

Focus: Terms and conditions of employment in the garment and shoe industry in Serbia¹

Abstract

This powerful article, written as a country report for the Clean Clothes Campaign's Global East (post-socialist Europe and Turkey) office and re-produced here by kind permission, examines the terms and working conditions experienced by workers in key segments in Serbia's textiles industry, largely producing clothes for multinational brands. The article is drawn from a series of interviews with workers on the ground, conducted in summer 2017, and builds on recent media coverage of poor working conditions within the industry, as well as focusing on low wages and failures to fulfil minimum wage obligations. The authors commence with a brief discussion of the many issues faced by the domestic industry in Serbia, as well as how it has come to be dominated by multinationals, before detailing the analysis drawn from the field research. The article concludes with a small number of recommendations both to the multinationals investing in Serbia and social responsible for workers' terms and conditions, as well as for the government charged with developing social and employment affairs policies which deliver good work and quality jobs.

Keywords: textiles, multinationals, terms and conditions of employment, minimum wages, good work

Dramatic de-industrialisation

During the 1990s and 2000s, Serbia was hit hard by a dramatic de-industrialisation of its whole economy. The collapse of Yugoslavia, privatisation, wars and a subsequent EU embargo had a devastating impact on the economy and the population; the economy has yet to recover the size and productivity levels it reached during the 1980s. A typical example is the textile, garment and footwear industry. While roughly 100 000 women and men currently work in the sector (this includes both formal and informal labourers), in the eighties the industry formally employed about 250 000 workers.

In addition to the huge loss of jobs, de-industrialisation had another devastating impact on the garment and textile industry in Serbia: 90 per cent of production inputs for the garment industry are now imported whereas in the 1980s they were produced in Yugoslavia's own textile sector. The country's textile industry is now almost non-

¹ This country profile 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.

existent and the garment/shoe industry, since Serbia signed a trade agreement with the EU,² mainly works with the OPT system, a customs-free trading system based on re-imports with EU member countries, such as Italy and Germany, to Serbia and back. OPT (Outward Processing Trade), also called *lohn* production, is the EU's method of introducing customs-free outsourcing for labour-intensive fashion manufacturing while saving its own textile industries. Due to its high dependency on *lohn* orders, as well as high vulnerability and low profitability, it ultimately leads to a dead end for the national sector, for enterprises and – most importantly – for workers who have to pay the price. What remains of the once-flourishing textile/garment/shoe sector in Yugoslavia is now a downgraded, outsourced, highly-dependent garment/shoe assembly line. As a result, Serbia has regressed from an established economy and society to a 'developing', dependent economy with the majority of the population struggling to make ends meet.

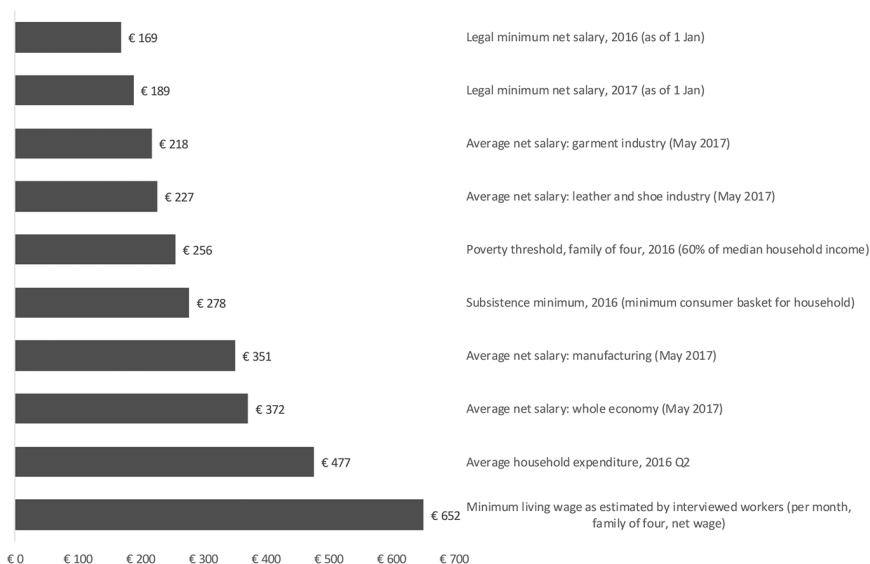
Despite undergoing massive de-industrialisation, the garment/footwear industry is still one of the leading export sectors. This is because the country has hardly any other export sector of significant value.

