

# BEARING THE BRUNT OF A PANDEMIC

ACCOUNTS OF LEATHER WORKERS  
IN INDIA AND CHINA DURING THE COVID-19 CRISIS

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Promoting  
responsible  
business

Fair Action is a non-profit organisation pushing Swedish companies to take responsibility for their impact on people and the environment. We examine how consumer goods and services are produced and pressure companies to improve working conditions and pay living wages. Fair Action is a member of the Clean Clothes Campaign.

*This report has been financed by the Swedish Environmental Protection Agency and Sida, the Swedish International Development Cooperation Agency, through ForumCiv. Responsibility for the content lies entirely with the creator. Sida and ForumCiv do not necessarily share the expressed views and interpretations.*

Fair Action December 2020

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# SUMMARY

**Factories closed and workers left without pay. The fashion industry has been hit hard by the Coronavirus crisis - and the worst affected are the factory workers of suppliers based in Asia.**

When the Covid-19 pandemic struck, many companies around the world reacted by withdrawing orders that were already in the production phase or demanding large discounts from suppliers.

This report shows that the financial burden of the supplier factories has trickled down to millions of workers in the leather sector in India and China who have had to bear a disproportionately high burden of the crisis. Many have not received their salaries during periods of lockdown, been forced to resign, or lost their income due to mass layoffs.

In India, we are hearing accounts of breadwinners without food for their families and of men and women forced into debt. In China, factories have been shutting down without notice and without informing workers.

While companies are in a difficult financial situation, they are still responsible for ensuring that labour rights at supplier factories do not end up in free fall due to the crisis.

This report provides recommendations on how companies' sustainability practices can be adapted to meet these new challenges for workers at the production stage. Paying the agreed price for orders placed, ensuring that regular and full wages are paid to workers, and sharing the financial burden of increased health and safety measures are some of the priorities that are highlighted.



**The lockdown came as a shock for people. The big gap between living wages and the actual wages in the industry meant that workers were not in a position to save any money for any eventualities.”**

—Pradeepan Ravi, Cividep India

The report also examines how four Nordic shoe companies with subcontractors in China or India have acted in response to the crisis: Nilson Group, Eurosko, Vagabond Shoemakers and Scorett. All companies declare that they have paid the agreed price for placed orders and state that they are confident that salaries have been paid to a great majority of the employees in the shoe factories.

However, none of the companies have been in dialogue with trade unions or labor rights organisations. Engaging in dialogue with groups whose rights can potentially be negatively affected by the company's activities is a central part of the UN Guiding Principles on Business and Human Rights.

It is key that buying companies become better at engaging in dialogue with trade unions and civil society organisations in the supply chain to get an understanding of the challenges faced by workers, to verify that salaries have been paid during periods of lockdown, and to find joint solutions.

## LIST OF ABBREVIATIONS

<b>CHANGE</b>	Centre for Health and Gender Equality
<b>CIVIDEP</b>	Civil Initiatives for Development and Peace - India
<b>HRDD</b>	Human Rights Due Diligence
<b>ILO</b>	International Labour Organization
<b>ITUC</b>	International Trade Union Confederation
<b>SLD</b>	Society for Labour and Development
<b>SCB</b>	Statistiska Centralbyrån / Statistics Sweden
<b>UNGPs</b>	United Nations Guiding Principles on Business and Human Rights
<b>UNICEF</b>	United Nations Children's Fund

# USE YOUR POWER - Brand Recommendations

We acknowledge the extremely difficult financial situation many companies are finding themselves in. However, the dire situation for millions of workers in the global supply chain of leather shoes requires that buying brands take the following actions immediately to uphold responsible business conduct.

## 1. Honor contracts

Brands should follow the [recommendations made by Workers Rights Consortium](#):



Even in normal times, the degree of competition between suppliers is so high that they have very little bargaining power against the buying brands. The suppliers are under pressure to agree to any demands set by the brands. A race to the bottom that in the end is paid by the workers.”

