

# TNC PURCHASING PRACTICES IN THE GARMENT SECTOR

*Research for the Labour Wedge of the Oxfam International Trade Campaign*



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Dr. S.H. Khan

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## **Abbreviation**

ADB	Asian Development Bank
ASK	Ain-O-Salish Kendra
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BNWLA`	Bangladesh National Womens' Lawyers Association
CCTV	Close Circuit Television
CM	Cutting and Making
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FoB	Free on Board
GDP	Gross Domestic Product
HDRC	Human Development Research Centre
IMF	International Monetary Fund
LC	Letter of Credit
NGO	Non-government Organization
NLA	National Labour Association
OI	Oxfam International
RMG	Ready-made Garments
TNC	Trans National Corporation
US	United States
USA	United States of America
WB	The World Bank

## **Executive Summary**

In order to 'Make Trade Fair', Oxfam International is in the process of launching even vigorous campaign. Toward that, it appeared important to know purchasing practices of TNCs and their effect on precarious employment in the sportswear sector of Bangladesh.

Different dimensions of the theme (TNC Purchasing Practices) were identified and explored with those directly and indirectly related. All these respondents were interviewed with a semi-structured questionnaire based on the different dimensions of the theme.

Teams of two researchers conducted all the interviews and prepared a draft report and submit the same to the compiler of the country report.

Purchasing practices as such or any practices and its inquiry is a sensitive issue, particularly in Bangladesh. An honest inquiry is often apprehended as a threat. On general terms, respondents were more spontaneous in discussion but on specifics, they appeared less spontaneous.

Different categories of respondents were interviewed among whom NGOs and Union Officials were quite vocal against anything and everything. Established garment owners appeared rather complacent with the practices of TNCs. Yet-to-be established garment owners were outspoken about the practices of TNCs and buying houses. Local buying houses were found pointing their fingers more toward garment owners. EPZ officials are there to provide variety of services to retain and attract FDI, therefore, they appeared less interested in the affairs of the units and more specifically purchasing practices of TNCs.

The Garment sector of Bangladesh is going through a metamorphosis. It is noted that the market for garment products is more controlled by the buyers than the sellers. While countries and their governments like China and India are able to resist pressures yet sustain, there are other countries that enjoy preferential treatments from countries and government of the sourcing companies. Yet, there are other countries where national governments are not equally strong to resist the pressures – be it on 'quota restriction' or 'code compliance'. Moreover, the policies of the national governments are not always clear which is more complicated when there appears lobby like 'for garments' and 'for textile' in the society.

However, as the market is more in control of the buyers than the sellers (these buyers are in reality not the consumers – rather they are customers. Equally is somewhat true for the sellers) the former is in advantageous position to dictate terms and conditions. These dictations are sometimes appreciated while at times appear horrendous. 'Compliance' is more often a nightmare for the sellers (vendors). There are instances when the sourcing company or its agent demands that there should be 'tissue paper' or 'hand-dryer' in the toilets of the factories. While the workers of Bangladesh are neither used to 'tissue paper' nor they appreciate the same on religious grounds – still tissue is an issue. 'Hand dryer' and warm air from the same is comfortable in cold-weather but the same is un-comfortable in hot whether. Code to comply sometimes defies the natural and social realities!

One of the famous chain stores (Wal-Mart) of North America claims 'everyday low price'. However attractive the claim is to the shoppers, in order to ensure 'low-price', the store and/or its agent shifts the burden more to the vendors than on themselves. It seems there is something to do on the part of the shoppers also to make 'trade fair'. 'Caveat Emptor' is an old adage. On

the one hand, the shoppers should not be that allured and thereby vulnerable to exploitation by 'brands'. 'Brands' are possibly extracting excessive premiums from shoppers. On the other, excessive low-price to shopper should also appear unacceptable. The shoppers should notice that excessive low and excessive high price are both abnormal and therefore too good to accept.

As has been said earlier, the garments sector is going through a metamorphosis in Bangladesh. It is possibly true that the bigger and established garment owners are heading toward an oligopoly –which is possibly natural in free-market economy. Compliance appeared harassment to smaller owners but bigger owners is not that vocal about 'compliance'. It is as if, through an invisible hand – the bigger of here (Bangladesh) and bigger of there (overseas) are converging!

It appears from different interviews that local buying houses (middlemen) and local vendors (suppliers) hold complete opposite views on the purchasing and other practices of the sourcing companies. Buying houses have a tendency to accuse the vendors while vendors are sometimes unequivocal against the sourcing companies. It is really difficult to delve deep as to what extent and whether 'precarious employment' is caused more by the sourcing companies or the vendors. No doubt there are a few rotten apple in both the barrels.

There are also allegations that some associations of US labors (e.g. NLA) are engaged in discrediting the labors and related practices of developing countries like Bangladesh. There are reports that some fake labors (women) were flown in to USA to narrate their so called miseries to students at different campuses of the USA. These types of practices are alarming and totally unacceptable from several viewpoints, as was expressed by a lawyer related to the sector.

For certain sportswear while the price at the vendors end was US\$ 18 in 2001 that has come down to US\$ 05 in 2003 (Denim Ladies Blouse for Wal-Mart). It is not always true that the prices have gone down wholly because of intense competition. However, more interesting issue is how these vendors are surviving themselves with US\$ 05 instead of US \$ 18? We know that prices of materials, utilities and accessories has not gone down, we also know that the volume of order has neither increased – in such scenario what really is the catch? One of the explanations from a garment owner is that they are simply trying to keep afloat. They are not really in a position to invest and progress. There is a hope against hope that the on-going recession will soon be over, China will no longer remain as competitive as it is and volume of orders will increase. Right now though the per unit price of goods has come down but the volume of orders has not really come down to that extent. Thereby the garment owners are able to survive. However, it has been reported that the international buyers are making similar or more profits as they used to make in 2001.

Generally European buyers has been reported as less professional than North American buyers. There are many examples where vendors have experienced compassion from the sourcing companies (US). At one instance a vendor ordered for a particular shade of a particular color of fabric but they were supplied with a somewhat different shade, which was not that easy to identify. The vendor manufactured the ordered garments and subsequently delivered it to the overseas agent and the agent to the store. The store rejected the whole consignment and compelled the agent to take back the goods. Moreover, the store asked for the compensation against anticipated profit and promotional expenses. The agent had to oblige the store and then resettlement with the vendor. At that time, the vendor was only a beginner and it was something like a deathblow for him. Therefore, negotiations went on and at some point the vendor convinced the agent that, as he (vendor) is not that big as the agent, therefore he is not in a position to share the blow equally. The agent accepted the arguments and took the major

portion of the blow. These types of stories and occurrences are there in every phase – involving every party.