The minimum wage in Serbia is set at a very low level, which offers the industry an indirect subsidy. The law provides for an annual adjustment according to the 'survival and social needs of the employee and his family' and in line with inflation. Despite this legal obligation, the presence of high inflation and increases in the costs of living, particularly in utilities, have not been compensated by sufficient increases in legal minimum salaries. This was the case in 2011 and 2012, when rates of inflation stood at 15 per cent and 10 per cent respectively; while minimum wages were, in fact, frozen between 2012 and 2014. This freeze in the minimum wage followed restrictive wage policies imposed by the European Commission (EC) and international financial institutions such as the International Monetary Fund (IMF).³

- 2 The agreement between the European Community and the Republic of Serbia on trade in textiles products was ratified in 2005 (*Official Gazette of EU*, 2005).
- 3 Christa Luginbühl and Bettina Musiolek (2016): *Labour on a shoestring. The realities of working in Europe's shoe manufacturing peripheries in Albania, Bosnia-Herzegovina, Macedonia, Poland, Romania and Slovakia* Dresden/Zurich, p. 12 (<https://cleanclothes.org/resources/recommended-reading/labour-on-a-shoestring>). However, Serbian unions are also very moderate in their minimum wage demands: 'The unions are asking that the minimum hourly wage [i.e. for 2018] be increased from 130 dinars (€1.07) to 154 (€1.30), whereas the Association of Employers is offering a raise of about 8 per cent – to roughly 140 dinars (€1.20) – which the government agrees with. Today, more than 350 000 labourers are working for a minimum monthly salary of 22 800 dinars, i.e. less than €200. <https://www.euractiv.com/section/enlargement/news/serbian-labour-debate-focuses-on-minimum-wage/>.

The accompanying chart compares wages in the textile industries with various measurements of living costs:

Chart 1 – Wage ladder in Serbia



Footnotes for chart:

Legal minimum net salary, 2016: RSD 21 296 – Oanda, as of 1 July 2016. The legal minimum wage varies according to the number of hours worked in a month. The data given here refer to a month with 176 hours worked, which represents the average earned wage.

Legal minimum net salary, 2017: RSD 22 880 – Oanda, as of 1 July 2017. Given data are for a month with 176 hours worked.

Average net salary: garment industry: RSD 27 624 – Oanda, as of 1 May 2017. Source: Chamber of Commerce and Industry of Serbia (provided following a request).

Average net salary: leather and shoe industry: RSD 28 740 – Oanda, as of 1 May 2017. Source: Chamber of Commerce and Industry of Serbia (provided following a request).

Poverty threshold, family of four, 2016: RSD 32 373.63 – Oanda, as of 1 July 2016. Statistical Office of the Republic of Serbia *Saopštenje broj 087* dated 3 April 2017, available at: http://webzrs.stat.gov.rs/WebSite/repository/documents/00/02/45/24/PD10_087_srb_2016.pdf, p. 2.

Subsistence minimum, 2016: RSD 35 093.95 – Oanda, as of 1 July 2016. Ministry of Trade, Tourism and Telecommunications, available at: <http://mtt.gov.rs/download/KUPOVNA%20MO%20MAJ%202017.pdf>, p. 5.

Average net salary, manufacturing (May 2017): RSD 44 493 – Oanda, as of 1 May 2017. Statistical Office of the Republic of Serbia, *Monthly Statistical Bulletin 2017*, available at: <http://www.stat.gov.rs/WebSite/repository/documents/00/02/56/07/MSB-05-2017.pdf>, p. 30.

Average net salary, whole economy (May 2017): RSD 47 136 – Oanda, as of 1 May 2017. Statistical Office of the Republic of Serbia, *Monthly Statistical Bulletin 2017*, available at: <http://www.stat.gov.rs/WebSite/repository/documents/00/02/56/07/MSB-05-2017.pdf>, p. 25.

Average household expenditure (2016, Q2): RSD 60 158 – Oanda, as of 1 September 2016, <http://pod2.stat.gov.rs/ObjavljenjePublikacije/G2016/pdfE/G20161250.pdf> [last accessed: 24 August 2017].

