

# DO LABOUR PROVISIONS IN EU TRADE AGREEMENTS IMPROVE WORKERS' LIVES AND WORKING CONDITIONS AROUND THE WORLD?

SUMMARY FINDINGS FROM A RESEARCH PROJECT EXAMINING THREE EUROPEAN UNION TRADE AGREEMENTS

Recent EU trade agreements have all included a Trade and Sustainable Development (TSD) chapter with labour and environmental provisions. The key labour provisions in TSD chapters are set out below. Our research has examined the effects of three EU trade agreements operating in Moldova, South Korea and Guyana/the Caribbean. In each context, we have studied a key export sector (and its related 'value chain') and evaluated the effectiveness of TSD chapters for tackling critical labour issues in relation to that sector.

## KEY LABOUR PROVISIONS IN TSD CHAPTERS

While there is some variation, the TSD chapters share three main types of labour provisions.

### SUBSTANTIVE COMMITMENTS

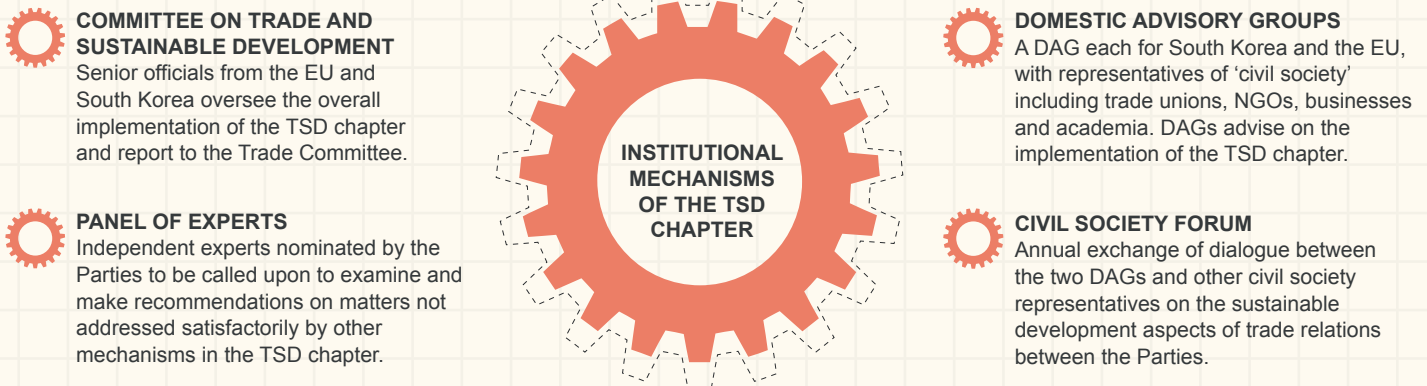
- Core labour standards (CLS) as embodied in the ILO fundamental conventions
- ILO Decent Work Agenda

### PROCEDURAL COMMITMENTS

- Dialogue and cooperation between the Parties
- Transparency in introducing new labour standards domestically
- Monitoring and review of sustainability impacts of the FTA
- Upholding levels of domestic protection on labour standards

### INSTITUTIONAL MECHANISMS

This diagram represents the institutional model set up in the South Korea-EU FTA. Other agreements vary slightly.



**i** The research was conducted as part of an ESRC-funded project entitled "Working Beyond the Border: European Union Trade Agreements and International Labour Standards" (2015-17) (award number: ES/M009343/1). The research is based on just under 200 interviews and focus group meetings with key governmental and institutional, industry, trade union and civil society groups in three case study contexts and in the European Union. Further details at: <http://www.geog.qmul.ac.uk/research/beyondtheborder/>

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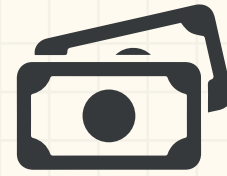
# MOLDOVA, EU PRODUCTION NETWORKS AND THE CLOTHING VALUE CHAIN



Increasing exports to EU and employment growth (90% of clothing workers are women)

