



## MFA PHASE-OUT

Who gains? Who loses?

ETI Seminar, 27 October 2004

## About ETI

The Ethical Trading Initiative (ETI) exists to identify and promote good practice in the implementation of codes of labour practice, including the monitoring and independent verification of code provisions. We are an alliance of companies, trade union organisations and non-government organisations (NGOs) committed to working together to achieve that aim. Our ultimate goal is to ensure that the working conditions of workers in companies that supply goods to consumers in the UK meet or exceed international standards.

The ETI Base Code is founded on International Labour Organisation (ILO) Conventions and has become a model on which other codes are based. ETI's Base Code can be seen in full on our website ([www.ethicaltrade.org](http://www.ethicaltrade.org)).

We were established in 1998 as an independent, not for profit organisation. We are funded by member contributions and a grant from the UK Department for International Development (DFID).

## About ETI Forum

ETI Forum reports on the key issues discussed at one of our events. ETI events – members' roundtables, public seminars and conferences – focus on ethical trade issues of topical interest or which have proved to be particularly challenging to our members. For example, we have held events on corporate social responsibility, homeworkers, corrective actions in code compliance, HIV/AIDS in the workplace and the role of gangmasters in the food and agricultural industry. These events give members and others the opportunity to learn from guest speakers and from each other, and to debate practical responses to the issues raised.

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## *About this report*

Part of the *ETI Forum* series, this document reports on the key issues presented and discussed at the ETI seminar *MFA Phase-out: who gains, who loses?*, held at the St. Giles Hotel in London on 27 October 2004. This report aims to serve both as an *aide memoire* for those who attended the event, and as a stand-alone briefing for others with an interest in the implications of the phase-out of the Multi Fibre Arrangement (MFA).

The report is structured thematically, since we believe this is the most effective way to communicate the issues to a wider audience. This means that it does not identify the particular presentation or workshop in which particular points were raised. However, if you are interested in the specific viewpoints of any of the speakers, please contact [adil@eti.org.uk](mailto:adil@eti.org.uk) for full presentation slides or notes.

## *Background and purpose of the seminar*

The final stage of the phase-out of the MFA on 1 January 2005 is predicted to have significant economic and social consequences, including substantial job losses in some key garment producing countries in the developing world. But despite growing concern and debate, awareness of the real implications remains limited, as does concerted and effective action to mitigate potential negative impacts.

This ETI seminar was organised to raise awareness and encourage action from ETI members and other EU and US companies. Specifically, it aimed to:

- Raise awareness of the MFA phase out and its potential impact on workers;
- Take forward thinking on how different players can help prevent disaster for workers and the industry in vulnerable countries; and
- Provide participants with a chance to hear others' perspectives on the issue.

Key issues raised at this seminar, in particular any strategies and actions identified, will be fed into the on-going work of the **MFA Alliance**, an international multi-stakeholder alliance which has been established to create common understanding and identify possible courses of action to tackle the fall-out from the phase-out, and explore the potential for a co-ordinated approach to address the issues.

ETI is grateful for the contributions of the following speakers:

- Maya Forstater (Research Associate, AccountAbility), who presented key findings from the first phase of the research commissioned by the MFA Alliance on the implications of the MFA phase-out. Maya was a member of the team responsible for conducting this research.
- Neil Kearney (General Secretary, ITGLWF), who has campaigned extensively on this issue on behalf of garment workers worldwide.
- Balachandran Gowthaman (Oxfam International), who has conducted research on the implications of the MFA phase out on the Sri Lankan garment industry and workers.

## *Who participated*

Over 90 participants took part in this event, ETI's most well attended single-issue seminar to date. Participants included representatives from 15 garment retailers and brands (including 7 non-ETI member companies) and from 12 NGOs, as well as trade unionists, investment analysts, UK government officials and ethical trade/CSR researchers and consultants.