Prices from the vendors' end are quoted either on FoB or C&F basis. Whatever is the basis of price, it depends on so many factors. However, a typical FoB price and its breakdown were difficult to know.

It appeared from the statements of garment owners and local buying houses that the ultimate customer (different from ultimate consumer) is adding 100% mark up on the goods received. Is there any law or rule to govern as to how much mark up one is allowed to add for his given services? Is there any calculation to determine as to how much value is being added by a middleman and for that how much mark-up he should add? It seems that a mark-up of 100% at the store level is too high!

As has been said earlier, intervention on demand side is equally important. Why shoppers should be carried away by a brand? A trouser is a trouser, it makes little difference whether it is from 'Dockers' or 'Levis'. Shoppers too are patronizing unnecessarily the TNCs and their brands and thereby their whims and caprices – shades of which are reflected in the purchasing practices of TNCs—incidence of which is felt at vendors and lower levels.

While sourcing companies rely strongly on their local agent for meeting orders and 'to comply' the internal agent pay visits to the factory-owner and inquires about the terms and conditions. The potential supplier who have large backward and forward-linkages can meet their demand readily. Since these firms produce their own raw materials, can make shipment within a short lead-time. But firms, who have three to four stages of backward linkages, face severe problem. Sourcing company sometimes put condition that the raw materials are to be purchased from their own country and for this they will not offer any competitive price though the raw materials costs are higher than other sources.

Precarious employment as a result of TNC purchasing practices is not that easy to establish. One can not be that sure as to whether precarious employment is caused by the practices of TNCs or by the vendors, or by both. Let us assume that TNCs are surrendering a portion of their profit for the poor garment workers but is there any mechanism or guarantee that those surrendered portion will reach the workers?

As we interviewed the two sections: vendors and agents, sometimes opposite views were expressed and it is as if one is a competitor to the other. But, at the end of the day, they are on the same boat and rowing to the same direction!

We were able to estimate a raw figure as to how much of the retail price is going to the TNC and the vendor. It emerged that out of say, US \$ 15, US \$ 13 is for the TNC and US \$ 02 is for the vendor. Needless to say the vendor is supposed to pay everything from this 2 dollars wherein the workers are often last in the list of recipients.

'Code' and 'compliance' is a tricky issue. There are pros and cons in it. By and large it is true that in the name of compliance sometimes-unnecessary pressure is created on the vendors. It is reported that 'codes' sometimes act as Non-Tariff Barriers and at other times the codes are contradictory to the national laws. Moreover, the 'codes' are often not that clear and plenty of scope is there for interpretation on the part of the sourcing companies and their agents. The Bangladesh Garment Manufacturers and Exporters Association' (BGMEA) is in the process of finalizing their own 'code' for their members.

The international civil society, retaining their commitments to human rights – can enquire about the social and economic realities of countries like Bangladesh. Based upon those realities they can also voice against `compliance' to those codes, which are against.

Oxfam can mobilize the different segments of the international civil society by making them aware about the social and economic realities of a country. There is hardly any point in banning child labor in the garment or any sector – while the society is not able to provide for viable alternatives. Plenty of examples are there when goods manufactured and marketed by non-profit making organizations (better termed as NGOs) are being sold and appreciated in a patronizing way. The customers hardly care for, whether those are manufactured in so called healthy conditions or labors are adequately paid for or labors are under age or not.

## 1. Introduction

In order to 'Make Trade Fair', Oxfam International is in the process of launching even vigorous campaign. Toward that, it appeared important to know purchasing practices of TNCs and their effect on precarious employment in the sportswear sector of Bangladesh.

Different dimensions of the theme (TNC Purchasing Practices) were identified and explored with those directly and indirectly related. The different category of respondents and their sample size is presented below.

Category of Respondents	Sample Size
Garment factory owners	10
Buying Houses	05
Union Officials	10
EPZ authority	10
NGO activists	05

All these respondents were interviewed with a semi-structured questionnaire based on the different dimensions of the theme.

Teams of two researchers conducted all the interviews and prepared a draft report and submit the same to the compiler of the country report.

### 1.1 Limitations

Purchasing practices as such or any practices of busineeemen and its inquiry is a sensitive issue, particularly in Bangladesh. An honest inquiry is often apprehended as a threat. Moreover, the garment owner and managers of buying-houses, who are supposed to hold enough information on the subject, are very busy people. It is and it was very difficult to get hold of them and then convince them to speak. On general terms, they were more spontaneous in discussion but on specifics, they appeared less enthusiastic.

### 1.2. General Observations

Different categories of respondents were interviewed among whom NGOs and Union Officials were quite vocal against anything and everything. Established garment owners appeared rather complacent with the practices of TNCs. Yet-to-be established garment owners are outspoken about the practices of TNCs and buying houses. Local buying houses were found pointing their fingers more toward garment owners. EPZ officials are there to provide variety of services to retain and attract FDI, therefore, they appeared less interested in the affairs of the units and more specifically purchasing practices of TNCs.

### 1.3. An Overview of Garment Industry in Bangladesh

The economy of Bangladesh is predominantly agro-based. Agriculture contributes about one third of GDP and provide employment for more than half of the labour force. The share of manufacturing sector rose from around 8% in 1972 to 15% in 2001-2002 which is still one of the lowest among the low-income countries. Besides, the manufacturing sector was confined to only jute and cotton textile, leather and food processing. Within the textile industry, handloom occupied significant position both in terms of volume of output and employment generation. But except jute, all other industries produced goods basically for domestic consumption.

Until the end of 70s, the contribution of export sector to GDP was insignificant and confined to mainly jute and jute goods and a few primary products. In 1978, jute and jute goods alone contributed 75% of the export earnings. The rapid change came with the emergence of garment industry. This industry begun with nine farms in 1978, grew up by leaps and bound in the subsequent years numbering to 3470 in 2001. In about two decades with modest beginning, garment exports approached to about \$4.6 billion in gross value (from a low \$32 million in 1983) which is 76.57% of total export earning. During the last twenty years (between 1983 and 2002), while the total export of Bangladesh has increased by 7.4 times, the export of RMG has increased by 145 times.