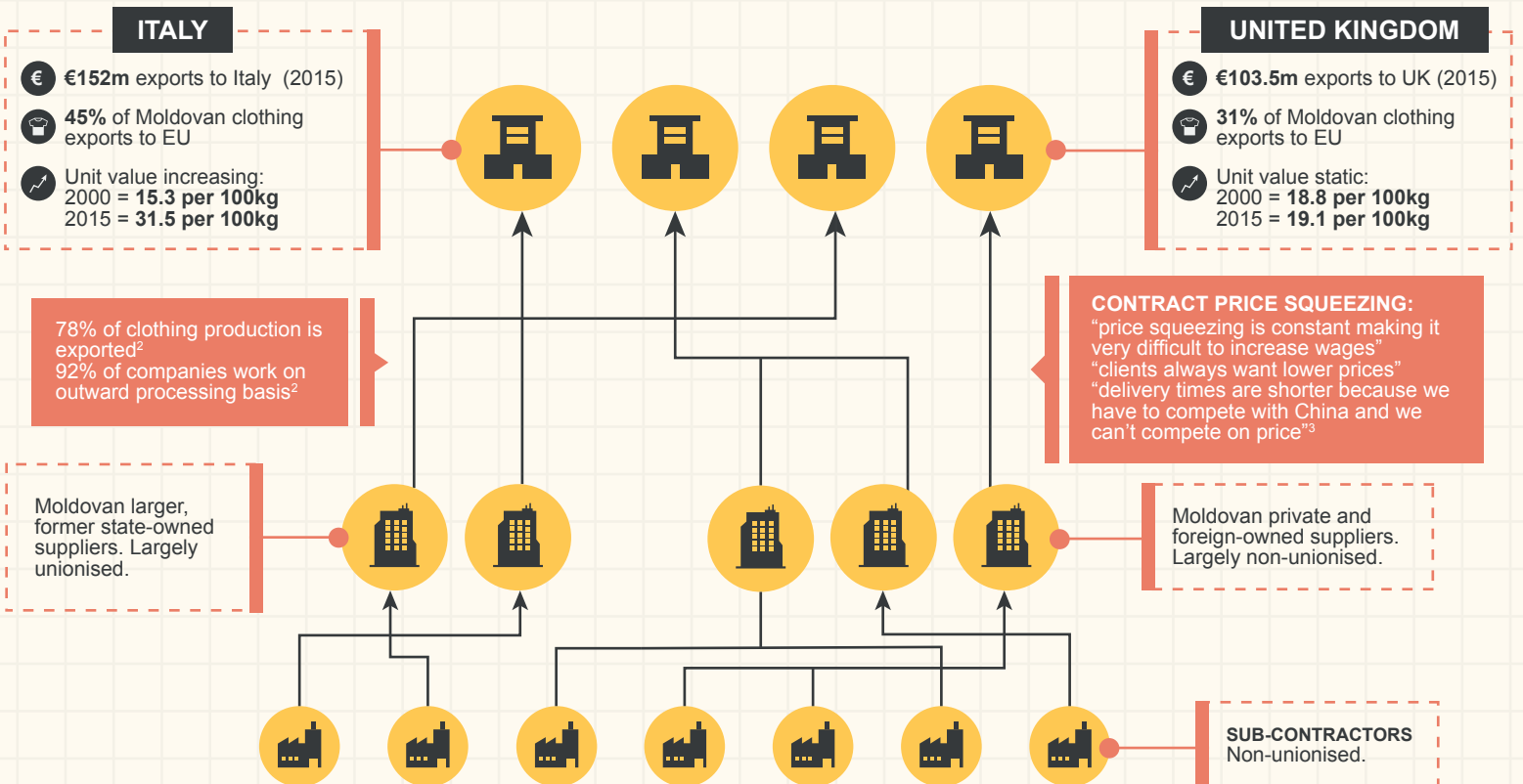


48% of clothing companies registered a profit in 2015<sup>1</sup>



Moldova has the lowest labour costs in EU neighbouring states<sup>2</sup>

## MOLDOVA'S EU-ORIENTED CLOTHING VALUE CHAIN AND LABOUR REGIMES



### WAGES AND WORKING CONDITIONS

- Poverty wages in clothing: Average declared net monthly wages = €148<sup>1</sup>  
Minimum wage = €98/month  
Subsistence level for family of four = €324<sup>1</sup>
- 75-80% employees receive overtime and envelope wage payment as supplement to poverty wages<sup>3</sup>
- Use of piece rate payments to intensify work: "If [workers] want to earn more they need to be more efficient"; "We use piece rates to incentivise higher production"<sup>3</sup>



