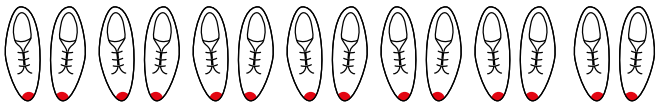
THE REAL COST OF OUR SHOES
FACTSHEET

A journey into the supply chain of three global shoe brands

Centro Nuovo Modello di Sviluppo
FAIR

CHANGE YOUR SHOES

'The Real Cost of Our Shoes' investigates the production and supply chain of **Tod's, Prada, and Geox**, three major global footwear brands. It reveals continuously changing global production routes; where the mobility of capital, combined with outsourcing strategies, has created the perfect environment for continuously adapting products to consumers' tastes and pockets, while driving working conditions and pay downwards. With 23 billion pairs produced in 2015,[1] footwear is a perfect illustration of this global dynamic - producing both cheap fast-fashion shoes and, at the same time luxury footwear. This is one method of ensuring brand access to diverse markets - from the poor in Europe to the increasing rich elites in emerging nations.



> 23 billion pairs produced in 2015

Recent research by Change Your Shoes, simultaneously conducted in Italy, China, Eastern Europe, India and Indonesia[2], has demonstrated shoe production as a labour intensive process subject to short deadlines and very low prices which corrode the living and working conditions of millions of workers, wherever they produce. This damaging trend has also occurred in Europe – enough to generate significant production relocation shifts back to Europe. The report "The real cost of our shoes" published by Centro Nuovo Modello di Sviluppo and Fair for the Change Your Shoes project highlights this emerging trend and the issues which lie behind it.

Reshoring is the name that indicates the transfer back of production activities previously relocated to Asia (and other 'low cost' countries) to their original countries. 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. A workforce with a strong manufacturing tradition which provides the element of quality that luxury goods companies use to add exclusivity to their products. The label *Made in Italy or Made in EU* has always suggested quality of workmanship and standards, however, if the shoes are merely designed in the EU and then produced in 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*?

"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."[3]

1 The World Footwear Yearbook 2016
2 The website of the Abiti Puliti Campaign provides all of the reports published in 2015 and 2016 - http://www.abitipuliti.org/cosa-facciamo/rapporti/.
3 Interview with an employee of a footwear luxury brand

LUXURY FOOTWEAR PRODUCTION CHAINS

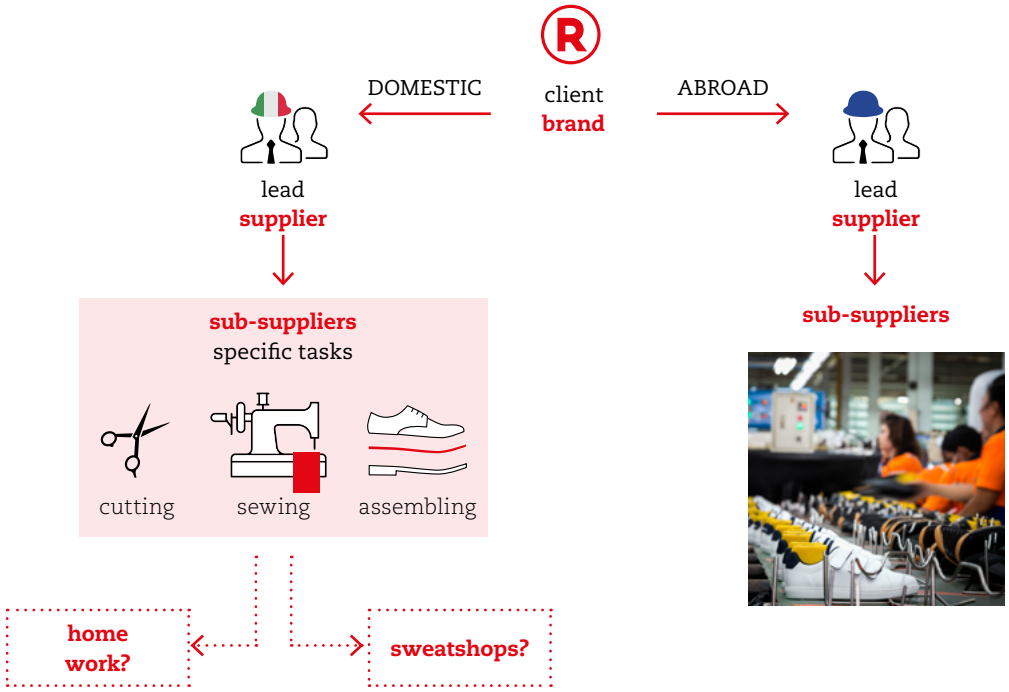
The production of a pair of shoes always begins with the design of the model, which is followed by the manufacture of the upper[4] and then the assembly of the whole shoe. In the case of the three brands being examined here, the design is always undertaken in-house, while production may be fully in-house, fully subcontracted or a mixture of both.