## 1. Setting the scene

### 1.1 What is the MFA phase-out?

On 1 January 2005, the Multi-Fibre Arrangement, which has governed garment and textiles imports to the EU and US through a system of quotas since 1974, will come to an end. The quota system, although initially introduced to protect the domestic industries in the EU and US, has in practice provided many developing countries with access to markets and shelter from the rigours of global competition. From 2005, these countries will have to compete with the world's most efficient garment producing countries, particularly China. Clothing brands and retailers will have greater freedom to consolidate their supply base, concentrating on those countries offering the best deals.

### 1.2 Why the commotion?

The agreement to phase out the MFA has been hailed by some as a real success in the battle for a more open market – so why the commotion? The concern is that retailers and brands will stop or substantially reduce sourcing from many poor garment producing countries, with serious economic and social consequences including substantial job losses.

According to Neil Kearney, trade in garments and textiles is worth USD 350 billion, making up more than six percent of total world trade, and many countries are almost totally dependent on the industry for export earnings and manufacturing employment. In Bangladesh for example, garments and textiles are responsible for 95% of the country's industrial goods exports, 1.8 million jobs and probably another 2 millions workers who depend on the sector in an indirect way for their livelihoods.

The problem is that in many of these countries the industry only took hold because of trade regulation and quotas – without the MFA it is doubtful whether countries like Bangladesh, Cambodia, Mauritius and Lesotho would have had a garment and textiles industry at all. These and other poorer countries who lack the infrastructure, technology etc to compete in a less regulated global market stand to lose out – and because of the high level of dependency on the industry for employment opportunities, workers in these industries are extremely vulnerable.

This accounts for why trade union organisations and NGOs are concerned about the MFA phase out. But why should international brands and retailers care? The MFA Alliance believes that job losses and related negative social consequences resulting from companies' decisions to shift production pose a real risk to brand reputation, and that the consequences may be widespread enough to spread cynicism about the broader "development through trade" and CSR agendas.

### 1.3 But why haven't national governments taken preventative action?

Given that the phase-out has been a staged process that started back in 1995, one might legitimately ask: but why haven't governments in garment producing countries taken preventive measures to protect/boost their national industries?

Speakers and participants offered a number of reasons for the limited response to date:

- **The way the phase-out has been structured.** Even although it has been a staged process, the number of product categories released from quota has been far from even across the different stages, with the vast majority only to be released in the final stage (Stage 4, January 2005). For example, of the 218 categories to be released from quota for import into the EU, none were released in Stage 1 (1995), only 14 in Stage 2 (1998), 27 in Stage 3 (2002), with the remainder of 167 categories to be released in January 2005. Moreover, the Stage 4 categories include the most sensitive products, ie, those critical to the survival of national industries. With such a pattern of "liberalisation", it is easy to see why governments – and the industry – did not take the issue too seriously in the early years.
- **Governments do not see the garment industry as important:** Many governments have not prioritised the garment industry as a sector for investment and support, often because it is seen as a "transitional" industry – only a stepping stone towards higher value manufacturing industries (eg, electronics), and also because the workforce is often dominated numerically by women workers (seen as less important).

### 1.4 What will happen? Some things we know, but there is a lot we don't...

The next sections of this report (Sections 2 to 5) describe what speakers and participants believed to be the likely impacts of the MFA phase-out. But as both Maya Forstater and Balachandran Gowthaman reminded us, much remains uncertain or unknown. This is particularly the case when it comes to predicting the scale of impact, when the impact will hit, and exactly where the axe will fall. Why?

#### 1.4.1 Problems with the figures

- **Lack of reliable statistics.** In most developing countries, reliable statistics on the number of people currently employed in the garment and textile industry are not available
- **Little information on workers.** According to the MFA Alliance, most international studies looking at the impact of the MFA phase out identified potential impacts at the country/industry level, but did not drill down to assess potential impact on workers, nor study the relationship between industry competitiveness and worker welfare.
- **Huge variation in predictions.** Where predictions have been made about potential job losses resulting from the phase-out, there are typically huge variations between different estimates. Eg, according to Gowthaman, estimates of potential job losses in Sri Lanka ranged from 70,000 to 130,000.

