

Oksana Dutchak, Artem Chapeye and Bettina Musiolek

The lack of a living wage and other rights violations in the garment and shoe industry in Ukraine¹

Abstract

This strongly-worded report, based on original research into the experiences of workers in four workplaces in the garment production industry in Ukraine, explores the problems which are caused to workers in the industry by the low wages and poor terms and conditions of employment which characterise the industry, despite the workforce being high-skilled and the existence of a developed infrastructure. The relevant factors here are numerous and include the recent relocation of the industry within global supply chains; state subsidy of in-work poverty, via state support for high utilities costs; a lack of effective collective organisation; poor and non-existent monitoring of the labour law; a government desperate for foreign direct investment; and oligarchic structures based on corruption. The report concludes with posing the questions that need to be asked on how the industry has got into this situation, as well as identifying the basic remedial actions that need to be taken both by the international brands which have come to dominate the industry in Ukraine and by the Ukraine government itself. It is, however, a long way back from here.

Keywords: garment production, minimum wage, living wage, rights violations, austerity measures, labour law

The Ukrainian garment and shoe industry

Following a process of deindustrialisation that took place in the 1990s, when a large part of the market for Ukrainian clothing and shoes collapsed, the garment industry experienced growth again under the EU's Outward Processing Trade (OPT) system. This lasted until 2007, when the growth of OPT production came to a stand-

1 This profile of the Ukraine garment industry has been produced with the support of the Rosa-Luxemburg-Foundation. The Clean Clothes Campaign seeks to improve working conditions in the global garment industry and further specific information on the issues covered by this report can be found at: www.cleanclothes.org/livingwage/europe. Data gathering for this report took place in February/March 2017, with 33 workers from four factories being interviewed away from their respective workplaces.

still due to the worldwide production and financial crises of 2008/2009. In the first half of 2009 alone, the garment sector shrunk by 38 per cent.²

In 2014/15, a second shock took place as a result of Ukraine's economic crisis resulting from the country's military conflict, leading to a similar contraction. However, the garment and shoe industry saw employment remain more stable compared to other industrial sectors: employment in 'light' industry (which is mainly garments) fell by about 25 per cent between 2010 and 2015 while, in the same period, employment in extractive industries decreased by 40 per cent.³ Over time, a process of continuous de-industrialisation has been observed, not least due to the eastern part of Ukraine, where the military conflict has been heavily concentrated, being the most industrialised region as well as one engaged in high levels of trade with Russia.

Basic characteristics of the Ukrainian garment industry

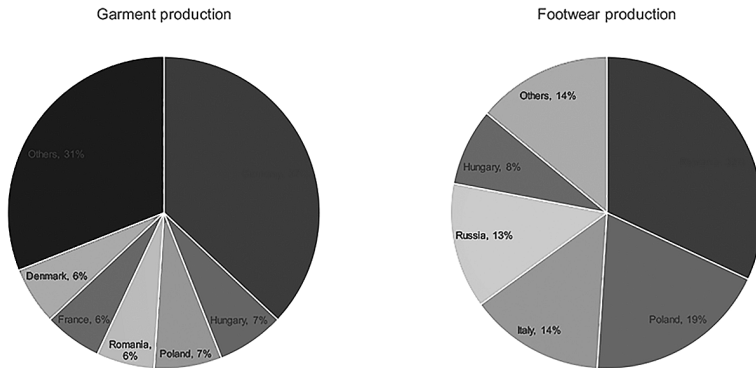
In 2015, about 72 000 employees were registered officially in the garments, textiles, leather and shoe industries of Ukraine, although the prevalence of unregistered labour is likely to take total employment in the sector up to three times higher.

Geographically, the core elements of the garment industry are situated in western Ukraine, close to the main export markets – chiefly Germany, for garments (37% of total exports, in value terms); and Romania, for shoes (32%) (see Chart 1). In contrast, shoes are mainly made in the north and in the south of the country.⁴ Exports account for some 80-90 per cent of the industry's production, although only around 2 per cent of Ukraine's total exports.

