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Trade union strategies towards global production systems

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Foreword

Dan Cuniah

Director,
Bureau for Workers' Activities

I am pleased to provide you with the first issue of a new ACTRAV journal, the *International Journal of Labour Research*. The aim of this journal is to present an overview of recent research on labour and social policies from trade union researchers and academics around the world. The *International Journal of Labour Research* is multidisciplinary and will be of interest to trade union researchers, labour ministries and academics of all relevant disciplines – industrial relations, sociology, law, economics and political science. It will be published twice a year in English, French and Spanish. Each issue will focus on a specific theme.

You are receiving this journal because you are a subscriber to ACTRAV's *Labour Education*. *Labour Education* will continue to exist and will be published once a year. It will analyse trends and strategies within labour education. *Labour Education* will draw on the expertise of ACTRAV labour education specialists in the field and will be edited by the ACTRAV's Labour Education Programme in Turin.

The launch of the *International Journal of Labour Research* is based on the feedback from a questionnaire distributed among readers of *Labour Education* in 2005–06. The conclusion drawn from this questionnaire was that readers were interested in a journal focused on labour education and were also interested in a research journal.

I hope you will find this journal useful for your work and look forward to your feedback.

Editorial

Dan Cunניה

Director,
Bureau for Workers' Activities

One of the most profound features of the globalization process in recent years has been the increased coordination of productive activity across national borders. The global interdependencies of production have become painfully obvious in the financial and economic crisis which began in 2008. This poses one of the most substantial challenges to employment that we have faced during the past decades.

In the 1980s, globalization was often characterized by the liberalization and expansion of foreign direct investments, increase in cross-border trade and international financial flows. Today, globalization is also defined by the global organization of production or, in other words, global production systems.

From the 1990s onwards, cheaper transport and rapid technological advancements enabled the breaking up of the production processes into distinct stages and locating these in different countries in order to make use of lower social and environmental standards, the availability of raw materials and energy and more favourable policy environments.

Global production systems began to emerge in high-tech industries, such as electronics, and in labour-intensive goods, like textile clothing and footwear. They are also becoming increasingly important in services where financial services, customer care and software development can be supplied from various parts of the world.¹

The increasing integration of national economies in a single global market and the appearance of new world production systems are demanding a convergence of national and international trade union agendas.

1. Hayter, S. 2005. *The social dimension of global production systems: A review of the issues* (Geneva, ILO).

This is a big challenge for trade unions, which traditionally organize within a national context but now find themselves facing increasingly international challenges resulting from globalization.

The production of goods and services is not only more dispersed but also more coordinated by international producers, buyers and retailers. Unions have to deal with sophisticated, imported and often anti-union human resources management strategies. In some instances this is a mere phenomenon at the local level within a global production system while in others it is a deliberate strategy designed and enforced by company headquarters. They also face the question of how to respond to more difficult representational situations arising from sourcing decisions.

Unions are facing many challenges as a result of the development of these new global production systems, including the increasing informalization of labour and declining membership within trade unions. This suggests a need to redefine established conceptions of labour relations and workplaces. Strategies are needed to counter employers who attempt to divide the workforce by employing migrant labour or young or female workers, who are seen as particularly vulnerable.

However, the concept of global production systems also presents some opportunities. To benefit from these opportunities, unions should develop strategies with a view to organizing and to bargaining collectively along the global production systems. One way to get access to the company level might be by means of international framework agreements. Most of the articles in this issue are from representatives of global union federations who are experts on this question.

These contributions are the fruit of a workshop held in May 2006 on “Global Production Systems and the Role of Trade Unions” organized jointly by ILO–ACTRAV, the Global Union Research Network and the Institute for Social Studies in The Hague.

Finally, as of this writing in early 2009, the global economic crisis triggered by the equity market meltdowns of late 2008 is now in full flight. What began as a financial crisis in the United States has already transformed into a global economic crisis and recession, leaving massive lay-offs, painful restructuring, and public indebtedness in its wake. In turn, these developments threaten further to undermine labour movements, social welfare and gender equality.

Business as usual?

Governing the supply chain in clothing – Post MFA phase-out: The case of Cambodia

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Introduction

On 20 January 1999, the Governments of Cambodia and the United States entered into a three-year trade agreement on textile and apparel¹ which set an export quota of up to 14 per cent for garments from Cambodia to the United States, contingent on improvements in working conditions and adherence both to Cambodia's labour code and to internationally recognized core labour standards. In this unprecedented step, the Governments of the United States and Cambodia agreed to jointly request ILO technical assistance to implement this "social clause". Following extensive consultation with the major stakeholders – Cambodia's Ministry of Social Affairs, Labour, Vocational Training and Youth Rehabilitation (MOSALVY), the Garment Manufacturers Association in Cambodia (GMAC), the Cambodian trade union movement and the Government of the United States – the ILO began to implement the Garment Sector Working Conditions Improvement Project in January 2001.

As its title suggests, the principal objective of the project was to improve working conditions in Cambodia's textile and apparel sector via the establishment of an independent system for monitoring working conditions, assist in drafting new laws and regulations where necessary, and develop awareness and capacity for employers, workers and government officials to ensure greater compliance with core labour standards and Cambodian labour laws.

With that, the growth of the garment industry and in turn the Cambodian economy became contingent on quota awards based on favourable reports from the ILO Better Factories Cambodia's monitoring team. Quite remarkably, the value of Cambodia's textile exports rose rapidly from US\$26 million in 1995 to US\$1.6 billion by 2004, and to over US\$2 billion by 2006, with around two-thirds going to the United States (US) and the remainder to the European Union (EU) (Better Factories Cambodia, 2006). By any stretch this might appear a success story. With total employment in the sector numbering 265,811 (ILO, 2006a), some 65 per cent of manufacturing employment, analysts have hailed Cambodia as a model for linking development with improvements in labour standards (Asian Development Bank, 2004; UNCTAD, 2005; ILO, 2005; Wells, 2006; Frost and Ho, 2005; Polaski 2003; and Prasso, 2004).

These claims were, however, severely put to the test on 31 December 2004, when the Multifibre Arrangement (MFA) and the Cambodian-US

1. See Cambodia Bilateral Textile Trade Agreement, 20 January 1999, US-Cambodia. This agreement was extended to 31 December 2004 by the Memorandum of Understanding dated 31 December 2001; see Press release, Office of the United States Trade Representative, US-Cambodian Textile Agreement Links Increasing Trade with Improving Workers' Rights (7 January 2002), at www.tdctrade.com/alert/us0201.htm.

trade agreement expired, thus exposing the Cambodian garment industry to global competition. As a smaller producing country, Cambodia now had to distinguish itself in the market to remain competitive and bank on “its adherence to international labor standards to carry it through these turbulent times”. Significantly, data from Better Factories Cambodia shows that the total value of exports of Cambodian garment and textile increased almost 10 per cent to US\$2.175 billion in 2005, revealing that Cambodia is more than holding its own in the post-MFA world. Exports to the US grew by just over 10 per cent in quantity and almost 20 per cent in value. From 1 January 2005 to 30 April 2006, nearly 30,000 new jobs were created, and the number of establishments increased by 13 per cent (Better Factories Cambodia, 2006). However, this growth has to be viewed in the context of the re-imposition of quotas on certain categories of clothing from China – the so-called China safeguards – which has increased buyer dependency on alternative sources of supply. Consequently, it cannot yet be argued that Cambodia’s “social label” has been the motor for growth in the sector – categorical answers may become apparent in the coming years when the China safeguards are removed under the terms of the Agreement on Textiles and Clothing.

This article briefly outlines the structure of the Cambodian garment industry in the context of these trade agreements and examines in detail the relationship between the findings of the ILO Better Factories Cambodia’s monitoring team and the awards of quota. It will then assess the extent to which the stated project objective – the improvement of working conditions in the garment sector – has in fact been achieved and evaluate whether the Cambodian “social model” will succeed in attracting future buyers.

The Cambodian garment industry

Cambodia’s garment export industry was born in the mid-1990s. Two factors preceded this. First was the resumption of peace, normal political and economic relations between the country and the global community, and the first democratic election. The second was a process of neo-liberal restructuring driven by the IMF and the World Bank, including the privatization of a few state-owned textile and apparel plants. Not yet a WTO member, Cambodia was a rather late entrant to the global export market with garment export sales first recorded in the mid-1990s. Between 1995 and 2004 garment exports grew dramatically from US\$26 million to almost US\$2 billion, and apparel now accounts for nearly 80 per cent of the country’s merchandise exports to the United States and the European Union. The small but gradually growing industry was then boosted when the United States granted Cambodia “Most Favored Nation Status” (MFN) in 1996, and further still in 1997 when special trade privileges under the US Generalized System of Preferences (GSP) were awarded. In 2001, Cambodia’s access to the

EU market became quota-free and duty-free under the “Everything But Arms Generalized System of Preferences” for the least developed countries.

However, as can be seen from table 1, the major take-off of the industry did not occur until after the US–Cambodia textile negotiations were initiated and finalized in 1999.

This was mirrored by increasing foreign direct investment (FDI) as foreign capital began to realize the market potential in exporting textile products with expanded quota possibilities. Figures from the Garment Manufacturers Association of Cambodia reveal the relative importance of Chinese, Korean and Taiwanese ownership and, with that, their imported managerial style (see table 2).

Cambodian garment production, while critical to the economy of Cambodia, remains relatively small in global terms, representing about 0.3 per cent of garment production worldwide and 0.7 per cent of global foreign trade by value, based on World Trade Organization (WTO) data (Asian Development Bank, 2004). Yet the clothing industry has been important for the country’s economic and social development, as it accounts for 80 per cent of its exports, 12 per cent of its GDP, and directly employs 65 per cent of the industrial labour force. Consequently, Cambodia has become one of the few countries in the world whose economies are most dependent on textile exports.

Most of the garment labour force is made up of young women, employed directly by some 292 factories located in Phnom Penh, Kandal, Kampong Province and Sihanouk Ville (Better Factories Cambodia, 2006). Without

Table 1. Evolution of Cambodia's garment industry

Indicator	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Factories (number)	20	24	67	129	152	190	186	188	197	206
Total employment (thousand)	18.7	24.0	51.6	79.2	96.6	122.6	188.1	210.4	234.0	245.6
Garment exports (US\$ million)	26.2	106.4	223.9	355.3	653	965	1 119.8	1 338.4	1 581.5	1 987

Source: US Embassy in Cambodia, “Economic significance of the garment sector in Cambodia”, January 2006.

Table 2. Garment industry by owner's nationality

Nationality	General factory population	
	Number	Percentage (%)
Cambodia	13	5
China and Hong Kong (China)	66	28
Taiwan	41	17
Rep. of Korea	12	5
Other	59	25
Joint venture	47	20
Total	238	100

Source: GMAC, 18 January 2005.

doubt, work in the garment industry offers women higher income and better working conditions than other available jobs. Sizeable remittances from garment workers support up to 1 million people in rural areas, reducing food insecurity (FIAS, 2005).

The garment industry is dependent almost completely on imported yarns (for knitwear), finished wovens and circular knitted fabrics (for woven and knitted cut-and-sew garments), and all accessories and almost all packing and presentation materials. The domestic material content is limited to some cardboard cartons and poly bags. This places the country's industry very much within Gereffi's archetypal buyer-driven "Asia production network" (Gereffi and Memedovic, 2003; and Gereffi and Korzeniewicz, 1994) and dominated by large, predominantly US apparel retailers and branded merchandisers. The top 25 buyers based on volume of production are listed in table 3.

Asian multinational suppliers seeking to access business in the global market are dependent, as Sturgeon (cited in Gereffi et al., 2005) points out, "on participating in global production networks led by firms in developed countries". Individual supply factories in Cambodia may thus be wholly dependent on single clients or multiple buyers, or sell through agents in Hong Kong (China), or may contract work out to local factories (Salinger et al., 2005).

Gereffi's (1994) global commodity chains framework stresses the importance of "triangle manufacturing" in the global dispersion of production which began in the 1970s, wherein overseas buyers placed their orders to East Asian manufacturers who in turn reallocated most if not all of the orders to affiliated offshore factories in newly industrializing countries. These new production relations between overseas buyers and the manufacturers from newly industrialized countries, which have involved large volumes of business, have

Table 3. Top 25 of Cambodia's textile export buyers

Position	Buyer	Position	Buyer
1	GAP	14	PVH
2	H&M	15	C & A
3	Levi Strauss	16	Walmart
4	Adidas	17	Kohl's
5	Target	18	MGT
6	Sears Holdings Corp (Sears, Kmart)	19	American Marketing
7	Children's Place	20	J.C. Penney
8	Charles Komar	21	C.S.I.
9	The William Carter Company	22	Fruit of the Loom
10	VF Jeanswear Ltd	23	Puma
11	Matalan	24	Roga
12	Blue Star	25	Paceman
13	Nike		

Source: Ministry of Commerce.

contributed to the growing number of Asian manufacturers which have, themselves, evolved into large multinationals. Table 1 clearly shows how investment in new factories accelerated in tandem with quota allocation. The central thesis of this article is that the magnet for buyer and supplier multinationals was largely the preferential access to major markets afforded by quota and the prevalence of relatively low wage costs stemming from the country's large labour surplus (Bargawi, 2005; Asian Development Bank, 2004:56). It will also be argued that the ILO monitoring project proved the perfect foil not only for those multinational buyers which already factored corporate social responsibility into their business policy, but also for those which did not.

The ILO factory monitoring project: Better Factories Cambodia

The ILO factory monitoring project in Cambodia (previously named the ILO Garment Sector Project and renamed in 2001 as Better Factories Cambodia) is arguably the most comprehensive and systematic monitoring effort² governing any national garment supply base in the world.³ Virtually all factories in the sector (with the exception of a number of subcontractors) are registered with the scheme and a team of 12 (originally eight) Khmer-speaking inspectors are engaged in a constant ten-month cycle of monitoring visits to ensure that all factories undergo an inspection visit, culminating in a factory report for the registered supplier and a publicly available Synthesis Report which distils the findings from the factories in the sample or cohort. The process is now streamlined via a computerized information management system which buyers and suppliers can access.⁴

Notwithstanding critiques of the monitoring methodology (Pandita, 2002; Womyn's Agenda for Change, 2002) supplier factories would appear to be subjected to a rigorous examination of every main aspect of the Cambodian labour code (initially on a two-year, now ten-month cycle), and a requisite public disclosure on the Internet. The monitors' checklist, based on Cambodian labour law and core ILO standards, covers more than 500 items. Monitors, who work in pairs and arrive unannounced, interview workers and management separately and confidentially. Interviews with workers usually take place away from the factory. The monitors also talk with factory worker representatives and union leaders. Management is requested to

2. www.betterfactories.org/ILO/aboutBFC.aspx?z=2&c=1, accessed 12 July 2006.

3. The United States agreed to pay the bulk of the costs of monitoring, contributing an initial US\$1 million to a US\$1.4 million fund to task the ILO with setting up the monitoring system. (The remainder was split between the Garment Manufacturers Association in Cambodia and the Cambodian Government.)

4. www.betterfactories.org/ILO/infosystem.aspx?z=13&c=1, accessed 12 July 2006.

provide relevant documents (payroll, sample contracts, leave records, etc.) as evidence of working conditions and terms of employment.

Polaski (2003) has argued that Better Factories Cambodia has led to “significant and widespread improvements in wages, working conditions and respect for workers’ rights” (25). We will return to this claim later. In the meantime it is important to critically assess the reasons Polaski advances for this being the case. First, it is argued that there was a close temporal connection between the improved behaviour of firms and the rewards in the form of increased quota. Second, because the quota increase depended upon sector-wide performance, non-compliant firms faced peer pressure from the rest of the industry and would be more likely to comply voluntarily with labour laws and accord labour rights to their workers. Third, the improvement in the availability of monitoring information allowed buyers (often multinational apparel firms that are concerned about their reputations) to direct orders towards firms that have complied with labour laws and away from those that have violated them.

Let us look at each of Polaski’s claims in turn. If we consider the temporal link between the award of quota to the degree of factory/sectoral improvement, then one might be drawn to the conclusion that the will to make it appear that the monitoring project was effective was far greater than the will to exact change in Cambodian garment factories. Under the terms of the agreement, the US Government was to “make a determination by December 1 of each agreement period, beginning on December 1, 1999, whether working conditions in the Cambodian textile and apparel sector substantially cope with such labour law standards”. Information from the ILO⁵ reveals that there were two annual meetings in this respect: a mid-year consultation and a year-end determination/negotiation. The first ILO report, based on a sample of 30 out of 190 factories was published in November 2001 (ILO, 2001). Implementation of the provisions was extremely slow. It had taken more than a year for the ILO even to begin entering Cambodian factories to get the process under way. Significantly, then, the first tranche of quota was awarded on the basis of one report which had not been followed up and consisted of a 16 per cent sample of the existing supply base. This somewhat rash allocation of quota may have been caused by intense lobbying by the GMAC.

According to one academic commentator:

Cambodians were frustrated with the slow pace of the process, complaining publicly that they had improved factory conditions and had suffered serious labor unrest from emboldened unions without the promised results of an increase in the U.S. textile quotas. Cambodia’s textile quotas for 2002 were increased by a bonus of 9 per cent (out of a possible 14 per cent) on top of

5. Personal correspondence from Ros Harvey, Global Programme Manager, Better Work, ILO, 19 July 2006.

the minimum 6 per cent annual increase as required by the agreement. Previous annual quota increases had been 9 per cent. By 2002, Cambodia's quotas had exceeded its ability to meet capacity, and it left part of its quota partially unfilled for that year. (Prasso, 2004)

On the basis of this, the agreement was extended for a further three years and quota progressively increased. By the time of the second determination (December 2002), a further two cohorts of companies had been monitored and a second inspection of Cohort A had occurred, as reported in Synthesis Report No. 3 (ILO, 2002). Thus the second determination (a 12 per cent quota award) was made by the Government of the United States on the basis of *one* cohort of factories which had undergone a follow-up inspection. The third allocation of quota (14 per cent) was made on the basis of two follow-up reports – Cohort A (third report) and Cohort B (first follow-up). Finally, the 18 per cent quota allocation was made on the basis of one follow-up report on 65 of 225 factories in Cohort C (ILO, 2004).

Let us now consider the issue of incentive to improve. Here we have to consider the elements of a “stick” versus “carrot” approach. In Cambodia, the Ministry of Commerce's Trade Preferences Department (TPD) managed and sub-allocated quota to local manufacturers. A “stick” approach would have involved threat of withdrawal of an export licence based on evidence from the ILO monitoring project of a repeated failure to improve conditions suggested by the ILO factory inspectors. However, the model chosen was an industry-wide incentive system rather than a factory-specific, punitive system. Quota was therefore awarded for general improvements in the sector as measured by the ILO reports, and the mechanism for access to quota for garment employers was the process of registration and participation in the ILO monitoring programme (ILO, 2006c).

Although registration with the ILO scheme was compulsory to attract quota, the industry-wide model of quota allocation meant it was easy for companies to hide and/or do very little (see column 6, table 4). This is of course entirely separate from the “black hole” of government corruption in relation to the allocation of actual quota to each factory. A study by the Cambodian Development Research Institute found that 7 per cent of garment factory operators' costs were attributable to so-called “bureaucracy costs”, the euphemism for bribes paid to government officials up and down the line in the clothing industry (2001).⁶ This was also highlighted in a World Bank survey of buyer views in respect of sourcing from Cambodia (FIAS, 2004).

6. Corruption in recruitment practices is an issue monitored by the ILO team, although a CDRI survey revealed that about 50 per cent of garment industry workers had paid an average of US\$38 (about one month's wages) to obtain jobs in the garment industry. This “fee” is paid to a number of people, i.e. factory security guards, interpreters, labour brokers, etc. (Maclean, 1999) and appears to be officially tolerated as bona fide management practice (ADB, 2004:61).

There is also the question of buyer and, by implication, consumer sensitivity to the transparency generated by the ILO monitoring programme. It is important to note that factories were only named in follow-up report(s) after they had been given a grace period to make improvements based on the suggestions made by the inspectors (ILO, 2003). As can be seen from table 4, by the time a third cohort had been publicly disclosed, totalling about 50 per cent of the total registered factories, the final quota allocation was about to be made.

Significantly for the brands and their reputation, the ILO Synthesis Reports named factories but did not in any way link them to buyers; it has thus remained impossible for consumers and other interested parties (shareholders, trade unions, governments, NGOs) to know what is being produced for whom and under which conditions. As has been pointed out by Pandita (2002), Cambodia was a great low-cost umbrella from a corporate social responsibility point of view, since the pressure was ostensibly placed on the Government of Cambodia and suppliers to improve, whereas the buying multinationals appeared to be taking little or no share in the responsibility to improve the conditions. As Prasso (2004) states:

... the international certification from the ILO that Cambodia's garments are produced under fair labor practices – in a kind of “safe haven” – gives a certain degree of reassurance and cover to retailers concerned about their brand images among consumers, particularly those stung by allegations of sweatshop practices in the 1990s. Gap, The Limited, Abercrombie & Fitch, Adidas, Ann Taylor, Kmart, Wal-Mart, Nike, OshKosh B’Gosh and Reebok are just some of the retailers who buy garments manufactured in Cambodia.

Table 4. Acknowledgements of monitoring reports and challenges to findings

Synthesis Report No.	Status	Date of publication	Suggestions not implemented*	Supplier factory response**	Quota awarded
1	Initial	Nov. 2001	No data	15/30 8 agreed	–
2	Initial	April 2002	No data	8/34 6 agreed	9%
3	Follow-up	June 2002	57%	6/29 4 agreed	–
4	Initial	Sep. 2002	No data	9/65 4 agreed	–
5	Follow-up	June 2003	55%	5/30 3 agreed	12%
6	Follow-up	June 2003	53%	3/29 all agreed	–
7	Initial	Oct. 2003	No data	6/58 3 agreed	–
8	Follow-up	Feb. 2004	51%	9/62 3 agreed	14%
<p>* From Report No. 5 onwards, reports referred back to the cohort of factories which were originally inspected, for example, the factories covered in Report No. 3 were followed up in Report No. 5. ** Indicates the number of monitoring reports returned and acknowledged by companies compared with the total number of factories in the cohort and the number of returns which agreed with the findings.</p>					

This still leaves the question concerning buyer sensitivity to ILO report findings. We have no information on buyer access to ILO reports prior to the introduction of their computerized information management system in 2006. However, the FIAS buyer survey in 2004, which was based on a sample of 15 out of 69 buyers revealed that 43 per cent considered ILO standards to be of major to critical importance and a further 43 per cent considered them of “moderate importance” to consumers. In the sample there appeared to be a discrepancy between US and European companies, where a majority of European companies felt standards to be of critical importance to consumers, while for US buyers there was an opposite response. Similarly, it was reported that the majority of respondents were either somewhat or not familiar with Better Factories Cambodia and did not know enough about it to rate its ability (FIAS, 2004). Indeed, in a follow-up aide-memoire, the FIAS noted a major problem with duplication of effort.⁷ The situation does seem to be improving, since the introduction of the information management system in 2006. This reveals that 13 buyers, representing 40 per cent of buyer volume (but only 19 per cent of buyers),⁸ are accessing monitoring reports for sourcing purposes. Also, 178 third-party access forms have been signed by supplier firms, giving buyers access to ILO monitoring reports via the information management system. Nine major international buyers are relying exclusively on ILO monitoring reports and have stopped their own monitoring. Others have given a commitment to reduce their own monitoring. Third-party access to reports has been granted to 11 buyers by factories with whom there is currently no relationship, and in the first quarter of 2006 a further three major brands conducted shadow monitoring visits to improve their understanding of ILO monitoring processes with a view to decreasing or eliminating their own monitoring.⁹

Did working conditions improve?