Table 1: Trends in RMG exports of Bangladesh: 1983/84 - 2001/02

Year	Export of RMG (in US\$ million)	Total export of Bangladesh (in US\$ million)	RMG export as a % of total export
1983-84	31.57	811.00	3.89
1984-85	116.20	934.43	12.44
1985-86	131.48	819.21	16.05
1986-87	298.67	1076.61	27.74
1987-88	43.92	1231.20	35.24
1988-89	471.09	1291.56	36.47
1990-90	624.16	1923.70	32.45
1990-91	866.82	1717.55	50.47
1991-92	1182.57	1993.90	59.31
1992-93	1445.02	2382.89	60.64
1993-94	1555.79	2533.90	61.40
1994-95	2228.35	3472.56	64.17
1995-96	2547.13	3882.42	65.61
1996-97	3001.25	4418.28	67.93
1997-98	3781.94	5161.20	73.28
1998-99	7019.98	5312.86	75.67
1999-2000	4352.39	5752.19	75.06
2000-2001	4859.08	6467.30	75.13
2001-2002	4583.75	5986.09	76.57

Source: BGMEA

Table 2: Employment in the RMG industry since 1991-1992

Year	Total (million)	% of female employment
1991-92	0.58	85
1992-93	0.80	85
1993-94	0.83	85
1994-95	1.2	90
1995-96	1.29	90
1996-97	1.35	90
1997-98	1.5	90
1999-99	1.5	90
1999-2000	1.6	90
2000-2001	1.8	80
2001-2002	1.8	80

Source: BGMEA

The Tables 1 and 2 depict the trend of growth in garments industry in terms of export earning and employment generation. In the fiscal year 1983-84, the export from garment (both knit and woven) amounted to only \$31.57 million, which was 3.89 percent of the total export earning. In 2001-2002 fiscal year, the figure for exports earning rose to \$4583.75 million making 76.57 percent of the total export income. But more spectacular growth was achieved in the employment sector. In 1991-92 more than half a million or 0.58 million people were employed in garment industry, but in 2001-2002 the number rose to 1.8 million which is more than 3 times higher than in early 90s.

The expansion of garment industry has also reduced the trade deficit from 60% of 1991 to 36% in 2001-2002. Within the export sector, there has been shift away from a highly concentrated traditional export items such as jute and tea to the new non-traditional item like garment, frozen fish and leather.

The pace of industrialization that has been very low and stagnated over many decades has mostly been attributed to the lack of a sound entrepreneurial class. The largest industrial sector, which earned the lion share of the export income accommodating the most of the industrial labour force, belongs to the public sector. Private entrepreneurial classes were largely confined to the small and cottage and handloom industrial sectors. Emergence of garments in the early 80s generated a new educated entrepreneurial class.

But the most significant change came in female labour structure. The share of female labour force was accounted for 38% in 1995-96 and out of which only 7% were engaged in manufacturing sector. The striking feature of the labour force is that although the female labors contribute a significantly in various economic as well as in domestic sectors, they were not recognized as labour force. The generation of employment opportunity in the garment industries has changed the traditional idea about female labors. These female workers, mostly poor with little or no education, are the deprived section of the society migrated from the rural area and joined the industry without having any prior experience as industrial worker. But it took little time to be accustomed with the new situation and proved their efficiency in new profession. The garment industry has not only provided over one and half million female labour a new life, but helped them changing the traditional attitude about the female labors in the society.

During British period entrepreneurship whatever existed belong to Hindu Marwari community who after partition migrated to India and their business was taken over by the Muslim non-Bengali men from West Pakistan. The creation of Bangladesh as an independent state, paved the way for the Bengalis to entrepreneurship. But due to the lack of experience, capital and willingness to take risk shattered the hope of generating new industrial ventures. Almost one decade after independence, the breakthrough came through the garment industry. It is worth mentioning that about 60 percent of the entrepreneurs had no prior experience – neither about industry nor about business and nearly half of them are below 30 years of age.

The rapid expansion of industries was brought by the new educated entrepreneurial people who otherwise would have been indulged in searching unproductive white-color job or looking for an opportunity to migrate to foreign countries to do odd jobs.

Bangladesh has long been regarded as country of famine, natural calamity, aid-dependent and political instability. With the growth of garment industries, Bangladesh attempted miraculous escape from poverty, not with massive foreign aid but self-initiative of new class of industrial entrepreneurship.

## **2. The Present Scenario**

Once a thriving sector, the Garment sector of Bangladesh is going through a metamorphosis. Varieties of reasons are there of which the practices of sourcing companies are one.

It is to be noted that the market for garment products is more controlled by the buyers than the sellers. In this general backdrop different countries and their traders try to maximize their benefits. While countries and their governments like China and India are able to resist pressures yet sustain, there are others that enjoy preferential treatments from countries and government of the sourcing companies. Yet, there are other countries where national governments are not equally strong to resist the pressures – be it on 'quota restriction' or 'code compliance'. Nor they are persuasive enough to ensure preferential treatments. Moreover, the policies of the national governments are not always clear which is more complicated when there appears lobby like 'for garments' and 'for textile'. Right at this moment, it is reported that the Government of Bangladesh is leaning more toward the textile lobby than the garments lobby. As a result, the government is constrained to maximize the opportunities for the garments sector.

However, as the market is more in control of the buyers than the sellers (these buyers are in reality not the consumers – rather they are customers. Equally is somewhat true for the sellers also) the former is in advantageous position to dictate terms and conditions. These dictations are sometimes appreciated while at times appear horrendous. 'Compliance' is more often a nightmare for the sellers (vendors). There are instances when the sourcing company or its agent demands that there should be 'tissue paper' or 'hand-dryer' in the toilets of the factories. While the workers of Bangladesh are neither used to 'tissue paper' nor they appreciate the same on religious grounds – still tissue is made an issue. 'Hand dryer' and warm air from the same is comfortable in cold-weather but the same is un-comfortable in hot weather. Code to comply sometimes defies the natural and social realities!

At other instances, the use of Close Circuit Television (CCTV) was objected by the sourcing companies as it intrude privacy but now-a-days installation of CCTV is being emphasized. All these installations and dismantling involve costs which the vendor is expected to bear for the sake of 'compliance'. Of late, some of the sourcing companies are talking about 'metal

detector' to detect any broken needle or something in the garment, anti-anthrax measures and escorting consignments right from the doorstep of the factory to the port! 'Punch cards' to track entry and exit of workers are there but of late, computerized punch card is being advised by the agents of sourcing companies. One of the factory manager observed, "an individual card costs around Tk.200 and for a temporary labor—incurring the cost is nothing but a wastage". While some of the above are appreciated by the vendors because of the changed global scenario after 9/11 but their 'major observation' is the unwillingness of the sourcing companies to share the related costs. The vendors can not be that vocal lest the sourcing company turn around to other vendors of other countries.

Under the veil of 'compliance' it is advised by sourcing companies that four months maternity leave with payment in advance must be paid. Vendors are finding it difficult, as there is no guarantee that, the worker will return after delivery.