Generally speaking, the volumes destined for Hungary, Poland and Romania suggest that Ukrainian factories act as subcontractors for suppliers from these countries and are thus heavily located within global supply chains; something which has also been established by empirical research.

- 2 *Export Marketing Survey – Ukrainian Apparel Market*, EU Tacis Programme for Moldova, 2010, available at: http://www.ukrexport.gov.ua/i/imgsupload/file/Ukrainian_Apparel_Market_Survey_en%282%29.pdf.
- 3 *Industry of Ukraine 2011-2015*, p. 55, available at: http://www.ukrstat.gov.ua/druk/publicat/kat_u/2016/zb/12/zb_pu2015pdf.zip.
- 4 *ibid.* p. 232.

Chart 1 – Main export destinations (in value terms), 2016



Source: <https://comtrade.un.org>

The garment production industry in Ukraine has a number of both positive and negative features which have to characterise it. These would include:

- a skilled, but older, workforce, many of whom received professional qualifications during the Soviet era
- a developed infrastructure with many buildings originating from the 1980s (and earlier) and new machinery often rented from buyers
- extremely low wages and the absence of active worker representation
- the effects of war, military conflict and high inflation that began in 2014
- the measures implemented by the government to promote a ‘good investment climate’
- the established presence of oligarchic structures, including bribery and corruption, which enable violations of laws and regulations to take place with impunity

Wages and employment in the garment/shoe industry

Where following the law is the exception rather than the rule

Experts and researchers estimate that two-thirds of employment relationships in the garment and shoe industry are informal. According to information from the field, including research and reports from labour inspections, the products of informal and precarious labour relations include wage arrears; the non-payment of mandatory social contributions; an absence of labour contracts; illegally excessive levels of overtime, and which is not being paid according to the law; the payment of wages below the legal minimum (when overtime is taken into account); the non-payment of severance packages; illegal working conditions as regards under-age workers; and the non-observance of occupational health and safety rules.

According to secondary sources, in 2011 the average wage for a woman working in light industry was equal to 84.6 per cent of that of her male counterparts. Due to the prevalence of informal work, the gender pay gap will, in reality, be considerably

higher because women are usually allocated jobs paid on a piece rate (e.g. seamstresses), while men are usually paid by the hour and given fixed terms of employment, which means they are less exposed to informalisation.

Trade unions have criticised that the 'living minimum' has not been increased in line with the legal minimum wage. The 'living minimum' is based on basic expenditure for one person for food, clothes and shoes, sanitary products, medicines, household items, furniture, utilities, personal services, public transportation, cultural life (books and visits to cultural places); it does not include expenditure on housing/rent, education or the internet/a computer – inevitable basic needs that should be met through a living wage. The items included in the 'living minimum' are 'adjusted' in a way to allow it to decrease in real terms. It is designed to serve as a benchmark for pension and welfare payments so that these payments are not increased when the 'living minimum' stays the same. By not adjusting the 'living minimum' to meet the real costs of a realistic minimum socio-economic standard, the government is able to avoid increasing basic pension and welfare payments.

In comparison, as of the beginning of 2017, the minimum pension received by the vast majority of women stands at 1 247 Ukraine hryvnia (UAH) (or €43) – an amount wholly insufficient to cover basic needs.

The 'living minimum' is also used as a benchmark to calculate absolute poverty, and so the official poverty level is unrealistically low (12-15 per cent). In 2015, 43 per cent of Ukrainians stated that their income was just enough to buy food.⁵ The same government statistical source says that 5 per cent of Ukrainians feel that they do not have enough even to feed themselves. The self-evaluation survey, which was conducted by the Kyiv International Institute for Sociology in December 2016, concluded that 18.5 per cent of Ukrainians do not have enough resources even to buy food.⁶ In fact, utility costs alone (water, electricity, heating, waste collection) can be higher than the 'living minimum'. State subsidies for utility costs do exist, but they are certainly not high enough for some members of the population, e.g. pensioners.

