowest wages of workers performing the same work at that enterprise.

With the exception of Site #3, all of the factories of this survey pay wage rates during the trial period equivalent to wage rates after the trial period. However, most workers at these factories are paid according to piece rates. New workers who still need training and experience work more

Figure 20: Trial period of employment, wages, holiday wages and fines

	Trial period of employment	Total monthly wages – incl. overtime	Monthly minimum wage required in the region	Do workers receive legal overtime wages?	Do workers receive legal holiday wages?	Illegal fines
Site # 1	3 month – security deposit	600–800 yuan	690 yuan	No	No	Yes
Site # 2	No	600–800 yuan	690 yuan	No	No	Yes
Site # 3	1 month without wages	1,000 yuan	690 yuan	No	No	Yes
Site # 4	3 months	700–800 yuan	480 yuan	No	No	Yes
Site # 5	3 months	700–800 yuan	480 yuan	No	No	Yes

(1 yuan = 0.1 euro – see currency details on page 89).

slowly, finish fewer pieces and earn lower wages. This is especially true of the juveniles and minors who have less work experience. Since piece rates are low, new employees at Site #1 and #2 sometimes receive only 600 yuan a month when experienced workers typically earn 700 and 800 yuan a month. This low wage does not meet the minimum wage standard, and employers have no right to justify it even for workers who are still in training. The situation is even worse for workers at Sites #4 and #5 where workers earn only 300 yuan or less a month for their first months of work. Sites #4 and #5 guarantee workers a 500 yuan supplement to piece rate earnings for their first 3 months of employment – 200 yuan the 1st and 2nd months; 100 yuan the 3rd month. However, workers recruited by schools report that the schools typically pocket a portion of this guaranteed supplement. Even if workers were not working extensive overtime, wage practices at Sites #4 and #5 are a serious violation of the law. According to the law, if workers work a full workweek, even new employees in their trial period of employment have a right to a minimum wage.

A minimum wage & the question of seasonality

Article 48 of the Labor Law requires employers to enforce the minimum wage of their specific region. Article 16 of the Rules on a Minimum Wage for Enterprises specifies that wages for overtime, social security benefits and bonuses for working in difficult conditions are not a part of a minimum wage. That is, the minimum wage represents the wage for 8 hours a day, 40 hours a week.

Article 18 gives employers the responsibility of notifying workers of rules relevant to minimum wages. Article 11 of the Rules on Minimum Wages specifies employers have 10 days to notify their workforce of adjustments to minimum wage standards. Article 4 of the 1994 Rules on Recompense for Violation and Severance of Employment Agreements states that where workers' wages do not meet the minimum requirements of the law, the state will force employers to raise workers' wages to the minimum and give workers 25% of the difference as additional recompense.

The minimum wage relevant to Sites #1, #2 and #3 is 690 yuan a month. The minimum wage for Sites #4 and #5 is 480 yuan a month. We should

note the lowness of Chinese minimum wages. According to residents in the neighborhood of Site #1, 600 yuan a month is the minimum someone needs to survive there. If this is true, even 690 yuan a month is not likely enough income for workers to raise a family, send kids to school, support loved ones when they have health issues, etc. According to workers at Sites #4 and #5, monthly wages of 500 and 600 yuan a month is not enough to live on. Workers said that previously, employers there paid less. However, they were forced to raise wages after experiencing excessively high rates of workers quitting.

Adopting the technique of the Rules on Minimum Wages, a monthly minimum wage of 690 yuan is equivalent to a minimum wage of 4.12 yuan per hour (690 yuan a month \div 20.92 approximate workweek days in a month \div 8 hours a day = 4.12 yuan per hour). A monthly minimum wage of 480 yuan a month is 2.87 yuan per hour.

At all of the factories in the survey, workers work overtime at a wage rate no different from the rate for hours of a standard workweek. To determine whether this is lawful, we should consider the following: Suppose the factories are lawfully implementing a system of flexible work schedules. Though this is not likely, it is possible. Article 62 of the Opinion on a Few Questions Concerning the Continuous Implementing of the Labor Law states that if the employer is approved to implement a flexible work schedule and a worker works on what would otherwise qualify as a day of rest, that day is considered a day of the standard workweek. If a worker works on a national holiday, however, the employer is required to pay overtime at a rate of 300% of standard wages, according to the requirements of Article 44 of the Labor Law.

If the employers of this survey were lawfully implementing a system of flexible work schedules, and we tabulate wages for a month without national holidays, the employers would not have to pay overtime rates to workers for overtime in the workweek and on the weekend. In a month, workers at Site #1 and #2 will work approximately 21 days of the standard workweek at 11 hours a day and 4 days of the weekend at 8 hours a day. This is 263 working hours a month [(21 days of the workweek \times 11 hours) + (4 weekends \times

8 hours)]. If workers were paid at the minimum hourly wage required by the law, they would earn a minimum of 1,083.5 yuan (263 hours \times 4.12 yuan). Some workers are earning approximately half of that! At Sites #4 and #5, we know workers have only 2 days off a month and a number of workers work 12 hours a day throughout the week. A fair estimate of their work schedule for a 30 day month is 22 days of the standard workweek and 6 days of the weekend at 12 hours a day. That is 336 hours of work, and workers should earn a minimum of 964 yuan (336 hours \times 2.87 yuan). New employees at those factories receive only a third of that.

If the employers of the survey do not have approval to implement flexible work schedules, and if for example they do not guarantee workers receive the time off owed to them after overtime, the underpayment of workers' wages is more serious. Article 44 specifies that workers should receive overtime wages at a rate of 150% of standard wages for overtime during the workweek; at a rate of 200% for work on a day of rest unless the worker is able to defer rest to another day; and at a rate of 300% of standard wages for work on a national holiday. Again, tabulating for a month without national holidays, employers need to pay workers 150% wages for overtime during the workweek and 200% wages for the weekend. At Sites #1 and #2, the minimum monthly wages workers should receive is [(21 \times 8) + (21 \times 3 \times 1.5) + (4 \times 8 \times 2)] \times 4.12 = 1,345 yuan. At Sites #4 and #5, workers should receive a minimum of [(22 \times 8) + (22 \times 4 \times 1.5) + (6 \times 12 \times 2)] \times 2.87 = 1,297 yuan.

Since most workers are paid piece rates, employers like to defend their piece rates with the notion that wages reflect the productivity of workers themselves, and more effective workers earn significantly higher wages. This argument is not relevant to the requirements of the law. Article 37 of the Labor Law requires employers to set piece rates such that workers' wages meet the requirements of the minimum wage within a standard workweek. 1,345 yuan a month and 1,297 yuan a month is what workers should earn at Sites #1/#2 and #4/#5 respectively if they were paid according to a minimum wage. The figure represents the *minimum* all workers should receive regardless of their training, experience, productivity, etc.

The low season

Another point relevant to the seasonality of apparel manufacturing is worth raising. At all of the factories of this survey, when workers have time off, they receive no wages at all. Workers do not believe this reflects a system of deferring time off according to overtime hours since employers do not keep records of the time off workers are owed for their overtime and workers time off depends entirely on manufacturing orders. When the low season arrives and manufacturing orders fall off, piece rate workers have fewer orders, work less and earn significantly less. This violates the law that guarantees workers a minimum wage even in low seasons when manufacturing slows or stops altogether.

Article 12 of the Short Term Rules on Payment of Wages specifies that if a worker is not responsible for the slow or stop of manufacturing, the employer does not have the right to lower their wages for 1 wage period. For the workers of this survey, 1 wage period is equivalent to 1 month. If the period of slow/stopped manufacturing extends longer than 1 payment period, employers have the right to negotiate a new wage standard. Nonetheless, if workers work a standard work-week, their wage must meet or exceed a minimum wage standard.

The rules of specific regions address the possibility that workers are not fully employed as a result of slow manufacturing. For example, Article 35 of the Guangdong Rules on the Payment of Wages reiterates the standard that if a worker is not responsible for the slow or stop of manufacturing, for 1 wage period the employer is required to pay wages according to pre-existing wage rates. If manufacturing slows or stops for longer, employers have the right to negotiate a new wage rate with workers. However, even in the event a worker not working at all, the employer is obliged to pay wages no less than 80% of the minimum wage. Article 31 of the Jiangsu Rules on the Payment of Wages articulates a similar standard. Article 29 of the Nanjing Rules on the Payment of Enterprise Wages lowers the standard to 60% of the minimum wage. However, to do this, the employer is required to secure the agreement of the enterprise union or workers themselves. None of the workers at the factories of this survey receive this minimum wage when manufacturing orders slow or stop.



5.9 Health & Safety

The Chinese authorities have not ratified ILO Convention 155.

Workers generally have a low awareness of health & safety issues, so it is difficult to judge the situation of the factories of this survey depending entirely on worker interviews. This is partly the responsibility of the employer. Article 36 of the Law on Work Safety requires employers to inform workers of the risks of their work and instruct them of safety methods. Article 39 requires employers to give safety training to employees, and Article 50 reiterates the right of workers to safety training. According to workers, the only training they receive amounts to explanations of the fines and rules of the manufacturing site. Some workers at Sites #4 and #5 receive training in the skills of specific workshops. However, most workers receive no training and the intention of the trainings that do exist is skill development, not safety.

Article 43 of the Law on Work Safety requires employers to insure workers against injuries on the job. Article 2 of the rules concerning on the job injuries similarly requires all employers to insure workers against injuries. According to workers, the most common accidents at the factories involve finger injuries from the sewing needles. Workers at Site #1 were not sure whether they were insured. However, the employer covers the expenses of treatment for common finger injuries. At Sites #4 and #5, the factories have a clinic to treat simple injuries. However, workers are expected to pay their expenses themselves.

Workers should have insurance not only for on the job injuries. Article 73 of the Labor Law states that workers should enjoy social security benefits for retirement, illness & injury, employment related disability & disease, unemployment and maternity. Article 3 of the Short Term Rules for Implementing the Collection of Social Security Fees specifies that private and foreign enterprises are required to provide employees with pensions as well as medical and unemployment insurance. Although permanent residents employed at Site #3 said they were insured, they also mentioned that migrant workers who represent half of the workforce receive no insurance at all

Article 59 of the Opinion on a Few Questions Concerning the Continuous Implementing of the Labor Law states that if workers fall ill or suffer injuries that are not the result of their work, the employer is still required to pay wages that do not fall below 80% of the minimum wage for a set period of recovery time. Workers at the factories of this survey are allowed time off if they fall ill. However, they receive no wages.

On the question of maternity benefits, Article 62 of the Labor Law sets the standard that women workers are entitled to at least 90 days of paid time off to give birth. Other rules entitle women workers to additional time off. Article 9 of the Rules on the Protection of Women Workers specifies that employers should ensure women workers have two 30 minute periods to feed a newborn till the age of 12 months. Article 21 obliges employers employing a significant number of women to establish a crèche for kids, a room for pregnant women to rest and new mothers to feed newborns.

Furthermore, women workers who quit their position after getting married or pregnant should have a right to recompense. Article 5 of the 1994 Rules on Recompense for Violation and Severance of Employment Agreements specifies that if employer and worker agree to terminate a work agreement before it expires, the worker is entitled to the equivalent of one month's wages for every 12 months of previous employment (at least 1 month's equivalent wages; no more than 12 months' equivalent wages). Article 10 states that if the employer does not give workers severance wages according to the requirements of the law, workers should receive their severance wages and recompense equivalent to 50% of the severance amount.

None of the factories of the survey offer maternity benefits. In the words of a worker from Site #1, pregnant workers "have to find a solution themselves." In a typical story, one worker interviewed at Site #2 married a fellow worker. When she fell pregnant, she worked at Site #2 till she could no longer support the excessive hours and then quit. Though she received "permission" to quit, she received none of the employment benefits owed to her.

