

## POLICY BRIEF:

### How to Reverse the Impoverishment of Workers in the Shoe and Leather Sector in the light of the Covid-19 Recession



#### SUMMARY

The year 2020 has dramatically demonstrated the vulnerability of workers in the globalized shoe and leather supply chains. The current findings on the suffering of shoe and leather workers in India underline the urgent need for strong remedial action by shoe and leather brands and retailers in Germany and by German and European policy-makers. This remedial action needs to be made through dialogue with workers' representatives and the relevant industry actors in India. Related business and multi-stakeholder initiatives (MSIs) need to support those efforts, without undermining effective control mechanisms of government agencies. Policy-makers in the German *Bundestag* and the EU must pass laws clearly emphasizing that human rights due diligence cannot be a voluntary effort, but must be mandatory.

#### 1. THE SITUATION OF WORKERS IN THE SHOE AND LEATHER SECTOR

In the context of the Covid-19 induced global recession, recent academic studies (cf. *Anner 2020a; Bridges/Hanlon 2020*), as well as studies by international organizations (cf. *ILO 2020*), have revealed the misery of workers in globalized value chains. Workers' vulnerability to crises due to their weak economic and legal positions in those value chains has been repeatedly identified by analysts over the years. The shoe and leather industry is no exception. Documented labor rights violations in this industry in the recent past include: lack of freedom of association and of the right to bargain collectively; insufficiently paid overtime; forced labor; harassment, discrimination and gender-based violence in the workplace; poor occupational health and safety measures; and child labor. Most workers' wages have been far too low for them to afford a decent living.

The global recession has had aggravating effects on workers in India, one of the most important shoe and leather producing countries in the world. Starting in early 2020, the pandemic has posed challenges for the Indian shoe and leather industry, in the shape of supply bottlenecks, factory closures during hard lockdown (March 24<sup>th</sup> through early June 2020), lack of cash-flow, and low national and international demand. By cancelling or not paying for orders, thereby refusing any shared responsibility, international brands have transmitted the global economic shock to their suppliers, including in India (cf. *Anner 2020b* for similar problems in the garment sector). In turn, suppliers have transmitted the shock to their workers, as a recent survey shows.

#### 2. FINDINGS OF A CURRENT WORKERS' SURVEY IN INDIA

An extensive survey of 115 workers in two crucial production areas in India shows how the Covid-19 induced crisis caused horrendous income and job losses, financial insecurity, shortage of basic supplies, and led to a high risk of long-term impoverishment for workers (formerly) employed in the shoe and leather sector. The sample in the survey covers 37 different shoe production sites and 18 tanneries in the areas of Vellore in Tamil Nadu and Kanpur and Unnao in Uttar Pradesh.

During the hard lockdown in India, 37% of workers interviewed had to cope with total wage loss, whilst only three workers received advances from their employers. More than half of the sample took on debt during that time. In June, when production sites were allowed to open again, nearly 40% of the sample could *not* take up work (due to the employers' handling of too few orders); whilst another 22% earned less than before. Even for many workers with permanent positions, their ability to work and receive wages depended on the order situation of their employers. The workers who continued to earn the same wage after the hard lockdown as they did before the crisis were, in the main, those who already earned extremely low wages.

Employers did not consult with workers or their representatives (such organizations do not even exist in many cases) to remedy the effects of the crisis, and many workers were unable to access social security systems. One crucial reason for existing social security systems being ineffective is the informal or insecure employment relationship of many workers.

#### 3. WHAT THIS MEANS FOR ALL STAKEHOLDERS

International brands' and retailers' decisions to cancel orders and withhold payments have contributed to the tremendous pressures faced by suppliers in India. Suppliers have transferred uncertainty and financial losses to workers who, after years of exploitation, have nothing left in their pockets. There are no indications that the situation is any better in other production countries. If shoe and leather brands, in Germany for example, do not understand the needs of the moment, the recession will accelerate the descending spiral into poverty being experienced by workers. Consequently, inequalities in shoe and leather value chains could increase to the point where they actually endanger the very functioning of those chains.

For many years, civil society organizations such as *CIVIDEP*, *INKOTA*, *Society of Labour and Development* and *SÜDWIND* have pointed out the injustices in shoe and leather value chains. At the beginning of 2020, an industry study commissioned by the German *Federal Ministry of Labor and Social Affairs* revealed that the risks of serious human rights

violations in shoe and leather value chains are particularly high, but that there are real opportunities for companies from Germany to combat such risks using their market power (*Weiss et al. 2020*: 61, 183 ff.). Globally, Germany's footwear industry has a strong position: in 2019, it ranked fourth in the world in terms of footwear exports, and second in terms of imports. Germany took nearly 12% of all India's leather exports in 2019, making it the second most important international buyer.

