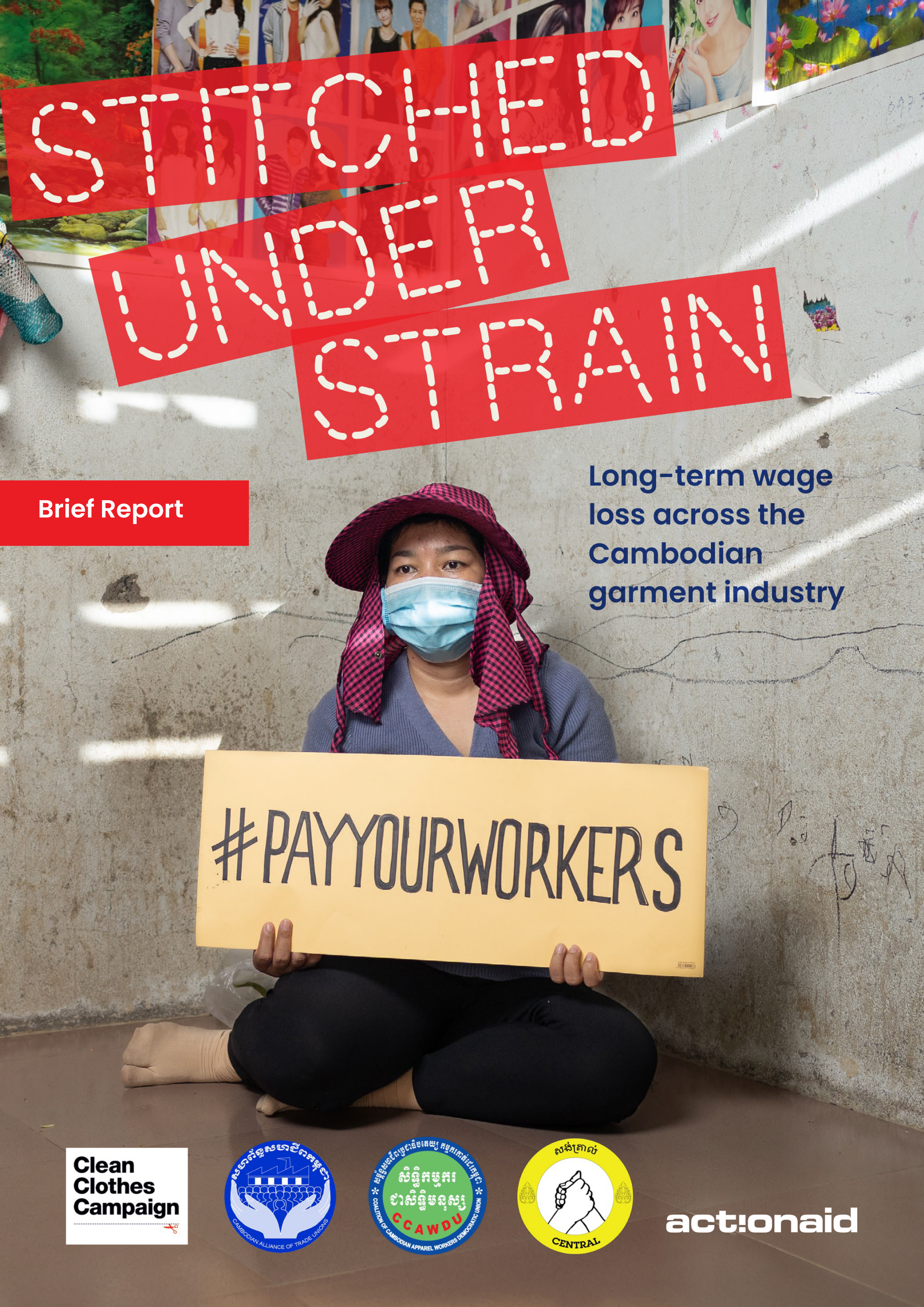
STITCHED UNDER STRAIN

Brief Report

Long-term wage loss across the Cambodian garment industry



Clean Clothes Campaign

CAMBODIAN ALLIANCE OF TRADE UNIONS

COALITION OF CAMBODIAN APPAREL WORKERS DEMOCRATIC UNION

CCAWDU

CENTRAL

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CONTENT

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BACKGROUND

The global brands owing Cambodian workers millions in Covid-19 era wage theft according to the research from 2021 and 2022, the Clean Clothes Campaign estimated that Cambodian workers were owed **USD 342.5 million** in wages and severance for factory suspensions and permanent closures between February 2020 and May 2021. The result is that three years after the pandemic, global fashion giants including Adidas, Nike, Target USA, Puma and Levi's, still owe millions to Cambodian garment workers after failing to address pandemic-era wage theft across the country. The research shows that the Cambodian workers that were abandoned at the onset of the pandemic are now bearing the biggest costs of the Covid-19 recovery. This is an estimated wage theft between February 2020 and April 2021.

