

**A Needle in a Haystack:
Tracing Canadian Garment Connections
to Mexico and Central America**

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Maquila Solidarity Network, October 2000

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INTRODUCTION: A NEEDLE IN A HAYSTACK: TRACING CANADIAN GARMENT CONNECTIONS TO MEXICO AND CENTRAL AMERICA

In July 1999, the Maquila Solidarity Network / Popular Education Research Group received funding from IDRC to carry out research on Canadian investment and sourcing practices in the garment assembly-for-export industry in Mexico and Central America, and labour practices and working conditions in those factories. The enclosed report describes what we have learned to date in what has become an important focus of on-going research for the MSN.

What's Included in this Report

In addition to sections on Canada, Mexico and the Caribbean Basin, this report includes case studies on two Canadian manufacturers -- Nygard International and Gildan Activewear; country labour "vignettes" for Canadian homeworkers and maquila garment-for-export workers in Nicaragua, Honduras and Mexico; and corporate profiles of prominent Canadian retailers and manufacturers. The report also includes a separate popular education resource tool, *Researching the Labour Behind the Label*, which we prepared to assist other groups in researching this highly secretive industry.

Various sections of this report, including the discussion paper "Growth and Change in the Garment Maquila Sector: What Does It Mean for Workers?" have been translated into Spanish and shared with network contacts in Latin America.

How We Carried Out the Research for this Report

In our research, we first documented the extent and nature of Canadian investment in and sourcing from maquila garment factories in Mexico, Central America, and, to a lesser extent, the Caribbean. While Statistics Canada figures indicated that most apparel imports continue to come from Asia, rather than Latin America or the Caribbean, we discovered that there is a significant amount of Canadian investment and contracting of production in Mexico.

It appears that the vast majority of apparel produced in Canadian-owned or subcontract facilities in Mexico is destined for the US market, and much smaller amount for the Canadian market. The North American Free Trade Agreement (NAFTA) seems to be encouraging Canadian apparel manufacturers to set up and subcontract to Mexican maquila factories in order to compete with US manufacturers in the US market.

Although there is considerably less direct investment or sourcing by Canadian manufacturers in Central America and the Caribbean, there are some notable examples of highly competitive Canadian companies. The Montreal-based Gildan Activewear is a prime example. Again, it appears that those Canadian companies moving into Central America and the Caribbean are doing so primarily to compete in the US market against US companies sourcing from the same region.

While Canadian manufacturers are increasingly setting up or contracting production in Mexico and the Caribbean Basin, Canadian retailers continue to source most of their private label apparel from Asia. However, the fact that US penetration of the Canadian retail sector is increasing at a rapid rate raises questions as to whether sourcing patterns for private label apparel will change in the next few years.

Whether manufacturers and retailers significantly increase their investment and sourcing in Mexico and/or the Caribbean Basin depends a great deal on how current and future trade agreements interact, and to what degree low-wage Asian countries will be able to take advantage of changes under the Agreement on Textiles and Clothing.

Another trend we give considerable attention to in this report is the apparent move from simple assembly of apparel toward the “full package” production model. Some industry analysts and a school of academics in the US believe that a trend toward full package production in Mexico, which they consider to be a result of NAFTA, will lead to more stable investment and improved wages and working conditions. While we are not convinced that this is the dominant trend, nor that it will necessarily benefit workers, we believe this theory needs to be tested on the ground, and particularly by maquila workers and the grass roots organizations that work with them and advocate on their behalf.

We have therefore included in this report a discussion paper we prepared for a workshop with Mexican maquila workers and support groups, which we facilitated. We have also included a set of questions we developed to engage Mexican groups in working with us to investigate this trend and its impact on workers.