### LABOUR REPRESENTATION

- Freedom of Association is guaranteed in law and constitution but there is limited reach of trade unions in the clothing industry (only 9 of 377 enterprises); even in these firms factory level collective agreements "barely respected"
- Active "discouragement" of trade union membership by employers across the sector



### LABOUR MARKET DYNAMICS

- Employer pressure on state to sustain low minimum wage and liberalise labour market
- Weakening of capacity of State Labour Inspectorate
- High costs of compliance for employers of OHS implementation (and other Directives) (contained in the Association Agreement) leading to the further squeezing of profit rates in firms, creating further downward pressure on wages

<sup>1</sup> Data from Moldovan National Bureau of Statistics

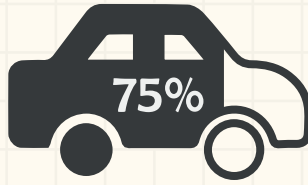
<sup>2</sup> Mattila, H., Gheorghita, M., Madan, S. (2016) Recommendations for Creating a Roadmap for Competitive Development of Moldovan Fashion Manufacturing Industry. Unpublished document

<sup>3</sup> Interview Data

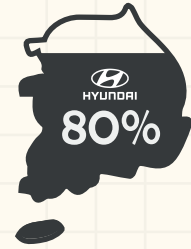
# SOUTH KOREA EXPORT-ORIENTED AUTOMOBILE PRODUCTION AND THE EU FTA



EU auto exports to Korea are booming, but Korea's exports to EU are stagnant



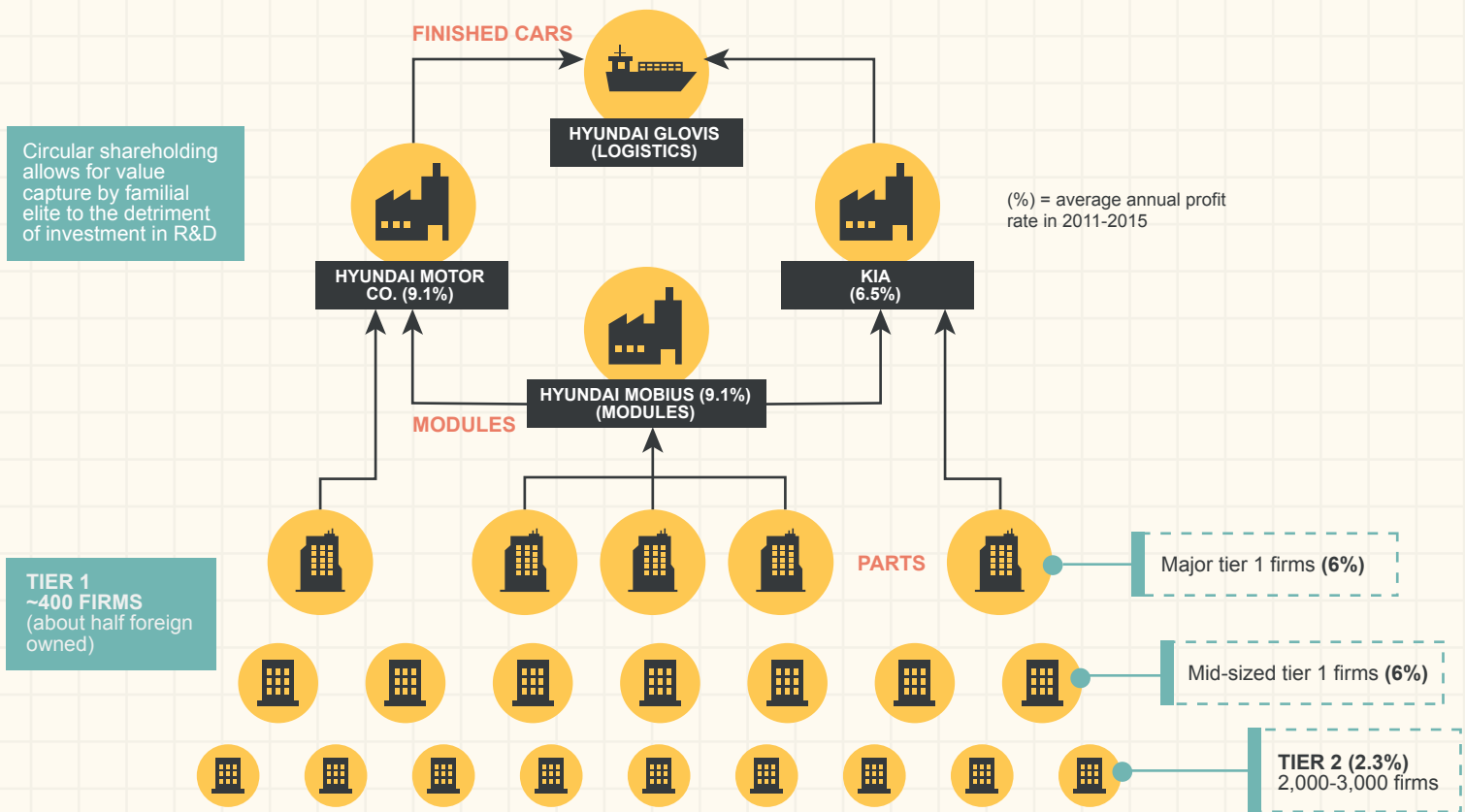
75% of domestic production is exported and the auto industry accounts for 17% of South Korean industrial employment (~80% male)