—Pradeepan Ravi, Cividep India

- pay the originally agreed price for all in-production, finished, and shipped orders, without any request for discounts or rebates;
- not cancel orders, except with full compensation to suppliers;
- not delay shipping dates, or, if there are any delays imposed, reasonable accommodation to affected suppliers should be provided;
- if any payments are delayed relative to agreed terms, the brand should provide affected suppliers with access to low-cost financing, so that suppliers' cash flow is unaffected.

## 2. Ensure that workers receive their wages in full

Brands should endorse the [Clean Clothes wage assurance](#) by:

- publicly committing to and ensuring that all workers in the supply chain will be paid their legally mandated or regular wages and benefits
- contribute funds of a sufficient amount to ensure that workers have income, equal to or greater than, the amount they received prior to the crisis.

## 3. Prioritize worker safety

Brands and suppliers that continue production through the pandemic should:

- comply with the [World Health Organisation guidance](#) on social distancing and personal protective equipment to ensure the safety of workers and prevent the spread of Covid-19;
- ensure that Joint Health and Safety Committees and Trade Union Safety representatives are fully involved in the design, implementation, and monitoring of all health and safety measures taken, as [described by the global union IndustriALL](#);
- follow [Fair Wear's and Ethical Trading Initiative's call for brands](#) to consider being open to accommodating price



**Most workers don't have permanent contracts. When they are not called in for work, they stand without any money. So social protection could also include offering these workers at least a part of their wages for a period of time."**

—Sonia Wased, Society for Labour and Development, India

changes as a result of extended Covid-19 measures, and possibly co-finance Covid-19 prevention efforts in factories.

#### 4. Prevent workers from going penniless again

Moving forward, we need to see a structural change in the way companies do business. Therefore, companies should:

- *Involve affected workers in decision-making processes:* According to the [UN Guiding Principles on Business and Human Rights](#), companies should “involve in meaningful consultation with potentially affected groups and other relevant stakeholders”, such as workers and trade unions in their supply-chains. Brands should consult them directly or, in situations where this is not possible, consult experts such as civil society organisations and human rights defenders.
- *Close the gap between minimum wage and living wage:* adopt a living wage strategy with a time-bound and measurable goal; provide financial incentives to suppliers with higher wages and/or collective bargaining agreements and give preference to suppliers with higher wages, unionised facilities, and a high percentage of permanent employees.
- *Identify and prevent anti-union policies and practices* in supplier factories and communicate to the suppliers that there will be zero tolerance of all attempts to prevent trade union activities such as organising of worker unions.
- *Support stronger social protection for workers* by committing to pay a price premium on future orders into a guarantee fund reserved for severance and outstanding wages through signing an enforceable agreement with worker unions. See [Clean Clothes Campaign Wage assurance](#).
- *Show their support for mandatory human rights due diligence:* Sign the petition [Visa Handlingskraft](#), initiated by Fair Action and 13 other organizations and endorsed by Nilson Group, H&M Group and Gina Tricot, among others.

#### Recommended further reading:

Fair Wear statement:  
Garment Industry  
Coalition Joint  
Priorities  
>>

Fair Action report  
Left behind – 8 steps  
towards higher wages  
>>



**In the larger factories there are grievance channels where workers can report misconducts, but in the lower tiers, there are no such mechanisms, and no free union. It is very difficult for the workers to talk to anyone about lack of safety or if there is a conflict with the employer. The only thing they can do is to endure the situation or leave.”**

—Dee Lee, Inno Community Development Organisation, China



# RAISE THE BAR FOR COMPANIES - Recommendations to the Swedish government

**States have a responsibility** to enforce laws that require business enterprises to respect human rights, according to the UN Guiding Principles on Business and Human Rights. By advancing legislation on human rights due diligence and supply chain transparency, states can prevent companies from gaining comparative financial advantages by neglecting responsible business practices. Furthermore, respect for human rights and the rights of workers is crucial for the private sector's contribution to the Sustainable Development Goals.

