

THE REAL COST OF OUR SHOES

A journey into the supply chain
of three global shoe brands

Centro Nuovo Modello di Sviluppo
FAIR



Bound in Genova Pontedecimo Prison

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EXECUTIVE SUMMARY

This report is an investigation into the supply chains of three major shoe brands: **Tod's,**



PRADA

GEOX

Prada and Geox. The purpose is twofold: **on one hand it aims to analyse their production strategies, while at the same time it aims to provide a snapshot of the working conditions existing in various points along global supply chains.** From this point of view, the report can be considered as

the continuation of the investigation conducted in 2015 by Change Your Shoes, which asked 23 major shoes brands, among the most influential in Europe, how they ensure the respect of workers' rights in their supply chains. The responses, analysed according to the authoritative framework provided by the *UN Guiding Principles on Business and Human Rights*, were published in the report entitled *Trampling workers rights underfoot*, **in which Italian**

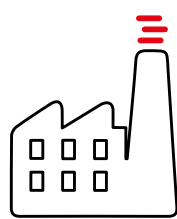


companies were positioned in the lower section of the ranking: Tod's and Ferragamo did not even respond to the questionnaire, while Prada and Geox provided

only minimal evidence to demonstrate that they apply serious policies to ensure compliance with human rights. There was therefore a need to understand why some brands did not respond and a more **in-depth exploration of the information** provided to verify the substance of that information.¹

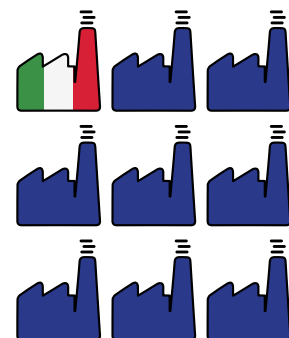


The first chapter provides **descriptions** of the three groups analysed,



the second chapter focuses on their **production strategies.** The research reveals that while continuing to have their own facilities, internal **production covers only a very small percentage of the entire production**

activities used by big brands. We found that while many external producers were located in Italy, many more were located abroad. Until recently their suppliers were located mainly in Asia, today we are seeing a **return of production in Europe,**



in particular in Eastern Europe. This phenomenon, known as **reshoring**, is mainly stimulated by the reduction in wage differentials. **In many Eastern European countries the legal minimum wages are set at levels lower than some minimum wage levels in China.**



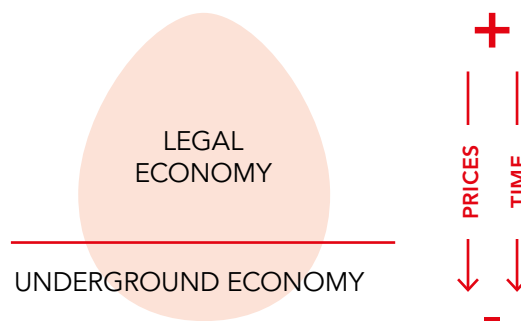
¹ <http://changeyourshoes-bg.org/wp-content/uploads/2015/06/BRAND-ASSESSMENT-Report-high.pdf>

The third chapter, dedicated to the **relationship between brands and suppliers**, highlights how the **bargaining power** is **largely held by the brands**, which often use this disparity to impose harsh conditions. This situation stimulates longer supply chains:



when the delivery times are very tight and prices paid are very low, the use of sub-suppliers is driven by the need to meet deadlines and by the temptation to pass on uneconomical deals to others. **When the prices are so low that they do not even cover production costs, we enter the shadowy world of the informal economy**

populated by companies seeking to find savings by defrauding their workers, the tax authorities, and the social security system. In this context, it is not uncommon for smaller companies to fail, as illustrated by the case of a sub-contractor working for Tod's in Salento, that went bankrupt because of the harsh conditions imposed.



The fourth chapter focuses on the **conditions of workers** employed in the various points of the supply chain. The chapter highlights how **the conditions worsen as we descend down the supply chain**, not only because in the lower layers, irregularity is more widespread, but also because less beneficial collective labour agreements are enforced. In the Italian shoe industry, **three different collective labour agreements are enforced: the first one by large industrial companies, the second one by small industrial companies, the third one by subcontractors.**

TYPES OF CONTRACTS



Out of the three, the most unfavourable for workers is the one relating to subcontractors, which was concluded specifically to reduce workers' pay. The basic pay for an unskilled worker is set at 710 euros a month, which, minus social security and tax payments, is reduced to a net amount of less than 600 euros. This is a sum



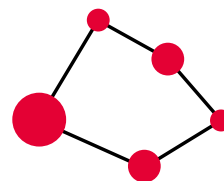
that the Italian National Statistics Institute (ISTAT) considers to be below the absolute poverty threshold in all parts of Italy and for any size family. For example, for a single person living in a small municipality in Southern Italy, with the lowest cost of living, the 2015 absolute poverty threshold is set at 672.79 euros a month.² This chapter also focuses on logistical activities that are run in facilities owned by the brands, but are in fact carried out by external firms, very often portering cooperatives that have lost any link with the social purposes for which cooperatives were established. One case analysed in this chapter



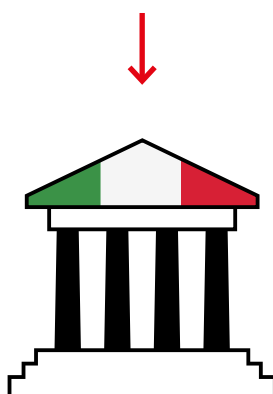
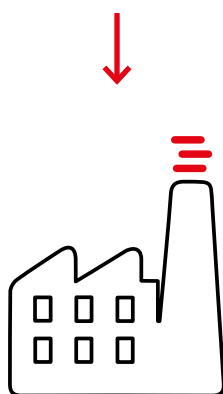
of the report refers to Geox logistics warehouses based in Signoressa, Trevignano, which, after a period of severe irregularities, began to operate at higher labour standards thanks to the ability of workers, 90% immigrants, to organize themselves with the support of unions.

² <http://www.istat.it/it/prodotti/contenuti-interattivi/calcolatori/soglia-di-poverta>.

The fifth chapter focuses on the **role of Eastern Europe**. In the 1990s, the preferred strategy for Italian and other EU companies in dealing with Eastern Europe was the opening of their own plants in these countries. But over time, a class of local entrepreneurs has emerged in Eastern Europe, which Italian brands now prefer to use as subcontractors. This is stimulated by OPT³, a customs regime specifically designed to promote the internationalization of production networks. Additionally, **many Eastern European governments are still willing to attract foreign investments, therefore creating free trade zones that guarantee special conditions for investors**. The Serbian Government, for example, has created 12 such 'free zones', which not only provide specialised infrastructure, but also guarantee a variety of benefits, including exemption from import and export duties, tax reductions, the possibility of exporting profits, and special prices for water and electricity. One of these free zones is Vranje, where Geox has set up operations in January 2016⁴. The Serbian press, **an international delegation from Change Your Shoes and Campagna Abiti Puliti have highlighted various types of irregularities at Vranje**, in the form of employment contracts, overtime, wages and trade union relations. The chapter narrates the action taken to secure better working conditions.



The report concludes with **Chapter Six**, dealing with **recommendations**. Convinced that a framework of transparency, rules and freedom of association is the most suitable context for the enforcement of workers' rights, **the report provides specific demands to companies, the governments and European institutions**, to guarantee that human rights are respected in the entire supply chain of the global shoe sector.



³ Outward Processing Trade

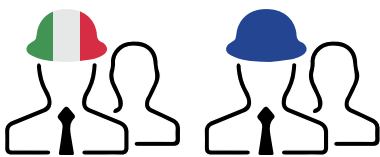
⁴ <http://www.ekapija.com/website/sr/page/1334490/Slobodna-zona-Vranje-dobija-prvog-stanara-krajem-januara-Geox-otvara-fabriku-sti%C5%BEE-i-Ditre-Italia>

INTRODUCTION: RATIONALE

The seeds of this report were sown in **2015**, when we administered a **52-question questionnaire to 23** of the most influential footwear **brands** in Europe in order **to develop an overview** of the level of compliance with human and labour rights in their global production chains. The responses, analysed according to the framework provided by the UN *Guiding Principles on Business and Human Rights*, were published in the Change Your Shoes report *Trampling workers rights underfoot*,⁵ which showed clearly that shoe companies need to intensify their efforts to systematically assess the risks in their business operations and to ensure labour and human rights are respected globally. Among the 23 global brands assessed, the Italian companies were positioned in the lower section



of the ranking: Tod's and Ferragamo did not respond to the questionnaire, while Prada and Geox provided only minimal evidence to demonstrate that they apply adequate policies to ensure compliance with human rights. There was therefore a need for more **in-depth exploration** of the information provided by the respondents directly to Change Your Shoes. This led to this report analysing the production chains of **Geox, Prada and Tod's** footwear brands as examples of EU brands representing three very different global production models.

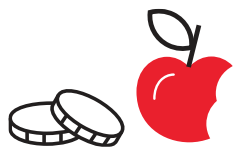


On the basis of the information collected, these three brands appear to have a similar approach to certain elements. Firstly, **the use of supply relationships with both Italian and foreign companies** and subcontractors which apply rigid working conditions to the detriment of the most vulnerable parties.

Secondly, **the opacity of the production chain**, which seems to indicate a limited willingness or ability to monitor – and actually improve - the working and living conditions of those individuals producing their shoes.

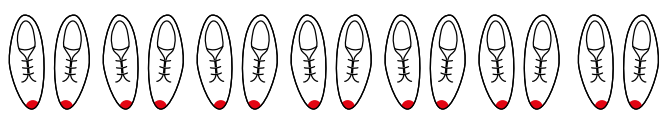


⁵ <http://changeyourshoes-bg.org/wp-content/uploads/2015/06/BRAND-ASSESSMENT-Report-high.pdf> https://www.publiceye.ch/fileadmin/files/documents/CCC/BD_FACTSHEET_trampling_workers_rights_underfoot.pdf



The journey through the production and supply chains of the three brands covers lengthy and continuously changing global production routes; where **the mobility of capital**, combined with **outsourcing strategies**, has created the perfect environment for continuously driving **working conditions and pay downwards**. With 23 billion pairs produced in 2015,⁶ footwear is a perfect illustration of this global dynamic, creating cheap **fast fashion shoes and at the same time luxury brands**. This is one method of ensuring access to diverse markets ranging from the poor in Europe to the increasing rich elites in emerging nations.

The production of shoes is increasing more rapidly than the rights of those who produce them, as demonstrated in our research conducted in Italy, China, Eastern Europe, India, and Indonesia.⁷ This research shows that **high-intensity labour processes**, subject

 **> 23 billion pairs produced in 2015**

to **short deadlines and very low prices** are worsening the living and working conditions of millions of workers, wherever they produce. This deterioration has also occurred in Europe – enough to generate significant production relocation shifts back to Europe. The areas most affected by this are **Eastern Europe states, where wages are sometimes lower than those in Asia**. Increases in productivity, combined with a policy of wage moderation, greater labour flexibility, greater freedom of dismissal and weakened industrial relations, is once again making Europe an attractive option for manufacturing. This trend is supported by a workforce with a strong manufacturing tradition which is the element of quality that luxury goods companies have decided to make use of for competitive purposes; **relocating certain work stages in order to continue to use the label Made in Italy or Made in EU**. Indeed, the prolonged financial crisis into which Europe has been plunged, along with the resulting austerity policies, allows companies to find cheap labour at their disposal. Sustained migration processes put in place by wars, natural disasters and unfair trade policies push up unemployment in the poorest areas of the world which brings migrants to Europe who are often condemned to forms of employment that are irregular, poorly paid and without rights.

In this context, the concept of **Made in EU or Made in Italy** as a synonym for adequate guarantees of rights and social protection for the workers is far removed from the reality we have uncovered and which we describe in this report. If the shoes are merely designed in the EU and then produced in manufacturing plants or facilities owned by the brands or in



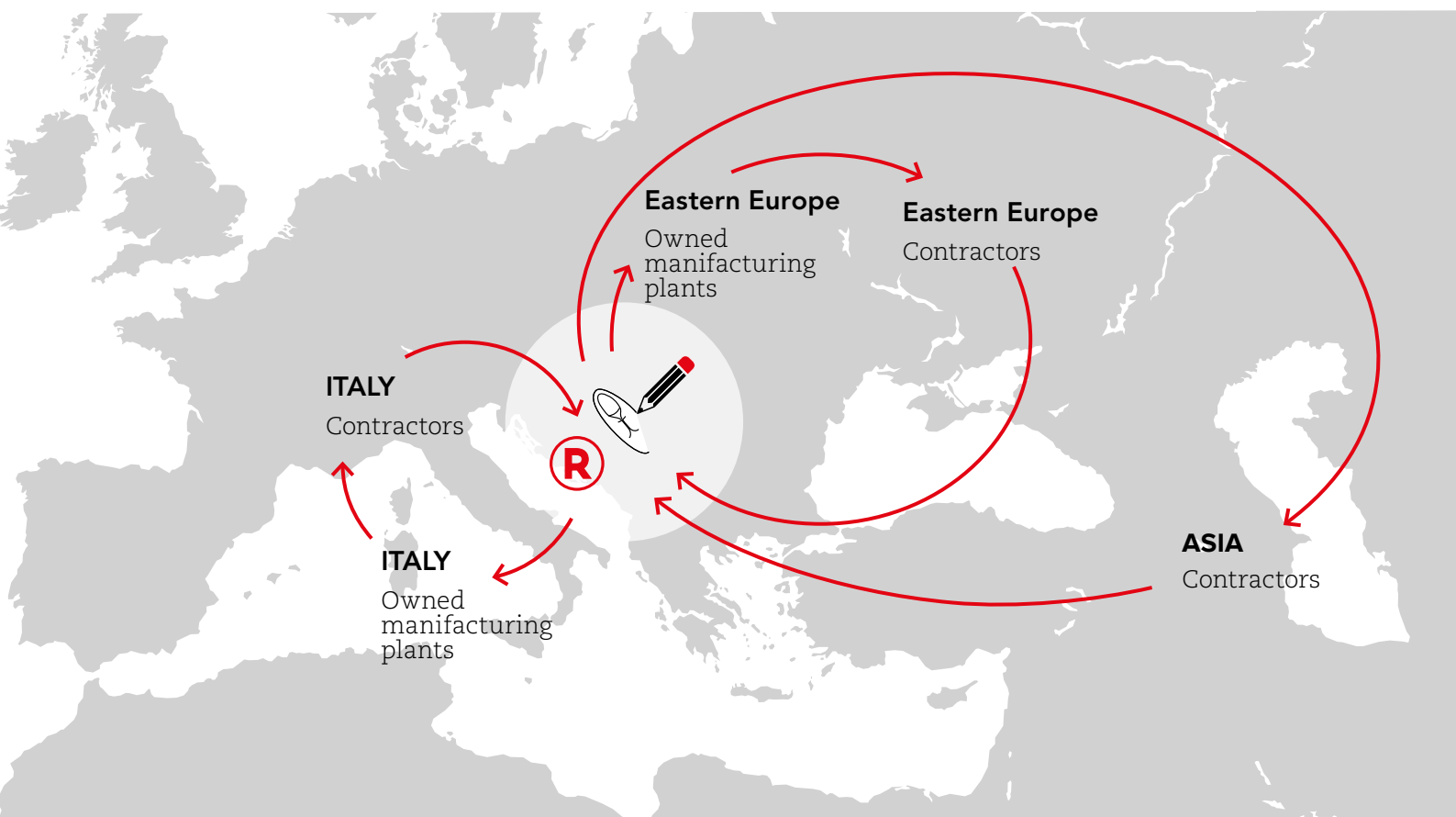
⁶ The World Footwear Yearbook 2016

⁷ The website of the Abiti Puliti Campaign provides all of the reports published in 2015 and 2016 - <http://www.abitipuliti.org/cosa-facciamo/rapporti/>.

those of subcontractors in Serbia, Albania, Myanmar, or Indonesia (to name a few) by low paid workers under miserable conditions or in Italy by subcontractors paying wages far below the living wage, then where is the added value of *Made in EU or Made in Italy*?

During the research phase, we found that the **fragmentation of production chains facilitates the exploitation of workers**, and this increases in intensity and severity as we go down the value chain and move further away from the major brands towards the periphery of production, to the South and East, both in Italy and abroad. This trend was confirmed during interviews with scholars, business owners, trade unionists and workers, in various regions of Italy and in Eastern Europe - an investigation done in difficult conditions, given the **climate of fear and silence that exists along the production chains**.⁸ The subcontractors, who are tied by contracts with confidentiality requirements, do not want to speak out for fear of losing orders. The workers, who have no substantive protection against being laid off, do not wish to speak out for fear of losing their jobs. This creates a perfect situation for abuse. But even in the most repressive situations **people of courage** do emerge, or even merely those who have had enough, and who are prepared to defy all the powers in order to bring situations of abuse to light. It has been primarily through their testimonies that we have been able to understand how, behind the shiny, high-design shoes, there could hide a world of injustice, intimidation, low wages, and irregularities.

NATIONAL AND INTERNATIONAL INTERWOVEN SUPPLY CHAINS



⁸ See the methodological note for a detailed description of kind of people interviewed, methodology used and obstacles met.

1. THE THREE BRANDS ANALYSED



TOD'S

A multinational group operating in the clothing, footwear and leather goods sector controlled by the Della Valle family. The group includes 50 companies, 44 of which are domiciled outside Italy. The parent company is headquartered in Sant'Elpidio a Mare, a small town in the Marche Region. In 2016, the group had a turnover of 1,004 million euros, 78% from shoes, 15% from leather goods and 7% from clothing. Brands include Tod's, Hogan and RogerVivier (footwear) and Fay (clothing).

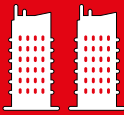


Shoes and leather goods are produced partly in manufacturing plants owned by the group (six in Italy, one in Hungary and one in Albania), and partly by externally contracted suppliers; whereas clothing production is contracted in full to external suppliers.

The group has 4,550 direct employees of whom 28% are production workers. Shoe production employs about 1,000 workers in three Italian shoe factories in the Marche Region, 150 in the Hungarian unit in Tata and 250 in the Albanian plant in Durazzo.



Della Valle family



50 companies



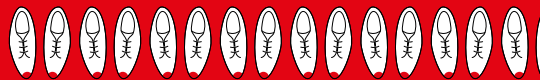
44 outside Italy



15% Leather goods



7% Clothing



78% Shoes

turnover 2016
1,004 million
€

shoes and leather goods partially produced in manufacturing plants owned by the group

6 Italy



1 Hungary



1 Albania



PRADA

PRADA



A multinational group operating in the luxury goods arena controlled by Miuccia Prada and her husband Patrizio Bertelli. The group includes approximately 90 companies located in over 40 countries. The parent company is headquartered in Milan. In 2016, the group had a turnover of 3,548 million euros; 64.2% from leather goods, 16% from clothing and 17.6% from shoes. Brands include Prada, Miu Miu, Car shoe and Church's. The total number of employees globally is 12,000.