80% of domestic auto production shares belong to Hyundai Motor Group (HMG)

EU FTA puts pressure on profitability of Hyundai Motor Group (HMG) with growing import of high margin luxury cars from EU. HMG share of South Korea auto market drops from 90% in 2000s to 65% in 2016.

## HYUNDAI MOTOR GROUP'S VALUE CHAIN



Captive parts suppliers are squeezed by HMG: between 2006-2014 finished car price grew by 34.1% but car parts price grew by just 2.1%



### WORKING CONDITIONS AND WAGES

- International labour standards have had limited effect in improving working conditions. Labour militancy has driven some improvements in working patterns. Hyundai Motors branch of Korean Metal Workers' Union (KMWU) won a change in shift patterns, from x2 12 hour shifts to x2 8 hour shifts, implemented in 2015; with Kia to follow in mid-2017. Just-in-time production means that 1<sup>st</sup> tier suppliers mimic new shift patterns, diffusing benefits to their workers. Also, long-standing irregular workers at HMC are to be regularised.
- HMG wages are the highest in the industrial sector in Korea. But first tier workers in automotive sector are paid at ~60-70% and 2nd tier workers at ~30-40% of HMG wages, leading some to argue that HMG workers gain at others' expense.

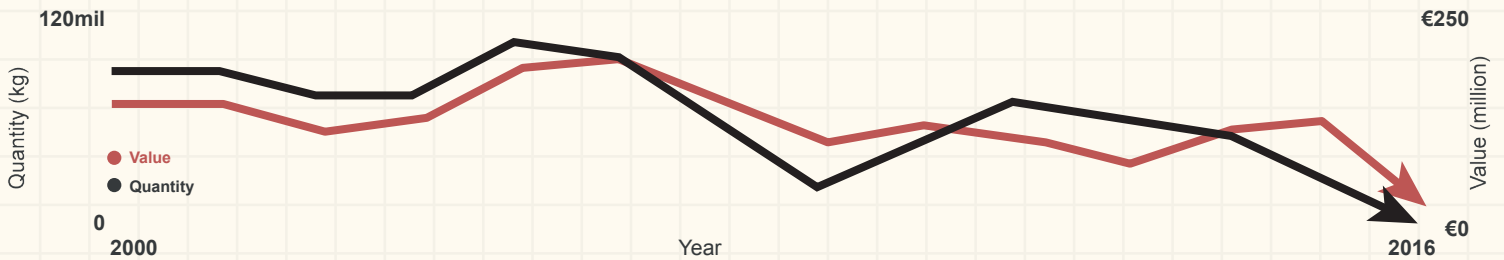


### LABOUR REPRESENTATION

- Korea has not ratified the ILO Freedom of Association & Collective Bargaining conventions. In the auto sector labour representation is high with ~70-80% unionisation in auto manufacturers and in first tier auto parts firms, but lower in second tier suppliers (~20-30%) (national union density is 10.3%).
- Two competing union federations organise workers across thousands of firms, who primarily negotiate at enterprise level. Industrial unionism is undermined by non-ratification of ILO conventions 87 and 98, limiting solidarity of workers across the industry.
- High levels of unionisation have not protected KMWU and its umbrella federation (KCTU) leaders from being imprisoned.