However, consumers in Germany have not yet put sufficient pressure on shoe and leather companies to motivate them to change their business practices. The industry lacks credible public commitments to live up to their human rights due diligence. Due diligence requirements are nevertheless enshrined in a number of political instruments. Companies are expected to respect their due care, as laid out in the *UN Guiding Principles on Business and Human Rights (UNGPR)*, the *UN Sustainable Development Goals* (esp. SDG 12), the *OECD Guidelines for Multinational Enterprises*, as well in the German *National Action Plan for Business and Human Rights* and other national regulatory approaches in Europe.

It is high time to act resolutely based on these instruments. With the Covid-19 recession, the damage to workers' livelihoods in the shoe and leather sector has reached an unbearable peak. This calls for a new way forward driven by decisive action from shoe and leather company managers, by business and multi stakeholder initiatives (MSIs) in Germany and India, as well as by policy-makers in Germany and the EU. International competition should be imbued by a vision that acknowledges the status of the workforce and the value it creates as fundamental elements of healthy economies, rather than by a model that accelerates the race to the bottom with respect to workers' rights and livelihoods.

#### 4. RECOMMENDATIONS

Governmental institutions bear the responsibility to protect workers' fundamental rights and to ensure that all human beings can live in dignity. To reverse the damage to workers' livelihoods in the shoe and leather sector after the Covid-19 recession, **POLICY-MAKERS IN GERMANY need to design a meaningful Supply Chain Act** with mandatory human rights and environmental due diligence requirements – in coherence with the UNGP – that covers all stages of supply chains equally, using a risk-based approach. To combat human rights abuses effectively, the Supply Chain Act needs

- Strong public enforcement mechanisms to ensure implementation, with tangible consequences for non-compliance,
- Civil liability mechanisms to deliver redress for victims of corporate abuse,
- The integration, in the medium term, of small and medium-sized enterprises (SMEs) from high-risk industries such as footwear and leather. A timetable needs to be developed and communicated defining when those SMEs will be integrated into the regulation.

**EUROPEAN COMMISSIONER FOR JUSTICE DIDIER REYNERS** must match his words with action **AND THE EUROPEAN PARLIAMENT** must follow its Legal Affairs Committee's recommendation on adopting mandatory due diligence

legislation. The EU also needs to follow the *recommendations of the UN Working Group on the issue of human rights and transnational corporations and other business enterprises* in creating an effective directive. **EU regulation is needed which clearly defines companies' liability, which provides access to compensation for victims of violations and which includes all high-risk sector actors irrespective of their size.**

**POLICY-MAKERS BOTH IN GERMANY AND IN THE EU** are strongly advised to

- **Adopt laws** obliging companies to exercise human rights due diligence, and to give strong support to the international process towards a *UN Binding Treaty on Business and Human Rights* with a clear and ambitious focus on human rights and environmental protection in global value chains.
- **Strive towards real coherence between government policy departments.** All departments need to internalize that fostering sustainable production models is understood as a global task which can only be achieved *with* the employees in globalized supply chains. The fate of enterprises and workers in Germany and in Europe cannot be played off against the fate of those in other countries. In the framework of economic development programs, producing countries need to be supported to develop sustainable value chains.
- **Use their position to protect civil society spaces in Germany, in Europe and in India.** Diplomatic efforts need to aim at stopping and reversing the erosion of the rights of workers' and their representatives in India.
- **Improve government policies concerning their own economic and financial activity**, e.g. with clear human rights principles for public procurement and export credits.

For decades, international market actors and consumers have profited from poor working conditions and very low wages that have prevented workers in producing countries like India from creating substantial wealth or generating other resources, which could be used as a buffer during crises. **BRANDS AND RETAILERS must now step up with sensitivity and responsibility, and must implement due diligence throughout their value chains to ensure that workers' livelihoods are not threatened.** This includes, *inter alia*:

- **Moving beyond the narrow short-term perspective of a single business**, as is also spelled out in the *Call to Action* by the International Labor Organization. Any abuse of a firm's own position of power in the supply chain must stop. Withheld payments need to be released immediately; goods produced to order need to be bought as agreed. In new negotiations, prices should never fall below their pre-crisis level, and all aspects of contractual terms need to evolve in the light of the need to adopt a due diligence approach. If withdrawal from a business relationship cannot be averted, it must be carried out responsibly. For such cases, civil society has formulated clear recommendations (cf. *CCC 2021; Scheper 2020*).
- **Analyzing risks of human rights violations at all stages of their supply chains.** Sub-contracting and home-working activities need to be included. Purchasing practices and price expectations need to be reviewed critically (cf. e.g. activities regarding responsible

purchasing practices of the *German Partnership for Sustainable Textiles*). If they exist in the area concerned, trade unions and/or labor rights organizations with local knowledge should be consulted.