The Swedish government should:

## **Introduce human rights due diligence legislation**

Push for human rights due diligence legislation, covering both companies' own operations and global supply chains. This means:

- Actively promoting the development of an effective Human Rights Due Diligence legislation at the EU level
- Promptly appointing a Commission of Inquiry regarding the integration of human rights due diligence legislation into Swedish law

Read recommendations in full in the paper [Principal Elements of an EU mandatory human rights due diligence legislation](#).

## **Human Rights Due Diligence (HRDD)**

Companies should conduct human rights due diligence to know and address their human rights risks. According to the UN Guiding Principles on Business and Human Rights, a human rights due diligence process is aimed at identifying, preventing, mitigating and accounting for the company's impacts on human rights. It includes four key steps: assessing actual and potential human rights impacts; integrating and acting on the findings; tracking responses; and communicating about how impacts are addressed.

# COVID-19 AND THE FASHION INDUSTRY- Introduction

The Covid-19 crisis has so far led to the loss of nearly 500 million jobs and hundreds of millions of informal economy livelihoods, according to the International Labour Organization (ILO).<sup>1</sup> One of the sectors particularly hard hit has been the footwear and garment industry in Asia.<sup>2</sup> As curfews and travel restrictions were imposed and factories locked down, the global supply chains were heavily disrupted, and sales of shoes and clothing plummeted.<sup>3, 4</sup>

Numerous reports and statements point towards a trend where fashion brands and retailers cancelled orders already in-production or orders already finished, or requested discounts from their suppliers.<sup>5</sup> The way in which many of the purchasing brands in the industry responded to the pressurized financial situation has been devastating for workers in the producer countries.





**We are seeing the leather factories terminating workers and forcing them to resign. Thousands have lost jobs already. The pandemic has hit the industry very hard and the workers are bearing the brunt of it.”**

—Saraswathi Paneerselvam, Change , India

With the high number of cancelled orders, suppliers dismissed millions of factory floor workers, often at short notice and without providing any severance payments, pushing an already struggling group of workers into even greater economic vulnerability. It has been estimated that payments of over USD 16 billion worth of goods remain unpaid by global fashion brands to suppliers and that workers in the garment sector had an income shortfall of at least 3,19 to 5,79 billion USD during the first three months of the pandemic alone.<sup>6</sup>

### **Voices from the global leather industry**

This report relays the accounts of people earning their livelihoods in the leather shoe industry in China and India, two of the largest leather producers in the world. Through interviews with labour rights organizations and workers, the report aims to bring to light the effects that the Covid-19 pandemic has had on men and women dependent on the leather industry, and makes recommendations for the ways in which brands should respond to the crisis in order to act responsibility throughout their supply chains.

### **The global leather trade**

China is by far the world’s largest leather producer in the world, with a 25 percent share of global production. India is the 4<sup>th</sup> largest producer. Together, they provide employment for 8,5-11,5 million people.<sup>7</sup> Already before the pandemic, the leather industry in these two countries was a sector characterized by low wages, hazardous working conditions, and lax enforcement of environmental regulations.<sup>8</sup>

The complex supply chain in the sector makes it difficult to trace a leather shoe back to the origin of the leather and, hence, to hold buying companies accountable for poor working conditions throughout the tiers of production. For instance, it is common for brands to sub-contract shoe production to factories, who in turn sub-contract the leather tanning, the process in which animal hides are made into a durable and soft material which can be used to produce garments and footwear.

**4,7  
billion SEK**

Value of leather shoe import to Sweden in 2019

Source: SCB

**39%**

The decline in Swedish imports of leather shoes from China and India during the first six months of 2020.

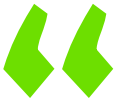
Source: SCB

## Swedish import of leather footwear

Almost every fifth leather shoe imported by Sweden in 2019 was manufactured in China or India,<sup>9</sup> at a cost of 373 million SEK (USD 43 million).<sup>10</sup> As in other sectors, the Covid-19 pandemic caused import figures to drop dramatically in 2020. During the first six months of 2020, Swedish leather shoe imports from China and India declined by 39 percent, compared to the same period in 2019.<sup>11</sup>

As part of this report, Fair Action investigates how four major shoe brands have committed to pay suppliers for orders in production and how they have supported the workers tanning the leather and sewing the shoes sold on shelves on the Swedish market.

