

COVID-19: Impact on Apparel and Footwear Workers

This report illustrates the impact of COVID-19 on 31,000 apparel and footwear workers employed in 56 factories across China, Vietnam, and Indonesia, some of whom lost their jobs during the initial wave of the pandemic.

The Fair Labor Association (FLA) visited 56 factories for onsite assessments between July and October of 2020 and found that most factories had experienced significant negative impacts from COVID-19. While the results represent the situation in factories where FLA members source, most of these factories have multiple buyers, including non-FLA members. The report is helpful to understand the impact of COVID-19 at the factory level, and recommendations are for all companies who are in the apparel and footwear industry.

Eighty-two percent of the factories visited by the FLA experienced a reduction in product orders from buyers. A larger percentage (95%) reported that they had to reduce working hours or workforce due to COVID-19. The workers that remained worked fewer hours, with an average 45% decrease of overtime hours across all factories during the peak of the pandemic (February 2020 to July 2020). The decrease in hours could have a

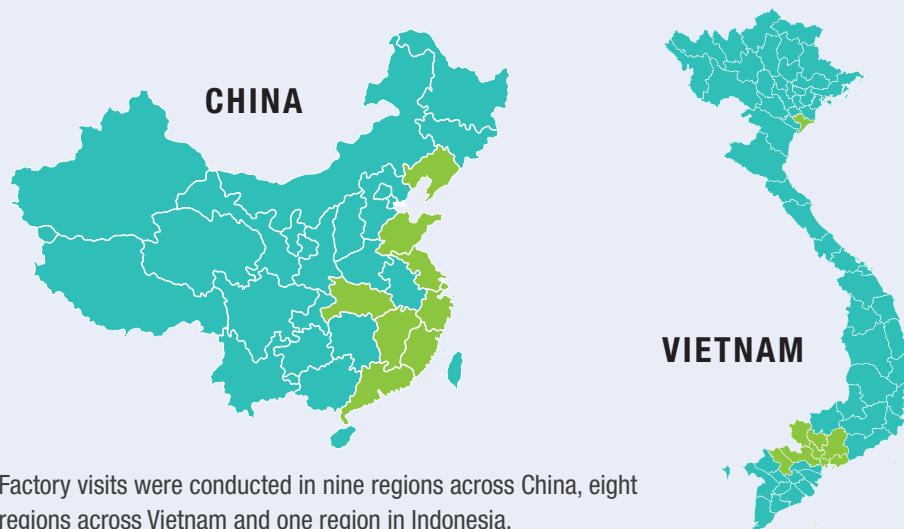
significant negative impact on workers' income because many workers rely on overtime to make ends meet. When factories rely on excessive overtime and workers rely on overtime pay, as they do in China and Vietnam, workers are put in vulnerable positions, especially during unforeseen events such as the COVID-19 pandemic.

The workforce reduction across all factories visited by the FLA was highest through July and September. Our analyses show a gender disparity in factories. For each male worker who lost a job in 2020, three female workers lost their employment. As countries recover from the initial outbreak and the subsequent second and third waves, the effect on workers could be significant and long lasting. Therefore, the FLA urges companies to support factories and workers by providing steady and reliable business and strong channels of communication to understand the pandemic's impact on the apparel and footwear workforce.

Table of Contents

Introduction	2
Worker Representative Involvement	3
Production Order Losses	4
Reduction of Working Hours	5
Reduction in Workforce	7
Common COVID-19 Health & Safety Findings	9
Recommendations for Company Affiliates	11
Appendix 1: Methodology	12
Appendix 2: Freedom of Association in China and Vietnam	13

Figure 1: Factory Visits by Region



Factory visits were conducted in nine regions across China, eight regions across Vietnam and one region in Indonesia.

ASSESSMENTS BY COUNTRY

39

China

16

Vietnam

1

Indonesia

CHINA OVERVIEW

The Chinese government extended the Lunar New Year holiday from February 3 to February 9, 2020 to curtail travel and limit the overall movement of people. The government requested people to not return to work until February 10, with that date further pushed out by local authorities depending on the risk in the region. The majority of local governments required factories to obtain approval for re-opening and to adopt preventative measures in workplaces.