Minimum living wage, as estimated by workers: RSD 77 828 – Oanda, 1 September 2017. The estimation is calculated on the basis of workers' estimates. It must be noted that when asked to estimate how much money would be needed to lead a decent life, workers tend to state a lower than expected amount. For instance, in interviews workers said that decent food for their families would cost, on average, RSD 18 628. The actual average cost of food for one person needing 2 400 calories/day is RSD 13 092 (https://www.numbeo.com/food-prices/country_result.jsp?country=Serbia [last accessed 31 August 2017]). For three consumption units, approx. RSD 40 000 – more than twice the amount estimated by workers – would be required. For other items, please see: https://www.numbeo.com/cost-of-living/country_result.jsp?country=Serbia. Workers grossly underestimate the costs required for a decent life simply because they cannot imagine having enough money to live in dignity.

However, Serbia not only offers a cheap labour force due to its low minimum wage, it is also a country whose government provides generous financial benefits for foreign investors. Perks provided by the government include: high cash grants; allowing the municipality to sell land at prices lower than those offered by the market, or even for free; and declaring Free Trade Zones with various benefits, such as offering construction materials, energy, transport and fuel costs without VAT and omitting custom duties for raw materials, equipment and construction materials. Additionally, there is a ten-year tax holiday on corporate profits in the case of investments involving over one hundred employees and of more than €8.5m. Moreover, the government offers subsidised employment for the unemployed.⁴ Additionally, municipalities often provide facilities and utilities free of charge.

In their desire to fight high unemployment, and given the state of their devastated economies, Balkan states are desperately competing for foreign investment with ever-higher direct and indirect subsidies for investors. Serbia has been successful at this: the Development Agency of Serbia lists the following brands as beneficiaries of subsidies for production facilities in Serbia: GEOX, Benetton, Calzedonia, Pompea, Golden Lady (all headquartered in Italy); Falke (headquartered in Germany); and the Turkish company Aster.⁵

Additionally, the brands' production factories have suppliers in Serbia or else suppliers have subcontractors nearby. For instance, experts estimate that there are five subcontractors producing for the GEOX factory in Vranje; about twenty for Falce East in Knjaževac; while Benetton's suppliers in Niš rely on subcontractors located sometimes on the same premises.

Field research

In order to assess working conditions in the Serbian textile and shoe industry, field research was conducted between June and September 2017 for this article. This involved carrying out 48 interviews with workers, outside the factories in which they worked and in a place where their anonymity was guaranteed. The workers interviewed were employees working on various production sites: one subsidiary of a global brand; two first-tier suppliers; and two subcontractors.

It was extremely difficult to find workers who were willing to talk to the project researchers as they feared losing their jobs. It was, therefore, essential not only to en-

4 *Serbia Textile Industry* RAS, 2016, p. 17 [last accessed 16 April 2017].

5 Available at: <http://ras.gov.rs/textile-industry> [last accessed 24 June 2017].

sure the anonymity of the workers but also not to disclose the identity of two of the factories in question. Workers at GEOX agreed to the name of their factory being published as conditions at the site had already been widely reported in the Serbian media; while national and international support had made workers feel more comfortable about talking openly.

The following sections describe the key findings of the factories we investigated and also offer a brief summary.

Case study 1: Technical Development DOO, owned by GEOX SPA

Reports of management instructing workers to use nappies in order to avoid having to go to the toilet provoked widespread outrage in the Serbian media back in July 2016.⁶ In April 2017, the situation facing workers at the Serbian GEOX production plant, which has approximately 1 400 employees, was brought to light for the first time outside Serbia by *Campagna Abiti Puliti* (the Italian section of the Clean Clothes Campaign) and the *Change Your Shoes* initiative in a research report as well as in a short documentary.⁷

Workers interviewed reported receiving net wages (including overtime and allowances) ranging from RSD 25 000 to 36 000, at an average of RSD 30 000 (€ 248 (Oanda 1/7/2017)). Workers suggested monthly overtime of an average of around 32 hours (the legal maximum per week is eight hours; and there should be a 26 per cent overtime premium). When calculated on the basis of 32 hours of overtime per month, not taking meal or transport allowances into consideration, the net base salary for regular working hours without overtime would be approximately RSD 24 408⁸ (€ 202).

6 First published by Radoman Irić and Gordana Krstić (2016) 'Cipele u pelenama', *Vranjske Novine* 14 July; available at: <https://www.vranjske.co.rs/2016-07-14/cipele-u-pelenama.html>. Gordana Krstic was dismissed after the publication and is still jobless despite her long-standing experience in the industry and that she is highly qualified. She has been subjected to intimidation from various sides and, for a long time, retreated from public life.