The most workers expect from employers if they fall pregnant is that the employer will give them “permission” to quit and pay all unpaid wages. However, employers are not entitled by law to give or not give this permission. Article 27 of the Law on the Protection of the Rights of Women explicitly gives women workers the right to unilaterally terminate previous employment agreements if they fall pregnant. What is more,

as discussed elsewhere, employers are not permitted to fire women workers for falling pregnant, workers have a right to refuse overtime, and employers are required to pay workers a minimum wage so long as they work a 40 hour workweek. It is only since employers violate all of these standards that, without exception, women have to “choose” to quit when they fall pregnant.

5.10 Binding Employment

Written employment agreement

Article 2 of the Labor Law states that workers have their rights guaranteed by the law whether or not they have a binding written agreement with their employer. Article 16 of the Labor Law requires employers to sign a written employment agreement with all workers. None of the workers interviewed at Sites #1, #2 and #3 signed a written employment agreement with their employer. Workers at Sites #4 and #5 had signed a written agreement with the employer. However, they believed it is a senseless piece of paper that the employer falsifies only to show foreign clients. They never received a copy of the agreement they signed and never had the opportunity to examine and understand its contents.

only the most superficial details of the tabulation. This is especially true for piece rate workers who might work at different wage rates at several points within a wage period.

Wage slips

There is weakness in Chinese laws where record keeping is concerned. Article 6 of the Short Term Rules on Payment of Wages specifies that employers should have workers sign a wage slip. The rule requires a wage slip to specify wages, hours and the name and signature of the person receiving the wages. Employers are required to keep these records for a minimum of 2 annual periods.

Workers at the factories of this survey do sign wage slips that meet this requirement. However, few workers felt they understood how their wages were tabulated since the wage slips provide



6. Case study 2:

Labour conditions in supplier factories of the German company Huber – a supplier of ALDI – in Indonesia

Urban Community Mission, Jakarta, November 13th, 2006

Introduction

The objective of this research commissioned by the German SÜDWIND Institut für Ökon-

omie und Ökumene, was to make a case study of labour conditions in the Indonesian factories P.T.

■ Summary

In early summer 2006, on behalf of the SÜDWIND Institute for Economics and Ecumenism, the "Urban Community Mission" (PMK) in Jakarta carried out interviews with 40 workers in four Indonesian supplier factories of the German company, Huber (label "Hubermasche"), a supplier of Aldi.

In one-to-one interviews, the workers were asked questions about the following range of topics on the basis of the respective ILO conventions: forced labour, child labour, discrimination in the workplace, freedom of association, the right to collective bargaining, wages, working hours as well as health and security standards. In order to protect those interviewed, they have not been named in the report.

The case-study findings include the following:

- over one third of interviewed workers are forced to work overtime,
- in more than 50% of cases, young people between the ages of 15 and 18 were illegally employed in the factories,
- two thirds of those questioned reported vio-

lations of the right to menstruation leave,

- 40% of those interviewed stated that there was trade union repression in their factories,
- 90% of respondents stated that their wages did not suffice to meet their daily needs,
- 42.5% of interviewed workers stated they had experienced physical and mental oppression in their factories,
- 55% of respondents had no written contract.

The statements of the interviewed workers are checked against the relevant Indonesian labour laws.

The PMK report underlines the fact that although there are signs of improvement in working conditions in comparison with research findings in previous years – for example, with regard to child labour and the payment of legal minimum wages, the overall situation remains deplorable, especially in places, where factories have been closed after the phase-out of the Agreement on Textile and Clothing of the World Trade Organisation (WTO).

Elok Indobratama (EI), P.T. Goldindo Menawan (GM), P.T. Goldindo Perkasa (GP) and P.T. Ricky Putra Globalindo (RPG) who supply underwear products to the German company Huber (label “Hubermasche”) – a supplier of ALDI – in Germany. For this purpose, 40 workers of the four factories, three of which are based in Jakarta and one in Bogor, were interviewed between mid-May and the end of June 2006. The PMK interviewers used a questionnaire which had been developed by Indonesian trade unions and non-governmental organisations in Jakarta in 2002 on the basis of the model code of labour practices of the International Confederation of Free Trade Unions (ICFTU) of 1997, and which refers to relevant ILO conventions.

The interviewed workers can be briefly introduced through the following biographical data: Their age ranges between 19 and 38 years. The ratio of female and male respondents is 35:5. Out of 40 interviewed workers, 21 are married, and 14 have children. The ratio of permanent and temporary workers is 19:21. Of all interviewed workers, 27 are members of a trade union.

This report is structured in chapters containing the results and summaries of the responses to questions on the application of specific social standards in each of the factories, and a conclusion.

Research Report

6.1 Prohibition of Forced Labour

“There shall be no use of forced, including bonded or prison, labour.” (ILO Conventions Nos 29 and 105)

Indonesia ratified these two ILO Conventions in 1950 and 1999 respectively.

Figure 21 shows the results from the interviews with the workers based on the following indicators.

Out of 40 respondents, 37.5% – most of them from PT. GB – experienced forced overtime imposed by the management to meet export orders. Workers were threatened with punishments if they refused to work overtime, and were forced to sign the respective forms. However, forced overtime was not imposed on temporary workers.

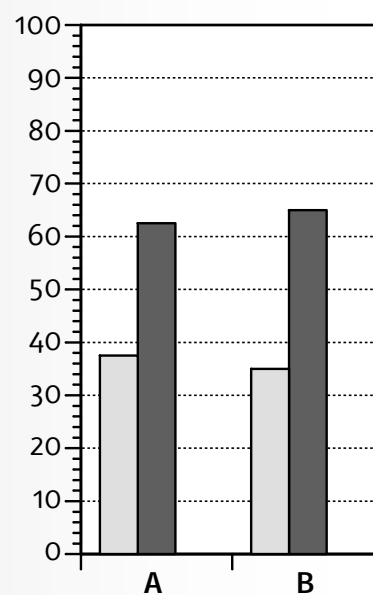
35% of workers stated that security guards were preventing them from freely entering and leaving the factory, for instance at PT. EI, at PT. GM, at PT. GP, and at PT. RPG where workers were physically searched.

Figure 21: Responses on Forced Labour (%)

Indicators:

A Forced overtime.

B Security guards prevent workers from freely entering and leaving the factory.



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6.2 Prohibition of Child Labour

“There shall be no use of child labour. The age for the admission to employment shall not be less than the age of completion of compulsory schooling and, in any case, not less than 15 years.” (ILO Convention No. 138)

Indonesia ratified this ILO Convention in 1999.

Indonesian Labour Law No. 25 dated 1997 stipulates that the employment of children under the age of 15 years is prohibited. Compulsory schooling in Indonesia ends at the age of 14. Indonesians between 15 and 18 years of age are allowed to work under special circumstances, but only for four hours during the day.

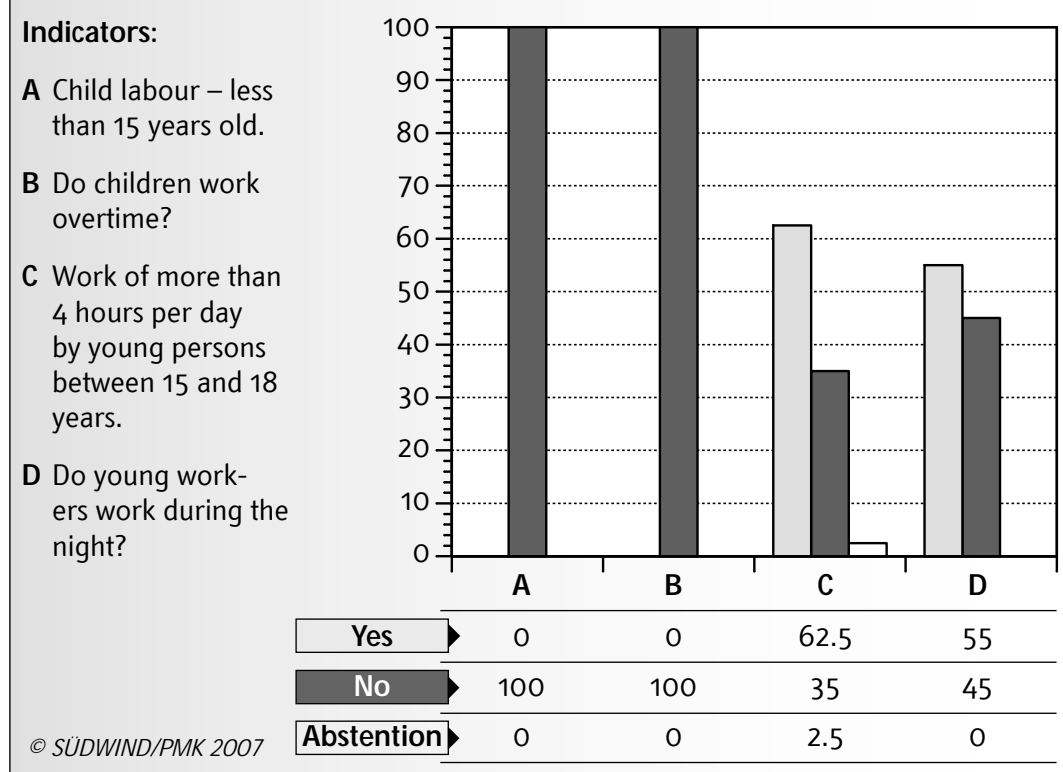
Based on the above-mentioned convention, the responses can be seen in **Figure 22**.

The diagram shows that no company employed children under 15. But 62.5% of respondents stated that there were young workers between the ages of 15 and 18. 60% of them said that these young workers worked more than 4 hours per day, which above all applies to P.T. El and P.T.

RPG. And 55% said that they also worked during the night – again mainly in these two factories. This is in violation of Indonesian labour law.

For the young workers between 15 and 18 years of age, the type of work varied between sewing, hemming, cleaning from dust/ex-spun cotton, packing and carrying pieces of underwear.

Figure 22: Responses on Child Labour (%)



6.3 Prohibition of Discrimination in Employment

“In recruitment, wage policy, admittance to training programs, employee promotion policy, policies of employment termination, retirement, and any other aspect of the employment relationship shall be based on the principle of equal opportunities, regardless of race, colour, sex, religion, political affiliation, union membership, nationality, social origin, deficiencies, or handicaps.” (ILO Convention Nos 100 and 111)

Indonesia ratified these Conventions in 1958 and 1999 respectively.

According to Indonesian Labour Law, women workers are entitled to two days of menstruation leave per month, and pregnant women to three months fully paid pregnancy leave.

Based on the above conventions, the responses from the interviewed workers can be seen in **Figure 23**.