While most of the companies controlled by the group are involved in sales and marketing, Prada also has production facilities in Italy, France, and England. In France, it controls the tannery Tannerie Megisserie Hervy, in England it owns a shoe factory in Northampton for the brand Church's, and, lastly, in Italy it manages a total of 11 ma-

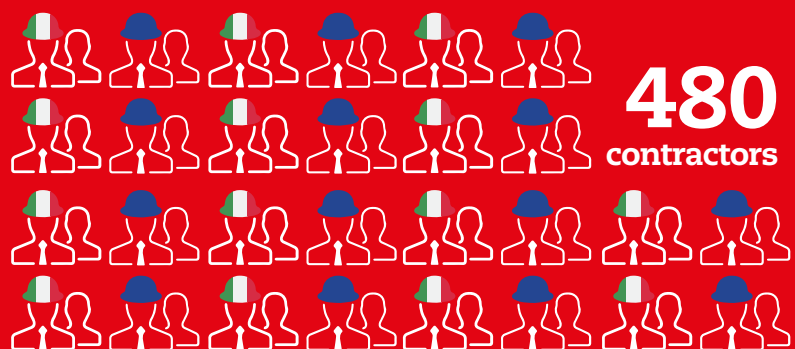
nufacturing plants, five of which are shoe factories: two in Tuscany (Arezzo), one in Veneto (Dolo), two in Marche (Civitanova Marche and Montegranaro). The Arezzo and Dolo units are owned directly by the parent company, while those in the Marche are owned through the Italian subsidiary Artisans Shoes.

The portion of production made directly in its own manufacturing plants is only a small percentage of the total placed on the market. Most of Prada's production originates from suppliers outside the group, located in Italy, Eastern Europe and Asia. Prada declares that it uses 480 subcontractors, but does not indicate how many are used for the various footwear, leather, and clothing sectors, nor does it specify how many are Italian and how many are foreign.

Miuccia Prada **Patrizio Bertelli**



turnover
2016
3,548
million
€€€€



GEOX



A multinational group operating in the footwear and clothing sectors, predominantly controlled by Mario Moretti Polegato and his brother Enrico. The parent company is headquartered in Biadene di Montebelluna in Treviso Province. Its primary activity is the design and distribution of shoes. In 2016, the group had a turnover of 900 million euros.

In terms of production, Geox has opted, since its inception (1992), to source from subcontractors. In 2015, it obtained almost 100% of its footwear from subcontractors, 15% in Eastern Europe and 85% in Asia (Cambodia, China, India, Indonesia, Myanmar, Thailand and Vietnam).

Up until 2010, Geox owned two small manufacturing plants in Eastern Europe, one in Slovakia, the other in Romania, but then closed both to open, in 2016, a single fac-

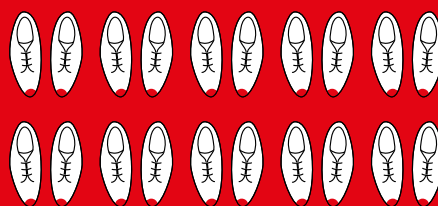
tory in Vranje, Serbia, attracted by the significant concessions and subsidies offered by the Serbian Government. It is estimated that, for an investment of 15.8 million euros, the group received a subsidy of 11.25 million euros from the Serbian Government (9,000 euros per worker, equal to 71% of the investment)⁹ In addition to the substantial public financing, **Serbia is also attractive because of preferential taxes** and low wages: the average monthly wage is 326.42 euros, while the minimum wage barely exceeds 1 euro per hour.¹⁰

As of December 2015, the group declared **4,123 employees**, of whom 258 were production workers, 2,834 sales staff and 1,031 managers, executives, and office staff. **In January 2016**, with the opening of the Vranje factory, **the group added 1,262 employees** - primarily production workers.

9 Tedeschi M., 'Geox in Serbia, riceve 9.000 euro per operaio', L'Unità, 9 October 2012.

10 Jelacic M. 'In Serbia lo stipendio medio più basso della ex Jugoslavia', Serbianmonitor.com, 25 March 2015.

 **Mario Moretti Polegato**
 **Enrico Moretti Polegato**

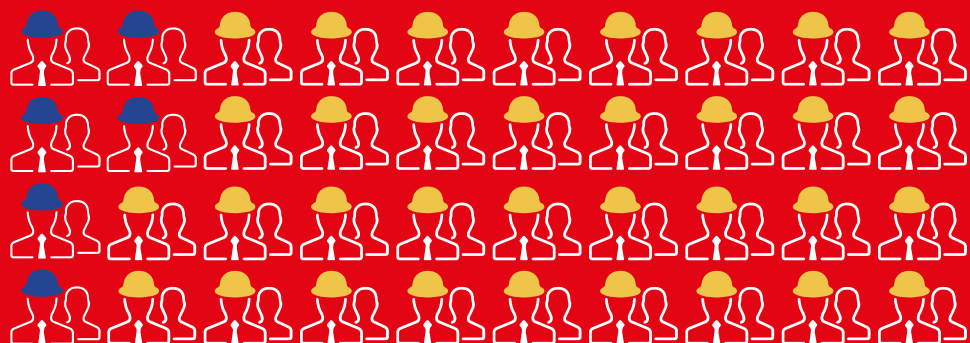


} turnover
 2016
900 million
 €

owned manufacturing plants

1 
Serbia

In 2015 almost 100% of footwear from subcontractors



2. SHIFTING PRODUCTION CHAINS

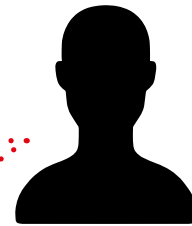
The production of a pair of shoes always begins with the design of the model, which is followed by the manufacture of the upper¹¹ and then the assembly of the whole shoe. In the case of the three brands being examined here, **the design is always undertaken in-house, while production may be fully in-house, fully subcontracted or a mixture of both.**



THE 'SAMPLING CONVEYOR' BRANDS

A Prada employee states:

"We now produce in-house half the shoes that we produced before. The production conveyors have become sampling conveyors, because sampling itself has become a production activity. Once we had a few products that lasted entire seasons, and now we have an unending range that lasts from sunrise to sunset. Everything is always new, everything has to be redone, with the same volumes as before."



A Prada employee

This is an inevitable consequence of a commercial strategy that is increasingly based on the speed of innovation, on fast fashion, on fashion that changes every 24 hours. To put it in positive terms, Romano Rossi, the business owner who owns the largest third-party supplier producing for the largest luxury brands in Serbia and Bosnia, explains it as follows:



A supplier from Eastern Europe

"The luxury brands are increasingly commercial both in terms of cost structures and in terms of job specialisation. They invest in the design and advertising, and in maintaining and expanding sales networks, and we take care of production. This is an advantage for everyone: for the major brands, because they don't have to think about the production side, and for producers, because we don't have to think about the design phase. It's the evolution of the species."¹²

¹¹ The upper is the top section of the shoe.

¹² Testimony collected by Sara Farolfi on March 2016

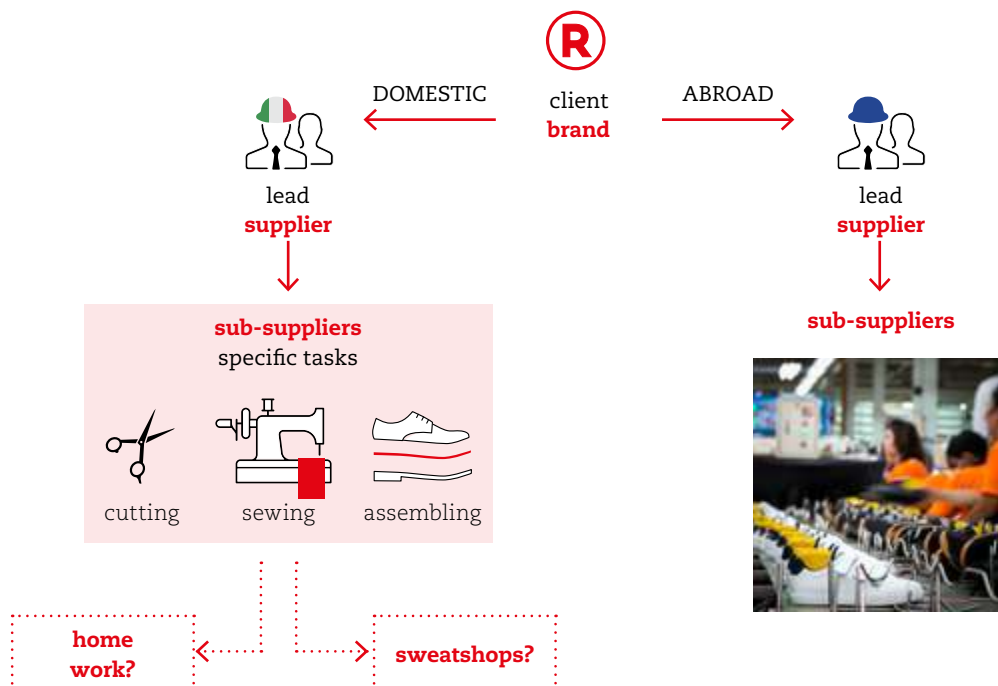
THE FULLY IN-HOUSE PRODUCTION CHAIN

The shoes are produced wholly inside the manufacturing plants owned by the brands. This strategy is not used very much but is sometimes applied for **quality reasons**, sometimes for cost reasons. An example of in-house production for quality reasons is shown by Tod's, which produces certain top-grade shoes in its own facilities. A case of in-house production for cost reasons is illustrated by Geox, which produces low and medium-grade shoes (3% of its total world production) in its Serbian factory.

FULLY EXTERNAL PRODUCTION CHAIN

This is a widely-used practice and involves the use of externally contracted shoe factories to provide full production of the shoes. Depending on volumes and delivery deadlines, the contracted shoe factories themselves often need to use the services of other companies to perform certain phases of the process, such as the production of uppers. Even though in formal terms, the fully external production chain involves a supply contract with a single firm, **it is in fact a system that involves many different firms**, where the company maintaining the relationships with the client brand is referred to as the **'lead supplier'** and the others as **'sub-suppliers'**.¹³ In some cases, even the sub-suppliers secretly use the services of other workshops. The longer the sub-supplier chain, the higher **the risk that entities operating outside of the law will form part of that chain.**

THE FULLY EXTERNAL CHAIN



¹³ In Italy, on the basis of Law No 192 of 18 June 1998, suppliers intending to use sub-suppliers must be authorised to do so by the ordering clients.

The lead suppliers used by **Geox** are **all located abroad**, primarily in Asia, although many are also situated in Eastern Europe. **Tod's**, however, uses lead suppliers located **predominantly in Italy**, in Marche, Abruzzo and Apulia. It also has lead suppliers in Romania for the production of shoes sold under the brand Hogan Rebel. With regard to Prada, until 2015, the group had production relationships with the Chinese group Stella International Holding, which has shoe factories in China, Vietnam, Indonesia and Bangladesh, but, given the gradual loss of competitiveness affecting parts of Asia, **Prada's current policy is to move production back to Italy and Eastern Europe countries**, principally Romania, Serbia, Bosnia-Herzegovina as well as Turkey. The Romanian subcontractors include Eclipsa and Griff, while those in Serbia include the Progetti Company, which is owned by the Italian entrepreneurs Enrico and Romano Rossi, who supply Prada with both uppers (to be assembled in Italy) and finished shoes. In Bosnia-Herzegovina, Prada's outsourcing partner is Bosit Industry, owned by Milarem Bajraktarevic, which has a factory in Lipnica, close to Tuzla.¹⁴ With a workforce of approximately 100 individuals, the factory undertakes the full production of women's shoes using designs supplied by Prada (which also sends technicians to verify the quality of the work and the raw materials used). The director of the company asserts that Prada has been gradually withdrawing from China, India and Vietnam because of the excessive delivery times.¹⁵

14 Prada shoes produced in BIH – ICE 25 January 2013

15 <http://mefite.ice.it/cenweb/ICE/News/ICENews.aspx?cod=33685> 25 January 2013.

RESHORING

Reshoring is defined as **the transfer of production activities previously relocated to Asia (primarily) back to their original country.** The phenomenon, which primarily affects **production in the mid- to high-end brand,** can be broken down into **back-reshoring and near-reshoring.** The first involves the return of production activities to original countries - e.g. Italy - while the second relates to the shift from Asian countries to those within the Mediterranean basin and Eastern Europe. One of the elements used by brands to explain the return of some production to countries like Italy, and within Italy, to Tuscany in particular, is, in very general terms, the cost of labour and the fall in the wage differential between economically advanced nations and the countries with low labour costs to which delocalised production has been transferred over recent decades. This fall, previously mentioned, has been particularly marked in the case of Eastern European countries and has also been accompanied, in the case of China for example, by a noticeable intensification in labour disputes. The phenomenon of reshoring production to Tuscany should

therefore be analysed in the light of global shifts. Indeed, the increase in labour costs in traditional production countries is counterbalanced by the **very weak growth occurring in economically advanced nations.** As shown by ILO figures, wages in advanced economies have in fact seen an average increase of only 0.7% per annum (2000-2009).¹⁶ In addition to this extremely important fact, there has also been a reduction in disputes and an increase in productivity, alongside a fall in the cost of labour per unit produced. This is an emerging development where it would be valuable to explore the social and political context that has enabled these trends to occur, and more specifically the possibility that the effects of the financial crisis in Europe have played a leading role in the acceptance, by workers, of the (lower) working and wage conditions offered by the reshoring companies.

Without the constraints due to ownership, all that is needed to change geographical location is a vote by the board of directors: capitalism shows that ownership (of production) is good, but non-ownership is better. This is an argu-

ment supported by Valerio Elia, Professor at the University of Salento:

"offshoring in the traditional sense no longer exists, and we are seeing instead outsourcing of production on a global basis".

Valerio Elia,
Prof. University of Salento



Production transferred in real time to places where there is greater benefit in terms of taxation, labour cost and speed of transport. This is the entire global production apparatus made available to the major brands in a type of just-in-time system that essentially renders the 'made in' dispute superfluous. As summarised by one employee interviewed during the investigation:

"it is not important for global companies where the product is produced. They just need to have production chains that work for their designs and to be able to write: Made in Prada or Made in Tod's on their products."

Employee



16 ILO Global wage report 2010/2011

In Italy, Prada has lead suppliers in Tuscany, Veneto, Marche, and Campania. One of these is Cris, a company based in the province of Naples that also produces shoes for the Campanile and Brian Cress brands. With 47 production workers and 16 office workers, in the autumn/winter 2016/2017 season, Cris produced 20,000 pairs of shoes for Prada. As a trade union official explains: "Prada supplies the design, has Cris buy the leather and other materials required to produce the shoes and then, when the product has been finished, packaged and packed, pays a certain amount per pair of shoes." For the edging phases, Cris uses sub-suppliers; 4-5 upper stitching workers, who are regularly checked by Cris technicians. "Until a couple of years ago, Cris had sub-suppliers in Tunisia, but production was then brought back in-house. Prada, for example, expressly asked for production to be performed in Italy". The official adds that Prada inspectors visit Cris at least twice a week to verify the quality of the goods produced. Cris also uses home-based workers, but not for Prada products, "this is very special work, subject to a home-based employment contract that provides for specific supervision" concludes the official.¹⁷

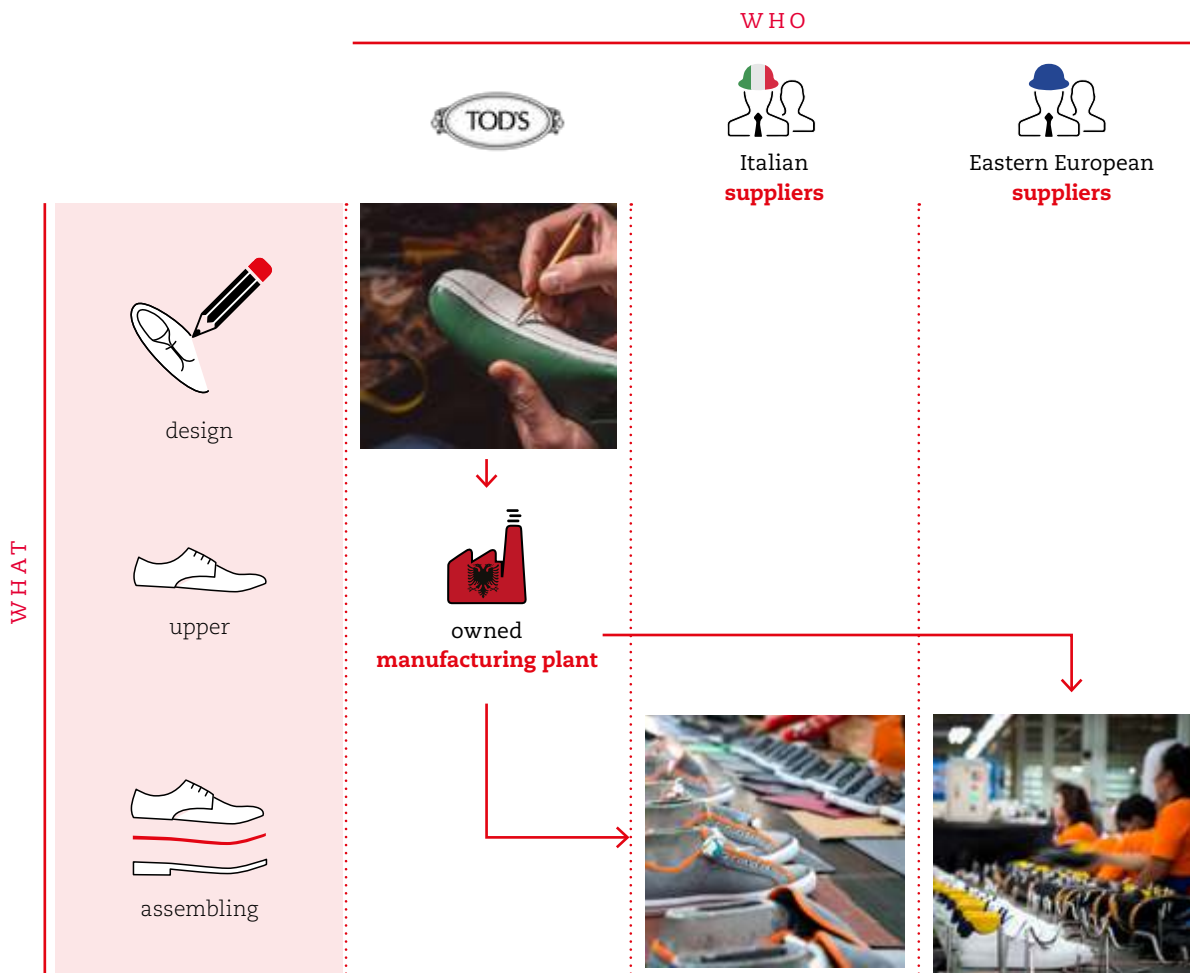
17 Interview to a trade-union leader, collected by Sara Farolfi on February 2016

Another of Prada's lead subcontractors is Premiata Srl, a company based in Marche with an exceptional position because it belongs to Graziano Mazza, who is not only a minority shareholder in Artisans Shoes, a Prada subsidiary, but is also the director of one of the two manufacturing plants owned by the Prada subsidiary in Marche. Furthermore, Premiata produces under its own trademark as well, involving, according to many, the participation of Romanian subcontractors.