Later publications looking at these issues include, among others: <http://jugmedia.rs/ispovest-radnice-geox-sefica-nas-maltretira-naziva-retardima-ciganima>; and <http://www.masina.rs/eng/real-price-geox-shoes/>. Radoman Irić continued to report on the dire situation of GEOX workers in *Vranjske Novine*, the local newspaper, until it was forced to close down due to insufficient support from the municipality.

7 <http://www.abitipuliti.org/report/2017-report-il-vero-costo-delle-nostre-scarpe/> with the full report available at: <http://www.abitipuliti.org/changeyourshoes/wp-content/uploads/sites/3/2017/04/The-real-cost-of-our-shoes-REPORT-ENG-LOW.pdf> (case study on the GEOX production facility in Vranje at pp. 49-55); documentary: Serbian/English subtitles: <https://www.youtube.com/watch?v=rSCZYjsISN0> or <https://vimeo.com/214035927>; German subtitles: <http://lohnzumleben.de/real-cost-of-our-shoes/>.

8 $30,000 = [176 + (32 \times 1.26 = 40.32)] \times a$; a = hourly wages of RSD 138.68; $138.68 \times 176 =$ RSD 24,408.

This leads us to these conclusions:

1. 120 per cent of the minimum net wage (a contractual obligation with the Serbian government in return for its cash grant of EUR 11.25m)⁹ would amount to a basic net monthly wage of RSD 27 456 (€ 227). According to the calculation above, (which does not take allowances into account), the workers we interviewed are earning, on average, approximately RSD 24 408 – i.e. that workers are earning, on average, approximately 89 per cent of what the company is contractually obliged to pay
2. the average basic wage of interviewed workers (RSD 24 408; € 202) is just in line with the minimum net wage (RSD 22 880; € 189). However, workers who are earning a mere RSD 25 000 (€ 207), including overtime and allowances, would be receiving approximately RSD 20 340¹⁰ (€ 168) within their regular working week of forty hours; that means they are earning below the legal minimum. A portion of workers are thus earning less than the legal minimum net salary
3. average workers, earning RSD 30 000 including overtime and allowances, are still earning just 39 per cent of the minimum living wage estimated by workers and 85 per cent of the official subsistence minimum.

Furthermore, the workers interviewed reported disrespectful treatment, intimidation and pressure from supervisors and managers. Some workers reported that the use of toilets remained a matter of dispute.¹¹ In general, there was an atmosphere of fear and of ‘divide and rule’, as well as pressure and the constant threat of dismissal and relocation. During two weeks in June/July 2017, workers reported that more than twenty workers collapsed; sometimes, employees were also prevented from calling the emergency services when fellow workers fainted. Due to pressure from national and international labour rights actors, air conditioning systems were operational by the end of July but, as of September 2017, fume extraction systems were still not working.

In contrast to 2016, when many workers complained of a lack of employment contracts, all workers now seemed to have written contracts. However, precarious working arrangements remain a problem: one-fifth of interviewed workers were on short-term contracts at the time of the interview (consecutive short-term contracts may last for a maximum of two years).

Moreover, interviews with workers revealed further irregularities in terms of overtime, annual leave, sick leave and working during public holidays. Saturdays are still considered ‘normal’ working days.

- 9 The award of a cash grant of EUR 11.25m was made on the condition that 1 250 jobs were created for an non-defined period until 8 Oct 2015 – all to be paid at a rate of 20 per cent above the minimum net wage: Agreement on Awarding of Funds for Direct Investment between the Ministry of Finance and Economy and Technic Development Ltd, a direct subsidiary of GEOX S.P.A. Italy, 25 September 2012.
- 10 $25\,000 = [176 + (32 \times 1.26 = 40.32)] \times a$; a = hourly wages of RSD 115.57; $115.57 \times 176 =$ RSD 20 340.
- 11 Additionally, workers reported that toilets were dirty and toilet paper was often missing.

Subcontractors at GEOX's production facility in Vranje

According to the workers we interviewed, the situation at GEOX subcontractors is even more problematic. However, as employees were more frightened to risk their anonymity, and thus their job, it was extremely difficult to find workers willing to talk. The subcontractor produces semi-manufactured products for GEOX and other well-known (luxury) brands. Workers reported that they were constantly under pressure to work harder and were penalised with cuts to their wages, to the extent that they were even left with pay that fell far below the minimum. Workers reported that they were threatened that annual leave would not be granted unless the firm finished GEOX's orders. Under this threat, they had to work for up to sixteen hours per day for at least one week in August. Workers also reported that, sometimes, they continued working at home.

