

report of the international seminar
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Mülheim an der Ruhr
Germany

Pricing in the Global Garment Industry

by Nina Ascoly

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An international seminar organized by **IRENE, the Clean Clothes Campaign** and **EED** - Church Development Service/Association of the Protestant Churches in Germany; held on 20 February 2003 at the Evangelic Academy of Mülheim an der Ruhr, Germany.

Outline of the programme

1. Introduction to the programme and short round of introduction of each participant
2. Introduction to the current macro-economic context; by Michiel Scheffer, Noéton Knowledge Management BV; addressing a.o. topics: * the MFA phase out; * China's role in the global economy esp. after accession in the WTO
3. Can't or won't - the business model as a barrier to change? by Simon Zadek, AccountAbility addressing a.o. topics: * how far can business models deliver improved labour standards; * are the key solutions at the bottom or at the top of the value-chain?
4. Questions for clarification
5. Plenary Session; Debating the Issues
6. Understanding the different cost factors that make up the garment price and what the costs of labour would be if ethical standards are met; by Sebastian Siegele, Sustain Consulting GmbH
7. Questions for clarification
8. Panel to react, followed by plenary session;
Speakers in the Panel:
Gloria Kok, JURK BV,
Ineke Zeldenrust, CCC
Junya Lek Yimprasert of the Thai Labor Campaign
9. small working groups to define the key challenges and questions
10. Plenary session: Looking Towards The Future
* feed back from the working groups
* what are the space and barriers to meet labour standards - future focus

Pricing in the Global Garment Industry

by Nina Ascoly

If a pair of Nike sport shoes retails for approximately \$100 and the worker who puts the shoe together earns about \$1 out of that \$100, why can't the money be distributed more equitably, so that working conditions are improved and the worker earns more? Labor rights campaigners have been asking questions like this for more than a decade.

"For a number of years whenever we talk about strategies to improve conditions in the garment industry pricing emerges as a key issue," explained Ineke Zeldenrust of the Clean Clothes Campaign (CCC) International Secretariat at a February seminar organized by the CCC and the International Restructuring Education Network Europe (IRENE) and collaboration with EED, Germany.

"Buyers say suppliers don't want to improve, suppliers say buyers don't want to pay more for improvements, and governments say they can't raise the level of the minimum wage because corporations will relocate. So as a campaign interested in improving working conditions we have to better understand how this key issue works – it's the only way we can develop effective strategies," said Zeldenrust, speaking to a group of nearly 50 people from 22 countries in Eastern and Western Europe, North and Central America and Asia, from non-governmental organizations (NGOs), trade unions, and multi-stakeholder monitoring and verification initiatives. The group met in Mulheim-an-der-Ruhr, Germany for a one-day seminar on pricing issues in the global garment industry. The impetus for the meeting came two years earlier when members of the CCC network met in Barcelona, Spain to set an agenda for action for the coming years. At that time, learning more about pricing was identified as priority.

"Buyers say suppliers don't want to improve, suppliers say buyers don't want to pay more for improvements, and governments say they can't raise the level of the minimum wage because corporations will relocate," said Ineke Zeldenrust of the Clean Clothes Campaign.

During this seminar three industry experts gave activists input on trends and concerns that impact pricing.

The Changing Industry Landscape

Michiel Scheffer, of Noéton Knowledge Management in the Netherlands, provided an overview of general industry trends. Key trends that he identified as relevant to the garment/textile industry were continuing restructuring, changing consumer demands and habits, innovations within the industry, and scarcity issues (water, cotton, and skilled labor).

The main restructuring of the garment industry in Europe and America, involving consolidation and relocation, has already happened, said Scheffer. Production shifted offshore massively in a way that nobody predicted. Currently, production in these regions is primarily restricted to up-market niche markets, he explained.

In the late '80s and early '90s Scheffer visited 250 garment and textile companies in the European Union to learn about their sourcing strategies and relocation plans. Now only 100 of those 250 remain, and of these only a few still have their factories (mainly in Italy). During the last 10 years employment in this sector in Europe has declined by 5-10% each year.