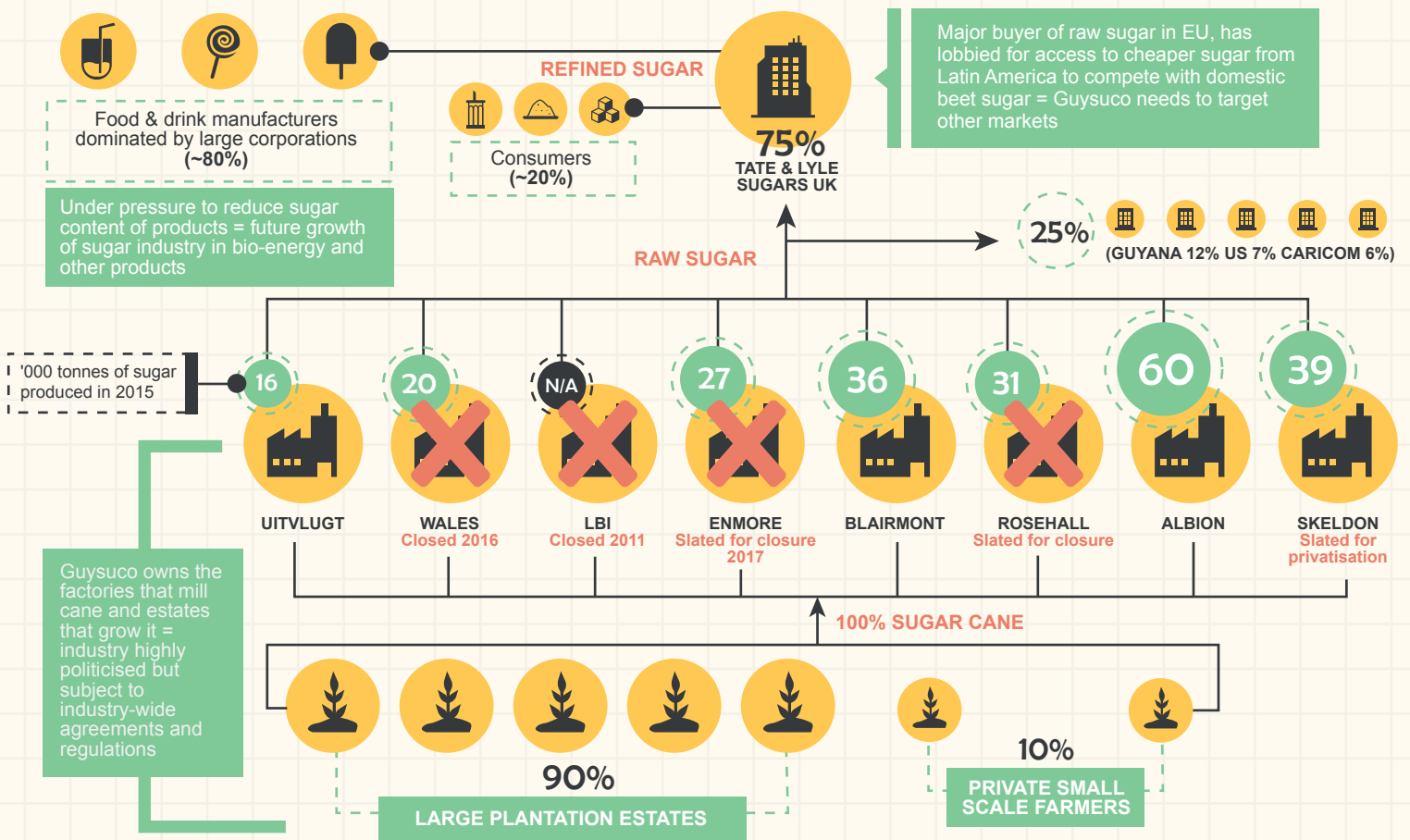
# GUYANESE DEPENDENCE ON EU SUGAR EXPORTS



Source: Eurostat  
Guyana's Sugar Value Chain and Labour Regime

Falling export revenue from its major market has led to restructuring and redundancy in GuySuCo, the state-owned sugar company. This is Guyana's single biggest employer after the government, accounting for **16,000 jobs** in 2016.