The most enduring question is, of course, the extent to which the ILO project has contributed to a sustainable improvement in working conditions and

7. Despite the achievements of the project, there is considerable inefficiency because of duplicate compliance systems from individual buyers, as well as inspections from the Ministry of Labour. All overseas buyers still undertake their own monitoring: some is undertaken by buyers' compliance staff with the cost covered by the buyer (typically the case with premium brands); and some by external providers as a requirement of the buyer but financed by the supplier factory (typically the case with retailers), with the prices the suppliers negotiate taking account of the cost of audits that their buyers make them pay for. Some factories with multiple buyers report up to 60 labour inspections a year, each lasting between one half to two days and each costing approximately US\$2,000, as well as significant opportunity cost to factory management (FIAS, 2005:3).

8. Buyer figures supplied by the Cambodian Department of Commerce.

9. Personal correspondence from Ros Harvey, Global Programme Manager, Better Work, ILO, Cambodia, 9 May 2006.

industrial relations in the Cambodian garment industry. It is important at this juncture to remind ourselves of the status of the ILO and this project. The ILO was at pains to state in its Synthesis Reports that the monitoring of factories is *not* an objective in itself, but part of a process aimed at improving working conditions in Cambodia's garment sector as a whole. It is generally accepted that it is not the role of the ILO to bring about those improvements – this being the responsibility of factory management, government and the trade unions. From the Third Synthesis Report onwards, a retrospective section was included in which the tripartite partners – MOSALVY, GMAC, individual factories and the trade unions – were invited to report on steps they had taken to address shortcomings highlighted in the previous one (First Synthesis Report). It could be argued that this section in the report should have been the main point of reference for making quota determinations. However, after the initial statements in the Third Synthesis Report the Government and GMAC refrained from tendering any further information, and the summary report items for individual factories (which described AIDS awareness initiatives) and trade unions (which commented on efforts to address the incidence of strikes) had become so repetitive that by Synthesis Report No. 8, the item had been dropped. Nevertheless, the substance of follow-up Synthesis Reports Nos 3, 5, 6, 8, 9, 10 and 12–16, consisted of a detailed summary of working conditions and of discrepancies in the implementation of labour standards and Cambodian law. Although Synthesis Reports Nos 3, 5, 8, 9 and 16 refer back to the original baseline data, Synthesis Reports Nos 6, 10, 12, 13, 14 and 15 were not cumulative, only measuring against the previous cohort report. This meant that improvement could be understated.

It is not our intention to present a detailed analysis of all the 500 items monitored by Better Factories Cambodia. Instead, we will focus on those core labour standards which were featured in the report summaries: child labour, forced labour, discrimination/harassment, excessive working hours, correct payment of wages, freedom of association and collective bargaining, and the prevalence of strikes. A comparison of the findings in Synthesis Report No. 3 on these issues as measured against the baseline data contained in Synthesis Report No. 1 is summarized in table 5. Since the same cohort was inspected on two further occasions and covers the life of the ILO project to date, we include these findings in table 5.

As one would expect in most export-oriented supplier factories, there were no cases of forced labour¹⁰ or child labour, although in ILO Synthesis Report No. 16 some instances of under-age recruitment were cited

10. The US Department of State (2006) was prompted to question this claim, although this was based on a relaxed general definition of forced labour which includes involuntary overtime.

(ILO, 2006i:6).¹¹ Of harassment, a notoriously difficult issue to audit, the monitors found limited reported cases. In 2006, the ILO commissioned CARE International to undertake a survey of 1,000 workers on gender and workplace cooperation issues. Included in this was the issue of sexual harassment. Preliminary results have been released to allow for consultation with stakeholders. The research has found that 25 per cent of workers experience derogatory words about women. This occurs equally from management and co-workers. Nearly 5 per cent of workers report having experienced

Table 5. Tracked changes in working conditions and implementation of labour standards in the same cohort of factories between 2001–05

Synthesis Report No.	1	3	6	12
Date	November 2001	June 2002	June 2003	August 2005**
Number of factories monitored*	30	29	28	26
Child labour	No evidence	No evidence	No evidence	No evidence
Forced labour	No evidence	No evidence	No evidence	No evidence
Sexual harassment	No evidence	No evidence	No evidence	No evidence
Non-correct payment of wages	Occurs in 15 of the factories	Statement of some improvement but 15 factories still failing to address the issue in some way	18 factories still problematic on this issue	Substantial range of non-correct payment of wages in at least 50% of the factories
Forced overtime	Overtime not undertaken voluntarily in 13 of the factories	Statement of some improvement but 12 factories still have not implemented suggestions here	14 factories still problematic on this issue	More than two-thirds of the factories monitored ensure that overtime work is voluntary
Excessive overtime	Beyond the legal limits in 27 of the 30 factories	Statement of some improvement but 17 factories still reveal problems	Beyond the legal limits in 15 of the 30 factories	However, in most of the factories monitored, overtime work is not exceptional or limited to two hours per day
Freedom of association	Unions present in only 15 factories but eight instances of breaches of FOA	Statement of improvement but difficult to assess from the report; 18 factories not providing facility time to shop stewards	Statement of some improvement but difficult to assess from the report; 19 factories not providing facility time to shop stewards	Statement of some improvement but difficult to assess from the report; 11 factories not providing facility time to shop stewards
Collective bargaining	24 factories had no collective agreement	No data on collective bargaining agreements	No data on collective bargaining agreements	No data on collective bargaining agreements
Strikes	Unofficial and unconstitutional but peaceful in 14 of the 30 factories	Unofficial and unconstitutional but peaceful in four of the 29 factories	Unofficial and unconstitutional but peaceful in seven of the 28 factories	Unofficial and unconstitutional but peaceful in four of the 26 factories
* Number of companies changed due to factory closures. ** Incorporating new monitoring methodology.				

11. This being due to some laxity in enforcing the requirement on workers to provide reliable age-verifying documents prior to hiring (Synthesis Reports Nos 13–14).

unwanted touching of a sexual nature by supervisors.¹² The failure to pay correct wages – a persistent problem in garment supply chains – was undoubtedly an issue, occurring in half of the factories inspected and remaining a problem to Synthesis Report No. 12. Data from Synthesis Report No. 16, however, reveals that some improvements (albeit in a different cohort of factories) have been achieved on this issue. All but one of the monitored factories pay regular workers the minimum wage for ordinary hours of work and 84 per cent of the factories pay regular workers (including probationary workers and workers paid by piece rate) correct wages for normal overtime work. Similarly, for casual workers, about 61 per cent of the factories comply with minimum wage requirements, and 86 per cent pay the correct rate for normal overtime work (ILO, 2006i:57).

On overtime, if the factory cohort in Synthesis Report No. 1 is representative, then forced and excessive overtime was endemic in the industry at the time of the implementation of the terms of the trade agreement. Virtually all were working excessive overtime and, in half the sample, workers were engaging in involuntary overtime.

If we look at the findings of Synthesis Report No. 16, which again represents a picture from a different and larger cohort of factories measured against a baseline, we see that the issue of forced overtime has not changed but that there has been a slight improvement in terms of excessive overtime work with more than two-thirds of monitored factories failing to limit overtime to two hours per day (ILO, 2006i:6).

On freedom of association, although the First Synthesis Report commented on the existence of some 200 factory unions in the sector (page 28), many of these were rival unions existing alongside each other in a single factory. Tellingly, the First Synthesis Report gives a flavour of industrial relations at the time the Better Factories Cambodia Programme was launched. Out of a small sample of 30, there had been strikes at 16 factories.

The reasons for the strikes held were the dismissal of a union leader(s)/shop stewards allegedly without a valid reason (4 factories), the dismissal of a union leader with a valid reason (2 factories), the dismissal of (individual) workers (2 factories), the dismissal of worker activists (non-elected) during a strike (1 factory), non-compliance with various provisions of the law (6 factories), solidarity action with striking workers at another factory (2 factories), partial payment of wages with deferment of the remaining wage payment to next month (1 factory), demand for payment of 45 US\$ minimum wage following the issuing of the relevant regulation (2 factories), non-payment of overtime and meal allowance (1 factory), and to ensure that an agreement concerning wages when the factory had no work would be honoured by new management (1 factory). (ILO, 2001:24–5).

12. Information provided by Ros Harvey, Global Programme Manager, Better Work, ILO.

Likewise, an analysis of urgent appeals handled by the ITGLWF¹³ reveals a similar pattern of trade union victimization. Although trade union density is comparatively high at 43 per cent,¹⁴ numerous factory unions exist and although workers, according to survey data, consider unions to be treated fairly in general by larger enterprises, there is still no bona fide collective bargaining. ILO data reveals that by mid-2003 there were only some 23 collective bargaining agreements (CBAs). However, these are largely restatements of the Cambodian labour code and lend weight to the observation by the US Government that the practice of collective bargaining has not yet begun in Cambodia on a meaningful scale (US Department of Labor, 2003:11). In 2006, the US Department of State commented that the 15 collective bargaining agreements registered with the Ministry of Labour and Vocational Training (MOLVT) were essentially conciliation agreements, and did not meet international collective bargaining standards. In only five cases did they constitute genuine collective bargaining agreements (US Department of State, 2006).

Let us now turn to those issues of most concern to garment workers – wages and working hours. The issue of a “living wage” is not an item in the ILO monitoring schedule, yet the demand for a substantial wage increase lies at the heart of much of the unrest which has dogged the sector since the ILO project began. In 2000, the Labour Advisory Committee approved a minimum wage for the garment sector at \$45¹⁵ for regular workers, with \$40 for workers on probation and \$30 for apprentices. If a piece rate worker’s output falls below \$45 the employer is obliged to make up the difference. Workers are entitled to a \$5 bonus for regular attendance. Normal overtime is paid at 1.5 times the normal rate. Work on Sunday and on a public holiday is paid at twice the normal rate and night working, set by MOSALVY as the period between 10 p.m. and 5 a.m. is paid at double time. Workers are entitled to a 1,000 riels (\$0.26) meal allowance, or a meal, when working two hours overtime.¹⁶

In an economy where the monthly living wage is estimated at \$82,¹⁷ garment workers earned an average wage equivalent to \$65 per month in 2005, including overtime and bonuses. This prompted the US Department of State (2006) to report that prevailing monthly wages in the garment sector and many other professions were insufficient to provide a worker and

13. International Textile, Garment and Leather Workers’ Federation.

14. ILO Better Factories Cambodia, The World Bank Justice for the Poor Program, CARE International and UNIFEM (2006) Cambodia: Women and Work in the Garment Industry, available at: [www.betterfactories.org/content/documents/1/Women%20and%20Work%20in%20the%20Garment%20Industry%20\(en\).pdf](http://www.betterfactories.org/content/documents/1/Women%20and%20Work%20in%20the%20Garment%20Industry%20(en).pdf), last accessed 8 May 2007.

15. All dollar references are to US dollars.

16. ILO Synthesis Reports.

17. Wage claim equivalent in US\$ submitted in 2006 by the Trade Union Inter-Federation Council.

family with a decent standard of living. Understandably, there has been a build-up of worker frustration around wages – in the first six months of 2006 there were 181,556 days lost.¹⁸ In an unprecedented move in 2006, an Inter-Trade Union Federation Council was formed to meet with the Garment Manufacturers of Cambodia and attempt to hammer out a new minimum wage. However, in these negotiations the Government – probably mindful of wage levels in neighbouring Viet Nam – intervened in this first ever national bargaining round for the sector. Once the two sides had reached \$50 a month from the previous \$45, the Government promulgated a new minimum at \$50, even though the parties were still very much engaged in the bargaining process.¹⁹

Overall it can perhaps be said that the outcomes of the monitoring process of Better Factories Cambodia reveal a correlation with the findings of Pruett (2005:29) that social audits have the propensity to impact on child labour, forced labour and health and safety²⁰ but have limited or no impact on freedom of association and collective bargaining, wages and working hours. In short, poverty wages and excessive working hours have prevailed for the whole duration of the ILO project and Better Factories Cambodia and attempts by workers to address these issues through the formation of trade unions intent on bargaining in the workplace have been and continue to be systematically quashed. It comes as no surprise that these are the industrial relations issues which have figured markedly in a persistently high incidence of strikes in the Cambodian garment sector since the inception of the trade agreement in 1999. This has certainly been one factor which has prompted Better Factories Cambodia to become very much more “hands on” during recent years. The project has devoted 60 per cent of resources to engage in capacity building,²¹ to build on the earlier establishment in 2001 of an Arbitration Council to assist in disputes resolution, and to support a tripartite review of labour law, as well as aiding the parties in the negotiation of an industry-wide agreement to cover increases in the minimum wage and the enforcement of labour law.

18. American Center for International Labor Solidarity (ACILS) Cambodia Office, *A Proposal for Industry Stability*, 2006 (unpublished document).

19. The workers demanded that the bilateral negotiations continue between the Inter-Federation Council (IFC) and the Garment Manufacturers Association of Cambodia (GMAC) regarding the IFC’s proposed minimum wage of at least \$55 per month, a meal allowance of 1,000 riels per hour, a seniority bonus of \$2 per year, and an attendance bonus of \$7 per month. (www.tieasia.org/).

20. Progress in meeting health and safety standards was mixed. Nearly half of the factories provided some personal protective equipment to workers. However, about 70 per cent of the factories failed to install safety guards on all machines. Synthesis Report No. 16:6.

21. Currently the project is spending more than 60 per cent of resources on remediation and capacity building having delivered almost 1,000 training days and facilitated over 90 factory-level union/management consultative committees in the first half of 2006 (personal correspondence from Ros Harvey, Global Programme Manager, Better Work, ILO, 19 July 2006).

The future – Post MFA

In its assessment of the Cambodian garment industry, the Asian Development Bank predicted an almost three-fold increase in trade between Cambodia and the rest of the world by 2010. Undoubtedly now the major question hanging over the Cambodian apparel industry is whether it can remain competitive by social responsibility alone in a post-quota world. This question appears to have been answered by a 14.6 per cent increase in textile imports to the United States during 2005, putting the country on track to fulfil the Asian Development Bank prediction. Despite a series of gloomy predictions and factory closures, there has been job growth – indeed, from 1 January 2005 to 30 April 2006, nearly 30,000 new jobs were created. The total number of garment workers was 293,600 in April 2006 and the number of factories increased by approximately 13 per cent in 2005 (Better Factories Cambodia, 2006). A series of qualifications, however, are necessary here.

Structuring for the future

First, the boost in exports, we would argue, is due in no small part to the substitution effect: buyers searching for alternative sources of supply as the so-called China safeguards²² began to bite during 2005. Industry estimates a 50 per cent impact on the sector (see table 6).

Conversely this implies that Cambodia is competing in the absence of quota restrictions in about 50 per cent of its product. Cambodia's textile structure is very particular and specializes in certain segments – high volume, mid-range quality and cost – making it compete alongside other Asian and Arab supplying countries (Bangladesh, Viet Nam, Jordan). Hence the industry has had to embark, with some degree of success, on a series of initiatives to improve competitiveness by reducing the cost of trade processing and the time taken for clearance and inspections (Asian Development Bank, 2006).

22. On 18 November 2005 the US Committee for the Implementation of Textile Agreements (CITA) approved the textile/fibre coalition's China safeguard petitions on knit fabric, brassieres and dressing gowns. CITA: Entry of Shipments of Cotton, Wool and Man-Made Fibre Textiles and Apparel in Excess of China Textile Safeguard Limits, 29 November 2005. (<http://otexa.ita.doc.gov/fr2005/os06sta.htm>).

Safeguard limits on textile and apparel goods from China have been placed as follows: Limits for categories 338/339, cotton knit shirts and blouses; 347/348, cotton trousers; 352/652, cotton and man-made fibre underwear have been in place since 23 May 2005; (limits for categories 638/639, man-made fibre knit shirts and blouses; 647/648, man-made fibre trousers; 301, combed cotton yarn; 340/640, men's and boys' cotton and man-made fibre shirts, not knit, have been in place since 27 May 2005; and limits for categories 349/649, cotton and man-made fibre brassieres and other body-supporting garments; 620, other synthetic filament fabric have been in place since 31 August 2005.

Table 6. Potential export loss from expiration of China safeguard quota removals

Developing country	Loss of exports (million \$)
Turkey	–6051
CBI* countries	–4829
Mexico	–3070
Indonesia	–2264
Thailand	–1575
Cambodia	–1313
Sub-Saharan Africa	–1327
Sri Lanka	–1328
Romania	–1246
Pakistan	–1159
Philippines	–1210
Tunisia	–849
Morocco	–836
Andean countries	–715
Malaysia	–550
Jordan	–546
Egypt	–483
Bulgaria	–374

*CBI: Caribbean Basin Initiative.

Source: Quoted in Johnson (2006).

As ever, buyer sourcing strategies base their requirements on the contract manufacturer’s ability to meet demanding needs, particularly “full package” services – which include interpreting designs, making samples, sourcing inputs, monitoring product quality, meeting buyer’s price, and guaranteeing on-time delivery (Gereffi et al., 2005). This implies that lead firms in the sector will focus in a smaller number of countries on large factories which have the capacity to meet these services. The rise of “full package” suppliers also means that the competency of suppliers (in complex coordination and information exchange) will have to be continuously enhanced to remain competitive, making “industrial upgrading” a key survival strategy in the post-quota world (Tam and Gereffi, 1999).

In 2004, a survey was conducted by the Foreign Investment Advisory Services (FIAS), a joint service of the International Finance Corporation (IFC) and the World Bank, in response to the request by the Royal Government of Cambodia to assist in determining current buyers’ sourcing decisions post MFA. Senior sourcing staff from 15 of the largest US and EU buyers²³ (see table 1), accounting for 45 per cent of Cambodia’s garment export (see table 3), were interviewed in the survey.

23. Senior sourcing staff: from the United States – GAP, Levis Strauss, VF Jeanswear, Kellwood, Sears Roebuck, Children’s Place, Alpha Garment, Nike; from the European Union – H&M, Inditex, Matalan, Charles Vogle, Esprit, Tapestry Design, Reebok.

Tellingly, all of the buyers interviewed in the survey indicated that they prefer to *source* rather than to *invest* in Cambodia, suggesting ominously that there is little prospect for external assistance to develop the industry and to upgrade into the full-package production which is essential in a globally competitive sector.

Labour conditions

Second, most buyers considered labour standards observance to be of critical importance when sourcing from a *country*, ranking labour standards higher than preferential tariffs/quota. Yet, when asked to rank the importance of *factory-specific* factors in their decision to source from or invest in a country, they placed price and production costs ahead of “human resource practices”. Undoubtedly buyer estimation of the Cambodian labour standards programme varies considerably. GAP Inc., which accounts for some 45 per cent of Cambodian production by volume, is quoted as being committed to sourcing there as long as Better Factories Cambodia maintains its presence (Becker, 2005). Another buyer surveyed by the FIAS admitted: “The reason we did business in Cambodia is strictly the quota” (FIAS, 2004). The majority are adopting a wait and see stance – also, obviously, true for the multinational suppliers who accept compliance as a necessary condition, although clearly this was not the reason for investing there in the first place; the FIAS (2004) survey cited motivations as being price, quota and ease of hiring temporary labour.

And what of improvements in working conditions post MFA? Average monthly earnings now stand at \$72 (Better Factories Cambodia, 2006). However this remains \$10 short of the Cambodian living wage figure, and masks the excessive amounts of overtime necessary to attain that level and a 6 per cent real reduction due to cost of living increases. Social pressure to introduce a living wage is unlikely to have abated following government intervention in the bargaining process over a new minimum wage. Tellingly, Better Factories Cambodia reported in May 2006 that prices per piece in the industry had fallen by 4.47 per cent during the post-MFA period. The impact of such trends on working conditions is something which the ILO inspection is unlikely to pick up:

Before the MFA phase-out I had to finish 300 pieces per 8 hours and worked only on one machine. But now I am assigned 550-600 pieces to finish in 8 hours work and operate two machines. They said I have to accept this.

Worker from a Phnom Penh factory producing for Old Navy brand (Womyn’s Agenda for Change, 2005).²⁴ See also Tola et al. (2004).

24. Ongoing case studies and data collected by six Phnom Penh drop-in centres operated by garment workers in collaboration with Womyn’s Agenda for Change indicate that in the context of these worsening working conditions, many factories are employing new

This phenomenon is of course nothing new, as suppliers globally intensify work in their efforts to meet tighter deadlines and lower prices (ETI, 2005; Oxfam, 2004, Responsible Purchasing, 2006). As trade unions seek to address the issue of a living wage their efforts to establish collective bargaining in the workplace continue to meet heavy resistance: in its worst form – the murder of trade union leaders (ITGLWF, 2005); and in its more frequent form – the dismissal of trade union activists (see Appendix). It is a sobering observation that the very real impact which Better Factories Cambodia has had on wages has been to ensure that Cambodian garment workers in the main are now paid what they are entitled to!

Conclusion

It is worth restating – the ILO factory monitoring project in Cambodia (which in 2001 became known as “Better Factories Cambodia”) is arguably the most comprehensive and systematic monitoring effort governing any national garment supply base in the world. By devoting 50 per cent of resources to remediation it has clearly identified the nature of industrial relations problems in the country and is still viewed by all stakeholders as a key component in Cambodia’s efforts to brand itself as a competitive player in the global garment industry. However, a critical assessment of the *impact* of the ILO project suggests that it has been a project which needs to be assessed very much in two phases. We would argue that the original “social clause” needed to be seen to work and that quota awards were made prematurely and on somewhat shaky evidence of improvement. Significantly, however, the re-branded Better Factories Cambodia has heralded changes in methodology, both in monitoring and reporting, and a greater hands-on involvement in capacity building. This latter point is important as the sector seeks to make labour standards part of its strategy for competing against China and other Asian countries once the safeguards are lifted on certain categories of clothing. There is little doubt that this has been accompanied by real changes in working conditions and working environments, as results from the Synthesis Reports and independent surveys indicate.

