Maquila Solidarity Network
Fact sheet

Apparel production in the Americas after quotas

Lessons from the Dominican Republic

Suspensions And Closures In The Dominican Republic

The Dominican labour code permits the suspension of labour contracts typically due to a lack of primary materials. The company must request permission for a suspension from the Secretary of Labour; the latter has 15 days to investigate the validity of the company's reasons to suspend work. Workers are suspended without pay for up to 90 days, a limit that is renewable. At the same time, the law that regulates the free trade zones requires three months notice to the government before the closure of a free trade zone company. If notice is not given, the law says that the company will have its assets frozen until they comply with it.

In practice, suspensions are an important tool for manufacturers either to avoid their legal obligations when closing a factory or to be flexible enough to survive on the short-term production contracts that stay in the region that supplement the longer, high volume programs sourced in Asia. Under the suspension of labour contracts provision, manufacturers can give notice to the Secretary of Labour and suspend workers the following day. One union official reported that companies will often move primary materials to another facility in order to demonstrate

Marion Traub-Werner, March 2007

Although price remains the main factor in sourcing decisions, brands are also concerned with guaranteeing that their products reach stores at the right time. According to brand representatives, instability or the potential for instability in different countries – whether it's SARS in China, floods in Bangladesh, or the return of Ortega in Nicaragua – also motivates brands to keep work in different countries located in different regions. For brands selling in the US market, it is quite likely that their strategies first divide suppliers into two big categories: Asia/Americas.

There seems to be no expectation that factories in the Americas will compete with factories in Asia on price. Rather, the brands make the strategic decision to keep a certain amount of the work on this side of the Pacific and will continue to do so. Anecdotally, informants throw around numbers like 10% and 30% – so, basically, some small proportion. Given their concern to guarantee production no matter what is happening politically and environmentally, we may see brands maintain relationships with fewer factories but in more countries. One informant who works for a US brand said that while six years ago he did work in three countries for his division, now he is in six countries, but placing work in fewer factories per country. The brand has the same number of managers and CSR people for the region, but they are working in twice as many countries.

What sort of production will remain in the Americas? As the Americas is competitive in terms of speed to market, brands are sourcing smaller volume orders, i.e. mid-season replenishment, and sending larger orders to Asia. The other work that brands may source in the Americas is the work that is sold in the brands own stores. If a brand is sourcing products to be sold by another retailer (for example, Wal-Mart), most likely the orders produced in the Americas will be small and short-term in order to replenish shelves in the middle of the season or when there is a problem with production in Asia or en route. Brands selling in their own stores might source larger amounts of work in the region because they make money on the retail markup, meaning that they can afford to pay more for the product and may do so in order to guarantee quality and on-time delivery.

Full Package Production

Full package production requires that manufacturers take on the financial risk of sourcing cloth. Cloth is the main cost of garments; for jeans and pants, cloth and trims constitute at least 60% and as much as 80% of the price of the garment. In order to convert

The information and analysis presented here is based largely on interviews with brand representatives and industry experts and on an analysis of trends in the Dominican Republic.

the validity of their request for a suspension. Because their employment is technically suspended, companies do not have to pay legally mandated severance benefits that they would otherwise have to pay if they terminated the employment relationship. While the company is legally required to contact workers once the factory restarts operations or if it closes definitively, those workers who have dispersed to find other jobs – some to other parts of the country – forfeit this benefit after two months. While suspensions are relatively easy to get, according to the same union representative, embargoes for irresponsible closures are very difficult to obtain, take a long time, and require that the party that solicits the embargo pay the expenses to guard the embargoed materials (a cost easily shouldered by banks but not so easily shouldered by non-union workers or weak unions).

The Case of Santiago de los Caballeros

In Santiago, there are also many factories that have either suspended part of the workforce or are working only part-time. Workers from four companies reported partial work suspensions in the first part of this year. In one small manufacturing facility, half the workforce (230 workers) was suspended in February. In another factory owned by the largest company in the industry, workers were working four days a week. In another small factory, half the workforce was suspended while the other half was working three days a week. Partial or full suspensions seem to precede most closures and are successful

to being a full package supplier, a company must have collateral or a relationship with a bank that permits them to obtain credit for considerable amounts of money. This requirement, in the case of the Dominican Republic, has consolidated the industry pretty quickly to a handful of Dominican full package suppliers (5 to 7) who have direct relationships with the brands and transnationals like Hanes and Gildan who have more financing options in the US or Canada than Dominican firms.