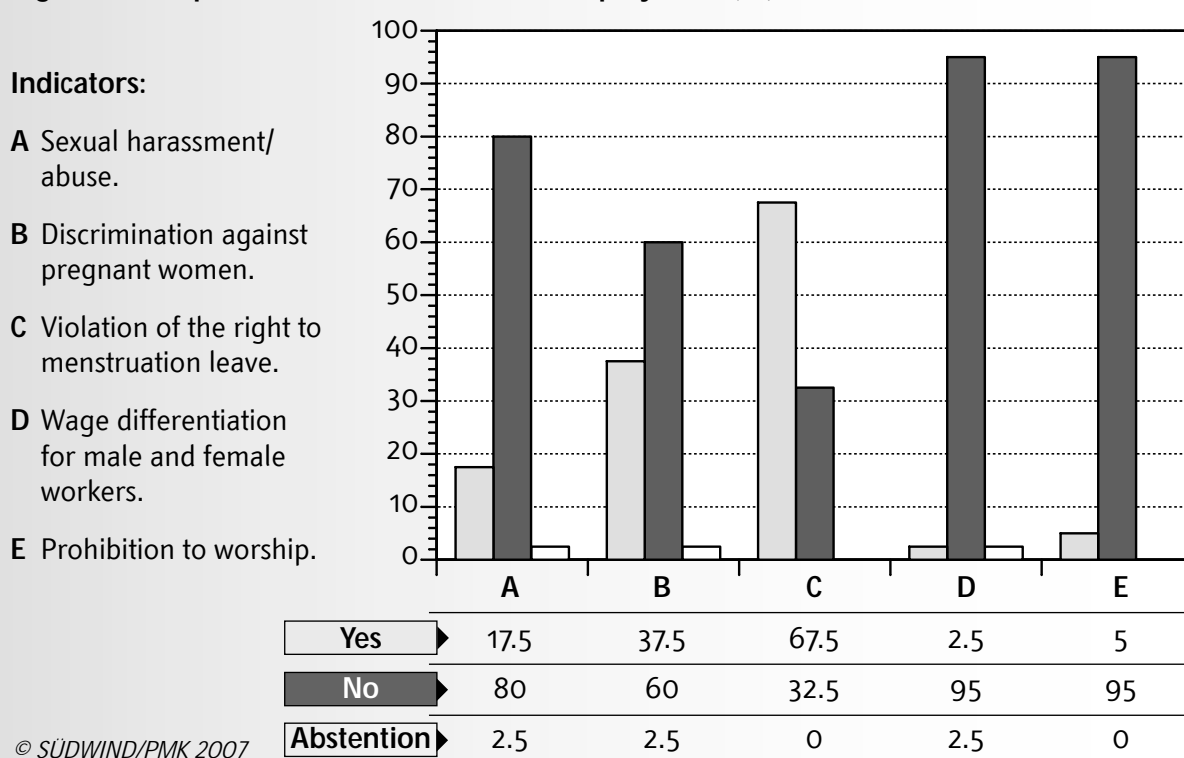
Sexual Harassment/Abuse

The diagram shows that 17.5% of interviewed workers experienced sexual harassment/harshness, such as: slapping on the buttocks and hands, pinching the back, pinching the buttocks/cheeks by their superiors. One worker said that she did not experience sexual harassment herself, but that she observed it against others.

Discrimination Against Pregnant Women

37.5% of respondents experienced a discriminatory treatment because of pregnancy. A total of 15 workers – one at PT. GM, six at PT. GP and eight at PT. RPG – stated, amongst other things, a) that workers did not receive the legally prescribed wages during pregnancy leave, b) that pregnant workers had to work overtime and during night shifts, as well as carry heavy weights,

Figure 23: Responses on Discrimination in Employment (%)



and c) that workers were dismissed during pregnancy. Most of these violations occurred at PT. GP and PT. RPG.

Right to Menstruation Leave

The diagram shows that 67.5% of interviewed workers experienced violations of their right to menstruation leave. They faced difficulties in getting permission for menstruation leave from community health centers by being asked a long list of questions and because of the length of time it took to process certificates. This applied to almost all interviewed workers except those from PT. El. According to four respondents, PT. GM refused the right to menstruation leave to its temporary workers. Nine workers from PT. GP stated that their company generally refused the right to menstruation leave to all workers.

Wage Differentiation for Male and Female Workers

95% of respondents stated that there are no wage differences between male and female workers for the same type of work.

Prohibition to Worship

95% of respondents stated that there is no prohibition by factory management to conduct worship based on their respective religions. Two respondents said that there is a problem in conducting worship due to the unavailability of sufficient praying rooms. In addition, they also faced some difficulties in gaining management permission to perform worship.

● Short biography of Anisa Kholisa Pepi

Anisa Kholisa Pepi (name changed) is one of the sewing operators at PT. Goldindo Perkasa. She was born in Sukabumi. She is single and has nine brothers and sisters. She dropped out from the second year of Senior High School.

During the last five years, Anisa has worked in a factory, and now receives a salary of around Rp. 860,000 (about 70 euros) per month. With this amount of money, she can only afford to eat simple food that is lacking in nutrition. She is often sick and has to go to the community health center (PUSKESMAS) for basic treatment – she can't afford more than that. She was unable to continue her studies because of financial problems. To cover her transport costs to and from the factory, she receives around Rp. 5,000 per day (40 cents). But this is not enough, as transport is quite expensive.

As to her personal and family life in the next five to ten years, Anisa hopes she will be able to find a better job with a better salary. This would also enable her to help her family.

For her, working in a factory or in industry will not give her a good salary and is not particularly satisfied working there. One reason being that the factory did not grant her the legally stipulated menstruation leave.

In the next few years, she would like a number of things to change in her personal and working life, for example: to have a better income, greater prosperity, the right to holiday leave, housing allowances, and guaranteed health services. For her, all these changes can only be achieved if the workers unite to convince companies to share at least a small proportion of their profits.

Jakarta, July 10th, 2006

6.4 Freedom of Association and the Right to Collective Bargaining

“The right of all workers to form and join trade unions and bargain collectively shall be recognised.” (ILO Conventions Nos 87 and 98)

Indonesia ratified these Conventions in 1998 and 1957 respectively.

Based on the above-mentioned conventions, the responses from the interviewed workers can be seen in **Figure 24**.

57.5% of interviewed workers stated that the company did not hinder the work of trade unions. This applies above all to the factories PT. GM and PT. El. On the contrary, 40% of the workers – mainly from PT. GB and PT. RPG – stated that there was trade union repression in their factories – with 2.5% abstentions.

According to 70% of respondents, the right to hold trade union meetings during working hours was respected in their factories – with all respondents from PT. GB and PT. GM confirming the respect of this right. However, the manage-

ment in PT. RPG and PT. El put pressure on trade unions to hold meetings only during the breaks.

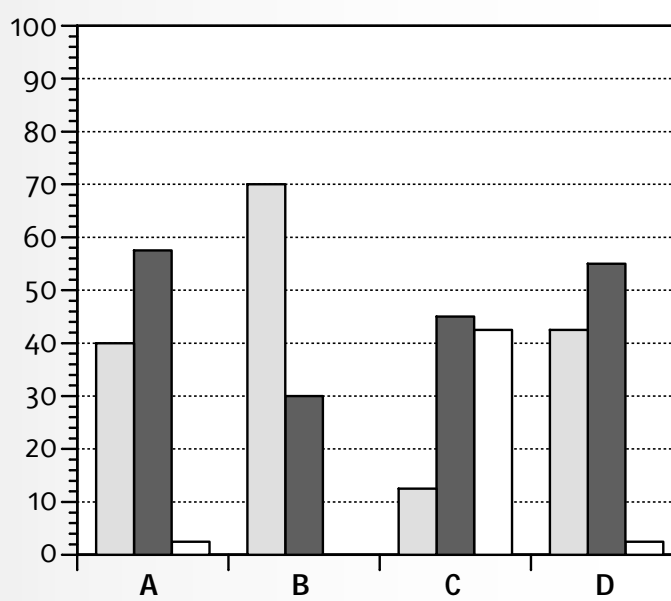
The freedom for workers to establish a labour union and exercise their right to collective bargaining can be seen from the compliance with the Collective Labour Agreement (CLA) on the part of the company. 45% of respondents stated that the company did not obey the CLA. In two factories (PT. GM and PT. El), however, there were no CLAs in existence.

Apart from this, 42.5% of respondents stated that they had experienced an involvement of military or police officers when there were disputes between workers and the employer. They also said that military and police officers then sided with the management.

Figure 24: Responses on Freedom of Association and the Right to Collective Bargaining (%)

Indicators:

- A** Union repression in the factory.
- B** Permission for trade union members to meet during working hours.
- C** The company obeyed the Collective Labour Agreement (CLA).
- D** Police and military involvement when there was a dispute in the company.



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6.5 Living Wages

“Wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and always be sufficient to meet basic needs of workers and their families and to provide some discretionary income.” (ILO Conventions Nos 26 and 131)

“Deductions from wages for disciplinary measures shall not be permitted nor shall any deductions from wages not provided for by national law be permitted. Employees shall be clearly informed about the specifications of their wages including wage rates and pay period.”

Indonesia did not ratify ILO Conventions Nos 26 and 131.

In Indonesia, regional minimum wages are revised annually, each April, and published by the Labour Ministry. The legal overtime pay is a supplement of 50% for the first overtime hour and of 100% from the second hour onwards.

The government policy regarding “Regional Minimum Wages” (UMR) in the provinces of Jakarta and Bogor city/the province of West Java can be seen in **Figure 25**:

PT. RICKY PUTRA GLOBALINDO

NO INDIK. HAMA BAGIAN

KOMPONEN GAJI

GAJI POKOK : Rp 29.480
TUNJANGAN TETAP : Rp 360
TUNJANGAN : Rp 2.000

PERIODE 20-02-2006 s/d 04-03-2006

TOTAL GAJI

POTONGAN - POTONGAN Rp 482,400

- JAMSOSTEK/KOPERASI : Rp 10.000
- SP - TSK : Rp 2.000,--
- PINJAMAN : Rp
- LAIN - LAIN : Rp

JUMLAH DITERIMA : Rp 119.100

351.300

Pay slip of an Indonesian seamstress from the factory Ricky Putra Globalindo (supplier of Huber/Aldi)

Indonesian clothing factory (Photo: Ingeborg Wick)



Figure 25:
Regional Minimum Wages in Jakarta and Bogor

No.	Province	UMR (IDR)		Increase (%)
		2005	2006	
1	Jakarta	711,843	819,100	15.1
2	Bogor – Jawa Barat	408,260	447,654	9.65

Source: Pusdatinaker-Balitfo/PMK

(1,000 IDR = 0.08 euro – see currency details on page 89).

Based on the above convention, the responses from the interviewed workers can be seen in **Figure 26**.

According to the ten interviewed workers from PT. GB, the factory did not issue wage slips to them. All other respondents stated that workers in their factories regularly receive wage slips.

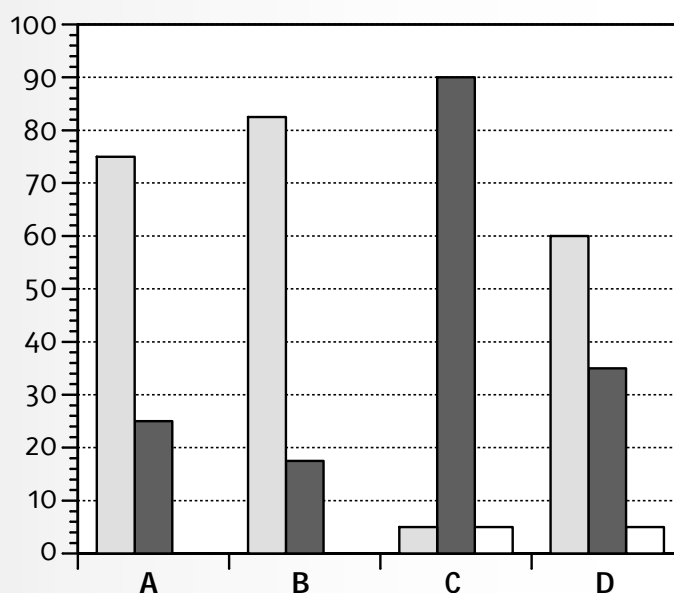
82.5% of respondents stated that their wages are equivalent to the regional minimum wage (UMR). It is only in PT. RPG that seven cases of non-compliance with this legal provision were reported.

90% of respondents stated that their wages did not suffice to meet their daily needs. A living wage, according to almost all respondents, should double or triple the legal minimum wage.

Only 60% of respondents stated that overtime wages were in accordance with existing rules. Almost all respondents from PT. GM and PT. EI confirmed the compliance of their factories with this regulation. Most cases of violation of this legal provision were reported from the factory PT. GP.

Figure 26: Response on Wages (%)**Indicators:**

- A** Receiving wage slips.
- B** Wages meet the Regional Minimum Wage (UMR).
- C** Wages are sufficient to meet basis needs.
- D** Overtime wages are based on existing regulation.



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6.6 Working Hours

“Hours of work shall comply with applicable laws and industry standards. In any event, workers shall not on a regular basis be required to work in excess of 48 hours per week and shall be provided with at least one day off for every 7 day period. Overtime shall be voluntary, shall not exceed 12 hours per week, shall not be demanded on a regular basis and shall always be compensated at a premium rate.” (ILO Convention No. 1)

Indonesia did not ratify ILO Convention No. 1.