One of the famous chain stores of North America claims 'everyday low price'. However attractive the claim is to the shoppers but in order to ensure low-price' the store shifts the burden more to the vendors than on themselves. It seems there is something to do on the part of the shoppers also to make 'trade fair'. 'Caveat Emptor' is an old adage. On the one hand, the shoppers should not be that allured and thereby vulnerable to exploitation by 'brands'. 'Brands' are extracting excessive premiums from shoppers. On the other, excessive low-price to shopper should also appear unacceptable. The shoppers should notice that excessive low and excessive high price are both abnormal and therefore unacceptable.

It appears from different interviews that local buying houses (middlemen) and local vendors (suppliers) hold complete opposite views on the purchasing and other practices of the sourcing companies. Buying houses have a tendency to accuse the vendors while vendors are sometimes unequivocal against the sourcing companies. It is really difficult to delve deep as to what extent and whether 'precarious employment' is caused more by the sourcing companies or the vendors. No doubt there are a few rotten apple in both the barrels.

There are also allegations that some associations of US labors (e.g. NLA) are engaged in discrediting the labors and related practices of developing countries like Bangladesh. There are reports that some fake labors (women) were flown in to USA to narrate their so called miseries to students at different campuses of the USA. These types of practices are alarming and totally unacceptable from several viewpoints.

For certain sportswear while the price at the vendors end was US\$ 18 in 2001 that has come down to US\$ 05 in 2003. It is not always true that the prices have gone down wholly because of intense competition. But more interesting issue is how these vendors are surviving themselves with US\$ 05 instead of US \$ 18? We know that prices of materials, utilities and accessories has not gone down, we also know that the volume of order has neither increased – in such scenario what really is the catch? One of the explanations from a garment owner is that they are simply trying to keep afloat. They are not really in a position to invest and progress. There is a hope against hope that the on-going recession will soon be over, China will no longer remain as competitive as it is and volume of orders will increase. Moreover, one of the Managing Director observed "after 2005 when the quota-restrictions will be lifted away and the market will be much more competitive, the shady factories will not be able to survive---ensuring opportunities for factories like us". Right now though the per unit price of goods has come down but the volume of orders has not really come down to that extent. Thereby the garment owners are able to survive. However, it has been reported that the international buyers are making similar or more profits as they used to make in 2001.

Generally European buyers has been reported as less professional than North American buyers. There are very many examples where vendors have experienced compassion from the sourcing companies (US). At one instance a vendor ordered for a particular shade of a particular color of fabric but they were supplied with a somewhat different shade, which was not that easy to identify. The vendor manufactured the ordered garments and subsequently delivered it to the overseas agent and the agent to the store. The store rejected the whole consignment and compelled the agent to take back the goods. Moreover, the store asked for the compensation against anticipated profit and promotional expenses. The agent had to oblige the store and then resettlement with the vendor. At that time, the vendor was only a beginner and it was something like a deathblow for him. Therefore, negotiations went on and at some point the vendor convinced the agent that, as he (vendor) is not that big as the agent, therefore he is not in a position to share the blow equally. The agent accepted the arguments and took the major portion of the blow. These types of stories and occurrences are there in every phase – involving every party.

Though there are instances of cancellation of orders but more often the brunt of the cancellation is borne by the sourcing companies via agents. As letter of credit (LC) is initially opened from the buyers' end, therefore it is not difficult for the suppliers to recoup the dues. More often, the suppliers open their own LC to import fabric etc. only after receiving money through the buyers LC.

As we all know, business is to meet the gap between demand and supply and business is for-profit. Both the sides try to maximize their profit, which is only natural. A fair deal is always a normative proposition while the reality is, there are plenty of unwilling or willing unfairness in deals. While both the parties are trying to maximize their gains, the 'more-equal' party is always in advantageous position. In order to strengthen their advantageous position, the 'more-equal' party's latest weapon is 'code' and 'compliance'. Unusual emphasis on 'compliance' is not really easy to understand because buyers and sellers are partners too! One can not really ignore the other, therefore, one may tend to think that there are some other considerations than business considerations!

Prices from the vendors' end are quoted either on FoB or C&F basis. Whatever is the basis of price, it depends on so many factors. However, a typical FoB price and its breakdown is as follows. It is to be noted that the breakdown could have been more desegregated but it was difficult to know exactly how much is being paid e.g. as wages to workers.

**Value Chain**

<b>Vendors end</b>	Fabric/materials	64%
	Factory overhead e.g.workers wages etc.	23%
	Bank, insurance etc	06%
	Agent, middlemen & supplier	07%
	<b>Total FOB</b>	<b>100%</b>
<b>Overseas agent end</b>	Freight	25%
	Duty	15%
	Custom broker	10%
	Transport & warehouse	16%
	Margin	34%
	<b>Total</b>	<b>100%</b>
<b>Store end</b>	<b>Store margin</b>	<b>100%</b>
<b>Customer end</b>	Demand	<b>Retail price</b>

(Source: Compiled by the study team.)

As has been said, the garments sector is going through a metamorphosis in Bangladesh. It is possibly true that the bigger and established garment owners are heading toward an oligopoly – which is possibly natural in free-market economy. Compliance appeared harassment to smaller owners but bigger owners is not that vocal about ‘compliance’. It is as if, through an invisible hand –the bigger of here (Bangladesh) and bigger of there (overseas) are converging.

### **2.1. For Oxfam Researchers**

It appeared from the statements of garment owners and local buying houses that the ultimate customer (different from ultimate consumer) is adding 100% mark up on the goods received. Is there any law or rule to govern as to how much mark up one is allowed to add for his given services? Is there any calculation to determine as to how much value is being added by a middleman and for that how much mark-up he should add? It seems that a mark-up of 100% at the store level is too high!

As has been said earlier, intervention on demand side is equally important. Why shoppers should be carried away by a brand? A trouser is a trouser, it makes little difference whether it is from ‘Dockers’ or ‘Levi’. Shoppers too are patronizing unnecessarily the TNCs and their brands and thereby their whims and caprices – shades of which are possibly reflected in the purchasing practices of TNCs.

One of the realities in Bangladesh is existence of different types of informal rent. These rents are to be paid to organized and unorganized thugs if someone venture anything. These costs are not easy to estimate—but its existence can be felt and has been reported. ‘Toward making trade fairer’—Oxfam can lobby with the national government to tackle these issues and thereby empowering the traders with better competitive advantages.