VIETNAM OVERVIEW

The first wave of COVID-19 emerged in Vietnam at the end of January 2020, and strong social distancing mandates were in place from the end of March through the end of April. Vietnam experienced a second, limited wave of COVID-19 in late July through the end of August in the northern regions of the country. During both periods of the COVID-19 outbreak, neither the Vietnamese government nor local regions required factories to close for any period of time.³

Introduction

The footwear and apparel industries have been hard hit by the COVID-19 pandemic. Government-level mandates, while essential to reducing the spread of COVID-19, have had significant impact on workers.¹ Widespread order cancellation has caused factories to shorten working hours and, in some cases, has left workers without an income. The devastating economic impact of COVID-19 has flowed directly to the factory floor and to the workers who are crucial to production.

In response to the pandemic, the FLA shifted its annual factory level due-diligence work to a consultative and informative approach.² Locally-based assessors visited 56 factories in China, Vietnam, and Indonesia between August and October of 2020. During these visits, they evaluated the implementation of COVID-19 related health and safety protocols and provided suggestions to factory management on risk mitigation. They also assessed the factories in areas deemed high risk for workers during the pandemic, including hours of work, annual leave determinations, and accurate compensation.

The FLA intentionally visited factories that have strategic relationships with FLA-affiliated companies. These factories have a well-established, long-term contractual relationship with companies or are factories which the company has a significant production footprint. The FLA's goal was to identify urgent issues and facilitate rapid remediation to support vulnerable workers.

¹ ILO. (2020, April). COVID-19: ACTION IN THE GLOBAL GARMENT INDUSTRY. https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---dialogue/documents/statement/wcms_742371.pdf

² See [Appendix 1](#) for information on the FLA's due diligence methodology

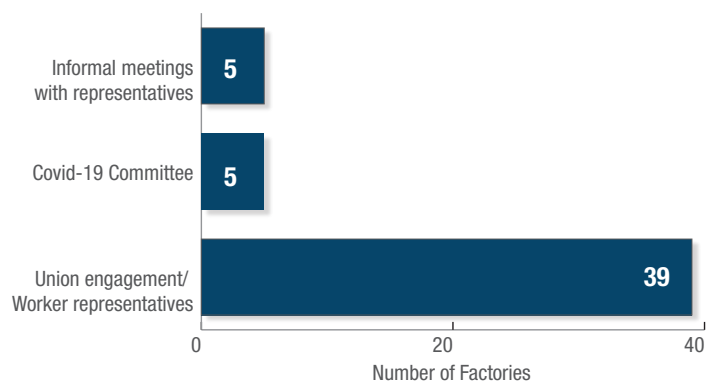
³ One exception was a factory in Ho Chi Minh City that was ordered to close, as the size of the workforce posed a threat to COVID-19 spread.

Additionally, the FLA focused the visits on regions that were deemed low-risk for COVID-19 at the time of assessment (see Figure 1). This was to ensure the safety of assessors and workers. This also allowed the FLA to learn from factories that had already experienced the peak outbreak and begun reopening and recovery.

Worker Representative Involvement

Freedom of association and collective bargaining and worker representation are integral parts of the FLA Workplace Code of Conduct⁴ and the FLA Principles of Responsible Sourcing and Production.⁵ Worker representation ensures that worker input is integrated in the decision-making around factory-level policies and procedures, especially those concerning their working conditions. A well-functioning worker representation system gives workers a collective say in the correct and fair implementation of these processes. Forty-nine out of 56 (87.5%) factories visited engaged with worker groups in developing their COVID-19 responses, either through formal or informal means. The engagement with workers led to the development of consensus-based COVID-19 protocols. For example, workers provided input on defining working hours to lower the risks of virus transmission.

Figure 2: Worker Representative Involvement



The FLA emphasizes that worker representative committees and informal modes of communication cannot be considered a sustainable alternative to functioning unions, and supports strengthening workers' right to freedom of association. At the time of the factory visits, the labor laws of neither Vietnam nor China aligned with the FLA standards on freedom of association, which guarantee workers the right to establish and join organizations of their own choosing. In China, all unions are required to register with the All-China Federation of Trade Unions (ACFTU). In Vietnam, all unions must register with the Vietnam General Confederation of Labour (VGCL). Vietnam's 2019 Labor Law was implemented in January 2021, and provides workers with increased rights to freedom of association.⁶

⁴ Code of Conduct. (2012). Fair Labor Association. <https://www.fairlabor.org/our-work/code-of-conduct>

⁵ Principles of Fair Labor & Responsible Sourcing. (2019). Fair Labor Association. https://www.fairlabor.org/sites/default/files/responsible_sourcing_principles.pdf

⁶ See [Appendix 2](#) for additional information on freedom of association in China and Vietnam.