The future will bring even more restructuring, but in other parts of the world, Scheffer predicted. With the phase out of quotas when the multi-fiber arrangement (MFA) expires in 2005, he expects the impact to be most significant in developing countries.

"The north-south divide has already had its restructuring," said Scheffer. The major restructuring to come will be in the south/east. Clearly these countries are cheaper than the U.S. or European countries; there is no debate on that, he noted. In the future there will be more competition between these supplier countries, and buyers will use that to their advantage as they shop around ("graze") for suppliers, especially given the current huge overcapacity in the garment industry, which is accentuated now by the recession in Europe and the U.S.

Quota liberalization means that companies previously restricted will have access to a wider range of countries, which could increase competition and lower prices. It could also cause more flexibility/uncertainty, Scheffer

said. In terms of pricing, he noted that the disappearance of quota fees, will lead to price reductions ranging from 50 cents to two dollars per piece. “This will allow for some maneuverability, but will the fee go to the supplier or the retailer?” Scheffer asked.

The phase out of textile quotas will be carried out in four phases, Scheffer explained. The first was largely symbolic, the second was workwear (with quotas only in China and Vietnam), and the third phase deals with anoraks (half of anorak production has left Europe). Meanwhile, the hardcore of quotas will not be liberalized until 2005 (the fourth and final phase).

“Some say it won’t happen, that the process will be prolonged,” Scheffer said. “Some see the accession of the Baltics, Poland, and Hungary as a possibility to postpone liberalization, I would see little reason to [postpone liberalization]. It could be a rapid deindustrialization for them, as happened in Sweden or the Netherlands.”

The impact of quota reduction has already begun, according to Scheffer. .Possibly there will be little new impact on garments, but more on cotton weavers. Scheffer predicts an international cotton shortage (cotton production is environmentally unfriendly and is less lucrative than food production), and to this end has proposed an international cotton convention.

Scheffer predicted a shift in focus from quota to tariffs. There will be a fight to keep tariff protections as they are, he said, and rules of origin will be used to keep production in the European area. More non-tariff barriers will also develop (for example along the lines of the restrictions that were developed regarding the use of cancer-causing azo dyes) and this will create uncertainty, said Scheffer.

Retailers in the dark on volatile consumer behavior

The supply chain is demand led, Scheffer noted. Brands and retailers control the market, though they will say that consumers control demand. Consumers, meanwhile, have become increasingly value and time conscious. Taste and buying habits change rapidly. However, remarkably little is invested in market research. Retailers do not systematically follow what consumers are doing or thinking, Scheffer said.

“The consumer is often used as a pretext by the retailers, I don’t think most retailers have good market information,” Scheffer said. “All Dutch retailers spend less than one million euros on market research. Most retailers drive 120 miles per hour in the mist without the lights on. The consumer is seen as volatile, but only because they don’t invest in understanding them. So retailers that have a good relationship with their clients are the exception.”

Even if the cash till is monitored, Scheffer said, very few companies have the ability to respond to sourcing. They just have the ability to adjust for the next season, which is too late. They resort to crash behavior.

Speed of capital, not product innovation driving changes

As fashion companies are pouring money into developing and marketing their brands, there is a shift in the way they work. In addition to trying to maximize growth through the financial flexibility they achieve through increased outsourcing, they are seeking to boost their profits by rotating their stock more frequently, to accommodate the volatility of consumer demand. Low rotation of stock, means low profitability, Scheffer explained.

The Spanish company Zara, for example, financially rotates its assets (stocks and trading debts) approximately five times per year and therefore has a much higher profit margin (76%) than the average company with a profit margin of just 13% that has a financial rotation of just twice per year, explained Scheffer. Zara also owns all their stores, he added, and therefore has no rent costs.

But while retailing is shifting to faster and faster cycle times, the textile industry is unable to follow, Scheffer noted. Therefore sourcing near textile production is important, because fabrics are the bottleneck in meeting demands to turn things around more quickly.

In terms of innovations, some new fibers have been developed and new processes (though more for textile production, not in garment production where there has practically been a technological freeze for the past decade), Scheffer added.