#### 1.4.2 It is difficult to predict how people will respond

One of the reasons why the scale of impact is difficult to predict is that at the end of the day one cannot predict with certainty how key players will respond. In particular:

- **How will buyers respond?** "Knowing what interests buyers today is a weak guide to what they will do tomorrow"<sup>1</sup>. As we see below, there is a complex array of factors at play that could swing the pendulum either way.

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<sup>1</sup> Quoted in Maya Forstater's presentation (original source not specified).

- **What will exporting governments do?** For example, the nature and level of response from governments in Eastern European/North African and Central American countries is critical in determining whether or not their industries will be winners or losers in the post-MFA fall out. Similarly, the extent to which workers will be affected in many countries will depend on how their governments respond: will they take the “high road” – improved competitiveness based on higher labour standards (eg, Cambodia), or the “low road” – a race to the bottom where competitiveness is based on low prices (and low wages) alone (eg, Bangladesh)?

## 2. How are/will buyers respond?

### 2.1 The headlines

Findings from the mapping research commissioned by the MFA Alliance, based on consultations with buyers and industry analysts, concluded that the phase-out will lead to international brands and retailers:

- **Consolidating their supply base** – although they will not put all their eggs in one basket
- **Choosing the best deals**, based on price, quality, service and speed – so competitive companies and industries will grow.
- **Choosing countries offering the best environment**, leading to a corresponding shift in production.

These may be the top line conclusions, but what the presentations and discussions at the event highlighted was that in practice the situation is considerably more complex, making it very difficult to predict the extent of consolidation and production shift between countries. Many participants were saying that buyers are looking for more than price, that they have different sourcing needs that no one country – not even Super-China! – can meet, and that there are costs/constraints to shifting production between countries that may restrict mobility. In essence, many were saying that buyers are unlikely to consolidate their supply bases as much as some fear. This section explores these issues in more detail.

### 2.2 What type of suppliers are buyers looking for? Its not just about price...

Buyers in Sri Lanka<sup>2</sup> identified the following criteria which would influence their choice of whether, and if so where, to shift production. The key point to note is that while price may be the most important single criterion, there are many other criteria that suppliers must meet to satisfy the buyer. So while one country – China, say – may win on price, other countries may remain in the market because they are more competitive on other criteria.

#### 2.2.1 Criteria buyers considered to be essential – what suppliers must be able to offer:

- **The ability to consistently deliver the basics:** good price, acceptable lead-time, acceptable quality
- **Sufficient financial capacity** – not dependent on buyers or others for investment
- **Sufficient product development capacity**

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<sup>2</sup> Based on a survey of 14 buyers in Sri Lanka, including 9 of the Top 20 buyers and 5 middle range buyers, and together buying from around a third of the export garment factories in the country; reported in Gowthaman's presentation.

- **Ability to upgrade technologically**
- **Vertical integration**
- **Sufficient marketing ability**
- **Has had direct** (and presumably favourable) **contact with buyer**
- **Sufficient size of operation** to offset co-ordination costs
- **Sufficient infrastructure** for compliance with labour standards (often a real challenge for SMEs).

### *2.2.2 Criteria considered desirable but not essential*

- **Compliance with labour standards/codes of conduct**
- **Joint ventures**

## **2.3 Other factors at play**

Participants also highlighted a number of other factors that tempered the predictions made in the presentations of massive shifts in production.

### *2.3.1 Need for diverse supply base*

A significant number of corporate participants emphasised the level of differentiation in the clothing market – different types of product demand quite different sourcing criteria. They emphasised that no one country could offer the total solution – see below.

### *2.3.2 Costs of/constraints on moving production*

Many corporate participants also questioned implicit assumptions about the extent of mobility of the garment trade – they argued that there are significant constraints and costs associated with shifting production out of a country completely. Two particular issues highlighted were:

- **Factories in vulnerable markets are often wholly or partially foreign-owned.** Foreign investors involved in production have roots in these countries, so are going to think twice before pulling out of the country all together. A case in point: one major footwear brand who has invested heavily in Bangladesh has indicated that it will not pull out of the country.
- **Shifting production has significant costs:** in particular, the business value of maintaining good trading relationships with loyal agents and suppliers is high, and brands/retailers will not sever links with a trusted supplier/agent without a strong business rationale to do so.