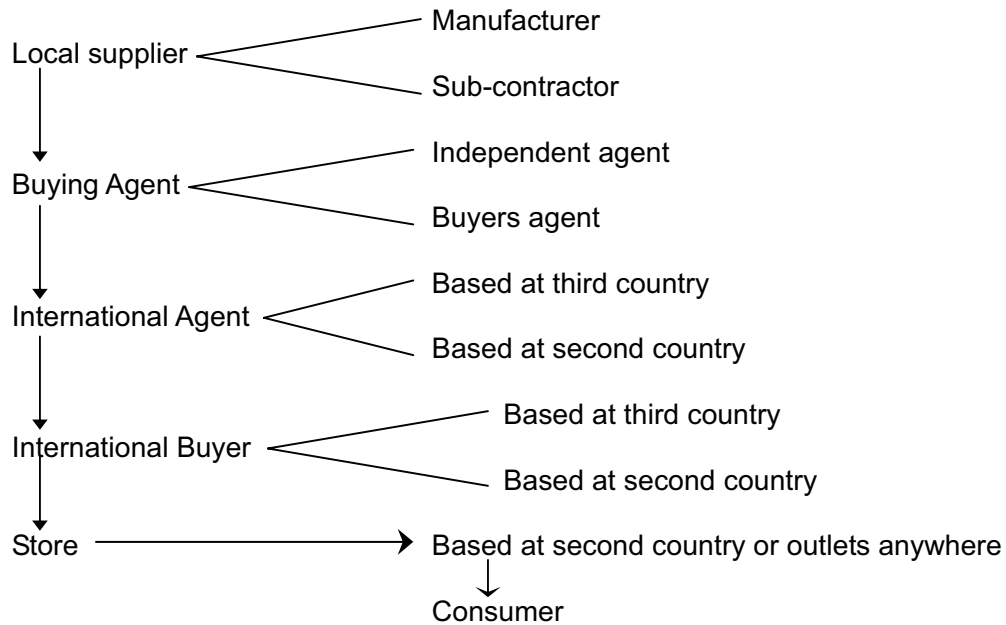
### **3. Parties Involved in Garments Trading**

The RMG industry involves various actors in successive stages of processing, manufacturing and marketing. Since Bangladesh produces very insignificant amount of cotton covering only 4% of the total demand, and local textile mills supply only about one fifth of fabric of the garments. Bangladesh rely heavily on import of cotton and fabric from abroad.

Moreover, the garment industry is a new generation industry and most of the entrepreneurs are engaged in garment manufacturing without prior experience. So, there is a big gap between the sourcing companies and garment manufacturers. Most of the local supplier/ manufacturers rely on buying agents. The buying agents are more qualified professionals who are not only aware of the code of conduct, consumers demand but also they have the ability to deal with the sourcing companies. These professionals inform the supplier about the rules of origin, change of design, type of fabric, type of cloths for different ages and professions of people. In addition, for example, in USA, synthetic products have a high tariff and non-tariff barrier while pure cotton has less. But very few of the suppliers have any knowledge about it. In this case, the buying agents feed this information to the suppliers.

There are provisions that buying agents need to be affiliated with sourcing companies. This process of becoming partner is lengthy and the would-be partner needs to spend money. Once the concerned firm becomes the partner of a sourcing company, it can supply the products directly to the storehouse of the sourcing company. But such buying agents are few in Bangladesh. Most of the buyers are agents of sourcing companies. They receive order from sourcing companies and place it to the supplier. The supplier produces himself and often gives a part to the sub-contractor. In most cases, the sub-contractor accomplishes only the smaller

amount of the total contract. The international agents operate either from the second country or a third country. The following show variety of traders engaged in garment trading. A variation to the following is not uncommon either.



(Source: Compiled by the study team.)

While sourcing companies rely strongly on their local agent for meeting the compliance, the internal agent pay visit to the factory-owner and inquire about the terms and conditions which have been asked to fulfil. In this case, only the potential supplier who have large backward and forward-linkages can meet their demand. Some of them have their own display center of various products from where the international agent can make a choice of their own. Since these firms produce their own raw materials, can make shipment within a short lead-time. But firms, who have three to four stages of backward linkages, face severe problem. Sourcing company sometimes put condition that the raw materials are to be purchased from their own country and for this they will not offer any competitive price though the raw materials costs are higher than other sources.

#### 4. Purchasing Practices with Different Dimensions

##### 4.1. Decline in Price

Until the end of nineties the garment industry experience a phenomenal growth both in terms of value and volume. But since the second half of nineties, the price of CM (cutting and making) started to fall. The rate of decline differs from item to item. Price for T-shirt for example declined from \$10 in 1995 to \$ 4 in 2003. For trouser – the decline was from \$12 to \$6. But while the price of these products declined, raw materials like fabrics, accessories, and utilities like gas, electricity, water, service charge and transportation increased significantly. As a result, earnings of the garment owners had fallen sharply. Because of decline in earnings, many firms are in acute fund crisis. Some firms have stopped recruiting new workers. If the fall in making-and-cutting charges continues at this rate there would be no other alternative but to close these industries and that would not only affect the economy but also create enormous social tension.

Price related information is considered confidential in business arena as it is related with profit. It is therefore closely guarded secret and considered unethical to divulge the information to other. As one manager said, "sourcing companies and their agents sometimes uses the price-carrot by divulging information and thereby alluring a vendor to accept or lower his quoted price."

#### **4.2. On Discounts**

Natural calamity like flood, draught, and cyclone often hit the country throughout the year. Not only the agriculture, the mainstay of the economy, the industry is also affected causing colossal damage. The floods of 1988, 1998 and the cyclone of 1991 have destroyed hundreds of garments industries in Dhaka, Chittagong and Narayanganj cities. These three cities accounted for 99% of the total garment industries of Bangladesh. But those firms which were affected directly by floods, could not make timely shipment as the main roads went under flood water. Nonetheless, the supplier, in order to avoid delay in shipment, sent the products by air. It was expensive and the suppliers suffered a loss. But the sourcing companies shared no cost inspite of the fact that natural calamity was responsible for this additional cost.

#### **4.3. Discount due to Delay in Delivery**

The supplies are sometimes subjected to discounts due to delay in shipment. The reasons of delay are many. Some of these are due to natural calamities and some are due to political instability. In case of natural calamity, say flood, the suppliers meet the lead time by air. But since shipment by air is too expensive and the sourcing companies pay no compensation, firms are not always in position to ship by air. But during political instability, when parties organize strikes and agitation, all roads, railways, ports, becomes stand still and the suppliers have to wait till the situation becomes normal. Sometimes, it took almost a week to get things normalized. The suppliers have then no other alternative but to wait, and in this case, the shipment might not be made timely. But the sourcing companies hardly show sympathy and demand compensation.