According to Indonesian labour law, the normal working week consists of 40 hours (7 hours from Monday to Friday and 5 hours on Saturday). The legal maximum of overtime per week is 14 hours.

Based on the above convention, the responses from the interviewed workers can be seen in **Figure 27**.

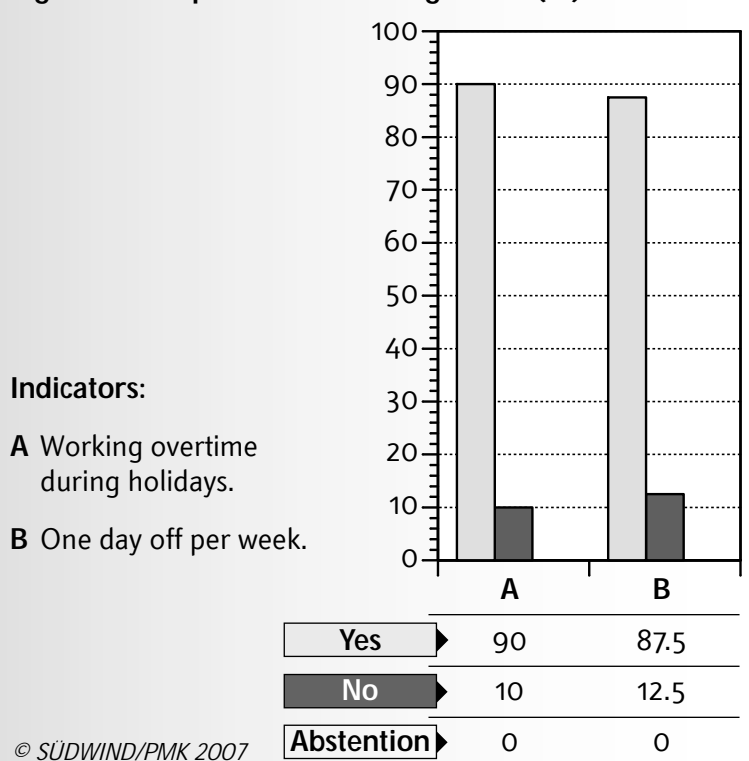
According to all respondents, the total working hours per week including overtime ranged between 40 and 80 hours – the average being 53.1 hours per week per person. Most violations of Indonesian labour law (maximum of 54 hours per week) and of ILO Convention No. 1 (maximum of 69 hours per week) occurred in PT. RPG and in PT. GP.

90% of respondents stated that they also work overtime during holidays, giving such reasons as required additional income and company demands (export orders). All respondents from P.T. GP said they

are forced by superiors to work overtime during holidays.

87.5% of respondents regularly had one day off per week.

Figure 27: Responses on Working Hours (%)



Lunch break in the Export Processing Zone KBN (Photo: Harald Klöpfer)



● Short biography of Siti

Siti (name changed) is one of the workers at P.T. Ricky Putra Globalindo. She was born in Dolok Sanggul, North Sumatra on March 23rd, 1975. She is the fourth daughter among nine brothers and sisters. She graduated from Senior High School.

Siti's family was very poor, and she used to work hard, especially helping her mother to cook, wash the dishes, and feed the animals. She never had school dresses or school shoes to go to school. Her lunch was usually rice and salted fish. After dinner, she tried to study. But she was always too sleepy. She never had breakfast, or milk, and never received pocket money. After graduating from elementary school, she continued her studies to Junior High School, around eight kilometres away from home. Because of the limited public transport, she walked to and from school. She left home every morning at 4.45 a.m. together with her friends, and arrived at 7.00 a.m. at school. She was usually back home at 2.00 p.m. After lunch, she used to go to the rice field or plantation. After finishing her studies, she went to senior high school in the district capital city, which meant that she had to move to the city and stay in a rented room. Siti cooked for herself. She got a small amount of money from her parents and worked part-time helping other people sell cakes. When she graduated from Senior High School, she was unable to go to university, because of financial problems. Finally, she decided to go to Jakarta to get a job.

During the last five years, Siti's life in Jakarta has certainly not lived up to her dreams. She was unemployed for a year. After she found a job, her life changed. At first, she received a salary of Rp. 150,000 per month (about 23 euros). She then moved to a rented room – 3 x 3 metres – costing Rp. 30,000 per month. Her salary was often insufficient to cover her day to day expenses, and she used to have to borrow money to buy food. Year by year, her salary has increased and she now receives Rp. 737,000 per month (60 euros). She spends her money on rent, food, transport, clothes, and her brother's school fees in the village. And she is also saving to celebrate Lebaran (a Muslim public holiday) in her village. Sometimes, she only eats once or twice per day, and eats meat when she can afford to. It is impossible for her to earn extra money by taking on another job, because of the long working hours in the factory.

On one hand, Siti is satisfied working in the factory, but on the other, she is also dissatisfied. But she thanks God for having a salary each month and for being able to survive.

In the next five to ten years, Siti plans to get married and start her own business, have a house and funny children. She wants them to receive a better education than she did.

Jakarta, July 10th, 2006

6.7 Health and Safety

“A safe and hygienic working environment shall be provided, and best occupational health and safety practice shall be promoted, bearing in mind the prevailing knowledge of the industry and of any specific hazards. Appropriate attention shall be paid to occupational hazards specific to this branch of the industry and assure that a safe and hygienic work environment is provided for. Effective regulations shall be implemented to prevent accidents and minimize health risks as much as possible.” (ILO Convention No. 155)

Indonesia did not ratify ILO Convention No. 155.

According to Indonesian labour law there must be a health and safety committee with the participation of workers in factories with at least 100 employees, and a health and safety manager in factories with at least 50 employees.

Based on the above convention, the responses from the interviewed workers can be seen in **Figure 28:**



Clothing factory PT. Evershine/Bogor, Indonesia
(Photo: Bianca Kühl)

57.5% of respondents said that occupational health and safety facilities are sufficiently available – with PT. GP taking the lead. On the other hand, about 42.5% of respondents, mostly from PT. RPG and PT. EI, were not satisfied with the respective provisions in their factories. They complained that there was a lack of medical officers in the service centers, a limited stock of medicine etc.

As for the safety equipment and facilities used by respondents, they mentioned for instance: Masks, safety boxes, gloves, head covers, fire extinguishers, safety glasses, shoes for warehouses, free medicines, etc.

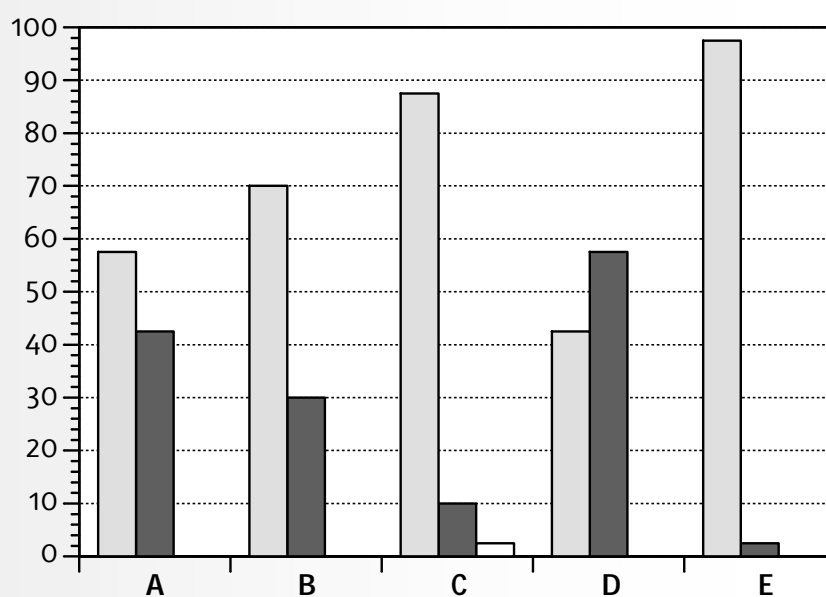
70% of respondents stated that the toilets in their factories were in a clean condition.

87.5% of respondents stated that nutritious food was available in the company canteen. Especially respondents from PT. RPG said that the price of food in the canteen was so expensive that they could not buy it.

Figure 28: Responses on Health and Safety (%)

Indicators:

- A** Sufficient health care in the factory.
- B** Toilet cleanliness.
- C** Healthy food in canteen.
- D** Physical and mental oppression.
- E** Social insurance.



Yes	57.5	70	87.5	42.5	97.5
No	42.5	30	10	57.5	2.5
Abstention	0	0	2.5	0	0

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42.5% of respondents stated that they have experienced physical and mental oppression by their superiors, such as using rude language (animal names), growling, insulting etc. All respondents of P.T. GP experienced this type of verbal abuse.

According to 97.5% of respondents, workers in their factories are covered by the social insurance system, such as Jamsostek, and free health services in health community centers.

6.8 Legally Binding Employment Relationship

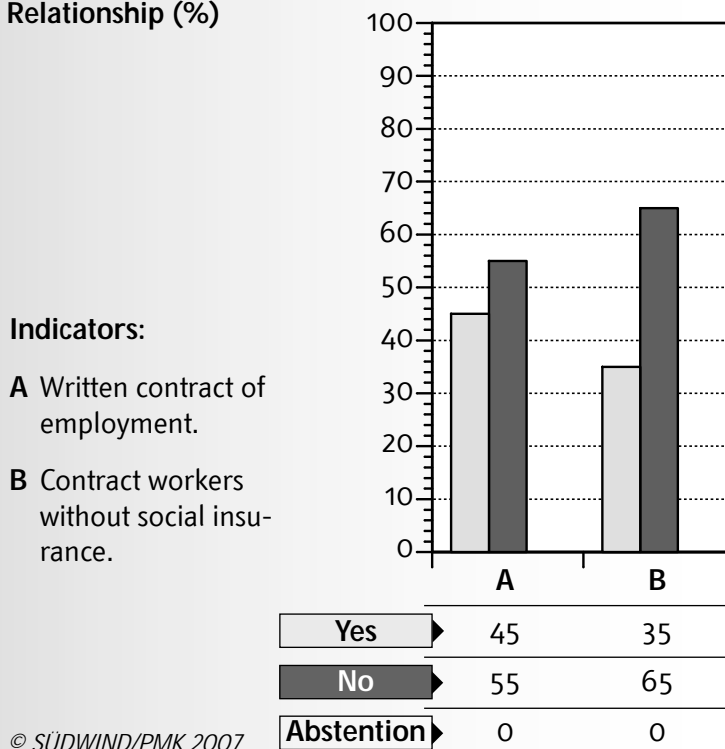
“Obligations to employees under labour or social security laws and regulations arising from the regular employment relationship shall not be avoided through the use of labour-only contracting arrangements, or through false apprenticeship schemes.” (Not yet ILO Convention)

Based on the above rule, the responses from the interviewed workers can be seen in **Figure 29**.

55% of respondents stated they had no written working contract, with PT. EI, PT. GP and PT. GM the worst infringers.

According to 65% of respondents, their factories did not employ contract workers without social insurance – with PT. GM and PT EI employing none.