Lessons Learned and Where We’re Headed

In this first year of research into Canadian garment investment in Latin America we have learned many valuable lessons for the future:

1. How difficult it is to trace labels to the factories and sewing workshops where the apparel is made, and the amount of time, effort and care required to document working conditions in those factories and workshops. Because of the high level of secrecy in today’s globalized garment industry, and because many Canadian manufacturers are private companies, as opposed to publicly-traded companies, very little information on supply chains is available through industry or government sources. Once offshore factories and other production facilities are identified, a great deal of care must be taken in investigating working conditions and labour practices, in collaboration with local groups, in order to ensure that workers are not negatively affected for telling their stories.
2. That, contrary to popular belief, the Canadian apparel industry is not a dying industry. While the industry has gone through a fundamental restructuring, some sectors of the industry, particularly those producing for the US market, are now quite successful. However, this does not necessarily mean that changes in the industry have been beneficial to Canadian workers.
3. The need to take into account current and potential impacts of regional and international trade agreements on the organization of production, labour practices and investment and sourcing patterns in the garment industry. While the fact that trade agreements will impact on investment and production trends may seem obvious, anticipating how various provisions in bilateral, regional, hemispheric and international trade agreements will interact and what trends will result in different countries and regions is a daunting but essential area of work.

4. The fact that grassroots groups working with maquila workers in Mexico and Central America are not yet familiar with current research in North America on trends in the apparel industry. We've seen that MSN can play a valuable role in interpreting, critiquing and popularizing industry analysis of those trends, and in collaborating with Southern partners on researching industry trends from a worker's perspective.

While this first stage of our research into Canadian investment and sourcing in Mexico and Central America did not go as far as we had hoped in documenting labour practices and working conditions in Canadian owned and subcontract maquila factories, we did make some important steps in that direction.

In Mexico, we were able to uncover a great deal of information on the locations of factories owned by or producing for Canadian manufacturers. We were also able to interview workers, factory managers, *colonia* residents and members of a local human rights organization about production trends, labour practices and working conditions in garment maquila factories in Tehuacán, one of Mexico's emerging garment production centres. The Canadian women's wear manufacturer, Nygard, formerly sourced from a factory in Tehuacán, whose manager we were able to interview.

We were also able to establish an on-going working relationship with the human rights group in Tehuacán, and renew our relationship with the women's centre in a second garment centre, Torreón, where there is currently production for Canadian manufacturers. We are now collaborating with the Torreón group on research concerning the move toward full package production and its impact on workers, and Canadian investment and sourcing in that region.

Through our partner group in Tijuana, Mexico, Factor X-Casa de la Mujer, we are also making links with groups in Guadalajara, where Nygard is setting up a large garment factory. We are also working closely with the Mexican Women Maquila Workers Network and SEDEPAC (Servicio, Desarrollo y Paz) on the next steps in our research.

In Honduras, we were able to interview management personnel of the Canadian apparel manufacturer, Gildan Activewear, as well as employees of the free trade zone. We were also able to carry out some preliminary discussions with CODEMUH, a local women's organization, with which we will collaborate on further research to document the workers' perspective on Gildan's labour practices. Also related to Gildan Activewear, we are collaborating with the Haitian labour rights group, Batay Ouvriye and the Movement of Working and Unemployed Women - Maria Elena Cuadra (MEC) in Nicaragua.

In the Dominican Republic, we continue to work with Centre for Participatory Research and Feminist Action (CIPAF) where there is also garment production for at least one Canadian manufacturer.

In the coming year, the MSN will be carrying out the second stage of this research in collaboration with women's, labour and human rights groups in Mexico, Honduras, the Dominican Republic and Haiti with whom we began to work during the past year. We are also beginning to establish focused research initiatives with partner groups in Asia.

