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## BULGARIA - a Clean Clothes publication

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## BULGARIA

### Introduction

For the German garment industry or retailers like C&A or sportswear producers like Puma, Adidas or Reebok, Bulgaria is much closer to the Western European market than Vietnam, China or Sri Lanka. The Western European retailers use this opportunity extensively. Thanks to a rapidly devaluated Bulgarian currency, labour is available at low costs - starting from 20 German pfennigs an hour in small sewing shops in the mountainous regions near the borders of Greece and Turkey.

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### Economic Transformation

The Bulgarian economy has been in a state of sluggish "transformation" since the beginning of the 90's. Unlike the transformation imposed on East-Germany following reunification, the changes in Bulgaria came about more slowly because there was not much outside (western) business interest in Bulgaria. The transformation continues to be a slow agony affecting major parts of the economy.

Nowadays, who is interested in the products of the former "flagships" of Bulgarian industry, such as fork-lift trucks, car batteries, pharmaceuticals or cigarettes?

The market for most of Bulgaria's industries primarily the former Soviet Union continuously diminished in the wake of increasing penetration by international companies. For instance Philip Morris taking away the market share of Bulgartabak. At the same time, within the domestic market, Bulgarian products were displaced by foreign brand name products, meanwhile domestic demand collapsed due to an enormous decrease in the purchasing power of the Bulgarian population.

Bulgarian agricultural output has diminished mainly because land ownership problems and the dissolution of co-operatives resulted in very expensive Bulgarian agricultural products. Most of the people survive only because they have relatives in the villages who have their own cattle, and grow their own grain and vegetables. For the most part the only functioning form of agriculture is for family consumption and sustained by the labour of all family members.

### Privatisation

In 1993, 85% of firms operating in Bulgaria were still state enterprises and an estimated 40% of the state-owned companies were expected to close down in the following few years.

The complicated privatisation regulations were supposedly designed to reflect the interests of employees and ordinary Bulgarians interested in buying shares in former state-owned companies. Instead, this system encouraged exactly the opposite sort of investors: powerful and influential 'privatisation funds'. The majority of the population don't understand the rules anyway.

Factories continue to be privatized at give-away prices, if they have not already closed down. Both the government and the private sector are accumulating short-term debt.

nothing directly for us at this moment, but we're supporting several human rights defenders in Thailand and Malaysia

Meanwhile, particularly between 1991 and 1995, by manipulating price and currency differences anything was possible within the realm of trade and business. For instance: importing from Ukraine and re-exporting to Greece, or finding buyers for cheap land: no regulations, no controls, no customs and tariffs... At the same time the informal sector is flourishing and includes garment production. Greek garment manufacturers have seamstresses across the border in Bulgaria sewing at cheap rates, working under hazardous conditions, without security of employment. The completed pieces are transported back to Greece, often illegally, and then exported to Western Europe.

#### Unemployment

Factory closures within the manufacturing sphere have been a major source of unemployment. In 1997, the official rate of overall unemployment was only 13,7% and in some areas, for example near the Greek border, there was even a shortage of workers. Nevertheless, there is still a social stigma attached to registering oneself as unemployed. Therefore the official figures are considered to be significantly lower than the actual unemployment rate. The share of people living below the poverty level and practically without any income at all continues to increase.

#### Inflation and Cheap Labour

The result of the economic situation, particularly during 1996 and 1997, was hyperinflation, devaluation of the currency and political turbulence which culminated in an increased level of intervention by the International Monetary Fund (IMF) and the World Bank in mid-1997. These institutions, as well as foreign and domestic businesses, have been pressing for a faster rate of privatisation (the IMF calls it 'disinvestment') and the implementation of other measures, commonly known as a structural adjustment package. On July 1, 1997 the Currency Board was established and assumed important powers, fixing the exchange rate between the leva and the DM at 1000:1. The IMF-representative in Bulgaria, Anne McGuirk, is not a member of that board but surely exercises great influence over its policy-making. She is a public personality in Bulgaria, with high name recognition. It is widely believed that she is overseeing Bulgaria's forced transformation especially in the finance sector. McGuirk, on behalf of the IMF, is pressing for the speedy privatisation of Bulgarian banks, regardless of the cost. Another well-known strategy the IMF repeatedly invokes within the Bulgarian context like a magical formula is the strategy of an export-oriented economy. In this context cheap labor comes in handy: predominantly women sew, iron and package garments in clothing factories -- and the completed garment is exported. Paper patterns and raw materials are provided from outside. In economic jargon this is called outward processing, or commission processing.

#### Clothing industry

Between 1989 and 1996 the garment industry's output, according to the official statistics, decreased to around 30% of pre-1989 levels. But when considering the unofficial production that takes place (particularly near the Greek border) it has decreased to 50 or 60%. The informal sector comprises an estimated 40 to 60% of the total economic activity in Bulgaria. Therefore the reduction of the garment industry's output would be only one third, as opposed to the official measure of two thirds.