Despite the unprecedented nature of this model, in a number of key respects, however, the garment sector in Cambodia still remains essentially no different from the industry in other parts of the world: factory owners continue to mount dogged resistance to the establishment of collective bargaining in the workplace and demand excessive overtime from their workers for less than a living wage.

management tactics whereby workers are subject to increased threats of dismissal, increased competition between individual workers and a decline in workers’ rights because union activity is being stifled (Womyn’s Agenda for Change, 2005).

We would suggest the need for carefully designed programmes combining trade opportunities (with incentives for compliance with labour rights or penalties for non-compliance) and targeted technical assistance. These might carry greater promise for sustainable industrial relations if and when the multinational buyers are fully integrated into the process, and when they are disclosed in publicly accessible monitoring reports along with offending suppliers, thus confronting buyers with the impact their buying practices have on workers' capacity to make real headway on wages and working hours. Focusing on buying practices would also lend greater transparency to decisions by multinational brand owners and retailers to withdraw from or maintain their business as usual in Cambodia. This is most certainly the commitment the Cambodian people will be seeking after 2008.

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Appendix

Urgent appeals dealt with by the ITGLWF on violations
of workers' rights in Cambodia

Date	Company	Headquarters	Country	Buyer
29 September 1999	China Key			
14 December 2000	Khmer Lady Garment		Belgium	
15 January 2001	Luen Thai	Hong Kong (China)	Hong Kong (China)	Calvin Klein
4 July 2001			Cambodia	
29 May 2002	Gold Fame Enterprises Ltd			Dagenham
24 June 2003			Cambodia	
27 November 2003			Cambodia	
July 2004			Cambodia	
Spring 2004	Sam-Han Cambodia Fabrics Ltd		Cambodia	Gap Inc.
May 2005	Fortune Garment and Woollen Knitting Factory			Debenhams, Belk, Fred Meyer, Kellwood, (Next, Bhs, Asda and Littlewoods)
April 2005	Wear Well Garment Factory			Levis Strauss & Co.
12 January 2006			Cambodia	
3 February 2006	Trinunggtal Komara Factory			Gap Inc.
Autumn 2005	Fortune Garment and Woollen Knitting Factory			
December 2005	City New Garment (Cambodia) Co. Ltd			Target

Union	Issue
	Company suspended three workers due to trade union activities.
KLGWDU	Anti-union behaviour from the factory management, by trying to replace long-term workers with union membership with non-organized temporary workers, with support from the Cambodian Government.
FTUWKC	Anti-union behaviour by falsely accusing the President of FTUWKC of having a criminal record, which resulted in a strike when the management threatened to dismiss the President.
	ILO complaint towards the Cambodian Government due to legislation regarding trade union representation that is in breach with ILO Convention No. 87.
	Violating ILO Convention No. 87 by firing two workers for attempting to organize. There have also been cases of harassment, bribery and other illegal firing due to trade unionization. They also failed to pay the workers their legitimate bonuses and compensation.
	Demand for investigation regarding police violence and arrests of protesting workers outside Terratex Knitting and Garment Factory.
	Demanded that the Cambodian Government take action in the case of police violence against some 400 workers during a march to protest against poor wages and forced overtime at the Won Rex factory.
	A formal complaint was lodged to the ILO against the Government of Cambodia following the killing of Ros Sovannareth, President of the Trinonga Komara Garment Factory Union and a top leader of the FTUWKC.
FTUWKC	Closed down in February leaving the workers with unpaid wages and severance compensation. The Government paid the outstanding wages but the severance compensation remain unpaid. ITG has requested assistance from its Korean affiliate, the Korean Government and the retailer sourcing from them, Gap Inc.
C.CAWDU	Suspension and firing of workers' representatives as well as filing criminal charges against them.
FTUWKC	Workers went on strike due to late payment of wages, excessive overtime, not having a weekly day off and the firing of two trade union leaders.
FTUWKC	Protests against arrests of trade union and human rights' activists.
	Strike due to delayed payment of wages as well as protests against harassment from one of the supervisors.
C.CAWDU	Repeated suspension and firing of workers' representatives (C.CAWDU) trying to negotiate on behalf of the workers.
	Company filed charges against trade union representatives on various occasions.

Feeding the financial markets

*Food corporations and the financialization
of global production systems*

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Food and Beverage Transnational Corporations

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This is what chief executives and chief financial officers dream of: quarter after quarter after blessed quarter of not disappointing Wall Street. Sure, they dream about other things too – megamergers, blockbuster new products, global domination. But the simplest, most visible, most merciless measure of corporate success in the 1990s has become this one: Did you make your earnings last quarter?

“Learn to Play the Earnings Game (and Wall Street Will Love You)”,
Fortune, 31 March 1997.

“Brave New Dawn”: Ruthless restructuring at Nestlé, Kraft and Unilever

When Unilever, the world's third largest food manufacturer and the third largest producer of personal care goods, announced a 16 per cent increase in second-quarter profits for 2007, executives were quick to point out that the company had beaten analysts' forecasts for earnings and sales growth. Unilever's CEO Patrick Cescau was also quick to promise another €1.5 billion in cost savings involving the elimination of more than 20,000 jobs or 11 per cent of the company's global workforce. This “shakeup”, Cescau declared, would deliver even greater “shareholder value”. Institutional investors and securities analysts welcomed this restructuring, triggering a rise in share prices. But they were far from satisfied, demanding even deeper cuts to bring about a “brave new dawn at Unilever”.¹

In the world's second largest food manufacturer, Kraft Foods, this “brave new dawn” was heralded by its *Sustainable Growth Plan* – a plan that saw 6,000 job cuts and 20 plant closures from 2000 to 2004.² Immediately before his presentation to a conference of Wall Street analysts in February 2006, Kraft Foods CEO Roger Deromedi announced another round of cuts involving the elimination of 8,000 jobs and 20 plant closures. To the delight of Wall Street analysts it was declared that these cuts would generate additional cash flow of US\$3.4 billion earmarked for acquisitions, share buy-backs and dividends.³ At the same time Kraft's parent company Altria Group (formerly Philip Morris) revealed plans to spin off Kraft Foods by releasing most of its shares, valued at US\$43.5 billion.⁴

Just three weeks prior to Unilever's “shakeup”, Nestlé, the world's largest food manufacturer, announced that higher raw material costs and inflationary pressures – forces beyond the company's control – necessitated another round of plant closures and job cuts.⁵ Over the past five years the number of factories worldwide has fallen from 500 to 481, but the most aggressive attack on employment involved a dramatic increase in outsourcing across the company's global production system, eliminating tens of thousands of permanent, unionized jobs. Yet the inflationary pressures used to justify these new closures and job cuts did not prevent the company reporting an

1. “Rising sales, profits at Unilever spur shareholder value ‘shakeup’ – 20,000 jobs to be slashed”, IUF web site, 3 Aug. 2007: www.iuf.org.

2. “Sustainable Growth Plan at Kraft Brings 6,000 Job Cuts Worldwide”, IUF web site, 10 Feb. 2004: www.iuf.org.

3. “Kraft CEO tells shareholders plan is starting to yield results”, *Chicago Business*, 25 Apr. 2006.

4. D. Lutz, “Kraft Foods”, prepared for the International Conference on Global Companies, Global Unions, Global Research, Global Campaigns, sponsored by Cornell University ILR School, 9–11 Feb. 2006, p. 27.

5. “Nestlé to cut plants, products as prices soar”, Reuters, 12 July 2007.

18.4 per cent increase in net profit and 8.4 per cent sales growth on 15 August 2007. On the same day Nestlé CEO Peter Brabeck announced the release of US\$21 *billion* to shareholders through a three-year share buy-back scheme.

Few would doubt that this massive cash outflow – and not inflationary pressures – is the real reason for plant closures, job cuts and restructuring. A similar dynamic underpins Unilever’s “brave new dawn” of 20,000 job cuts. Unilever plans to release €30 *billion* in “surplus cash” to shareholders and raise shareholders’ rate of return on capital to 17 per cent by 2010.⁶

A decade ago *Fortune* magazine (quoted above) aptly described the dream of CEOs and CFOs in achieving securities analysts’ earnings estimates every quarter. Share prices rise and fall on the basis of this, as does the personal wealth of the corporate executives whose lucrative stock options neatly align their interests with institutional shareholders. Accompanying the 1997 *Fortune* article was a list of corporate tactics for reaching these quarterly earnings targets, including write-offs: “Take a ‘big bath’ and charge a few hundred million in restructuring costs, and meeting future earnings targets will be easier.”⁷ Indeed this is precisely what Nestlé, Kraft and Unilever executives have done over the past decade. And so the dream of CEOs and CFOs of meeting quarterly earnings forecasts has become a nightmare for hundreds of thousands of workers.

Playing the earnings game

The same scenario is played out again and again by the transnational corporations that dominate the global food industry: record sales growth and rising profits coincide with announcements of higher dividend payouts and share buybacks, together with the promise of more job cuts, closures, and divestments. Ratings agencies, securities analysts and fund managers applaud such moves (praise that boosts share prices), then demand more of the same. More restructuring, more consolidation, and more cash flow. Thus we see the “financialization of management goals” whereby corporations’ own earnings and growth projections are increasingly determined by financial market expectations and not by what is feasible in real terms.⁸

As Zorn and Dobbin observe in their extensive survey of US companies: “Whereas stock price used to rise and fall on the strength of the profits per

6. Unilever 2003 Annual Report & Accounts and Form 20-F, p. 8; cited in P. Elshof, *Unilever: Corporate Company Profile*. Part of the Company Monitor Project of FNV Mondiaal, FNV Mondiaal/Food World Research & Consultancy, Jan. 2005, p. 14.

7. *Fortune*, 6, 31 Mar. 1997, p. 76.

8. R. Mitchell, A. O’Donnell and I. Ramsay, *Shareholder Value and Employee Interests: Intersections Between Corporate Governance, Corporate Law and Labour Law*. Centre for Corporate Law and Securities Regulation and Centre for Employment and Labour Relations Law, University of Melbourne, 2005, p. 8.

se, now it rose and fell on the strength of profits vis-à-vis analysts' forecasts."⁹ Moreover, it is not the projections alone that shape management behaviour, but the positive, public statements they must elicit from analysts and fund managers. Ultimately, "analysts' recommendations proved more important than their profit projections".¹⁰ This also works in reverse. Negative comments from analysts could send share prices plummeting.

When Nestlé announced its record profits of 7.995 billion Swiss francs and sales of 91.075 billion Swiss francs in February 2006, the barometer for its success was the extent to which the world's largest food company had met or surpassed the earnings and sales estimates of market analysts. A Reuters poll of 19 analysts projected an expected net profit of 7.99 billion Swiss francs and sales of 92.1 billion Swiss francs.¹¹ As a result, "the company was able to comfortably beat analyst estimates" and was rewarded with positive comments from these very same analysts.¹²

A leading analyst from Kepler Equities declared that Nestlé is "a super-tanker of a company which is moving in the right direction"¹³ while fund managers like First Eagle and Oakmark Global continued buying Nestlé shares, declaring them to be significantly undervalued. Positive commentaries from market analysts and fund managers continued as more plans to cut costs to generate cash flow were announced. On 12 April 2006, Standard & Poor's reaffirmed Nestlé's AAA rating and revised its outlook from "negative" to "stable". The next day share prices rose.¹⁴

In contrast, Kraft failed to meet analysts' quarterly estimates and was subjected to even greater pressure from ratings agencies and fund managers. Lehman Brothers, for example, downgraded Kraft Foods "because of the absence of short-term triggers".¹⁵ Sell-offs and downsizing, including an 8 per cent cut in its global workforce (8,000 jobs), were simply not enough. The message from analysts and fund managers was clear: Kraft had to make

9. D. Zorn and F. Dobbin, "Too Many Chiefs? How Financial Markets Reshaped the American Firm", prepared for the Conference on Social Studies of Finance: Inside Financial Markets, University of Constance, May 2003, p. 9; see also D. Zorn, F. Dobbin, J. Dierkes and M.-S. Kwok, "Managing Investors: How Financial Markets Reshaped the American Firm". In K. Knorr-Cetina and A. Preda (eds): *The Sociology of Financial Markets*, New York, Oxford University Press, 2004.

10. D. Zorn and F. Dobbin, "Too Many Chiefs? How Financial Markets Reshaped the American Firm", prepared for the Conference on Social Studies of Finance: Inside Financial Markets, University of Constance, May 2003, p. 7.

11. "Nestlé Profits Hit Record in 2005", FoxNews.com, 23 Feb. 2006.

12. "Nestlé outperforms in Q1", Food&DrinkEurope.com, 25 Apr. 2006.

13. Quoted in "Nestlé's 2005 net profit rises 21 per cent", *Associated Press Online*, available at www.ap.org/, 23 Feb. 2006.

14. "Revised credit rating underlines Nestlé's strength", FoodNavigator.com, 13 April 2006; Reuters, 12 Apr. 2006.

15. "Earnings Preview: Kraft Foods" (Associated Press), 17 Apr. 2006.

bigger, more far-reaching cuts before it would be rewarded with the kind of positive statements that Kraft executives needed to lift share prices.

For Unilever too, restructuring decisions were based not on any long-term investment plan geared towards real growth but on a series of desperate attempts to appease the short-term interests of financial markets. In 1996 *The Economist* reported on the dissatisfaction expressed by financial market analysts and fund managers with Unilever's performance. The criticism of analysts was that the £490 million restructuring to close plants across Europe was not enough. According to *The Economist*, "the decimation of its food factories in Europe has left 140 survivors, far too many, in the view of analysts".¹⁶ Just four years later (in 2000) Unilever executives launched their "Path to Growth" strategy, closing more plants and selling off 140 businesses worldwide and generating a €7.3 billion cash flow.

But this was still not enough. *The Economist* again reiterated securities analysts' criticisms of Unilever in September 2004, stating that after "seven quarters of disappointing performance, it needs to regain credibility with investors".¹⁷ Regaining credibility meant deeper cuts and more cash returns to shareholders. In just *eight weeks* in 2005 Unilever spent €500 million in share buy-backs, boosting its own share prices to the benefit of shareholders and the top executives who receive stock options as part of their remuneration packages. Everything Unilever executives did from that point onwards – including the sale or closure of the company's most productive plants in Europe – was driven by a desire to play the quarterly earnings game.

This earnings game has a far-reaching impact on the corporate growth and restructuring strategies that shape and reshape global production systems. It reflects both the market power of securities analysts, fund managers and ratings agencies, and the increased power of institutional investors – a power shift facilitated by two decades of financial market deregulation. It is not the "invisible hand" of self-correcting financial markets that is at work, but the active intervention of ratings agencies, securities analysts, fund managers and investment banks that have a direct interest in dictating the restructuring strategies of corporations, where the primary goal is to generate cash *outflows* that feed financial markets. This dynamic is critical to our understanding of global production systems. It is not only the instability wrought by financial speculation that impacts on global production and employment, but financial *manipulation*.

16. "Unilever's food business: Munching on change", *The Economist*, 6 Jan. 1996, p. 58.

17. "Path to no growth", *The Economist*, 25 Sep. 2004, p. 74.

Focusing on the core

This financial manipulation by institutional investors and securities analysts has exerted pressure on Nestlé, Kraft and Unilever to restructure to focus on “core competence” – a process of consolidation that in turn creates an environment of *continuous restructuring*. As Zorn and Dobbin argue: “‘core competence’ arose to replace the diversification strategy in part because institutional investors and securities analysts found it hard to place a value on the conglomerate, and used their power (to rate firms and to invest funds) to raise the stock prices of firms that operate in a single industry.”¹⁸

This focus on core competence exerts pressure on companies like Kraft Foods to “shrink to grow”.¹⁹ Securities analysts and fund managers demand that the company reduce its brand portfolio and become more focused. Although the focus on core competence is described as “an industry concern” or an “industry trend”, it is not the food industry but fund managers who are orchestrating this consolidation. Goldman Sachs, for example, warned investors to take a “cautious view” of the packaged food industry since food companies need to focus on their core business.²⁰ It is in this context that Goldman Sachs announced that: “Kraft’s sustainable growth plan – focused on building brand value, cost-cutting and business simplification – is showing signs of traction, but we expect a more meaningful turnaround to take several more years.”²¹ This assessment was reinforced by Credit Suisse First Boston’s leading food industry analyst in March 2006, who called for Kraft to be broken up into “more focused entities”, suggesting it be split into four separate businesses.²²

Unilever faces similar pressure to split its food division and personal care goods division into separate companies. The sale of its Birds Eye frozen foods division employing 3,500 workers in Europe – a move advised by Goldman Sachs – alleviated some of this pressure.²³ The sale to a private equity fund managed by Permira generated €1.2 billion in cash that was channelled directly into share buy-backs and dividends. But the refusal of executives to split up the company has led to speculation of a hostile takeover bid. Ironically,

18. D. Zorn, and F. Dobbin, “Too Many Chiefs? How Financial Markets Reshaped the American Firm”, Prepared for the Conference on Social Studies of Finance: Inside Financial Markets, University of Constance, May 2003, p. 5; N. Fligstein and L. Markowitz, “Financial Reorganization of American Corporations in the 1980s,” in W. J. Wilson (ed.): *Sociology and the Public Agenda*. Newbury Park: Sage, 1990; E.W. Zuckerman, “Focusing the Corporate Product: Securities Analysts and De-Diversification”, *Administrative Science Quarterly*, 45, 2000, pp. 591–619.

19. Jeff Neff, “Can Kraft Shrink to Grow?” *Food Processing*, May 2004, p. 37.

20. “Kraft spin-off moves closer to becoming reality”, Foodnavigator-usa.com, 19 Oct. 2005.

21. “Earnings Preview: Kraft Foods”, Associated Press, 17 Apr. 2006.

22. “Disillusioned analyst ponders Kraft breakup”, *Chicago Business*, 7 Mar. 2006.

23. *Ice Cream Reporter*, 20 Sep. 2005.

most reports suggested at the time that Goldman Sachs was putting together a £30 billion leveraged buyout of Unilever.²⁴

While such orchestrated financial pressure drives consolidation and divestment decisions, there is also support for large-scale acquisitions of other food companies. This apparent contradiction is explained by the focus on intangible assets as a source of increased corporate value. The value of corporations is measured not in terms of their physical assets, productive capacity or output, but by the weight of intangible financial assets – the brands, trademarks and patents that finance intra-company transfers of royalties. Financial market pressure to cut brands or support for acquisitions depends on the cash flow that brands can generate. In the case of Unilever only a couple of hundred core brands are generating the bulk of its cash flow and so investors and analysts have pressured the company into cutting its brand portfolio from 1,600 to 400 brands.

Acquisitions within the food industry are welcomed by financial markets so long as they add to the overall portfolio of cash-generating brands. The Altria Group's institutional shareholders did not oppose the US\$14.9 billion takeover of Nabisco because it was mainly financed through the sale of Kraft shares in its initial public offering (IPO). It was also welcomed because 90 per cent of Nabisco's brands are number one in their category in the US market, offering a steady cash flow that would add to Kraft's top-line cash-generating brands. Careful to appease institutional shareholders, the Chairman and CEO of Altria Group (Philip Morris) still had to frame the deal in terms of increased shareholder value, promising that: "We firmly intend to continue rewarding our shareholders with our share repurchase and dividend programs."²⁵

Nestlé has also been careful to appease institutional shareholders when acquiring food and nutrition companies.²⁶ The US\$10.3 billion acquisition of Ralston Purina in 2001 was described as a process of "shareholder value creation", as were the billion dollar takeovers of Novartis Medical Nutrition and Gerber in 2007.²⁷

24. This would require a bid of £75 billion with the balance made up of debt. Andrew Dewson, "Market Report: Goldman turns to Unilever after ITV bid fails", *The Independent*, 1 Apr. 2006; "London shares remain weak at midday as miners slip on profit taking, ITV drops," AFX News Ltd., 31 Mar. 2006.

25. "Philip Morris acquires Nabisco for \$55.00 per share in cash and plans for IPO of Kraft", *Business Wire*, 25 June 2000. At the time Kraft executives promised shareholders annual earnings increases of 15 per cent, although earnings growth only reached 2 to 3 per cent and was reported as falling below market analyst estimates each quarter. In turn this led to punishment from investors, with share prices falling gradually. So while share prices rose 40 per cent in the first 12 months after the IPO in 2001, by 2005 Kraft shares had fallen below the IPO price.

26. This figure is based on the company's own profile on the World Economic Forum web site: www.wef.org.

27. "Nestlé: Green light for Ralston Purina acquisition", Nestlé press release, 11 Dec. 2001.

Creating shareholder value (at any cost)

A recurrent and prevailing theme in *all* of the company documents and presentations to investors by Nestlé, Kraft and Unilever executives since 2000 is the creation, prioritization and maximization of *shareholder value*. This is common to large corporations in virtually all manufacturing and non-financial service industries today, where shareholder value – “measured according to increasing returns on capital employed and rising share prices” – has become “an index of management success”.²⁸

For the pension funds that hold two-thirds of Nestlé’s shares, the management’s strategy of ruthless restructuring to generate cash for dividends and share buy-backs has indeed been a success. Following the restructuring that generated cash flow of US\$1.5 billion in 2001–03, the mere promise of further restructuring to finance share buy-backs led to a 28 per cent jump in share prices.²⁹ Subsequently another US\$2.5 billion was generated from restructuring from 2003 to 2005. A total of US\$3.3 billion was then transferred to shareholders through share buy-backs in 2005 and 2006. But the greatest boost to shareholder value came with the announcement of the new US\$21 billion buy-back scheme for 2007–10.

The extent to which shareholder value has been institutionalized in corporate plans and growth strategies is exemplified by the presentation to Morgan Stanley by the Chairman of Unilever NV, Antony Burgmans, in November 2004. In this presentation three “global dimensions” of Unilever are listed:

- Scale and geographic reach.
- Track record and control of costs and capital.
- Commitment to shareholder value.

The third point is repeated throughout the presentation, with the concluding bullet point putting to rest any fears among institutional shareholders that management is hoarding funds for outrageous uses such as re-investment in production: “Unilever fully committed to driving shareholder value”.³⁰ This

28. R. Mitchell, A. O'Donnell and I. Ramsay, *Shareholder Value and Employee Interests: Intersections Between Corporate Governance, Corporate Law and Labour Law*. Centre for Corporate Law and Securities Regulation and Centre for Employment and Labour Relations Law, University of Melbourne, 2005, p. 8.

29. “Nestlé is starting to slim down at last, but can the world’s No.1 food colossus fatten up its profits as it slashes costs?”, Business Week Online, 27 Oct. 2003, available at: www.businessweek.com.