Brand	Estimated wage theft (million US$)
Adidas	11.7
Nike	7.5
Target USA	7.6
GAP	6.7
Puma	5.9
Levi Strauss	3.9

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RESEARCH FINDINGS

The research finding from the survey of 308 garment workers, 65 percent of whom were women, consisting of interviews conducted by CATU and CCAWDU field organisers between December 2022 and January 2023, a series of focus group discussions with previously surveyed workers and union representatives to validate key findings and follow-up inquiries, and a desk review of factory-issued payslips, shipping and export data, and all relevant and existing literature. There are three key findings on such as decreased monthly wages, systemic dependence on overtime pay, and soaring debt.

FINDING 1. DECREASED MONTHLY WAGES

At least 25 percent of surveyed workers report a decrease in monthly take-home pay since 2020, excluding overtime. Despite a legal minimum wage increase of US$10 between 2020 and 2023, a significant proportion of surveyed workers are earning less now than they were in 2020, before the Covid-19 crisis hit.

KEY FINDINGS

- Among surveyed workers, at least a quarter report a decrease in monthly pay since 2020.

- 65 percent of workers reported that their salary is insufficient to support them until the end of the month.
- All surveyed workers are earning well below AFWA's estimated US$701 living wage.
- Systemic wage loss across the Cambodian garment industry comes as the cost of living skyrockets.
- Cambodia's minimum wage of US$200 is just 28.5% of the living wage, representing a chronic failure of minimum wage to keep up with inflation and curb worsening poverty.

There is a growing gap between the minimum and living wage in Cambodia. The minimum wage is only 28.5 percent of the living wage, meaning that the garment workers, whose labour earns billions for big fashion brands, are not enough to cover their basic living costs**.** There is the issue of decreasing wages and international brands and factories passing on the burden of cost cuts to garment workers.

"US$200 is the minimum wage, but … they have to hit the target to get the minimum wage. (Before) if they achieved higher targets within the standard working hours they would get a higher salary, and if they worked OT [overtime] they would get that on top. Now, because there is not enough work, they only get the minimum wage … they don't get paid above the quota because there isn't enough work to do."

– Independent Union Leader

FINDING 2. SYSTEMIC DEPENDENCE ON OVERTIME PAY

Overtime pay decreased by more than 60 percent for surveyed workers between 2020 to 2023. Workers have gone from earning, on average, an additional US$36 before the pandemic hit, to an average US$12 per month in 2023. In a country where garment workers were already overly reliant on overtime to supplement their minimum wage, they have had to cope by cutting back on daily food intake and educational expenses for their children.

KEY FINDINGS

- On average, overtime pay for surveyed workers decreased by more than 60 percent, from an average of US$36 before the pandemic hit to a current average of US$12 per month.
- Only 4 percent of workers said that there was enough overtime for those that wanted it.
- Workers attributed the decline in overtime work to decreasing orders from international brands and increased pressure from factory owners for workers to meet higher production targets during normal working hours.

The majority of surveyed workers reported working a significant amount of overtime hours prior to the pandemic, with only 21 percent reporting working no overtime and on average, workers reported earning an additional US$36 per month from overtime – nearly 20 percent of the US$190 minimum wage in 2020. In contrast, 67 percent of surveyed workers report that they are not currently working any overtime. On average, surveyed workers reported currently earning an additional US$12 per month in overtime, a more than 60 percent reduction compared to before the pandemic hit.

FINDING 3: SOARING DEBT

91 percent of surveyed workers report to holding at least one current loan, with 70 percent pointing to the pandemic as a direct link to increased debt. Amidst the growing cost of living crisis, workers are increasingly turning to informal loans that carry interest rates as high as 20 percent, with some workers reporting alarming new trends such as borrowing from factory supervisors directly.

KEY FINDINGS

- Almost half of surveyed workers (49 percent) said they often go to work without eating enough.
- 91 percent of workers reported being in debt and 70 percent said their debt has increased since the pandemic started.
- Almost 40 percent of workers with debt reported having more than one loan, with almost 10 percent having to repay 3 or more loans.
- 54 percent of workers with debt reported often being unable to pay their loans.
- Amidst the growing cost of living crisis, workers are increasingly turning to informal loans with interest rates as high as 20 percent, which is fuelling a household debt crisis with no end in sight.