Figure 29: Responses on the Employment Relationship (%)



6.9 Conclusions

1. The investigation is a case study, not a representative survey, based on a small sample and qualitative interviews. The study provides some valuable data on labour conditions in Indonesian garment factories, most of which have not been in the spotlight so far, and whose buyers have also not been publicly debated.
 2. Forced overtime is widespread in PT. GP, and also occurred in PT. RPG and PT. GM – making up 37.5% of all responses from the interviewed workers. Workers tend to favour working overtime since their wages do not suffice to cover their daily needs.
 3. Concerning respondents' wages, a large majority (82.5%) receive the legally prescribed Regional Minimum Wage, but according to 90% of the interviewees they cannot make a living with it. In order for wages to cover basic needs and make a decent living, the interviewed workers demands ranged from an increase of minimum wages of between 100 and 200%.
 4. Although no cases of child labour were reported, violations of the Indonesian labour law on the work of young persons between 15 and 18 years of age occurred: According to 62.5% of respondents, young workers worked more than 4 hours per day. A total of 55% stated that young workers also worked at night.
 5. Concerning the provisions on discrimination in employment, the most obvious violations occurred concerning the right to menstruation leave (67.5% of respondents) and maternity rights (37.5%).
 6. Regarding the right to freedom of association and the right to collective bargaining, the responses reflect a widespread violation of these rights in the four factories concerned. A total of 40% reported acts of union repression, and 42.5% of non-compliance with the respective collective labour agreements. A most worrying point is the involvement of military and police officers in disputes between workers and employers, especially in PT. RPG, reported by 42.5% of respondents.
 7. As far as the provisions for working hours (Indonesian labour law: a maximum of 54 hours per week including overtime, and the ILO Convention No. 1: a maximum of 48 hours per week including overtime) are concerned, cases of violations were reported above all from PT. RPG (for instance 80 hours per week and 72 hours per week) and PT. GB (seven cases of more than 60 hours per week). However, the average working hours per week from all respondents is 53.1 hours.
 8. Regarding occupational health and safety, it is most deplorable that 42.5% of respondents stated that health care was inadequate, and that 42.5%, above all from PT. GP, reported experiencing physical and verbal abuse in their factories.
- Finally, PMK would like to underline that the overall labour situation of the interviewed workers is most deplorable, although earlier investigations, since the middle of the 1990s, revealed even worse conditions, such as child labour and the non-payment of legal minimum wages. But progress in Indonesian garment factories is too slow and even often entirely lacking, especially in the context of massive factory closures and job losses after the phase-out of the WTO Agreement on Textiles and Clothing. Buyers of Indonesian garment factories must be made accountable to abide by basic social standards.

7. Statement by Aldi and SÜDWIND response



ALDI Einkauf
Unternehmensgruppe ALDI SÜD

(Translation)

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Ihr Zeichen
RR/Ka

Tel.-Durchwahl
99 27- **229**

Fax-Durchwahl
99 27- **3610**

Datum
26.03.2007

Your letter from 16.03.2007

Dear Mrs. Wick,

We thank you for making your research available to us and are glad to agree to your request for our response. We would like to inform you, at this juncture, that the statement below is a response on behalf of both Aldi companies, Aldi North and Aldi South.

Allow us to add that we appreciate the opportunity to comment on the described conditions as fair practice. Fairness and trust are factors that play an important role in our business. As you are presumably aware, our company works exclusively with German selling and importing companies. In these business relationships, the reliability of our partners is our prime concern.

As a company, which, through its business operations, is linked to the whole world, we are very well aware of the responsibility this position entails. In this respect, it is of course one of our main concerns that commodities are produced under decent working conditions. At the same time, we are also, unfortunately, aware that the social and political conditions in developing and threshold countries are often unable to adequately promote the protection of human rights, whether at work or in everyday circumstances. In particular, the deplorable conditions, referred to in your investigations into the Chinese markets (restrictions to free choice of employment, discrimination, the absence of freedom of association, excessive working hours and poor wages) bring us into the area of complex political, social and economic problems.

Nevertheless, we regard our ties with these countries as an important basis for our contribution to the promotion of decent working conditions and are prepared to face up to this responsibility.

With respect to your research into the Indonesian market, we would like to inform you of the following: we immediately contacted our supplier, the Huber company, and asked for a full explanation of the facts. Thus far, we have only been able to confirm that the Huber company did, in the past, have business dealings with three of the factories named in the report and have also purchased goods there, intended for the Aldi Group. At the present time, business relations exist only with the company P.T. Ricky Putra Globalindo.

ALDI Einkauf GmbH & Co. oHG, Burgstraße 37, 45476 Mülheim an der Ruhr - Offene Handelsgesellschaft eingetragen Amtsgericht Duisburg, HRA 8577

Geschäftsführende Gesellschafterin: ALDI Einkauf GmbH, Duisburg - Amtsgericht Duisburg, HRB 2292

Geschäftsführer: Ralf Borbet, Torsten Heilmann, Reiner Mischke, Wolfgang Sabele, Martin Thesing

Weitere Gesellschafter: Sämtliche ALDI GmbH & Co. Kommanditgesellschaften der Unternehmensgruppe ALDI SÜD

Bankverbindung: HSBC Trinkaus & Burkhardt AG Düsseldorf (BLZ 300 308 80) Konto-Nr. 30 1004 001

- 2 -

Our supplier, Huber, had informed us, in the past, that in the requirements it demanded of its suppliers it took guidance from the "Social Fair" initiative of the Association of German Finished Goods Importers (VFI).

With respect to your research into the Chinese market, we would like to ask you to comply with the following request: we understand and respect your reasons for keeping your sources of information anonymous. At the same time, this, of course, makes it more difficult for us to throw light on the details and, therefore, to exert any influence on our business partners. We would, therefore, be most grateful in this case, if you could help us to solve this problem by providing us with further information.

As already mentioned, our business principle is based on a specific approach to sourcing the goods we sell. There is no direct contact with producers. We operate in this area, trusting the business practices of our partners. However, we feel that in view of the difficult conditions in the countries of production there is a need, in addition to trusting our German partners, to now also introduce a number of controls.

We would like to inform you that, for some considerable time now, we have been working in co-operation with competent and experienced advisors to find a way to exert responsible influence on our partners. The claims you make in the last paragraph of your letter largely corresponds with our own thoughts on the subject. We would, therefore, be delighted to invite you to a more in-depth dialogue, and will take the liberty of contacting you in the coming days.

Yours sincerely,

ALDI Einkauf GmbH & Co. oHG

ppa.
Ralf Thomas Reichrath



(Photo: Frank Zander)



South Chinese Aldi supplier factory Quanxin Knitting (Photo: Roland Müller-Heidenreich)

With this statement, the Aldi Group is abandoning its previous policy of isolation in response to public enquiries into its merchandise sourcing and co-operation, as was recently still the case in its response to the IMUG investigation carried out on behalf of the European Consumers' Association in 2006 (see chapter 2, "Aldi Portrait"). The SÜDWIND Institute welcomes this move and hopes that it is the prelude to a process leading towards a credible, ethical sourcing practice.

As part of the fierce competition among discounters, Aldi, like its main rival, Lidl, is apparently now seeking to fill the "Corporate Social Responsibility" (CSR) gap in the market, which many global players throughout the world, with support from more and more governments have discovered. As in their case, this is done, however, on the basis of analysis and an approach, which ignores the main problem area of global sourcing by multi-national retailers and brand-name companies. On one hand, Aldi is shifting the responsibility for numerous labour law violations in developing and threshold countries, or, in the case of the scandalous results from the research into the conditions in Aldi's Chinese supplier factories onto a nebulous "area of complex political, social and economic problems".

On the other hand, the company refers to its business partners and their responsibility for the conditions in supplier factories. Aldi's own responsibility for labour law violations in its worldwide supplier factories remains unclear. In reality, though, multi-national importing companies, through their purchasing and sourcing practices, must bear the main responsibility for the erosion of fundamental labour standards in global supply chains, as this publication (see the chapter on discounters) and numerous research findings in recent years, have demonstrated. They profit from the widespread repeal of labour and social rights in the worldwide textile and clothing industry, which, today, is not the exception, but the rule.

On the basis of this inconsistency, SÜDWIND doubts whether Aldi – as asserted in its statement – really supports the purchasing and sourcing practices and independent monitoring, which global civil society networks such as the Clean Clothes Campaign have been demanding for many years. The coming months will demonstrate whether against the background of numerous campaign activities and events there will be constructive talks with the Aldi Group and an introduction of effective moves towards ethical sourcing.

8. Companies' global social accountability

The Aldi Group is (still) not one of the few thousand companies throughout the world, which, in the last 15 years, have developed a policy of social responsibility for their global suppliers. In total contrast to their competitors Tchibo and Lidl: after sustained protest campaigns by trade unions and grassroots groups against la-

bour law violations in German branches or in suppliers in developing countries, these companies have now introduced initial "Corporate Social Responsibility" (CSR) programmes. Growing numbers of multinationals are using the CSR concept to respond to the worldwide criticism of their global procurement practices.

8.1 The boom in "companies' global social responsibility"

Since such companies as Nike and Reebok responded at the beginning of the 1990s to public campaigns against deplorable social conditions in supplier countries throughout the world by adopting codes of conduct, the international debate on CSR has continued to grow. Since that time, it has not only been trade unions, non-governmental organisations and multi-national companies that have been running CSR programmes and events, but universities, governments, parliaments and international organisations such as the UNO, the ILO and the OECD. CSR instruments and organisations are

coming into being. CSR is also omnipresent in the media and media studies. While this debate grew out of the growing global criticism of the social impacts of globalisation, its development, however, is increasingly moving in another direction. Companies and governments are flagrantly using it as a means of removing labour markets from the state sector. In response, the original critics started to adapt their goals and strategies to the new challenges. This chapter summarises the framework and the development of the CSR debate and presents the findings of the initial impact analyses and the implications.

8.2 Globalisation: social polarisation

It is no coincidence that, 30 years ago, a social movement came into being, which in parallel with trade unions was campaigning for improvements in working conditions. What was new about this movement, however, was that it initiated trade-related initiatives to improve the rights of employees in the worldwide suppliers of multi-national companies. In contrast, trade unions, since their formation in the 19th century,

had focused predominantly on businesses, companies and their worldwide branches and not on the legally independent suppliers within the context of trade relations. The new movement developed along with the radical changes in the global economy since the 1970s, which were characterised by the relocation of production sites to all parts of the globe and the development of new trade relations.

Since that time, the Fordist economic model (see glossary) gradually lost significance and was replaced by neo-liberal economic policy. The liberalisation of financial markets, investments and trade allowed the influence of private capital to rise throughout the world and suppressed the public sector, especially in the labour market and social policy.

Although many jobs were created in the new economic sectors and through the relocation of production from industrial to developing countries, they were, however accompanied by considerable disadvantages for the majority of the workers.

Through the introduction of flexible employment practices in industrial countries, for example, social security was restricted. Social security protection was increasingly regarded as ballast restricting companies' international competitiveness. Many jobs in developing countries have

moved to the informal economy, in which the employees often have no social and labour rights protection. Labour-intensive stages of production were relocated from many industries in the North, to "Export Processing Zones" in developing countries, in which numerous labour laws have been repealed. Women, who make up the vast majority of workers in the over 3,000 "Export Processing Zones" in 116 countries and in the informal economy worldwide, also account for two-thirds of the world's poor (*UNIFEM 2000*).

The gap between the rich and poor is growing, both within countries and between countries across the world. The 2004 report by the "ILO World Commission on the Social Dimension of Globalisation" (*ILO 2006a*) established that globalisation has deprived the vast majority of human beings of a better future for their children and decent places of work.

8.3 New social alliances against labour law violations in manufacturing and trade

New social alliances have come into being in many countries in recent years in opposition to deteriorating working conditions in the global supply chains of multinational companies. These include trade unions and numerous grassroots groups. They strive to achieve their goal of securing decent working conditions in production and sustainable consumption through social labelling, trade union framework agreements, global works councils and trade union networks, codes of conduct and fair trade (*Wick 2005a*). Codes of conduct are at the heart of the international debate on CSR. These entail voluntary commitments by companies, through which they seek to stand up for minimum social standards in global production and supply chains. Since the beginning of the 1990s, globally networked campaigns, such as the Clean Clothes Campaign

(CCC) have been using this instrument as part of their public relations and calling on multinational companies in the clothing sector to work towards compliance with working norms in the manufacture of their products in global supply chains and to consent to verification by independent bodies. Codes of practice were considered a useful addition to the binding state regulation of labour and social rights. In recent years, these campaigns have made some positive impact, such as securing improvements in working conditions in publicly exposed conflict situations or the foundation of independent bodies to verify compliance with code provisions. However, the overall situation is poor, as the World Bank established in its 2003 study: the majority of the 1,000 plus codes of conduct fail to sufficiently incorporate suppliers and workers.