Future Research

Areas for future research which we identify in this report include:

- the processes and conditions under which apparel for Canadian retailers and manufacturers is made in Canada and internationally.
- how the phase out of the Multi-Fibre Agreement (MFA) and the implementation of Caribbean Basin Initiative enhancements will affect garment production in Canada and the current break down of Canadian apparel imports. Will Mexico and Central America gain in importance for Canadian apparel imports at the expense of Asian or Canadian suppliers, or will the reverse scenario occur? How will the MFA phase-out influence broader global sourcing patterns?
- the use of sub-contracting and home-based workers by Canadian retailers and manufacturer and the role sub-contracting and home-based work plays in the garment industry and production for export in Mexico, Central America and Asia. What kind of organizing and campaign strategies are effective in this context?
- whether on-the-ground research confirms a shift in manufacturing patterns towards full-package production in Mexico as a result of NAFTA and whether this shift signals longer-term investments and more established relationships by North American retailers and manufacturers with their suppliers.
- the potential for full-package production and industrial upgrading in the Caribbean Basin as a result of the CBI enhancements. We also need to know more about how trends differ across the Caribbean Basin.
- what impact shifting production, and investment patterns in Mexico and the Caribbean Basin will have for wages, working conditions and organizing space for garment workers.
- what effects future changes under NAFTA, the implementation of the CBI and the negotiation of the FTAA will have for workers in Mexico and the Caribbean Basin.
- how codes of conduct might be used as organizing tools to ensure workers rights are being respected.

The Needle in a Haystack

Our preliminary research into Canadian investment and sourcing practices in the globalized garment industry reinforces our commitment to policy proposals we made to the federal government in our 1999 Status of Women report *Policy Options to Improve Standards for Garment Workers in Canada and Internationally*,¹ particularly on issues of public access to information, and labour rights conditionality for government programs in support of overseas investment. These include the following:

- Create a mechanism, such as an expanded mandate for the CA registration program, which would provide public access to information on where clothes sold in Canada are manufactured.
- Ensure public access to information on government support to Canadian companies investing abroad, including loans, insurance, foreign investment insurance, and other forms of assistance.
- Make adherence to relevant International Labour Organization (ILO) Conventions and local labour law a condition for access to government trade and investment support -- for example, for access to the Program for Export Market Development (PEMD), Export Development Corporation (EDC) or Canadian International Development Agency (CIDA).
- Provide increased support for research on homework and contract shop production in Canada, the sourcing practices of Canadian retailers and manufacturers in Canada and overseas, and the labour practices of Canadian companies and their suppliers in Canada and other countries.

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¹ Lynda Yanz, Bob Jeffcott, Deena Ladd, and Joan Atlin, *Policy Options to Improve Standards for Garment Workers in Canada and Internationally* (Ottawa: Status of Women Canada, 1999).

GLOSSARY

Agreement on Textiles and Clothing (ATC)

The Agreement on Textiles and Clothing (ATC) came into effect in 1995, and was negotiated through the WTO. It replaces the 1974 Multi-Fibre Agreement, which established apparel and textile quotas for third world countries exporting to Western markets. Under the ATC, worldwide apparel and textile quotas will be phased out for all WTO members in several stages, with a complete elimination by the year 2005. This could dramatically increase apparel and textile exports to Western markets from countries like China that have large production capacities in these areas. Although China is not a WTO member, its entry into that trade body is currently under negotiation.

Child Labour

The International Labour Organisation (ILO) Minimum Age Convention sets a minimum age for employment at 15 years old, but allows light work at 13, and prohibits hazardous work until the age of 18. The ILO points to deep-seated causes of child labour as being family poverty resulting from parents' unemployment or underemployment, limited access to training, weaknesses in the system of social protection and quantitative as well as qualitative deficiencies in the education system. In the garment industry, young workers, aged 15 to 18, are more common than illegal child workers, but as likely to be subject to excessively long and illegal hours, verbal, physical and sometimes sexual abuse, low wages and unhealthy working conditions.

Free Trade Zones/Export Processing Zones

Free trade zones in Latin America and the Caribbean and export processing zones in Asia are geographic areas in which foreign companies are allowed to import duty-free component parts for assembly, and then re-export finished products. Governments usually provide special incentives for companies in these zones, including low wages, no unions, minimal taxes and lax environmental regulations. In China, these zones are called "special economic zones."