Production Order Losses

The majority of factories (82%) experienced a reduction in orders, as compared to previous years, during the first half of 2020. Companies either canceled standing orders or did not place any orders during this period. The percentage of production volume loss ranged from 10% to 60% of the normal order volume and for time periods ranging from one to 30 weeks.

“I have less overtime hours and earn less wages in recent months. I feel worried about the uncertainty and do not know if the factory can have more orders in the coming days.”

– Worker at a Vietnam Factory

Figure 3: Did the factory experience a reduction in production orders?

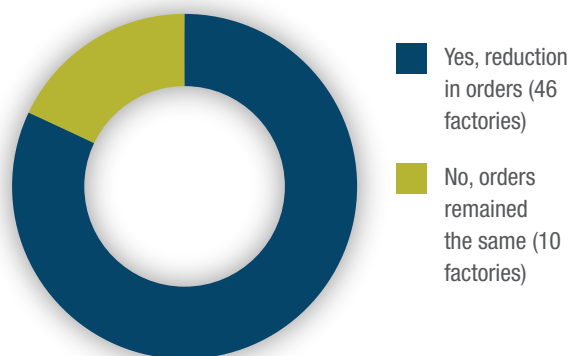
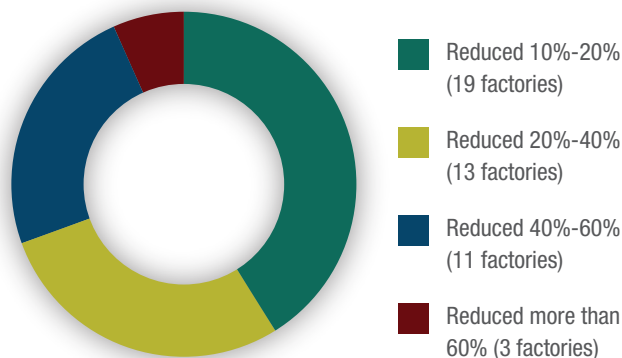


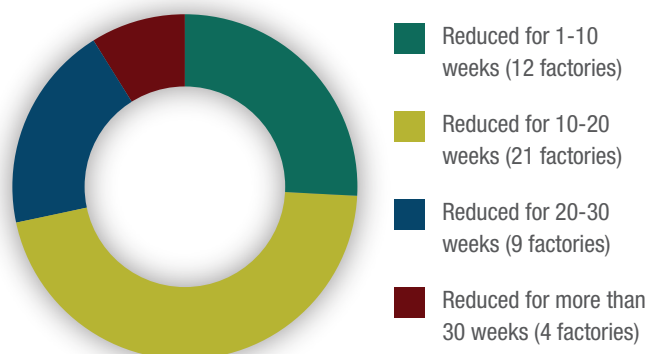
Figure 4: Percentage of production order volume reduced



“I have no overtime due to less orders, and I have less income.”

– Worker at a China Factory

Figure 5: Period of time of reduced production orders



Reduction of Working Hours

As orders dried up, factories reduced their working hours. The FLA found that all factories reduced employees' working hours between February 2020 and the time of assessment.⁷ The reduction of working hours varied in length and type, and took three forms:

1. Workers who continued to be employed but did not work;
2. Factories that reduced working hours;
3. Factories that reduced the number of workers in their workforce.

Figure 6-a: Days workers were employed but not working (China, 39 factories)

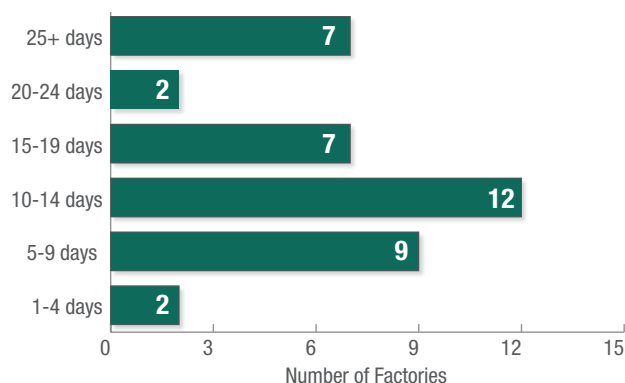
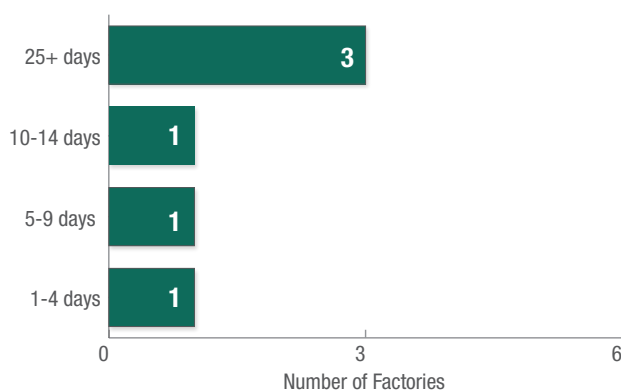


Figure 6-b: Days workers were employed but not working (Vietnam, 6 factories)



⁷ Total wage includes base wages; in-kind and cash benefits; and incentive, leave, and overtime pay after taxes and deductions.