The share of textiles, clothing and footwear in total exports from Bulgaria to the EU was 38% in 1993, the highest ratio for the region according to a Financial Times Management Report of 1995.

Before 1991 there were governmental export departments running the garment sector: 'Ruen' for knitwear and sportswear, and 'Rila' for ready-made clothing. Of the two only Ruen still exists -- it was privatised in 1990/1991 - and is even more powerful now. Ruen became a trade agent and presumably controls the entire Bulgarian knitwear and sportswear industry, and now also deals with ready-made clothing (for C&A - Canada). If the factory only puts in the labour for the conversion of textile into clothing, they call it 'Ishleme'-production in Bulgaria. Sometimes textile production is also included in orders, especially for knitwear. When 'Ruen' acquires a contract it selects the contractor whomakes the lowest bid. Ruen is also the main shareholder of some of the privatised contractors, for instance Orfei in which Ruen holds 70% of the shares.

Retailers find Ruen to be a very convenient intermediary between them and the factories. In 1998, Ruen's expected turnover is around 50 million DM. Its customers include/included:

1. C&A - Canada (Germany and France)
2. Puma - Ruen is the licensee for Bulgaria
3. Reebok, Adidas, Umbro (not Nike), and other sportswear companies
4. Salzmann, Quelle (not OTTO-Versand), Schiesser (Germany)
5. NBA-wear (USA)

#### Women Workers & Wages

Eighty percent of employees in the garment industry are women. But such work does not shield them from either poverty or from gender-specific discrimination.

While Bulgarian women have a good chance of continuing to work as seamstresses for factories producing for the Western European and U.S. markets, such work earns them the lowest monthly salary within the Bulgarian labour market; about 100 DM which is not a living wage. Consider that heating a flat costs approximately 80 DM per month. Compared for example to German prices, food prices in Bulgaria range 50% for very few Bulgarian products like bread and wine, to 80% for meat, cheese and yoghurt and up to 120% for milk and chocolate. At the end of 1997, a family of four needed more than 800 DM per month to cover their basic needs and a few extras such as school necessities. Salary increases have not matched inflation rates (1997: 580%).

#### Working Conditions

While wages are low, there is also little security for those employed in garment industry. Contracts are limited to a period of up to six months, "coincidentally" often identical to the probation period. Working conditions are problematic: overtime is not paid until targets are reached; unionists are laid off; rejection of and endless

negotiations on collective bargaining agreements are common. Sometimes existing agreements are disregarded and orders are outsourced to sweatshops.

What shocked me most during my visit in 1998 was the violation of the human dignity of the seamstresses, to an extent which previously I only knew to exist in the Central American and Asian contexts: workers were locked in so that they could not have a break or leave before the target was reached and were forced to strip naked to prove that they had not stolen anything.

In knitwear production the working conditions are very hazardous to the health of the workers. In some companies only men are allowed to work in these sections.

International retailers and Ruen put a lot of pressure on manufacturers. The social conditions of work are of course adversely affected. The European quality controllers do not see any of this, though they regularly check their business on the spot. Bulgaria is rather close, but the Bulgarian workers are nonetheless far away. Trade Unions

Unfortunately the trade unions -- especially the CITUB (Congress of Independent Trade Unions of Bulgaria) which is a remainder of socialist times -- are rather reluctant to use their potential. CITUB and Podkrepa -- a new trade union made up of roughly 10% of the employees - know about subcontracting but do not examine the conditions. Company-based unions concentrate on individual arrangements with the management. There are no other workers organisations, like workers councils, in these companies.

- *There was one case of a strike in factory #5, near the Greek border. The main demand was a 100% wage increase. Because of inflation wages had been devaluated dramatically and ended up at 100 DM. Workers at this factory were forced to work overtime until they reached certain targets. The factory, which has a German owner, is mainly manufacturing for Boss. He knew how to convince the Trade Unions, of his concern for social issues but agreed to only pay a 30% increase.*

Generally trade unions accept that after privatisation their influence will deteriorate. After privatisation the new management sometimes refuses to adhere to existing collective bargaining agreements or creates obstacles during negotiations for a new collective bargaining agreement.

CITUB/Fosil-leadership believes that there is no clear legal obligation in the labour act for the management to sign a collective bargaining agreement but only to negotiate. This is true, there is no such phrase in the text of the law. Podkrepa does not agree. Their representatives say that it is clear from the law that a collective bargaining agreement must be signed. According to CITUB new Bulgarian owners in particular are very rough with trade unions and ignore workers rights. This certainly applies to Ruen as a major owner of knitwear factories.

A typical example of the difficulty of protecting the right to organize and preventing discrimination against trade union representatives was found in a state-owned knitwear factory (factory #1), which fills orders for Ruen and produces for such clients as Adidas. At this factory in 1995 the CITUB shop steward, who was also a factory employee and not on the CITUB payroll, was dismissed. The official reason: general company-related. According to the law dismissal of shop stewards is not allowed. CITUB legally challenged this decision and won the court case but the woman refused to go back to the factory because she was afraid of being harassed and fired again. The trade union lost contact with her. In 1997 the same thing happened with a Podkrepa-shop steward at the same factory, the case is still pending. The result: there is no trade union at that factory any longer.

