Briefing note: Regulating Unfair Purchasing Practices in the Garment Sector

The garment sector is notorious for its long-standing, ubiquitous practices of poor working conditions and unfair trading practices (UTPs). The Covid-19 pandemic has shed additional light to the major power imbalances within the sector facilitating UTPs from brands/retailers affecting their suppliers and workers.

Recent research findings from Aberdeen University

A survey conducted in 1000 garment suppliers in Bangladesh by Aberdeen University, the Center for Global Development and Transform Trade, revealed that EU brands, faced with decreased turnover due to the pandemic, imposed different UTPs on their suppliers such as postponement, delayed shipping, price reductions or complete cancellations.

51% of factories reported at least one out of four unfair practices by retailers: cancellation of orders, price reduction, refused to pay for goods dispatched/in production, and delaying payment of invoices.

Table 1: EU brand responses to COVID

	(Partially) cancelled orders	Price reduction	Refused to pay for good in transit	Delayed payment
Aldi (DE)	32%	21%	24%	42%
Best Seller (DK)	20%	20%	25%	20%
C&A (NL/BE/DE)	19%	13%	11%	15%
H&M (SE)	30%	17%	5%	16%
Inditex (ES)	31%	27%	10%	30%
Kiabi (FR)	21%	*	*	16%
KiK (DE)	25%	23%	8%	17%
Lidl (DE)	25%	23%	8%	25%
LPP (PL)	33%	22%	11%	33%
OVS (IT)	22%	*	/	17%

(source: Aberdeen University, Center for Global Development & Transform Trade 2022)

Survey participants experienced that large brands and retailers buying from many different factories were more likely to engage in unfair practices than those purchasing from fewer factories: in March 2020, 88% of buyers purchasing from 4 or more factories and 100% of those purchasing from 15 or more factories were reported to engage in unfair practices.

Suppliers mentioned major EU brands including H&M, Inditex/Zara, Aldi, Lidl, KIK and Bestseller as having the highest proportion of unfair practices, including cancellation of orders, price reductions, refusal to pay for goods dispatched/in production, and/or delaying payment of invoices by more than three months.

Not a single supplier reported that they have taken their brand/retailer customer to court (or sought legal action) for cancellations of orders or refusal to pay for goods dispatched/in production.

Way forward

These findings call for a review of how current international trade takes place, and the power imbalance that leads to unfair purchasing practices imposed on suppliers; at the same time, they revealed that buyers shirk all their responsibility during unforeseen circumstances such as the Covid-19 pandemic. Without a legislative response, UTPs by EU country-based retailers will remain unaddressed.

Lessons could be learned from the EU's regulatory approach to UTPs in the agri-food sector. In 2019, the EU adopted a directive prohibiting a number of UTPs in business-to-business relationships in agricultural supply chains, which are affected by similar issues with regard to power imbalances between buyers and suppliers.

More specifically, such a legislative approach to textile sector's UTPs should incorporate **all suppliers and buyers, regardless of their size**. Another suggestion is for the **grievance mechanism to be available for suppliers as well as trade unions, producers' organisations, and NGOs**. The power dynamics create a climate of fear that makes suppliers reluctant to file a complaint, hence other parties should be able to act on their behalf. Also, **UTPs should be defined** and **all UTPs should be banned**. Next, this regulation should be **effectively enforced and coordinated** in the EU.

Further reading

Impact of Global Clothing Retailers' Unfair Practices on Bangladeshi Suppliers During COVID-19: https://www.transform-trade.org/blog/fashion-brands-exposed

Leveraging the Unfair Trading Practices Directive to benefit the Garment Sector: https://fairtrade-advocacy.org/time-to-stop-unfair-trading-practices-in-the-garment-supply-chain

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