Employed But Not Working

Forty-six (82%) of factories had a work stoppage period during which the workers were employed but not working. The impact on workers varied depending on the cause of stoppage as well as the payment type during the work stoppage. Payment type ranged from annual leave pay, minimum wage, and unpaid leave.

Payment and Types of Leave for Workers

In China, the government extended the Chinese New Year holiday by six days and factories needed approval to reopen. Additionally, some Chinese factories required workers traveling from high-risk regions to quarantine for 14 days before returning to work. Despite these restrictions, the majority (69%) of factories in China paid workers what they would normally earn in a regular work week.

Figure 7: Pay type during work stoppage for 39 China factories

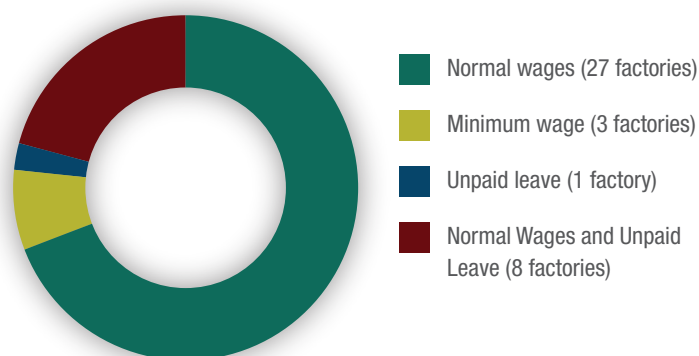
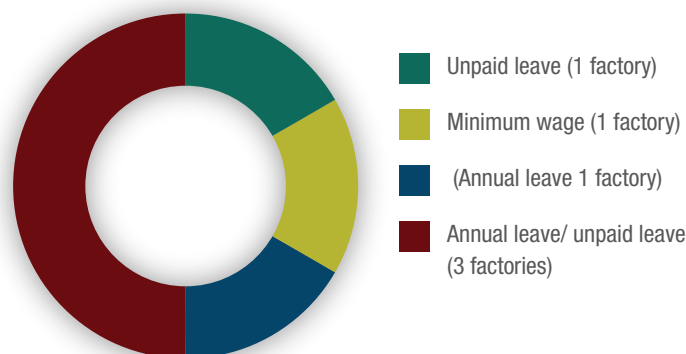


Figure 8: Pay type during work stoppage for 6 Vietnam factories





According to FLA Benchmark HOW.12, workers must be able to determine the timing of their own leave and this timing should not be dictated by factory management.

HOW.12 ANNUAL LEAVE DETERMINATION

HOW.12.1 Employers shall not impose any undue restrictions on workers' use of annual leave.

HOW.12.1 The time at which annual leave is taken is determined by employers in consultation with workers, taking into account work requirements and the opportunities for rest and relaxation available to workers.

In Vietnam and Indonesia, where the working hour losses were more directly related to reduced production, seven factories required workers to take leave for varying lengths of time. In Vietnam, most workers were required to use their annual leave or take unpaid leave if they did not have sufficient annual leave saved up. This requirement is a violation of FLA benchmarks, which ensure that workers have the right to determine the timing and use of their own annual leave.

Reduction in Working Hours

Once factories reopened, workers experienced an overall reduction in their regular working hours, overtime working hours, or both. Eighteen (32%) factories reduced working hours from the regular work week for some length of time. Out of the 18 factories, 11 factories reduced regular working hours for a period of more than 10 weeks.

Reduction in Overtime Hours

While the loss of regular working hours was, at least in some cases, mitigated through leave pay, the reduction in overtime hours can have a significant effect on workers. A reduction in overtime hours was seen across all factories in March and April. Workers' average weekly overtime hours decreased about 45% from the 2019 peak season average, from 10.6 hours to 5.82 hours per week.

The FLA's data from 2015 to 2017, highlighted in the report [Toward Fair Compensation in Vietnam](#), shows that workers often rely on overtime pay to

Figure 9: Did the factory reduce working hours?