Insecurity of employment is a priority issue for trade unions in Bulgaria. Many workers are employed for a limited period of time. In many former state-owned companies the existing unlimited labour contracts have been replaced with contracts of 1 to 6 months following privatisation.

**Testimony presented by Lambreta Siwanowa, shop steward at Orfei Ltd., Kardjali, Bulgaria, during the International Forum on Clean Clothes - /Workers and Consumers Rights in the Garment Industry, May 3, 1998**

Dear members of the jury, colleagues and friends!

My name is Lambreta Siwanowa. I have been working at Orfei since 1992. I am a shop steward of the Confederation of Independent Trade Unions (CITUB/FOSIL) in Bulgaria.

Orfei has existed for more than 20 years. We produce T-shirts, track suits, shorts and underwear for Adidas, Puma, Reebok and Umbro, for example. Orfei has a textile and garment section where 1040 employees work. 82% of them are women. Most of their husbands are unemployed.

Orfei reflects the situation found in most Bulgarian garment factories. The sourcing policies of Adidas are not exceptional among international clients doing business in Bulgaria. Adidas still does not have a code of conduct but it does not make a difference anyway, since Puma, for instance, has a code but our workers have not heard about it.

The code of labour practices of the Clean Clothes Campaign demands a living wage. Now what is a living wage? ILO-convention No. 26 on minimum wage was ratified by Bulgaria. But what is the real situation? The official minimum wage per month on April 1st was 51 DM. For December 1997 it was 45,50 DM. This is just enough to pay the electricity bill including heating. In December the average cost of living for a four-person household was 864 DM. In other words, the minimum wage can meet 5% of the average cost of living. Unfortunately, there is no official calculation of the subsistence minimum in Bulgaria. But in December 1997 it was estimated at 350 DM for a family per month. It must be noted that this 350 DM does not include housing costs. Our workers at Orfei earned an average of 120 DM in December. This is not even 50% of the estimated subsistence minimum. As I mentioned earlier, in our factory most of the women are the breadwinners in the family and they normally have more than two kids.

Orfei was privatised in 1996. This is usually a big change in a factory's life. The management tried to change the labour contracts to individual temporary labour contracts. We were able to prevent this. But, apart from low

wages, the introduction of temporary labour contracts has become the major problem in Bulgaria. It is an important instrument in lowering the security of employment. In sweatshops near the Greek border, where Greek manufacturers subcontract to Bulgarian producers, employers circumvent some social security and labour laws with these temporary labour contracts. For example they do not need to pay compensation after layoffs.

When Orfei was privatised meal allowances were cut down to a ridiculous amount. The management also started to discuss the validity of the existing collective bargaining agreement.

In general, management could not suppress trade unions after privatisation. Still in terms of figures we are quite strong at Orfei: 74% are members of CITUB/FOSIL and 11% are members of Podkrepa which is now the second biggest trade union federation. But unfortunately these figures do not show our real power which is much less. In other newly emerging factories or sweatshops there are no trade unions because workers are informally obliged not to organise themselves. Workers are afraid of organising because they fear dismissals although it is illegal to be dismissed because of trade union activities.

Normal working hours are 40 per week. In the garment section employees work in one shift with frequent overtime. Bulgaria and Eastern Europe in general are close to the Adidas, Puma, and Reebok sales markets. Apart from low labour costs the other decisive factor for Eastern European garment production is time. Again at the expense of workers; when orders with a short delivery time have to be finished, overtime is excessive. It exceeds the legal limit. Workers have become overworked and depressed because women cannot cope with the double and triple work load: family, children, household plus job and overtime. On the other hand they are forced to do overtime in order to get more money. By exploiting overtime work management can avoid the cost of an additional shift.

Now about occupational health and safety; every Bulgarian factory with more than 10 employees must have a safety inspector. This is the only person who cares about working conditions. Quality inspectors sent by Adidas, Puma or Reebok are not interested in working conditions at all. But the occupational safety inspector is on the payroll of Orfei. That is why he is not very successful in keeping safety standards at an acceptable level, especially when it costs money.

The garment and textile industry is one of the few remaining industries in Bulgaria and thus, plays a big role in the economy. But the wages in the garment industry are only 70% of the Bulgarian average and rest at about 110 DM a month. The wages in the garment industry did not increase at all during the last months of 1997 whereas the average wage in Bulgaria increased by 12% during that period. It must be kept in mind that inflation in 1997 reached 579%.

When wages are negotiated with the trading agent who gives us orders they say: "In Romania the wage is even lower and the price we get does not allow for higher wages." Does this sound familiar to my colleagues from all over the world?

I conclude by saying that in order to survive our workers need a better price for their labour and better working conditions. Because our government has very limited space within which to manoeuvre, an independently monitored code of conduct like the one proposed by the Clean Clothes Campaign would be a very good instrument to use to improve our situation.