#### **4.4. Delayed Payment**

The suppliers often face the shortage of working capital due to delay in payment by the sourcing companies. Because of the delay in payment, the suppliers cannot open LC through the bank. The owners of the garment industries are then forced to take loan from the local bank for purchasing fabrics, accessories as well as paying for wages and utilities. Since the rate of interest is high vis-a-vis other countries, cost of production again goes up, and thereby reducing the earnings of the factory owners. Cost of doing business is also high due to various other reasons. By the time the sourcing companies' payment is received the suppliers have already suffered a loss.

#### **4.5. Quality-discount**

Maintaining high quality is among the important conditions of the sourcing companies. Bangladesh have already earned a good reputation in supplying high quality products. But some sourcing companies demand discount for so-called "compromised quality". The blame for compromising with quality is linked with one or two pieces out of 1000 units. These two pieces which are found as "low quality", could have been kept away from the packets. The definition and judgement of 'low quality' entirely depends on the sourcing companies for which they often demand discount while the suppliers have little choice.

**4.6. Canceling the contract**

There are also instances of canceling the contract by the sourcing companies. The cancellation of contracts comes even without giving any prior warning. This cancellation order comes in the name of delay in shipment, low quality, shortages in specified quantities, or in the name of violation of code of conduct. Even if, any of the above appear to be true, the suppliers are rarely asked for proper explanation. When the arguments fails to satisfy the sourcing companies at most compensation could have been demanded depending on the extent of damage, but instead of doing that, they ( sourcing company) cancel the total contract. Such cancellation at times ruins the whole business of the supplier.

**4.7. Compliance with Code**

The suppliers are to abide by the compliance prepared by the sourcing companies. These codes are made in the atmosphere of developed countries, which are advised to comply by the supplier. Since the condition of the countries like Bangladesh are different from that of developed, some of the codes are difficult to comply with. Say for example, the case of child labour. Children are forced to work due to poverty. In the eye of Western countries this is a violation of human right. But since they are poor and parents cannot afford their education, they are forced to earn at the earlier age. A large number of under aged children started working in the garments. Most of them were involved in simple jobs. Before joining the garments, they were beggars or did odd jobs. But in 1998 under-aged workers were barred and sent to school with a little pocket money. Only few of them got financial benefit and remained at the school. The rests went again in other occupation. Sometimes, the sourcing companies demanded that their codes are to be implemented but give no firm commitment to buy back. In addition to that, the sourcing companies ask the suppliers to use a particular type of inputs, which may be very expensive but they hardly accommodate the extra-cost.

**4.8. Problem with Shorter Lead Time**

Sourcing companies often demand shorter lead time. Accordingly, the factory owners take all possible measure to make the shipment timely. But in the backdrop of continuous strike, load shedding and blockade, the timely shipments of the garments become difficult. In order to avoid such unusual circumstances, the factory owners are forced to let the workers to work beyond the accepted working hours. But while visiting the factory, the sourcing company representatives often express their utter dissatisfaction and threat to cancel the contract in future. The sourcing companies fail to understand the existing socio-political and cultural environment, which is not comparable with that of developed countries. "Shorter-lead time is only possible for common fabrics and by established vendors but for new-comers, shorter lead time is simply a nightmare—observed one factory manager". The manager continued, "120 days should be standard delivery time, because:

- 10 days (for approval of artwork)
- 40 days (placement of orders & manufacture/prepare)
- 18 days (arrival of the vessel at the outer anchorage)
- 04 days (clearing from the port)
- 
- 62 days (Total)
- 58 days (Cutting and making)
- 
- 120 days (Grand Total)

#### 4.9. Working Condition and Pay-scale

Each of the enlisted factory owners is asked by the sourcing companies to abide by their code of conduct. The code of conduct includes precautionary measure against fire, medical check up, space for worker, ventilation, toilet facilities, maternity leave for the female workers and so on. In order to meet all these requirements the factory owners have to make additional investment. This can be accomplished by reducing the gap between what the Sourcing companies pay for Cutting and Making (CM) charge and what they receive from selling the garments to the market. It has been observed by garment owners that if the sourcing companies would have less profit-oriented, the suppliers could have been more work-oriented.

#### 5. Conclusion

Precarious employment as a result of TNC purchasing practices is not so easy to establish. One can not be that sure as to whether precarious employment is caused by the practices of TNCs or by the vendors, or by the both (with varying degrees). Let us assume that TNCs are surrendering a portion of their profit for the poor garment workers but is there any mechanism or guarantee that those surrendered portion will reach the workers?

As we interviewed the two sections: vendors and agents, sometimes opposite views were expressed and it is as if one is a competitor to the other. But, at the end of the day, they are on the same boat and rowing to the same direction!

We were able to estimate a raw figure as to how much of the retail price is going to the TNC and the vendor. It emerged that out of say, US \$ 15, US \$ 13 is for the TNC and US \$ 02 is for the vendor. Needless to say the vendor is supposed to pay everything from this 2 dollars wherein the workers are often last in the list of recipients.

'Code' and 'compliance' is a tricky issue. There are pros and cons in it. By and large it is true that in the name of compliance sometimes-unnecessary pressure is created on the vendors. It is reported that 'these codes' sometimes emerge as Non-Tariff Barriers and at other times the codes are contradictory to the national laws. Moreover, the 'codes' are often not that clear and plenty of scope is there for judgement on the part of the sourcing companies and their agents. The Bangladesh Garment Manufacturers and Exporters Association' (BGMEA) is in the process of finalizing their own 'code' for their members.

Oligopolistic tendencies among the big national vendors are threat to the smaller ones. The BGMEA and the government of Bangladesh can have a watchful eye on the situation and do the needful so that fair competition prevails in the sector. The government of Bangladesh can equally be watchful over the labor-standards, their treatments by the vendors. National laws are there to protect the rights of different parties. The government via BGMEA can think of enforcing rule of law in the sector.

The international civil society, retaining their commitments to human rights – can enquire about the social and economic realities of countries like Bangladesh. Based upon those realities, they can also voice against 'compliance' to those codes, which are against.

Oxfam can mobilize the different segments of the international civil society by making them aware about the social and economic realities of a country. There is hardly any point in banning child labor in the garment or any sector – while the society is not able to provide for viable alternatives. Plenty of examples are there when goods manufactured and marketed by non-

profit making organizations (better termed as NGOs) are being sold and appreciated in a patronizing way. The customers hardly care for, whether those are manufactured in so called healthy conditions or labors are adequately paid for or labors are under age or not.