30. Unilever Global, presentation to Morgan Stanley by Chairman of Unilever NV, Antony Burgmans, 3 Nov. 2004.

commitment is realized in the release of €16 billion in cash to shareholders in 2000–04 and €30 billion in 2005–10.³¹

Executives at Kraft Foods have taken similar steps to reassure institutional investors and securities analysts of their commitment to shareholder value. Presentations to investors explicitly refer to the mass lay-off of 14,000 workers and closure of 40 plants from 2000–08 as “unlocking shareholder value”.³²

There is a crucial link between delivering shareholder value and the “flexibilization” of the workforce through outsourcing and other precarious employment arrangements:

... [G]reater vulnerability to hostile takeover bids and the presence of large institutional investors anxious for quarterly improvements in share price, all of which entrench a narrow understanding of ‘shareholder value’ as the dominant objective of corporate management. This in turn demands flexible employment arrangements which allow for short-term adjustments in labour costs.³³

This link is illustrated by Unilever’s presentation to investors in 2003 which includes a slide entitled “Improving asset efficiency – Releasing cash” where increased outsourcing of production from an average 15 per cent to more than 25 per cent is listed as an achievement.

Nestlé management has institutionalized precarious employment through outsourcing to deliver shareholder value. This is apparent in the implementation of its GLOBE Program (involving the global standardization of data management and information systems). Of the 170 plants around the world where GLOBE has been implemented, 83 are Nestlé plants and 87 are co-packing plants or third-party contractors. Stringent quality control and product specification arrangements are made under legally binding “technical agreements” that give Nestlé managerial staff power to oversee every step of production in a third-party operation. Despite this far-reaching managerial authority, Nestlé denies any employer responsibility for the tens of thousands of workers hired by co-packers under precarious employment arrangements. This flexibility has been institutionalized throughout the company’s global production system for the sole purpose of maximizing shareholder value.

Maximizing shareholder value is of direct, personal interest to the top executives of Nestlé, Kraft and Unilever. In addition to 17.5 million Swiss francs in salaries for 2004, Nestlé’s executive management received 7 million Swiss francs in shares and 13 million Swiss francs in stock options. Notably while cash remuneration remained the same from 2003 to 2004, the value

31. Carl Mortished, “Unilever scraps sales targets as profits rise”, Times Online, 13 Feb. 2004.

32. “Kraft spin-off moves closer to becoming reality”, 19 Oct. 2005, Foodnavigator-usa.com.

33. R. Mitchell, A. O’Donnell and I. Ramsay, op. cit., pp. 5–6.

of shares increased 58 per cent and share options increased 99 per cent, with these executives holding 77,156 shares and 562,159 options at the end of the fiscal year.³⁴

In Unilever, executives' stock options are tied to performance targets based not on productivity or profitability, but on the rate of shareholder returns. These returns must rank among the top third of a group of 20 companies including Nestlé, Procter & Gamble and Coca-Cola. In 2002 the Unilever Co-Chairman, Niall Fitzgerald, told senior managers that: "Our philosophy is if we are capable of beating them in the marketplace, then we are capable of beating them in shareholder value and you will be rewarded accordingly."³⁵ At the same time the company started issuing stock options to its executives as part of its expansion in the United States where they were "forced to play by American rules."³⁶ These rules were soon applied to the company as a whole. Under its "Reward for Growth" remuneration scheme share options were extended to 7,000 managers around the world.³⁷

This drive to maximize shareholder value extends to all corners of the global production system. When Unilever's Indian subsidiary Hindustan Lever Limited (renamed Hindustan Unilever) announced a 29 per cent rise in second-quarter net profit for 2007, it also announced its first ever share buy-back of US\$156 million. The announcement followed the 16 July lock-out of unionized workers at its Doom Dooma plant in Assam state, which employs 700 workers. Management is demanding that the union be disbanded and workers transfer to a new management-sponsored union as a condition for lifting the lockout.

In Mumbai the strategy of Unilever management to smash the union and cut costs involved the fraudulent sale of the plant to a shell company. All machinery was removed from the plant, compelling workers to pack laundry detergent by hand. Low productivity was then given as the reason for the plant's closure. This illegal closure led to the redundancy of 800 members of the Hindustan Lever Employees Union (HLEU), and is the subject of an IUF complaint at the OECD.³⁸

34. Figures based on information provided in Ethos, Nestlé – Proxy Analysis for the Annual General Meeting, 21 Mar. 2005. Nestlé's restructuring launched in 2001 involved linking managers' bonuses to profit margins. "Nestlé is starting to slim down at last, but can the world's No. 1 food colossus fatten up its profits as it slashes costs?", Business Week Online, 27 Oct. 2003.

35. "Options: Too much of a good incentive?", Business Week Online, 4 Mar. 2002.

36. Andrew Osterland, "Opting for Stock Options: Multinationals are still choosing to offer options", CFO: Magazine for Senior Financial Executives, Feb. 2002.

37. Interview with Natarajan Sundar, Vice President – Global Reward Expertise Centre at Unilever cited in "Performance-related pay", *Eureca*, 1 Apr. 2004.

38. "Rising sales, profits at Unilever spur shareholder value 'shakeup' – 20,000 jobs to be slashed", 3 Aug. 2007; "Union-busting at Unilever factory in Assam: Union must disband before lockout is lifted, management says", 17 Aug. 2007, available at: www.iuf.org.

There are numerous examples from around the world of the ways in which Nestlé, Kraft and Unilever have closed or sold off plants to generate higher short-term returns for shareholders. While the methods may vary from country to country and from workplace to workplace, the same global financial imperatives are driving this restructuring. Where unions are an obstacle to cost-cutting, closures and the introduction of precarious employment practices, *union busting* becomes a primary element of management strategies to impose this restructuring.

Feeding the locusts

As we have argued elsewhere, “Workers in virtually all sectors face the threat of rapidly changing ownership and the imposition of restructuring plans and short-term targets that are based on a financial market logic that places no value in real production, productivity or jobs.”³⁹ This logic is apparent in the drive for consolidation in Nestlé, Kraft and Unilever, where productivity and employment were irrelevant to corporate decisions on closures and divestments.

This is illustrated by Unilever’s sale of its European frozen foods division in 2006, cited earlier. Among the plants sold off was the Lowestoft complex in the United Kingdom. This plant, employing 800 unionized workers, received the UK’s Manufacturer of the Year Award in 2005 for boosting productivity and achieving cost savings of £20 million, in addition to the Unilever Excellence Award, a Special Award for achieving zero loss, and a safety record of 2 million accident-free hours.⁴⁰ Such achievements were irrelevant to Unilever management when they decided to sell the plant, together with other high performing plants in Europe. It is apparent that the *only* consideration was the desire to generate €1 billion cash for share buy-backs.

This desire for instant cash also explains why Unilever management opted to sell the European frozen foods division exclusively to private equity funds.⁴¹ A private equity buyout would generate a higher cash price since

39. We have discussed the broader impact of financialization on trade unions in an article published in *Labour Education*. See P. Rossman and G. Greenfield, “Financialization: New routes to profit, new challenges for trade unions”, *Labour Education*. Geneva: ILO, No 142, 2006/1, pp. 55–62.

40. “Unilever’s Suffolk operation celebrates double award”, Unilever, Jan. 2006. The plant was awarded the Best Factory Award as the top manufacturing site in the United Kingdom in 2004 due to its high productivity and cost savings of £10.5 million. The plant was also awarded the Cranfield School of Management’s Best Household and General Products Plant and the Best Factory in the East of England. “Factory of the Year shows future of food production”, FoodProductionDaily.com, 9 Nov. 2004.

41. Letters of intent were sought from private equity firms, including Hicks Muse Tate & Furst, Texas Pacific, Bridgepoint Capital, APAX, Lion Capital, Permira, PAI, Cinven, Candover and CapVest. “Unilever has decided to undertake a study into strategic options

these funds are highly leveraged and are willing to pay more for a company because they are able to strip its assets and extract more cash. Moreover, buyouts by private equity funds are treated as a form of *refinancing* rather than ownership change, so in addition to lower tax rates payable by Unilever, regulations protecting the rights of workers – such as the EU Acquired Rights Directive (ARD) – would not be applied. This means that a private equity fund could undermine trade union rights and collective bargaining more easily, paving the way to extract more cash at a faster rate.⁴²

Obviously the actions of Unilever in India demonstrate that the company is willing to bust unions and violate laws wherever and whenever management believes it can get away with it. But where companies like Nestlé, Kraft and Unilever are faced with significant legal and regulatory barriers to closures and mass lay-offs, private equity buyouts offer an attractive exit strategy. Selling to a buyout fund is like outsourcing the hatchet work to private equity funds that are free of any legal obligations as an employer.

A private equity buyout is also a preferred means of “asset disposal” for food corporations because it prevents the acquisition of plants and/or brands by major competitors within the industry. Private equity funds can be trusted to drive the acquired company or division further into debt, siphoning off cash at a rate that destroys productive capacity to a point where it offers little or no competition for supermarket shelf space.⁴³

The brutal logic of private equity funds is described in the IUF’s *A Workers’ Guide to Private Equity Buyouts*, published in June 2007:

Private equity firms buy a company as a financial asset with the potential to generate an instant cash flow to the new owners in the short term. Huge returns are generated through aggressive restructuring to cut costs and by financial reengineering based on large quantities of debt. *The billions of dollars involved in these deals must not be confused with productive investment: the goal is to suck cash out of the enterprise, not invest in production, services, or employees.*⁴⁴

for the future of its frozen foods business in Western Europe”, Unilever press release, 16 Sept. 2005; Ahmed El Amin, “Unilever explores options for European frozen foods”, food&drinkeurope.com, 19 Sep. 2005; Chris Starkie, “Unilever invests £21m in Birds Eye brand”, *Eastern Daily Press*, 24, 25 Apr. 2006; “Unilever’s Birds Eye attracts two more private equity bidders”, AFX News Ltd., 12 Feb. 2006.

42. IUF, *A Workers’ Guide to Private Equity Buyouts*, Geneva, June 2007.

43. Kraft Foods has followed a similar divestment strategy as it “shrinks to grow”. The Kraft Canada division was sold to the private equity firms Sun Capital Partners and EG Capital Group in 2005, and was subsequently reorganized into a new company named CanGro. But within 12 months of this “refinancing” the new management began selling off, cutting branded product lines and cutting unionized jobs. This restructuring is expected to have significant flow-on effects, since it reduces demand for agricultural produce supplied to the five plants by local growers.

44. IUF, *op. cit.*

It is precisely this dynamic that virtually bankrupted the Findus frozen foods company when it was sold by Nestlé to the private equity firm EQT in February 2000. Described by trade unionists as “six years of hell”, the experience of Findus workers illustrates the consequences of transnational food corporations using private equity buyouts as an exit option when disposing of assets for the sake of boosting shareholder value. Just four years after the acquisition, the union wrote to EQT management in January 2004 describing the Findus group as a “sinking ship”, adding that: “[I]t must be some kind of record in the Swedish food industry for a company to squander a billion Swedish kronor in three years.” With relentless cutbacks ongoing and debt mounting, the union asked: “When will you slam the brakes on this plummeting financial situation?”⁴⁵

Braving the new dawn

Unions increasingly find themselves operating in a more complex environment, with new forces driving workplace restructuring and undermining collective bargaining. This is an inherently contradictory process, often with unintended consequences and failed outcomes. But that does not lessen the damage to workers’ rights and interests, particularly employment security. In fact, it is precisely because this is a contradictory, flawed process that financialization is so damaging. If restructuring involving job cuts and closures fails to produce the results expected by financial markets (expressed via fund managers and securities analysts), and if shareholder value is not sufficiently increased in line with these expectations, then workers are likely to face *more* restructuring, cutbacks and closures, not less.

In response to ruthless restructuring, unions representing workers in Nestlé, Unilever and Kraft around the world have engaged in various forms of industrial action, including strikes and mass public rallies. Together with its affiliates the IUF has filed complaints against both Nestlé and Unilever for violating the *OECD Guidelines for Multinational Enterprises*.⁴⁶ In addition, the world’s largest corporations face mounting litigation by unions in several countries, including a significant Supreme Court case against Nestlé Philippines for illegal “labour-only” contracting.

In the workplaces owned and controlled by Nestlé, Kraft and Unilever a new logic to restructuring has taken root, shifting the terrain of collective

45. “Swedish Union Reps Describe 6 Years of Asset Stripping at Findus under EQT”, The IUF’s Private Equity Buyout Watch, 16 May 2007: www.buyoutwatch.info.

46. OECD, 2001, available at www.oecd.org. See also “Outlaw Conduct by Unilever Indian Subsidiary Prompts International Union Action at OECD”, 4 Oct. 2006; Nestlé Accused of Violating OECD Guidelines in the UK”, 4 Oct. 2006; Nestlé violates OECD Guidelines in Korea”, 26 Sep. 2003, available at: www.iuf.org.

bargaining. The motivation, logic and material interests underpinning management demands in bargaining have changed, and unions need to understand this change both in terms of its implications for employment security, working conditions and rights, and in developing counter-strategies to identify and exploit weaknesses in this new logic.

Trade unions in several countries, and across different sectors, are now scrutinizing the dynamics of financialization at all levels – the workplace, the corporation, the national economy and global production systems – exposing the weaknesses that can be exploited and identifying new targets for a broader political movement that is committed to reversing the ravages of financialization.

At loggerheads?

Global production chains and sustainable development in the forest industry

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Introduction

The start of the twenty-first century is characterized by a generalized globalization that has permeated most sectors of economic activity. The forest sector is no exception to this trend and increasingly marked by value-added chains spanning several continents. The practices for mobilizing ever larger volumes of wood have in many instances not been environmentally sustainable. At the same time, there is renewed awareness of the vital functions of forests for supporting life on earth. There have been numerous instances of conflict between economic and environmental interests and values. Irrespective of whether economic or environmental concerns prevailed, these debates have tended to eclipse the social role of forests and of the forest-based industries.

As a result, workers, and more generally people whose livelihoods depend wholly or partly on forests have often been at the receiving end of decisions about the use or protection of forests and treated as a residual quantity. Against this background of global value-added chains and international and national debates about sustainable development, the Building and Wood Workers' International (BWI)¹ and its affiliated unions have pioneered new approaches for advancing the interests of workers. Efforts have focused on the certification and labelling of forest products and on international framework agreements with multinational enterprises.

The article highlights the main elements of the transformation of the forest industry, the concerns about environmental sustainability and the importance of forests for employment and livelihoods. It discusses certification schemes as an instrument for promoting sustainable development, for improving the situation of workers and for providing new entry points to trade unions at the workplace, in national policy making and in global debates. Some of the lessons learnt are relevant to other economic sectors. They also yield pointers for ways trade unions can engage with debates that will have a major impact on the future of production and consumption patterns and hence on employment, such as the current negotiations of a new global climate regime to come into force in 2012 as a follow-up to the 1992 Kyoto Protocol.

1. The BWI is a Global Union Federation for the protection of workers in the building, building materials, wood, forestry and allied industries. It brings together some 12 million members of 350 trade unions in 125 countries. The BWI's mission is to promote the development of trade unions in the building and wood industries throughout the world and to promote and enforce workers' rights in the context of sustainable development.

Globalization in the forest industry

Globalization may have come later to the forest industry than to other sectors and it may still be less pervasive but it is clearly gaining momentum. The three indicators of globalization can all be observed: the volume of international trade of forest products has been growing much faster than output, foreign investments have been rising and with them the role of multinational companies. Finally, world prices have been forming for almost all products (ILO, 2001). A new international division of labour has emerged. Value-added chains across national borders, in some cases literally spanning the globe, have become a prominent feature of the sector. As a detailed analysis of the global shifts has been provided in ILO (2001) and a vast literature exists on forest trends, we will focus on the major changes observed in recent years.

Changing global patterns of trade in the forest sector

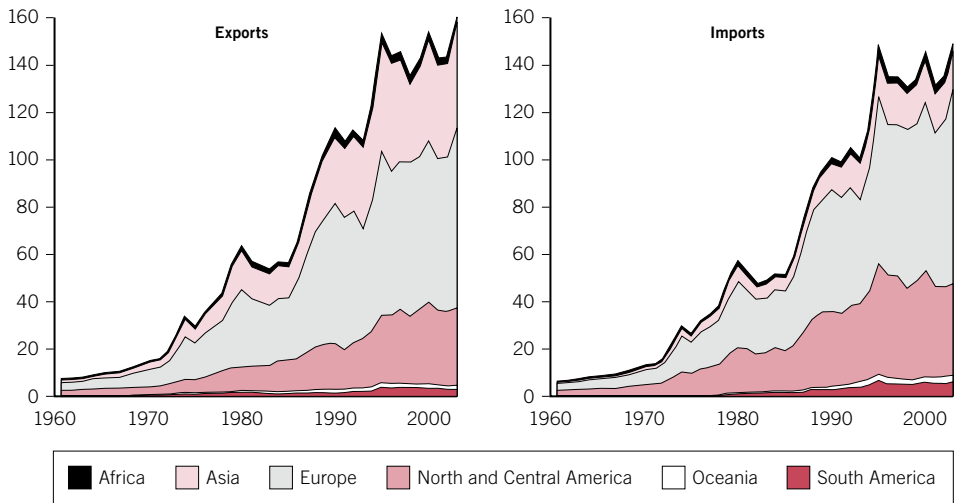
Forest production is dominated by ten forest-rich countries that account for two-thirds of the total forest area, namely, Australia, Brazil, Canada, China, Democratic Republic of the Congo, India, Indonesia, Peru, the Russian Federation and the United States (FAO, 2005a), and a number of countries with highly developed forest industries including Chile, Finland, Germany, Sweden and South Africa, among others. The total contribution of the forest sector to GDP in 2000 was modest but substantial: 1.2 per cent of world GDP, with 1.5 per cent in Africa and 2.1 per cent in South America (FAO, 2005b). In important producer countries the share can exceed 5 per cent. While the relative weight of the forest industry has been declining in traditional producer countries, it has risen in emerging ones.

Bowyer (2004) identifies four major factors that drive this change: globalization, the emergence of new players in wood products manufacturing and consumption such as China and the Russian Federation, the extensive development of fast-growing tree plantations and the development of wood-based composite products technology.

Between 1993 and 2003 the value of international trade in wood and wood products grew by 50 per cent from US\$100 billion to US\$150 billion (UNECE/FAO, 2003). The volume of exports and imports of wood products has been accelerating since 1960 (see figure 1). This rise is explained by several factors, namely production costs, exchange rates and investment in technology and infrastructure. In 2003, global exports of wood products were still dominated by Europe (55 per cent), North and Central America (26 per cent) and Asia (11 per cent). A significant trend is that Asia has become a very large net importer since the 1990s. In 2003, Asia's imports stood at about 27 per cent, Europe 48 per cent and North and Central America about 20 per cent (FAO, 2005b). North America, Oceania and South America are net exporters.

The consumption of wood as raw material for wood and paper products rose by 3.9 per cent between 2003 and 2004. In the future there may be significant additional demand for wood from new sectors, in particular the energy sector. This concerns both direct use of biomass for heat or power generation and biofuels. Woody biomass is one of the prime feedstocks for “second generation” liquid biofuels to be used as an additive to or substitute for gasoline in vehicles. This competition for raw material with the traditional processing industry may well have significant effects on the availability and price of round wood and other products. This, in turn, may well have negative effects further down the global production chain, including for employment.

Figure 1. Exports and imports of wood products by region, 1961–2003 (billion US\$)



Source: FAO, 2005b.

New “global players” in forestry: Enter China

Globalization has made forest products markets more open to foreign players. Particularly, the Russian Federation, Central and Eastern Europe increased their world trade after their transition to market economies in the 1990s. Russian Federation exports of round wood were equal to 37.4 million cubic metres, an increase of almost 80 per cent in the five years to 2003. They represent 33 per cent of global exports. The Russian Federation exports mostly to Finland (more than 80 per cent of Finland’s imports of round wood), China, Japan, Sweden and the Republic of Korea (Hashiramoto et al., 2004).

The other important new international trader is Asia, particularly China and India, where the economic and income growth increased the

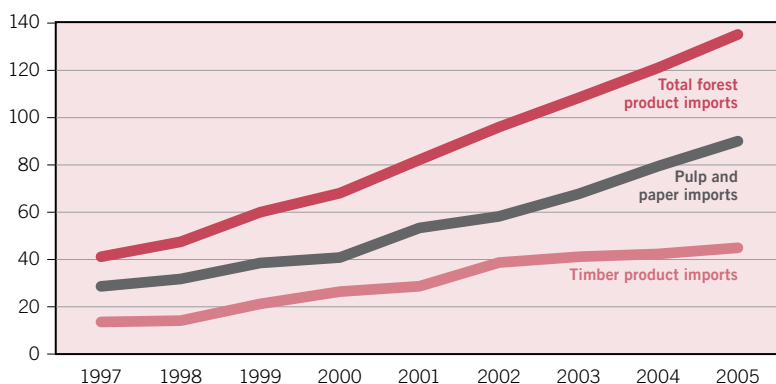
consumption of timber for infrastructure and furniture manufacturing. The most compelling development is the emergence of China as the leading producer and exporter of most categories of forest products.

In terms of demand for forest products China is now a leading country. Its imports more than tripled in volume (round wood equivalent) from 40 million to 134 million cubic metres between 1997 and 2005 (see figure 2). As can be observed in this figure, China has an important domestic value-added strategy. China is the largest importer of industrial round wood (27 million cubic metres, i.e. 23 per cent of the world total imports). Import demand for round wood has been aggravated by restrictions aimed at preserving domestic forests. China's round wood production was 95 million cubic metres in 2003 against 107 million cubic metres in 1998 (FAO, 2005b). Three main reasons are behind this development: the increasing domestic consumption, the increasing international demand for China's products and the limited per capita forest resources.

China's imports of raw logs for plywood increased between the 1990s and 2005 to the detriment of imports of plywood. Today, China's panel production capacity is equivalent to that of the United States. In 2001, the country became a net exporter of plywood. In 2005, China became the largest plywood exporter in the world. The consequence is that plywood produced outside China is facing higher competition due to the lower prices of China's products. Similarly, whereas in 1997 imports of paper were 70 per cent higher than those of pulp, pulp imports exceeded those of paper in 2005. China now has a domestic processing capacity to turn pulp into paper.

One of the most significant developments concerns furniture. Today, China accounts for 30 per cent of the world's furniture trade. Exports of wood furniture increased from 3.2 to 12.7 million cubic metres between 1997 and 2005 with a total value of about US\$14 billion. Exports of furniture to the United States and Europe have boomed since 1997. US imports

Figure 2. Recent trends in Chinese forest product imports (million m³ RWE)



Source: White et al., 2006.

from China have increased by 1,000 per cent and Europe's imports by 800 per cent for the same period (White et al., 2006).

As in other sectors, however, globalization has not simply meant more trade and more open markets. Cross-border investments by multinational companies have played a driving role in establishing global production and distribution networks.

Foreign investment and multinational companies in the forest sector

In recent years, forest financing was characterized by a steep increase in foreign direct investment (FDI) in developing countries to US\$8–10 billion a year (PROFOR, 2003). At the same time, official development assistance has decreased to US\$1.75 billion a year, making the private sector the dominant economic force.