## **2.4 The evidence?**

But is there any evidence that these “constraining” factors really cut ice with retailers and brands?. The answer is yes, if responses of Sri Lankan buyers (see Footnote 2) in July 2004 are anything to go by. Their responses indicate that, while some production may be shifted out of Sri Lanka, it’s a far cry from the “everything to China” scenario. Of the 10 buyers who responded, 5 said they would shift 10-15% of their production out of Sri Lanka in 2005; 3 said they would shift 5-10%; and 2 said they would not make any changes at all.

# **3. Which countries will win/lose?**

## **3.1 The headlines**

So what will be the end result? According to the mapping research commissioned by the MFA Alliance, buyers and industry analysts predict the following

- **Winners:** China, and to a lesser extent India

- **Losers:** Philippines, Mauritius, Nepal, and other countries supplying the mass (cheap end) garment market
- **Uncertain outcomes – Group 1:** Bangladesh, Pakistan, Indonesia and Vietnam. They all have the potential to be competitive supply bases but also have serious difficulties (eg, corruption, security). A lot depends on how the industry and government respond to the challenges.
- **Uncertain outcomes – Group 2:** Eastern European and Central American countries. They will remain part of the mix if they can take advantage of their proximity to EU and US markets, respectively, to deliver fast turn-around.

Much of the discussion at the event centred around unpacking the China issue: there is little doubt that China is gaining and will continue to gain from the MFA phase-out, but how much was under considerable debate. Key arguments both ways are summarised below.

### 3.2 Everything's going to China...

One indicator of future shifts in trade as a result of the final stage of phase-out is to look at what happened to product categories released from quota in the earlier stages. Analysis of **what happened to categories released in Stage 3 (January 2002) revealed a major shift of production to China and a fall in unit price:**

- **Increased EU and US market share for China:** According to Gowthaman, a huge amount of the low end categories shifted to China. Examples given by Neil Kearney include: imports of baby clothes from China increased from 32% of total EU imports in 2001, to 60% in 2003; tracksuit imports rose from 18% in 2001 to 66% in 2003; and glove and other hand-wear imports jumped from 17% to 40%. Looking at it another way, between 2001 and 2003, out of the 12 **largest** exporting countries China was the only country who registered growth in export value to both the UK and EU markets for released categories. Most of the other countries – including Thailand, Sri Lanka, Bangladesh, Indonesia and Turkey – all saw a fall in export value for these released categories over the same period (Gowthaman).
- **Fall in unit price:** according to Gowthaman, during the same period, the average unit price across the 27 EU import categories released in Stage 3 fell by 18%. China was able to drop unit prices by an average of 58% - everyone else was forced to follow suit.

### 3.3 ...but its not that simple – there are good reasons for not putting all eggs in the Chinese basket

However, Neil Kearney and some corporate participants emphasised that there are good reasons for not shifting everything to China:

- **Growing energy shortages** – one major retailer recently switched an order from China to Bangladesh because the factory could not deliver on time – a situation due entirely to energy shortages.
- **Significant labour shortages** – horror stories of labour conditions in export garment factories, combined with rising prices of agricultural products, are pushing people back to the countryside.
- **The Chinese authorities not too interested in garments** – they see it as a transitional industry, and prefer to invest in developing higher-value industries such as electronics.
- **What will be the US and EU response to the increasing dominance of China?** – EU and US governments may face pressure from domestic industries and from the poorest countries to impose quotas and tariffs on China. The US has already begun to do so.

### 3.3.1 The evidence?

But how important are these “anti-China” factors? Well worth listening to, according to buyers in Sri Lanka (see above) and representatives of several major retailers and brands who attended the event. They emphasised that it does not make business sense to move everything to China. Many companies are dual-sourcing: they are dipping their toes in Chinese waters because they see everyone else moving there and don’t want to lose out. But many are retaining their bases in Europe. They stressed that the garment market is significantly differentiated – China can’t do everything, and they need Europe to meet other market needs. They also stressed that moving production is not as easy as is often made out (see section above): another reason why moving everything to China may not be a realistic option.