Internally displaced people (from war zones within Ukraine) – the majority of them women – must often contend with even harsher financial circumstances than the average Ukrainian, leading them to search desperately for work. Some of them find jobs in the garment and shoe industry. We did not find empirical evidence to suggest that they are discriminated against in the workplace. However, this group is a targeted section of the labour force and is structurally exposed to the risk of over-exploitation.

The legal minimum wage: extremely low and yet still unpaid

Just as in many of the world's garment-producing nations, in Ukraine the legal minimum wage is usually the amount earned by garment workers during regular

5 *Self-evaluation of income level by households in 2015*, available at: http://www.ukrstat.gov.ua/druk/publicat/kat_u/2016/dop/07/dop_sdrsd2015pdf.zip (in Ukrainian).

6 *Almost 20% of Ukrainians don't have enough money even to buy food*, survey report available at: <https://www.unian.ua/society/1702561-mayje-20-ukrajintiv-ne-vistachae-groshey-navit-n-a-jiju-opituvannya.html> (in Ukrainian).

working hours – frequently, they earn even less. The statutory minimum wage is, therefore, a very important benchmark to examine.

Between 2010 and 2017, the minimum net wage expressed in Euro (to make up for currency depreciation) rose by only 124 per cent instead of 209 per cent, which would be the minimum increase needed to compensate just for inflation, let alone living costs. For instance, during the same time period, utility costs increased by 226 per cent.⁷

By law, the legal minimum wage must be adjusted annually and based on tripartite negotiations. However, in reality, the latest increase was imposed by the Cabinet of Ministers.

The legal minimum net wage stood at €89 in 2017, while the average net wage earned by the garment workers we interviewed was €96, including overtime and bonuses. However, the minimum wage must be earned during regular working hours (regardless of the number of pieces produced) and must be a worker's basic wage. This means that the net wage for at least one-third of our employees, who are working overtime and receiving bonuses in addition to the wage for their regular 40-hour week, must be below the legal minimum.

Researchers also gathered reports from workers who were paid the minimum wage only on paper and not in reality. The minimum wage was stated on payslips, but the actual amount received was, in fact, lower. One factory owner is said to have links to the local authorities and, according to workers, owns a substantial amount of property in the town. Here, as our field research was being conducted, our researcher was threatened by management, who then also called the police. The researcher decided to leave the city immediately, as well as suspend all research on this case in order to protect both interviewees and interviewer. During a later call with one of the interviewed workers, it turned out that one of the interviewees had informed management of the research. Management urged all interviewees to write an explanatory file note and they were strictly forbidden from talking about factory issues. Additionally, management called a factory assembly where they again demanded workers' silence on factory matters and showed a photo of the researcher in question.

7 From 404 UAH (€35) to 2 277 UAH (€79) available at, respectively: <https://www.numbeo.com/cost-of-living/historical-prices-by-country?displayCurrency=UAH&year=2010&itemId=30> and: https://www.numbeo.com/cost-of-living/country_result.jsp?country=Ukraine [last accessed 18 September 2017].

Chart 2 – Wage ladder in Ukraine



Footnotes for chart:

Legal minimum net wage, 2017: 2 576 UAH – Oanda 1/1/2017

Average net wage of interviewed workers incl. overtime and bonus: 2 778 UAH – Oanda 1/3/2017.

Lowest average net wage: light industry (mainly garments and shoes): 3 713 UAH = 4 613 – 19.5% tax – Oanda 1/12/2016. *Socio-economic development of Ukraine during 2016*, p. 22

(http://www.ukrstat.gov.ua/operativ/operativ2016/so_ek_r_u/soekru_u/soekru2016_u.zip)

Official subsistence ('living') minimum 1/12/2016-31/4/2017 (per month): 4 800 UAH = 1 600 x 3 consumption unit; subsistence minimum for able-bodied adult – Oanda 1/3/2017

Average net wage in economy, December 2016: 5 212 UAH = 6 475 – 19.5% tax – Oanda 1/12/2016. *Socio-economic development of Ukraine during 2016*, p. 21

(http://www.ukrstat.gov.ua/operativ/operativ2016/so_ek_r_u/soekru_u/soekru2016_u.zip)