Furthermore, payslips were not issued regularly. Workers found it almost impossible to obtain sick leave and, when they did, they were constantly called to return to work. One interviewee's medical documents had been written as though the person was unemployed; and irregularities in the payment of mandatory social contributions were thus obvious. Managers refused to switch on the air conditioning or heating; and the heavy use of chemicals left the air polluted. The workers we interviewed had no employment contracts. Management justified excessive overtime on weekdays and almost every Saturday by saying they needed to 'fix workers' mistakes' and would thus not pay for the additional hours worked. Workers also took some of their work home in order to finish it there. Union organisation was obstructed.

The net wages of our interviewees ranged between RSD 18 000 and RSD 25 000 (€ 149–207), thus:

1. even with overtime and allowances, wages were often below the minimum wage of RSD 22 880 (€ 189)
2. if normal overtime of 32 hours is deducted from the highest salary of interviewed workers (RSD 25 000; € 207), they would be left with approximately RSD 20 340¹² (€ 168) within their regular working week of forty hours. Thus, no interviewed worker received the statutory minimum (the base wage within regular working hours).

Case study 2: A Benetton supplier

Net wages, according to our interviewed workers, ranged from RSD 25 900 – 29 000 (€214-240) (Oanda: 1/7/2017), including 22 hours of monthly overtime on average, plus transport allowances and meal tickets. If overtime is deducted from the lowest and the highest net wage, this is the result:

1. the highest reported net salary of RSD 29 000 translates into a wage of approximately RSD 25 056¹³ (€ 207), which is above the statutory minimum.
- 12 $25\,000 = [176 + (32 \times 1.26 = 40.32)] \times a$; a = hourly wages of RSD 115.57; $115.57 \times 176 =$ RSD 20 340 – not considering allowances.
- 13 $176 + 22 \times 1.26 = 203.7$; $29\,000 / 203.7 = 142.37$; $142.37 \times 176 = 25\,056.46$ – not considering allowances.

2. in the case of the lowest reported wage of RSD 25 900, workers earn approximately RSD 22 378¹⁴ (€ 185). Therefore, workers who only earn 25 900 could, in fact, be receiving a wage below the statutory minimum (RSD 22 880; € 189).

It can be concluded that a considerable number of workers do not receive the minimum net wage (defined as the basic wage achieved within regular working hours). Moreover, workers reported high transportation costs, of approximately RSD 4 000 (€ 33) per month, and accounting for up to one-third of their wages when there is no public transport as many of them come from rural areas around the city. Transportation allowances are not paid for actual expenditure, as stated by the law. Furthermore, occupational accidents often occur: air conditioning is not operational or is insufficient to ensure an appropriate temperature in the factory in summer and in winter. There is no union to support workers in the factory. And no less than eighteen per cent of the workers we interviewed reported that they were working additionally in cleaning jobs to sustain their families.

Conditions at subcontractors are even worse: our interviewees reported that it is prohibited to use the toilets after 11am; wages were below the legal minimum; overtime was unpaid; and workers were yelled at and pressured to work harder.

Case study 3: A supplier for Esprit, Vero Moda and other international brands

First and foremost, workers at this facility reported significant and mounting pressure from management to work harder. Workers said they were treated badly and that the situation was deteriorating. Management continually threatened employees with dismissal due to their ‘unprofitability’, shouted at workers and locked the toilets at certain times.

Saturday overtime often had to be worked. Those who refused to work overtime were met with pressure and blackmail. Some time ago, many workers spontaneously refused to work overtime, but management quashed this protest with pressure and threats. According to interviewees, illegal amounts of overtime are worked – up to 60 hours per month. Management drew up papers for workers to sign agreeing to this amount of overtime – and workers sign them because they need the money.

Workers said that net wages ranged from RSD 22 800 – 29,800 (€189-247), including overtime and bonuses, which again means:

1. that those workers who get the lowest earnings do not receive the statutory minimum (RSD 22 880; € 189), even with overtime and allowances
2. if 35 overtime hours (the maximum which is legally possible in a working month of 176 hours) were deducted from the highest reported wages (RSD 29 800; € 247) – again not considering allowances – workers earn RSD 23 829 (€ 197).¹⁵ Consequently, those workers we interviewed which had the highest salary were barely receiving the statutory minimum.