In some countries, government policies have promoted foreign investment. Taking advantage of low production and raw material costs, these countries have expanded their market share for their products in Western Europe and are competing with Nordic producers. As an example, some Chinese companies are planning to invest in the wood processing industry in the Russian Federation for sawn wood production. Indeed, the Russian Federation aims to increase exports of forest products with a higher added value than round wood. Foreign investment has potentially a key role in the development of the Russian Federation's forest sector because of the lack of domestic investment caused by an undeveloped banking sector, difficulty in obtaining credit, and a general lack of interest in the forest sector among investors (Karjalainen et al., 2006).

In China, the use of foreign investment is increasing steadily in the forest sector. In 2004, total funding was about US\$633 million, which is 1.7 times that of 2003. FDI is equal to US\$357 million or 57 per cent of total foreign investment in the sector. Almost 83 per cent of foreign funds are concentrated on fast-growing plantations and the bamboo processing industry. Conversely, a total of US\$300 million has been invested by Chinese enterprises for overseas forest projects (CINTRAFOR, 2006).

Argentina still has large untapped potential for plantation forests and wood processing. This has attracted Chilean forest products companies whose investments represent over 60 per cent of the foreign capital that has flowed into the Argentine forest products sector this decade. In the smaller neighbouring country of Uruguay, two pulp mills currently under construction at a cost of US\$1.5 billion are the largest investment project ever in that country. Several US and European companies have also established themselves in low-cost producer countries such as Argentina, Brazil and Uruguay.

Multinationals are able to optimize their supply chain and maximize their profits by sourcing their products from around the world through a network of subcontracted suppliers or their own production facilities. The pursuit of economies of scale, and the search for bigger markets have led to an increasing number of multinational corporations (MNC) with the arrival of new firms from emerging economies such as Chile, Indonesia, and South Africa, but also to an increase in average-size firms through numerous mergers in the forest sector. Brief portraits of some leading transnational producers and retailers forest products illustrate how the structure of the sector is being transformed.

Weyerhaeuser is one of the world's largest producers of wood as well as paper products. Founded in 1900, the company ranked 89th of all enterprises in the United States in 2005. The managed forests of the company are about 15 million hectares (equivalent to the total forest area of Austria, Germany and Switzerland combined). The company has grown through a number of mergers and acquisitions of large North American rivals such as MacMillan-Bloedell in Canada in 1999 and Domtar paper in the United States in 2006, but has also expanded in Australia, Asia and South America. It has about 53,600 employees in 18 countries. Annual net sales and revenues in 2005 were equal to US\$22.6 billion.

International Paper is a US-based corporation with operational headquarters in Memphis, Tennessee. It has been one of the world's largest paper and forest products companies, focusing on printing and office paper, consumer and industrial packaging and forest products. In the late 1990s it acquired large US rivals, Champion International and Union Camp. International Paper owns 6.8 million acres of forest land in the United States, and owns or has harvesting rights to another 1.7 million acres in Brazil and the Russian Federation. It operates 19 pulp and paper mills, 94 converting plants and five wood products facilities in the United States as well as eight mills and 44 converting and packaging plants in Europe, Asia and Latin America. Sales were US\$22 billion in 2006 and the firm had 60,000 employees, of which 18,000 were outside the United States.

Stora Enso is an integrated paper, packaging and forest products company created through the merger of two large companies, one Finnish, one Swedish. It is a global market leader in publication and fine papers, packaging boards and wood products and one of the five largest paper companies worldwide. In recent years, Stora Enso's development drive has been geared to the emerging markets, particularly those of China, the Russian Federation and South America. In September 2005, Stora Enso started buying land in Uruguay and southern Brazil with the aim of acquiring 100,000 hectares of plantation area in each country to provide enough fibre to feed modern greenfield pulp mills in both Brazil and neighbouring Uruguay. In January 2008, the company announced plans to greatly reduce its manufacturing capacity with the proposed closure of a number of its Finnish mills.

UPM, originally known as UPM-Kymmene when the two companies merged in 1996, is among the ten leading papermakers globally with annual production capacity of 12 million tonnes and is the world's largest producer of magazine papers. The company has pulp and paper mills in 15 countries, including Canada, China, Finland, France, Germany, United Kingdom and United States. In September 2005, UPM completed the new 430,000 tonne fine papers machine at the Changshu mill in China, fully owned by the company since 2000. This increased UPM's total investment in China to over US\$1 billion.

Nippon Paper Group (formerly Nippon Unipac Holding) was created by bringing together rivals Nippon Paper Industries and Daishowa Paper Manufacturing, resulting in the largest paper producer in Japan with a market share of about 40 per cent. It has 17 mills in Japan, and overseas operations in Australia, Canada, Chile, China, Finland, New Zealand, the Russian Federation, South Africa, and the United States. The pulp and paper segment is the principal segment of the company and accounts for more than 75 per cent of total sales (77 per cent in 2003). The company employs 13,774 workers.

An example of a multinational enterprise from an emerging economy is the **Asia Pulp and Paper Company**, registered in Singapore but operationally based in Indonesia. It is one of the world's largest vertically integrated pulp and paper companies and can produce 2 million tonnes of market pulp annually and more than 5 million tonnes of paper and packaging materials each year. The company's 2004 sales were estimated at US\$3.47 billion. The company's estimated workforce is 70,000.

Other examples of multinationals from emerging economies are Anglo-American PLC (formerly Mondi) and Sappi, both originally from South Africa and, like Asia Pulp and Paper, among the 20 largest forest product companies in the world.

Growth of producers has mirrored a trend in the retail sector at the top of the value-added chain. In addition to the publishing houses as dominant buyers of paper, a number of increasingly large DIY (do-it-yourself and home improvement) retailers have emerged and have become major customers for wood products. The sales figures presented here represent total sales for these companies, which include significant sales of wood products.

Among these are the UK-owned **Kingfisher Group**, which includes a number of subsidiaries particularly in Europe, such as **B&Q** in the United Kingdom (324 stores), **Castorama** in France (98 stores), and **Hornbach** (21 per cent owned) in Germany and Switzerland. Kingfisher also has significant operations in Ireland (eight B&Q stores), Spain (ten Brico Depot stores), Italy (29 Castorama stores), Poland (market leader with 37 Castorama stores), the Russian Federation (four Castorama stores), China (controlling majority interest with 60 B&Q stores) and Turkey (50 per cent owned with 12 stores). In 2006–07, Kingfisher sales totalled around US\$17 billion.

A similar trend can be observed with the growth of the North American market leader **The Home Depot**. In 2006, this company reported sales of over US\$90 billion with retailing operations in all US States, ten Provinces of Canada, as well as Mexico and China.

In the furniture retailing sector, **IKEA** stands out as the market leader globally with total sales of around US\$29 billion from its 239 directly owned stores (expected to become over 260 in 2008) in 24 countries worldwide, and around 30 franchised stores in a further 16 countries. In total, the IKEA group employs around 90,000 workers. Perhaps a lesser known fact is that IKEA has a directly owned subsidiary, **Swedwood**, which employs almost 15,000 workers in furniture production. Swedwood's production operations are mainly in Central and Eastern Europe, with plans for further expansion in North America.

It is noteworthy that the leading retailers tend to be significantly larger than the biggest producers. The Home Depot has more than three times the turnover of the largest forest products company. IKEA's sales are about ten times the turnover of the largest furniture producers and more than double the furniture exports by China – the world's largest and in which IKEA has a significant share. These differences in size also imply skewed relations in bargaining power – a feature that has played a critical role in the emergence of certification and labelling systems for forest products.

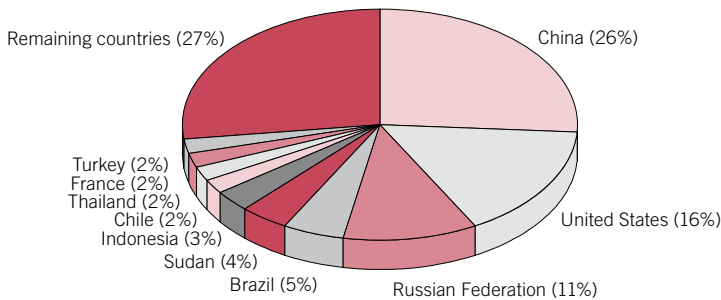
Low-cost raw material for a global industry: The development of fast-growing plantations

Free trade has increased competition between countries. One result is that wood production has been shifting towards forest plantations as a cheap source of fibre. The plantations are commercial forests typically of a single fast-growing tree species, in particular pine or eucalyptus. They are managed intensively and in cutting cycles of only 7–15 years for pulpwood and 25–40 years for timber (FAO, 2001).

As figure 3 shows, East Asia, Europe and North America have by far the largest area of forest plantations, accounting for about 63 per cent of global productive plantations. In East Asia, most of the plantations are in China, but the majority of these have been established for protective purposes and are not productive.

There were about 109 million hectares of productive forest plantations in 2005 (2.8 per cent of the global forest area). In 1990, productive plantations were about 1.9 per cent of total global forest area and 2.4 per cent in 2000. Between 1990 and 2000 an increase of 2 million hectares per year is observed. This increase became about 2.5 million hectares per year between 2000 and 2005. In spite of their limited share of total forest area, plantations are estimated to have supplied 35 per cent of global round wood,

Figure 3. Ten countries with largest area of productive forest plantations, 2005 (%)



Source: FAO, 2005a.

a share projected to rise to 44 per cent by 2020 (FAO, 2001 and 2005). Significant areas of highly productive plantations exist in Australia, Brazil, Chile, Indonesia, New Zealand, the southern United States and Uruguay. The total area of forest plantations in Argentina is now approaching 1 million hectares, a fraction of the potential.

Forest plantations give rise to a number of concerns regarding their environmental impact. As will be seen below, they have also been the segment of forestry where the instrument of forest certification has made most inroads.

Forest and the environment

Forests play an important role as a source of wood, but also non-wood products and hence as a source of economic growth, employment and income. At the same time they are a vital part of the natural systems, which support life on earth.

According to the FAO of the United Nations (UN) forests cover about 3,870 million hectares, or 30 per cent of the earth’s land area (FAO, 2005a). These enormous forests, particularly those in the tropics, are the world’s richest ecosystems in terms of biodiversity, harbouring the vast majority of plant and animal species. Forests also play a major role in regulating local and regional water cycles and weather regimes. The rekindled debate about climate change in recent years has reminded the world that forests are also important sinks of carbon dioxide.

The rapidly growing world economy and a growing population in most parts of the world have put more pressure on forests as a source of timber but even more to give way to agricultural land and settlements. Between 1990 and 2005 about 11 million hectares of forests or 0.65 per cent of the total forest area have been lost each year. Deforestation and degradation of forests from 1990 to 2000 were responsible for 10–25 per cent of all greenhouse gas (GHG) emissions globally (Forner et al., 2006). In Brazil, for example,

deforestation is responsible for three-quarters of all GHG emissions. Because of deforestation Brazil and Indonesia are among the largest emitters of GHG worldwide. Given the urgency of halting and reverting the increase of GHG emissions from all sources by around 2020, the United Nations Climate Change Conference in Bali in December 2007 decided to include measures aiming at “avoided deforestation” into the negotiations for a climate regime to replace the current Kyoto Protocol. Even before new legal arrangements are in place, the Government of Norway has allocated US\$2.5 billion to assist efforts in developing countries to reduce deforestation between 2008 and 2013. Given the current surge of prices for most agricultural commodities and the additional demand for biofuels, authorities attempting to curtail deforestation face an uphill struggle.

One of the consequences of the rising demand for wood, particularly in Asia, has been a major increase in illegal logging resulting in forest degradation or outright deforestation. Ironically, the trend has been aggravated by logging bans in numerous countries aiming to protect dwindling national forests. Economies with higher standards of living and the emerging economies have played a particular role in illegal logging and trade expansion mostly in poor countries. According to the former director of the Centre for International Forestry Research (CIFOR), David Kaimowitz: “An increase in China’s imports of forest products has not only created an opportunity, but also a problem. It has greatly increased the pressure on most Indonesian forests. Indonesia is the largest source of plywood and lumber products for China, the most populous country on earth” – and also one of the major suppliers for production chains, as seen above.

According to a global environmental NGO, World Wildlife Fund, “up to 65 per cent of WWF’s Global 200 forested ecoregions are threatened by illegal logging that occurs in all types of forests, from Brazil to Canada, Cameroon to Indonesia”. In some countries in Africa, Latin America (Brazil) and South-East Asia, up to 80 per cent of all trees are cut illegally. In the Russian Federation, the figure reaches 50 per cent. Illegal logging constitutes 8–10 per cent of global wood product production (UNECE/FAO, 2005).

Illegal logging not only causes environmental damages, particularly in the poorest countries; it also costs governments billions of dollars (through the loss of tax revenues), promotes corruption, undermines the rule of law and good governance, funds armed conflict and promotes the expansion of the informal sector. At least US\$10–15 billion a year are lost in Asia, according to the World Bank. The Russian Federation loses US\$1 billion in revenue annually due to illegal logging and trade (GFS, 2005).

Illegal and unsustainable logging also typically mean poor standards of employment and lead to a long-term loss of employment and the destruction of local livelihoods. Some of the worst abuses of workers such as forced labour as well as threats and violence against indigenous peoples are often associated with illegal logging, for example in Brazil, Indonesia and Myanmar.

Forest plantations are often advanced as an alternative source of raw material and a way to avoid the use of natural forests. Nonetheless, plantations are often the subject of polemic debates about their environmental impacts. The concerns include reduced biodiversity in large-scale monocultures increasingly using cloned trees, particularly where they replace diverse natural forests. Plantations also rely on the use of fertilizers and pesticides as well as heavy machinery. The rapid expansion of plantation area may be boosted further in the future by demand for more fibre and other biomass not just for forest products but for energy. This expansion is a threat to natural forests. The spread of palm oil plantations in former forest areas in Indonesia to produce food oil and biodiesel is a case in point.

Both the reshaping of the industry through globalization and the environmental issues have had a direct impact on the number of employment and income opportunities in the sector and on the quality of jobs.

Employment trends in the forest sector

Forestry is characterized by two rather different groups of workers: those in the registered industrial sector and a much larger group in the informal economy, relying on forests for part of their subsistence rather than as a source of cash income. Informal employment in subsistence uses such as fuel and non-wood forest product collection and in processing and manufacturing in micro- and small enterprises actually account for the vast majority of employment in the forestry sector. An estimate by the ILO suggests there are one or two informal jobs in the forest sector for each formal job (ILO, 2001). Informality is intimately linked to poverty and very low employment standards. It is characterized by a lack of rights and often poor, sometimes unsustainable livelihoods. Some aspects, such as conflicts between commercial and subsistence uses are discussed in ILO (2001). There is, however, very little documented information about the way globalization has affected informal employment in the forestry sector.

The global formal sector employs 0.4 per cent of the world's workforce. Formal employment increased by 4 per cent from 12.4 million in 1990 to 12.9 million in 2000. In addition at least 3.5 million workers were employed in the furniture industry during this period.

The three main subsectors are forestry (3.5 million employees in 1990), wood industry (4.6 million) and the pulp and paper industry (4.1 million) (see table 1). Workers are almost equally divided between these subsectors (table 1). However, this trend is changing as job opportunities in forestry are increasing. Furthermore, one job in forestry led to fewer jobs in the wood and pulp and paper industries in 2000 than it did in 1990.

Traditionally the share of formal employment in the forest sector of the total workforce is higher in industrialized countries where forest processing

Table 1. Forest sector employment (millions)

Year	Forestry	Wood industry	Pulp and paper wood	Global
1990	3.5	4.6	4.3	12.4
2000	4.2	4.6	4.1	12.9

Source: Lebedys, 2004.

industries are developed. But this share decreased in North America, Western Europe, the industrialized Asia-Pacific Region and in Eastern Europe between 1990 and 2000. An opposite trend is observed in some developing regions where forestry activities have expanded during this period, often through plantations (ILO, 2001; UNECE/FAO, 2005).

Jobs have not only been shifting between regions. In tandem with accelerating globalization and concentration at the upper end of the supply chain, the outsourcing of operations at the bottom of the chain (for example, forest harvesting and transport to numerous and mostly small contractors), has become a characteristic feature of the industry. These small firms and their workers have low levels of organization and limited bargaining power.

The global level of employment in the forest sector is affected by fluctuations in employment in China. In 2000, China accounted for 24 per cent of the global employment of the sector. In 1998, a reduction of global employment in the forest sector was explained by the massive drop of forest-related employment in China following the imposition of a logging ban affecting 40 per cent of the national forest area which made more than 1 million forest workers redundant while sharply increasing the need to import wood (ILO, 2001).

Environmental policies like logging bans have an immediate employment impact but they are not the cause of the job losses. Rather, they result from unsustainable forest management and illegal logging. Even without logging bans poor forest management ultimately costs jobs. Indonesia, the largest exporter of veneer and plywood, has reduced its exports to 5.1 million cubic metres in 2003 from 7.2 million cubic metres in 1998, a reduction of about 30 per cent and a sign of increasing raw material shortages (FAO, 2005b). This decline has been accompanied by a loss of more than 60,000 jobs and an attrition of union membership.

In many developing countries forest management is directly linked to poverty. The majority of the world's poor live in rural areas, often close to forests. A better and more productive use of forests is going to be a way out of poverty only for a small proportion of the rural poor. Exclusive claims to forests, be it by commercial interests of forest industries or by environmental protection will often add to the immediate plight of the local poor. It is therefore essential that decisions about forest management or protection take into account the needs of local communities and enable them to be part of making the decisions which will affect their lives. Unions can play a role in articulating these interests.

Efforts to reconcile globalization and sustainable development

The contradictions and conflicts between a global and increasingly competitive industry and local as well as global environmental interests and values have induced several policy instruments which have provided new opportunities for trade unions to promote the interests of their members and of forest-dependent people more generally. These include national criteria and indicators for sustainable forest management as a guide for national forest policies, forest certification and labelling and global framework agreements with multinational companies. Each will be explored in turn.

Criteria for sustainable forest management

Sustainable development is different from sustainable yield, a principle well known in the forest community. While sustainable yield is only concerned with ensuring a perpetual and stable flow of timber for human use, sustainable development of the forest encompasses the land and the multiple economic and environmental values of forests. According to the 1992 United Nations Conference on Environment and Development (UNCED), “forest resources must be managed in order to meet the social, economic, ecological, cultural and spiritual needs of the present generations without compromising the need of future generations”. Employment, incomes and livelihoods as well as the rights of workers and local communities are central to the social dimension of sustainability. (For a discussion, see Poschen (2000).) Not least because of the efforts of trade unions to highlight the social dimension, sustainable forest management is today widely acknowledged in international fora like the FAO or the International Timber Trade Organization (ITTO) as well as in national forest policies.

Advances in national policies have been spurred by certification schemes. Following the introduction of certification, more comprehensive objectives and indicators were adopted for national forest policies through regional inter-governmental “processes”. For example, the Montreal process on criteria and indicators for conservation and sustainable management of temperate and boreal forests was implemented in 1993. It is a process utilizing criteria and indicators to provide a framework for determining the status of ecological, economic, and social conditions of forests. Certification and labelling schemes, by contrast, are voluntary rather than legally binding. They are operated by non-governmental organizations and directed at the private sector rather than involving governments and forest services.

Certification and labelling of forest products

Certification was introduced in 1989 primarily to halt tropical deforestation. With the globalization of international debates on forest management, certification became concerned with all forests in the world. Certification is an independent, voluntary inspection system to establish whether or not forest management practices in a given forest adequately take into account environmental, economic and social concerns and values defined in a certification standard.²

Certification standards use the purchasing power of final consumers as a way of influencing the top end of global value-added chains: the retailers. Retailers are careful to protect their name and the image of their brands. Environmental and to some extent social interest groups have put pressure on retailers to adopt standards, assuring their customers of the environmental and social credentials of their products. Accordingly major publishing companies, the DIY chains portrayed above and the furniture giant IKEA all stated a preference for wood and products that come from “responsibly managed forests” in the case of IKEA, or attempt through procurement policies to increase the amount of certified wood wherever possible or feasible. The retailers use their purchasing power to obtain compliance with standards further down the supply chain.

From very modest beginnings, certification has expanded significantly and there has been a proliferation of different schemes. Quite a few of the international and national schemes initiated after the success of pioneering efforts such as that of the Forest Stewardship Council (FSC) were attempts to avoid what was perceived as excessively demanding standards.

Certification schemes

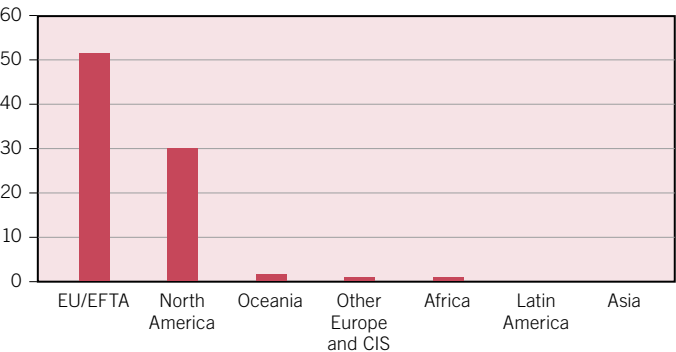
Eight main forest certification schemes exist currently. They are illustrated in table 2. There are local, national and international standards. To some extent this reflects the differing conditions. It also allows different players to meet their “different needs”, i.e. to reflect the types and the level of principles of sustainability to which they are willing to subscribe. The FSC, the first scheme implemented in 1993, and in many ways the most demanding, today has a share of only 22 per cent of global certified forest. The Canadian Standards Association (CSA) is the dominant scheme with 27 per cent of certified area. In the second place, there is the Programme for the Endorsement of Forest Certification (PEFC) with 24 per cent, followed by Sustainable Forestry Initiative (SFI) with 23 per cent.

2. A web site of the Yale School of Forestry provides a good overview and answers frequent questions: www.yale.edu/forestcertification/faq.html.

Trade unions have consistently argued and campaigned for the inclusion of ILO international labour standards and other relevant ILO texts in certification systems. For a discussion of ILO standards and certifications see Poschen (2000).

One of the first large-scale certifications was in Sweden. In 1999 approximately 17 million hectares of the world's forest had been certified by the FSC, more than half of that in Sweden (8.9 million hectares). The area has since expanded rapidly to over 240 million hectares of certified forest (about 6 per cent of the world's forests) with an increase of one-third in the year 2003–04. Figure 4 gives the certified forest area by region. Europe has the highest percentage of total forest area certified as seen in figure 4. Latin America and Asia are still far below 0.5 per cent of total forest area to be certified. Concerning individual countries, in 2004 Canada was in first place, followed by the United States in terms of the percentage of forest area certified.

Figure 4. Certified forest as a percentage of total forest area, by region, 2005 (%)



Source: UNECE/FAO, 2005.