WHY PRICING?

Participants shared their reasons for attending the seminar

Money is at the heart of our problems, we need to understand the breakdown and distribution.

– Alice Tepper Marlin, Social Accountability International, US

The issue of pricing is the most crucial in this field – we have to sort out if labor costs matter or not.

-- Stefan Kerl, CCC Austria

I think this understanding will help us in our monitoring work.

-- Alberto Legall Torrez, Profesionales por la Auditoria Social Empresarial (PASE), Nicaragua

I'm here because this debate isn't going on in my country. I'm interested in looking at how we can work together with other organizations in Mexico, in a Clean Clothes Campaign.

-- Milisa Vallaescusa Valencia, Mujeres en Accion Sindical, Mexico

We give advice to the workforce and I'm interested in how this information on wages can help the workers in their negotiations.

– Gabriela Cabrera Cortez, (CAT), Mexico

I've come to learn more about the key issues in this industry.

--Nguyen Son, Garment Sector Labor Union, Vietnam

I think it's the cost reason that caused companies to relocate and now we're back to that. Who should pay for improvements? Not the consumers or the workers.

-- Ingeborg Wick, CCC Germany

Owners say the prices are going down and sales are going down – I'm interested in knowing more about this technical matter.

--Amirul Haque Amin, National Garment Workers Federation, Bangladesh

I want to understand the gap between codes that MNCs put out and their purchasing policies and turnaround times.

-- Kate Raworth, Oxfam GB, UK

We know companies have been trying to make changes, but changes haven't been happening on a scale that they should be. We need to understand the challenges facing those companies that are trying to tackle their supply chains. There's a complexity to this that we don't understand – today is to get input from inside the industry.

--Lynda Yanz, Maquila Solidarity Network, Canada

Winners and losers

Brands will want one-stop shopping with a local base in textiles, Scheffer predicted. Therefore garment production will need to be located as close to textile production as possible, he said. Therefore, countries that will emerge as the strongest are those with a strong textile industry or free access to such an industry. Trading blocs and regional development will be important in facilitating this process of consolidation.

This shift from outward processing trade (OPT) to “full package” service will mean that brand name companies will have fewer direct suppliers, though they will likely still have the same number of factories producing for them. This shift toward full service will require an investment in relevant systems.

“To compete only on price is a very bad position to be in,” Scheffer said. “Supplier countries will have to supply the full package. A retailer going to Hong Kong doesn't want to hop from country to country.”

“Those countries that are dependent on clothing are very vulnerable,” he noted.

China is in a strong position for example, but not Sri Lanka; India is also in a good position, but not Pakistan, he said. China already accounts for 40% of world garment production and Scheffer believes that will increase to 50 or 60%. Meanwhile, less investment will go to such countries as Morocco and Tunisia.

He predicts that Turkey will emerge as a base for European production, that Hong Kong will remain a center and that Vietnam and possibly India will emerge as centers for production. He also noted that production is shifting back nearer to market (30% of production takes place near the EU and U.S. (Caribbean basin) markets, up from 10% located closer to market a decade ago, Scheffer said.

His outlook for countries that are relative newcomers to garment production (ex. Madagascar) was bleak.

“If [such countries] appeared in recent years it was just because they had no quota, no indigenous means,” he said, predicting that they would not move into more significant positions within the industry.

Countries that pay somewhat higher wages, countries like Thailand and Malaysia, are stuck somewhere in the middle in terms of their prospects, according to Scheffer. “They’re very vulnerable.”

There is a possibility that in production countries that are themselves big markets (35-40 million people plus, such as China and India) more production could shift to servicing the local markets, however, this is not a trend likely to be seen in smaller countries (Vietnam, Bangladesh).

Scheffer told participants that more attention should be focused on the issue of access to capital and credit in developing countries, because this is the biggest barrier to development and it locks developing country suppliers into their relations with big retailers and brands.

Corporations Still Not Complying with Labor Standards -- Why?