Average net wage in process manufacturing sector, December 2016: 5 265 UAH = 6 540 – 19.5% tax – Oanda 1/12/2016. *Socio-economic development of Ukraine during 2016*, p. 22

(http://www.ukrstat.gov.ua/operativ/operativ2016/so_ek_r_u/soekru_u/soekru2016_u.zip)

Highest average net wage: production of main pharmaceutical products, December 2016: 10 356 UAH = 12 865 – 19.5% tax – Oanda 1/12/2016. *Socio-economic development of Ukraine during 2016*, p. 22 (http://www.ukrstat.gov.ua/operativ/operativ2016/so_ek_r_u/soekru_u/soekru2016_u.zip)

Minimum living wage as estimated by interviewed workers per month, 3 consumption units, net wage: 13 803 UAH – Oanda 1/3/2017. An average from all off-site workers' interviews was calculated based on their responses and is the figure displayed here. It must be noted that, in 2013, workers estimated 6 500 UAH (€574) as the minimum living wage. The reason for this drastic drop in workers' estimates is not reduced costs of living – the contrary would be the case, particularly for utilities, but also all other costs of living. The reason is that workers simply cannot imagine having enough money to make ends meet and, therefore, grossly under-estimate the costs of a decent living standard.

Case study: A Triumph supplier

The company employs approximately 200 workers. It has worked for Triumph for several years. Additionally, they receive small subcontracted orders from Poland and Hungary. Workers state that they have to work, on average, one hour of overtime on 2-3 days a week (i.e. 2.5 hours a week). If workers manage to produce more than their quota, they are paid 150 per cent of the normal rate for this overtime. If the production quota is not reached within regular working hours, workers report they are expected to stay longer until the target is met – without additional payment. According to the law, overtime should be on an hourly basis and not counted on a piece rate basis. It must also be approved by the trade union, or a representative of workers, and be paid 200 per cent of the normal hourly rate. Reports from workers do not suggest that any of these requirements were being met.

The workers we interviewed earned between 2 576 UAH (€89) and 5 400 UAH (€187) – and, on average, 3 107 UAH (€107) – all including overtime. If 2.5 hours of overtime are worked in a week (i.e. 10 hours per month), and were paid at a double-time premium, workers should not be earning below 2 870 UAH net in order to be earning at least the legal minimum. Among the interviewed seamstresses working on piece-rate wages, 55 per cent were regularly working overtime but did not earn more than 2 870 UAH net.⁸ It can be thus concluded that 55 per cent of seamstresses do not earn the legal minimum wage within regular working hours.

There is a trade union in the factory of which workers become members automatically when they start working. But workers state that the union does not attempt to make any improvements. Workers state that they work ‘in good conditions’ as their wages are paid regularly; while the toilets are new and clean.

How the government creates poverty, social inequality and degradation

Under pressure from the international financial institutions as well as from Ukrainian oligarchs, and with EU accession in its sights, the government has introduced the following ‘austerity’ measures:

- freezing the legal minimum wage (as of 2014) and not adjusting it to the actual costs of living
- reducing social payments and pensions by decoupling minimum social welfare transfers from real household expenditures and costs of living
- attempts to weaken workers’ legal protections guaranteed by the country’s employment law and restricting union access to workplaces. For example, while the existing Labour Code strictly limits the use of fixed-term contracts, the new draft law contains no such limitations.⁹ The new law stipulates that disclosure of ‘commercial secrets’ is grounds for dismissal, a clause which is not present in the existing law. According to the current Code, trade unions have to agree to

8 2 576 UAH (minimum net wage)/176 monthly regular working hours * (176 + 10*2 because of the 200 per cent premium pay rate for overtime).