8.4 Ethical Trading Initiative analysis of the impact of codes of conduct

One initial detailed analysis of the impact of codes of practice was presented by the British independent verification body, "Ethical Trading Initiative" (ETI), in October 2006 (*Barrientos/Smith 2006*). This analysis studied 25 supplier factories of ETI member companies in the clothing, shoe and food sectors in South Africa, Vietnam, Costa Rica, China and Great Britain.

Interviews were held with management as well as trade unions and civil society groups from supplier factories in these countries.

While it recognised some examples of code-related progress in factories – for example with regard to working and health standards, the abolition of child labour and company bonuses – the report was unable to register any success in terms of the implementation of trade union rights and non-discrimination in the workplace. Codes of conduct, according to the report, overlooked contract and seasonal workers or for migrants and were introduced only in direct, and not in indirect, supplier factories. Document forgery in factories is widespread and is often undiscovered by auditors. There is also an overabundance of

different codes of conduct, which, in the case of joint suppliers has led to friction and loss of time. The report recommends that more local workers in supplier nations should be included in monitoring work and that training courses should be provided for suppliers and workers. The main conclusion of the study established that although codes of conduct were an effective means of raising awareness, a transformation in working conditions, however, can only be achieved through more effective government control.

In contrast to the companies that are members of the ETI and similar bodies, the majority of multinationals with CSR concepts are against the participation of trade unions and non-governmental organisations in independent verification systems.

Code of conduct activities could achieve positive results for workers if, alongside independent verification, they were also to comply with internationally recognised criteria of substance, participation, transparency and the assumption of financial responsibility by multinationals (*Wick 2005a*).

8.5 Fiercer competition and codes of conduct

The opening up of national markets, however, has increased global competition in many industries – particularly since the phase-out of the WTO Agreement on Textiles and Clothing in the clothing industry – and led to cut-throat competitions to the detriment of the workers. This competition is progressively undermining any potential positive effects from the implementation of code of conduct provisions. And within this global competition, multinationals' pressure on suppliers in terms of price, delivery deadlines

and flexibility continues to grow. This is leading to buying practices that exacerbate the situation of workers, as numerous research studies have demonstrated in recent years (*Oxfam 2004a; Oxfam 2004b*).

CSR policy that is not linked to buying practices allowing compliance with fundamental social standards is nothing other than a propaganda exercise for multinationals.

8.6 Privatisation of labour laws versus binding regulations

In the 1990s, critics of globalisation were calling for voluntary instruments to improve labour and social standards, e.g. codes of conduct, as a means of reinforcing binding legal provisions. Within the context of neo-liberal privatisation and deregulation policies, however, these instruments are being increasingly used to replace binding regulations. Advocates of a non-binding "Corporate Social Responsibility" concept

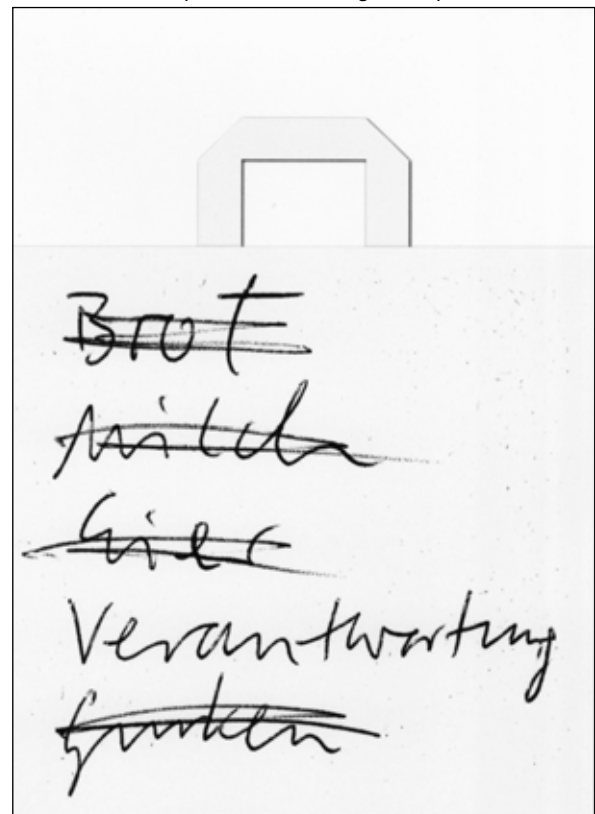
– including the EU Commission and the OECD – are challenging stricter regulation of company behaviour. Hence, although the EU Commission was previously calling for a supplementary function for the voluntary commitment of corporations, it now supports an exclusively voluntary regulation of companies' social responsibility (*EU Commission 2006*).

8.7. Global social accountability of companies

In response to this development, growing numbers of trade unions and grassroots groups are campaigning for companies to become legally committed that their global suppliers will comply with labour and social standards. They are demanding a "Global Corporate Social Accountability" that should be anchored in the individual nations and international governmental organisations.

This is the objective of the following alliances: a) the "European Coalition for Corporate Justice" (ECCJ), b) Corporate Accountability in Germany (CorA), in which the Clean Clothes Campaign and the SÜDWIND Institute are members, and c) Corporate Responsibility Reporting in Great Britain (CORE). They work in such areas as compulsory corporate reporting on compliance with environmental and social standards in production and supply chains and ethical public procurement. CORE has made a contribution to the introduction of a new company law in Great Britain in 2006, which made companies listed on the stock exchange subject to such compulsory reporting.

*Responsibility (Severin Wucher;
2nd prize, ver.di design competition 2006)*



9. Suggestions for consumer and trade union action

This publication is intended to provide impulses for consumer and trade union campaigns for socially responsible textile and clothing (T&C) sourcing by the Aldi Group. It makes sense for these campaigns to be selectively carried out initially in North Rhine Westphalia, where Aldi North and Aldi South have their head offices. The aim of the campaigns is to ensure that the company, particularly in its buying practices among suppliers complies with fundamental working standards in clothing production and that it agrees to independent verification systems.

In addition to voluntary commitment, however, the aim of the campaigns should also be global social accountability, to which companies like the Aldi Group should, in the future, be legally bound.

Since the early 1990s, global networks such as the Clean Clothes Campaign (CCC) and the Anti-Sweatshop movement in the USA have used

public campaigns to protest against the unsocial global sourcing practices of brand name and T&C retailers and, in some cases, have brought about the first signs of progress for workers in the supplier factories. Discounters have only come to the attention of trade unions and grassroots in recent years. In the last two years, the Tchibo and Lidl campaigns conducted by the CCC, ver.di and ATTAC have raised public awareness of discounters' responsibility for the increasing competition, which has been to the detriment of the workers. It is now time for the largest discounter in Germany and Europe, the Aldi Group, to come under scrutiny. Since around 85% of German consumers shop at Aldi – with higher earners as the largest single group – there is considerable scope for pressure to be exerted on the company. The international CCC is already planning more extensive campaigns focusing on discounters – including Aldi – in various European countries after 2008.

9.1 Information and raising public awareness

Since little is publicly known about the Aldi Group's T&C sourcing and global social responsibility, the first thing to be done, through this publication and other planned materials, is to provide information and engage in other activities to raise public awareness. These will also include special events, training courses, background information and press work, for which a planned abridged version of this SÜDWIND brochure, press articles, newspapers etc. can be used. The target groups include individuals in position to spread the word in church and trade union groups, works council representatives, those involved in educational work in youth groups, schools, adult education classes as well as women's groups, development organisations and consumer associations, since these people have a key role to play in shaping public opinion

in this particular area.

The examples of Aldi's T&C sourcing in China and Indonesia contained in this brochure are well suited to highlighting the problems involved in the widespread phenomenon of consumer bargain hunting. Although the "Geiz-ist-Geil" (*Stinginess-is-Sexy*) attitude is being increasingly offset by growing sales in organic and fair trade products in Germany, it still remains intact, as sales figures in food discounters continue to grow, rising from 32% in 2000 to 42% in 2006 (FR 1/3/07).

Thus, one aim of the information and public awareness raising activities of the planned Aldi campaigns should be to highlight the high price of *cheap bargains* and to encourage critical consumers to engage in counter measures.

9.2 The Aldi Group's commitment to global social responsibility and independent monitoring

As in previous company-related campaigns, consumers and trade unions should now exert pressure on the Aldi Group, compelling it to make a public commitment to a code of conduct and decent working conditions in global supplier factories and, in doing so, to agree to independent verification.

As well as improving conditions in individual factories, the focus of the demands on the Aldi Group should also include the structural revision of buying practices in its dealings with suppliers. For labour law violations in the global supply chains of multinational retailers are largely a result of the increasingly fierce pricing and delivery deadline policies towards suppliers in the international competition.

With regard to Aldi, experience from previous code campaigns has demonstrated that the following minimum preconditions must be met:

- The catalogue of "decent" working conditions, with which Aldi should expect its suppliers to comply, refer to the relevant conventions and/or recommendations of the ILO, i.e. prohibition of forced labour, discrimination and child labour; the right of freedom of association and collective bargaining; a living wage, working hours, security and health standards and an established employment relationship.
- Due to its economic power, the multinational importer (the Aldi Group) should bear the main responsibility for its global suppliers' compliance with working standards and should not attempt to pass this on to suppliers.
- An independent body should verify compliance with working standards. This body should include the participation of different parties, including organisations representing workers' interests.
- The grievance procedure for workers should be independent.
- Continuous reporting will produce transparency in the findings of independent monitoring and corrective measures.

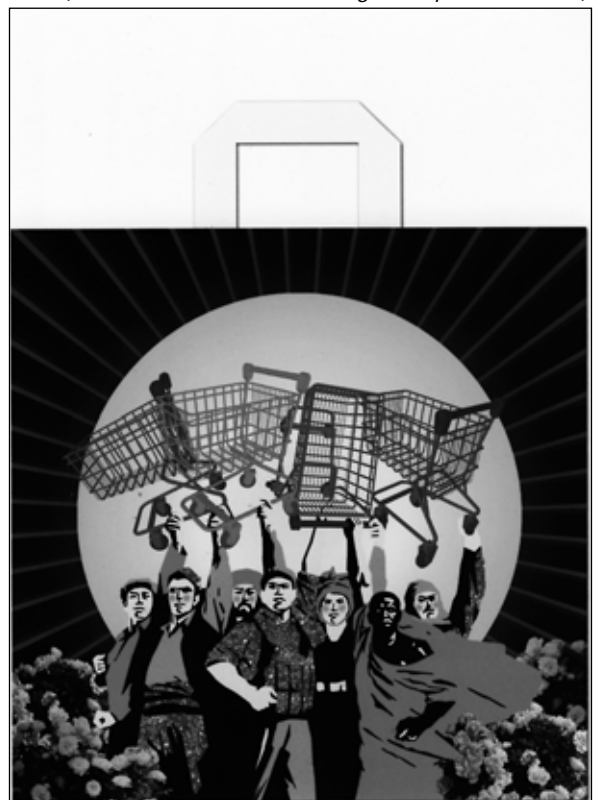
- Compliance with working standards will be verified throughout the whole supply chain, i.e. in direct and indirect suppliers (Wick 2005a).

Pressure will be exerted on the Aldi Group to implement these demands through the distribution of information leaflets outside Aldi outlets, information stalls, urgent actions, street theatre and other public activities.

The SÜDWIND Institute will publish other material including flyers, newspapers, customer cards, sample letters and petitions, throughout 2007.