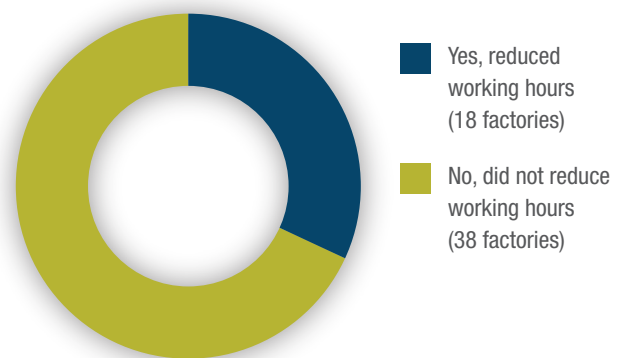
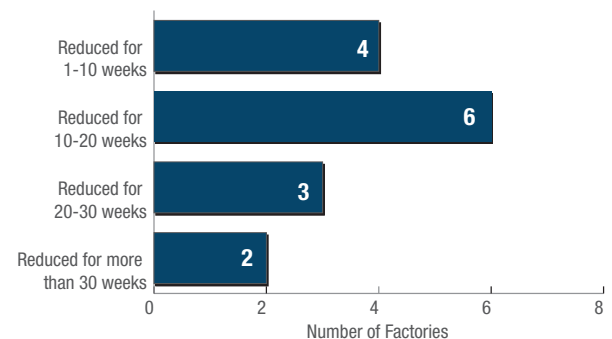
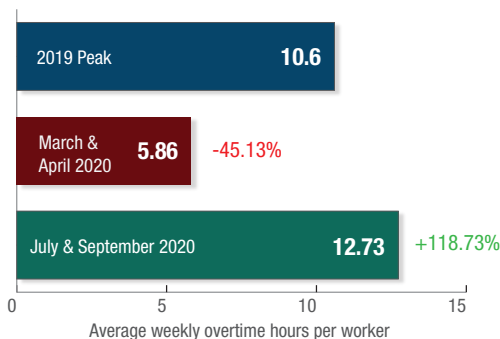


Figure 10: Length of time hours were reduced



fill the gap between what they earn in a regular work week and what they need in order to meet their basic needs. In China, overtime hours are the norm and excessive overtime is a persistent problem. Between 2012 and 2019, the FLA found excessive overtime in 94% of factories assessed

Figure 11: Average weekly overtime hours per worker from 2019-2020



in China. The data collected during the pandemic emphasizes that overtime hours not only impact workers' quality of life, but also make them increasingly vulnerable to the effects of natural disasters or other events due to loss of income. The FLA's Workplace Code of Conduct establishes fair compensation as a right for every worker and reinforces the importance for workers to make a living wage in a regular work week.

Further compounding the situation for workers, the average weekly overtime hours increased to 12.73 in July through September, 20% more than at the 2019 peak. While this likely allowed workers to recover some of the wages lost, it also suggests that many workers are once again being subjected to excessive overtime. According to the FLA's Workplace Code of Conduct, the regular work week shall not exceed 48 hours and, other than in exceptional circumstances, the sum of regular and overtime hours in a week shall not exceed 60 hours. The data suggests that some factories in China and Vietnam are demanding longer overtime hours for workers as factories in other countries remain shut down due to the pandemic and production shifts. Additionally, the data shows an overall reduction in workforce throughout the year, meaning fewer workers were employed to fulfill production orders, resulting in more overtime hours for employed workers.