In general, factories that just do sewing, and even those that do cut, make and trim, are either subcontracted by the full package suppliers in the Dominican Republic who have the relationships with the brands or are partly owned by transnationals (i.e., Gildan, Hanes, Fishman & Tobin). Before the Dominican Republic got textile parity after NAFTA, brands would source all the materials usually out of offices in New York, cut pieces in Miami and send the bundles to the Dominican Republic. Now, the sourcing and cutting is done by full package suppliers and intermediaries in Santiago who then outsource to factories in other parts of the Dominican Republic and Haiti. During a national holiday, one manufacturer who did full package for different brands and assembly for Gildan only kept the modules sewing for full package work in operation because the assembly margin is so slim that holiday pay isn't worth it to the manufacturer.

Manufacturers claim they do not make any money on the materials and the trims. Buyers, specifically Wal-Mart, know exactly what are the costs of materials and don't allow for a mark-up on them. Most full package suppliers source from a list of approved suppliers provided by the brands or retailers. Still, there must be some advantage if we recall the case of the factory that worked full package modules on holidays but not assembly ones. Because of the control over materials sourcing, we can assume that full package suppliers still make their money on assembly, product development, and finishing. Also, full package suppliers are making money on the premium that brands will pay for filling smaller orders, diverse in size and color, quickly.

The implications of this shift to quick turnaround small orders could negatively affect assembly workers because modules are changing styles more often, making it more difficult to make production goals. It usually takes modules at least three weeks to get to 100% of production. If they are changing styles quickly, they will likely see a reduction in their overall salaries because there will be fewer weeks where they make the production goal.

The Problem of "Reverse" Industrialization in the Region

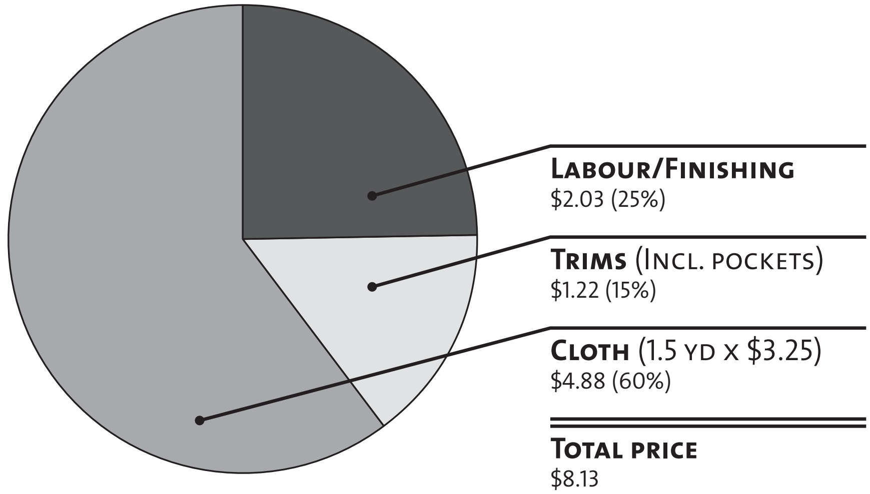
The biggest obstacle to the Dominican industry is cloth. The industry is largely specialized in woven pants (twill) and some denim. Woven mills are capital-intensive. In order to benefit from preferential trade agreements, manufacturers must buy from US mills. They claim that only three mills sell twill that meets their needs, and even so, the quality is poor and the price high.

For example, a yard of twill can run \$3.25 from a US mill versus \$1.45 from China. In general, it seems that Chinese and Indian woven cloth is about half the price of US cloth. In Mexico, there are at least six woven mills, three of which are large but not integrated into Mexican production – i.e., they export their cloth. In Central America and the Caribbean, there is only one woven mill (Listex in Guatemala).

at getting part of the workforce to give up on their severance benefit.

There were three known irresponsible closures in the free trade zone in Santiago between 2005 and 2006 – a relatively small number: Tomidas, Safari, and CyM. All used suspensions as part of their cut and run strategy. The only documented case is CyM, which had a union and produced for Phillips–Van Heusen. According to union representatives, the factory suspended the workforce and used the time to transfer the company's assets to another company. When CyM then closed, workers were not paid severance, the last week of salary, or their savings in the company credit cooperative, and their social security payments were not passed on to the IDSS. The company now had no assets to embargo. The case is currently in the courts.