Fair Action recognizes the financial challenges faced by brands and retailers. However, upholding responsible business conduct is more important than ever.



**It is more important than ever that workers get a decent living wage, that they get training in health and safety; things that these companies promised to do to improve the lives of the workers in their CSR policies.”**

—Dee Lee, Inno Community Development Organisation, China

# What is responsible business conduct?

**The UN Guiding Principles on Business and Human Rights** have become the authoritative global standard on business and human rights. According to the principles, companies must adopt a human rights policy and map and prevent their actual and potential impacts on human rights.<sup>12</sup>

Receiving a wage that is enough for a worker and his/her family to live on is a human right. According to the Universal Declaration of Human Rights (1948), “Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection”.<sup>13</sup>

According to international norms and standards, a living wage:

## **The UN Guiding Principles on Business and Human Rights**

In June 2011, the UN Human Rights Council endorsed the UN Guiding Principles on Business and Human Rights, supported by governments from all regions of the world. The Guiding Principles are founded on three pillars:

- The State duty to protect human rights against abuse by third parties, including business, through appropriate policies and legislation.
- The corporate responsibility to respect human rights, meaning to act with due diligence to avoid infringing on the rights of others and address adverse impacts.
- The need for greater access to effective remedy, both judicial and non-judicial, for victims of business-related human rights abuse.

*Source: United Nations*

- Covers the basic needs of the worker and his/her family, such as nutritious food, clean water, housing, clothes, healthcare, childcare, education, and transport.
- Must be earned in a standard work week in line with national labour law and with a maximum of 48 hours per working week, according to ILO standards, and excluding overtime.
- Should provide some discretionary income. This is important since non-existent savings makes workers vulnerable to unforeseen events such as illness, making them easily indebted.<sup>14</sup>

Workers with low or irregular wages may become reliant on unhealthy or risky survival strategies, such as child labour and dangerous work, that keep them and their families locked in a vicious cycle of poverty.<sup>15</sup>

# PAY LEATHER WORKERS A LIVING WAGE



A worker should be able to afford:

- food
- rent
- healthcare
- education
- clothing
- transport
- savings

A living wage is a human right, for all over the world.

## The sustainable development goals – for a better world

Through the Sustainable Development Goals, world leaders agreed on a common approach to end poverty, fight inequality, and stop



climate change. The goals were adopted at the United Nations Sustainable Development Summit on 25 September 2015. It covers 17 goals with a total of 169 targets that should be reached by the year 2030.

**Goal 3** focuses on achieving good health and well-being globally. Target 3.9 is very relevant for the leather and footwear sector, especially regarding the toxic tanneries: “By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.”

**Goal 8**, decent work and economic growth, specifically outlines the need to “Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment” in target 8.8.

**Goal 17**, “Partnership for the Goals”, underlines the importance of a stronger commitment to partnership and cooperation from all actors, including multi-stakeholder partnerships. Thus, the business sector has an important role to play in achieving the Global Goals.



**Survival is far more important to the workers than anything else as it is right now. They are not talking about their rights anymore; they are just concerned about survival.”**

—Sonia Wazed, Society for Labour and Development, India





# CASE STUDY: INDIA

With an annual production of nearly 2,5 billion pairs of shoes, India ranks as the second largest producer of footwear in the world, after China.<sup>16</sup> In addition to being one of the top ten most important export industries of the country, the leather industry is also one of the most labour-intensive sectors, employing close to 4,5 million people.<sup>17</sup>

In 2019, Sweden imported leather shoes from India to the value of USD 8 million (70 million SEK).<sup>18</sup>

Following the Covid-19 pandemic, import values dropped by 31 percent during the first 6 months of 2020, compared to the same period in 2019.<sup>19</sup>