Reduction in Workforce

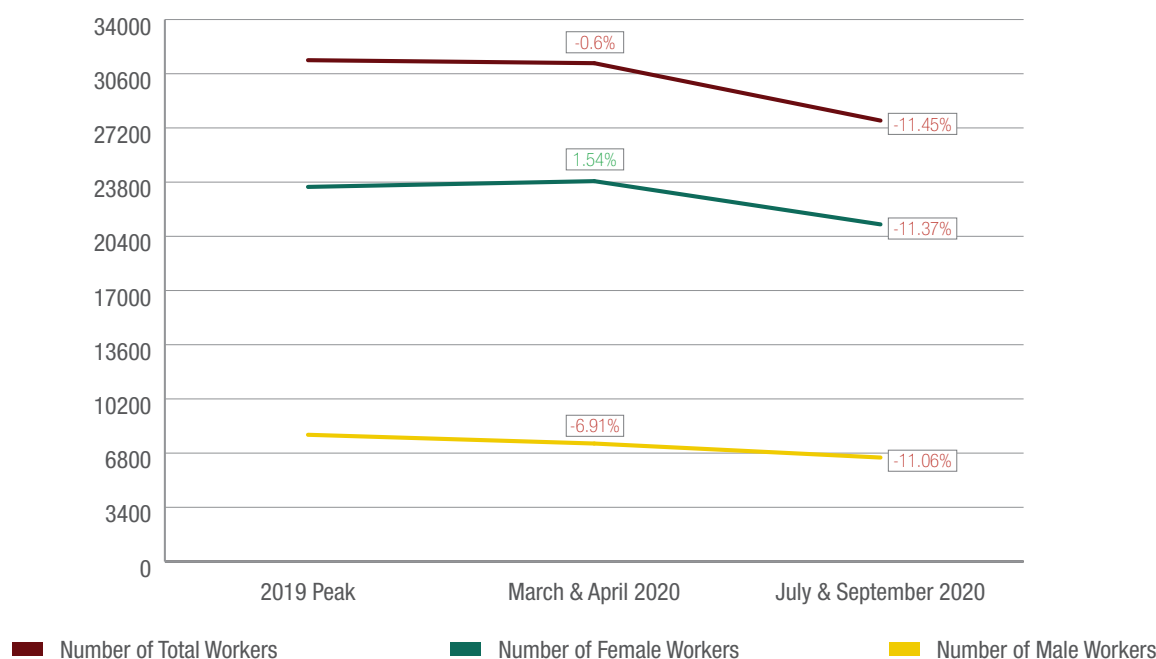
Across all factories visited in 2020, the total workforce declined from 2019 to September 2020 by about 12%; the majority of the workforce decline happened from March to September 2020. The number of workers employed during the factories' 2019 peak season was more than 31,000 workers; by the second half of 2020, the workforce count had decreased to around 27,600 workers. Early in the pandemic, the total workforce did not change drastically; this can be explained by mandates in China and Vietnam that protected employment. As the COVID-19 spread declined in China and Vietnam, the legal protections ended. At the same time, with COVID-19 spreading in the Western Hemisphere, workforce reductions continued in some factories in China and Vietnam through September 2020 as production orders remained inconsistent.

"Pregnant workers and terminated workers are given priority to be re-hired."

– Worker at a Vietnam Factory

While the percentage decline in the number of male and female workers was equal at around 11% in the factories assessed by the FLA, the decrease translates to a workforce reduction of 2,700 women workers given the large number of women in the apparel and footwear global supply chains. The number of male workers who lost their jobs was just over 800. The total female workforce reduced 237.5% more than the total male workforce from 2019 to 2020,

Figure 12: Total Workforce Reduction from 2019 to 2020



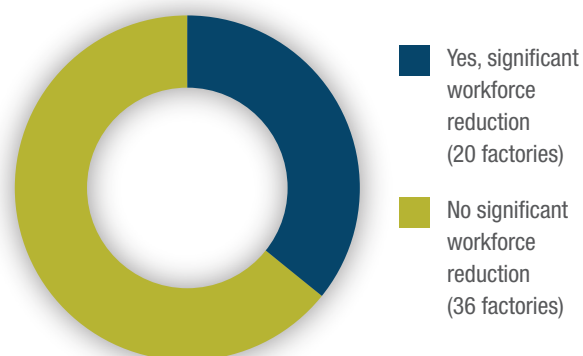
emphasizing an alarming gender disparity in job loss during the pandemic in apparel and footwear factories.

Although all factories experienced some sort of workforce decline, assessors reported that 20 (36%) of the factories had a significant reduction in their workforce due to retrenchment⁸ and mass resignation.

In the factories visited, eight (14%) factories reported retrenching workers, suspending contracts, or not renewing contracts that ended. For the factories that retrenched workers or terminated contracts, seven have rehired workers at the time of the assessment, with four factories preferentially rehiring previous workers.

⁸ Retrenchment is defined as the permanent dismissal of an employee or employees in order to reduce the workforce.

Figure 13: Did the factory have workforce reduction?



“Some of my co-workers are trying to find a new job in other companies or industries with a higher income.”

– Worker at a Vietnam Factory

In 10 factories (18%), management implemented policies and procedures that led to a large portion of the workforce resigning from their current roles. These practices included substantially reducing working hours or wages. For these workers, because their hours or wages were so severely curtailed, resignation was an only option. In Vietnam there are legal and logistical barriers that prevent factories from officially retrenching workers; however, job loss through resignation was high in the 10 reported factories and should be considered significant. In China, the picture is more complicated because it is common for workers to not return to their previous jobs after the Chinese New Year holiday; in the FLA's data, this occurred in 9 (16%) factories.