Table 2. Main existing forest certification schemes

Certification scheme	Created by	Year
Forest Stewardship Council (FSC)	NGOs together with forest industries	1993
Sustainable Forestry Initiative (SFI)	American Forest and Paper Association	1995
Canadian Standards Association (CSA), sustainable forest management system	Forest Product Association of Canada and the Canadian Government	1996
Malaysian Timber Certification Council (MTCC)	Malaysia's Ministry of Primary Industries and Malaysian Timber Council	1998
Programme for the Endorsement of Forest Certification (PEFC)	National forestry interest groups, particularly associations of small forest owners	1999
Chilean System for Sustainable Forest Management (CERTFOR)	Chilean Government and ASIMAD, Chile's wood manufacturers' association	2002
Australian Forestry Standards (AFS)	Australia's Ministerial Council on Forestry, Fisheries and Aquaculture and its forest industry	2003
The Brazilian Forest Certification Programme (CERFLOR)	Brazilian Ministry of Development, Industry and Trade	2003

Source: Ozinga, 2004.

The supply of certified forest products is increasing in all market sectors from round wood to value-added wood products. It is still a small percentage of the total exploited forests. But, consumers are becoming more and more aware of forest certification, especially in some countries of Europe (Belgium, Germany, Netherlands and the United Kingdom) where certified forest products have a market share between 5 and 10 per cent (Ozinga, 2004). Other emerging markets are in North America: in 2005, 60 per cent of the world's certified forest area is in North America and 36 per cent in Western Europe (UNECE/FAO, 2005).

The potential of certification

Trade unions can use forest certification as a tool to improve working conditions and to promote the sustainable use of forest resources. Indeed, within the standards established for sustainable development there are social ones concerned with workers. Principle 4 of the FSC "community relations and workers' rights" states that "Forest management operations shall maintain or enhance the long term social and economic well-being of forest workers and local communities".³ Criterion 6 of the PEFC is concerned with the "maintenance of other socio-economic functions and conditions". Its indicators cover income levels, development and the maintenance of skills. Both the FSC and PEFC systems include respect for ILO core labour standards.

The traditional role of trade unions is to deal with workers' conditions such as job security, organization, training, remuneration, and health and safety. The certification criteria present an additional element to supplement the existing collective agreements and to advance the realization of freedom of association and the practice of collective bargaining. Indeed, trade unions are the most important player to ensure workers' well-being in line with sustainable development through different actions.

Affiliated unions of the BWI have been encouraged to use the possibilities provided by forest certification in order to increase both their presence and numerical strength in the industry. Rather than becoming involved in a comparison of the various certification schemes, the BWI has consistently supported those forestry certification systems whose criteria include adherence to the core labour standards of the ILO. This has successfully involved affiliated trade unions in a number of countries such as Ghana, Kenya and Malaysia as well as in key European forestry countries such as Finland, Germany and Sweden.

Participation in national or international certification schemes has provided these unions with a platform on which to develop some cooperation with other actors in the industry, including companies, government

3. For more information, see www.fsc.org.

authorities and representatives of the environmental movement. As a result, improved working relationships have developed with these actors, which enabled the interests of trade union members in the industry to be more widely represented within the “forestry industry community” as well as in their respective societies. Trade unions have been involved in certification in a number of ways:

- *Participation in formulating criteria and procedures for forest certification.* Trade unions have been very active in setting certification standards to ensure that economic and social criteria of certification reflect the trade unions’ point of view. Indeed, only trade unions have enough knowledge and background to deal with workers’ conditions. These efforts have paid off, as described above.
- *Evaluation and testing of the effect of certification on employment levels and conditions according to ILO standards.* Certification involves two main steps. These are elaboration of national criteria, then their control and monitoring. During the first step, trade unions have to conduct studies about existing employment and employment conditions (remuneration, health, hours worked, discrimination, etc.). These studies help to fix criteria of the certification label aimed at improving these conditions. During the second step, unions have to verify whether criteria are respected or not. This includes the active participation of union members as assessors and as prime sources of information for the assessment.
- *Development of criteria with equal effect on all workers according to their needs and realities (standards in Africa may be different from those of Northern Europe, and standards are different from one generation to another).* Temporal and regional differences must be considered in developing certification criteria. For example, equipment for access and working conditions (e.g. transport to the worksite) may be different according to the financial capacities of countries and companies. Another example is the minimum age, which may be different from one country to another. However, it has to ensure the same well-being within countries and generations.
- *Protection of workers during the transitional phase, especially if market demand of certified wood is still small.* If the market demand is not sufficient to cover production costs, employers may dismiss some workers. To avoid this, unions have to introduce criteria aimed at worker protection against abusive dismissal. One of these criteria is that employers sign agreements to hire previous employees as soon as the transitional phase is over and the market for certified wood is established. Another way is that employers compensate employees with respect to some social and personal criteria (family situation, age, length of service, qualifications, etc.).
- *Sharing information within unions involved in forest certification activities.* There is no doubt that information when shared between unions is more

valuable. Trade unions have to know about advantages of working in teams. By doing so, they are stronger and have stronger bargaining power to negotiate their members' needs.

- *Name and shame.* Finally, certification can be used to report violations and to ensure that violations are corrected. This can be very effective where it targets the top of the value-added chain and the interests in sensitive markets, typically in Europe and North America.
- *Helping local communities to get a fair deal out of protection.* Rural communities are often affected negatively if conservation of biodiversity or other values are privileged and if commercial as well as subsistence uses are restricted. Indeed, members of these communities may lose their jobs in the protected forest. Unions have to prepare some solutions to avoid poverty increase of these people.
- *Ensure training for members where necessary.* Some new needs may appear following the adoption of sustainable development policies. For example, new technologies can be introduced (e.g. non-polluting technologies). Consequently, more skilled and qualified employees become more attractive. Unions can intervene to minimize the dismissal of unskilled employees by ensuring their adequate professional training and upgrading.

The proliferation of certification schemes has led to a counter-movement of harmonization and mutual recognition. Unions have participated actively in this process to ensure that there is no levelling downwards. A notable outcome of this engagement has been the acceptance of freedom of association and the right to organize by the FSI in the United States in 2007. This became a condition for the FSI as part of the recognition under the PEFC under which compliance with all fundamental ILO standards is mandatory. Certification has thus given trade unions the right of access to firms, which are not legally obliged to provide it.

The limits of certification

The effectiveness of certification has limits. The most important ones from a worker's perspective are:

- Certification is not obligatory. Its coverage has grown but remains limited.
- Uneven standards are applied in forest certification. There are big differences concerning support for certification in different countries. Certification is always harder for small businesses than for large ones.
- Most of the FSC-certified areas in developing countries are plantations (Lang, 2004). Also, CERFLOR and CERTFOR are only concerned with plantations. Management of natural forests in developing countries is

usually much more problematic. The long-term benefits to the country must be considered to improve the environment and the stability of the forest industries.

- Most certified forests are in developed countries whereas initially certification was developed to stop the loss of tropical forests (figure 4). Certification will not affect the higher demand for wood in developing countries.
- A long time is necessary to achieve real improvements, in particular in developing countries: current certified supply is marginal with respect to the global supply, only 6 per cent of the global forest area is currently certified, mostly in developed countries (Mersmann, 2004).
- The demand, so far, is too small to allow opening up new markets.
- A diversion of wood trade can result in developing countries: there is some doubt about the credibility of certification in these countries even by the forest and European Union resource network.
- Certification must not be limited only to exports to improve trade with discerning countries: China now has the fourth highest volume of chain-of-custodies certificates (CoCs) outside the UNECE region, and is producing some certified forest products (CFPs), mainly for export markets in North America and Europe, rather than for its domestic market (UNECE/FAO, 2005).
- In some emerging economies, particularly in Asia and in Central and Eastern Europe, the economic growth observed this decade is projected to increase the needs for raw materials, such as wood, to maintain industrial activities. In these countries, studies confirm that consumption will not be affected by sustainable measures such as certification, and demand for non-certified wood will continue to rise. It should be noted, however, that there has been growing demand for certified products on the domestic market in Brazil. Similar initiatives may have an impact in other regions as well.
- There is limited documentation on the social impact of certification. A study by the Yale School of Forestry suggested that improvements concerning social aspects generally and working conditions in particular were frequent. However, many of the improvements cited were elementary, such as issuing forest workers with hard hats (Cashore et al., 2006). One could rejoice that such basic protection measures are now in place or despair at how low the overall standard still is in this industry.

Certification is likely to expand, not least as a way to combat illegal logging. The potential of certification may increase significantly if efforts to extend it from the forest to the entire value-added chain are successful. Another promising approach to defending the interests of workers in a globalized industry is that of international framework agreements.

International framework agreements

At the global level, the BWI has succeeded in developing framework agreements with multinational companies, including with IKEA, one of the world's largest furniture retailers, to ensure that social standards such as freedom of association are respected and that health and safety committees are created both in the company's own wood supply chain operations and in its external suppliers. IKEA and the BWI have arrangements for joint verification missions in the various countries where IKEA sources its products. The BWI is currently reviewing the effectiveness and value of this and other framework agreements it has signed with other multinational consumers of forest products. Discussions are also under way with IKEA in order to develop joint approaches to combat illegal logging. This particularly applies to the case of the Russian Federation, where it is estimated that there are considerable flows of illegally harvested timber into manufacturing and processing industries in China across the two countries' common border.

The BWI has further international framework agreements covering a number of German-based companies in the writing materials sector, such as Staedtler, Stabilo and Faber-Castell. These three companies have their roots in the manufacture of pencils and have since developed to produce a broader range of writing materials. Also in these companies, a number of joint verification visits have been held, where several deviations from standards in the framework agreements were observed.

Conclusion

Globalization is changing the dynamics and the structure of the forestry sector. It has long been the case that the world's most developed economies consume a much larger percentage of basic raw materials for their industrial sector. Currently these economies are changing towards service producers. On the other hand, emerging economies (e.g. Brazil, China, India, etc.) need raw material to achieve economic growth. The scale and the speed at which demand is expanding can easily result in excessive and destructive ways of obtaining raw materials, especially for the forest sector. Indeed, the global demand can encourage logging in developing economies with weak governance and without any consideration given to sustainable development.

The total trade of the products of wood amounts to US\$130 billion. Trade based on illegal logging creates losses of US\$15 billion to the countries of the South each year (*Le Monde*, 2005). The informal sector is massive and may grow further with current tendencies in the forest sector. China plays a key role in this transformation. It is crucial that sustainability criteria are observed in exports and on the domestic market. This will involve a

mobilization of retailers in the industrialized countries as well as awareness raising among Chinese consumers, particularly the growing middle class.

Sustainable development of forests has become a universal guiding principle. It is essential that social criteria of sustainable development are included in this vision and respected. Trade unions can position themselves to take advantage of the challenges of globalization and contribute to the quest for sustainable development by:

- greater involvement in the forestry certification process, locally and globally;
- helping to combat logging activities that are unsustainable as well as illegal;
- becoming increasingly active and respected as vital stakeholders in the industry;
- forging improved links with other social movements, such as those representing communities directly associated with forests;
- monitoring the increased adherence to the ILO core labour standards as well as improved health and safety standards, particularly in conjunction with increased demand for certified products;
- developing cooperation with representatives of the environmental movement, in order to promote mutual understanding of each other's key issues and interests;
- developing cooperation with other trade unions which represent workers in other parts of the global production chain – for example in the pulp and paper and graphical sectors;
- considering ways of defending the rights of workers who are employed by the myriad of subcontracting operations in the industry, as well as developing instruments to include its many informal workers;
- developing networks of trade unions with members directly or indirectly employed in the same multinationals operating in many countries.

These are only some examples of how trade unions can develop strategies to take full advantage of the opportunities global value-added chains will increasingly offer and, at the same time, reduce the negative effects of globalization.

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Attracting foreign investment at all costs?

*The case of export processing zones
(EPZs) and Ramatex in Namibia*

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Introduction

Since the mid-1990s, the idea of establishing export processing zones (EPZs) has found support among several governments of southern Africa. This development is linked to the increasing acceptance of “globalization” and neo-liberal policies across the region. Attempts to become “internationally competitive”, to move towards export-led growth as prescribed in the Poverty Reduction Strategy Papers are now characterizing most southern African countries and most governments regard EPZs as a suitable strategy to find a “niche” in the global economy. The World Bank regards the introduction of EPZs as a signal of a country’s departure from import substitution towards an export-oriented economy (World Bank, 1991). In other words, EPZs are seen as a first step in the process of liberalizing trade and integrating national economies into the global economy. Ultimately, the whole country is supposed to operate like an EPZ.

The governments of southern Africa are justifying EPZs by claiming that they will bring foreign investment, new industries and jobs to their countries. Malawi, Mozambique, Namibia and Zimbabwe have already passed national EPZ laws and EPZ proposals “in disguise” are even appearing in South African policy documents. This article examines some of the recent EPZ developments in Namibia with particular emphasis on the Malaysian clothing and textile company, Ramatex.

Global experiences

EPZs are not a new phenomenon and, according to the ILO, the first zone was set up in 1929 in Spain. The 1970s then saw the EPZs boom, mostly in developing countries of Latin America, the Caribbean, Asia and to a lesser extent Africa (ILO, 1998). A common characteristic of EPZs is the provision of special incentives to attract (mostly foreign) investment for export production. These incentives range from tax holidays, duty-free exports and imports, free repatriation of profits to the provision of infrastructure and the exemption from labour laws. However, there are differences in the way countries set up and operate their EPZs. Some operate as fenced-in zones, others are single factories that were awarded EPZ status (export processing units – EPU’s) and others are part of industrial parks or special economic zones (Jauch and Keet, 1996). China alone has seven different types of zones ranging from industrial parks to entire cities and high-technology zones (ILO, 1998). These differences have made it difficult to establish the exact number of EPZs and EPZ workers worldwide, with estimates ranging between 4 and 27 million (ZCTU et al., 1994; ILO, 1998).

At first sight, it thus seems that EPZs created a significant number of jobs. This might be the case in some countries, but a closer examination

reveals that jobs created through EPZs are often not cost-effective and are of poor quality. Also, EPZ host countries incur two types of costs. Firstly, the direct costs for establishing EPZ infrastructure and subsidized services. Secondly, indirect costs in the form of forgone government revenue and national income as a result of exemption from taxes, import and export duties, etc. The Kenyan Government, for example, spent 40 billion shillings on establishing EPZs but had created only 2,000 new jobs by 1994. It could thus be argued that many more jobs could have been created if this money had been spent on job creation in the small-scale manufacturing sector or other large job creation programmes in the broader economy (ZCTU et al., 1994).

In addition, it needs to be pointed out that EPZ jobs are not always new jobs, but are sometimes created at the expense of existing jobs outside the zones. In Mexico, for example, employment in the EPZs (“maquiladoras”) grew by 10.4 per cent in 1995, but this was accompanied by job losses of 9 per cent in Mexico’s manufacturing industries outside the zones. In other words, employment in manufacturing industries shifted towards the EPZ sector without increasing the total number of jobs (ILO, 1998). This process was described as the “maquiladorization” of the Mexican economy and has not resolved the overall problem of unemployment.

The question of labour standards continues to be one of the most controversial aspects of EPZs. An ILO report (1998) noted that collective bargaining and sound tripartite relations are extremely rare in EPZs. Instead, high labour turnover, absenteeism, stress, fatigue, low productivity and labour unrest still characterize most EPZs. Many EPZ companies try to compete in a globalizing market on the basis of cheap prices. They try to improve their performance by intensifying work, thus putting more pressure on workers to reach higher production targets. Although EPZ wages are sometimes higher than comparable wages outside the zones, this is often achieved through piece rates and production-incentive schemes that increase take-home pay at the expense of longer hours and more intensive work. Due to the generally low wage levels, workers are amenable to working extra hours just to make ends meet. In Nicaragua, for example, women workers in the EPZ garment industry work 12–14 hours per day to earn US\$140 per month (ILO, 1998).

EPZ investors are often hostile towards trade unions and express strong opposition to international labour standards. An ICFTU survey (1991) on trade union rights in EPZs in the early 1990s noted that “the danger facing the free trade union movement is that EPZs became established as links in a global chain used by internationally mobile capital to set off a competitive downward spiral in the observance of international labour standards”. The extreme competition for foreign investment between EPZ host countries, and their willingness, in the process, to compromise on worker rights and conditions poses a threat to the established achievements and continuing work of trade unions in such countries. In most cases, it is a question of host

governments not exerting themselves to monitor and enforce national labour legislation within EPZs, even where national labour legislation formally applies, for fear of frightening off foreign investors (Jauch and Keet, 1996).

Southern Africa's first casualty: Labour rights

The suspension of national labour laws as an incentive for investors became reality in Zimbabwe and Namibia when they passed their national EPZ laws in 1994 and 1995 respectively. In Namibia, the Government argued that both local and foreign investment in the first five years of independence had been disappointing and that EPZs were the only solution to high unemployment. President Sam Nujoma described the exclusion of the Labour Act as necessary to allay investors' fear of possible industrial unrest. He promised that regulations on conditions of employment would be put in place to address the fears of workers. In the meantime, however, he declared that "the non-application of Namibia's Code in the EPZ Regime is a delicate compromise which is necessary to achieve the larger goal of job creation" (*The Namibian*, 30 October 1995).

Namibia's major trade union federation, the National Union of Namibian Workers (NUNW), opposed the exclusion of the Labour Act as a violation of both ILO Conventions and Namibia's constitution. The union federation instructed its lawyers to challenge the constitutionality of the EPZ Act in court. However, during a high-level meeting between the Government, the ruling SWAPO party and the NUNW, in August 1995, a controversial compromise was reached which stipulated that the Labour Act will apply in the EPZs, but that strikes and lockouts would be outlawed for a period of five years (*The Namibian*, 23 August 1995). Although this compromise was greeted with mixed responses from Namibian unionists, it was formally endorsed during a special meeting between the NUNW and its affiliates in September 1995.

In 1999, the NUNW asked the Labour Resource and Research Institute (LaRRI) to carry out a comprehensive study of Namibia's EPZ programme (Jauch and Shindondola, 2003; Jauch, 2006a). LaRRI's study found that EPZs had fallen far short of the Government's expectations of creating 25,000 jobs and facilitating skills and technology transfer needed to kick-start manufacturing industries in the country. At the end of 1999, the EPZs had created very few jobs although millions of dollars had been spent on promoting the policy and on developing infrastructure with public funds. The Ministry of Trade and Industry argued that it was too early to measure the success and failures of the programme, as EPZs would only show results in the long term. Citing Mauritius as the example to follow, the Ministry claimed that the island had to wait 20 years to see positive results.

Desperate to show some success of the EPZ programme, the Ministry then granted EPZ status to a poultry plant in Karibib (western Namibia) as well as mining companies like Ongopolo (copper mine in Tsumeb, northern Namibia) and the Skorpion Zinc mine and refinery in southern Namibia, owned by the Anglo-American Corporation, which invested US\$454 million. The Skorpion project is expected to employ over 500 people and to contribute about US\$118 million annually to Namibia's GDP, which would mean an increase of 4–5 per cent (*Namibia Economist*, 20–26 July 2001). Although the mining companies Ongopolo and Skorpion Zinc obtained EPZ status for their processing operations only, it is likely that they will use the EPZ status to gain tax exemption for a significant part of their overall profits through accounting tricks like transfer pricing.

Integration into a global production network

By 2001, Namibia still had not managed to attract any large production facility through its EPZ programme. This changed when the Ministry of Trade and Industry announced that it had succeeded to snatch up a project worth N\$1 billion¹ (US\$143 million) ahead of South Africa and Madagascar, which had also been considered as an investment location by the Malaysian clothing and textile company, Ramatex. This was achieved by offering even greater concessions than those offered to other EPZ companies, such as corporate tax holidays, free repatriation of profits, exemption from sales tax, etc. Drawing in the parastatals providing water and electricity (Namwater and Nampower) as well as the Windhoek municipality, the Ministry put together an incentive package which included subsidized water and electricity, a 99-year tax exemption on land use as well as over N\$100 million (US\$14.3 million) to prepare the site including the setting up of electricity, water and sewage infrastructure. This was justified on the grounds that the company would create 3,000–5,000 jobs during the first two years and another 2,000 jobs in the following two years. The plant (which represents the first textile company in Namibia) turns cotton (imported duty-free from West Africa) into textiles for the US market. The Ramatex decision to locate production in southern Africa was motivated by the objective to benefit from the Africa Growth and Opportunity Act (AGOA) which allows for duty-free exports to the United States from selected African countries who meet certain conditions set by the US Government. These conditions include commitment to a “free market economy” (including privatization), the elimination of barriers to US trade and investment, protection of intellectual property rights, the elimination of subsidies and price controls, etc. (Jauch and Shindondola, 2003; Jauch, 2006a).

1. The Namibia Dollar (N\$) is pegged to the South African Rand and the exchange rate to the US\$ stood at 7 to 1 in August 2007.

Who is Ramatex?

Ramatex Berhad was established in 1982 as Gimmill Industrial (M) Sdn., a small textile manufacturing plant in Batu Pahat, Malaysia. The Ramatex group, as it is now known, expanded vertically from dyeing and knitting mills into yarn manufacturing in 1989 and continued its growth into finishing fabrics and printing in 1992. On 12 November 1996, the Ramatex Group was officially listed on the Kuala Lumpur Stock Exchange. Ramatex is the undisputed leader in the Malaysian textile industry. Today members of the Ma Family who originally set up the business are still the majority shareholders, owning 59 per cent. They also still play an active management role (Mollet, 2001).

With a turnover of over US\$200 million a year, the Ramatex group currently operates from manufacturing facilities in Cambodia, China, Malaysia, Mauritius, Namibia and Singapore. The company has similar operations in all countries consisting of spinning mills, knitting plants, dye and print houses and sewing plants (Ramatex web site).

Ramatex in Namibia

Even before the company began its operations in 2002, it made headlines, as it became the most talked about investment in Namibia. The Ramatex debate revolved around the massive size of its operations, the establishment of a new industry and the controversies surrounding the company's environmental impact and working conditions. Due to its massive operations, the Government expected that this particular investment would help reduce the high unemployment rate in Namibia.

A study carried out in 2003 by Namibia's Labour Resource and Research Institute found that:

- Ramatex workers earned very low wages. Workers who had completed training earned N\$3 (US\$0.43) per hour, for overtime they earn an extra N\$1.50 (US\$0.21). Trainees receive N\$1.50 per hour plus N\$0.75 for overtime. Even when working long hours of overtime, workers only received about N\$700 (US\$100) per month.
- Most workers were forced to work overtime to supplement their base salaries so that they could cover their basic expenses such as rent, water, food and transport. Most workers still had to share their limited income with their extended families and children.
- Both low salaries and long working hours had a severe impact on Ramatex workers. Due to low salaries, most had to walk long distances to and from work, which was not only exhausting but posed a safety risk, particularly for women.