## The sudden lockdown – buyers withdraw

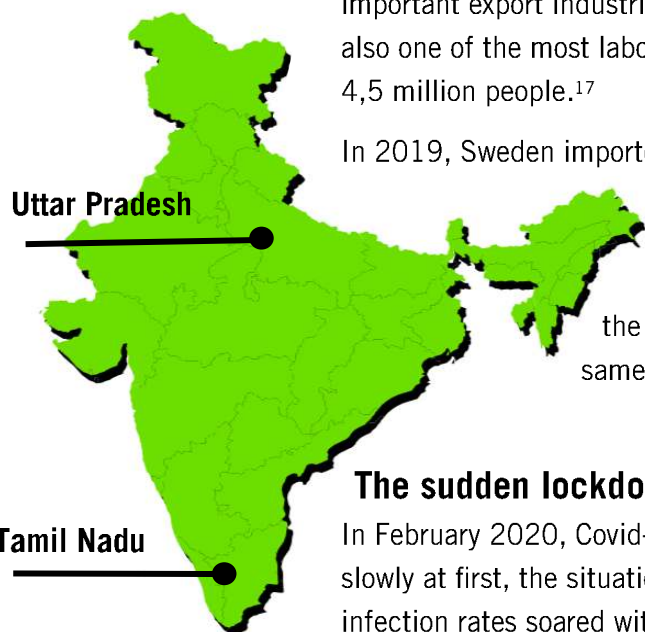
In February 2020, Covid-19 made its way to India. While it began slowly at first, the situation changed dramatically in March when infection rates soared within days.<sup>20</sup>

**“Anxiety started spreading among people, everything happened very fast,” says Pradeepan Ravi at the civil society organization Cividep India.**

25 March, a complete lockdown came into force within hours of the announcement by Prime Minister Narendra Modi. Manufacturers closed, schools and services shut down, and people were ordered to stay at home.<sup>21</sup>

In the leather district of Vellore alone, 75,000 to 100,000 people were affected by the lockdown.<sup>22</sup> Organizations like Civil Initiatives for Development and Peace - India (Cividep India), Society for Labour and Development (SLD) and Centre for Health and Gender Equality (CHANGE) who would normally meet workers daily, were suddenly almost completely cut off from the leather districts.<sup>23</sup>

Within weeks, it was clear that the Covid-19 outbreak had led to a dramatic drop in production. In May 2020, the Indian newspaper



4,5 million people work in the leather sector in India, many of them in the main leather hubs of Uttar Pradesh and Tamil Nadu

31%

Drop in Swedish leather shoe imports from India during the six first month 2020 compared to the same period in 2019

Source: SCB

**>> SONIA WAZED  
HEAD OF PROGRAMMES,  
THE SOCIETY FOR LABOUR AND DEVELOPMENT (SLD)**

SLD is a Delhi-based labour rights organisation, that engages in the rights of workers in leather clusters of the Kanpur-Unnao region in Uttar Pradesh.



**<< PRADEEPAN RAVI  
PROJECT COORDINATOR, LEATHER SECTOR PROGRAMME  
CIVIDEP INDIA**

Civil Initiatives for Development and Peace - India (*Cividep*) is a civil society organization based in Bangalore. Cividep educates workers about their rights and campaigns for corporate accountability. The focus is to improve the living and working conditions of the homeworkers and to conduct research on the occupational health and safety of workers employed at tanneries in Tamil Nadu.



**>> SARASWATHI PANEERSELVAM  
MANAGING DIRECTOR,  
CENTRE FOR HEALTH AND GENDER EQUALITY (CHANGE)**

CHANGE is a civil society organisation based in Vellore, Tamil Nadu. CHANGE conducts training programmes for women workers in the leather industry on labour rights and also leads an initiative to organise the leather sector women workers into a federation.



the Economic Times reported that India's leather industry was facing export losses of USD 1,5 billion.<sup>24</sup> In June, Puran Dawar, the Regional Chairman of the Council for Leather exports, was quoted in the same paper, saying that 70 percent of overseas leather exports had been cancelled and that buyers were asking for heavy discounts. It was reported that with little or no liquidity, the industry now found itself at the "verge of total collapse".<sup>25</sup>

**"It is reported that orders that had already been agreed on were cancelled by the buyers. Orders that many factories would have started working on already; procured chemicals and raw materials. The suppliers had to pay for all that. It was a heavy blow," says Pradeepan Ravi.**

From the end of May, factories in non-contaminated areas were allowed to reopen but with special restrictions. Factories had to arrange transportation for workers, take social distancing into account, and provide proper sanitation. Workers had to be screened for temperatures and a maximum of 50 percent of the workforce was allowed at the factories at the same time.