Specific statements by representatives of two major brands/retailers during the workshop discussions:

- One major US Brand said that they are moving **out** of China – because China has oversold itself and doesn’t have the capacity it claims. This company believes that they can’t meet the demand, and that the power situation is seriously problematic. They are instead moving to source “locally” because closer markets offer shorter lead times, better quality, and there is no need for bulk orders (therefore giving greater flexibility).
- Another company (UK garments retailer) said they would go to China for mass orders and cheap end staples (tried and tested items), but would continue to source “fashion” items from closer to home – eg, Turkey, Morocco.

## 4. Which suppliers will win/lose?

Based on responses of buyers he interviewed earlier this year, Gowthaman offered the following profile of the type of supplier who is going to lose out from the phase-out of the MFA:

**“A factory that had dealt primarily on quota items, is not very large in size, lacks direct buyer/brand contact, is financially weak, with relatively dated technology and poor infrastructure for compliance, without marketing ability, and having supplied exclusively to an intermediate buyer who is losing orders...is very likely to close down!!”**

## 5. What impact on workers?

Accepting the backdrop of limited employment data and little research done to date on the impact of the MFA phase-out on workers, trade union organisations and labour rights NGOs (as reported by the MFA Alliance), and our speakers, predict the following potential impacts/risks of the phase-out in vulnerable countries:

- **Job losses.** No one can be certain of the exact numbers and location of job losses, and estimates vary widely. Nevertheless, to give a ballpark picture of the scale of job losses predicted: Neil Kearney quoted estimates of 1 million jobs to be lost in Bangladesh, a further million in Indonesia, and 300,000 of the total 350,000 jobs in the garment industry in Sri Lanka (although note Gowthaman’s caution about the figures – see section 1.4.1 above). What seems certain is that there will be disruptions in employment, and most commentators agree that job losses will be most concentrated amongst small and medium-

sized enterprises (SMEs), low-tech and un-modernised factories, and those offering basic “cut, make and trim” facilities.

- **Social impacts of job losses.** In many garment producing countries, the garment workforce is dominated by young women who have migrated from rural areas. Where the economy is highly dependent on the garment industry, alternative job opportunities are scarce. There are particular concerns about migrant female workers in the more “patriarchal” societies in South Asia – having left rural areas to enter the job market, there is a real risk that they will not be accepted back into their home villages. Anecdotal evidence exists of increases in domestic violence, marriage breakdown and prostitution following factory closures.
- **Loss of owed wages and benefits from “overnight” closures.** Many labour rights activists fear that many factories going out of business will “cut and run”, leaving workers not only without a job but also losing out on owed wages, benefits and redundancy payments required by law.
- **Poverty and security implications** could be significant where the industry is critical to the national economy. Beyond the workers employed directly by the garment industry, other related industries, local economies and rural families dependent on remittances are also likely to suffer as a result of decline in the industry. According to Neil Kearney, tension is already rising in Bangladesh: there has been an increase in street crime, often attributed to the newly unemployed, and news reports speak of numerous suicides among young women workers recently made redundant.
- **Decline in working conditions for remaining workers.** Many fear increased competition for orders will lead factory managers to reduce wages, default on proper compensation for overtime etc. in a bid to cut costs and remain competitive. Workers will be in an even weaker bargaining position due to the increased threat of work being moved elsewhere. Similarly, there are concerns that governments will reduce legal protection for workers to stay in the market. And according to Neil Kearney, the risks are very real: the Bangladesh government recently indicated that it is going to increase permitted overtime limits and relax the regulations on night work for women; and the government in the Philippines has indicated that it will exempt the garment industry from the minimum wage legislation.