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## **Annexes**

**Theme B: Research on " TNC Purchasing Practice in the Garment Sector"**

## Annex 1: Questionnaire

### Questions for Garments Owner/Manager

Name of the respondent :-----

Age:-----, Educational Qualification: -----, Year of establishment: -----

**Address:**

Village :-----

Thana :-----

Dist :-----

01.	How many buyers do you work with in a typical year?	
02.	How many different brand names do you produce for in a typical year?	
03.	Which brand sportswear companies have you produced for in the last 3 years? (out of Nike, Adidas, Reebok, Fila, Puma, Umbro, Asics, Kappa, Lotto, Speedo)	
04.	How many people work in your factory/workshop?	
05.	What percentage of them are full time (permanent) employees?	
06.	What percentage of them are part-time?	
07.	Are there sub-contracted workers working there?	
08.	How much overtime do the employees here do each week on average?	
09.	What are the problem you faced while employing your staff?	
	i)	
	ii)	
	iii)	
	iv)	
10.	What are the problem you faced in you business?	
	i)	
	ii)	
	iii)	
	iv)	
11.	Are the buyers demanding shorter delivery lead time?	
12.	Do the buyers cancel orders at the last minute without covering last?	

13.	Do the buyers make only short term commitments in placing orders?	
14.	Do the buyers demand discounts on quality shipping delays?	
15.	Are the prices offered by the buyers low and falling?	
16.	Do the buyers specify inputs that must be used and their price, so squeezing down the price?	
17.	Do the buyers delay their payments for goods shipped and thereby creating cash flow problems?	
18.	Whether the buyers expect suppliers to take on additional production steps (printing packaging, paying for quality testing etc) but without increasing price?	
19.	Do the buyers demand multiple and contradictory codes of conduct from different sourcing companies?	
20.	Do the sourcing companies expect suppliers to bear the costs of code compliance themselves?	
21.	Do the buyers demand that the cost of multiple audits taking up the management and production time should pay the suppliers?	
22.	Whether the sourcing companies expect their codes to be implemented but give no long term commitment to buying from the supplier?	
23.	Any other problem?	
<b>On problems with pricing</b>		
<b>a. Price changes over time.</b>		
01.	What is the typical garment style that the factory produces for the sourcing company and that they have produced for a number of years (e.g., a sport sleeve shirt or T-shirt).	
02.	What is the comparative scenario between current orders for this garment and orders given 3-5 years by the same sourcing company for a similar garment?	

<b>b. break down of costs:</b>		
<b>For the same typical garment examined above:</b>		
01.	What are the major costs in producing this item? (materials costs, direct labour cost, factory overhead, etc) what % is each cost in the total?	
02.	What % of the costs come from direct labour costs?	
03.	How have different cost elements changed in the past 3-5 years? Which costs have fallen? Which have increased? Are there any new costs?	
04.	Document changes in the different costs that your face—such as	
	i) Costs of bearing risks (late delivery, purchasing materials before order is confirmed, quality check costs, insurance costs) — how have these changed?	
	ii) Costs of production—packaging, quality check, other additional steps. How has the price paid changed in response to the additional steps you are undertaking?	
	iii) Costs of delays in payment—how have terms of payment changed in the last 3-5 years? What cost does this incur upon the supplier? Do you have to take out bank credit—if so, at what interest rate?	
05.	If you were to pay workers the full overtime rate and also cover all their benefits (health, maternity leave, any other benefits due) by how much would unit labour costs increase?	
06.	What is the FOB price today for the garment?	
07.	What % of the FOB is direct labour cost?	
08.	If you were to pay workers the full overtime rate and also cover all their benefits, but the FOB price did not increase at all, what impact would it have on your profit margins?	
09.	What is the final retail price (this will most probably be shown on the pricing tags that are sent to the supplier, or at least on the sample garment that they have been sent).	
10.	What would you like Oxfam's researchers to ask Sourcing Company buyers and management about their pricing demands?	

## Questions for Buying Houses

### On problems with Buyers demanding discounts

01.	For what reasons do Buyers demand discounts? (possibly quality reasons, delays in shipment, etc)	
02.	Are discounts negotiated before the contract is agreed? (for example is there a prior agreement on discount rates due to late shipping?) If not, when?	
03.	Do buyers demand discounts after delivery? If so, what is your bargaining position at that time? Would you be permitted or able to sell your garments to an alternative buyer?	
04.	What you like Oxfam's researchers to ask buyers and sourcing company management about their discounting practices?	

### On problems with delivery lead times

01.	What is the broad trend on delivery lead times demanded by buyers? How much are you able to negotiate with them on this?	
02.	Provide documented evidence (buyers' purchase orders or contracts) that show how delivery lead time has changed in recent years.	
03.	Describe an occasion on which the buyer demanded that you shorten the delivery lead time below the standard number of days that you would use. In a table fill in the days required at each stage of your standard production plan. Then fill in the days available for each stage in production plan that was shortened to meet with the buyers demand of fewer days.	
04.	For the shortened days of out-make-trim production, did this require additional overtime for workers? If so, how many hours per day per worker?	
05.	What would you like Oxfam's researchers to ask buyers and sourcing company management about the delivery lead times they demand?	

### On problems with contract stability or uncertainty

01.	How many different buyers do you currently work with? How many months or years have you been working with each one?	
02.	How far in advance do you currently have your production schedule planned? (how many weeks or months?)	
03.	Do you only receive individual purchase orders from buyers or do you have a longer-term contract with any of them?	

04.	What impact does the uncertainty of future orders have on your business?	
05.	What impact does it have on the way that you employ your garment workers?	
06.	What would be the most valuable change that a buyer could make in their practices to reduce the uncertainty of orders that you face?	
07.	What would you like Oxfam's researchers to ask buyers and sourcing company management about their contract stability and uncertainty?	
<b>On compliance with codes</b>		
01.	How many different codes of conduct form sourcing companies do you need to comply with?	
02.	What steps have you already taken to meet the codes of the sportswear companies that you are producing for?	
03.	How much did these changes cost?	
04.	Who paid for these changes?	
05.	What other steps still need to be taken and how much would they cost?	
06.	In what ways have the sourcing companies contributed to your meeting their codes?	
07.	What would you like Oxfam's researchers to ask sourcing company buyers, ethical trade staff and senior management about their codes of conduct?	
<b>On good practices of sourcing companies</b>		
01.	Of the many different sourcing companies that are buying from you, which have better practices than others?	
02.	Explain what makes them better than the others.	
<b>Can the supplier please</b>		
01.	Recommend other suppliers for the researcher to interview?	
02.	Give the researcher contacts with sourcing company buyers or agents in the country? (all kinds of contact will be done without mentioning the name of the supplier)	

### **Questions for NGOs and Unions Officials**

01. Any idea about procurement policies of garment industries
02. If yes, to what extent you know about the procurement policies
03. Any idea about the buyers for whom the factory is working
04. Any idea about conditions that are imposed upon by the sourcing companies
05. What are the different conditions that is matter of concern for you.
06. Can you cite any example as to how sourcing companies policies have affected the RMG sector.
07. Do you have any idea as to who are manufacturing sportswear particularly the famous brands like Puma, Adidas, Reebok, Nike and Umbro
08. Can you tell us any story as so how workers have been deprived of their dues.
09. Do you think that the purchasing practices of sourcing companies are compelling the factory owners to work in unhealthy conditions, longer working hours, unsafe working condition
10. Can you differentiate between two factories as to whether they are good or bad and reasons thereof.