If we accept that pricing models are important, then we have to accept that the business model is important, said Simon Zadek, of the UK-based AccountAbility. If wage levels and other standards related to pricing are to be improved, current business models which are at odds with code compliance need to be changed.

Companies -- even those that have built up some infrastructure to facilitate compliance with the labor standards in codes -- have failed to fully integrate these concerns into their businesses, he said, and therefore it is not making much difference on the ground.

“The governance process in the company is detached from codes – there’s a range of dysfunctions,” Zadek said. Business units ignore compliance basic rules.

There are three ways to account for this state of affairs, he said. First there is the bad intentions hypothesis -- that companies do not want codes to work. They see that compliance costs real money and figure that if non-compliance won’t really hurt them, they can just ignore codes and compliance.

But relationships within companies are more complicated, said Zadek. It’s possible that those charged with compliance are being told that if they give factories tough scores, they will be jeopardizing the success of their company and placing their colleagues’ jobs at risk. They feel pressure that implementing codes means hurting their peers.

Next, explained Zadek, there is the incompetence hypothesis, that companies, despite all their many resources, are not complying with codes because they are unbelievably incompetent. This view would be supported by observations that companies are quite bad at forecasting their markets, he said, noting that stock inventory management systems are so tight that the slightest error creates overtime and other problems. These effects are massively amplified because everything is driven down to incredibly tight cost effective level. Another phenomena that points to incompetence is the incredibly chaotic flow of information within companies, especially non-financial, non-core information, Zadek noted.

“Information is missing, distorted, or just doesn’t arrive, and this causes decisions to be made that appear to be bad intentions but are just absolute incompetence,” he said.

Finally, there is the impossibility hypothesis – that codes just cannot work in the current business model, Zadek said.

“The governance process in the company is detached from codes – there’s a range of dysfunctions,” observed Simon Zadek of AccountAbility.

Companies reward their buyers on the basis of three factors – free on board (FOB) price, timing/delivery, and the level of defects. Therefore, buyers have no incentive to take compliance with labor standards into consideration. Penalizing them as a way of directing them to good labor standards will raise costs and undermine competitiveness, resulting in a backlash from the investment community. Pricing structures are crude, said Zadek, and are usually, with some few exceptions, completely contrary to code-based commitments.

Given these three possible explanations, Zadek said a three-pronged strategy is needed. At the very minimum we have to understand how to connect codes to the business model, he said. Secondly, we have to understand the limits of the current business model. In other words, even if we get it all right, how much will it really change on the ground? What are the limits of what one company can do, what are the conditions that create those boundaries? And thirdly, we must start thinking about different business models, which is difficult, because many of us are not from business.

How Prices are Set

Sebastian Siegele, of Sustain Consulting in Germany, said that understanding the reality of pricing issues is much more complicated than the campaigning point that workers earn only 1% of the selling price of a garment.

The working time needed by garment workers to sew jeans is only seven to ten minutes, he noted. However, there are lots of other people involved in the garment production chain who want a piece of the pie (ex. wages for transportation people, wages for people in shop, etc.).

The principles of price setting are that the selling price is determined by the market, that to increase profits a company has to lower its costs, and that low costs and a low selling price give a company a competitive advantage, Siegele explained.

Everybody in the supply chain is trying to lower the costs and increase their profits, said Siegele. The one with the strongest market power, in this case the retailers, makes the biggest profits. The workers are at the low end of the system, with limited power. Profits in this industry are generally low when compared to other industries, he noted.

The buyer, who makes sourcing decisions, is mainly responsible for increasing profits. As Zadek said, the buyer’s success is linked to increasing profits, said Siegele, and they achieve this primarily through adjustments in buying prices, delivery times, quality, and styles. The buying department is traditionally seen as the heart of a retailing company, noted Siegele, and it is difficult to make changes that this department does not agree. The buyer’s counterpart is the supplier, and together they negotiate the price.