The **fully in-house production** chain is quite rare and it is sometimes applied for quality reasons, sometimes for cost reasons. An example of in-house production is shown by Tod's, which produces certain top-grade shoes in its own facilities. Another case is illustrated by Geox, which produces low and medium grade shoes in its wholly owned Serbian factory, even if this production line represents only 3% of its total world production.

The **fully external production chain** is a widely-used and it involves the use of external contracted shoe factories to provide full production of the shoes. 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'.[5]

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 the provinces of Marche, Abruzzo and Apulia. It also has lead suppliers in Romania for the production of shoes sold under the brand Hogan Rebel. Until 2015, Prada 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

THE FULLY EXTERNAL CHAIN

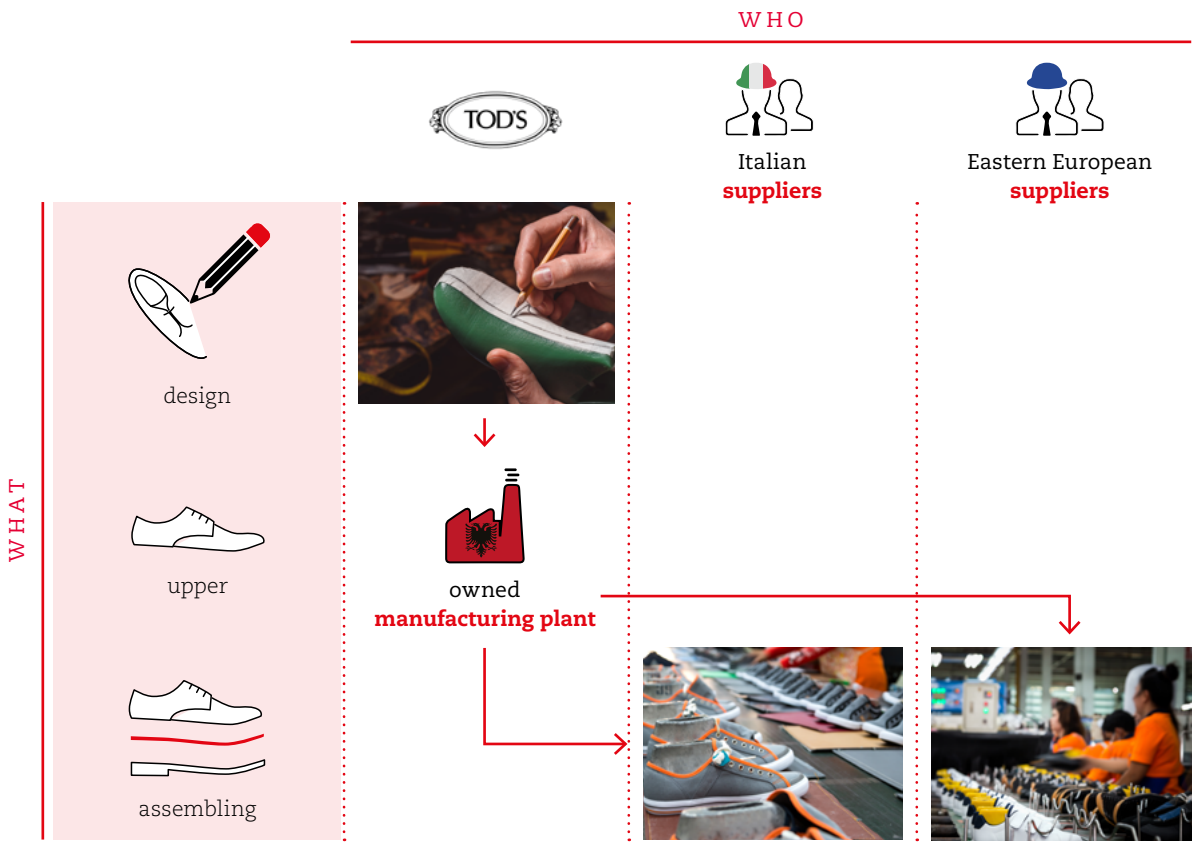


4 The upper is the top section of the shoe.
5 In Italy, under Law No 192 of 18 June 1998, suppliers intending to use sub-suppliers must be authorised to do so by the ordering clients

production back to Italy and Eastern Europe countries, principally Romania, Serbia, Bosnia-Herzegovina as well as Turkey.

The **mixed chain shoe production** method is also common. In this type of production chain, certain phases are performed in manufacturing plants owned by the brands, and others in external contracted shoe factories. Tod's, for example prefers to outsource the production of uppers for its high-end ranges, 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



PRICES AND INEQUALITIES

The luxury market typically shows an increasing imbalance between the price and the actual value of the goods. But this surplus is not distributed fairly among those involved in its production. It is rather absorbed to a large extent by only two parts of the chain: distribution and brand, which together take approximately 60% of the final price. This mechanism activates an upward spiral whereby whoever holds the wealth and power ends up getting more wealth and more power, by increasing marketing and access to new markets, generating more control over suppliers, who denounce low prices and minimal delivery times.

Brands also pay their suppliers differently according to geography. In the southern Salento region of Italy, for example, according to the lawyer Eugenio Romano Tod's offered prices "at least 25% lower than those applied for the same operations for shoe-makers in the Marche region."[6] Romano's conclusion is that "the basis for this disparity of treatment is the specific commercial choice made by Tod's, which has been justified by senior executives on various occasions, asserting that in this geographical area, producer companies enjoy the so-called 'Salento flexibility.'[7]