- Workers were not provided with protective clothing, which they regarded as a basic necessity when working at Ramatex. Some workers had developed chest problems whereas others had allergic reactions due to exposure to dust particles. This created another burden for the workers because they had to cover their own medical costs.
- Work-related accidents were a common occurrence. One worker lost a finger after she was cut by one of the machines. Another had an injury to her eye caused by a needle. Workers reported that the company treated sick leave as unpaid leave – in violation of Namibia's Labour Act.
- Workers further complained about the humiliation they had to endure when they were searched upon entering and leaving the factory and even when visiting the bathroom. Women workers were particularly concerned about the body searches and indicated that it was uncomfortable for them, especially during their menstrual cycles.
- Workers experienced inhumane treatment from their supervisors. They felt trapped because they could not take their grievances to supervisors in whom they had no confidence. Some workers who asked for compassionate leave were told to go and never come back.
- Workers were verbally abused by their supervisors, who described them as “lazy and useless” (Jauch and Shindondola, 2003).

Economic significance of Ramatex

At the height of their Namibian operations in 2004, Ramatex and its subsidiaries employed about 7,000 workers, including over 1,000 Asian migrant workers, mainly from China. Following retrenchments in 2005 and 2006 (including the closure of one subsidiary), this number dropped to 3,400 (including 400 Asian migrants) in early 2007.

All Ramatex products are currently exported to the United States but figures on volumes and sales are not made public. As an EPZ company, Ramatex does not pay any import and export duties nor any corporate tax and thus it does not contribute towards government revenue. However, the Namibian Ministry of Trade and Industry claims that the company created many indirect jobs, for example in the transport industry, which moves containers between Windhoek and the port of Walvis Bay. The number of indirect jobs is difficult to quantify although some transport companies certainly benefit from the Ramatex presence.

Asian migrant workers

Namibian immigration laws and regulations as well as the country's Affirmative Action (Employment) Act of 1998 prescribe that work permits for foreign nationals shall only be issued if the required skills cannot be found locally. In addition, employers are requested to employ Namibian understudies to ensure skills transfer. Against this background, it is unusual that Ramatex was allowed to import a large number of Asian migrant workers. Most of them were employed as mere production workers with basic salaries of around US\$300–400 per month plus payment for overtime work. Their salaries were thus higher than those of their Namibian counterparts and the company obviously believed that Asian workers were more productive.

There are also indications that the import of Asian workers served the company's strategy of "divide and rule". Workers were divided according to nationalities, they received different remuneration and benefits and they found it hard to communicate with each other. As a result there was hardly any joint action by the Ramatex workers. Protests over working conditions over the past few years by Namibian, Filipino and Bangladeshi workers were isolated from each other and workers found no support from the Chinese. Chinese workers were fairly content with their working conditions and merely tried to save as much money as possible through excessive overtime during their 2–3 year contracts (LaRRI, 2005).

Labour relations

When Ramatex started its operations in early 2002, it refused the union access to its premises, forcing union organizers to meet workers outside the factory during lunch breaks and after working hours. As workers suffered from skin rashes and allergies due to dust particles, coupled with very low wages and unfair labour practices, tensions boiled over. In August 2002, more than a thousand Ramatex workers downed tools in protest against their work contracts, which they believed set their monthly salary at N\$360 (US\$51). The strike was abandoned when their trade union, the Namibian Food and Allied Workers Union (NAFAU) and the Ministry of Labour intervened to allay workers' fears. Ramatex promised that workers would receive performance-related pay on top of their basic N\$360, which would bring up their salary to around N\$800 (US\$114) per month. The company agreed to take the striking workers back and announced that salaries would be N\$3 (US\$0.42) per hour plus production-related incentives.

In April 2003, tensions boiled over once again. Following a spontaneous strike over poor wages and conditions of service by over 3,000 workers, the Ramatex management closed the factory for two weeks and threatened to "eliminate" the architects of the strike. The company also declared its

intention to fire all workers. The NAFU tried to negotiate the reopening of the factory but was unsuccessful and was even accused by some workers of selling out their demands.

When the factory reopened its doors on 28 April 2003, Ramatex wanted to fire 600 workers whom they accused of “masterminding” the strike. After negotiations between the company, the NAFU and the Labour Commissioner during which Ramatex was (once again) reminded about Namibia’s labour laws, workers were issued with new contracts. The company also accepted that all accused workers would have to be given fair hearings.

However, in May 2003, Ramatex suspended 416 workers (without pay) accusing them of masterminding the strike. Shortly afterwards several hundred Asian workers downed tools, demanding wage increases and better conditions of service. This strike lasted just a few hours and was kept under wraps by the company, which did not even report it to the Ministry of Labour. The company claimed that some Buddhist workers wanting to observe the religious festival of “Wesak” prompted the work stoppage. However, this explanation was contradicted and Ramatex dismissed seven of the striking Asian workers and sent them back home.

In October 2003, Ramatex and the NAFU signed a recognition agreement, which was supposed to pave the way for improved labour relations and collective bargaining. The company agreed that workers could elect two full-time shop stewards and one union official who were supposed to be provided with a fully furnished office on the company premises. However, despite the recognition agreement and the promises made by the company, the NAFU was unable to make progress on substantive issues. On several occasions, the NAFU reported Ramatex to the Office of the Labour Commissioner for unfair labour practices and the company’s unwillingness to negotiate in good faith. Despite several attempts to find a solution through mediation, no agreement was reached.

By September 2006, the company had made no changes to wages and benefits and claimed that its operations in Namibia were running at a loss. Ramatex workers, however, had run out of patience and declared that they would go on strike unless their wages were significantly improved. When their demands were refused, they went on strike in October 2006, bringing company operations to a standstill. Within two days, workers achieved what four years of negotiations had failed to deliver: wage increases of 37 per cent, plus the introduction of housing and transport allowances, plus a pension fund and an optional medical aid scheme (Jauch, 2006b). Thus workers won a significant improvement of their working conditions, although Ramatex still pays below the minimum wage applicable to most other industries in Namibia (LaRRI, 2006).

Since 2005 there were indications that Ramatex would continue shifting its production to Cambodia and China while downscaling its operations in Namibia. Workers noted that further machinery was shipped out during

2007 as the company closed its textiles, spinning and knitting departments. The remaining workers were mostly employed in the sewing department and further retrenchments seemed likely (*The Namibian*, 27 July 2007). Ramatex denied any plans to close its Namibian operations but on 6 March 2008, the company suddenly closed the factory without giving any prior notification to its workers, the union or the Namibian Government (*The Namibian*, 7 March 2008; *New Era*, 7 March 2008; *Republikein*, 7 March 2008). Workers and their union even struggled to receive a retrenchment package, which was only agreed to after workers' demonstrations and threats by the Namibian Government that the Asian Ramatex managers would only be allowed to leave the country if they met their obligations towards the retrenched workers (*The Namibian*, 14 and 26 March 2008; *Republikein*, 25 March 2008).

Conclusion

Ramatex represents a typical example of a transnational corporation playing the globalization game. Ramatex's operations in Namibia have been characterized by controversies, unresolved conflicts and tensions. The anticipated benefit of large-scale job creation to lift people out of poverty has not been fulfilled. Instead, Ramatex has contributed to the establishment of a large number of "working poor"; workers in full-time employment, unable to meet even their basic needs. This is in sharp contradiction of the Namibian Government's stated objective of promoting decent work in line with the ILO core labour standards.

Namibia's experiences with EPZs in general and Ramatex in particular point to the urgent need to ensure (at the very least) compliance by foreign investors with national laws and regulations, workers' rights, as well as environmental, health and safety standards. Experiences elsewhere have shown that compromises on social, environmental and labour standards in the name of international competitiveness lead to a "race to the bottom". The Namibian Government as well as trade unions will have to demonstrate that they are serious in defending these rights that were only won through long and bitter struggles.

There are, however, limits to what can be achieved at the national level and trade unions have to deal with transnational corporations like Ramatex and the consequences of globalization at two additional levels. Firstly, they need to tackle these highly mobile corporations through cross-border bargaining and pressure as attempted by the Global Union Federations (GUFs). In the case of Ramatex, the ITGLWF brought together unions from all countries where Ramatex operates in an attempt to facilitate the sharing of experiences and to develop strategies on how to tackle the company jointly. This includes the "upward harmonization" of labour standards and a standard recognition agreement for all Ramatex plants. Although this aim has not yet

been achieved, such coordinated global strategies are undoubtedly a key component of trade union struggles with global corporations.

Secondly, trade unions will have to tackle the fundamentals of the neo-liberal global order.

EPZs as a development strategy for southern Africa are often promoted on the basis of the Mauritius model. Such comparisons ignore not only the very specific conditions that prevailed on the island (such as a comparatively high level of education and an established local business community), but also the very different global conditions that prevailed when Mauritius embarked upon its EPZ programme 30 years ago. Today's attempts by southern African States to introduce EPZs as a solution to economic problems are not only bound to fail, but are likely to threaten attempts towards regional economic integration. EPZs deepen developing countries' dependency on foreign capital and can have a detrimental effect on national industries. The case of Namibia exemplifies how EPZ incentives are likely to attract companies who are interested to exploit them for short-term gains without being prepared to contribute to technology or skills transfers.

Southern Africa (like other regions) is facing a highly competitive – in fact ruthless – global economy. At a time when southern Africa is still trying to establish EPZs, they are already superseded by more sweeping neo-liberal policies which create ever more favourable conditions for international capital. Today's global production chains are no longer targeting merely cheap, compliant labour and a trade union free environment. Instead, human resource development and market access are major considerations for investment decisions. Investors do not only consider low nominal wages but increasingly measure unit labour costs, taking productivity and skills availability into account. However, southern Africa still tries to attract EPZ investments on the basis of cheap labour, which will attract only the most exploitative investors.

The lack of alternative programmes for effective economic development and job creation places governments in a weak position to negotiate adherence to labour, social and environmental standards with foreign investors. This has to be the starting point for breaking the chains of dependency. The project on Alternatives to Neo-Liberalism in Southern Africa (ANSA), for example, is an attempt to develop a different and comprehensive development strategy for the region. Southern Africa simply cannot afford a continuation of the free rein of capital and its exploitative practices. Instead, there is a need for an interventionist, developmental state and mechanisms of democratic control to ensure people-centred development.

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Digital reorganization

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Introduction

Discussions of the impact of globalization tend to focus on the increased interdependence of countries through trade, migration and capital flows. What is often overlooked is that these quantitative increases in the flow of people, goods and capital between countries have been accompanied by a qualitative change in the way in which production is organized (Hayter, 2004).

From the mid-1980s on, falling barriers to trade and investment, cheaper transport and rapid technological advancements made it possible to break the production process up into distinct stages and either locate these in different countries or outsource them altogether. This enabled firms to take advantage of lower costs, more favourable policy environments, reduce time-to-market and capitalize on other efficiency improvements. Advances in management systems and information and communication technologies (ICT) provided new possibilities for managing these cross-border supply chains.

Global production systems began to emerge in many sectors. While these have been most pronounced in high-tech industries (digital audio players, computers, mobile phones, etc.) and in labour-intensive goods (textiles, clothing and footwear), they are also becoming increasingly significant in services (software development, financial services, travel agency services).

This article examines the emergence of the global production system in the electronics industry. It draws on the concept of a “global value chain” to consider some of the challenges and opportunities these qualitative changes pose to union efforts to organize and bargain collectively in the electronics industry.

The emergence of a global production system in the consumer electronics sector

Today, many high-tech electronic consumer goods carrying names such as Apple, IBM, Siemens and Ericsson are manufactured on an assembly line that stretches across borders. Yet few of these companies own any of the fabrication plants at which their products are produced. The emergence of a global production system in the electronics industry transformed the manufacturing base. This was characterized by three important changes. The first was a change in the organization of firms, the second a change in the organization of production, and the third a shift in the geographic pattern of production and employment.

From vertical integration to horizontal coordination

Twenty years ago, firms like IBM and Siemens were vertically integrated with complete control over a product's production, from the sourcing of raw materials, to the manufacturing of components, final assembly, marketing and distribution. They considered manufacturing to be one of the firm's core activities. When they wanted to take advantage of low-cost labour in other locations and/or to sell their products in relatively protected foreign markets, they would locate a subsidiary abroad.

With the rapid growth of personal computers in the late 1980s, firms began to outsource some of their manufacturing activities – both domestically and abroad. This started with the simple outsourcing of semi-conductor and printed circuit board fabrication in a practice that became known as “contract manufacturing” (Sturgeon, 2003). Contract manufacturers began to coordinate these outsourced manufacturing activities. They soon expanded the range of services they could offer to brand-name companies to include component purchasing, inventory management, final product assembly, testing, global logistics management, distribution and after-sales service and repair.

By the mid-1990s, most of the brand-name companies in the electronics sector based in industrialized countries (mainly North America and Europe) had outsourced their entire manufacturing process to a small number of contract manufacturers. Some sold their production facilities and infrastructure to these contract manufacturers. For example, firms such as Hewlett Packard (HP) and Ericsson sold most of their global manufacturing infrastructure to contract manufacturers such as Sollectron¹ and Flextronics (Sturgeon, 2003). Today, IBM still has some manufacturing sites but fewer and fewer, HP has none and Dell only gets involved in late-stage final assembly.

The structure of the industry today looks very different to that which existed 20 years ago. One of the most notable changes has been the rise of electronic contract manufacturers and their global operations. The largest of these, Hon Hai Precision Industry (Foxconn, Taiwan, China) is now among the top ten corporations on the Global Fortune 500 in the electronics and electrical equipment industry (see table 1).

The concept of a “global value chain” can be a valuable tool for understanding the global production system in the electronics sector.² The term “value chain” is generally used to describe the range of activities and discrete value-adding stages performed during a product's journey from conception, assembly and packaging to final sale.³ Analysis of the global value chain in

1. Sollectron was purchased by Flextronics in June 2007.

2. A growing literature has emerged in recent years of global value chains. For example, see Gereffi et al., 2005 and www.ids.ac.uk/globalvaluechains/.

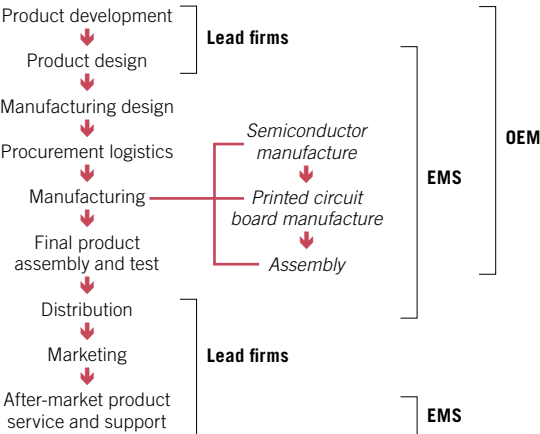
3. First developed by M. Porter, author of *Competitive advantage* in 1985.

Table 1. Top ten corporations: Electronics and electrical equipment

Corporation	Global Fortune 500 rank	Revenue 2006 (million US\$)
Siemens (Germany)	28	107 341
Samsung Electronics (South Korea)	46	89 476
Hitachi (Japan)	48	87 615
Matsushita Electric Industrial (Japan)	59	77 871
Sony (Japan)	69	70 924
LG Electronics (South Korea)	73	68 754
Toshiba (Japan)	91	60 841
Tyco International (United States)	149	42 155
Hon Hai Precision Industry (Foxconn, Taiwan, China)	149	40 595
Royal Philips Electronics (Netherlands)	161	38 707

Source: Global Fortune 500 (2007).

Figure 1. The global value chain for the electronics sector



the electronics industry can provide insights into which firms exercise influence and control over other (dependent) firms in the global supply chain and why.⁴

With the increased outsourcing of manufacturing on a global scale, comprehensive bundles or modules of value chain activities began to emerge (Sturgeon, 2003). Different types of firms began to specialize in one or more of these modules. The different modules were horizontally integrated

4. There is a distinction between a “global value chain” and a “global supply chain”, although the two terms are often used interchangeably. The term “global value chain” is used to describe the integration of the different activities performed at each stage of production into a unitary global production system. The term “global supply chain” is used to describe the supply of different inputs from different locations such as LCD panels, battery packs, circuit boards, etc., for final assembly in a computer. A global value chain links different production activities; a global supply chain links intermediate products and services.

Table 2. Top ten by annual revenue 2005

EMS	2005 annual revenue (million US\$)	ODM	2005 annual revenue (million US\$)
1. Hon Hai Foxconn	27 315	1. Quanta	12523
2. Flextronics	15 582	2. Asustek	10737
3. Sanmina-SCI	11 343	3. Compal	6860
4. Solecron*	10 207	4. Lite-On	5054
5. Celestica	8 471	5. Inventec	5048
6. Jabil Circuit	8 057	6. BenQ	5043
7. Elcoteq	5 179	7. Wistron	4814
8. Benchmark	2 257	8. Inventec Appliance	3577
9. Venture	2 007	9. Tatung	2338
10. USI	1 622	10. Mitac Intl.	2307
*Solecron was purchased by Flextronics in June 2007.			

Source: iSuppli Corp.

through inter-firm contractual relations. A shift in organization took place, from vertically integrated firms that controlled the entire value chain to horizontal coordination among firms specialized in discrete segments of the global value chain.

Two different types of firms have taken up the links that were outsourced. The first are the electronics manufacturing services companies (EMS). Based mostly in North America (with the exception of Foxconn), they began by focusing on printed board fabrication for the computer industry. They now offer “full-package manufacturing services” including design, system assembly, testing, delivery, logistics and customer service, to a wide range of industries (e.g. consumer electronics, medical and instrumentation electronics).⁵

The second are the original design manufacturing companies (ODM). These firms manufacture the complete product (mostly computer notebooks) for which they own the design. Their products are then sold to, and branded under the name of, a brand-name company. Operating from their base in China and Taiwan, China, they produce a more limited range of products and critical components.

Brand-name companies such as IBM, Compaq and HP control those segments of the value chain that deliver the highest returns – product development, marketing (branding) and distribution. Electronics contract manufacturers, with a global manufacturing and supply base and the ability to integrate a full spectrum of manufacturing services, control the global supply chain.

5. Sturgeon and Lee (2005) highlighted the disparities in all three dimensions of business scope: value chain scope, product/customer scope and geographical scope.

**Table 3. Top ten customer concentration
of leading EMS providers**

Contract manufacturer	Top 10 customers (%)
Compal Communication	98
Foxconn	80
Jabil	68
Flextronics	65
Sanmina	60

Source: iSuppli, July 2006.

The links in the value chain between brand-name companies and contract manufacturers tend to be “thick”. Many contract manufacturers are highly dependent on a few strategic customers. Nokia and Ericsson together accounted for 73 per cent of Elcoteq’s sales in 2004 (Schipper and de Haan, 2005). The continued success of many contract manufacturers is thus highly dependent on relationships with these strategic customers.

Different manufacturers may supply the various components (e.g. CD-ROM drive, screens, etc.) that are finally assembled by these contract manufacturers. Since the cost of switching between component suppliers is low, cost-based competition is high at the end of the supply chain (Sturgeon and Lee, 2005).

From specificity to reconfigurable generic manufacturing

Apart from a change in the global organization of business, there was also a change in the organization of production. As a result of the high degree of value chain modularity, information about product and process specifications was increasingly formalized and “codified”. Contract manufacturers developed “generic” manufacturing capabilities that could be shared by a number of customers and redeployed at short notice (Sturgeon, 2003). Relatively standardized components can now be combined in a variety of products making it possible to provide manufacturing services to a wider range of firms.

Product specificity was also reduced. This made it possible for ODMs to manufacture “barebone computers” and sell these to multiple brands who would fill them with a central processing unit (CPU) and other accessories according to their own specifications (Schipper and de Haan, 2005).

This highly reconfigurable production system provides brand-name companies with certain dynamic advantages. They can promptly respond to changes in demand, expanding or shrinking the scale of production. From the perspective of the contract manufacturer, the generic nature of manufacturing enables them to keep low inventories and coordinate a subregional just-in-time system. It also allows for better utilization of plant equipment and scale economies in the purchasing of components.

One of the implications of this reconfigurable manufacturing system is that the segment of the value chain concerned with logistics is now strategically important. This includes the location and efficient operation of transportation hubs.

A new geographic pattern of production and employment

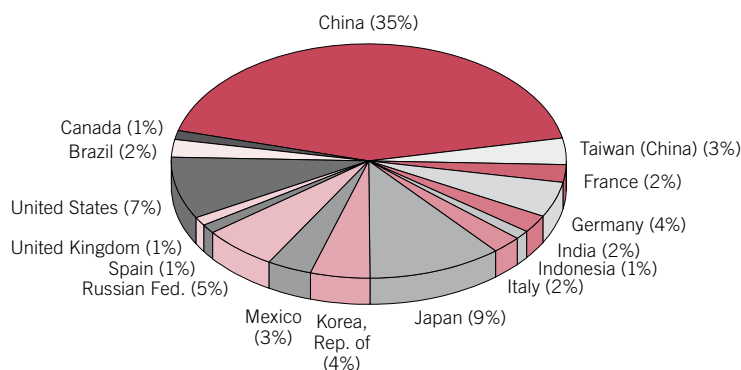
In search of lower manufacturing costs, electronics contract manufacturers have been extending the geographic scope of their manufacturing base. High-volume manufacturing of price-sensitive products such as personal computers, cell phones and consumer electronics shifted to locations with lower operating costs, some to Eastern Europe and Mexico, but most to Asia and China in particular (Sturgeon, 2003).

This “internal” international division of labour changed the employment picture. The ILO estimated that over 18 million workers were employed in this sector in 2004 (ILO, 2007). Employment in the manufacture of electrical and electronic products industry was estimated to have increased by 30 per cent between 2002 and 2004, with China leading the employment growth. Over half of all jobs in this sector are now located in Asia.

Whereas women account for 25–30 per cent of employment in the developed economies, this figure rises significantly in developing countries and is over 70 per cent in some developing countries. Overall, women earn less than men, despite working the same amount of hours (ILO, 2007).

Contract manufacturers, responsible for the labour-intensive manufacturing, are now also the largest employers in the sector (see table 4). With the purchase of Solectron by Flextronics in June 2007, the names of the two largest employers in this industry (Foxconn and Flextronics) are virtually unknown to many consumers.

Figure 2. Global distribution of employment in the electronic product manufacturing industries, 2004 (%)



Source: ILO, 2007.

Table 4. Number of employees at select brand-name companies and contract manufacturers, 2005

Company	Number of employees
Hon Hai Foxconn	230000
Sony	150000
Hewlett Packard	150000
Philips	120000*
Flextronics	115000**
Nokia	58000
Jabil Circuit	55000
Soletron***	50000
* 2006 estimate. ** 2006. *** Soletron was purchased by Flextronics in June 2007.	

Source: van Liermt (2007), based on company information.