## 6. What can be done to avoid disaster?

There was much discussion at the event about possible tactics and actions that could help vulnerable industries stay in the market and mitigate some of the potential negative impacts of factory closures on workers. The following brings together the range of suggestions put forward by each of the speakers and by other participants during the break-out group discussion that took place after the presentations. General suggestions are followed by specific recommendations for the key players who can influence the agenda.

### 6.1 Overarching principles/suggestions

Maya Forstater emphasised that we need to make the most of the following opportunities that the phase-out offers:

- **Comparative advantage is not just about low wages.** Quality, service and turnaround time are also important. Played correctly, suppliers can use the end of MFA as an opportunity to upgrade their production, investing more in technology, training and management and improving working conditions.
- **Use labour compliance as a competitive edge.** Good labour law and enforcement could help attract buyers and secure bilateral trade agreements.

- **Make use of opportunities arising from more compact supply chains.** Brands and retailers are consolidating their supply chains in response to the phase-out. But consolidation provides improved opportunities to ratchet up labour conditions – a tighter supply chain facilitates monitoring and increases buyers’ leverage to drive through labour improvements.
- **Longer-term opportunities for expansion of the industry.** The quota regime imposed net costs on the developing world as a whole. With freer trade, competitive industries will expand, and in the longer term demand from developing country markets is increasing.

General suggestions from other participants included:

- **A co-ordinated effort is essential** – all key players need to be involved, and there needs to be an effective institutional framework to bring and keep these players working together.
- **Raising awareness of the positive linkages between competitiveness and improved labour conditions is key.** Examples of current/recent awareness-raising initiatives in this vein include the tripartite “Labour Forum: Beyond the MFA” established by the government in the Philippines; and the new multi-stakeholder task force in Sri Lanka.
- **Workers – particularly women – need to be involved.** The issues need to be communicated to workers, and workers (via relevant trade unions and NGOs) need to be involved in designing the solutions. In effect, there is a need for effective social dialogue between the industry and workers at both enterprise/factory and national level.
- **Processes and procedures need to be made worker-friendly.** This will make all the difference as to whether or not procedures, such as clearing mechanisms, will be effective. In South Asian countries, it is particularly important to make sure that the systems are suitable for women workers – for example, if a clearing mechanism involved women having to go to a male-dominated public place, it will not work.
- **Add a clause to codes which will protect workers from “overnight” closures**
- **Don’t forget continuing employees!!** – they need to be protected from deteriorating working conditions.
- **Work in partnership with other relevant players, including “invisible” parts of the supply chain.** In particular, include **air freight companies** in the discussions and action – they are key players in the international garment trade and will also be substantially affected by the phase-out. Other possible partners include regional industry bodies such as the South Asian Association for Regional Co-operation (SAARC) Chamber of Commerce and Industry.

## 6.2 Brands/retailers – what can they do?

Speakers and participants offered the following suggestions for strategies and actions that clothing brands and retailers could take:

- **Engage in multi-stakeholder initiatives**, such as the MFA Alliance, to minimise the negative impacts of the MFA phase-out on workers, and provide resources to such initiatives. Encourage their suppliers to engage as well.
- **Be transparent about how sourcing decisions are made** – communicate to suppliers what are the standards they need to meet to compete in the post-MFA world
- **Improve understanding of their own supply chains** – without this knowledge, they will not know the problems and will be unable to participate effectively in solutions
- **Clearly define and be explicit about how far down the supply chain their responsibility goes.** Greater clarity from brands and retailers about the scope of application of their codes (eg, do they have any responsibility for the job security and conditions of casual workers in a

sub-contracted workshop or factory?) will help suppliers and other stakeholders know what they can expect.