"…The amount 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."[8]

owner of Keope

In the name of low prices, in 2013, the Italian Federation of Contractors signed a detrimental agreement with the trade union federation CISAL which set the basic pay for an unskilled worker at 710 euros a month. This amount, once social security and tax payments (on average 20%) are deducted, is reduced to a net amount of below 600 euros per month. This is a sum that the Italian Statistics Institute (ISTAT) considers to be below the absolute poverty threshold for all parts of Italy (including the Salento region) and for any family size.[9]

Tuscan trade unions

"Several contractors who have worked as suppliers for Tod's have become bankrupt. Moreover, trade unions report that "many luxury goods brands tend to exploit the economic crisis by forcing small, qualified companies to work as subcontractors at the lowest possible prices, subsequently compromising their existence."

This comment was written in June 2014 by Filctem Cgil and Uiltec Uil, trade unions from Pistoia province, about the closure of Calzaturificio Parlanti, a Prada subcontractor.[10]

IRREGULAR LABOUR AND UNLAWFUL WORKSHOPS

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

6 Writ of summons filed by the lawyer Eugenio Romano on 31/05/2013
7 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".
8 Marilù Mastrogiovanni, 'Keope: ecco il sistema Tod's in Salento. Nero su bianco. Tra lacrime e sangue', in Il tacco d'Italia, on line daily newspaper, 12 novembre 2013.
9 http://www. istat.it/it/prodotti/contenuti-interattivi/calcolatori/soglia-di-poverta.
10 Il Tirreno, 7 June 2014, 'Chiude il Calzaturificio Parlanti, 38 licenziamenti'.

of subcontractors to delegate some of their work to lower-level companies. The reasons contributing to this phenomenon include very short delivery deadlines and very low prices. 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. 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, Chinese workshops, 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.[11]

owner of a Marche-based company

"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 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."[12]

According to accounts recorded during this investigation, unlawful workshops are not just organised and staffed by Chinese. In Marche, the authorities uncovered sweatshops irregularly employing some 23 foreign workers, also including some Pakistani workers producing soles. Until 2010, migrants were irregularly employed by a porterage cooperative in Geox warehouses, subcontracting for a goods-handling services. Fortunately, under the guidance of ADL trade union (Associazione Diritti dei Lavoratori), cooperative workers could organize and the situation has improved.