The suppliers aim to cut costs in order to increase their own profits. To calculate the free on board price of a garment, suppliers have to consider direct costs (such as material, labor costs, transport and commission), indirect costs that are not linked to the product (such as overhead costs, designing, samples, and administration) and macro costs (taxes, quotas, tariffs, infrastructure, education). Many suppliers do not have any knowledge of the relationship between these different costs. Some do not think about cost calculation at all, Siegele reported. Instead, they focus on the market price and negotiate blindly, leaving the workers to pay the bill.

For example, most suppliers focus on cutting direct costs, especially wages. They find direct costs easier to calculate; easier to avoid paying (ex. it’s easier to avoid paying wages, than it is to avoid paying indirect costs such as the electricity bill); and more within their control (as opposed to macro costs which they have little influence over).

Referring to figures relating to the production of men’s shirts in the Philippines, Siegele concluded that trying to hold the line on wages to reduce FOB costs is a waste of time. Even if the supplier paid the worker nothing at all the FOB price would only be reduced by 6.9%, and the retail price would only go down about 6.8%, he said.

Scheffer, however, noted that in studying balance sheets of companies in Bangladesh and Tunisia, labor costs (30% in the Bangladesh case, and 65% for the Tunisian factory) appeared to be their major leverage point. In their perception labor costs are the only thing they have control over, and in their desperation for turnover, they will lower their prices to get orders. He did note that manufacturers usually start their negotiations at 30 to 40% higher than what they want to receive. In Russia, he said, they were asking three times what they were seeking.

Siegele noted that only 15% of the approximately 100 steps between the design of a garment and shipping a completed garment are linked to direct costs. Instead, he suggested that suppliers should look at cutting their indirect costs, which they actually have quite a lot of influence over.

Shorter lead times (time from order to delivery), for example, in the case of jeans which take seven to 10 minutes to sew, three to six weeks before the order is shipped, could result in much lower indirect costs, he said. However, Siegele noted that shorter lead times require highly skilled and motivated workers, excellent working conditions, good top management, a low accident rate, long term planning and a good relationship between workers and management.

Siegele noted that excessive working time increases labor costs. By increasing the work week from 48 to 54 hours there was only a 3% productivity increase; output per hour actually decreased 12% and labor costs per piece increased 13.6%.

Labor costs per unit could be reduced by decreasing working time, Siegele suggested, noting that excessive working hours lead to high accident rates, meaning idle time, medical treatment, poor quality, and claims due to late deliveries.

Participants noted that workers have no choice but to work long hours, because their wages are so low; and in some cases (participants gave Mexico and Pakistan as examples) overtime is mandatory. If hours are cut to come into compliance with a code of conduct and productivity goes up, as in one case in Thailand that was mentioned, workers should not be the ones to suffer by receiving lower wages, observed one participant. Siegele agreed that these are problems and that workers have to be involved in such decisions.

There are quite a few problems at the supplier end, he noted, including poor managerial know how. Some managers do not even know how to calculate wages, Siegele said. Other problems are male domination, last minute crisis management, no capital for investments, limited or no support from governmental organizations, and unskilled workers.

Implementing social standards cannot happen in Siegele's view unless qualifications are improved at all levels and the economic benefits are demonstrated. There are long-term economic benefits, but not in the short term. In this current buyer dominated market you cannot expect suppliers to make changes, he said.

The costs of implementation for a company with 1,000 workers is estimated at 20,000 euros over three years, noted Siegele. For some suppliers that is a lot. Zeldenrust noted that this is just 20 euros per worker, an amount that sourcing companies should easily be able to cover. Siegele said that the question is who pays for the control structure to see what happens with the 20,000 euros.

There are new developments in procurement, Siegele reported. The traditional buyer-dominated supply chain has retailers at the top, followed by importers, agents and then a large network of suppliers. Now, he said, vertical integration is taking place within the supply chain. This means that retailing companies now have investments in their suppliers' production sites; are centralizing their production planning; and are moving toward shorter production cycles. Zara, for example, allots one day to design, eight to manufacturing, one to two days for delivery, and one to three for selling.

Potentially, these developments could have a positive impact on efforts to improve social standards, because these changes mean that there will be sufficient information to identify production sites, close communication between retailers and management at production sites, and some of the infrastructure (ex. for centralized production planning) could be used for social management systems.