MIXED CHAIN SHOE PRODUCTION

















Certain phases are performed in manufacturing plants owned by the brands, and others in external contracted shoe factories. There is no precise rule about which phases are carried out in-house and which are outsourced. **The choice depends on various factors, including the quality of the shoe and the costs.** Tod's, for example, applies different criteria according to which shoe line is involved. For those in the high-end band of the Tod's brand, the group prefers to outsource the production of uppers and to complete assembly in-house. For medium-range shoes, sold under the brand Hogan, the uppers are produced in the Albanian facility owned by the group, while the assembly is carried out by Italian subcontractors located along the Adriatic coast.

THE MIXED PRODUCTION CHAIN IN THE CASE OF HOGAN



COMPARED PRODUCTION STRATEGIES (FOOTWEAR)

 Owned manufacturing plants in Western Europe	 Owned manufacturing plants in Eastern Europe	 Use of subcontractors in Western Europe	 Use of subcontractors in Eastern Europe	 Use of subcontractors in other countries
---	---	--	--	---

<p>PRADA</p>	  5 Italy 700 workers   1 Great Britain 650 workers 	<p>no</p>	<p>yes mainly in Italy</p>	<p>yes including Bosnia Erzegovina, Serbia, Romania</p>	<p>yes including Turchia Vietnam</p>
	  3 Italy  1000 workers	 1 Hungary 150 workers   1 Albania 250 workers 	<p>yes mainly in Italy</p>	<p>yes including Serbia, Romania</p>	<p>information not available</p>
<p>GEOX</p>	<p>no</p>	 1   1250 workers	<p>yes a few in Italy and Spain</p>	<p>yes some in Kosovo, Bulgaria, Macedonia, Serbia</p>	<p>yes including Cambogia, China, India, Indonesia, Birmaniam, Tailandia, Vietnam Marocco</p>

Source: Companies reports, information submitted by the companies for the CYS brand assessment survey in 2015 and confidential sources

3. PRODUCTION CHAINS WITH MINIMAL ETHICS

Obtaining production from third parties is not a new invention. Indeed, in **1776, Adam Smith**, a pioneer of modern capitalism, wrote, **“it is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy.”**¹⁸ Even the most integrated companies, such as Ford, have therefore always turned to suppliers for specific components. **What is new in our era is that many companies no longer produce at all**, but apply their brand to products obtained through the manufacture of the entire product by third party outsourcers. In today’s environment of mature, abundant markets, global competition and labour market dynamics are dominated and determined by global production networks, which seek profit and expansion through access to areas with very low-cost labour rather than through increasing prices. The dual dominance of contracting client companies in European and international outlet markets, on the one hand, and access to the most vulnerable pockets of low-cost workers in emerging nations, on the other, represents a critical element of international competition.¹⁹ **Two types of ‘companies’ have evolved: brands who are visible but do not produce, and suppliers that produce but have no public image.** This differentiation is also caused by financial position, because winning and holding markets during periods of mature consumerism requires substantial investments, not only in advertising but also in stylistic and technological innovation. This applies in spite of free-market rhetoric, because companies do not limit their strategy to this. **Indeed, the active role of governments and international bodies is extremely important in protecting companies’ business** by means of public policies involving various incentives, financial and institutional support, and the promotion of wage moderation policies through systematic monitoring of wage increase levels in the various European nations.²⁰

IMBALANCE IN BARGAINING POWER

In modern consumerism, more than simply meeting their needs, **consumers seek emotional satisfaction, social differentiation (or social conformism) from consuming, guided by advertising and trendsetters** employed to sell us things that we do not necessarily need, but that identify us and make us feel socially recognised. In addition to marketing and communication, companies invest in research and design to study the tiniest details of shapes, colours, packaging and even smell, in order to capture the hearts and minds of consumers. This is **particularly true for personal items** such as clothing, shoes, accessories, furnishings, mobile phones etc. In these sectors, nothing is left to chance and even before the design gurus get to work, sophisticated market surveys study the public (consumers) in every detail: habits, tastes, beliefs, aspirations. In 2013 alone,

¹⁸ Adam Smith, *The Wealth of Nations*, Book IV, Chapter II, Newton Compton 2006.

¹⁹ <http://asia.floorwage.org/resources/essays-and-reports/towards-an-asia-floor-wage/view>.

²⁰ Thorsten Shulten, ‘European Minimum Wage Policy: A concept for wage-led growth and fair wages in Europe’ and also ‘ILO, Social justice and growth: The role of the minimum wage’. Both contributions appeared in the *International Journal of Labour Research*, Vol. 4 Issue 1, 2012.

In 2013 European companies spent 16 billion euros on market research



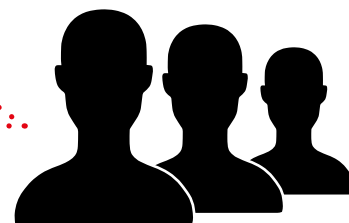
European companies spent 16 billion euros on market research.²¹ After the surveys, there comes the **design phase**, managed by highly paid psychologists, architects, stylists etc.

However, luxury market typically shows an increasing imbalance between the price and the actual value of goods. But this value surplus is not distributed fairly among those involved in its production. It is, rather, absorbed to a larger extent by only two phases in the chain: **distribution and brand, which together take approximately 60% of the final price.**²² This is a mechanism that contributes to making the rich even richer and therefore increasingly powerful in an upward spiral: the richer the brand, the more it can spend on marketing; the more it increases its selling power, the more power it can exercise over its suppliers.

This situation is classified in legal terms as an **'imbalance in bargaining power'** and relates to those situations in which one party has more power than the other for a range of different reasons: technological superiority, financial dominance, or information asymmetry. In the relationship between brands and suppliers, power is commercial: the smaller the number of companies that access final markets and that can make use of low-cost labour, the more these companies reinforce their bargaining power. **If there are many companies offering labour and few requiring labour**, the corresponding conditions are determined by the latter. This is especially true when they can threaten to produce offshore.

Research conducted by the Banca d'Italia on the Marche district confirms this.

"From interviews conducted with business owners, we have found that sub-supply relationships are changing, with the arrival of long-term agreements, including formal ones, and more pervasive forms of control by lead companies. Over the last decade, companies have invested in improving the quality of products and in the advent of the production of more sophisticated and differentiated goods for segments of customers and market niches. These changes presuppose a strengthening of relationships between the companies in the production chain, which, in certain respects, are moving away from the market and closer to the hierarchy. This is clear if we merely think about how much care is taken in selecting subcontractors and how frequent are the exchanges of information and ongoing readjustment between the contracting client and the subcontractors: according to the information provided by various business owners, in fact, when a subcontractor is proposed, it is 'tested'; the first year, a test is undertaken, using only part of the proposed subcontractor's production line, and the quantities produced are then increased in the second season, and only after all tests have been passed successfully does an exclusive relationship begin."²³



Eleonora Cutrini and others from Banca d'Italia

The tests that need to be completed often include 'silence' - a formally defined obligation to confidentiality whereby **the subcontractor undertakes not to disclose who**

²¹ ESOMAR, 'Global Market Research Report', 2014

²² 'If we think of the fact that in sectors like this (footwear - Ed.), most of the added value is taken by those designing and selling the product, we can understand how the massive presence of exclusively subcontractors in the district indicates that a large number of companies must settle for a minimal portion of the value chain of which they form a part'. Fondazione Censis, 'Analisi sul fenomeno del lavoro irregolare e sommerso nell'ambito territoriale della regione Marche', 2006.

²³ Eleonora Cutrini et al., 'I distretti tradizionali di fronte alla globalizzazione: il caso dell'industria calzaturiera marchigiana', Banca d'Italia, February 2013.

it is working for and not to disclose the financial conditions or deadlines imposed.

If a subcontractor decides to speak, it will only do so when the relationship is over, often because of bankruptcy, as happened to the shoe manufacturer Parlanti of Monsummano Terme (Tuscany), which produced its own brands while also operating as a subcontractor for Prada. The company closed in June 2014, taking with it the jobs of 38 workers. According to the trade union representative, among the causes of the company's collapse, were the too-low prices being paid by Prada, which were in fact not enough to cover production costs, resulting in a shortfall of three euros per shoebox. This is denied by the company.²⁴

Indeed one national collective labour agreement for subcontractors states in the introduction; “the real and only problem for *façonisti* (subcontractors in the fashion sector), which derives from the absence of any contractual power, is **the imposition, by contracting clients, of the manufacturing price of the ‘order’**, which does not enable proper business planning and in fact **pushes companies to use various irregular mechanisms**, with business owners using these options to reduce the cost of labour.”²⁵



TOD'S 'SALENTO FLEXIBILITY'

In 2008, Tod's adopted a code of ethics defined as “the tool that enables the Group to operate and maintain relationships with its stakeholders on the basis of the fundamental pillars characterising its identity and its nature. Integrity, fairness, confidentiality, transparency and reliability in relationships, vis-à-vis all stakeholders, are the Group's integral and essential principles, and are therefore incorporated into the Code.”²⁶ However, these words are at odds with the reports coming from the shoe-making districts, and in particular Casarano in the Italian province of Salento²⁷.

Having fallen out of favour following the transfer of Filanto and Adelchi²⁸, previous major shoe companies operating in the district, to Eastern Europe, the Casarano district in the Salento region is now populated by **a decreasing number of small and very small businesses**, operating as third-party producers for major brands such as Gucci, Prada and Ferragamo, and Tod's. It is specifically on Tod's that various reports from the journalist Marilù Mastrogiovanni

THE SHOE-MAKING DISTRICTS ALONG THE ADRIATIC



²⁴ <http://www.valdinievoleoggi.it/a42093cgileuillecotuttelebugie-sullavicendadelcalzaturificioparlanti.html> of 13 September 2014.

²⁵ National Collective Labour Contract (CCNL), concluded by ANPIT/LAIF and CISAL for employees working as subcontractors 2013-2016.

²⁶ https://www.todsgroup.com/system/document_ens/288/original/Code_of_Conduct_en_2013.pdf

²⁷ Salento is a geographic area in the region of Apulia in Southern Italy which was once a booming footwear district. Nowadays, it is characterized by high unemployment rate, which makes labour particularly vulnerable to pressures, and in this sense more “flexible”.

²⁸ Filanto and Adelchi are two shoe companies with big manufacturing plants in the District of Casarano that gradually closed since the nineties.

have focused.²⁹ Published throughout 2013, these reports highlight subcontracting practices that are of debatable legal, moral, and social quality. Legal proceedings brought against Tod's by Carla Ventura, a former subcontractor working as part of the brand's production chain, contain accusations **“of abuse of dominant position, abuse of economic dependence in the supply contract, arbitrary termination of the commercial relationship, imposition of seriously discriminatory contractual conditions, and breach of the principles of fairness and good faith”**.³⁰

Tod's arrived in Casarano in 1994 in search of subcontractors to which production of shoes could be entrusted and encountered Euroshoes, a shoe factory that the Group uses as a lead supplier for the production of shoes under Hogan and Tod's brands. The quantity of products required was substantial, and Euroshoes decided to sub-contract some production to sub-suppliers, including Carla Ventura's company CRI.

Key clauses in Tod's supply contracts³¹

- ▶ The prices paid to the supplier include any and all payments owing to third parties for the manufacture of the products.
- ▶ Payment of amounts owing will take place within ten working days following issue of the invoice.
- ▶ The supplier undertakes to allow access to its premises by Tod's personnel.
- ▶ The supplier is required to apply the National Collective Labour Contract and to ensure strictly that it is applied. These requirements must also be observed by any subcontractors. The supplier will be responsible for verifying that its subcontractors meet the requirements relating to legality and regularity.
- ▶ Where the supplier wishes to assign or delegate some of the activities to third parties, it must first submit a corresponding written request to Tod's.
- ▶ The supplier undertakes, throughout the term of the contract and after its expiry, to keep all data and information relating to Tod's strictly private and confidential. The supplier undertakes not to disclose any information about its relationship with the Group.
- ▶ The supplier is required to apply the national collective labour contract in its employment relationships, both internal and external, with particular regard to the following: legal hiring, wages, rest periods and holidays, and workplace health and safety.
- ▶ Authorisation to assign or delegate activities to third parties will be contingent upon prior acceptance by the authorised subcontractor of all of the clauses laid down in this contract.



29 Marilù Mastrogiovanni, 'Flessibilità pugliese, cosa c'è dietro una scarpa di lusso'. Il fatto quotidiano, 26 June 2013. And also 'Keope: ecco il sistema Tod's in Salento. Nero su bianco. Tra lacrime e sangue Il tacco d'Italia', on-line daily, 12 November 2013. After these articles appeared, Marilù was sued by Tod's for libel, but the judge in charge of the case ordered its dismissal.

30 Marilù Mastrogiovanni, 'Keope: ecco il sistema Tod's in Salento. Nero su bianco'. *Tra lacrime e sangue*, as above.

31 Paper included in the court documents related to the lawsuit of Keope vs Tod's.

piece price



2009

€€€€€€€€

€€€€€ 13



2012

€€€€€€€€

€€ 10

Carla expected big things from the relationship with Euroshoes and then with Tod's, but quickly realised her hopes were misplaced. The first nasty surprise was the prices, which were so low that she was forced to bring a complaint against Tod's on the basis of



Owner of Keope

'the imposition of unjustifiably harsh or discriminatory contract conditions'.

Eugenio Romano, Carla Ventura's defence counsel, explains that the prices for the individual operations paid by Tod's had been gradually decreasing over the years, falling from 13 to 10 euros per upper between 2009 and 2012, and adds:

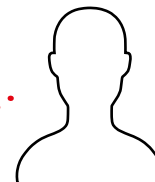


Defence counsel

"This seems even more appalling when we consider that the prices applied in Salento were at least 25% lower than those applied for the same operations for shoe-makers in Marche."³²

The owner of a small shoe factory who also worked for Tod's for a time and who asked to remain anonymous explains,

"in the price sheets that we were given indicating the 'per capita' per worker, we had 90 euros a head but we knew that in Marche this was 120 euros. We managed to stay within costs at that 90 euros, but problems could arise in the case of unforeseen events or slowdowns in production, which can often happen in the production of uppers."³³



owner of a small shoe factory

Romano's conclusion is that



Defence counsel

"the basis for this disparity of treatment is the specific commercial choice made by Tod's, whose senior executives have justified on various occasions, asserting that in this geographical area, producer companies have so-called 'Salento flexibility.'"

This is confirmed by Carla Ventura, who says

"for Luca Della Valle, Tod's contact in Salento, our secret weapon was 'Salento flexibility';³⁴ officially he was not suggesting that we underpay our employees, or pay them under the table, but when we asked how we could remain within their prices, their deadlines and their conditions, he responded "be flexible, you know how to do it." "But I did not want to bend the rules: my workers' payslips were real, they were not halved as often happens. The amounts paid by Tod's for each operation did not make it possible to cover costs. So, the companies sewing uppers by hand for Tod's have the work done, all too often irregularly in homes, the workers are all women, confined to the informal economy. The pay is 0.70-0.90 cents a pair. In 12 hours, they earn 7-9 euros."³⁵



Owner of Keope

32 Writ of summons filed by the lawyer Eugenio Romano on 31/05/2013

33 Testimony collected by Sara Farolfi on January 2016

34 As said in footnote 27, Salento is characterized by high unemployment rate which makes labour particularly flexible and vulnerable to pressures

35 Marilù Mastrogiovanni, 'Keope: ecco il sistema Tod's in Salento. Nero su bianco. Tra lacrime e sangue', as above.

In 2011, a former employee of Euroshoes, who has asked to remain anonymous, started a small workshop and built it up until he had about forty employees. The workshop produces uppers for Ferragamo, Dior, Louboutin, Tom Ford and other luxury brands, and also tried to work for Tod's.

The test production lasted for a thousand or so pieces and then came to nothing.³⁶

"They offered 8 euros per upper, but for us that was a price that we just couldn't accept. The fair price should have been 11-12 euros per upper."



former employee
of Euroshoes

STORIES OF ORDINARY BANKRUPTCY

During her career as a sub-supplier, Carla also experienced **another practice that would prove fatal: payment delays** by the lead supplier Euroshoes. In 2008, during yet another company crisis caused by late payments, Fernando D'Aquino, the owner of Euroshoes, offered a solution in the form of a new, even more intense cooperation relationship. The proposal, described in the legal proceedings, provided for 'the certainty of payment of invoices at 30 days following issue and the supply of production lines with constant and increasing daily orders in order to increase production exclusively for Tod's and Euroshoes'. In exchange, the company would need to transfer its activities to premises leased from Euroshoes, where it would rent its machinery and take on 14 Euroshoes employees. Carla understood that in exchange for regular orders and payments, she would need to take on Euroshoes costs, and felt she had no choice. To start the new project, she closed CRI and opened a new company, Keope Srl, with a production capacity of 800 pairs of uppers a day.³⁷

But the promises made by Euroshoes came to nothing: invoices were in fact usually paid on average at 107 to 145 days following issue.



Owner of Keope

"They humiliated me, they made me wait for hours in the waiting room, while they, the directors, were inside playing darts. Once, I ran into the Euroshoes boss on the stairs and I told him that I couldn't do it anymore. He answered, "if you can't do it anymore, go out on the balcony and jump." Another time he told me, "put a stone around your neck and throw yourself into the sea." We didn't have enough money for food. The premises were unhealthy, they were not fit for use, and when we started to use a lawyer to request payment, they walled up the main entrance to the building, while we were working inside."³⁸

In 2010, Carla brought legal action, and relations with Euroshoes gradually deteriorated until, in 2011, Euroshoes decided to terminate all commercial relationship with Carla. At that point, the Tod's Group decided to continue supplying the Keope production line through other lead suppliers, Emmegiemme Shoes in Salento and Mauric in Marche, at least for

³⁶ Testimony collected by Sara Farolfi in January 2016.

³⁷ Writ of summons filed by the lawyer Eugenio Romano on 31/05/2013

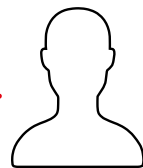
³⁸ Marilù Mastrogiovanni, 'Keope: ecco il sistema Tod's in Salento. Nero su bianco. Tra lacrime e sangue', as above.

the spring-summer 2013 and autumn-winter 2014 seasons. But even these undertakings fell by the wayside: the last order from Tod's for Keope was in January 2012 for 1,000 pairs of shoes, equal to two working days, and then nothing. Keope then began its descent into financial difficulty, which concluded with bankruptcy in April 2014.³⁹

This is a fate shared by other Tod's subcontractors, such as a shoe factory in Collepasso, in Lecce province, which was contacted between 2005 and 2006 first by Euroshoes and then by Luca Della Valle (a manager of Tod's), who came to see the company and promised 'at least ten years of work'. To work with Tod's, the company made significant investments: a new workshop and new machinery, totalling a million euros. It worked for Tod's Group from 2006 to 2010 as a lead supplier: Tod's set the prices and delivered the leather on an outsourcing basis. The remaining parts (soles, bottoms, boxes, etc.), however, were purchased from a list of suppliers provided by Tod's. Tod's group was responsible for transportation and corresponding contracts. With 150 employees, the company managed to produce 400-500 pairs of Hogan Interactive per day. It used subcontractors for the edging and closing phases, but it was Tod's that set the prices and provided them to the sub-supplier. Inspections to check on quality in-house took place at least once a week.

The owner of the shoe factory, who has never been told the reasons why the relationship ended, recalls,

"We worked for Tod's for three and a half years with excellent results, until, one day, we were asked to come to the office and told that the work would be finished at the end of the season."



the owner of a shoe factory

With the end of the work for Tod's, which was its principal client, the factory went bankrupt.