- **Educate *all* company staff, including buyers, on the social implications of the MFA phase-out** and of sourcing decisions the company makes
- **Wherever possible**, stick to existing suppliers! And where this is not possible...
- **Commit to sourcing only from countries which promote decent working conditions.** Make compliance an “essential” not just a “desirable” sourcing criterion.
- **Adopt sourcing practices that do not undermine maintaining labour standards** – and this includes always paying a decent price and ensuring that delivery schedules are realistic! Give clear incentives for buyers to make responsible sourcing decisions.
- **Ensure responsible exit strategies when leaving markets** – give sufficient notice. Brands/retailers do have longer term sourcing strategies so they **are** in a position to give more advanced notice.
- **Learn from what has happened in other industries**, eg, the decline of the motor industry in the UK. The context is different – the anticipated decline in vulnerable national garment industries as a result of the phase-out may be much more rapid than the decline of the UK motor industry, but there must be lessons to be learnt about how best to manage major retrenchment.
- **Offer technical assistance to their suppliers** on key skills, etc
- **Engage with governments** to upgrade the industry to meet market demands.
- **Adopt clear policies on compensation, gratuity and severance pay, and monitor supplier compliance.** Brands and retailers can make a big difference if they clearly communicate what they consider to be suppliers’ responsibilities to retrenched workers in the wake of the MFA phase-out. Their policies should include the expectation that suppliers abide by relevant national law and negotiate terms and conditions with representative worker organisations. Brands and retailers also need to ensure that they monitor suppliers’ preparedness to implement these policies.
- **Be prepared to meet at least some of the extraordinary, one-off costs** associated with retrenchment of workers as a result of the phase-out.

...And how will all this be funded? Retailers need to commit to using the savings from the abolition of the quota premiums to assist workers and suppliers in the ways mentioned above.

### **6.3 Governments (exporting countries) – what can they do?**

As one participant reminded us, in lobbying governments for change one must not forget the pervasiveness of the “civil servant” mentality: many government officials will not act unless they receive pressure from the very top.

As well as the preventative and protective measures described below, participants also emphasised the importance of **creating alternative employment opportunities** by diversifying the manufacturing base, identifying niche markets etc

#### **6.3.1 Preventative measures: strengthening the industry**

Participants argued that vulnerable national governments must boost the competitiveness of their garment and textile industries by:

- **Promoting investment in infrastructure and technological upgrading**
- **Training/improving skills at all levels**, including managerial, design and marketing skills

- **Encouraging consolidation of the industry**
- **Addressing corruption** (where this is a problem)

Examples given of promising initiatives in this vein included joint national industry-government strategies, eg, the Sri Lanka Joint Apparel Association's five year strategy, and "Esta Moda" in Mexico<sup>3</sup>; and international donor-supported initiatives such as the Asian Development Bank's support to Cambodia, and the multi-donor technical assistance programme in Bangladesh.

### **6.3.2 Protective measures: strengthening social policy**

Participants believed that governments needed to put in place a range of measures to protect both retrenched and continuing workers in the garment industry:

- **Provide an effective clearance facility** – to make it easy for those who are laid off to find and fill existing vacancies. This must be accompanied by measures to **relieve existing bottlenecks**, eg, covering relocation costs where necessary, **and re-training and re-skilling programmes** for retrenched workers.
- **Identify and address legal issues/constraints** – eg, in Sri Lanka, the law does not currently provide for compensation for workers who have been employed for less than one year. This law would need to be amended, or other legal mechanisms put in place to protect such workers.
- **Put in place arrangements to address "overnight closures"** – see above
- **Take pre-emptive action** – identify vulnerable factories (see above criteria) for extra attention and follow-up
- **Raise worker awareness** of what's on the cards, and what are their legal entitlements if they lose their jobs – most won't know! Awareness-raising needs to take place at both industry and enterprise level. NB many workers aren't unionised – one would need to find effective ways of reaching non-unionised workers as well.
- **Ensure social safety nets for rural economies**

### **6.4 Governments (UK/Europe) – what can they do?**

Speakers and participants were clear that importing country governments also had key responsibilities in mitigating negative impacts from the phase-out, and suggested the following actions:

- **Insist that the issue is tabled at WTO/international trade discussions** – don't let it slide off the agenda.
- **Adopt trade policies that force the WTO to take the necessary steps** to assist emerging and struggling industries to survive the immediate future.
- **Adopt an ethical public procurement policy** that gives sourcing preference to countries/suppliers who are pro-actively promoting the implementation of International Labour Standards. This is important both in terms of actual impact, and in terms of providing a positive example for the private sector.
- **Support measures to encourage companies to report on ethical sourcing practices** – as part of a general drive for more and better CSR reporting.
- **Educate consumers about the social implications of corporate sourcing practices, and what consumers can do about it:** ethical trade should be part of the curriculum at all levels.