## GUYANA'S EU-ORIENTED VALUE CHAIN



### WAGES AND WORKING CONDITIONS

- Relatively good for factory and office workers, less so for fieldworkers on plantation estates, especially weeders and fertilisers (typically female jobs). Cane cutters (typically male jobs) paid around **£325** a month but work is arduous.
- Total wages account for **65%** of cost of production. Guysuco has tried to reduce wage inflation and sought to concentrate and mechanise production to gain competitiveness. Labour standards less of a concern than keeping industry afloat.



### LABOUR REPRESENTATION

- >90% eligible GuySuCo employees are members of GAWU, the biggest trade union in the Caribbean, affiliated to Indo-Guyanese political party.
- Afro-Guyanese political party elected to office in 2015, seen as contributing to breakdown in collective bargaining with state-owned company. GAWU has long history of militancy. Social dialogue challenging in this context.



### LABOUR MARKET DYNAMICS

- Redundancy is a major concern given no unemployment insurance and few other sources of employment. Emigration and remittances key to Guyanese; offshore oil drilling main hope for future.
- Aid for Trade funding and Economic Partnership Agreement not stimulated alternative employment through economic diversification.

# COMPARATIVE SUMMARY OF RESEARCH FINDINGS

Overall, the diversity of sectoral and country cases illustrates the limits of a “one size fits all” approach to labour provisions in trade agreements in dealing with labour conditions in global value chains.

A wider question is whether **EU trade agreements can effectively govern the complexities of global value chains** due to the world market and competitive pressures experienced in leading export sectors.

ISSUE	MOLDOVA	SOUTH KOREA	GUYANA/CARIFORUM
<b>Primary labour issues</b>	<p>Poverty pay widely evident supplemented by informal activity.</p> <p>Intensification of work in factories to meet tight and variable contracts.</p> <p>Limited trade union capacity beyond core former state-owned firms.</p> <p>Erosion of capacity of State Labour Inspectorate to monitor conditions as part of wider tendency towards labour market liberalisation.</p>	<p>Highly antagonistic capital-labour relations in auto industry, with the state often allied to industry.</p> <p>Major concerns over freedom of association and right to organise (ILO Conventions 87 and 98 not ratified).</p> <p>Industrial relations dominated by enterprise unionism.</p>	<p>Threat of redundancy and uncertainty over planned closures.</p> <p>Absenteeism and industrial action is high among fieldworkers. GAWU believe pay is too low and strikes necessary.</p> <p>Gendered inequality relating to informal occupational segmentation and low wages for female field workers is evident but little discussed.</p>
<b>The main mismatch with the TSD framework</b>	<p>Prevailing wage systems not dealt with in the TSD framework, but crucial to competitive pressures in clothing export production.</p> <p>Current inability of institutional structures to raise and deal with real labour issues (e.g. reforms to Labour Inspection system).</p>	<p>European Commission repeatedly failed to respond effectively to EU DAG requests for response to Korean state’s labour abuses.</p> <p>Unorganised workers, where wages and working conditions are the worst, are not clearly represented in the TSD framework.</p>	<p>Trade-related restructuring and sectoral economic decline not dealt with.</p> <p>Industrial relations highly politicised and not amenable to appeals to social dialogue.</p>
<b>Position in the value chain</b>	<p>Pressure on clothing workers throughout the value chain, and limited extent of trade union presence especially lower down the value chain and weakening labour inspection system means that working conditions are precarious.</p>	<p>Chaebol system of captive suppliers exerts growing pressure on lower tier firms and their employees, who are often irregular and migrant workers with reduced capacity to organise.</p>	<p>Sugar industry is price taker and heavily dependent on exports to one buyer; seeking to diversify but remains financially reliant on government subventions.</p> <p>Sugar production globally is labour-expelling.</p>
<b>Representation on the TSD institutions</b>	<p>Limited capacity to deal with major export sectors given generalist nature of institutional presence.</p>	<p>European Commission failed to meaningfully address the issue of imprisonment of the KMWU leadership.</p> <p>Questions over the ability of DAG process to represent non-unionised workers.</p>	<p>Nominally represented through the Caribbean Congress of Labour but in practice no direct engagement with the trade agreement or its institutional apparatus.</p>
<b>Monitoring systems in the TSD framework</b>	<p>Limited capacity for major sectoral level monitoring, though CNSM and branch union do monitor labour conditions.</p>	<p>Organised labour has significant capacity for monitoring in upper tiers of auto chain, but serious gaps in second tier and below.</p>	<p>Little monitoring in general and none in sugar industry, though GAWU and NAACIE trade unions effectively monitor labour conditions.</p>
<b>Positive Aspects</b>	<p>Association Agreement has potential to make progress on wider labour issues (including OHS) than those in the ILO core conventions.</p>	<p>EU civil society successfully pushed for inclusion of Korean Confederation of Trade Unions on the Korea DAG.</p>	<p>Trade agreement created a high-level political debate about economic strategy in the Caribbean.</p>