Finally, in February, Interamericana, one of the largest companies in the industry, closed its doors. Since 2001, the company employed between 2,000 and 10,000 workers and often used subcontractors in the region. Interamericana was also the most unionized company in the industry and considered an industry leader with the largest industrial laundry facility in the country and other full package services. At the end of 2006, the company announced a large lay off and paid severance to all the workers except those with union leader rights (fuero sindical) and pregnant women. In January, the company started operations with 3,000 workers but soon laid off all but the same group that cannot be fired legally (those with fuero and pregnant women). Finally, in the middle of February,



Knit mills are less capital-intensive and have been established through national and foreign direct investment in Central America and the Dominican Republic (e.g., Russell in Honduras, Grupo M, Hanes and Gildan in the Dominican Republic). In general, the Caribbean Basin Initiative (CBI) actively underdeveloped the textile industry in the region.

Labour costs

Labour is generally calculated by first figuring out how much time it will take to make the garment and multiplying the time by a labour factor – which, in the Dominican Republic, is between 0.057 cents/min and 0.10 cents/min.

Here are some examples of prices for labour in the Dominican Republic and Haiti:

- Bathing suits: the range is 6¢ – 10¢ per minute so a ten minute garment is priced to include 60¢ – $1 for labour.
- T-shirts (ex. Hanes): $1.70 per dozen in the Dominican Republic and $1.15 per dozen in Haiti.
- Polo shirts (ex. Gildan in Haiti, three buttons, collar, short sleeves): $3 on labour costs per dozen (25 cents per shirt); includes components and markup and sells dozen to Gildan at $5. Labour cost per minute: 6¢ – 6.5¢.

Calculating costs of garment (ex. pants/jeans)

Industrial engineers report that 60% of the cost of jeans is the material, 15% trims, and 25% labour and finishing. Finishing can cost more than labour if there are special washes involved. Generally, a pair of pants (jeans or khakis) uses about 1.5 yards of material.

One factory manager interviewed claimed that eight years ago, manufacturers were getting $2.80 for assembly per jean and today they are getting about half that.

One manufacturer claims that full package pants range from $6 (most basic) to $12 each and average around $7. This same manufacturer claims that the average 5-6 years ago was $11 – i.e., about a 35% decrease in price.

Garment Production in the Americas: Supplementing Asian supply

Brands and manufacturers see the prospects for the future of 'middle American' (Mexico, Central America the company was embargoed by its creditor, Banco Popular, and the remaining workers received severance payments (just over 100 workers).

Closures are eliminating the few unions that existed elsewhere in the industry, as in the case of BJ&B in Villa Altagracia.

These recent closures are primarily in the north of the country since garment assembly firms in the south left rapidly with the end of the MFA and had been declining for several years. Most of these firms were foreign owned, had not invested in full package production, and were in the DR exclusively for the sake of trade benefits that were no longer profitable with the end of quotas. ■

and the Caribbean) garment exports in quick replenishment orders. Retailers and brands source large orders (e.g., 100,000 pairs of pants) in Asia and, if early sales are strong, source replenishment orders in the region (e.g., 2,000, 5,000, 20,000). The orders are small, consist of different sizes and colors, and are usually 'one shot deals.' Some manufacturers claim 3-4 week lead times (cutting to shipping), others say 60 days but that this time will be reduced to 45 days. Contractors, then, are vying to be the ones who get to supplement the on-going production in Asia. The implications for workers of such a system are clear: erratic production periods punctuated by unpaid or partly paid suspensions. Essentially, that is what is happening at the moment in the Dominican Republic (see sidebar).

The other potential area of work for the region is fashion or niche products, especially if they can develop the styles themselves and sell them to the brands. Hence, the incorporation of a handful of designers and pattern-makers into the industry who are trying to "add value" to garments by making small changes in the cut or using different material. ■

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This is one of a series of fact sheets published by the Maquila Solidarity Network analyzing trends in the post-MFA world. For more information on this topic or the Maquila Solidarity Network, visit our website at http://maquilasolidarity.org/.

Above and below: *Closed factories in the Santiago Free Trade Zone, Dominican Republic.*