14 $176 + 22 \times 1.26 = 203.7$; $25\,900 / 203.7 = 127.15$; $127.15 \times 176 = 22\,378.01$ – not considering allowances.

15 $176 \text{ hrs/month} + 35 \text{ hrs} \times 1.26 \text{ (overtime premium)} = 220.1$; $29\,800 / 220.1 = 135$ (hourly wage); $135 \times 176 = 23\,829.17$.

Summary: Wages and working conditions

Wages present a survival problem for workers. The insufficiency of their incomes is manifested, among other things, in a reliance upon subsistence farming to subsidise their own wages as well as in their inability to have adequate heating in winter, to take at least five days of leave per year or to cope with an unexpected bill of € 80 (RSD 10 000), and in the constant delays in receiving their wages before covering rent, utilities and interest. The workers we interviewed also stated that they had not been able to go on holiday for the last couple of years and that, with the cost of renting an apartment in the towns where the researched factories were situated amounting to € 100-120, some 40-60 per cent of their salaries was spent on accommodation alone. Labourers in factories where relatively less overtime is worked sometimes have additional jobs, such as cleaning.

In addition to those relating to salaries, other major rights violations reported to us include:

- disrespectful treatment of workers, as well as intimidation and pressure from supervisors creating an atmosphere of fear and the constant threat of dismissal and relocation
- restricted or banned toilet use
- illegally excessive amounts of overtime, sometimes legitimised through ‘agreements’ with workers
- unpaid or inadequately paid overtime (according to the law, the overtime premium should be 26 per cent)
- polluted air and dusty workplaces; and generally poor air quality at work
- excessive heat in the summer, often leading to workers fainting (the maximum workplace temperature by law is 28C); and freezing temperatures in winter
- illegally prolonged use of short-term contracts beyond two years
- no full annual leave granted (twenty days by law)
- reported cases of women having to sign contracts declaring that they will not become pregnant during the subsequent two or more years.

One reason for the current strikes taking place at Falc East (brands: FALCOTTO, NATURINO) in Knjaževac¹⁶ and at Fori Textile in Kragujevac¹⁷ is that overtime was not paid properly – or at all. When poverty wages are the reality, workers rely heavily on overtime payments as it is one way in which to supplement their income.

All the above-mentioned irregularities are direct violations of Serbia’s labour and international human rights laws. However, the lack of any repercussions for companies suggests that the authorities, such as the labour inspection office, turn a blind eye to these violations. For instance, despite the labour inspection office visiting a GEOX facility in Vranje in 2016, it took until the end of July 2017 for the company to fix the factory’s air conditioning in full; even then, this only took place following

16 Available here: <http://knjazevacinfo.rs/arhiva-vesti/privreda/12956-radnici-falc-east-a-obus-tavili-rad.html> [last accessed on 17 July 2017].

17 Available here: <http://www.kurir.rs/vesti/biznis/2757635/dosta-im-zlostavljanja-pobuna-radnica-u-slovenackoj-firmi-fori-tekstil-u-kragujevcu> [last accessed on 17 July 2017].

intense pressure from national and international actors, i.e. the Clean Clothes Campaign and the Serbian union Nezavisnost (see case study above).

There continues to be no valid collective bargaining agreement in the garment/shoe industry.¹⁸

Conclusion: It's time to speak out

In academia and public discourse, the labour issues faced by workers in the garment/shoe industry are under-represented and under-researched. Recent labour unrest and dramatic cases of labour rights violations, such as workers' use of nappies at GEOX, made national headlines – but are never reported in the international media despite the involvement of major (western) European brands. This dossier is the first comprehensive publication on the matter.

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

- pay a living wage. Start with the estimated minimum living wage of RSD 72 828 (€ 652) as a basic monthly net wage
- respect the law as well as the dignity of workers. Exercise due diligence in human rights.

And we also have the following policy recommendations addressed to the government of Serbia:

- increase the legal minimum wage to a level in line with the ILO's 'Ultimate goal to ensure workers a minimum wage that will provide a satisfactory standard of living to them and their families'
- monitor impartially and adequately the implementation of the law and the contractual obligations of global brands *vis-à-vis* the government.

18 For more details on the union situation in Serbia, see Bojan Ladjevac (2017): *Trade unions in Serbia on the move?* <http://library.fes.de/pdf-files/id-moe/13087.pdf>.