Production was on a very small scale and there were mass layoffs. Only 40 percent of the workers were called back to work, and with reduced salaries. Some were given settlements; others were even forced to resign.<sup>26</sup>

By October, the situation had not changed much. Most home-based workers were still not receiving any work, few were back at work in the factories and some factories were still enforcing unpaid leave.<sup>27</sup>

### **A matter of survival**

With the lockdown, millions of workers lost their income from one day to the next. SLD assesses that in April and May, the income of workers with permanent contracts was reduced by 50 percent. The rest, around two thirds of the workforce who were daily wage workers or on short-term contracts, were left without any income at all. Only a fraction of the factories in the leather hubs of Uttar Pradesh region paid wages to workers who were not on permanent contracts.



**We were informed that we needed to resign if we wanted to receive the final settlement without any hassle. I was shocked. I had to sign the papers as I can't afford to lose the final settlement. My biggest fear has come true."**

—Amundha Priya\* (32), shoe factory worker, Tamil Nadu





**Our lives turned upside down in just two months. I receive less than half of my normal income. I don't have any savings. Where is the money to buy groceries for my family?"**

—Usha Rani \*(43), shoe factory worker, Tamil Nadu



**"A union leader told me that a leather factory has been asking people to resign and promising them settlements. But once the workers handed in the resignation letters, the employers delayed their settlements," says Pradeepan Ravi.**

The lockdown and the cancellation of orders had an immediate impact on the people previously working at shoe factories and leather tanneries or sewing shoe uppers from their homes.

**"The lockdown came as a shock for people. The big gap between living wages and the actual wages in the industry meant that workers were not in a position to save any money for any eventualities," says Pradeepan Ravi.**

The situation was desperate. Workers were faced with the nearly impossible task of running a household for months without an income. Families with elderly or sick members struggled to buy medicine, and could not take them to hospital for fear of contracting Covid-19.<sup>28</sup> As if this was not enough, Sonia Wased says domestic violence increased with the lack of work and income, and the high levels of frustration in many households.<sup>29</sup> She adds

**"For many daily wage workers, it reached a stage of starvation: they did not have food to eat. The local government gave them 5 kilo rice per person and that was it. You cannot sustain eating rice only. And when you have children, what do you do? If you have aged parents or a pregnant wife, what do you do?"**

Adolescents started looking for informal jobs to help their parents instead of going to school. According to UNICEF and the ILO, millions more children globally are at risk of being forced into child labor as a result of the Covid-19 crisis.<sup>30</sup>

**"I don't think they'll ever get back to school again. It is going to impact the education of a whole generation of children," says Sonia Wazed.**

## No resilience to tackle a crisis

Even prior to the Covid-19 pandemic, millions of workers reliant on the leather industry struggled with their daily lives. Being a sector mainly employing already marginalized people, the sector has long been characterized by precarious conditions: low wages, casualization of labour, lack of insurance and pension funds, and long working hours. The constant exposure to hazardous chemicals needed in the tanning process and the lack of safety equipment, has also led to widespread health problems.<sup>31</sup> Many workers report that a great deal of their income is spent on medical expenses.<sup>32</sup>

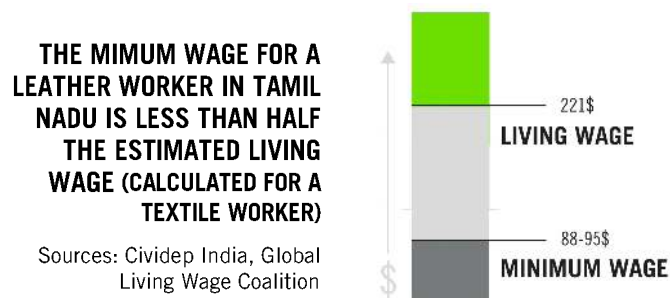


Source: estimate by SLD

Since the nineties, the trend of casualization of labour in the sector in the country has become evident. This has led to a situation where thousands of workers rely on short-term contracts or informal employment and are thus excluded from social security benefits.<sup>33</sup> SLD estimates that only one third of the workforce has permanent employment.<sup>34</sup>