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<sup>3</sup> Note that workers' organisations were not involved in the design of either of these initiatives.

- **Use public aid budgets/programmes** to provide appropriate support to vulnerable garment industries.
- **Establish schemes to share relevant expertise/technology** (eg, marketing skills) with vulnerable/less developed garment industries.

### 6.5 Suppliers – what can they do?

Of course, suppliers have a key role to play in all of this. To safeguard the future of their businesses, speakers and participants thought suppliers needed to:

- **Strengthen their design and marketing capabilities**, including providing relevant training to managers and workers
- **Invest in and use more up-to-date technology**, in keeping with market requirements
- **Develop a broader range of clients**, so that they become less dependent on a one or two key clients.

However, to ensure that improved business prospects also benefit workers, employers must continue to abide by national labour legislation and international labour standards, pay a living wage and limit working hours, engage in social dialogue and promote good industrial relations.

Where retrenchment is unavoidable, participants felt that suppliers/employers needed to develop clear and fair retrenchment plans well in advance, and include workers – particularly women – in defining these plans and identifying other ways of supporting retrenched workers.

### 6.6 WTO – what can they do?

In the words of one speaker, “The GATT and its successor the World Trade Organisation created this problem, now it must help fix it!”. According to speakers and participants, the WTO needs to:

- **Review trade liberalisation policies** with a view to assisting emerging and struggling industries to compete against dominant suppliers.
- **Ensure proper enforcement of existing WTO trade rules in order to establish a level playing field:** both China and India have export subsidies (10-12%) that give them an unfair advantage over other developing country producers.

### 6.7 ILO – what can they do?

According to Neil Kearney, the ILO has an important role to play – it must “urgently convene a meeting of all the key players to consider and adopt measures to safeguard the livelihood of workers in the sector, their families and communities.”

### 6.8 Other international institutions – what can they do?

Participants offered the following suggestions for actions to be taken by other international institutions:

#### International financial institutions:

- **Use their lending power and aid programmes to promote diversification** of national economies/the export sector, so that economies and workers are less vulnerable in the future to “external shocks” such as the MFA phase-out

- **Provide urgent financial assistance to vulnerable governments** to implement a programme of social and industrial measures to strengthen the domestic industry, boost competitiveness and enforce international labour standards.

As for other international institutions (unspecified), participants suggested they should:

- **Create a forum for discussion** of the issues
- **Conduct research** on the potential impact of the phase-out
- **Contribute to a global “superfund” to support governments** and industries in vulnerable countries to increase competitiveness and manage the fall-out from the phase-out.

## 7. Next steps

So what will ETI do next about managing the fall-out from the MFA Phase-out? ETI's main contribution will be as a member of the **MFA Alliance**, which, building on recommendations from the initial mapping research, is developing a work programme to:

- promote responsible supply base consolidation
- strengthen the relationship between competitiveness and employment and labour conditions
- advocate supportive public policies and
- support national strategies for restructuring.

Rather than pre-selecting specific producing countries as a target for assistance programmes, the Alliance will be inviting countries to submit requests or proposals. For further information on how to get involved in the Alliance, how to seek support, and/or next steps, contact the Alliance Secretariat (see below).

## 8. Further information

**For full presentation slides:** contact [adil@eti.org.uk](mailto:adil@eti.org.uk).

**For further information on the MFA Alliance**, including findings from the mapping research and next steps, contact Danielle Cohen, MFA Alliance Secretariat, Unit A, 137 Shepherdess Walk, London N1 7RQ, UK. Email: [danielle@accountability.com](mailto:danielle@accountability.com); Telephone: +44 (0) 20 7549 0400; Fax: +44 (0) 20 7253 7440.

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