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Misuse of temporary contracts in Pakistan's textile and garment industry

THE ISSUE

Temporary employment contracts and third-party labor arrangements in Pakistan are intended to meet short-term or seasonal labor needs. Over time, however, suppliers have widely adopted these arrangements for roles that should be permanent as a cost-management strategy that reduces the employer's obligations to workers. This shift has created a "two-tiered" workforce in many supplier facilities, where contract workers perform core manufacturing functions alongside permanent employees, but with significantly fewer rights, benefits, and protections.

BACKGROUND

Pakistani courts, including the Supreme Court, have consistently held that workers engaged continuously in core business functions cannot be denied permanent status based solely on contractual classification.

In a landmark 2013 ruling, the Supreme Court clarified that while a direct employment relationship generally does not exist between a principal employer and workers engaged through a contractor, an employer–employee relationship **does exist** if the principal company retains control over the manner, method, and execution of the work.

The court further affirmed that workers integrated into a company's operations—working on its premises, under its supervision, and contributing directly or indirectly to core activities—are legally employees of that company, regardless of their contractual label. Subsequent Supreme Court rulings between 2019 and 2022 have reinforced this "substance over form" doctrine, validating actual working relationships rather than written contract titles.

The National Industrial Relations Commission (NIRC) has similarly challenged third-party arrangements where suppliers retain operational control over workers while attempting to avoid formal employment responsibilities.

While outsourcing remains lawful when applied to genuinely independent and non-core services, suppliers' misuse of contracting to disguise employment relationships presents significant legal and compliance risks for suppliers and sourcing brands.

LEGAL PERSPECTIVE IN SINDH AND PUNJAB

Following Pakistan's 18th Constitutional Amendment in 2010, individual provinces became responsible for labor regulation oversight and management, creating regulatory differences between Sindh and Punjab.

SINDH REGION

Sindh provides explicit statutory restrictions on contract labor under the Sindh Terms of Employment (Standing Orders) Act of 2015, which entails:

- Temporary workers may only be engaged for defined, short-term needs not exceeding nine months;
- Third-party agency arrangements are prohibited for core production and permanent operational roles; and
- Workers performing ongoing, core functions are legally entitled to full employment rights, including statutory benefits, freedom of association, and collective bargaining.

PUNJAB REGION

Punjab's provincial framework allows for a broader use of contract labor, permitting third-party staffing arrangements. However, employers remain subject to judicial limits. While Punjab law does not state an explicit statutory time limit on contract duration, judicial bodies enforce the nationwide "substance over form" rule. Where workers perform continuous, core functions under supplier supervision, they retain the legal right to claim permanent status.

Regardless of contractual classification, all workers must receive statutory protections, including access to:

- Health and safety standards (Factories Act, 1934);
- Employees' Old-Age Benefits Institution (EOBI) pension registration;
- Punjab Employees Social Security Institution (PESSI) contributions; and
- Sindh Employees Social Security Institution (SESSI).

Unlike Sindh, Punjab law lacks explicit statutory caps on fixed-term contracts or a direct ban on third-party contract labor for permanent functions. Consequently, contract labor abuse in Punjab is less likely to be addressed solely through provincial labor inspections.

FLA WORKPLACE CODE OF CONDUCT

This regulatory gap highlights why FLA's standards are critical. **FLA members must hold suppliers to a higher threshold than local law where local regulations fail to protect fundamental worker rights.**

The misuse of contract labor violates the FLA Workplace Code of Conduct, which states suppliers must not (1) use temporary or third-party contract workers to fill ongoing, core operational needs, or (2) rely on successive, short-term contracts as a standard practice to bypass permanent status.

FLA RECOMMENDATIONS

The use of contract labor may be appropriate for genuinely temporary activities or non-core functions within a supplier's operations. However, the use of contract labor to support ongoing production needs, replace regular employment relationships, or avoid legally required employment obligations may create significant legal, compliance, and reputational risks for suppliers and brands.

Therefore, FLA encourages brands sourcing from Pakistan to:

1. Engage with their suppliers to better understand their employment structures, including the use of contract labor, temporary workers, and third-party employment arrangements through labor outsourcing agencies.
2. Assess supplier practices against key compliance criteria through their social compliance audits. Brands should also communicate clear expectations to audit firms and auditors to ensure that assessments go beyond document verification and identify potential misuse of contract labor arrangements.
3. Ensure that audits assess whether workers classified as temporary are performing genuinely temporary roles or whether they are engaged in positions that are permanent in nature. In textile, garment, and footwear facilities, many production roles are continuous and integral to daily operations.
4. Confirm that factory assessments and audits determine whether temporary workers conduct continuous work beyond a defined project or short-term production need, whether workers are directly integrated in core production activities, and whether the facility depends on these roles as part of its standard operations.

Audits should also include an assessment of the following areas:

- The duration, renewal patterns, and overall nature of contract arrangements;
- The role of third-party labor agencies, including the extent of supplier control and responsibility over contracted workers;
- Whether all workers receive legally required wages, benefits, protections, and employment rights; and
- Whether suppliers have appropriate plans to identify long-term employment opportunities and reclassify contract labor.

For further guidance or questions regarding compliance assessments, brands may refer to the additional resources section or contact FLA directly via info@fairlabor.org.

ADDITIONAL RESOURCES:

1. FLA webinar, "[Responding to Abuses of Contracted Workers – A focus on the Pakistan garment and textile sector](#)"
2. [Sindh Terms of Employment \(Standing Orders\) Act, 2015, Sec. 2\(1\)\(g\)](#)

3. Case law references:

- a. [Sindh High Court Judgment, 2019](#)
- b. [Supreme Court Civil Appeals No. 83 & 84, 2006](#)
- c. [International Labour Organization NATLEX Legal Database](#)

FLA CODE ELEMENTS

THE GOVERNING ELEMENT OF THE FLA CODE: EMPLOYMENT RELATIONSHIP

“Employers shall adopt and adhere to rules and conditions of employment that respect workers and, at minimum, safeguard their rights under national and international labor and social security laws and regulations.”

FLA EMPLOYMENT RELATIONSHIP BENCHMARKS: ER.9 & ER.10

ER.9.3 Contract/contingent/temporary workers shall only be hired if one of the following conditions is met:

ER.9.3.1 the permanent workforce of the enterprise is not sufficient to meet unexpected or unusually large volume of orders;

ER.9.3.2 exceptional circumstances may result in great financial loss to the supplier if delivery of goods cannot be met on time; or

ER.9.3.3 work that needs to be done and is outside the professional expertise of the permanent workforce

ER.10.1 Employers shall not hire contract/contingent/temporary workers as a means to support continuing business needs on a long-term basis.

ER.10.2 Employers shall not renew contracts for multiple successive short terms in lieu of providing regular employment.

ABOUT THE FAIR LABOR ASSOCIATION

The Fair Labor Association (FLA) promotes human rights at work. We are an international network of companies, universities, and labor and civil society organizations collaborating to ensure that millions of people working at the world's factories and farms are paid fairly and protected from risks to their health, safety, and well-being.