The Tuscan trade unions report that



Tuscan trade unions

"many luxury goods brands tend to exploit the situation of crisis, forcing small, qualified companies to work as subcontractors at the lowest possible prices, subsequently compromising their existence."

This comment was written by Filctem Cgil and Uiltec Uil, trade unions from Pistoia province in June 2014, about the closure of Calzaturificio Parlanti, a Prada subcontractor.⁴⁰

AN ORGANIZATION SIMILAR TO A "GANGMASTER SYSTEM"

Carla Ventura believes that she was the victim of a system that is "essentially the equivalent of the 'gangmaster system', a system involving exploitation of the work of others that is unfortunately already known in our socioeconomic context but so far only in the agricultural

³⁹ In 2013, Carla sued Euroshoes and Tod's to be compensated, but at the moment of publication of this report, the trial hasn't yet come to an end.

⁴⁰ Il Tirreno, 7 June 2014, 'Chiude il Calzaturificio Parlanti, 38 licenziamenti'.

sector”. And because liability for this system is also attributed to Tod’s, she has commenced legal action for damages jointly against Tod’s and Euroshoes, for 10 million euros.

As we can see in the legal brief submitted by Carla’s lawyer Eugenio Romano, the relationship between Carla’s company and the Tod’s Group was ongoing. At the beginning of each production season, Luca Della Valle, the manager responsible for supplier relationships for the Group, sent Keope the price list for the production of each article and, between 2009 and 2012, every six months a visit would take place to inspect the production facilities. Visits were organised several times a week to monitor the quality of the products. Carla adds,



Owner of Keope

“Tod’s was aware of the situation, they seemed to be disgusted at what was happening but never stopped it. The technicians knew everything and saw it with their own eyes. Luca Della Valle was always around with Fernando D’Aquino, the owner of Euroshoes. I asked Tod’s many times if we could work directly with them without going through Euroshoes and they told me that it was not possible to do that because this was the system. The conclusion is that we always worked on the basis of spoken agreements without a written contract. Our relationship, for ten years, was always only verbal. They required us to be exclusive, but without providing any guarantees of continuity. They placed every order as a single job order. Yet, I had my credentials to access the Tod’s site, where the orders intended for me were loaded. In accounting terms, we had no dealings with Tod’s because we invoiced Euroshoes. But the e-mails, faxes and price lists sent by Tod’s document the fact that the direct relationship was daily, because all of these documents were sent directly to Keope, and to Euroshoes for information. The accounts show that Tod’s was my only client.”⁴¹

In reply to an article published in the *Fatto Quotidiano* on 26 June 2013, Tod’s stated that:

“the contract that the company concludes with its subcontractors gives it the right to verify directly the production of any sub-suppliers”, that **“the visits by the Tod’s technicians to subcontractors and sub-suppliers are intended to ensure compliance with the required quality parameters”**; and “it is not true that Tod’s indicates for each season the remuneration for each new item produced in the manner suggested: sub-suppliers are advised of the fee paid to the subcontractor for the production of the items delegated to those sub-suppliers by the subcontractor to ensure transparency vis-à-vis those sub-suppliers.”

In relation to the irregularity of the payments made to Keope by Euroshoes, Tod’s stated,

“Tod’s has never had a direct commercial relationship with Keope and has not therefore ever concluded any contract with that company, and it could not thus have provided Keope with the guarantee of a written contract or interfered in the payments due to Keope by Euroshoes.”



41 Marilù Mastrogiovanni, ‘Keope: ecco il sistema Tod’s in Salento. Nero su bianco’. *Tra lacrime e sangue*, as above.

Lastly, the company concluded,

“it is not true that the companies in Marche are paid 25% more than those in Salento, because the prices paid are determined on the basis of the characteristics of the individual production structure and any reference to ‘Salento flexibility’ therefore seems incomprehensible.”⁴²



But Carla Ventura’s opinion is unchanged.



Owner of Keope

“It makes me so angry to think that a company like Tod’s needs to treat its employees in the South of Italy as second-rate labour. It guarantees ‘made in Italy’, but it’s as if you’re working in China.”

STORIES FROM THE MARCHE PRODUCTION CHAIN

Our research reveals that in Marche, **Tod’s has ten or so lead subcontractors;** shoe factories that are provided with designs and leather by Tod’s and who then, using the services of numerous sub-suppliers, deliver the finished shoes to Tod’s. Some former owners of Marche-based companies involved in the Tod’s production chain have consented to provide information to clarify the Tod’s production chain, but have asked to remain anonymous because, while in Salento working for Tod’s is still an aspiration, in Marche, dealing with Tod’s in one way or another is a fact of life due to its large presence in the region.

One of these individuals has provided a detailed description of how the production chain operates:



former owner of a Marche-based company

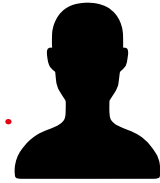
“Tod’s sends the product cards/orders by e-mail at the start of the season, along with the internal and external production phases, and notification of the prices. At this point, we contact our subcontractors to send them the orders. When the leather arrives (always Italian), we send it for cutting and then edging. Once the edging is finished, the upper comes back to the company, where we do the assembly, finishing and packing. The shoes are then delivered to Tod’s. The prices for the subcontractors were suggested by Tod’s, and were always essentially in line with those of the other companies. The retail price was only provided for our subcontractors: cutters and upper producers. **Without Tod’s’ consent, we could not subcontract the work to others, but the company never checked on the conditions for our subcontractors.** Tod’s did not monitor the chain [...] **there was a contract in place between the parties but we never signed a code of ethics.**”⁴³

42 ‘Tod’s in Puglia, l’azienda risponde’, Il fatto Quotidiano 28 giugno 2013

43 Interview collected by Sara Farolfi on February 2016

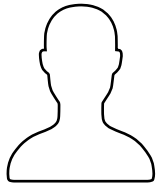
The former employee of a lead subcontractor explains,⁴⁴

“sometimes Tod’s would push us to start production on a particular model without the price having been defined. But it could then happen that the price indicated subsequently was so much lower than it should have been that the contractors would withdraw the order, even if the cutting and edging phases had already been ordered from sub-suppliers,”



a former employee of a lead subcontractor

The owner of a company that stopped working for Tod’s specifically because of problems of this kind and now works for other luxury goods brands recounts,⁴⁵

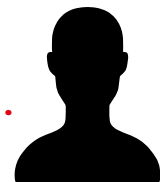


the owner of a contracted company

“Tod’s always strings you along, they never tell you how many pairs of shoes you’re going to produce, we went from 55,000 pairs to 25,000 pairs within the space of a week. We had to lay-off nine of our employees. There was also a problem with prices: we made very elaborate models of shoes, including boots, that cost 30 euros a pair while Tod’s tried to pay us 15 euros a pair. It is obvious that for companies the size of ours, that is a problem. There was no monitoring of the chain, with Tod’s, we never had to sign a code of ethics,”

A former employee of one of the Group’s sub-suppliers’ states,

“the company I worked for did the cutting and edging work for one of the Tod’s suppliers. It chose the company itself, and also requested an exclusive relationship and replacement machinery. In 2009, the company had to take out a loan to buy new machines. After three months, Tod’s advised that there was no more work. We were supported by other companies [orders], but we went from the frying pan into the fire, because the prices were even lower and, in the end, after a couple of years, the company had to close.”⁴⁶



a former employee of a sub-supplier

44 Interview collected by Sara Farolfi on February 2016

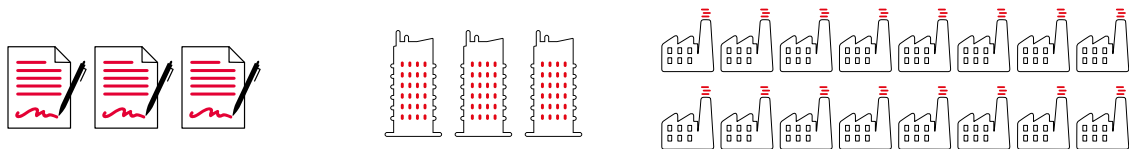
45 Interview collected by Sara Farolfi on February 2016

46 Interview collected by Sara Farolfi on February 2016. The interviewee asked to remain anonymous

4. LONG PRODUCTION CHAINS: SHORT ON RIGHTS

TO SOME, IRREGULARITIES BRING BENEFIT

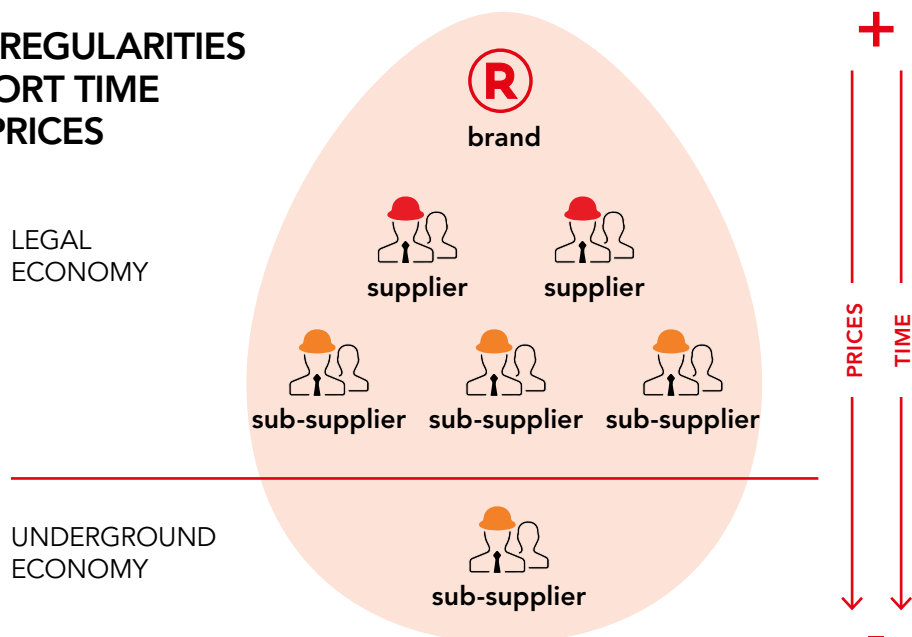
Although **the major brands conclude supply contracts with only a few companies, in reality the number of firms involved in the supply chain is much larger**, because of the practice of subcontractors delegating some of their work to lower-level companies. The reasons contributing to this phenomenon include **very short delivery deadlines and very low prices**. On the one hand, the use of other sub-suppliers is driven by the need to meet deadlines, and on the other by an attempt to pass on uneconomical deals to others and attempt to earn something from them by imposing even lower prices than those set by the contracting client.



few contracted companies > many subsuppliers throughout the chain

Irrespective of the rationale behind subcontracting, it is a fact that the lower you go down the chain, the lower the prices, because **each level is trying to earn something from the next**, taking a portion of the price agreed with the client. And when the prices are so low that they do not even cover living costs, we enter **the shadowy world of the underground economy** populated by companies forced to find savings by defrauding their workers, the tax authorities, and the social security system. The winners in this situation seem to be, on the one hand, the client brands, which have the power to impose the prices, and on the other, the companies at the lowest level of the supply chain,

RISKS OF IRREGULARITIES DUE TO SHORT TIME AND LOW PRICES



predominately Chinese, that are multiplying in all Italian manufacturing districts, including footwear. In Marche, for example, it is estimated that there are more than 800 such entities, to the delight of some and the despair of others.⁴⁷

Those despairing include the second and third-level firms that are having to compete with competitors that they cannot match.

“Chinese immigrants, who are specialised in cutting and edging, often work in companies that are irregular, are not registered with the chamber of commerce and use illegal workers. This creates social tension, because it is very often convenient to use these companies in order to lower costs. They are always working, even at night. They are extremely quick to fill orders, at approximately half the cost. Some companies are legal but the work is continuous. The working conditions are ‘Chinese’, and completely against our laws. Some Italians have tried to get jobs in Chinese firms but they couldn’t.”⁴⁸



owner of a Marche-based company

Those delighting in the presence of the Chinese are the clients and lead subcontractors.

“While, in the past, business owners could only respond to work peaks or attempt to find savings by turning to homeworkers, they now have many more options. They can continue to use homeworkers but for even lower prices, competing with those from Romania, Tunisia, or China, they can use Chinese firms existing in the area, which cost at least 50% less compared to the market, or they can use offshoring to move these production activities abroad. This dynamic is competing with the unregistered economy. Often, the mere threat of offshoring is used to impose prices on subcontractors that are applied in other countries but certainly not in Italy, with the consequence that the subcontractors [complying to Italian labour laws] are forced to work below cost, and thus one after the other are forced to close.”⁴⁹

‘Be flexible, you know what to do’ is the encouragement provided by Luca Della Valle, a manager of Tod’s, to business owners in Salento complaining of too low prices.⁵⁰ Trade-unionists are well aware of the meaning of the phrase ‘Salento flexibility’ and that it does not relate merely to the footwear sector or even just to Salento. According to some unionists, it is a widespread practice among small companies in various production sectors - to assign an hourly wage lower than the wage stated in the national agreement or to indicate a number of hours worked on the payslip less than the number actually worked – marking the missing days as ‘unjustified absences’ – so that the payslip is formally correct but the contributions paid by the company are much lower. Indeed it is one of the predominant practices in the agricultural sector in southern Italy and now spreading to other sectors.⁵¹

Checks by the labour inspectorate and the INPS (the Italian social insurance institute) are slow unsatisfactory and trade unions - especially in times of high unemployment - have difficulty in becoming established.

47 Fondazione Censis. ‘Analisi sul fenomeno del lavoro irregolare e sommerso nell’ambito territoriale della regione Marche’, 2006.

48 Fondazione Censis. ‘Analisi sul fenomeno del lavoro irregolare e sommerso nell’ambito territoriale della regione Marche’, 2006.

49 Fondazione Censis, as above.

50 See previous Chapter, Section: Tod’s Salento flexibility

51 Interview collected by Sara Farolfi on January 2016

Giuseppe Guagnano, Secretary of the union Filctem Cgil in Lecce Province sees historical reasons for this.



The trade-unionist

"In the textile sector in Nardò⁵², most contracts were complied with, but in this area [Casarano] we had these problems because the culture of Adelchi and Filanto (the historically important major shoe producing companies in the Salento region, both of which are now closed) which suppressed trade union culture and small companies."

The 'monthly' companies, as Guagnano defines them, namely those that pay a monthly salary to their employees, are not in the majority in Salento.

According to Guagnano, there is the additional problem of non-verification of working conditions by the big brands.



The trade-unionist

"Often, the major luxury brands that subcontract some of their activities here in Salento are not concerned about who is doing the work requested and under what conditions. It is true that the technical personnel from the major groups like Tod's but also others, visit the companies concerned but only to verify the technical quality of the products. Why don't they also perform inspections to verify working conditions?"⁵³

IRREGULAR PRACTICES AND MIGRANTS: THE CASE INVOLVING GEOX WAREHOUSES

According to accounts recorded during this investigation, informal workers in the shoe industry are not just Chinese workers. For example, one major case from 2011 concerned sweatshops in Marche Province which were uncovered by the Italian authorities. The sweatshops were illegally employing some 23 foreign workers – those sewing shoe uppers were mainly Chinese nationals while others were Pakistani nationals making the soles.⁵⁴

The following case, involving Geox, shows how **immigrants are present in the footwear production chain not only in the shoe producing factories, but also in the companies that run the logistics platforms** for the major brands. In the early 2000s, when it had several warehouses scattered near its headquarters in Treviso, Geox contracted out all of its logistics activities to Eurologistica – Logitex, an external independent firm that in turn subcontracted specific tasks to various other companies and cooperatives. According to statements reported below, the early 2000s period was dominated by major irregularities in the management of contracts, the hiring of personnel and payments. The personnel hired were almost exclusively foreign workers that cooperatives had no scruples to hire illegally. The cooperatives' heads delegated the recruitment and management of the workforce to certain trusted immigrant workers, the 'bosses' who, because of their informal power, became genuine 'enforcers' able to extort money from their worker colleagues by blackmail over work.⁵⁵

⁵² Nardò is an area in the province of Lecce with a district mainly devoted to garment production.

⁵³ Interview collected by Sara Farolfi in January 2016.

⁵⁴ '23 lavoratori in nero nei laboratori cinesi e Pakistani', *civitanovalive.it*, 18 march 2011.

⁵⁵ In some cases, the 'bosses' also managed the sub-leasing of certain apartments so that they could also provide irregular migrants with accommodation in addition to work, thus resulting in absolute power and profiting from the lives of these people (Ires, 'Lavorare in cooperativa di facchinaggio', 2013).

An immigrant working at that time in the Geox warehouses says,⁵⁶



Immigrant worker in
the Geox warehouses

"If we were looking for work, to be hired they asked us for money. They also asked us for money at the end of the month. When you got paid, they would also ask for something from your pay."

According to the trade union Filt-CGIL in Treviso; "it is basically impossible to provide a detailed description of the employment dynamics of the companies operating inside the warehouses for Geox multinational, because none of the cooperatives employed up to 2010 has ever kept up-to-date, accurate records, and the registration documents and payslips are not reliable, by direct admission of the companies concerned. From the information collected, we know that **in the period 2006-2009, the cooperatives involved employed approximately 250 staff of whom only 120 had any degree of stability. The jobs were divided not only by gender, but also by ethnicity, with a fairly rigid segmentation of the workforce.** (...) What in fact happened was that the department managers, who were in some cases appointed chairs of groupings of cooperatives created on an ad hoc basis, preferred to manage personnel of their own ethnic groups. For example, it was difficult for a worker of Slavic origin to accept a job in departments managed by Africans and vice versa. In some cases – despite an unwillingness of the parties concerned to directly admit the problem - there are reports of actual physical confrontations between ethnic groups vying for the management of those departments in which there was more stability of employment..."

Filt-CGIL continued by saying that "management was so chaotic that in July 2010, Geox provided notification that it no longer intended to renew the contract with the Eurologistica – Logitex Group, which had in turn subcontracted to the haulage cooperatives. Additionally, having identified serious non-performance in its management, Geox suspended payments to Eurologistica, withholding a portion of the payment owing to the company (more than 2 million euros) as surety and compensation in relation to any damages."⁵⁷

This non-payment portion was passed all along the chain to the workers, who were not paid any salary. It was then, when all seemed to be lost, that many of the workers decided to ask for help. "In the first instance, they were represented in fighting for their rights by Catholic associations, such as Caritas and church groups involved in supporting the needs of immigrants, which also represented them vis-à-vis the trade union. Direct contact between Filt trade union and the workers only became frequent in November 2010 when the workers finally found the strength to report the exploitative conditions. They described truly harsh working conditions, and showed the papers attached to their payslips, in which a summary explanation was provided of how their pay was calculated: number of hours worked times hourly wage, equals net amount per month. **When they were verified, the payslips were all found to be irregular:** the cooperatives had guaranteed a specific net hourly wage (6 euros per hour), but only certified a minimum number of hours in the payslips, with the difference paid in the form of a special transfer, thus

⁵⁶ Interview with B. collected by Devi Sacchetto in December 2015.

