



WORKER RIGHTS CONSORTIUM

PRELIMINARY REPORT ON MINIMUM WAGE VIOLATIONS

IN BANGALORE, INDIA

March 4, 2010

A recent investigation by the WRC has determined that, with the tacit acceptance of top U.S. and European apparel brands and retailers, Indian garment manufacturers have failed to pay workers in Bangalore over USD 10 million in legally mandated wages. For nearly a year, export apparel factories in Bangalore have refused to pay the legal minimum wage to their lowest-paid workers. The minimum wage was raised in March 2009, the first increase in seven years, but factory operators throughout the area, reportedly acting on the recommendation of the leading industry association, the Clothing Manufacturers' Association of India (CMAI), have simply refused to comply. The roughly 125,000 workers affected represent about one third of garment factory employees in Bangalore.

Best-known in the United States as a global hub for the information technology industry, the city of Bangalore, in the southern Indian state of Karnataka, is also one of India's largest centers of export apparel manufacturing,¹ with 780 garment factories² employing an estimated 350,000-400,000 workers. Leading Bangalore-based apparel manufacturers, including Gokuldas Exports and Images, which employ 47,000 workers in the city, and Shahi Exports, with nearly 50,000 employees, produce apparel for many major U.S. and European apparel brands and retailers.

¹ See, Department of Industrial Policy and Promotion, *Infrastructure Projects in Karnataka*, <http://siadipp.nic.in/sectors/kar.htm>.

² See, S. Calvin and B. Joseph, *Occupation Related Accidents in Selected Garment Industries in Bangalore City*, 31 Indian Journal of Community Medicine 150 (2006).

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These manufacturers, along with other major factory owners in Bangalore, such as Arvind Mills, Bombay Rayon, Karle Exports, and Texport Industries, supply garments to, among others, Wal-Mart, Adidas, Gap, H&M, Inditex (Zara), JC Penney, Levi-Strauss, New Wave Group (Cutter and Buck), Nike, Phillips Van Heusen, Vantage Custom Classics and VF. It should be noted that Wal-Mart's South Asia procurement and vendor compliance operations are headquartered in Bangalore.

On March 2, 2009, the state of Karnataka's Department of Labor issued Minimum Wages Notification No. KAE 46 LMW 2006, which increased the legal minimum wage for workers in the apparel sector (referred to under Indian minimum wage regulations as the "tailoring industry"). The increase was the first hike in the minimum wage since 2001. During the same period, the consumer price index in Bangalore rose by 60%, according to the Labor Bureau of the Government of India.³

Notice of the increase was published in the state government's official Gazette and thereby took effect on March 26, 2009.⁴ The March 2009 increase raised the legal minimum wage for workers in the city of Bangalore, including required allowances, to 126.97 rupees (USD 2.75) per day -- 3,302 rupees (USD 71.54) per month -- for workers in the "unskilled" category, which includes many sewing machine operators, helpers, trimmers, etc. This group of workers is estimated to make up one third of Bangalore's apparel industry workforce, about 125,000 workers.

Since the implementation of the increase by the government, apparel manufacturers throughout Bangalore have failed to comply with the minimum wage law. The result has been a loss to apparel workers in the job categories listed above of approximately 357 rupees per worker per month (USD 7.73) -- or 11% of their legally owed pay. The total cost to each worker, to date, is more than a month's wages. In the aggregate, the estimated 125,000 affected workers have so far been deprived of US \$10.5 million in legally mandated compensation.

The WRC learned of these violations through an assessment of labor rights complaints at a factory operated by Shahi Exports, India's third largest apparel exporter. The factory has been

³ See, Ministry of Labor and Employment - Labor Bureau, *Consumer Price Index Numbers for Industrial Workers for Year 2009*, <http://labourbureau.nic.in/indtab.html>.

⁴ The wage increase was reported by two of India's leading national newspapers, *The Hindu* and the *Times of India* on May 1, 2009 and May 22, 2009, respectively. See, S. Bageshree, "Garment Workers' Wages Revised After Seven Years," *The Hindu* (May 1, 2009), <http://www.thehindu.com/2009/05/01/stories/2009050154410500.htm>; "Workers Get 25% Pay Hike," *Times of India* (May 22, 2009), <http://timesofindia.indiatimes.com/city/bangalore/Workers-get-25-pay-hike/articleshow/4562093.cms>.

disclosed as a producer of university logo apparel by Cutter and Buck, a division of the Swedish firm, New Wave Group, AB. Shahi also produces for Wal-Mart, JC Penney, H&M, Gap and Philips Van Heusen. When the WRC presented evidence of the violations to Shahi, management openly admitted that it is not paying the current minimum wage and reported that this is common practice in the industry in Bangalore. Management defends this practice on the grounds that the industry believes the increase was ill-advised and is urging the government to reduce the minimum wage. Since disliking a law does not relieve companies of the responsibility to obey it, Shahi – and all factories failing to pay the wage set by the government – are in violation of Indian law and applicable codes of conduct.

As Shahi management reported, the practice of non-payment of the minimum wage is city and industry wide. The WRC has reviewed pay slips from workers at factories operated by Bangalore's top apparel manufacturers, all of which showed that the minimum wage is not being paid to workers in the "unskilled" category. This evidence is corroborated by reports from the Bangalore-based Garment Apparel and Textile Workers Union (GATWU), based on information from its members, that the practice is widespread. Gokuldas, India's largest apparel manufacturer, has reportedly also openly admitted its refusal to pay the legal minimum.

The industry's approach appears to be coordinated. According to the management of one major apparel firm, the Clothing Manufacturers Association of India (CMAI), the major apparel industry trade association, has recommended to all garment manufacturers that they not comply with the March 2009 increase. CMAI has also written to the Labor Department in Bangalore requesting that the new minimum wage be adjusted downwards in order to substantially repeal the increase.⁵

Of particular concern from a labor code enforcement standpoint, dialogue with the Indian representatives of major brands and retailers sourcing from Bangalore has revealed that these buyers have been aware of their suppliers' minimum wage violations. However, although a year has passed since the violations began, none of the buyers have taken any action to correct the problem.

The WRC believes that this situation raises grave questions about the basic integrity of the apparel industry's approach to labor rights. The apparel brands and retailers purchasing garments from the factories involved include companies with longstanding codes of conduct, all of which require compliance with minimum wage laws. These companies routinely report that their suppliers are subject to factory monitoring. Many of these companies are active participants in various multi-stakeholder initiatives concerning labor conditions in the apparel industry. Yet, they have failed to take any action to correct systemic violations of fundamental labor rights in

⁵ See, Letter from Shahi Exports to Buyers (Nov. 2009) (copy on file at the WRC) (referencing CMAI request to Labor Department for revision of minimum wage increase).

one of the world's major centers of apparel manufacturing, violations that are occurring under the noses of these brands' and retailers' local representatives.

The WRC has called on the apparel retailers and brands involved to compel their suppliers to stop breaking the law and to pay workers the back wages they are owed. The WRC has also urged retailers and brands to request that the industry discontinue its efforts to repeal the increase in the minimum wage. Importantly, the WRC also has recommended that buyers review their purchasing practices to ensure that the prices being paid to their Bangalore suppliers are sufficient to enable these factories to pay, at minimum, the legally-required wage rates to all their workers.