The CCC's urgent action network has already intervened in several cases of conflict in Aldi suppliers in Bangladesh (see chapter 2) since 2006 and written about the matter to Aldi. Within the scope of the CCC's urgent actions, in which, at national and international level, numerous or-

Every tool is a weapon – if you hold it right
(Katharina Wahl; ver.di design competition 2006)



ganisations and individuals participate, pressure in the form of letter campaigns, press releases, street campaigns and discussions is exerted on multinational corporations to take action to bring about improvements for workers in supplier factories.

The planned activities are regarded as supplements to the longstanding protests of trade unions against widespread restrictions on the freedom of association of Aldi employees in Germany.

9.3 Global social accountability

One key experience of code-related activities conducted thus far by consumers, trade unions and independent monitoring agencies, is that although codes of conduct have been successful in raising awareness of the social upheaval in the global supply chains of multinationals, changes in working conditions, however, have to be achieved through more effective governmental controls (*Barrientos/Smith 2006*).

Evidently existing instruments, such as labour and social legislation, the UN and ILO commitments (e.g. the UN Human Rights Charter), the UN Covenant on Economic, Social and Cultural Rights and the ILO Core Labour Standards) do not suffice within the framework of globalisation.

This is why new legal initiatives have been launched by a broad range of actors in recent years, something that has relevance for the Aldi campaigns.

9.3.1 Binding corporate accountability and reporting obligations

Companies should publish transparent, free and comparable information, demonstrating how, within their sphere of operations, they respect human rights and social and ecological standards throughout their value chain.

In its resolutions from 1999 and 2001, the European Parliament has already campaigned for such a legal obligation and is making similar demands again – as well as for other binding regulations for multinationals – although in diluted form, in a resolution from 13th March 2007 (*EU Parliament 2007*). The EU Commission, on

the other hand, is propagating a concept of Corporate Social Responsibility (CSR) that is purely voluntary in nature (*EU Commission 2006b*).

In Germany, the Network for Corporate Accountability CorA, founded in 2006, with a membership of 30 organisations, associations and trade unions, is campaigning among other things for compulsory corporate reporting. At a European level, this has also been the goal of the “European Coalition for Corporate Justice” (ECCJ). An initial, if partial, success in this respect was achieved by an alliance of non-governmental organisations (amnesty international, Friends of the Earth, Action Aid etc.) in Great Britain in 2006. Their campaign was partly instrumental in ensuring that a new companies law was passed in 2006, obliging companies listed on the stock exchange to report on their compliance with social and ecological standards in their sphere of operations. These groups now want to go one step further and ensure that the British government passes binding regulations governing the buying practices of multi-national companies.

With regard to the forthcoming Aldi campaigns, information and campaign material are planned, which should enable organisations and individuals, over and above direct consumer action, to campaign for compulsory corporate reporting, by writing to politicians and political parties. This should apply not only to companies listed on the stock exchange, but to companies in general, regardless of legal status – in other words, also to such private companies as the Aldi Group.

9.3.2 Effective sanctions and liability regulations for companies

"Companies, which violate human rights as well as social and ecological standards, violate their accountability and publicity obligations or hinder their control, must be subject to sanctions. Companies, their boards and top management shall be liable for violations of obligations – also overseas – and are obliged to award indemnity payments to victims".

States must create efficient structures, in order to be able to monitor companies across international borders and implement sanctions.

This further demand by CorA (www.coranetz.de) also has significance for the long-term objective of the Aldi campaigns. Without such sanctions and liability regulations, the companies' reporting obligations would, ultimately, remain ineffective. This aspect shall be given consideration in the further information material.

9.3.3 Improving product responsibility and promoting sustainable consumption and production patterns

"Through effective regulations, companies must be made responsible for the conditions in which they manufacture a product and its quality. We also want to promote public debate on socially and ecologically sustainable patterns of consumption. Governments must curb the production and distribution of socially and ecologically damaging products – also internationally – and develop guidelines on the use of resources. There must, instead, be increased promotion of the development and marketing of socially and ecologically sustainable products."

This demand from the German CorA Network also has significance for the long-term objective of the planned Aldi campaigns and should, therefore, be incorporated into the accompanying information and activities to raise public awareness.

ver.di publication "Schwarz-Markt Lidl"

SCHWARZ-MARKT

ver.di Menschen handeln für bessere Arbeitsbedingungen • Lidl-Zeitung des ver.di-Fachbereichs Handel • Nr.01

SOLIDARITÄT Was geht mich denn Lidl an?

Bis vor kurzem hatte die Lidl-Geschäftsführung ein rela... Geheimnisvoller Handelsriese wurde entzaubert / ver.di-Kampagne: Mitmachen erwünscht!

● Visit to China by German members of works councils and trade unions in 2006

At the initiative of the Asia House in Essen and the Transnationals Information Exchange (TIE), a group of German members of works councils and trade unions, primarily from manufacturing factories, visited China for two weeks in October 2006. The 15-strong group visited textile and clothing factories in Guangzhou and Beijing. The clothing factory in Guangzhou is the state-owned Quan Xin knitwear factory, one of Aldi's suppliers, as the group discovered during their visit. They found sports clothing bearing the Aldi's brand name "Crane Sports", sold in Aldi South outlets. During their tour of the factory, they were allowed to take photographs. In a discussion with the factory management, factory trade union representatives and leading functionaries of the local textile trade union, the All Chinese Federations of Trade Unions (ACFTU), they were given information about the factory. This information did not add much to what was already available on the English-language website (<http://www.quanxinknitting.com/new/e-default.htm>). On the basis of these discussions and their observations in the production hall the group considered that, for Chinese standards, working conditions and remuneration, appeared acceptable.

Assembly line wages were, on average, about 1,000 yuan (€100) per month, with possibilities to earn more than 2,000 yuan (€200).

The legal monthly minimum wage in the city of Guangzhou is 780 yuan (€78). The net per capita income of the city's population in 2006 was €133.50* per month. The legally stipulated social benefits are awarded. The visit was too short, however, to come to a substantiated general assessment.

This was the second such visit to China for political education

and dialogue purposes undertaken by German members of works councils and trade unions. These trips contribute to the sharing of experiences of working environments in China and Germany: What are these working environments like? How do they function? How are working processes controlled? Do they have international dimensions? And what quality of life do they allow people to have – now and in the future?

Ways should be found through direct personal exchange to work in solidarity with each other, in order to confront capitalist exploitation. The first return visit to Germany, by two women workers from a battery factory in China, was made in March 2007. The purpose of the women's visit was not only to speak at various events about the catastrophic working conditions in Chinese factories, but also to use the opportunity to offer Chinese colleagues back home an insight into the German working environment. Further visits are in the pipeline.

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* according to the General Consulate Canton: Economic situation in Guangdong Province at the turn of the year 2006/2007 in Info Brief China 2007 <http://ibchina.de/> (9.3.2007).

Meeting with workers of the clothing factory Shuihaier in Beijing (Photo: Klaus Murawski)



Service section

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Abbreviations

ACFTU	▶ All China Federation of Trade Unions	GATT	▶ General Agreement on Tariffs and Trade
ATTAC	▶ International Movement for the Democratic Control of Financial Markets and their Institutions	ICRT	▶ International Consumer Research and Testing Association
ATC	▶ Agreement on Textiles and Clothing	IIED	▶ International Institute for Environment and Development
AUB	▶ Arbeitsgemeinschaft Unabhängiger Betriebsangehöriger / Consortium of independent employees	ILO	▶ International Labour Organisation
AVE	▶ Außenhandelsvereinigung des Deutschen Einzelhandels / German Retail Association for External Trade	ITGLWF	▶ International Textile, Garment & Leather Workers' Federation
BSCI	▶ Business Social Compliance Initiative	ITUC	▶ International Trade Union Confederation
BTE	▶ Bundesverband des Deutschen Textileinzelhandels e.V. / Confederation of German Textile Retailing	MFA	▶ Multi-Fibre Arrangement (1974-1994)
CCC	▶ Clean Clothes Campaign	NAMA	▶ Non-Agricultural Market Access (NAMA negotiations in the range of WTO)
CorA	▶ Corporate Accountability Network (in Germany)	NGO	▶ Non-Governmental Organisation
CORE	▶ Corporate Social Responsibility Reporting (in the UK)	OECD	▶ Organisation for Economic Cooperation and Development
CSR	▶ Corporate Social Responsibility	PMK	▶ Pelayanan Masyarakat Kota / Urban Community Mission (Jakarta/Indonesia)
ECCJ	▶ The European Coalition for Corporate Justice	SAI	▶ Social Accountability International
EHI	▶ EuroHandelsinstitut / European Trade Institute	SZ	▶ Süddeutsche Zeitung (Newspaper)
EPZ	▶ Export Processing Zone	T&C	▶ Textile and Clothing
ETI	▶ Ethical Trading Initiative	UNCTAD	▶ United Nations Conference on Trade and Development
EU	▶ European Union	UNDP	▶ United Nations Development Programme
FLA	▶ Fair Labor Association	UNIFEM	▶ United Nations Development Fund for Women
FWF	▶ Fair Wear Foundation	Ver.di	▶ Vereinte Dienstleistungsgewerkschaft / German Services Trade Union
FR	▶ Frankfurter Rundschau (Newspaper)	WRC	▶ Worker Rights Consortium
GATS	▶ General Agreement on Trade in Services	WTO	▶ World Trade Organisation

Currency details

► China

Yuan (CNY) or renminbi (RMB) is the Chinese currency unit.

In August 2006 (date when the Chinese research findings were completed) the exchange rate was:

1 RMB	=	0.098 euro
1 euro	=	10.18 RMB
1 US \$	=	7.98 RMB



► Indonesia

Rupiah (Rp. or IDR) is the Indonesian currency unit.

In November 2006 (date when the Indonesian research findings were completed) the exchange rate was:

1,000 IDR	=	0.08 euro
1 euro	=	11,700 IDR
1 US \$	=	9,115 IDR



List of selected ILO Conventions

- | | |
|---|---|
| <p>a) Freedom of Association and Protection of the Right to Organise,
No. 87 (1948)</p> <p>b) Right to Organise and Collective Bargaining,
No. 98 (1949)</p> <p>c) Forced Labour,
No. 29 (1930)</p> <p>d) Minimum Age,
No. 138 (1973)</p> <p>e) Discrimination in Employment,
No. 100 (1951), and No. 111 (1958)</p> <p>f) Living Wage,
No. 26 (1928), and No. 131 (1970)</p> | <p>g) Occupational Health and Safety,
No. 155 (1981)</p> <p>h) Hours of Work,
No. 1 (1919)</p> <p>i) Employment Relationship Recommendation,
R 198 (2006).</p> |
|---|---|

The ILO Conventions under a), b), c), d) and e) belong to the "core labour standards which are the basis of the "ILO Declaration on Fundamental Principles and Rights at Work" adopted by the 86th International Labour Conference on 18 June 1998 in Geneva. This Declaration is binding for all ILO member countries.

Glossary

Agreement on Textiles and Clothing (ATC)

For the period 1995-2004, the WTO's Agreement on Textiles and Clothing (ATC) consisted of four stages of liberalisation of the world trade in textiles and clothing, which since the 1960s had been subject to quantitative restrictions (=Quotas). The majority of quotas were not lifted until 31.12.2004. The liberalisation triggered a boom in exports in strongly competitive countries such as China and cuts – particularly in weak exporting countries in Africa and Latin America – which led to factory closures and job losses. For a transition phase up to the end of 2008, the USA and the EU have imposed new quotas on China, in order to protect their markets. Complete liberalisation represents a serious threat to many countries, industries and workers.

Audit

An audit is the examination of a company by independent auditors or an auditing company (see social auditing).

Bolkestein Guidelines

Named after the former EU Commissioner Frits Bolkestein, these EU guidelines from December 2006 seek EU-wide liberalisation of the service sector. These guidelines must be implemented by all EU member states within their national legislation before the end of 2009. Till then, these states must provide the EU Commission with reports on the areas they wish to be exempt from the liberalisation provisions. Although the originally intended "Country of Origin Principle" was diluted in the face of EU-wide protests, the compromise, however, threatens fundamental labour and social laws in EU member states.