⁵⁷ Filt-Treviso and Ires, 'Lavorare nelle cooperative di facchinaggio', January 2013.

ensuring lower costs in terms of taxes and contributions. It should be noted that, although there was no shortage of contacts between the individual workers and the union, these documents were never officially investigated - the workers brought them to the union interviews, but did not want any official complaints made against the cooperatives for fear of losing their jobs and being subjected to discrimination.”⁵⁸

In 2010, at the same time as withdrawing from cooperation with Euro-logistica – Logitex, Geox inaugurated a massive logistics hub for the European market at Signoressa nearby Trevignano with an investment of 120 million euros. Extending over 110 thousand square metres, with two kilometres of conveyors and rollers, a handling capacity of 3,200 parcels an hour incoming and 2,400 parcels an hour outgoing, it was able to accommodate up to 35 million pairs of shoes a year for reshipment to sales outlets all over Europe. The Group also created Xlog, a wholly-owned subsidiary with the task of managing the logistics hub. Xlog does not move even one shoebox, but manages the contacts with suppliers and sales outlets, schedules arrivals and departures, and supervises customs activities. As for the physically demanding work, involving handling of the goods (unloading lorries, storage, parcel picking, loading lorries), this is entrusted to the cooperative Venere, through the consortium CGS.⁵⁹

**in 2010
Geox invests
120 million euros
in Signoressa
nearby Trevignano**



After an intense campaign by trade-unions, three quarters of the employees of Venere were given stable employment. This involved approximately 310 individuals, plus about one hundred workers hired on fixed-term contracts during peak periods. Previously these workers were left as a reserve and hired only occasionally, with a patronage-system mode. However, more fair hiring criteria has currently been established; “One of the principal objectives sought by workers is continuity of employment”, emphasises Sergio Zulian of the trade union ADL–Cobas, interviewed in November 2016.

Unlike other transport and logistics companies, like TNT or Bartolini, which employ very few women, **20% of Venere’s employees are female. Occasionally, they are employed in manual labour** (“unloading the pallets, yes, I often have to do it and they’re heavy if you have to do a lot then”, says Nicolina, one female worker⁶⁰), but the area with the largest number of women workers is **quality control. Being a woman**

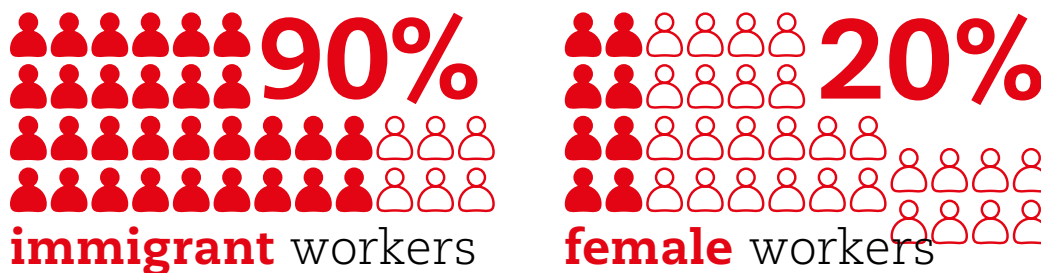
⁵⁸ Filt-Treviso, as above.

⁵⁹ Interview to Sergio Zulian collected by Francesco Gesualdi on December 2016

⁶⁰ Interview by Devi Sacchetto on November 2015.

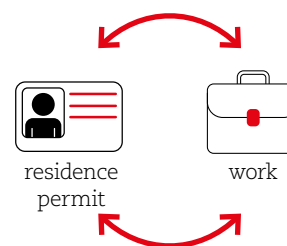
seems to be a necessary requirement for performing this type of job, based on an management culture for which the qualities a priori attributed to women – a focus on aesthetics, the ability to take care and be precise and accurate – are considered to be elements that form part of the female gender identity. Quality control may perhaps require less physical effort than other tasks, but it implies continuous mental exertion because of the extremely repetitive nature of the actions involved. According to Benedetta, an employee in quality control, **an operator in one shift will check up to 2,400 pairs of shoes with an average of 300 shoes an hour, although this “obviously depends on how they want them controlled, if they are opened and closed, it’s even 5,000-6,000.”**⁶¹

Another defining aspect of the cooperative Venere is the large number of immigrant workers employed: approximately 90%, predominantly from Sub-Saharan Africa (Senegal, Guinea, Côte d’Ivoire), North Africa (especially Morocco), and a relatively large number from Eastern Europe (especially Albania). These were employees open to blackmail who were often forced to accept all kinds of ill treatment. However, with the guidance of the trade unions, especially ADL (Associazione Diritti dei Lavoratori-Cobas), these workers began to organise themselves and improve their situation. Among the results obtained through a two-year organising campaign by the ADL union, there has been a stabilisation of hiring, the regularisation of work times, increased transparency in forms of payment, compliance with contractual rules, and an elimination of unclear practices which deducted money from their salaries. These are victories that demonstrate how **the real guarantee of protection of workers’ rights lies in their ability to organise.**



THE IMPACT OF THE BOSSI-FINI LAW

Meanwhile, in Marche region, various witnesses highlight how, in the last few years, there has been **a significant increase in the ‘immigrant worker’** underground economy, which in many cases is attributable to the introduction of Italian Law No 189/2002, the so-called ‘Bossi-Fini’ Law. This law, which amended a previous law (*the Consolidated Text of Provisions governing Immigration and the Status of Aliens*), inextricably linked migrant workers’ residence permits to employment, apart from rare exceptions. This resulted in a somewhat Kafkaesque manner: **to be able to work, an immigrant needs a residence permit but to**



61 Interview by Devi Sacchetto on November 2015.

THE ORGANISATION THAT SET A PRECEDENT

The employment conditions in the Geox warehouses can be divided into three periods. The first, **prior to 2010, was dominated by numerous irregularities**. The second period was **from 2010 to 2014** and was characterised by **the arrival of some union personnel** who corrected the most glaring violations, but not the underlying abuses, such as a patronage-system mode of hiring, arbitrary work hours, non-regulatory calculation of certain salary items, and incorrect management of overtime. This third period is the period after **2014 and is marked by the arrival of the Associazione Diritti dei Lavoratori (ADL)**, the trade union relied upon by the workers because of its independence and strength.

"Surprisingly, **the first claim** made by the workers, after being organised by ADL, **did not relate to money but rather to working patterns**. The 'bosses' at Venere had imposed a work structure that required an initial shift

of six hours, then a break of two hours followed by a further two hours of work - the day was fragmented solely on the basis of the work to be done, with no consideration given to worker's travel costs and family interests. Furthermore, it was not a logical shift pattern, but was apparently instituted to enable the management to demonstrate that they were in command.

It was against this absurd rule that we called our first strike and it was a real shock for everyone: for Venere, for Geox, for public opinion. All the newspapers ran stories about it and we immediately earned the respect of the both Venere and Geox. Before, if the workers complained about something, no one took any notice, now as soon as we mention a problem, we are immediately invited in to discuss the issue. In two years of struggle, we have resolved a whole raft of aspects: we have stabilised about a hundred jobs and corrected various arrears, we have regularised

working hours, we have obtained transparency in payslips and correct methods for the calculation of various contractual items, we have obtained more appropriate management of overtime, and we have won better safety from accidents. But we still have a way to go to ensure a completely satisfactory relationship. Some issues that we are committed to address are meal vouchers and a fair recognition of job grades. Lastly, we do not tolerate the authoritarian behaviour of the bosses, who continue to display arrogant attitudes: they want to set out holidays, they file unfounded disciplinary complaints, they arrange unjustified transfers to other warehouses, they give themselves over too easily to disrespectful behaviour. **Authoritarian behaviour is the origin of all injustice and we are fully prepared to do battle on this issue.**"

(Interview with Sergio Zulian, member of ADL - December 2016)

BEFORE 2010



serious irregularities

FROM 2010 TO 2014



trade unions first appearance

AFTER 2014



permanent union representation

get a residence permit, an immigrant needs a job. "The impact of the Bossi-Fini Law has been devastating in the footwear sector, because in reality, it has created a very large group of informal workers who are undocumented and waiting for their situations to be regularised. Business owners often ask for immigrants to be legalised but the legislation does not permit hiring because they are not able to employ people without residence permits", complains one business owner.⁶²

The positions offered to migrant workers are primarily in factories producing the soles for shoes. This is hard work, in a difficult environment with continuous production cycles, high temperatures, and exposure to toxic substances such as polyurethane - such work is often rejected by Italian workers. "Many of them [the workers] are hired illegally" - continues the business owner "because unemployed migrants are denied residence permits, and without such a permit, they become undocumented and can no longer get a job. This situation therefore encourages and in fact forces them to work illegally and sometimes in activities involving petty crime."⁶³

⁶² Fondazione Censis, as above.

⁶³ Fondazione Censis, as above.

The discussion about the consequences of the Bossi-Fini Law must be reopened, because it is not acceptable to have such high levels of illegal employment and exploitation, driven by dependency migrants find themselves in when trying to find employment and residency.

The most common forms of irregularities⁶⁴



In addition to the limited number of companies and workers employed in an **irregular way**, there is also the phenomenon of **semi-illegal work**, which is estimated to be about 6.2% of the Italian leather sector.⁶⁵

According to the 2006 research mentioned above by the Fondazione Censis in the Marche shoe-making area, the most widespread forms of irregularities were the following:



The common practice of **extending probationary periods** beyond legal deadlines.

Irregular payment of overtime is particularly widespread. During delivery periods, work for more than eight hours a day and on Saturday is particularly common.



Many skilled professions – such as cutters – are **formally graded** (and paid) at a low level with additional money for these skilled professionals paid illegally ‘under the table’.

Extensive non-compliance with the legislative requirements for workplace health and safety - this is especially true for small businesses operating in unsuitable buildings with minimal compliance with health and safety requirements (many materials and adhesives used represent health risks).



The widespread hiring of **retired workers** and pensioners still claiming their pension while having their salary paid cash. This form of illegal employment is primarily due to a lack of specially skilled labour and is justified more by the absence of generational replacement in certain specialisations of production than by an actual manoeuvre for speculative purposes.

The high risk of **irregular labour in some forms of homework** is particularly widespread in the footwear sector, primarily for the commissioning of shoe edging work.



⁶⁴ Fondazione Censis, as above.

⁶⁵ Data relating to 2009 (Istat, ‘La misura dell’occupazione non regolare nelle stime di contabilità nazionale’, 21 September 2011).

FROM HOME-BASED WORK TO FAMILY WORKSHOPS

According to Professor Valerio Elia of the University of Salento,

“the phenomenon of home-based work is less common than in the past, but it does still exist and is not completely above board, and in general for companies it is a means of providing flexible employment and staying within cost limits.”⁶⁶



prof. Valerio Elia



Home-based work in Italy is regulated by Law No 877/1973. According to this law, a home worker is classified as an employee subject to special management arrangements. Pay is determined on the basis of piecework tariffs resulting from collective agreements applicable to the corresponding category. This kind of work is subject to the same requirements in relation to social security and family benefits as for directly employed employees.

Until the 1990s, before the major companies Filanto and Adelchi began to move production towards Eastern Europe and Asia, home work **in Casarano was a large-scale phenomenon**. Everywhere there were vans parked in front of the gates of houses and apartment buildings for the loading and unloading of material for home-work. The operations performed most frequently at home were the stitching of uppers and the finishing of the shoes, such as the fitting of straps, metal eyelets and leather trim. In all cases, this was high-intensity work performed almost always informally and without formal hiring by the contracting clients, as required by law. No delivery notes, no payslips, no set tariffs for the work were established in contracts and no tax payments. The work was assigned by so called ‘lieutenants’, people who acted as intermediaries between the shoe factories and the families. Everything was under the table, with minimal details noted on loose sheets to keep track of the materials delivered and to know how much to pay at the end of the month, without any receipts being issued. It was work performed primarily by women at times of the day when there was less domestic intensity: after having sent the children to school, after the washing-up at lunch, and after dinner in the evening. Sometimes, they were helped by children who hurried through their homework to lend a hand.

Now in Casarano, on the surface, it seems as if this has disappeared. However, the more informed locals disagree. Indeed, **“in Casarano and Supersano, homeworking still exists for certain specific operations”**, explains the trade-unions in Casarano.⁶⁷ One example is Tod’s Ferrari model (so-called Car Shoes), designed with grommets under the soles that require complex manual work. Casarano unions add that “reaching home workers is very difficult for the union, so we do not know the conditions they work in. We can only say, because we have read this in the INPS (the Italian social insurance institute) databank, that a home worker, working on a fixed-term basis in 2013 and laid off in 2014 because she reached retirement age, made a gross amount of 10,000 euros in one working year”.

⁶⁶ Interview collected by Sara Farolfi in January 2016.

⁶⁷ Interview collected by Sara Farolfi in January 2016.

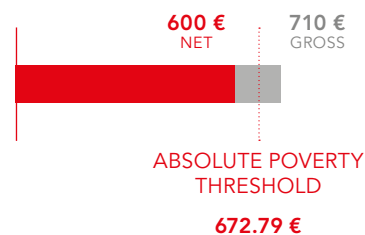
According to interviews with employees inside shoe factories, the few surviving factories, which work on behalf of the major brands, prefer to perform most operations in-house so they have greater control of quality. Nevertheless, they continue to outsource to home workers finishing operations that require machinery and specific skills. But this involves work that is no longer performed around the dinner table, by adult women helped by their children, but, rather, in garages by fathers who have been made redundant or sons who are no longer at school and have no job prospects. These are families who, in an attempt to get by, have purchased one or two machines for special operations, possibly second hand, and use them without any form of official registration in the Companies' Register. For them, this is a means of keeping going, while for the contracting companies, it is a strategy to achieve savings by negotiating prices and defrauding the tax authorities. This is so prevalent that when asked 'how much work in Casarano is legal and how much is illegal?' many people will respond '80% legal and 20% illegal'.⁶⁸

FALLING LEVELS AND SHIFTING CONTRACTS

The imbalance in bargaining power within the production chain is also reflected in the corresponding national collective labour agreements. In the Italian footwear sector, three collective agreements are applied on the basis of the size and functions of the companies involved: the first two for industrial companies and craft enterprises,⁶⁹ and the third specifically for third-party outsourcing. The first two are signed by the trade union organisations that are members of the three most representative national confederations (CGIL, CISL and UIL) and the third is signed with CISAL which is a much smaller union.

Of the three, the most unfavourable for workers is the contract relating to third-party outsourcing (subcontracting), which was concluded in 2013 specifically to legally reduce workers' pay. Remuneration for workers is represented by a base amount, plus certain specific items tied to work hours (overtime, night work and holidays), length of service (salary increases due to seniority etc.), and company productivity. **The third-party contract** provides for very low levels of both basic pay and the additional items. **The basic pay for an unskilled worker is set at 710 euros a month**, which, minus social security and tax payments (on average 20%), is reduced to **a net amount of below 600 euros**.⁷⁰ This is a sum that the Italian Statistics Institute (ISTAT) considers to be below the absolute poverty threshold for all parts of Italy and for any family size. For example, a single person living in a small municipality in Southern Italy (the region with the lowest cost of living), **the absolute poverty threshold for 2015 is set at 672.79 euros a month**.⁷¹

BASIC PAY FOR AN UNSKILLED WORKER
third-party outsourcing collective agreement



⁶⁸ Opinions collected by Francesco Gesualdi in December 2016.

⁶⁹ The difference between industrial and craft companies is determined by the number of employees, above or below 15 units.

⁷⁰ <http://www.istat.it/it/prodotti/contenuti-interattivi/calcolatori/soglia-di-poverta>.

⁷¹ For identification of the absolute poverty thresholds, on the basis of family components and area of residence, see: <http://www.istat.it/it/prodotti/contenuti-interattivi/calcolatori/soglia-di-poverta>.

In the **collective contracts for industry and craft companies, the basic monthly pay** for an unskilled worker is set **at 1,191 and 1,188 euros respectively**. The additional specific remuneration items for additional hours, length of service etc. are very similar. What can make a difference in final remuneration are supplementary company agreements linked to collective productivity results, which exist only in large industrial manufacturing plants. To summarise, from a wage perspective four different positions can be identified in the shoe sector:

TYPES OF CONTRACTS



- 1° An individual working **in facilities run directly by the major brands**. S/he usually is paid more not only because of higher contractual pay rates but also because of the existence of production bonuses.
- 2° An individual working **in a manufacturing plant belonging to a first-level subcontractor** that, because of its size, applies the industry collective agreement but rarely provides a supplementary company contract.
- 3° An individual working for a **subcontractor that applies the craft industry agreement**, with pay slightly lower than under the industry contract.
- 4° An individual working for **a subcontractor that applies the specific agreement** for third-party outsourcing, and is paid significantly less.

 **1191**

€€€€€€€€€€€€€€€€
GROSS MONTHLY WAGE

 **1188**

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GROSS MONTHLY WAGE

 **710**

€€€€€€€€
GROSS MONTHLY WAGE

Special mention should be made of company benefits, which are generally available only in the manufacturing plants run by the major brands. These include canteen services which can usually only be used by direct employees. This is a difference in treatment that is currently generating tension in the Geox logistics hub in Signoressa. The following is a complaint from Fabrizio, an employee of the haulage cooperative:



employee of a haulage cooperative

“our break room consists of a room with chairs in which we eat meals brought from home, stored in a small fridge and heated in a microwave, both of which were bought by the workers. This is a long way from the conditions enjoyed by the direct employees of Geox-Xlog who are provided with a pizzeria as their canteen.”⁷²

72 Interviewed by Devi Sacchetto on December 2015

THE PATERNALISTIC INSTINCT

While Tod's' direct employees enjoy various corporate benefits, these are not the result of trade union bargaining. Indeed, industrial relations, as these are generally understood, are highly problematic in the Tod's Group. Luigino Piergiacomì, union representative in the main manufacturing plant owned by Tod's, explains,⁷³

“The union has a presence but has no relationship with the company, there is no discussion on production performance or other issues, we have never managed to bring them together round the table.”



union representative

Indeed, the union has never managed to successfully bargain any supplementary benefits in any of the Tod's manufacturing plants. **The case of the former union representative Guerriero Rossi** is a perfect illustration of this situation. Giuseppe Santarelli, a member of the union Cgil who has monitored the Tod's Group for years, remembers the case well.⁷⁴ The union representative Rossi, was laid off by Tod's in 2009, following a union campaign to obtain a supplementary contract. Among other initiatives, Guerriero Rossi also decided to write an open letter to the owner of Tod's, Diego Della Valle to ask for “respect for the workers and unions, and protection of bargaining as a right and not a concession.” The reaction was summary termination:



“the statements you have made, which cause serious damage to the prestige of the employer and irreparably undermine the bond of trust between worker and business owner, make your continued employment untenable, even on a temporary basis.”⁷⁵

This was followed by a lengthy legal dispute, which ended in 2016 with a final judgment ordering that Rossi be reinstated. Santarelli recalls,

“Even the lawyers in the proceedings at the first instance and at appeal agreed to Guerriero Rossi's reinstatement, but Tod's Group never actually reinstated him at work, but continued to pay him a salary.”⁷⁶



The trade-unionist

Diego Della Valle's intolerance for unions has never been a secret. Tod's was previously convicted of anti-union behaviour in December 2002.⁷⁷

Della Valle instead prefers a paternalistic approach and in 2008, the Group put together for its direct employees a so-called welfare plan: an annual contribution of 1,400 euros, plus full reimbursement of the costs incurred by families for the purchase of school textbooks for school-aged children up to university and full health and dental insurance to cover the immediate family of the employee. According to union representative Luigino Piergiacomì, the annual bonus granted by the Group is a perfect example of how the Group sees trade union relationships. “Tod's does not wish to have any relationship with the union, and so we have never managed to organise any company bargaining, which so many other groups like Prada or Gucci do allow.”⁷⁸

73 Interview collected by Sara Farolfi in February 2016.

74 Interview collected by Sara Farolfi in February 2016.

75 Mario Di Vito, Diego Della Valle: 'l'illustre ciabattino', Il Manifesto, 29 September 2014.

76 Interview collected by Sara Farolfi in February 2016

77 Centro Nuovo Modello di Sviluppo, 'Guida al vestire critico', 2006.

78 Interview collected by Sara Farolfi in February 2016.

The substitution of genuine union and public welfare relationships with unilateral initiatives of a private and paternalistic nature represents a dangerous step backwards, to a time when workers were required to passively accept everything decided for them by the owners of the company. Many Italian unionists criticise **unilateral corporate initiatives as attempts to erode the victories achieved by workers**, trade union organisations and negotiations.