This research reveals that workers' increasing financial precarity is leading to a shocking intensification in household debt. 91 percent of survey respondents reported being in debt, with only eight percent of respondents reporting not having any loans. 70 percent of surveyed workers reported that their debt has increased since the pandemic started. Workers attributed this increase to factory suspensions during Covid-19 lockdown periods, salary and overtime reductions since 2020, and the mounting cost of living crisis.

"Everyone has debt and keeps thinking a lot about debt. You spend a lot of emotional effort thinking about how you can get money to pay the interest, so you don't have the full concentration for work. You think about how you can reduce costs to pay the debt – children's schooling, food. But if you don't have enough food you can't concentrate at work."

– Berry Apparel Worker

Of the 98 workers who reported their current debt, 46 percent reported having between US$ 1,000 –8,000 in debt and 47 percent reported debts of at least US$ 10,000, with some owing up to US$ 35,000. Of particular concern is the growing number of workers who have more than one loan, which is compounding insecurity for workers across the industry. Of the 281 workers that reported having debt, 30 percent reported having two loans and 7 percent reported having three or more loans. This means that almost 40 percent of surveyed workers with debt are now having to pay off multiple loans on a dwindling salary and in the context of soaring inflation and living costs. In many cases, workers reported having to take on new loans in order to cover repayments on their existing loans, leading to spiralling debt burden. This is compounded when workers' salaries are only sufficient to cover the interest payments, leaving them unable to pay down the principal.

Experience of debt across the Cambodian garment industry			
Factory Name	**Percentage of surveyed workers with debt**	**Number of loans held by surveyed workers**	**Percentage of surveyed workers with debt that are struggling to repay loans**
Apple Apparel*	98%	1 loan – 88%	21%
Berry Apparel	91%	1 loan – 87% 2-3 loans – 13%	23%
Can Sports Shoes	96%	1 loan – 28% 2-3 loans – 56% 4-5 loans – 16%	80%
Meng Da Footwear*	78%	1 loan – 82.5% 2-3 loans – 15%	50%
Trax Apparel	88%	1 loan – 67% 2 loans – 33%	60%
Yi Da Manufacturer	98%	1 loan – 16.5% 2-3 loans – 78% 4-5 loans – 5.5%	87%

* The number of loans does not add up to 100% due to non-response. 12% non-response at Apple Apparel and 2.5% non-response at Meng Da Footwear.

RECOMMENDATIONS

KEY RECOMMENDATIONS TO APPAREL AND FOOTWEAR BRANDS:

- Publish and maintain a complete list of supplier factories they source from across all tiers of their supply chain, including subcontracted suppliers
- Immediately resolve wage theft and severance disputes in supply chains so tha garment workers receive full wages, severance payments and other legal entitlements as a matter of urgency.
- Publicly commit to developing policies and procedures to pay all workers in their supply chains a living wage, and release a detailed plan outlining the timeframe and steps that will be taken to ensure all the factories they work with are paying workers a living wage.
- Publish and enforce a responsible purchasing practices policy that is aligned with brands obligations under the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector.
- Brands' purchasing practices should provide factory suppliers with order stability and adequate time for planning and implementation of orders. Payments should be timely, and the costing model used by companies should enable the payment of living wages and benefits, the provision of social protection and the implementation of worker safety protections.

KEY RECOMMENDATIONS TO THE ROYAL GOVERNMENT OF CAMBODIA:

- Increase the minimum wage to ensure that base salaries across the garment industry are sufficient to cover basic needs such as food, housing, utilities and education, reducing the need for workers to take on debt to cover basic expenses.
- Consider re-examining the Labour Law in the context of factories reducing working hours to ensure that the Minimum Wage is guaranteed regardless of work hours or production targets.
- The Ministry of Labour and Vocational Training reinforce their implementation mechanisms, such as workplace inspections, to ensure factories are not using production targets to pay workers below the minimum wage.
- The National Bank of Cambodia should consider reviewing and regulating interest rates for micro-finance institutions, banks, and informal lenders to align with international standards.
- Consider implementing a policy of rent controlled housing for garment workers to address price gouging practices.

KEY RECOMMENDATIONS TO GOVERNMENTS IN AUSTRALIA, THE EUROPEAN UNION AND THE UNITED STATES

- The EU and its Member States should finalise and implement ambitious legislation on corporate sustainability due diligence. Such legislation should include requirements that, in the context of their due diligence duty, companies shall adapt their business and purchasing practices and ensure workers in their value chains are paid a living wage.
- The EU should work on dedicated legislation to ban the use of Unfair Trading Practices in the textile and clothing sector. Practices such as prices below the cost of production, late payment or late order cancellation should be outlawed.
- The EU and US should maintain the lapse in preferential trade agreements with Cambodia, until concrete and sustainable improvements to human rights and labour rights in the country are made.
- Australia and the US should consider looking to the EU for guidance in creating their own legislation to ensure supply chain oversight. Both countries should adopt legislation that mandates that companies operating overseas undertake gender-responsive human rights due diligence. This legislation should establish an accessible redress mechanism that is independent, well-resourced, accountable, and transparent, which has powers to investigate, and provides effective, enforceable remedies.
- Australia should align its trade agreements with international human rights and gender equality obligations. Binding labour rights provisions should be included in all agreements, and provisions that undermine workers’ rights, directly or indirectly in Australia or in partner countries, should be excluded. Trade agreements should include redress mechanisms that enable workers to access compensation in response to cases of human rights violations.