Common COVID-19 Health & Safety Findings

During the pandemic, factories took precautionary measures and enhanced health and safety protocols to reduce the risk of virus transmission. Overall, the factories visited had strong health and safety protocols in place.

Even though most factories had strong health and safety systems in place for disease prevention, some had health and safety issues flagged by the assessors. For these factories, the FLA identified the lack of feasibility and risk assessments as root causes. In general, the FLA recommends factories conduct a feasibility assessment which determines the right resources needed to reduce virus transmission. The FLA recommends risk assessments to then be conducted to determine the risks associated with COVID-19 and identify the appropriate ways to eliminate risks of transmission.

Figure 14: Health & Safety Good Practices

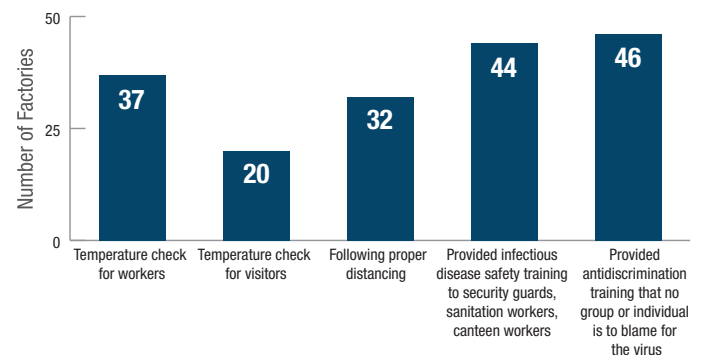
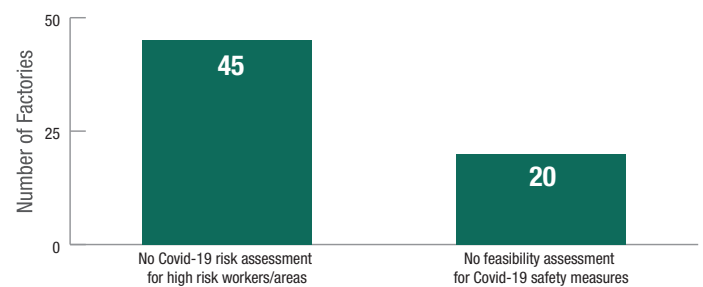


Figure 15: Risk/Feasibility Assessment Findings



“I feel safe working in the factory, because the factory is taking a lot of safety measures to protect workers. They also provide us with face masks free of charge, which is really a great help for us because we cannot purchase face masks in the market due to short supply.”

– Worker at a China Factory

COVID-19 Best Practices from the Factories

The FLA recognized additional best practices from the factory visits. The items below are examples of where factories went above and beyond local law to support their workers.



Provided free health checks to workers before returning to work



Provided shuttle buses for workers to commute



Developed a COVID-19 prevention handbook and distributed to each worker



Packed food individually and distributed to workers separately



Paid for all additional costs of quarantine

Recommendations for Companies

Responsible purchasing and production practices are essential to maintaining worker well-being during the pandemic. The FLA identified areas in which factories and workers would benefit from additional support, particularly as they resume production after a work stoppage or reduction.

Additional COVID-19 recommendations for companies can be found on the [FLA website](#).

- ▶ Companies should work with their suppliers to ensure that workers are directly involved in disease management activities. Transparent communication with worker representatives is essential in any situation involving compensation reduction, hours adjustment, compulsory leave, or retrenchment, as related to disease management.
- ▶ Companies should ensure that workers are provided legally mandated payment and leave allocation when workers' hours are reduced due to order cancellation or reduction.
- ▶ Companies should treat retrenchment as a last resort. Where worker retrenchment cannot be avoided, companies and suppliers should work together to ensure that workers are provided with the legally mandated severance benefits. Suppliers should not use retrenchment to target union leaders and members or discriminate against vulnerable groups of workers. As a best practice, companies should assist suppliers in providing re-employment assistance to retrenched workers.
- ▶ Companies should work with suppliers to ensure a worker's seniority is recognized without interruption as production resumes and retrenched workers are re-hired.
- ▶ Where companies have increased orders or placed late orders as a reaction to markets re-opening from pandemic lockdowns, companies should work with suppliers to balance production planning, limit excessive overtime, and at a minimum, ensure workers receive at least one rest day every week. Overtime should be voluntary. Companies and suppliers should prioritize workers' health and safety during throughout the pandemic and consider how long hours can impact workers' well-being.
- ▶ All companies (buyers, suppliers, factories, and retailers) should maintain clear and consistent communication about compliance with labor-related pandemic government decrees and requirements.