Business formats in the retail trade

There are diverse types of sales strategies and/or business formats within the retail trade, including: discounters, specialist shops and markets, supermarkets, corner shops, department stores, chain stores etc.

Contract work

As opposed to a fixed employment relationship, contract work is characterised by the lack of obligations to labour and social laws to protect workers (see "Informal work", "Informalisation").

Core labour standards of the ILO/Social standards

In a special declaration in 1998, the International Labour Organisation adopted the convention on freedom of association and the right to collective bargaining as well as on the prohibition of forced labour, child labour and discrimination as binding for all member countries. These conventions are also known as the core labour standards. In the framework of all 184 conventions of the ILO, the core labour standards are therefore specifically highlighted. The ILO labour standards are often referred to as social standards.

Department store/chain store

A self-service department store or chain store sells an extensive range of groceries, clothing, household goods and electrical appliances as well as having a restaurant. The different departments are staffed by specially trained personnel. Department stores are usually found in city centres and, with an average size of around 5,000m², are the largest business format in retailing.

Discounter

Discounters sell a small range of "quick turnaround" products, which can be sold on a self-service basis with little effort or sales advice. As a rule, discounters are able to sell merchandise cheaper than other retail formats.

Ethical Trading Initiative (ETI)

The British "Ethical Trading Initiative" (ETI) is an alliance of companies, unions and non-governmental organisations which have come together to scrutinise mechanisms to verify compliance with social standards among the worldwide suppliers of member companies.

Export Processing Zone (EPZ)

An "Export-Processing Zone" (EPZ) is an "industrial zone offering special incentives for foreign investors, in which imported materials are processed and re-exported thereafter" (ILO 2003). Most of the around 3,000 EPZs are in developing and threshold countries. The majority of the 43 million EPZ employees – 70-90% are women – work in the garment and electronic industry. The incentives for foreign investors include tariff and tax reductions, infrastructural advantages and broad exemption from national labour and social legislation. One particular problem is the repression of trade union rights.

External Monitoring

This is a control mechanism to monitor compliance with social standards in factories, whereby spot check inspections are carried out by third parties.

Fair Labor Association (FLA)

The US American Fair Labor Association (FLA) verifies compliance with social standards among suppliers to member companies such as Nike, adidas, Puma etc. Representatives from US universities and non-governmental organisations are also involved in the FLA (see Multi-Stakeholder Initiative).

Fair Wear Foundation (FWF)

The Dutch "Fair Wear Foundation" (FWF) is an alliance of apparel companies, unions and non-governmental organisations such as the Clean Clothes Campaign. The FWF verifies compliance with social standards among suppliers to member companies.

Flexibilisation

See informal work.

Fordism

Fordism, named after the industrialist Henry Ford, is the form of merchandise production which became established after the First World War. In industrial countries, the "Fordist" organisation of work and capital prevailed well into the 1970s. It was based on the heavily standardised mass production and consumption of commodities, technically optimised assembly lines, a degree of partnership between workers and employers as well as wage development linked to growth in productivity and the inflation rate. With the policy of opening up markets and deregulation from the 1970s on, Fordism was progressively dismantled and welfare state regulations reduced.

Formal work

Formal work is registered and protected by social, labour and collective bargaining laws. In historical terms, the "normal working relationship" or "formal" work is an exceptional phenomenon (see informal work).

GATS

(General Agreement on Trade in Services)

GATS is a WTO agreement on the worldwide trade in services. It includes all service sectors, including finance, construction, health, education, water etc. The retail sector also comes under GATS regulations. Through liberalisation and deregulation, GATS clears the way for the global expansion of corporations in this sector.

GATT

(General Agreement on Tariffs and Trade)

The General Agreement on Tariffs and Trade, founded by 23 nations in 1947, came into effect in 1948 and was amalgamated in 1995 into a new body, the World Trade Organisation (see WTO).

Informal work

Informal work is not registered or protected by social, labour and collective bargaining laws. Informalisation describes the process of flexibilisation of employment relationships and the gradual removal of the legal protection of formal employment. Informal labour is also called precarious, atypical, insecure or unprotected labour. The informal economy is also referred to as the black economy, although the jargon still differentiates between the two. In industrialised countries, informal labour has long been considered to be the woman's domain, but in the course of neo-liberal globalisation it is also growing among men.

International MFA Forum

The MFA Forum is an international network of companies (e.g. Nike) trade unions (e.g. ITGLWF), NGOs (e.g. Oxfam) and multilateral organisations (e.g. ILO, World Bank). which seeks to mitigate the negative impacts of the phase-out of the ATC and provide options for joint action.

Minimum wage

In many countries throughout the world, including China, Indonesia and Sri Lanka, the government determines the minimum wage to be observed by all employers. The level within one country can vary from region to region. In many developing countries, legal minimum wage levels are unable to cover minimum subsistence levels for the workers concerned.

Monitoring

Within the practice of codes of conduct, monitoring refers to the control of companies' compliance with code provisions. Monitoring is to be regarded as a permanent process, and is often referred to as "internal monitoring".

Multi-Fibre Arrangement (MFA)

The Multi-Fibre Arrangement (MFA) which came into being in 1974 within the GATT framework, saw the introduction of quantitative restrictions (quotas), which were to be determined each year in bilateral treaties between exporting and importing countries. The MFA was absorbed by the WTO's Agreement on Textiles and Clothing (ATC) in 1995, which was phased out at the end of 2004 (see Agreement on Textiles and Clothing).

Multi-Stakeholder Initiatives

Multi-Stakeholder Initiatives are independent bodies which verify compliance with social standards in transnational corporations' supplier factories. Multi-Stakeholder Initiatives are alliances of companies, unions, non-governmental organisations, and sometimes governments (see ETI, FLA, FWF, SAI and WRC).

NAMA (Non-Agricultural Market Access)

The NAMA negotiations within the WTO concern the market access of non-agricultural products, such as raw materials, industrial goods as well as forestry and fishing products. The WTO wishes to progressively liberalise the market access for these products in member states, i.e. by cutting tariffs, regulations and protective regulations (to the disadvantage of most developing countries).

Quotas

In the world trade system, quotas represent quantitative restrictions, the abolition of which was the stated aim of GATT. The most prominent example are the quotas for the world textile and clothing trade which were determined in the 1963 Cotton Agreement, the 1974 Multi-Fibre Arrangement and 1995 Agreement on Textiles and Clothing, and which ended at the end of 2004.

Social Accountability International (SAI)

The US American Multi-Stakeholder Initiative, Social Accountability International (SAI) is an alliance of NGOs, trade unions, companies, and representatives from the city of New York and the UN. The SAI calls on the worldwide suppliers of member companies to comply with the social standards of their codes of conduct (see Multi-Stakeholder-Initiative).



Social auditing

Auditing companies have been carrying out audits of companies with regard to social criteria for several years (see also “Verification”).

Specialist shop/market

A specialist shop stocks a large selection from a specific product area and supplements this with services including trained personnel and repair service. Similarly, specialist markets also sell a wide range of products from a specific area, but are bigger and, in relation to their larger sales areas, employ much fewer personnel.

Sub-Contracting

As part of the global sourcing system of transnational companies, the supply chain is made up of numerous suppliers, sub-contractors, licensees and home-workers. Through the system of awarding sub-contracts (= sub-contracting) to legally independent, but economically dependent sub-contractors facilities, employment relationships are informalised and production costs reduced.

Supermarket

A supermarket is a retail business format, ranging in size from 400 to 799 m², which mainly sells food products but also clothing and electrical appliances on a self-service basis. Mainly located in residential areas, it has replaced the corner shop, which previously stocked a limited range of everyday necessities, and were also common in rural areas.

Value chain

Value chain refers to the production process of a product from its basic state to the end product, including the increase in value (value added) at each stage of production. Value chains emerged in the course of the international division of labour since the 1960s. At the top of these chains are the retailers and brand-name companies which have highly complex and diverse systems of global sourcing which control the labour intensive production in the countries of the South.

Verification

Verification is also known as “independent verification”. This refers to the institutional scrutiny of implementation and monitoring by an independent body, e.g. the Fair Wear Foundation. At the beginning of the debate on international codes of conduct “independent verification” was also called “independent monitoring”. The “independent verification” institution can appoint commercial or non-commercial agencies to carry out audits in accordance with defined standards and regulations. This is often referred to as “social auditing”.

Worker Rights Consortium (WRC)

The US American Worker Rights Consortium is a Multi-Stakeholder Initiative involving US universities, trade unions and NGOs, which verifies compliance with social standards among the worldwide suppliers to the licensee companies of member universities (see Multi-Stakeholder Initiative).

World Trade Organisation (WTO)

The World Trade Organisation, founded in 1995 consists of 150 member nations, which determine the rules of the global trade in goods, services, investments and intellectual property rights. The aim of the WTO is to liberalise this trade in accordance with the principles of non-discrimination and most-favourable treatment and to dismantle tariffs, regulations and protective measures. In reality, however, through this policy, the WTO is increasing global power imbalances and social divisions.

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SÜDWIND



The SÜDWIND Institut für Ökonomie und Ökumene ("South Wind Institute for Economics and Ecumenism") is a church-oriented third world research centre which was founded in 1991 in Cologne, Germany. SÜDWIND analyses different sectors of the world economy from the perspective of the poor and develops practical options for change. It closely cooperates with similar organisations, trade unions, development organisations, women groups etc. in countries of the South and the North. SÜDWIND is involved in different German and international campaigns such as the "Clean Clothes Campaign", "Jubilee 2000" and "Trade Justice Campaign" to create public awareness and to put pressure on political and economic decision-makers.

Current research topics are:

- Debt cancellation of developing countries and international financial markets,
- Socially responsible investment,
- Social standards in world trade,
- Child labour in India,
- Informal work/economy,
- Gender and globalisation.

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The CLEAN CLOTHES CAMPAIGN (CCC)



The CCC is an international campaign, focused on improving working conditions in the global garment and sportswear industries. Over 250 organisations participate in the campaign. There are national, autonomous CCC platforms in eleven Western European countries that coordinate their work at a European level. The CCC co-operates closely with trade unions, NGOs, and individuals in garment-producing countries in Asia, Africa, Eastern Europe, and Central America, as well as with similar campaigns in the United States, Canada, and Australia. The international secretariat of the CCC is based in Amsterdam.

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A photograph of a garment factory. In the foreground, a worker wearing a white cap is operating a green Brother sewing machine. The machine has a white and red striped frame with the 'ALDI' logo in blue and red letters. In the background, other workers are visible at similar sewing machines, creating a sense of a busy production line. The lighting is bright, and the overall scene depicts a large-scale manufacturing environment.

One consumer in two in Germany buys clothing from discounters, often alongside their purchases of more expensive products from specialist shops and brand-name producers. To attract even more customers, discounters are also increasingly selling high value goods, also at extremely low prices.

In recent years, retailers new to the textile and clothing (T&C) trade such as Germany's largest discounter, ALDI, have taken over the top positions in domestic T&C retailing. Among the more than 80% of the population that shop in branches of ALDI North and ALDI South, higher-earners are the largest single group. Rich or poor, most of them are looking for clothes bargains.

Yet what is a good deal for the customer is anything but a fair deal for the sewing workers involved in the manufacture of these goods. As the case studies from China and Indonesia in this brochure demonstrate, fundamental labour laws, in the case of ALDI's Chinese suppliers, are being violated as never before. The SÜDWIND Institute wishes to use this brochure to raise the awareness of consumers and trade unions in Germany of the social implications of ALDI's global textile sourcing and to provide impulses for protest campaigns against this practice.

This brochure also provides background information, in the form of a detailed portrait of the T&C retailer and discounter ALDI as well as an analysis of developments in the international trade in textiles and clothing since the phase-out of the WTO's Agreement on Textiles and Clothing and the structural transformation in grocery retailing. It also gives ideas for a range of campaigning strategies, which can be addressed not only to ALDI itself, but also to political decision-makers.