Another recent trend, Siegele explained, is the use of business to business (B2B) platforms for sourcing via the

three hours. They are pressured because "real time" information is provided about bids made by competitors. Still uncommon in the garment industry, the use of B2B platforms is more common in the auto industry.

All these developments change the relationship between businesses and their suppliers and the degree to which business integrates compliance structures, Zadek noted. It could lead to an increase in certification systems (systems that certify that suppliers comply with good labor standards). This has an impact on strategies for improving labor standards, he said.

Placing Responsibility with Buyers, not Just Suppliers

Gloria Kok, of Jurk, a Dutch garment design and retail company, said that around eight years ago she and her partner decided to produce their garments in India but to do so in a socially-responsible way. This led them to the Fair Wear Foundation. Jurk began to work with a local Indian NGO to develop programs to get children into schools and women into training programs, and this has been going well. Implementing the FWF code however, has been very difficult for a variety of reasons, both local and more global factors.

"I say I cannot improve the world, but I can improve myself and things close to me," said Kok. She gave the example of a factory that produces for her company, Jurk and a big German company. Approximately 50% of production is done for Jurk, and the other 50% is done for the German company, which had signed on to SA8000. "We thought this was a good thing," she said, that indicated that both clients wanted to see good labor practices at their Indian supply factory.

However, the German company's buying practices have not been changed to allow for the implementation of SA 8000, said Kok. The company is not working directly with suppliers, but instead via an agent that is not honest and that makes unreasonable demands on the suppliers. For example, they request calculations for the production of 20 items based solely on drawings within only five hours. The company is also requesting lower prices. In light of such practices, Kok calls for stronger provisions in codes to address the behavior of buyers.

"Structures are hard to change," said Kok, "and what I see that is troubling is that companies that have signed codes have actually gotten worse."

Various other participants also noted the limited power of suppliers and the need to push for responsibility at the top end of the supply chain. A major concern is that retailers continue to move from locations where workers are organized or organizing to other factories, other parts of the country, or other countries where there is no union organizing, remarked Junya Lek Yimprasert of the Thai Labor Campaign. In her view, this is why China is attractive to buyers.

"Structures are hard to change," said Gloria Kok, of the Dutch garment design and retail company Jurk "and what I see that is troubling is that companies that have signed codes have actually gotten worse."

While suppliers are employers who have responsibilities to their workers, current prices will not enable them to make the investments necessary to bring them in compliance with labor standards. Sourcing companies have a responsibility and need to change their business model to take up some of the costs of implementation of good labor standards, remarked the CCC's Ineke Zeldenrust. We should also differentiate between the different kinds of suppliers. Behind the bigger FOB factories, there is a network of CMT factories," she observed. She wondered if "no buying below cost" provisions might be a mechanism for implementing better standards. That is, if the sourcing company is paying below a certain level it would be clear that they were sourcing below cost and were lying about implementing their code.

"I think it would be very difficult to implement," said Scheffer.

Other ways to pressure companies for improvements

There are useful points of leverage to push for change that have been under-explored, said Zadek. While "front door" entry points, such as reputation and brand have been targeted by campaigners, "back door" entry points, such as investor relations have not received as much attention.

In accepting that the business model is important, those seeking change will have to accept that investors are important as well, Zadek said. Scheffer agreed, urging participants to better integrate investors into their view of the industry and recognize that investors put funds into the top end of the supply chain, not just consumers. In

focusing on the rotation of capital, he pointed out that most companies need external financing, noting that approximately 98% of garment companies need loans for at least three months each year. It could be a powerful strategy to try to integrate social/environmental standards into lending terms, said Scheffer. While there is some scope for increased shareholder activism, stock exchanges are a very Anglo-American way of looking at things, he said, noting most companies are not publicly traded.