9 Preliminarily approved (at ‘first reading’) by the Verkhovna Rada in November 2015 although this did not progress to second reading during the period of research for this article and its status thus remains as a draft.

overtime and, in addition, overtime is limited to four hours over two consecutive days. These limits are to be dropped: no union approval will be needed; and, although overtime should not be higher than 120 hours per annum with an overtime premium of 100%, the draft law also states that a 200% premium must be applied to overtime which exceeds 120 hours per annum. Consequently, overtime above 120 hours annually is no longer illegal. The new draft Code will also make it possible to monitor workers in a factory using cameras and other technologies. And, while in the old law a trade union had to give its consent to the dismissal of a union member, such consent is now no longer required

- drastically increasing utilities charges
- between 2014 and 2016, a moratorium was declared on any inspection of small businesses (i.e. those with a revenue below 20 million UAH), including regular labour inspections. In 2015, just 377 checks were carried out, finding 7 537 violations, whereas in 2013 some 10 191 checks had been carried out establishing 117 443 violations.¹⁰ The Federation of Trade Unions of Ukraine has claimed that, because of the moratorium, wage arrears grew from 1.3 million UAH in 2015 to 1.9 million UAH in September 2016¹¹
- drastically decreasing employers' and employees' mandatory social insurance contributions, which dropped from 40.4 per cent up until 2015 to 22 per cent since 2016
- cutting the number of public sector employees
- cancelling social transfers: for example for childbirth, childcare and schools. Hospitals have been closed while higher education and health care have been steadily becoming unaffordable for workers. For Ukrainians, access to higher education is increasingly limited because the number of state scholarships is decreasing and the amount offered is as low as the living minimum – even for top-performing university students (it is even lower for other students). Culture and social activities remain fully out of reach for at least one-half of Ukrainians.

Thus, the state and its welfare system have been stripped back, but this impoverished state still has to pay subsidies for the working poor, including for utilities and transportation. Low wages mean that workers' pensions will be very low, which forces them to continue to perform manual labour – for instance, in garment factories – even if they are beyond state pension age (and recalling that the minimum pension most women receive amounts to 1 247 UAH (€43).

10 The moratorium on checks by departments of the State Service on Labour Issues has been prolonged until 31 December 2017 (<http://fpkmo.org.ua/moratorij-na-zdijsnennya-perevirok-organami-derzhpraci-prodovzhenno-do-31-grudnya-2017-roku/>).

11 *ibid.*

Time to ask questions

Do the media and the public care about the hardships faced by workers and seamstresses?

The garment sector and, in particular, the terrible working conditions that it features are almost never mentioned in published research and the media. However, it is widely known that the sector is notorious for low wages.

How do Ukrainian garment and shoe workers make ends meet?

They have to cut down on all expenditure. Consuming poor quality food and an impact on their health are the consequences. Many employees and their families have to work in their fields to eke out their salary. Many workers receive state subsidies for water and electricity costs, as well as retirement and disability pensions. Another strategy to cope with poverty wages is to work additional jobs, such as in cleaning. Fortunately, many people own their own homes thanks to the legacy of the Soviet era – but, since they do not have the resources to maintain them, these are just being used up.

What is happening about violations of labour rights?

Violations of labour rights are substantial, as we have found in this research and explained in this report, and they include breaches of the existing labour laws. In summary, these are the main issues that workers experience:

- unrealistically high quotas, which can only be achieved through overtime
- forced overtime: workers have to work overtime in order to be paid the legal minimum wage
- problems in refusing overtime
- extreme temperatures in summer and winter
- non-payment of the legal minimum wage within regular working hours. One-third of the workers we interviewed earned the legal minimum wage only by working overtime, i.e. they do not receive the legal minimum wage for regular working hours
- non-payment and unlawful payment of overtime
- excessive overtime in violation of the law
- forced leave when there are no orders as well as extreme levels of overtime during the high season
- not receiving the statutory number of days of annual leave
- repressive management and union busting.

At the Clean Clothes Campaign, we have the following recommendations to make as regards the brands:

- pay a living wage. Start with the estimated minimum living wage of 13 803 UAH (€477) as a monthly basic net wage
- act on rights violations.

And we have the following policy recommendations to address to the government of Ukraine:

- increase the legal minimum wage to a level in line with the ILO's 'ultimate goal to ensure to workers a minimum wage that will provide a satisfactory standard of living to them and their families'
- increase pensions to a level that offers people an adequate standard of living.
- monitor the implementation of the law.