The answers Tod's never gave

In a letter sent on 15 September 2016, Abiti Puliti asked Tod's to provide the following information. But the company never responded.

- 1 Production activities performed in the Hungarian and Albanian operations
- 2 Number of employees in those two manufacturing plants
- 3 Pre-tax hourly wage paid in these two overseas plants to skilled workers
- 4 Additional amounts paid for overtime
- 5 Other salary allowances paid to workers
- 6 Existence of union organisations in the two manufacturing plants
- 7 Existence of any third-party certification in relation to the measures applied to protect the health and safety of workers
- 8 Countries in Eastern Europe in which subcontractor companies supplying Tod's are located and their total number
- 9 Total number of subcontractor companies with which Tod's maintains supply relationships in Italy and breakdown of these companies on the basis of region
- 10 Criteria used by Tod's to select suppliers
- 11 Monitoring measures applied by Tod's to avoid the use of unauthorised sub-suppliers
- 12 Measures applied by Tod's to monitor compliance with legal requirements and with workers' rights provided in contracts signed with the most widely represented unions, at all points of its production chain
- 13 Measures applied by Tod's to guarantee that its suppliers and sub-suppliers are paid prices that are consistent with the legal requirements and the dignity of employment
- 14 Use in its production chains of homeworking and verification of associated conditions by Tod's
- 15 Company-based contractual benefits provided for workers employed in Tod's manufacturing plants.

THE CREEPING GENDER GAP

Turning our attention to **Prada**, it should be noted that Prada has not adopted the national collective **agreement** for the footwear industry but instead uses a **collective agreement concluded for leather work**, which is less favourable for workers. Some trade union officials attribute this decision to the company's need to use a single reference contract, thus adopting the contract relating to its primary activity, leather goods. Others, however believe this to be a way to reduce labour costs.

In its Report on Corporate Social Responsibility for 2015,⁷⁹ Prada stated that union membership corresponded to approximately 30% of employees. The report also stated that the Prada Group cooperated with unions to improve the working conditions of employees and had signed various supplementary agreements such as a productivity bonus, a holiday bonus equivalent to one month's gross wages established by the national collective contract, the creation of a Supplementary Health Fund, and additional health insurance with an option to extend this where applicable, to cover an employee's immediate family at reduced cost.

Prada was also careful to declare its sensitivity to gender issues, but research conducted at its Dolo premises by Devi Sacchetto in 2015 has raised some questions. The presence of men and women is balanced overall, but they are distributed differently over the various production phases. In particular, it is primarily men who fill the roles relating to design, cutting and assembly of the shoes, where the most qualified and best paid jobs are concentrated and where more sophisticated machinery is used. Women, however, are employed mostly during the finishing phases, when the shoes are cleaned, stretched and retouched, fitted with additional components, rechecked and packaged. **Compared to the jobs performed by men, these women appear to be less qualified and less well paid, and their work requires manual skills that are picked up more quickly.** For example, one of the finishing workers we interviewed estimated that it takes one or two weeks to learn the work, while a longer period would be required to develop the necessary speed to maintain the work rate imposed.⁸⁰ The significant degree of specialisation required by some of the male-oriented jobs, however, means that it is difficult to replace those employees, and they therefore enjoy greater bargaining power vis-à-vis the company and greater opportunities to find work with other companies if they are offered better conditions. Additionally, while the department managers include both men and women, overall management, represented by a works manager and a director, are male.



"[The women] do the most repetitive tasks, such as working on the conveyors and finishing. The men are usually more concentrated in services, inevitably, based in the workshop rather than handling products, some in prototypes, and are the stylists, who design and cut the leather, which are the jobs that are best paid and most sought-after. The vast majority of women work in the lowest levels of production".⁸¹



79 http://videos.prada.com/csr-img/pdf/Social-responsibility-report-2015_EN_ipad.pdf

80 Evidence gathered by Devi Sacchetto on December 2015.

81 Interview with trade union official collected by Devi Sacchetto in 2013.

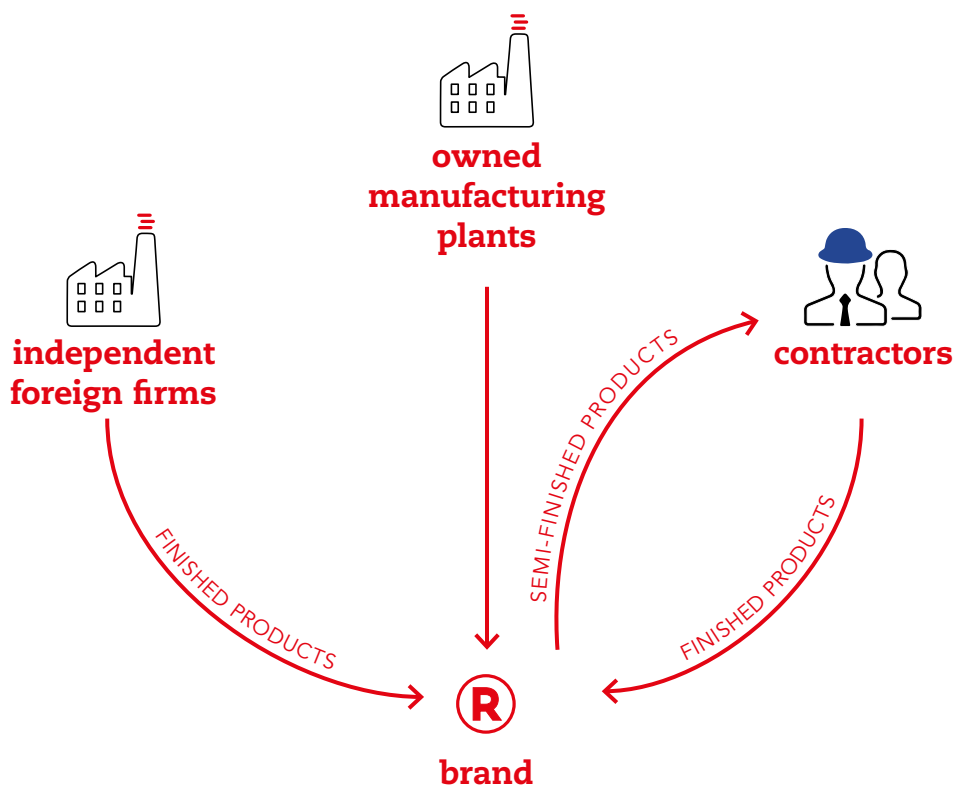
5. THE EXPLOITATION OF THE EAST

ATTRACTING FACTORS

One of the great concerns for the major brands is reputation. They know that in order to win customers, they increasingly need to show that they are sustainable, and are respectful of rights and the environment. But the need to achieve the maximum profit with the minimum resources can mean they are only able to change certain issues – often those that consumers are aware of, while those matters outside the consciousness of the consumer are left unchanged. This is demonstrated by the efforts they employ so that they can refer to good treatment of their employees in their Italian manufacturing plants, while behind the scenes, there remain commercial strategies which can encourage illegal practices and the deterioration of employment rights.

As noted in Chapter 2, one production location that **Italian and European shoe manufacturers are viewing with growing interest is Eastern Europe**⁸², by means of three strategies: importing shoes designed and produced completely by independent local companies in Eastern Europe, importing shoes or semi-finished products manufactured in wholly owned foreign manufacturing plants in Eastern Europe, and importing shoes that

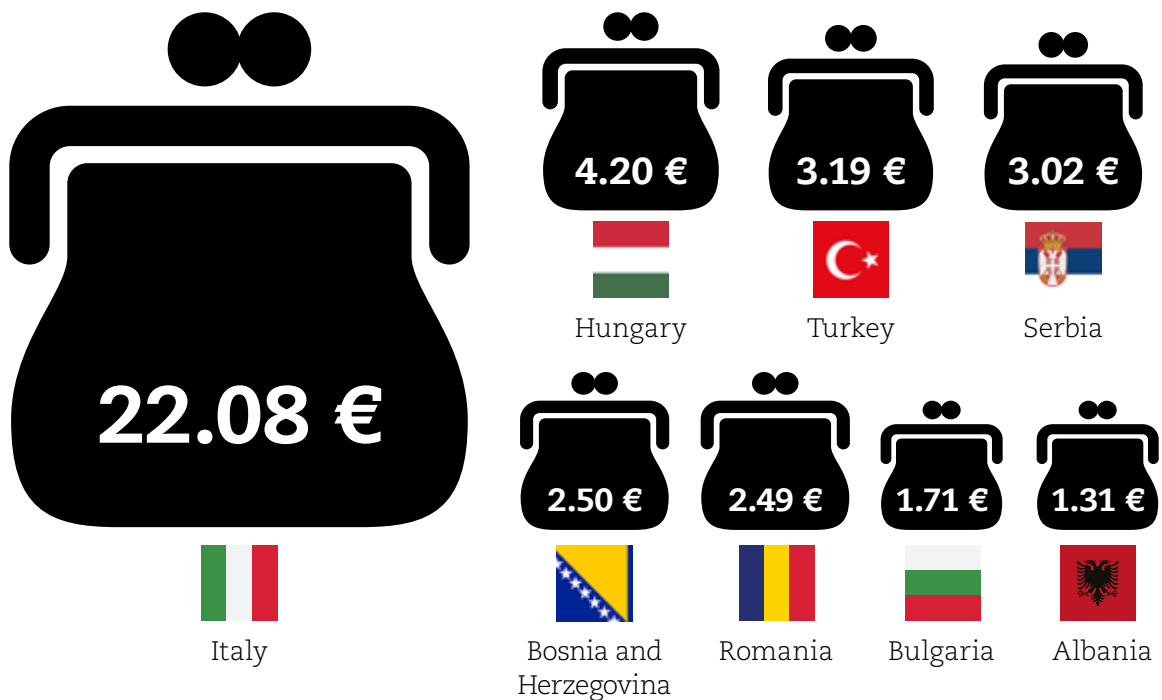
POSSIBLE PRODUCTION RELATIONSHIPS WITH EASTERN EUROPE



82 Labour on a Shoestring, https://www.publiceye.ch/fileadmin/files/documents/CCC/DB_factsheet_shoe-production_6-16_def.pdf

have been produced by subcontractors in Eastern Europe to which designs and raw materials have been sent. There are four main reasons why Eastern Europe is so attractive: geographical proximity, low production costs, special customs treatment, and government incentives.

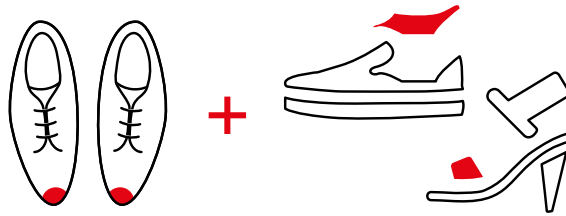
AVERAGE GROSS HOURLY WAGES IN THE FOOTWEAR SECTOR IN ITALY AND EASTERN EUROPE (2012)



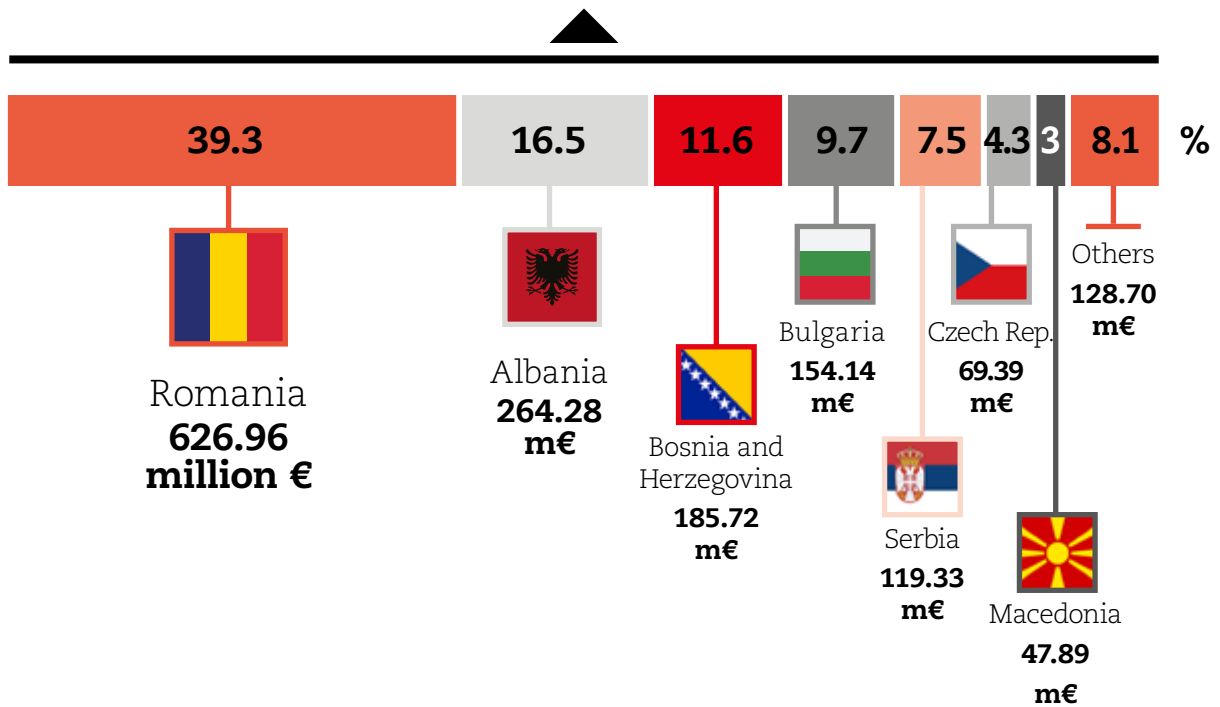
Source: Eurostat LCS surveys 2012. The gross wage refers to the total cost incurred by the company, including wages before tax and social security charges, as specified by the 'total labour cost' (http://ec.europa.eu/eurostat/statistics-explained/index.php/Wages_and_labour_costs). The reference sector is manufacturing of 'leather and related products', including footwear. The hourly costs are standardised on full-time pay, taking into consideration only those manufacturing plants with more than ten employees and not including pay for apprentices.

An analysis of trade reveals that the country that has so far been most attractive is Romania, from which Italy, for instance, imports both shoes that have been designed and produced by local companies and shoes produced by subcontractors. There are historical reasons why Romania is preferred as well as its status as a member of the EU, which guarantees the free movement of goods and capital.

ITALIAN IMPORTS OF FOOTWEAR AND SEMI-PROCESSED GOODS FROM EASTERN EUROPE (2015)



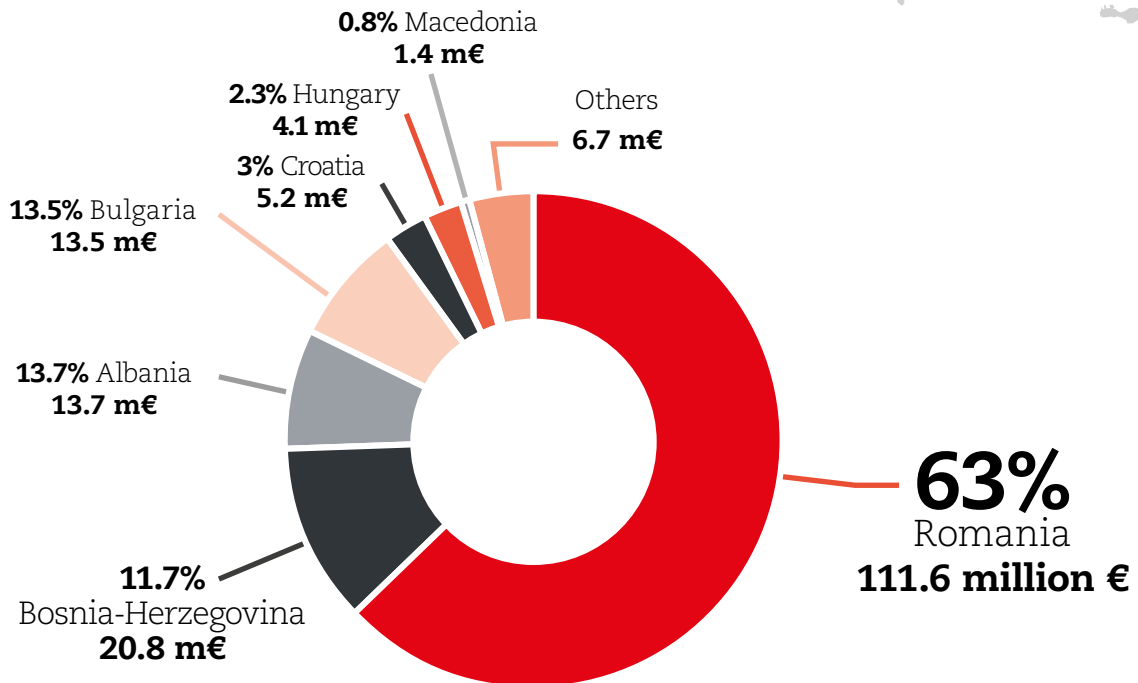
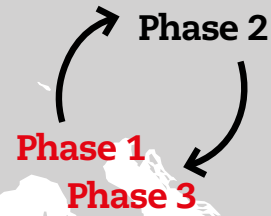
Total from Eastern Europe
1,596,408,469 €



Source: Istat

In the 1990s, the preferred strategy for Italian companies working with Eastern Europe was the transfer of production to new Italian owned plants opened abroad. For example, Filanto, which closed its factories in Apulia in the 1990s and moved its operations to Albania. Business owners from Veneto that worked as subcontractors for major brands also followed this example, but without changing their specific role in the supply chain - despite relocating: they continued to work as subcontractors for their former customers. Over time, a class of local entrepreneurs emerged in Eastern Europe that has further expanded the range of subcontractors available to the major brands. The path for those brands has also been smoothed because of OPT (Outward Processing Trade), a customs system that enables facilitated production relationships even with countries that are not members of the European Union.