Companies traded on stock exchanges are required to disclose information about their exposure to market risks, for example changes in interest rates, foreign currency exchange rates, or commodity prices. However, Zadek noted, most company "risk registers" do not list labor issues as a risk. This indicates that from an investor perspective, compliance with labor issues does not constitute a significant risk. There is work going on now on how to redefine risk and get non-financial issues, like compliance with social and environmental standards, onto risk registers. This is a very slow, detail-oriented process, he said.

"Defining what risk ... means will frame how companies have to report on this in the future and therefore impacts how investors will have to respond to these issues in the future," Zadek observed.

In his work with companies, Zadek has seen attempts to develop solutions to some of the shortcomings he outlined. These include initiatives relating to grading (rating of corporate performance), incentives (premiums given to personnel), internal audits (separate from internal monitoring, in order to provide a crosscheck), engagement and disclosure, and governance. External verification initiatives fall into the category of corporate governance, he explained.

Zadek suggested two ways that companies can build code compliance more directly into their business model: stewardship/policing or "incentivizing."

A pure policing model, according to Zadek, does not deliver everything we want. Currently, it is in the interest of a supplier to falsify records, he said, responding to a comment that this is a widespread practice in Bangladesh.

Rather than punishment for the use of supplier with enormous code transgressions, incentives can be used to reward positive behavior. Zadek pointed for example to a pilot project in which one company was working to develop an internal tax system. With this system, he explained, buyers are taxed for buying from a supplier with low labor standards.

"You create a shadow FOB price within the company," said Zadek. To have a positive system you could have subsidies for those who opt for good standards.

The company was motivated to test this system because they were incurring significant costs (in terms of reputation, legal costs, etc.) due to buyers buying from suppliers with low labor standards, explained Zadek.

"Management time is the most valuable thing in a company," said Zadek. "You tell them it's going to cost more of that and they're upset -- more than if it costs more money."

"There were enormous arguments about whether this was a good plan or not," he said. "The top level thought it was a brilliant idea, but the buyers/procurement team said it would hamper their flexibility -- their ability to graze -- and what they could do. They warned the senior management team that they would be reducing their competitiveness in the market. Will that still be important when the MFA is phased out? The 'grazing' requirement could change."

In terms of building compliance into the business model, Alice Tepper Marlin of Social Accountability International (SAI) said that SAI has suggested that their member companies increase their minimum lead time when placing an order. This can make an enormous difference in terms of overtime demands. The U.S. toy retailer Toys-R-Us is one company that is trying this out.

Scheffer urged activists to continue to be "wolves" and push for external monitoring and transparency. He also noted that there is an enormous need to provide technical assistance to companies.

When considering how to act, Scheffer said it is useful to look at the development of the Fair Wear Foundation in the Netherlands. "We saw the coming together of the NGOs, the trade unions, and the consumer groups -- combining the noise, enthusiasm, and aggression of NGOs and the money of trade unions," remembered

Scheffer, who was one of the original industry association negotiators. “The industry association would have had to shell out a lot more money to have the same impact on public opinion.”

“Make noise,” he concluded. “You have more freedom to do that than anyone else.”

Glossary of Pricing-related Terms

B2B (business-to-business): Online transactions between one business, institution, or government agency and another. Differentiated from b2c (business-to-consumer), which is used to describe the online transactions that take place via Amazon.com or eBay, for example.

CMT (Cut-Make-Trim): Costs directly related to both materials and the cost of labor in assembling (e.g. the variable costs of production). The manufacturer (often) does not provide design or pattern cutting facilities. This is where the labor-intensive part of production takes place

Direct costs: Costs related to production of goods, for example the cost of materials, labor costs, transport and commission.

Dumping: Selling exported goods at prices below their normal value.

FOB (Free on Board): Refers to the price charged for a product by a supplier. The price does not include delivery and insurance for the goods

Indirect costs: Costs indirectly related to the production of goods, for example overhead costs, design costs, cost of samples, cost of the factory building, and administration costs.

Macro costs: Costs related to the country where the products are made, for example taxes, tariffs, infrastructure, and education.

Multi-fiber arrangement (MFA): An agreement negotiated in 1973 among developed country importers and developing country exporters of textiles and apparel to regulate and restrict the quantities traded.

Colophon

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