### **Questions for EPZ**

01. Can you tell us the name of different garment units who are producing sports wears and manufacturing established brands like Reebok, Nike, Adidas, Reebok Nike, Umbro.
02. Can you tell us stories of (if any) closure of garment units in your Zone.
03. Is that closure any way related to the practices of sourcing or parent company
04. Do you have any idea about "code of conduct" that are supposed to be followed by garment units in your zone?
05. Did you have chance to monitor whether those code of conducts are being followed.
06. Do you receive any complain from the workers about garment units wrong-doing? what are those?
07. Do you think that those wrong doings are related with the practices of sourcing companies.

## Annex 2: Firms, Organizations and Persons Interviewed

### 1. Firms

Name	Designation	Institution	Date
1. Md. Kamrul Ahsan Khan	General Manager	Arrow Sports Ltd.	01.07.03
2. Minhaz Ahmed	Proprietor	Monaz Garments Ltd.	15.06.03
3. A.K. Acharjee	Director	Naz Apparel	13.07.03
4. Nasiruddin Ahmed	Proprietor	Natun Fashion Ltd.	31.07.03
5. A.K.M. Shoaib	Deputy Manager Sales and Marketing	Youngone	19.07.03
6. M.A. Kalam	Managing Director	Excelsior Shoes Ltd.	17.07.03
7. Abul Kalam	Chairman	Reebok	15.07.03
8. Md. Abdul Mognee	Manager	South Field Pacific Ltd. Buying House	21.07.03
9. Naseem Shafi	Executive Director	Prestige Global Co. Ltd.	21.07.03
10. Shahadat Hossain	Managing Director	Voyager Garments	23.07.03

### 2. International Financial Institutions (IFIs)

	Name	Designation	Institution	Date
1.	Ferdous Sultana	Program Officer	ADB, Dhaka	24.07.2003
2.	Meriaty Subroto	Program Officer	ADB, Dhaka	24.07.2003
3.	Mr. Majed	Chief Liberian	WB, Dhaka	23.07.2003
4.	Mr. Marvin Baroven	Program Officer	IMF, Dhaka	23.07.2003

### 3. Non-Governmental Organizations (NGOs)

	Name	Designation	Institution	Date
5.	Ms. Masuda Khatun Shefali	Executive Director	Nari Uddoyog Kendra	01.08.2003
6.	Adv. Sigma Huda	Executive Director	Bangladesh Society for Enforcement of Human Rights	17.07.2003
7.	Advocate Salma Ali	Executive Director	BNWLA	17.07.2003
8.	Dr. Hamida Hossian	Director, Research	ASK	17.07.2003
9.	Sultana Kamal	Executive Director	ASK	17.07.2003
10.	Shirin Akhter	Executive Director	Karmajibi Nari	10.06.2003
11.	Adv. Nurul Amin	Program Manager	Empowerment Through Law of the Common People	15.07.2003
12.	Ziaul Haque Mukta	Program Officer	Action Aid	17.07.2003

**4. Individual/Academics/Researcher**

	<b>Name</b>	<b>Designation</b>	<b>Institution</b>	<b>Date</b>
1.	Dr. Shah Alam	Professor and Dean	Faculty of Law, Chittagong University	15.06.2003
2.	Dr. Farmin Islam	Assistant Professor	Department of Law, Dhaka University	17.07.2003
3.	Sayed Shah Tariquzzaman	Chairperson	Ainbid Association	1.8.2003
4.	Shema Zaman	Lecturer	Department of Law, University of Dhaka.	21.07.2003
5.	Barrister Jennifer Jabbar	Advocate and Consultant	Bangladesh Supreme Court and BGMEA	16.06.2003
6.	Sultan Ahmed	Asstt. Executive Director	Bangladesh Institute of Labour Studies	26.06.2003
7.	Ripon Choudhury	Research Officer	Bangladesh Institute of Labour Studies	29.06.2003

**5. Government Officials**

	<b>Name</b>	<b>Designation</b>	<b>Institution</b>	<b>Date</b>
1.	Ms. Nasrin Begum	Joint Secretary	Ministry of Law, Justice & Parliamentary Affairs, GoB.	24.07.2003
2.	Mr. Ismail Miah	Assitt. Chief Inspector	Factories and Establishment, Ministry of Industries, BoB.	31.07.2003

**6. Trade Union Leaders**

	<b>Name</b>	<b>Designation</b>	<b>Institution</b>	<b>Date</b>
1.	Mr. Moyen Uddin Mondol	Bangladesh Sramik General	Sanjukta Garments Sramik Federation	24.07.2003
2.	Mr. Abdullah Sarker	President	Samajtantrik Sramik Frant	31.07.2003
3.	Ms. Dina Akhter	Ain Shalishi Sampadak	Sanjukta Garments Sramik Federation	24.07.2003
4.	Ms. Shila Akhter	Joint Secretary	Sanjukta Garments Sramik Federation	17. 07.2003
5.	Abdul Khaleque	Vice President	Jatiya Sramik Federation	08. 07.2003

**7. Garments Factory and Buying House (Agent of Sourcing Company)**

	<b>Name</b>	<b>Designation</b>	<b>Institution</b>	<b>Date</b>
1.	Mr. Saidur Rahman	Chairman	Bangladesh Disaster Preparedness Centre	01.07.2003
2.	A K Acharjee	Director	Naz Apparel	13.07.2003
3.	Mr. Kamrul	Manager	Arrow Sports Ltd.	09.07.2003
4.	Mr. Nasiruddin Ahmed	Proprietor	Natan Fashion Ltd.	31.07.2003
5.	Minhaz Ahmed		Monaz Garments Ltd.	15.06.2003