Full Package Production

When apparel production in a particular location involves steps such as the acquisition of raw materials, cutting, sewing, laundering, finishing and distribution, it is called full package production. It is contrasted with maquila production, which only involves the assembly of imported cut parts for re-export.

Homework

Homework usually refers to subcontract sewing of garments or pieces of garments in workers' homes. In many countries, homeworkers also assemble other products, including electronic goods. Homework is usually associated with low wages, excessive hours of work, no statutory benefits, and job insecurity.

Jobbers

Retailers contract production to an intermediary, called a "jobber," who handles subcontracting arrangements with smaller factories and sewing workshops.

Just-in-time Production

Just-in-time production is a system in which small orders of goods are made in a quick turn-around time. In the garment industry, just-in-time production allows retailers and super-labels to adjust quickly to rapidly changing fashions, while shifting the risk to the manufacturers. While manufacturers compete for small orders with tight deadlines, retailers and super-labels can cut back on inventory and storage facilities.

Maquiladora / Maquila

The word “maquiladora,” or maquila for short, comes from the Mexican word for milling. Maquiladoras are assembly-for-export factories, first established along the Mexico/US border in the mid-1960s. Today, maquilas are found throughout Mexico and Central America. They are generally located in free trade zones or industrial parks, and are often associated with low wages, poor working conditions and labour rights violations.

Manufacturers and Contract Shops

Manufacturers manage and operate the factories, and compete for orders from retailers and super-labels. Many manufacturers also subcontract labour-intensive parts of production, such as sewing, to smaller contract shops and homeworkers.

Piece Rate

Instead of receiving an hourly wage, garment workers are often paid for the number of items they produce. Under this piece rate system, garment workers often do not receive the legally required minimum wage or overtime benefits.

Private Label and National Brand

Private labels are brands designed and marketed by retailers, which are available in their own stores. National brands are designed and marketed by brand-name manufacturers and often sold by the same retailers. Traditionally, retailers have focused more on the sale of national brands, than their own private labels. However, over the past several years, more retailers have concentrated on developing private labels, and these brands have been gaining market share and generating increasing profits.

Production Quota

A quota is the number of pieces a worker is expected to do in a particular time period. In some factories, workers are harassed, punished or fined if they fail to meet their quota, or required to continue working without pay until they complete their quota.

Retailers/Specialty Stores

Retailers include local stores and national and international chains selling a variety of consumer products. Major department stores often sell their own “private label” products, as well as brand-name and licensed products of other companies. Specialty stores sell their own brands exclusively.

Sweatshop

The word “sweatshop” was coined in the 19th century to describe exploitative conditions in the garment industry -- long hours of intensive work at low salaries. Sweatshop is now used to describe any factory or other production facility in which violations of international labour standards and local laws are the norm. Much of our clothes, toys, sports shoes and other consumer products are now made in factories, workshops and homes under sweatshop conditions.

Super-labels

Super-labels or “hollow manufacturers” own few, if any, manufacturing facilities. They focus on design, merchandising and brand promotion, and contract out production to suppliers around the world. Some super-labels, such as Nike, are now opening retail outlets.

Supply Chain

The supply chain includes the manufacturers, subcontractors and homeworkers who do the production, as well as the intermediary companies that arrange manufacturing for the retailer or super-label. Intermediaries can include “jobbers,” importers, overseas buying offices of the Canadian companies, contractors and agents who find and arrange production of orders, and trading companies that buy and resell goods.

Tariffs and Quotas

Tariffs are border taxes levied on imports that vary according to the supplying country and the product. US products imported into Canada, for example, are duty free while products from Bangladesh on average pay 16 percent.

Quotas are volume limits on imports from low-wage developing countries that were initially imposed under the Multi-Fibre Arrangement, part of the GATT (General Agreement on Tariffs and Trade).

Vertical Integration

When a company is involved in both textile production and apparel production they are described as being vertically integrated. This strategy may allow some companies to retain tighter control over the production process and production times.