CASE STUDY:
VIOLET APPAREL SEVERANCE CASE

In May 2020, Violet Apparel, which was producing for international brands including Nike and Matalan, suspended all operations in response to the Covid-19 crisis. When the factory then abruptly closed on 1 July, 1,284 garment workers were dismissed with only 24 hours' notice.
The factory refused to pay its workers all the severance, leave and holiday pay they were entitled to under Cambodian Labour Law. Although some workers received a settlement, many claimed it to be far below what they were owed. Collectively, workers are still owed a total of **USD 1.4 million** in compensation.

"We received US$40 a month during suspension time, but then it closed, and we got nothing. They made us happy at first – they said the factory is closing down and we will provide compensation according to local law, but this is not the reality."

With the factory refusing to pay them what they were owed, many of the workers went on strike. With the support of CATU, the workers then raised a collective dispute before the Ministry of Labour and Vocational Training demanding that the factory owner – the Singaporean and Malaysian-owned Ramatex Group – pay them the outstanding compensation.

The case was referred to Cambodia's Arbitration Council, the country's only labour-specific alternative dispute settlement body. However, in November 2020, the Council refused to rule on the case saying that it lacked jurisdiction. international human rights organisations, including Human Rights Watch and the Worker Rights Consortium, have challenged the Council's decision[i], and industry associations[ii]have raised concerns about Labour rights across Cambodian garment Industry.

"When the factory closed down, they sent out a Ministry representative ... they calculated the compensation incorrectly. They only listened to the factory concerns;

they did not listen to the interests of the worker… they didn't even let us know about it."

In the wake of the Arbitration Council's decision, the Ramatex Group, a multi-million-dollar textile and garment company with 20 factories across Asia, has refused to pay any further compensation to Violet Apparel workers. Nike has also consistently refused to take responsibility for the case, claiming that it ended its relationship with the factory in 2006, despite strong evidence that the factory had been producing Nike clothes as a subcontractor for many years. Nike has also consistently failed to use its longstanding business partnership with the Ramatex Group as leverage to bring a resolution to this case.[iii]

UNEMPLOYMENT IS WIDESPREAD

Three years after the Violet Apparel closure, the lives of the garment workers at the centre of this case have gone from bad to worse. **26 former Violet Apparel workers** participated in this study. Almost a third of these workers reported that they no longer have a secure income, with some unemployed and others working on an hourly or daily basis when work is available. In some cases, workers reported that their union activities in response to the Violet Apparel closure have led to them being blacklisted from other Ramatex-owned factories – or from the garment industry as a whole.

"I have faced a lot of difficulties, and I am still unemployed. It's very difficult for a union leader because many places discriminate and refuse to accept me to work. When we apply for a job, we have to provide our ID card and my ID card has been blacklisted."

An additional 19 percent of surveyed Violet Apparel workers reported earning well below the US$200 minimum wage. Many were pushed into controversial and unregulated subcontracting factories, infamous for low pay and poor conditions. Several of the workers claim they cannot find work outside of the subcontracting industry due to being blacklisted by Ramatex.

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CONCLUSION

This research has shown, the world's biggest fashion brands have pushed the costs of Covid-19 recovery entirely onto supplier countries, which has resulted in disastrous effects for the workers at the bottom of their supply chains. Cambodians have long relied on the garment industry for employment, but with wages falling and the cost of living surging, garment workers across Cambodia are experiencing increasing financial precarity and a rapidly intensifying household debt crisis. For many, the risk no longer seems worth it.

Garment workers around the world have long demanded reform of an industry built on their exploitation; the pandemic has only hardened their calls. Three years after the pandemic emerged, the future looks bleak for Cambodian garment workers as, half a world away, the brands making billions off their labour seem intent on abandoning them once again.

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[i] Only "Instant Noodle" Unions Survive: Union Busting in Cambodia's Garment and Tourism Sectors | HRW; see also Failure to Pay Terminal Benefits at Violet Apparel (Cambodia) Co., Ltd. | Worker Rights Consortium
[ii] Industry Body letter with Suggested Labor Reforms for Cambodia
[iii] For more information see Nike Steals

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