About the Fair Labor Association

The Fair Labor Association promotes and protects workers' rights and improves workplace conditions through collaboration among business, civil society, and colleges and universities. The FLA conducts transparent and independent monitoring to ensure that rigorous labor standards are upheld wherever FLA affiliates source their products, identifies root causes of non-compliances, and proposes solutions to workplace problems.

Appendix 1: Methodology

This report is based on data collected on factories of FLA companies, suppliers, and collegiate licensees through the 2020 factory visit cycle. The FLA conducted factory visits, COVID-focused assessments, and wage data collection in China, Vietnam and Indonesia from July to October 2020.

FLA's Social Compliance & Fair Compensation Approaches

FACTORY ASSESSMENTS



The FLA's Sustainable Compliance Initiative (SCI)⁹ evaluates factory conditions of suppliers to FLA company affiliates using the FLA's Workplace Code of Conduct and Compliance Benchmarks.¹⁰ The assessment lasts three to five days and includes worker interviews, management interviews, document review, factory walk-through, union and worker representative interviews, and health and safety inspection. As part of the assessment, the factory provides wage data that the FLA assessors review and verify.



After the assessment is completed, the FLA company and the factory develop a corrective action plan to remediate the violations, and the final report and action plan are published on the FLA's website. The FLA companies and suppliers are required to provide regular remediation updates. After two to three years, the FLA conducts a verification assessment to understand if sustainable progress has been made to improve the working conditions for workers.

In 2020, due to the COVID-19 pandemic, the FLA adapted this assessment approach to focus on high-risk issues related to the pandemic and provide additional capacity building to factories on how to mitigate risks.

FAIR COMPENSATION DATA COLLECTION



The FLA's wage data collection methodology was developed through consultation with a working group of living wage practitioners and experts. The FLA's Fair Compensation Data Collection Tool measures workers' average monthly net wage across factory occupations and production seasons and is designed to be scalable across large supply chains. The FLA utilizes the Ankers' net wage definition:

Net Wage = Basic or Contracted Wage + In-Kind Benefits + Cash Benefits – Legal Taxes & Deductions¹¹

Incentive pay is included when it is verified that all workers earn it during the regular work week. Leave pay is included if it is not already included in the basic wage. Overtime is never included when evaluating workers' living wages.

The FLA collects wage data in all of its factory assessments. Additionally, all FLA companies are required to collect wage data from a representative sample of their tier one facilities, analyze the living wage gap, and set priorities for improving wages within their own supply chain.

In February 2020, the FLA launched a data analysis tool to support members' understanding of wages and the living wage gap. The FLA's online Fair Compensation Dashboard allows companies to upload and analyze their wage data against wage benchmarks for 25 sourcing countries. In 2021, the FLA will report on all companies' and suppliers' progress in developing fair compensation programs to improve wages in their supply chains.

9 <https://www.fairlabor.org/our-work/our-methodology>

10 https://www.fairlabor.org/sites/default/files/fla_workplace_compliance_benchmarks_rev_10.2020.pdf

11 Anker, R., & Anker, M. (2017). *Living Wages Around the World: Manual for Measurement*. Edward Elgar Pub.

Appendix 2: Freedom of Association in China and Vietnam

Freedom of Association in China

The Chinese constitution guarantees Freedom of Association; however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union – the All-China Federation of Trade Unions (ACFTU). According to the International Labor Organization (ILO), many provisions of the Trade Union Act are contrary to the fundamental principles of freedom of association, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. Recently, however, the government has introduced new regulations that could improve the functioning of the labor relations' mechanisms. The Amended Trade Union Act of October 2001 stipulates that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. It also grants the trade union an enhanced role in dispute resolution. In December 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements.

Freedom of Association in Vietnam

Starting from 2021, the Vietnam constitution guarantees Freedom of Association by allowing the right to establish, join and participate in representative organizations of employees; however, all Workers Representative Organization (WROs) are required to register with government bodies, or affiliate with the single trade union, the Vietnam General Confederation of Labor (VGCL). Vietnam has not ratified ILO Convention 87, with plans to ratify the Convention in 2023. The two outstanding requirements that Vietnam's legal framework is not compatible with are 1) WROs right to formulate their programs and not be liable to be dissolved or suspended by administrative authority, and 2) the right to affiliate with international organizations of workers and employees.