Building global networks

Trade unions in this sector, seeking to organize and bargain collectively on behalf of their members, face a number of difficulties. The shift to reconfigurable generic manufacturing has been accompanied by an increase in the speed and flexibility of the production process. This has altered time horizons and there are reports of the extensive use of short-term and temporary workers (Schipper and de Haan, 2005). With increased subcontracting, the nature of the employment relationship can be difficult to untangle, presenting challenges both in terms of the organization and protection of workers. The recruitment of migrant labour or young female workers who are seen to be particularly vulnerable only adds to these difficulties (Ferus-Comelo, 2003).

With the geographic shift in global production, a considerable share of global employment is now in countries with underdeveloped industrial relations institutions (IR Net, 2007). Trade unions have also reported significant barriers to organizing workers in export processing zones where many of the labour-intensive production activities are located (Ferus-Comelo, 2003; also see Holdcroft's article in this publication). This highlights the importance of ongoing efforts to encourage those countries in which the bulk of production and employment is located to ratify and implement international labour standards.

Devising, and analysing the characteristics of, a global production system presents new considerations for union strategies.

One of these concerns the organization of firms in the industry. The shift from vertically integrated firms to horizontal coordination between different types of firms, located in different countries, suggests that unions will need to mirror this organization and build global networks between different firms and between countries if they are to overcome the challenges they face.

In this context, analysis of the global production system provides insights on the sphere of influence and control of different types of firms in the global value chain. Brand-name companies extract the greatest proportion of value-added by virtue of their proprietary control of the brand. They are likely to be receptive to strategies that join the dots between poor labour practices in the fabrication plants producing intermediate products and the final delivery of a product bearing their name.

Unlike the apparel sector, the supply chain in electronics manufacturing is highly transparent and traceable. The downturn in ICT in 2001 led to significant consolidation of supply chains, making it even easier to map the global production system.⁶ Given the high dependency that exists between contract manufacturers and the brand-name companies, the latter can be called on to hold contract manufacturers accountable for labour practices in foundries producing the chips that find their way into products carrying their brand names. Since contract manufacturers control global supply chains, these can be called on to hold other component suppliers accountable for labour practices at the end of the supply chain.

Firms at the end of the supply chain are likely to be those that capture the smallest share of value-added and face the most intense cost-based competition. Rapid changes in volume and shorter production runs exacerbate labour issues at these fabrication sites. Bargaining on behalf of workers in these firms will need to be accompanied by supportive action at other points in the supply chain that address purchasing practices, if sustained improvements are to be achieved in the lives of these workers.

A further consideration for trade union strategies arises from the shift in manufacturing to reconfigurable generic production capability. As discussed, contract manufacturers now manage a subregional just-in-time system. This has raised the strategic importance in the global value chain of those segments or centres responsible for the management of logistics and of transportation hubs in different regions. Contract manufacturers are likely to be receptive to strategies that focus on these sites. This suggests the importance of alliances between unions in, for example, the electronics, services and transportation sectors.

The strengthening of union structures at the global level, such as the International Trade Union Confederation and sectoral Global Union Federations including the International Metalworkers' Federation (IMF) has created the potential to coordinate activities across the global production system and "join the dots". Through networks with national unions and NGOs, these international labour bodies can conduct corporate research,

6. See the mapping of the supply chain for Acer's Travelmate C110 and C300 in Schipper and de Haan (2005).

lobby governments, raise public awareness and provide an international counterpart to multinational companies in labour disputes.⁷

Strategies that “join the dots” along the supply chain raise the issue of how trade unions respond to the corporate social responsibility (CSR) initiatives of the brand-name companies. When questions were raised about the treatment of workers, rather than encourage the development of industrial relations practices to address working conditions, the electronics industry rapidly adopted CSR programmes. The codes of conduct that became the mainstay of CSR initiatives in the electronics industry omit any reference to the effective recognition of the right to collective bargaining and do not appear to have given consideration to the context in which workers might try to exercise their organizational rights as is the practice in other industries.⁸

Many of the industry benchmarks for CSR in the apparel sector, for example, refer to the need to “adopt a positive attitude toward the trade unions”.⁹ This language was adopted because of an appreciation that if workers were going to be able to organize and bargain collectively, then the expectations of suppliers needed to be different in contexts in which the law did not sufficiently protect these rights. As a result, CSR and industrial relations have sometimes managed to exist hand in glove. There are instances where local trade unions, through their global networks with GUFs and NGOs, have been able to hold suppliers accountable to the codes they have signed up to. This created a space for the development of industrial relations, the improvement of working conditions and the ongoing monitoring of these working conditions by the workers.¹⁰

An ILO sectoral activities meeting which took place in 2007 brought the Electronic Industry Citizen Coalition (EICC), the Global e-Sustainability Initiative (GeSI) and the IMF together and highlighted some of these issues. However, it is too early to say whether this will bear any fruit in terms of support for the development of industrial relations at fabrication sites as a means to monitor and improve working conditions.¹¹

7. One such network is the GoodElectronics network that includes human rights (including labour rights) organizations, environmental organizations, unions, universities and individuals. See www.goodelectronics.org. Babson and Juarez (2007) provide reflections based on experience in the automotive industry on the role that strategic research can play in building cross-border alliances.

8. The Electronic Industry Code of Conduct reads as follows: “Freedom of Association: Open communication and direct engagement between workers and management are the most effective ways to resolve workplace and compensation issues. Participants are to respect the rights of workers to associate freely, join or not join labour unions, seek representation, join workers’ councils in accordance with local laws. Workers shall be able to communicate openly with management regarding working conditions without fear of reprisal, intimidation or harassment.” See www.eicc.info.

9. For example, see ETI Base Code, available at www.ethicaltrade.org/.

10. For examples, see “The ETI Code of Labour Practice: Do workers really benefit?”, available at www.ethicaltrade.org/Z/lib/2006/09/impact-report/index.shtml.

11. See www.ilo.org/public/english/dialogue/sector/techmeet/tmiti07/conclusions.pdf.

The emergence of a global production system in the electronics industry does present significant challenges to union objectives to organize and bargain collectively on behalf of their members. There is an ongoing need to strengthen the regulatory framework in those countries in which labour-intensive production is taking place. This article highlights a number of considerations for union strategies. The first concerns the horizontal coordination between different types of firms; the second, the sphere of influence and control that different types of firms may have in the value chain; and the third, the strategic importance of logistics and transport hubs. Efforts under way to build global networks between international, regional and national unions and between unions in different sectors hold interesting possibilities for the reorganization of labour in the electronics sector.

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Organizing the high-tech ghettos of globalization

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Global electronics production is undergoing unprecedented expansion, creating many thousands of jobs in developing countries, especially in China. Yet the industry's high-tech image contrasts sharply with the working lives of many thousands of mainly young women workers in the supply chains of major electronics companies. It is these women, employed on substandard wages and conditions, who manufacture at the lowest possible cost the components that go into our PCs, laptops and mobile phones.

In many ways the situation in electronics is similar to that in the garment industry before the abuses in the supply chains of major brand names such as Nike were brought to the public's attention: a workforce of predominantly young women workers employed under sweatshop conditions. Such conditions include below-subsistence wages, up to 72-hour weeks, forced overtime, temporary contracts, no job security, unsafe working conditions, degrading treatment, compulsory pregnancy testing – and no union protection.

Resistance to unionization

The absence of trade unions is characteristic of an industry that has always actively resisted attempts by its employees to form unions. In the early days of the industry's growth, Robert Noyce, a co-founder of Intel Corp., declared that "remaining non-union is an essential for survival for most of our companies. If we had the work rules that unionized companies have, we'd all go out of business. This is a very high priority for management here".¹

Today, the attitudes towards unions of the mainly US-based original equipment manufacturer (OEM or "brand name") companies that dominate the sector have not changed. In the United States itself, employer hostility to organizing campaigns has left workers in all the major IT companies unprotected by a union. In April 2007, the ILO held a tripartite meeting on the production of electronic components for the IT industries.² In its interventions, the Employers' group, representing many of the major OEM and contract manufacturer (CM) companies present at the meeting, demonstrated an aversion to dialogue with trade unions, interpreting "workers' representatives"³ to be other than unions and even attempting to redefine

1. D. Bacon: Organizing Silicon Valley's High Tech Workers, available at: <http://dbacon.igc.org/Unions/04hitec1.htm> (accessed 4 Oct. 2007).

2. Meeting on the Production of Electronic Components for the IT Industries: Changing Labour Force Requirements in a Global Economy, Geneva, 16–18 April 2007.

3. In the ILO Workers' Representatives Convention, 1971 (No. 135), "workers' representatives' means persons who are recognized as such under national law or practice, whether they are: (a) trade union representatives, namely, representatives designated or elected by trade unions or by the members of such unions; or (b) elected representatives, namely, representatives who are freely elected by the workers of the undertaking in accordance with

the ILO definition of social dialogue⁴ to include “stakeholders” such as suppliers, customers and shareholders.

Many of the major companies have come together in two initiatives which include the goal of trying to improve social and environmental conditions across the supply chain: the EICC and the GeSI. While these initiatives do include dialogue with “stakeholders”, this has not so far included trade unions representing their own employees. The NGOs that have been invited to participate have repeatedly criticized the companies for failing to engage with trade unions in social dialogue and for focusing on processes and tools which do not include the views of workers. Fundamentally, the EICC itself does not meet the ILO standard on freedom of association, nor does it include any right to bargain collectively. In the EICC/GeSI stakeholder meetings, member companies have declared themselves to be “very sensitive” to trade unions and more interested in a broader concept of what is meant by worker representation.⁵

This anti-union philosophy has been carried over into the CM companies to which the brand companies outsource overall up to 75 per cent of their production. Despite being for the most part unknown to the general public, the largest contract manufacturers are themselves major multinational companies that have seen extraordinary growth.⁶ The largest of the six, Hon Hai, went from sales of US\$2,800 million in 2000 to US\$27,000 million in 2005 and now employs over 230,000 workers, the majority of them in China. Its estimated sales for 2006 are US\$27 billion.⁷ The second biggest contract manufacturer, Flextronics, looks set to match these sales figures with its recent purchase of its next largest rival, Solectron. The combined workforce will be over 200,000.

The CM have lead a movement of electronics manufacturing employment away from North America and Europe and towards lower wage countries in Eastern Europe and Asia, especially China. Keeping wage costs down by expanding in “low cost” locations is seen as essential to attracting business from the OEMs – Flextronics claims to save its clients 75 per cent on labour costs – a powerful incentive to resist unionization attempts.

provisions of national laws or regulations or of collective agreements and whose functions do not include activities which are recognized as the exclusive prerogative of trade unions in the country concerned”.

4. Social dialogue is defined by the ILO to include all forms of information exchange, negotiation, consultation and collective bargaining between, or among, representatives of governments, employers and workers, on all issues of common interest.

5. The EICC/GeSI Joint Stakeholder Engagement Meeting, Geneva 19 April 2007, record of meeting.

6. See article by S. Hayter in this publication.

7. See G. van Liemt: “Subcontracting in electronics: From contract manufacturers to providers of Electronic Manufacturing Services (EMS)”, ILO, 2007.

In their annual reports, the CM companies provide few clues to their relationships with their employees. Flextronics, Jabil and Celestica, for example, use identical wording to state “we believe that our employee relations are good”.⁸ Solectron, in common with Walmart, refers to its employees as “associates”.⁹ Only a handful of CM plants have any union presence.

Further obstacles

But active management opposition to union organizing is not the only barrier to electronics workers forming unions. The majority of workers in electronics manufacturing plants in the developing world are in precarious employment situations, whether through temporary contracts, agency labour, daily hire or the myriad of other non-secure methods of hiring. Consequently, fear of job loss is a major barrier to unionization.

Increasingly, electronics manufacturing is performed inside EPZs, presenting additional challenges to organizing. EPZ sites are often physically restricted with fencing, gates, guards and razor wire, as are the individual factories within the site, effectively preventing union organizers from approaching workers. EPZs tend to be established in economically deprived areas where workers are more fearful of losing their jobs if they make demands. In many cases, EPZ workers have migrated from still poorer areas and can even less afford to put their jobs at risk. Companies that locate in EPZs are looking for cheap labour and exemptions from social obligations – good reasons to strongly resist union attempts to improve wages and conditions.

Enforcement by governments of labour rights in EPZs, including the right to organize, is extremely poor; in some cases as a matter of policy. The Canadian Government has pointed out that there is “evidence that the temptation to be less vigilant in enforcing national labour laws has been used as a means to attract much needed foreign investment”.¹⁰ In some cases governments more actively assist in keeping electronics union-free. For example, the Malaysian Government has long prevented the formation of national electronics unions.

Of course, the union movement itself must also take some responsibility for the poor unionization rates in electronics manufacturing.

8. Flextronics International Ltd, Annual report to the United States Securities and Exchange Commission for the fiscal year ended 31 March 2006; Jabil Circuit, Inc., Annual report to the United States Securities and Exchange Commission for the fiscal year ended 31 August 2005; Celestica Inc., Annual report to the United States Securities and Exchange Commission for the fiscal year ended 31 December 2005.

9. Solectron Corporation, Annual report to the United States Securities and Exchange Commission for the fiscal year ended 26 August 2005.

10. Canadian Department of Foreign Affairs and International Trade, Discussion Paper (Feb. 2001).

Despite a traditional presence in some European-based ICT companies such as Philips and Siemens, unions have never been able to gain sufficient toehold in the industry on which to build organizing efforts. Consequently, when electronics manufacturing went through its massive period of growth in the 1990s, unions were left on the outside with no real strategies to address the particularities of the industry. One of the most significant characteristics of electronics manufacturing, from an organizing perspective, is that it is done mainly by women. And many of the unions attempting to organize these workers have their roots in traditionally male metal-manufacturing industries. As such, they found themselves (and in many cases still find themselves) ill-equipped to appeal to women workers who had no experience of or receptivity towards unions.

In 1994, 25 years after electronics production became established in Silicon Valley, a study based on interviews with the predominantly female migrant workforce indicated that the gender of the workforce proved a significant barrier to organizing attempts made by manufacturing unions with male members and male leaderships.¹¹ Organizing campaigns were certainly hampered by management hostility to unions and their own counter-organizing campaigns, but organizers also pointed to a lack of commitment by national unions to adequately invest in organizing electronics workers. Women who tried to get involved in the unions found that issues of direct concern to their working lives such as childcare and sexual harassment were not considered “acceptable union business”. Furthermore, the barriers that their family responsibilities presented to attending union events were viewed as individual problems to be addressed by the women themselves. The study concluded that “the large majority of immigrant women in Silicon Valley high-tech manufacturing jobs are alienated from the trade union movement”.

Progress in organizing

While significant progress has been made within unions towards addressing the needs of women workers, it is clear that many of the same obstacles to organizing women engaged in electronics production persist today. Assisting unions to transform themselves into organizations capable of convincingly addressing issues faced by women workers is a key strategy to increasing union membership among electronics production workers. This is being pursued by the IMF both in its work with individual affiliated unions and through cooperation with a global union federation with a predominantly female membership base.

11. K.J. Hossfeld: “Why aren’t high-tech workers organized? Lessons in gender, race, and nationality from Silicon Valley”, in D. Conford (ed.), *Working People of California*, University of California Press, 1995.

The IMF affiliate Serikat Pekerja Metal Indonesia (SPMI) is an example of a union that, despite the often overwhelming obstacles, has organized significant numbers of electronics workers, even in EPZs. To be able to do this, the SPMI first took steps towards changing its structures and culture to improve representation of women and increase their membership in the union. In 2003, the IMF started working with the SPMI to improve women's representation in the leadership and as members. The ultimate aim was to develop a union structure capable of fighting for and defending the rights of women workers and thereby improve its capacity to organize women electronics workers. As has been noted, electronics manufacturing is highly gendered. In the SPMI's case, 83 per cent of the union's female membership works in electronics (compared with 35 per cent of male members).

The SPMI has made considerable progress: where once there was no form of women's organization and women had no access to training, now there is a fully functioning women's directorate operating at all levels of the union, able to plan, conduct and evaluate its own activities. This increased profile and the level of involvement of women has greatly improved the SPMI's organizing capacity. In the period 2003–06, the union's biggest membership growth was in electronics. Overall, women's membership of the SPMI has increased by 42 per cent. Many of the new members come from Batam, an island off the coast of Singapore that is itself an EPZ, packed with electronics factories. Thanks to the efforts of the SPMI and Lomenik, another IMF affiliate, 45,000 workers on Batam are now organized, about 80 per cent of them women.

Women's place in the SPMI has now been accepted formally by the union's governing body. At its most recent Congress in December 2006, women were elected to the Central Board for the first time. At the same time, members voted to change the union's rules to guarantee 30 per cent representation of women at all levels.

Incorporating more women into union structures is essential if unions are to be able to present themselves to a female workforce as organizations worth joining. While to many it may appear self-evident, there are still union leaders who do not accept that organizing women workers will need different strategies from those used to organize a traditionally male workforce. Women workers want and need unions that can fight for their rights just as much as male workers do, yet they will not be attracted to join organizations that present a predominantly male profile and culture. They need to be convinced that unions understand their needs and are prepared to accept women into their leaderships as equal partners. Adopting such an approach will go a long way towards improving union capacity to organize electronics workers.

To advance this aim, the IMF is working closely with the International Textile, Garment and Leather Workers' Federation (ITGLWF). The co-operation has two main goals – to capitalize on the experiences of textile unions in organizing a predominantly female workforce with similar working

conditions (and abuses), and to explore possibilities for joint organizing strategies where textiles and electronics factories are co-located, often in EPZs. Though many textile unions also still have work to do to redress gender imbalances in their leaderships, there is a wealth of experience to draw upon for organizing strategies that focus on women workers.

The two global union federations are currently engaged in a project to map selected EPZs that host both electronics and textiles plants. The information will be used to inform joint organizing campaigns between textiles and electronics unions in those locations.

Organizations that are campaigning to improve working conditions and respect for labour rights in the electronics industry are also drawing on the experiences of activists groups such as the Clean Clothes Campaign that have had considerable success in bringing abuses in the manufacture of textiles and clothing to public attention. With electronics exports now worth more than exports in textiles, clothing and agriculture combined,¹² it is time that a similar focus is put on the substandard labour conditions of many electronics workers.

Thanks largely to the efforts of a number of NGOs (see box), multinationals in the electronics industry are starting to be exposed to public scrutiny. The fact that major brand names such as Dell, HP and IBM, as well as many of the contract manufacturers are responding to pressure for improvements in their supply chains is a positive indication. However, it remains to be seen whether such efforts will amount to more than cosmetic attempts to clean up their image with consumers. As long as unions continue to be excluded from the workplace, there can be no lasting guarantee of respect for labour standards.

Unilateral enforcement of company codes down the supply chain is fraught with difficulties, as the OEMs acknowledge. The even greater challenge is to produce auditing reports that provide credible evidence of conditions inside plants. While monitoring of codes of conduct is now big business, so is the business of providing plants with advice on how to conceal dodgy practices from auditors.¹³

The IMF has entered into a number of IFAs with multinational companies, though none in the electronics sector. Such agreements commit companies to respecting at least the key ILO Conventions referred to as core labour standards on freedom of association and the right to collective bargaining, discrimination, child labour and forced labour. Most importantly, in signing an IFA with the IMF, the multinational company undertakes to pressure its own suppliers to uphold the same standards.

12. S. Lall: "The Technological Structure and Performance of Developing Country Manufactured Exports, 1985–1998", in *Oxford Development Studies* 28 (3), June 2000.

13. See, for example, "Secrets, lies, and sweatshops", in *Business Week*, 27 Nov. 2006.

“Clean up your computer”

In 2004, the UK-based Catholic Agency for Overseas Development (CAFOD) launched a report “Clean up your computer”¹ which described the PC supply chain and exposed working conditions in the electronics sector. Interviews with electronics workers in China, Mexico and Thailand uncovered widespread abuses including low wages, appalling working conditions and suppression of union rights.

Subsequent lobbying by the CAFOD resulted in brand-name companies such as Dell, IBM and Hewlett Packard and some contract manufacturers creating their own voluntary code of conduct, the Electronic Industry Code of Conduct (EICC). No union has been involved in either the drafting or the implementation of the code.

Another report in 2005 by the SOMO² (Centre for Research on Multinational Corporations, based in Amsterdam) entitled “CSR issues in the ICT hardware manufacturing sector” uncovered similar abuses in the supply chains of Acer and Fujitsu-Siemens in China and the Philippines. In both cases they found serious problems related to:

- excessive working hours;
- wages and compensation for overtime;
- health and safety;
- freedom of association and the right to collective bargaining.

In 2006 SOMO³ produced a further report on the mobile phone industry with the same findings, as well as shocking evidence of workers’ exposure to toxic chemicals.

¹ “Clean up your computer: Working conditions in the electronics sector”, CAFOD. 2004.

² “CSR issues in the ICT hardware manufacturing sector”, SOMO, 2005. ³ “The high cost of calling: Critical issues in the mobile phone industry”, SOMO, 2006.

Such an agreement in the electronics industry, besides avoiding the pitfalls inherent in unilateral codes, would provide a useful tool for enabling dialogue between companies and trade unions at the international level that could eventually lead to workers participating in monitoring labour conditions in their own factories. However, such cooperation seems unlikely under current conditions, given the ideological opposition many electronics companies still have to unions.

Rather than engage with trade unions, the companies have actively sought dialogue with the NGOs that have raised issues of labour violations with them. This is an uneasy relationship as the NGOs refuse to be used by the companies as substitutes for legitimate worker representation through their own trade unions. The IMF is now participating in a network with NGOs worldwide that are campaigning to improve human rights in the electronics industry. The GoodElectronics¹⁴ network aims to strengthen

14. Details available at: www.goodelectronics.org.

organizations in their actions to improve conditions in the industry, with a focus on workers' and grassroots organizations in production countries.

The IMF has been able to use the network to provide better information to its affiliates about organizing and campaigning opportunities in the industry and to put them in direct contact with NGOs that are doing similar work. One of the key achievements of the network has been to create a set of common demands for the industry which address both human rights and environmental standards. To compel electronics companies to respond to pressure to clean up the abuses for which they are responsible requires unions and NGOs to combine their efforts. Common strategies must be developed to expose the abuses to the public at the same time as organizing workers to fight for improved working conditions. The GoodElectronics network is providing a vehicle through which this can be achieved.

Conclusion

The challenges to organizing in the electronics industry are enormous, and at times may seem insurmountable. Yet the sheer numbers of workers involved and the substandard working conditions they face demand that unions take action. To be successful, unions must ensure gender equality in their structures and address their capacity to represent the needs of women workers. Working together with other civil society organizations involved in campaigning for improved standards in the industry is essential. As demonstrated by the Clean Clothes Campaign, combining the public campaigning strengths of NGOs with the organizing strengths of unions has enormous potential for success. Part of the strategy in the electronics industry will involve dialogue with companies, including discussions towards IFAs. But first companies engaged in electronics manufacturing, whether directly or as buyers, need to realize that efforts to guarantee minimum labour standards in their supply chains will be unsuccessful without the involvement of workers through their unions.