However, in summer 2016, other workers, employed by Geox in its wholly owned Serbian factory, reported about poor health and safety conditions, verbal harassment, denial of labour contracts and other forms of labour violations.[13] In January 2016, Geox had opened a plant in Vranje, taking advantage from a no returnable fund of more than 11 million euros provided by Serbian Government. In exchange for the grant, Geox committed to hire 1.250 employees, paying them 20% more than the minimum salary. However, in December 2016 workers were still complaining that Geox was not respecting this latter commitment. Thanks to the outspokenness of some workers and Serbian media and to lobbying carried out by Change Your Shoes, some Clean Clothes Campaign groups and trade unions, some aspects have changed. However the list of corrective measures to be adopted is still long.

Public knowledge is the first step in any change process, but, during the research leading up to the publication of "The real cost of our shoes", we continuously uncovered a fear of speaking out. Finding workers or suppliers willing to be interviewed was particularly difficult, and anonymity was always requested. Confidentiality requirements inserted in contracts were the official reason given for anonymity, but underlying reasons included a fear of losing either their job or their contracts with the big brands.

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 away the industry is from respecting the fundamental human and labour rights of the workers producing its shoes, wherever they are based. Global production chains are designed to encourage a race to the bottom and

11 Fondazione Censis. 'Analisi sul fenomeno del lavoro irregolare e sommerso nell'ambito territoriale della regione Marche', 2006
12 Fondazione Censis, as above.
13 Radoman Iric, 'Cipele u pelenama', Vranjske Novine 14 July 2016

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 that companies uphold their responsibility to act in accordance with national law, international conventions and the UN Guiding Principles on Business and Human Rights.

In particular, we ask brands, including Tod's, Geox and Prada as well as retail companies to:

1. **Guarantee the respect of legal requirements** in relation to health and safety, freedom of association throughout the whole supply chain.

2. **Guarantee living wages** throughout the whole supply chain.

Requests for a living wage:

1. Make wages comply with the national collective agreement, where present
2. As the first and immediate step to reduce poverty pay, increase wages to at least 60% of the average national wage in the countries of Eastern Europe[14]
3. In Asia, increase wages to the level established by the Asia Floor Wage Alliance (AWFA)[15]

3. **Guarantee and promote freedom of association and collective bargaining** throughout the whole supply chain.

4. **Guarantee full transparency concerning their supply chains and the policies adopted** to secure the respect of labour rights throughout the whole supply chain.

5. **Report annually on the impact of their activities throughout the supply chain on human rights,** including explicit reporting on due diligence processes, policies, and on the effectiveness of their responses to address the adverse impacts of their activities, using measurable indicators.

Transparency in concrete terms: data that companies must report to enable monitoring of human rights. Information should include more specifically:

1. Supply chain traceability: production place / facilities addresses, intermediaries, importer, brand.
2. Employment statistics at the facility: number of workers at the facility and percentage men/women; average wage of each grade, average monthly overtime, benefits given, registered union and/or Collective Bargaining Agreements presence, employment relationship information by percentage, any reports relating to inspections and audits, training for workers and registers of accidents.
3. Economic information of the facility: turnover, number of pieces sold, % of factory product sourced per brand, price breakdown structure.
4. Product information: chemical products used, certifications obtained and certification bodies.

The data should be published in formats that are accessible and available for all parties.

14 http://www.abitipuliti.org/changeyourshoes/2016/11/28/2016-report-il-lavoro-sul-filo-di-una-stringa
15 http://asia.floorwage.org/resources/wage-reports/asia-floor-wage-figures

We ask the Italian Government, the EU, and other national governments to:

1. Strengthen the monitoring and effective implementation of labour laws, especially in the most at-risk segments of production chains.
2. Modify policies and laws regarding immigration and work permits in order to eliminate mechanisms that push undocumented migrants into illegal work and therefore towards exploitation and inhumane working conditions.
3. Link any incentives to support offshoring initiatives by foreign companies and attract foreign investments to the full respect of human and labour rights.
4. Make it compulsory for companies to publish a complete list of their manufacturing plants and suppliers and to update it at least once a year.
5. 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 human and labour rights in the entire supply chain, as recently done in France.[16]

16 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

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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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Bound in Genova Pontedecimo Prison