FOOTWEAR MATERIALS FOR PRIMARY PROCESSING SENT BY ITALIAN BRANDS TO SUBCONTRACTORS IN EASTERN EUROPE WITH THE INTENTION OF REIMPORTING THEM AFTER THEY HAVE UNDERGONE SUBSEQUENT PRODUCTION PHASES (2015)



Source: Istat

OPT

OPT means 'Outward Processing Trade', a special customs system that enables EU companies to export raw materials or semi-processed goods to non-EU countries, with the objective of reimporting them at a more advanced stage of processing, paying very minimal or no customs duties.

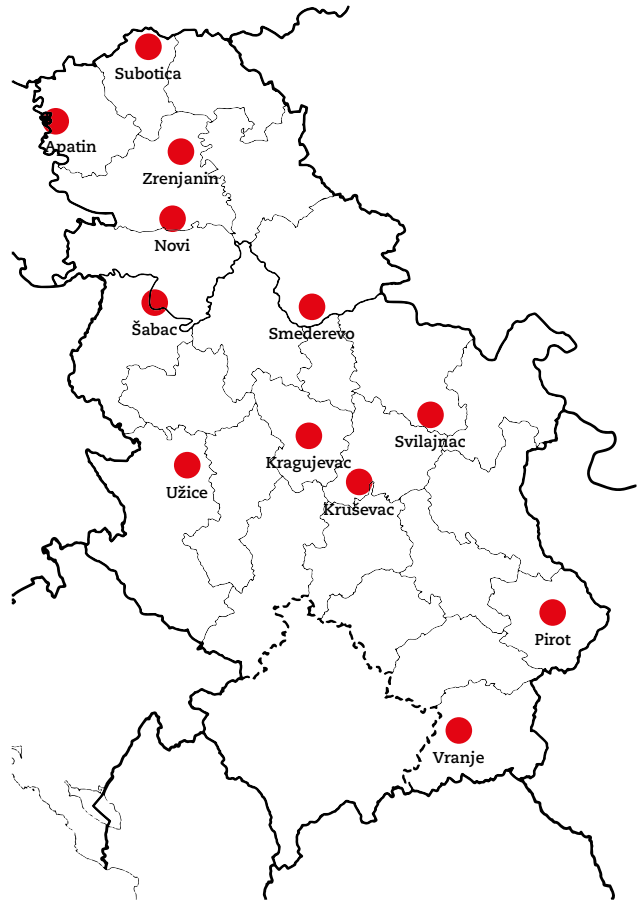
OPT was introduced gradually at the

end of last century to provide particular support for the clothing sector, but over time has been extended to cover other sectors, including footwear. Specifically, an EU company is able to send cut skins to a foreign subcontractor so that it can reimport those skins in the form of stitched uppers or indeed as completed shoes without paying customs duty on the full value

but, rather, only on the value of the additional processing. This system has made it possible for companies within the European Union to vastly expand the network of subcontractors that they can use, without huge additional costs other than transport costs which are offset by the enormous savings on the cost of processing.

Taking Italy as an example, the non-EU nations with which Italian footwear companies have the strongest production relationships under the OPT system are those of Eastern Europe, and in particular Bosnia, Albania and Macedonia.

To further incentivise foreign companies to invest in their countries, many governments have created free zones that guarantee special conditions for investors. The Serbian Government, for example, has created **12 'Free Zones'**,⁸³ which not only provide infrastructure but also guarantee **a variety of benefits**, including exemption from import and export duties, tax reductions, the possibility of exporting profits, and special prices for water and electricity. One of these free zones is **Vranje, where Geox has set up operations.**



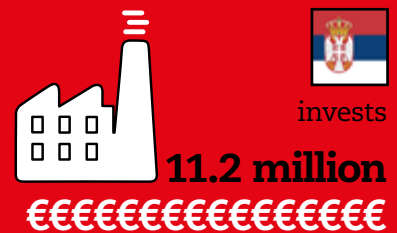
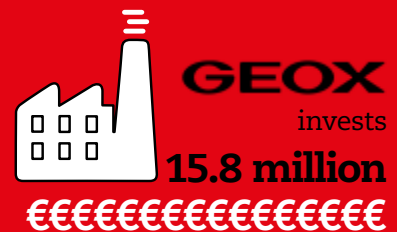
83 Pirot, Zrenjanin, Subotica, Novi Sad, FAS Free Zone – Kragujevac, Šabac, Užice, Smederevo, Kruševac, Svilajnac, Apatin e Vranje (Business friendly in Serbia, published by the Serbian Chamber of Commerce and Industry, December 2014).

GEOX AND STATE AID

In Serbia, Geox runs a plant in Vranje, a small city in the south-east of the country. At the time of the Yugoslav Federation, Vranje was an important production centre that included several major industrial complexes, such as the Kostana textile plant. During the transition period, the plant fell into decline and ultimately closed. In an attempt to revive it, the Serbian Government offered the structure to anyone who wanted it, at a **very low rent**. Geox was awarded control in 2012 and started marginal operations with 200 workers who were originally Kostana employees. The group was subsequently persuaded by the Serbian Government to expand its production activities with

a new plant. Concerned by the high levels of unemployment, the Serbian President, Boris Tadic, offered Geox **a contribution** of 9,000 euros for each person hired, in addition to the availability of land, **tax concessions** and the construction of **infrastructures** by the local community. In exchange, Geox undertook to employ 1,250-1,400 workers and to pay wages 20% higher than the legal minimum.

The new plant was inaugurated on 31 January 2016 and cost the group **15.8 million euros, 71% of which covered by the Serbian Government** which gave 11.25 million euros as non-returnable funds.⁸⁴



84 Agenzia Nova, Geox apre impianto a Vranje, 31 January 2016



THE CONSEQUENCES FOR WORKERS: THE CASE OF GEOX IN SERBIA

The 2016 Change Your Shoes report entitled “Labour on a Shoestring”, on working conditions in shoe factories in Eastern Europe,⁸⁵ highlighted the fact that **the minimum salaries paid in Albania, Bosnia-Herzegovina, Macedonia and Romania are 140, 164, 145 and 156 Euros respectively per month, amounts lower than some minimum wage rates in China.**⁸⁶ These wages fall far below a living wage. To be able to

live decent lives, the workers, **most of whom are women**, would need wages four or five times higher. The report also found that in many cases, the work is **paid on a piecework basis**, instead of an hourly basis, therefore workers often work much more than eight hours a day to earn the minimum wage. The work must be done quickly, and there is often **no compliance with safety requirements** that would protect them from breathing in the fumes of adhesives, solvents and other chemical substances used in shoe production. In many plants, the workers are required to deal with the **extreme winter cold and high temperatures in summer** due to a lack of adequate heating and airing systems, and illness is common.

Tod’s, Geox and Prada all produce in Eastern Europe, with Tod’s and Geox operating through their own manufacturing plants. However, the brands public corporate documents do not mention these plants, nor is there any indication in the Report on Corporate Responsibility published by Prada each year. Information about working conditions in the plants owned by Tod’s in Hungary and Albania, and in the factories of subcontractors used by all of the major brands in the countries of Eastern Europe are difficult to investigate. However, it is all too clear that many aspects must improve inside the facility owned by Geox in Serbia.

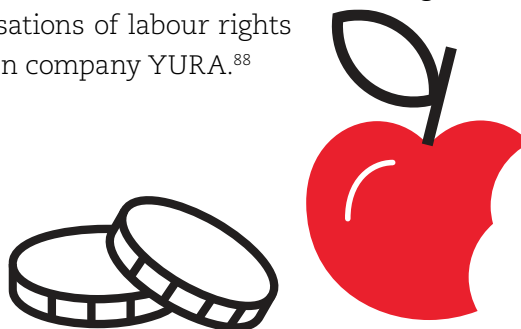
Rumors that something unusual relating to the respect of labour rights in **the new GEOX factory** had circulated in the town of Vranje since the opening of the plant in January 2016. However, only on 14 July 2016 did concrete complaints emerge when an interview with Gordana Krstic, a dismissed GEOX employee was published in the Serbian Vranjske Novine newspaper. The interview alleged **poor health and safety conditions, verbal harassment, denial of labour contracts** and other forms of labour violations.⁸⁷ The interview given by Gordana was later published in many other Serbian media outlets, creating a big case in the country, since it followed similar accusations of labour rights violations in a Serbian factory owned by the South Korean company YURA.⁸⁸

85 https://www.publiceye.ch/fileadmin/files/documents/CCC/DB_factsheet_shoe-production_6-16_def.pdf

86 In 2016, in the province of Dongguan, the minimum wage corresponded to 213 euro per month

87 Radoman Iric, 'Cipele u pelenama', Vranjske Novine 14 July 2016

88 Lj. Bukvic, 'Od Jure inspekciji cetiri automobila, Danas 28 April 2016



According to various news reports, Gordana had been working with Geox until 10 July 2016, when she received a dismissal letter. Surprisingly the letter informed her the dismissal had already taken place on 1 May 2016, the day her labour contract officially expired. She claimed she did not know she had been working for 70 days without a labour contract.⁸⁹

An employment contract shall be concluded in writing, prior to employee's taking the job. Should an employer fail to conclude the employment contract with an employee in conformity with paragraph 1 of the present Article, it shall be considered that the employee has established the employment relation for an indefinite period of time, as of the day of taking the job. (Art. 32)



In September 2016, the press reported another similar case. The worker in Serbia, Law Gabriela Krstic, who was fired on 6 September 2016, but her letter informed her that she was dismissed from 31 August.⁹⁰ Gabriela was dismissed the day after a collective work stoppage on 5 September. The work stoppage was a spontaneous protest against the imposition of overtime on Saturdays in addition to the overtime usually carried out on the other days of the week. Gabriela had been instrumental in bringing worker concerns and requests to the management.

Worried by these facts, on 15 September, Campagna Abiti Puliti⁹¹ and Change Your Shoes sent a letter to Geox asking for clarification on several points, including details of salaries, number of hours of overtime requested from workers, forms of employment and freedom of association. Geox responded by email on 2nd November with a rather incomplete and evasive answer. Members of the Change Your Shoes initiative and the Clean Clothes Campaign therefore decided to organize a mission to Vranje in order to collect information directly from the field.⁹²

The delegation travelled to Serbia at the end of November 2016 and through interviews with workers, trade-unionists and journalists, many complaints which had appeared in the press were confirmed. For example, workers reported working for long periods without any kind of contract. According to the testimonies collected, 50 to 70% of employees had been working without a contract up until September 2016. Workers seemed to be given one month or three-month fixed term contracts without understanding why. All the workers interviewed clarified that they continued to work beyond the date of expiration of their contract. Months afterwards they were asked to sign new labour contracts with the date of commencement and expiration, established seemingly arbitrarily by the management. One of the interviewees, first received a one month contract, then a three-month contract, then he worked without contract, and finally received a new retroactive contract.⁹³

The lack of regular contracts had a major knock-on effect on workers - social insurance registration. Some employees have reported they were denied hospital treatment due to the lack of health insurance.

⁸⁹ Mobing U 'Geox', Nova Nasa Rec 22 July 2016

⁹⁰ Radoman Iric, Pobuna radnika 644, Vranjske Novine 15 September 2016

⁹¹ Italian section of the Clean Clothes Campaign

⁹² The delegation was composed by the coordinators of the Clean Clothes Campaign in Italy, Campagna Abiti Puliti, in CEE/SEE countries and in Croatia, Novi Sindikat Union.

⁹³ Workers' interviews collected by Deborah Lucchetti and Bettina Musiolek on November 2016

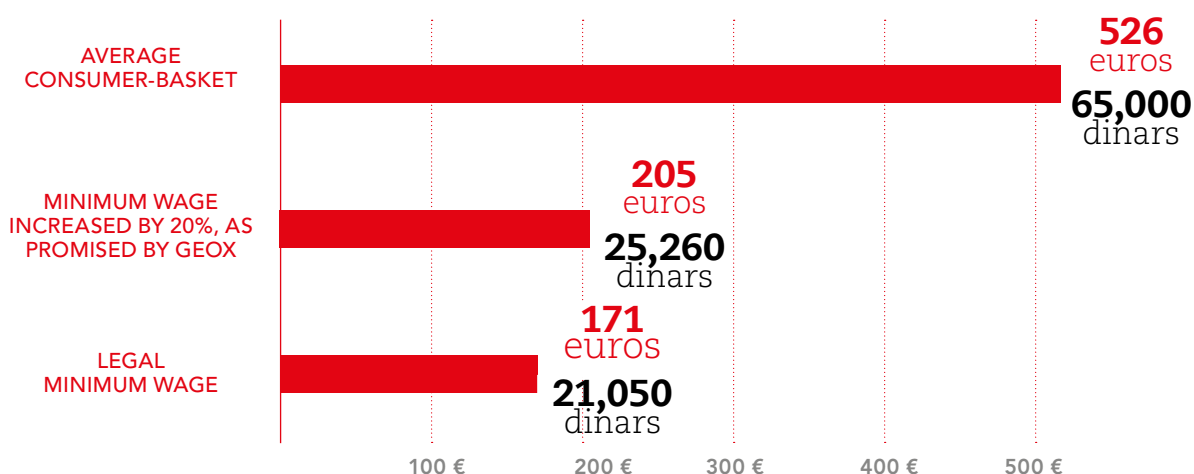
Serbian law limits overtime to a maximum of 8 hours per week and 4 hours per day. But until September 2016, workers had to do excessive, semi-legal overtime hours: half an hour per day of overtime was usually worked from Mondays to Fridays while Saturdays were considered normal working days. In total, workers undertook approximately 8 to 10 hours of overtime per week.⁹⁴

In a press conference given on 27 of July 2016, Aleksander Vulin, Serbian Minister of Labour, acknowledged that there were problems with overtime at the Geox production facility.⁹⁵ He said labour inspectors had found higher overtime hours than was legally permitted. Despite this public acknowledgment, on 5 September 2016, the management announced to workers they had to work one hour more overtime from Monday till Friday and three hours more during Saturdays. Furthermore it was not clear if this additional overtime was to be paid according to the law. Workers were upset and protested by suspending the work. Because of the protest, the management reduced their demand for overtime, although most Saturdays were still worked.⁹⁶

During their field trip in November 2016, the Change Your Shoes and Clean Clothes Campaign delegation found that workers were not provided with proper payslips, and many did not know how their wages were calculated, how many overtime hours were paid etc. Many workers had never seen any calculation of their salaries nor received any formal document where a calculation of their income was shown.

At the moment of receiving the government grant, GEOX agreed to pay salaries 20% higher than the legal minimum wage,⁹⁷ but workers say that only some 150 out of a total of

GEOX WORKERS BETWEEN WAGES AND NEEDS



2016 monthly data. Source: Serbian Government

94 Workers' interviews collected by Deborah Lucchetti and Bettina Musiolek on November 2016

95 <http://www.srbijadanas.com/clanak/vulin-objasnio-radnicima-svoja-prava-prekovremeni-rad-u-zakonskom-okviru-poligraf-nikako-27>

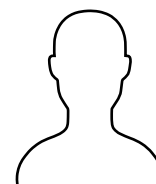
96 Workers' interviews collected by Deborah Lucchetti and Bettina Musiolek on November 2016 and February 2017

97 This was also communicated to Campagna Abiti Puliti and Change Your Shoes during the survey conducted in 2015 to assess the Human Rights Due Diligence performance of 23 leading european shoes brands. The survey results are available on Trampling workers' rights underfoot, Change Your Shoes 2016 Report <http://www.abitipuliti.org/changeyourshoes/2016/06/23/2016-report-calpestare-i-diritti-dei-lavoratori/>

1,250 employees received 20% more than the minimum salary. The lowest paid unskilled workers, who represent most employees, received a fixed monthly salary similar to the Serbian minimum wage of 21,050 RSD (170 EUR)⁹⁸, regardless of hours worked. In August Gabriela Krstic had received a total of 21,500 RSD, which did not cover her overtime and did not include her transportation bonus.⁹⁹

Problems were also found in occupational health and safety. Many cases were reported of workers fainting due to high temperatures in the factory, poor air quality and chemical fumes combined with overwork. A Labour Inspection found that on 22nd-23rd of June 2016, the ventilation system was not working and only roof windows were open¹⁰⁰. The inspection also ascertained that contrary to Serbian law, GEOX had not hired an external company to control the concentration of hazardous materials in factory. As regards freedom of association, Serbian law provides that unions must be registered with the Ministry of Labour. Once registered, in order to be able to act at the factory level, trade unions must undergo several steps, which if implemented according to the law, protect it from company interference. However, a statement given by CATUS, one of the main trade unions in Serbia, on 18 September 2016, was rather worrying and summarised numerous worker complaints regarding “attacks”:

“In the last few months, workers often complained to municipal trade union council in Vranje (South Serbia) about different violations of labour and trade union rights in the factory owned by famous Italian footwear-producer “GEOX.” (...) In CATUS headquarters, the attacks on workers’ rights were understood as a flagrant violation of ILO Conventions and of European Social Charter. The friends from CGIL Federation of Workers in Chemical and Textile Industry, Energy and Crafts (FILCTEM) were immediately informed. They quickly found out that the “GEOX” management in Italy had correct relations with trade unions, regularly collective agreements negotiated with them and was most probably unaware of the unfair behaviour of its counterparts in Vranje. A complaint treating the discrepancy between Serbian and Italian workers’ rights was also sent to [the global union federation] IndustriALL.”¹⁰¹



CATUS trade union

Overall workers felt defenceless. Some of them were dismissed because of sick leave, or for having complained about working conditions. Workers also reported being denied toilet breaks and that one Italian manager had suggested workers wearing diapers. Workers reported being insulted, intimidated and harassed by the same Italian manager.¹⁰²

In general, workers refer to **a threatening atmosphere inside the factory** and being afraid of losing their jobs. The threat to leave the town is a powerful weapon in the hands of Geox and the fear hovers not only inside the factory, but in the whole city of Vranje, given the high percentage of unemployment existing in the region.

98 All currency conversions: OANDA 6th October 2016

99 Interview collected by Deborah Lucchetti and Bettina Musiolek on November 2016

100 Link to Serbian media outlet Blic - <http://www.blic.rs/vesti/drustvo/inspekcija-rada-kontrolisala-geoks/tr9qp5f>

101 Geox Serbia - Example of trade union solidarity, CATUS press release n. 363, 18 September 2016 <http://www.sindikats.rs/ENG/news.html>

102 Workers interviews collected by Deborah Lucchetti and Bettina Musiolek on November 2016

After the field mission, a second letter was sent to Geox reporting on the irregularities found and asking for remediation - starting with the reinstatement of the unfairly dismissed workers and respect for freedom of association including the fundamental right to free union access inside the factory.

A few weeks later, on 24 December 2016, the company sent the following response:

Geox answers

A) Irregularities in the terms of employment and in mandatory social insurance payments

The plant was inaugurated in January 2016. As you can easily understand it can be considered as a “start-up”. We had to introduce more than 1200 employees and build competences. Despite the complexity of the task, this process did not affect at all the correct social insurance registration. The registration on PIO (Pension and Insurance office) was done manually until September 2016 with the consequence of delays in the registration of such a huge number of contracts provided to the Public Office (roughly 500 contracts in June, July and August). We confirm that all taxes and contributions for salaries, and all pension and social taxes were paid for each day of employment.



B) Irregularities in salaries, overtime and leave

Overtime not in compliance with the law is no more allowed. In any case we have dramatically reduced the overtime overall in comparison to the first half of the year. There were few months where we had production peaks and more than 32 hours’ overtime, anyway compensated with reduction in subsequent months and in compliance with the law.