# POLICY IMPLICATIONS FOR THE TRADE-LABOUR LINKAGE

# 1

## PRE-RATIFICATION

Shift towards stronger forms of pre-ratification conditionality (as found in US FTA model) to increase potential for core labour standards (CLS) to be incorporated into domestic law of trade partners. But while getting standards into law is necessary (so that it can be used as a resource to struggle against worker abuses), it is not sufficient.

## REACH OF CORE LABOUR STANDARDS

Our research has shown that many of the important labour issues in partner countries are not covered by CLS. The CLS+ framework can widen the scope to include three further key areas: living wage, hours of work, and safety standards.<sup>4</sup> Beyond CLS+, migrant workers' rights, gender and race equality, and social protection are also critically important labour issues.

# 2

# 3

## MORE EFFECTIVE IMPLEMENTATION SHOULD INCLUDE

- **Monitoring:** social partners and civil society are necessary but not sufficient because of (i) non-coverage of certain groups of precarious workers by unions and (ii) diverse nature of civil society organisations in third countries. There is a need to directly empower workers. The model of worker-driven social responsibility provides some ideas on how to do this (e.g. Electronics Watch and Coalition of Immokalee Workers). This could be a monitoring process that gives effective, meaningful and timely voice to civil society actors, including labour
- **Incentives:** FTAs should not rely on a punishment model and sanctions per se and could use greater trade incentives such as enhanced preferences and/or relaxation of rules of origin
- **Serious Dispute Settlement process:** there are fundamental limits to the Panel of Experts process in TSD chapters. There is a need for a process for both inter-state and non-state partners (e.g. worker representatives) to bring cases. Reform should consider a range of complex design issues including how a dispute is initiated, who it targets in relation to what labour-related allegations, who investigates those allegations, who decides on the kinds of corrective action and penalties to be applied, and what form of sanctions or fines are available to do this
- **Graduated Sanctions:** dispute settlement needs bite but also needs to avoid impact of sanctions on workers; e.g. targeting particular supplier or lead firms; targeting particular sectors

## LABOUR PROVISIONS BEYOND THE TSD TEMPLATE TO TAKE ACCOUNT OF SCENARIOS IN DIFFERENT COUNTRIES

- **Account for most prevalent labour concerns,** e.g. national labour inspection systems have to be empowered and need to establish mechanisms to support identification of labour issues (e.g. labour attachés)
- **Role of civil society:** recognise resource issues limiting civil society participation in the TSD process and the contrasting nature of civil society organisations in third countries

# 4

# 5

## MOVE BEYOND STATE-TO-STATE INSTITUTIONAL RELATIONS TO INCLUDE CORPORATIONS AND KEY EXPORT SECTORS

Build trade agreement and global value chain links by establishing road maps for action in key export sectors with clear monitoring processes aimed at enhancing working conditions relevant to those economic sectors. These should also include mechanisms to deal with sectors that are at risk of trade-related decline and redundancy (this might include requirements around due process on termination (ILO Convention 158) and the creation of redeployment and restructuring funds to support workers who lose their jobs).