- **Establishing long-term and stable commercial relationships with suppliers** and working with their suppliers to create and maintain robust grievance redressal mechanisms following the OECD guidelines, to ensure that suppliers do not illegally lay off or terminate workers, to ensure that all workers receive full wages independent of their formal employment status and are sufficiently protected by social security schemes, and to ensure that their suppliers respect the freedom of association and engage in social dialogue with their workers.
- **Engaging in meaningful social dialogue with a view to achieving the payment of living wages** throughout the value chain.

**MSIs AND BUSINESS INITIATIVES** should support brands in these endeavors. In their work, they should place great emphasis on wages, on opportunities for collective representation and trade union rights for all workers, on adequate employment relationships, as well as on responsible purchasing practices. **They should serve as dynamic hubs** for exchanges between all stakeholders, accelerating the pace of change needed for the creation of common knowledge and instruments (e.g. functioning grievance redressal mechanisms), and for the establishment of partnerships and best practices. In their engagement with all stakeholders, they should create an environment that is conducive for social dialogue, catering especially to the needs of those with less power including workers and trade unions. In so doing, they need to avoid falling back on social auditing approaches. **To ensure the emergence of effective and credible regulation, MSIs and business initiatives cannot serve as 'safe havens'** that permit companies to avoid compliance with their due diligence obligations.

**SHOE AND LEATHER COMPANIES IN INDIA need to fulfil their obligation to grant fundamental rights to their employees**, especially the ILO core labor standards. In times of crisis, they need to act responsibly, keeping the living conditions of their workers in mind. This includes, *inter alia*:

## NEW RESEARCH FINDINGS ONLINE

Ravi, P. (2021): *A Study on the Impact of the COVID-19 Induced Lockdown on Leather Sector Workers in Tamil Nadu*.

Wazed, S. (2021): *Impact of the Covid-19 Recession: Leather and Shoe Workers*.

Gojowczyk, J. (2021): *Wenn aus zu wenig fast nichts wird. Erhebung über die Auswirkungen der Covid-19-Pandemie auf indische Arbeiter\*innen der Schuh- und Lederherstellung* (Summary analysis).

## CURRENT INFORMATION PLATFORMS OF THE CLEAN CLOTHES CAMPAIGN

*Live-blog: How the Coronavirus affects garment workers in supply chains Workers in times of Covid-19 (German)*

## AUTHORS

Dr. Jiska Gojowczyk, **SÜDWIND e.V.**, Kaiserstr. 201, 53113 Bonn, Germany

Pradeepan Ravi, **CIVIDEP**, 12, 1st Cross Rd, Venkataramiah Layout, Bengaluru, Karnataka – 560043, India

Berndt Hinzmann, Lena Janda, **INKOTA-netzwerk e.V.**, Chrysanthenenstr. 1-3, 10407 Berlin, German

Sonia Wazed, **Society for Labour and Development**, C-23, (First Floor, Rear Portion) Hauz Khas, New Delhi – 110016, India

- **Correcting any misconduct during 2020.** Companies must refrain from illegal terminations and lay-offs; any payments that are still withheld need to be released to workers immediately.
- **Ensuring that all workers are properly covered by social protection schemes** and that they are sufficiently informed about them. The employment status of different categories of workers needs to be critically reviewed and revised in dialogue with workers and their representatives. Brands' commitment to long-term supplier relations and better purchasing and pricing practices should be used by suppliers to build a workforce of permanent workers with social security and living wages.
- **Respecting the freedom of association and the right to bargain collectively.** If trade unions do not exist, attempts of achieving workers' representation need to be supported. Company managements need to engage in meaningful social dialogue with workers' representatives. Wages cannot drop below the minimum wage or the level they were at before the recession. Living wages need to be paid. If this is not possible due to the economic situation, measures need to be taken immediately in conversation with their customers to ensure that the payment of living wages becomes feasible in the near future. If terminations are unavoidable, compensation payments for terminated workers need to be negotiated collectively and paid on time.
- **Implementing Covid-19 specific guidelines**, especially regarding occupational health and safety (e.g. the recommendations from the *Fair Wear Foundation and the Ethical Trading Initiative*), and maintaining those adjustments until the pandemic is under control. Paid sick leave needs to be assured whilst avoiding the stigmatization and harassment of workers who have taken sick leave.
- **Creating and maintaining robust grievance redressal mechanisms** through which workers can safely raise their concerns.

While concerted action may help the different stakeholder groups find solutions to overarching problems, now is not the time for more discussion and debate. It is clearer than ever that it is time to act.