The company has never requested to work overtime without adequate remuneration. Overtime, if occurred, is always paid in line with the law (26% more than regular hours).

Payslips are regularly provided to all employees which sign the relevant delivery paper (we have recently introduced this new confirmation process).

With reference to the salary calculation it is a complex process and not a simple mathematics operation. Sometimes errors in the payslip calculation can happen (as in all the companies) and are normally corrected by the subsequent payment period (next salary).

Minimum “Net Salaries” are 20% higher than “Republic Net Minimum Salary” as also recently confirmed by the Labour Law Inspectorate – Minister of Labour. We do not pay less than the Minimum Salary.

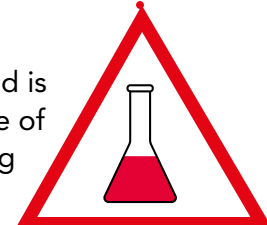
Finally, sick leave and other leaves are paid as determined by the law. Sick leave needs to be covered with legally required medical documentation.



C) Irregularities in health and safety at the workplace

We have recently re-performed all measurements. As a result, all the parameters are in line with law prescriptions regarding working conditions. In addition, we have contracted an external company to perform environment tests and to provide a certification.

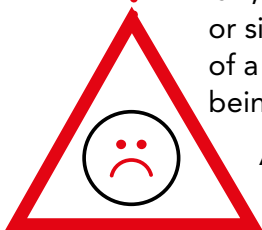
With reference to the training and considering that no high risks have been highlighted in the work places, the company is in compliance with the law and is not requested to perform any additional trainings or medical checks. Despite of that, Safety of our employees is a top priority, so we are constantly improving the conditions, knowledge and awareness of our employees.



D) Mistreatment and intimidation of workers

The company has never received complaints of mistreatment. As prescribed by the law, all employees have been informed about their rights in the case of mobbing or similar issues. Originally the company has been complained about the absence of a Union within the factory. So it appears at least strange to receive testimony of being dismissed cause of union membership.

All employees should and are free to speak with the person that has been defined as a reference contact in case of issues.



E) Irregularities in Freedom of Association and Collective Bargaining

The Company has never been contacted by Union Sloga, or Nezavisnot or CATUS. Therefore, we have never blocked or refused any proposal.

Moreover, on the 4th of November the board and president of the Union was elected by the 335 union members. On the 9th of December the Union was officially founded and the relevant documentation was presented to management.

Collective bargaining was never prohibited by the employer.



Finally, regarding the concrete steps requested to GEOX we can confirm that we respect the Freedom of Association. As already mentioned a Union is currently established. On the contrary we have not dismissed anyone for having engaged the strike, even because we had no strike at all.

Anyway, all former employees have the right to utilize all the available legal tools in front of the court."

In order to verify these statements, a new mission was organized on 1-3 February 2017. Interviews with workers and trade-union leaders showed that some improvements had been introduced: for example, the a much disliked aggressive Italian manager had been removed, two trade-unions were officially established in the factory,¹⁰³ overtime was regularized, and payslips were provided to the workers.¹⁰⁴

¹⁰³ In the press release n. 389 of January 23, 2017, CATUS claims that "The green light was given after CATUS alarmed CGIL and IndustriAll which did their part of job, lobbying the company's local management."

¹⁰⁴ Workers interviews collected by Deborah Lucchetti and Bettina Musiolek on February 2017

These improvements have demonstrated **the effectiveness of public pressure, international alliances, and transparency. However, some practices remain which are not in line with Serbian law and UN Guiding Principles. For instance, there still were cases of contractual irregularities found and there was no evidence that all time worked was covered by social insurance payments.** Furthermore, payslips were still unclear and health and safety measures still unsatisfactory. However, the biggest unsolved issue was still about salaries. As a first step, reimbursement was needed for wages paid below the threshold agreed with the Serbian government and for overtime underpaid or not paid at all. But generally speaking, even if increased by 20% as provided by the agreement, salaries remain under the line of dignity, if compared with official data that put the average household consumer basket at 65,000 RSD (526 euro) a month.¹⁰⁵ This threshold should be the base for a genuine process of collective bargaining with the unions now active in the factory.

All the above remarks have been transmitted to the company in a new letter sent on 13 February 2017. At the time of this report's publication, no official response has yet been received. Campagna Abiti Puliti and Change your Shoes remain committed to support workers in their journey for decent work.

¹⁰⁵ <http://mtt.gov.rs/download/potrosacka-korpa/KUPOVNA%20MO%20OKTOBAR%202016.pdf?lang=lat>

6. RECOMMENDATIONS AND PROPOSALS

The journey we have made along the supply chain of three major shoe brands investigated in this report gives us a snapshot of **how far the industry is from respecting the fundamental human and labour rights of the workers producing their shoes, wherever they are based.** Global production chains are designed to encourage a race to the bottom and often lead to widespread abuses of labour rights. This is especially true **where there is an absence of public oversight over the supply chains,** which remain opaque, thus enabling violations to occur out of sight of consumers. The active role of well-informed European citizens and consumers, alongside independent media and international solidarity networks is necessary to ensure companies uphold their responsibility to act in accordance with national law, international conventions and the UN Guiding Principles on Business and Human Rights.

COMMERCIAL PRACTICES AND ABUSE OF POWER

The commercial practices employed by the brands and the imposition of harsh contractual conditions hinder suppliers and subcontractors from paying workers a decent wage and guaranteeing working conditions that comply with local laws, national collective labour agreements (where such exist), and international conventions. Commercial policies based on squeezing supply prices paid to suppliers, lack of production planning and pressure on delivery times have the direct effect of promoting violations of fundamental rights, impoverishing workers and denying them a life of dignity.

We ask EU based brands and retailer companies to:

- 1 Conclude commercial contracts that make it possible for lead suppliers, subcontractors, service companies and cooperatives to comply with legal requirements** in relation to health and safety, living wages, freedom of association and contractual regularity, paying purchase prices and/or processing prices for the orders that are sufficient to cover wage levels in accordance with the national collective agreements and to the level established by the Asia Floor Wage Alliance (AWFA)¹⁰⁶ for Asian countries. As a first and immediate step, increase remuneration at least at the level of 60% of the average national wage in the countries of Eastern Europe¹⁰⁷.

¹⁰⁶ <http://asia.floorwage.org/resources/wage-reports/asia-floor-wage-figures>

¹⁰⁷ <http://www.abitipuliti.org/changeyourshoes/2016/11/28/2016-report-il-lavoro-sul-filo-di-una-stringa/>

- 2 In the manufacturing plants they own in low-wage countries, **pay living wages**, as established by the AFWA for Asian countries. With immediate effect and as first measure, pay wages at least at the level of the 60% of the average national wage in the case of the countries of Eastern Europe.
- 3 **Guarantee freedom of association and collective bargaining**, explicitly promoting access to free unions and the formation of union representation freely chosen by workers in all plants supplying goods and services, in Italy and abroad.

We ask the EU national governments to:

- 1 **Monitor the correct implementation of labour laws** and increase supervision by Labour Inspectorates, especially in the most at-risk segments of production chains where practices involving illegal work, gangmasters, irregularities relating to contracts and remuneration, and migrant employment are becoming more prevalent.
- 2 **Modify the policies and current laws regarding immigration** and work permits in order to eliminate mechanisms that tie undocumented migrants to illegal work and therefore reduce exploitation and inhumane condition.
- 3 **Extend the direct liability of legal persons** under Decree No 231/2001, in the case of Italy, amended in 2015 with the inclusion of environmental crimes, to include breaches of human and labour rights that occur throughout the production chain, in Italy and abroad; violations relating to failure to prevent and mitigate such breaches; and to provide for fair and timely redress in the case of abuses.
- 4 **Link incentives**, guarantees, financial and institutional support for offshoring by Italian companies abroad provided by the investment protection and credit agencies SACE and SIMEST **to compliance with human and labour rights**, payment of fair and decent wages, and compliance with freedom of association and collective bargaining throughout the production chain. The same applies for attracting investment in Italy.
- 5 **Make public information** about the activities of the abovementioned credit agencies in support of national companies abroad by means of **detailed annual reports** providing information about the use of public funds paid to each of those companies in foreign countries.

TRANSPARENCY OF THE CHAIN AND DUE DILIGENCE

If there is no **transparency in the supply chain**, it is not possible to ensure effective monitoring of compliance with human and labour rights in all phases of production. In the case of industrial accidents, for example, it is extremely difficult to identify the customer companies and therefore to ensure they are held liable in guaranteeing victims access to compensation. **The United Nations Guiding Principles** (UNGPs) ¹⁰⁸ require that all companies are responsible for undertaking due diligence procedures intended to identify, prevent, mitigate, and report the negative impacts on human and labour rights deriving from production activities. This means adopting active policies to guarantee fair and decent working conditions for all workers operating throughout the production chain. These Principles also require governments to make a commitment to ensuring that citizens are protected from abuses deriving from the economic activities of companies by adopting appropriate legislative policies and measures.

We ask brand and retailer companies to:

- 1 Publish annual reports on the impact of their activities**, reporting specifically on due diligence activities designed to identify, prevent and remedy the negative impacts of their production activities on human and labour rights throughout the supply chain, starting with tanneries.
- 2 Publish** an accessible, usable and complete list of **their own manufacturing plants, suppliers (or lead suppliers), sub-suppliers (or subcontractors), intermediaries** managing homeworkers, service companies and cooperatives, with names, addresses and contact details, and update these at least once a year.
- 3 Publish reports on company audits** and progress in cases of non-compliance with corporate, social and environmental requirements.

We ask the European Parliament and the national governments to:

- 1 Make it compulsory** for companies to publish an **annual report** on the policies and activities put in place to prevent negative impacts on human rights and the remedies applied in the case of breaches and abuses throughout the production chain, in Italy and abroad.
- 2 Make it compulsory** for companies to publish a complete **list of their manufacturing plants, suppliers (or lead suppliers), sub-suppliers (or subcontractors)**, intermediaries managing homeworkers, service companies and cooperatives (including logistics), and update these at least once a year.

108 http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

3 Introduce an **obligation for non-financial** reporting and reporting of due diligence processes for companies, starting with brands and retailers that control the supply chain and impose contractual practices that determine the wages and working conditions in all segments of the chain.

4 Make it compulsory for transnational companies to implement a due diligence plan to **identify, prevent, mitigate and account for adverse impacts** of their operations on labour and human rights in the entire supply chain¹⁰⁹

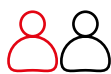
Transparency in concrete terms: the data that companies must report to enable monitoring of human and labour rights

The basic data that should be made public to prevent, mitigate and remedy the negative effects of production activities on human and labour rights throughout global production chains are:



The details of the factories and plants connected with the brands and the associated products, at all levels of the chain

A list of the brands that are supplied by each supplier/ subcontractor/lead supplier



The number of workers employed by suppliers and sub-suppliers, by gender, grading and age

The average number of hours and overtime hours worked



The contracts used

The existing union relationships and supplementary contracts



Any reports relating to inspections and audits, training for workers and registers of accidents

Turnover and numbers of items sold per period



Percentage of production by brand out of the total

Composition of the price



Chemical products used

Existing certifications



Contact details for the human resources manager and company manager in the event of a breach of human rights

The data should be published in formats that are accessible and open for all parties involved in monitoring the social and environmental quality of the products: workers, union officials, human rights activists, governments, journalists and citizens.

¹⁰⁹ See as a reference the law adopted in France on February 21st 2017 named "Loi relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre", http://www.assembleenationale.fr/14/dossiers/devoir_vigilance_entreprises_donneuses_ordre.asp

APPENDIX:

METHODOLOGICAL NOTE

The research on the three major global brands has been conducted from September 2015 to February 2017 using mixed method including the examination of documents, field visits and interviews.

The documents include studies and monographs related to global production processes and corporate policies, labour legislation in Italy and some Eastern European countries, statistics on trade flows, comparative analysis of wage levels in Europe, financial balances, press articles and case notes on specific events.

During the whole research more than 75 interviews were carried out in six regions of Italy (Veneto, Marche, Tuscany, Abruzzo, Puglia and Campania), plus Romania and Serbia. All these areas have been chosen because they have production relations or contracts with the brands under investigation.

With regard to Prada in Veneto, where the company runs a shoe manufacturing plant in Arino di Dolo, semi-structured interviews were carried out with women workers and key informants such as trade union officials, entrepreneurs and other professionals related to the footwear sector. Those interviewed were identified through formal and informal networks.

Despite the availability of many intermediaries, it was extremely difficult to find workers that agreed to be interviewed. It was equally challenging to reach company executives and individuals linked to the company by production relations, such as suppliers or subcontractors, willing to give their testimony. On several occasions, Prada executives, whom we contacted through different channels (the CGIL trade union, the Technological Shoe Institute, Regional business associations) denied us permission to visit the factory and refused to meet with the researchers, claiming it was not in the company's policy to provide for collaboration with students and researchers.

In total 10 people were interviewed, including five workers (man and women) and five privileged witnesses. In particular, respondents were four men and women workers employed in the company, one ex-employee, two union officials, one commercial employee of a company supplying services to the brand, the managing director of Technological Shoe Institute, an institution firmly rooted in the productive local context and one woman entrepreneur working as contractor for Prada in the clothing sector.

Most workers interviewed were only willing to do so under conditions of anonymity. This is why we refer to them simply by their generic job position. It was not possible to make a "snowball sampling" as many colleagues of those interviewed were not willing to be interviewed as well.

Even the workers contacted through social networks refused to talk. In most cases the guarantee of anonymity was not enough to reassure workers. Workers underlined the fact that upon signing the contract, they also had to sign an agreement prohibiting them to disclose any information about the company.

The companies that have a relationship with Prada seem to be subject to similar requirements, while the scarcity of relations that the social institutions have with the company doesn't allow them to have a real understanding of the dynamics internal to the big brand. In this sense the company paradoxically appears to be as an "invisible giant", whose weight, although evident for the local effects, appears difficult to be observed.

This situation, on one hand hampers the collection of information and on the other raises questions both about the climate existing in this particular company, and the kind of underlying effects that the economic crisis and subsequent restructuring process have had on the daily lives of workers.

In Tuscany, semi-structured interviews were carried out around Firenze and Arezzo. In this area, in fact, Prada began its business, and still has a very organized production network that include manufacturing plants of its own and a variety of subcontractors.

In total 10 people were interviewed: a worker employed in Prada's manufacturing plant, two workers employed in subcontractors' facilities, two people previously working as Prada's employees and five key informants, mainly trade union officials.

As in the case of Veneto, interviewed people were found through formal channels, but primarily through informal channels. There was a rather generalized unwillingness on the part of the various stakeholders, not just to talk about their working experience, but also to disclose any kind of information. The refusal by workers to give interviews or even only to have a chat even off the record, was sometimes motivated by the fact they had signed confidentiality clauses, but more often it seemed to be the result of fear. Such situation can partially be explained by the policy of confidentiality adopted by Prada, partially by the uncertainty created by the economic crisis. For these reasons the researchers respected the desire to ensure the total anonymity of the interlocutors who accepted to talk only if they were referred to by a generic job position.

The collaboration on the part of union representatives appeared, with some exceptions, pretty poor. Such attitude from their side can be explained by the fact that Prada is seen as a reality with important consequences not only from an economic point of view, but also for the prestige of the area and for the high level of attention the company is able to receive from the media. Above all in the Arezzo province the role of Prada is so crucial from an occupational point of view, to explain the "defensive" approach by the interlocutors.

Nevertheless, it should be recognized to the union representatives continued efforts in raising awareness on the issue of greater traceability of supply chains and intervention in the enforcement of law in subcontracting relationships.

In the Marche region the research on Prada took advantage of the collaboration with Montegranaro's local trade union officials of CGIL. Thanks to their intervention it was possible to get in contact with two workers directly employed by the company and three subcontractors, under the guarantee of anonymity. They also made possible a contact with trade-unions in Naples (Campania), to get information about a main Prada's supplier.

With regard to Tod's, field interviews were conducted with union officials, workers employed at its manufacturing plants, former contractors, and other professionals related to

the production reality of Tod's in the Marche and Apulia. Generally, the interviews, both with workers and with entrepreneurs of the sector, were conducted under guarantee of anonymity. All the subjects interviewed expressed fear of retaliation by the company in case their interviews were made public. In the case of the suppliers of the company, a specific clause in the supply contract with Tod's which expressly prohibits the disclosure of contractual clauses themselves was highlighted.

The detailed examination of the Salento supply chain of Tod's, and in particular the legal case involving the company, was possible thanks to the testimony of Eugenio Romano, lawyer attorney of Carla Ventura. Thanks to Romano it was possible to access the documents of the legal action, and, above all, the direct testimony of the entrepreneurs involved in the affair, who agreed to be interviewed under the guarantee of anonymity. In this way it was also possible to access the testimonies of former entrepreneurs acting as contractors for the company, who agreed to tell their experience as contractors of Tod's, always with the guarantee of anonymity. The research also made use of the testimony of trade union officials, especially the Secretary General of FILCTEM CGIL of Lecce and officials of the local office of Casarano. A total of 5 active entrepreneurs in the production chain of luxury shoes and former contractors of the company Tod's, a lawyer, two trade unionists, two employees of Euroshoes, the main contractor company of Tod's, were interviewed. The research also made use of the testimony of Valerio Elia, a professor at the University of Salento and industry expert.

The examination of the Marche supply chain of Tod's, has made use of the testimony and the collaboration of Giuseppe Santarelli, General Secretary of the Cgil of Marche, and other Cgil officials, who made possible the interviews with 4 workers of Tod's factories including a union representative. Through the intermediary of the trade union it has been possible to establish direct contact even with three former contractors of Tod's.

In relation to Geox in Veneto, in order to investigate in-depth, the research made use of qualitative research techniques such as conversational interviews and ethnographic observation. The trade unions have played a key role to access the field, thanks to the trust towards them held by the workers that have been interviewed. Interviews were 12 in total: 10 workers employed in different roles in the cooperatives, and two key informants, the trade unionists from ADL Cobas and Filt-Cgil.

Geox has also been investigated in Serbia, with regard to the existing working conditions in its factory in Vranje. Three field missions have been organised between August 2016 and February 2017 by a team composed of researchers from Campagna Abiti Puliti (Italian member of the Clean Clothes Campaign and coordinator of Change Your Shoes), ENS (CEE/SEE coordinator Clean Clothes Campaign) and Novi Sindikat (Trade Union and Clean Clothes Campaign coordinator in Croatia). It was extremely difficult to find employees willing to speak about the situation. Only through the help of Radoman Iric, a local journalist who was the first to raise the case by publishing the interview with Gordana Krstic, the former chief of production shift in GEOX, it was possible to meet a group of workers. The survey was done through interviews with six Geox workers (four of them dismissed), journalists, labour activists, and with trade union leaders of three federations: CATUS, Sloga and Nezavisnost. 10 randomised residents of Vranje were interviewed with questions

about working conditions and local beliefs about GEOX, but in general it was highly problematic to find anyone willing to talk, given the fact that Vranje is a very poor area with high level of unemployment.



CHANGE YOUR SHOES is a partnership of 15 European and 3 Asian organizations. We believe that workers in the shoe supply chain have a right to a living wage and to safe working conditions, and that consumers have a right to safe products and transparency in the production of their shoes.



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