In 2020, India re-emerged on the International Trade union confederation (IUTC) list of the ten worst countries for workers. Current adoptions of labour market practices that reduce protection for workers in the informal economy and weaken unions are likely to make the situation even worse.<sup>35</sup>

As the workers' incomes are directly affected by the daily productivity, working hours tend to be long.<sup>36</sup> While the monthly living wage for a textile worker in urban Tamil Nadu is 221 USD,<sup>37</sup>



Cividep India estimates that most factories pay workers only in the range of the minimum wage, which is INR 6525 – 7095 per month (USD 88-95), less than half the income needed to cover basic expenses.

One of the reasons for the prevalence of poor working conditions in the leather industry is the lack of labour organization. Workers who engage in union activities face severe consequences, including suspension or even dismissal.<sup>38</sup>

**“The unionization on factory level is close to non-existent in the leather industry. This means that the workers have no bargaining power, no voice at all,” says Pradeepan Ravi.**

Also, the leather workers’ low level of education is one of the explanations behind the lack of unions in the sector. For instance, it is not unusual that workers work for 10-12 hours without getting overtime compensation, simply because they do not know they are entitled to it. Many workers also lack knowledge about their right to access their severance funds, to which employers are obliged to contribute for every permanent worker.<sup>39</sup>

**“When you are not aware of your rights, you are not aware of when they are being violated,” says Sonia Wazed.**

# CASE STUDY: CHINA

China is the largest leather producing country in the world,<sup>40</sup> and employs as many as 4-7 million people.<sup>41</sup> It is also Sweden's largest import partner of leather shoes, in terms of volume.<sup>42</sup> In 2019, Sweden imported leather shoes from China to the value of 35 million USD (304 million SEK).<sup>43</sup> During the first six months of 2020, however, imports fell by 40 percent, compared to the same period in 2019.<sup>44</sup>



**Shenzhen,  
Guangdong**

4-7 million people work in the leather sector in China. Interviews in this report were made in the leather hubs of Shenzhen in the Guangdong province.

## The beginning of a pandemic

On January 11<sup>th</sup>, 2020, the first Covid-19 linked death was recorded in the city of Wuhan in Hubei province in Central China.<sup>45</sup> From the end of that month, Wuhan, along with several other cities and parts of China was placed under quarantine to prevent further spreading of the virus.

Supply chains within the country were severely affected as factories were forced to close, public transport stopped, and travel was restricted. Workers were forced to stay at home, and millions of migrant workers were unable to leave their home provinces to travel back to their workplaces after an extended Lunar New Year holiday.<sup>46</sup>

After the prolonged national holiday, the government slowly started to relax the criteria to re-open factories and production sites to keep the economy afloat. However, in many provinces, the lockdown was extended by up to two months.

By mid-February, the China Leather Industry Association reported that 40 percent of its members had restarted their work but only at 30-40 percent of total production capacity. Some factories stated that they had lost about 10 percent of their overseas orders.<sup>47</sup>

## Factories closing down, one by one

**“One of the most serious consequences of the pandemic is that a lot of factories shut down without a word and without giving any payments or compensation,” says Dee Lee, managing director of Inno Community Development Organization.**

Inno is a workers' rights organisation based in the southern province of Guangdong in China. When travel restrictions allow, Inno employees are frequently out talking to workers about the conditions in the factories. For this report, Inno interviewed a handful of leather workers in the region. Dee Lee emphasizes the high



**I used to work six days a week and overtime almost every night. Now, I work eight hours a day and rest on weekends. The economic burden on my shoulders is heavy.**

—Li Wuying\*, leather factory worker, Guangdong



number of factories that closed down from one day to the next during the first months of the pandemic.

**“Between March and June there were maybe ten to twenty manufacturers a day shutting down without any notice at all, forcing people to survive on their saving,” says Dee Lee.**

One such shutdown resulted in a sit-in strike outside a factory in the city Guangzhou, he continues, adding that in the end, 100-200 protesters were taken away by the government as gatherings were not allowed due to Covid-19 restrictions.

**“People are feeling very desperate, especially the ones with an established life and families. Every worker wants to go back to their job and is panicking about the situation,” Dee Lee says.**

When Inno interviewed workers after the Corona outbreak, only workers at three of the 25 factories surveyed got some form of basic support from their employers when forced to stay at home. And the amount they received was 100-200 USD, less than half the monthly living wage, meant to last for two to three months. In total, Inno estimates that at least a third of leather workers have struggled with delayed payments of wages.

**“Although the law says that workers should have fixed contracts, and be compensated when there is no work, the reality is different,” Dee Lee says.**

The pandemic has also had long term negative effects on workers, one being that their income has declined substantially. A survey conducted by Inno among workers indicates that they now receive only one third of what they earned before Covid-19 struck.

**40%**

Drop in Swedish imports of leather shoes from China Jan-Jun 2020, compared to the same period in 2019.

Source: SCB





**In weekends before the pandemic, I was busy earning overtime wage. You know, workers are dependent on their overtime wage. Now my wage has decreased by more than 50% and I am stressed and anxious. I feel like I am about to lose my job.”**

—Chen Jun\*, leather factory worker, Guangdong



The increased financial burden on workers risks turning the market to an employer’s market, says Dee Lee.

“In the coming months, I am afraid that there is a potential risk for workers to fall into the trap of modern slavery. Workers might be threatened to work for free to pay back debts to the employer,” he adds.

### **Tough as it is**

Although Chinese labour laws are relatively progressive, especially in comparison to other producing countries, the everyday reality for a leather worker often includes long working hours, low wages, forced overtime and unsafe working conditions due to exposure to hazardous chemicals.<sup>48</sup>

“Depending on where in the supply chain you work, wage and working conditions vary greatly,” says Dee Lee.

According to Inno, the basic wage for an average leather factory worker lies between USD 227 – 307. This is just slightly over the legal minimum wage in Guangdong, but 30 percent below the estimated living wage of USD 428<sup>49</sup> for the manufacturing sector in the city of Shenzhen.

Inno adds, however, that for workers in the lower tiers, such as in the tanneries producing the leather for shoe factories, conditions may be completely different compared to the higher tiers. Lower tier workers are unprotected, often forced to work overtime, and



**30% OF LEATHER WORKERS HAVE PERMANENT EMPLOYMENT, CHINA**

Source: estimate by Inno



**During a visit to a leather manufacturing area in April, we saw a playground filled with workers waiting for the workshop owner. The workshop owner would pick out which workers who would get to work. Only the most skilled workers would be picked, and the ones who accepted the lowest pay.”**

– Dee Lee, Inno Development organization



their wages may very well be only a third of those paid to workers on the shoe factory floor. Even when audits are done, compliance is only measured and controlled in the first-tier factories.

**“In the lower tiers, there are no grievance channels, and it is very difficult for the workers to talk to anyone about lack of safety or if there is a conflict with the employer. The only thing they can do is to endure the situation -or leave,” says Dee Lee.**

Low wages lead to a dependence on additional working hours for extra income. Interviews with 47 workers from shoe factories in Guangdong province, revealed that the median length of a working day is as long as 11 hours.<sup>50</sup> Not all overtime is voluntary, either. 52 percent of respondents stated that they were forced to work overtime. Punishments for refusing to do so included disciplinary warnings, the deduction of allowances, demotion, and verbal abuse.<sup>51</sup>



**<< DEE LEE  
DIRECTOR,  
INNO COMMUNITY DEVELOPMENT  
ORGANISATION**

[Inno](#) is a Chinese civil society organisation based in Guangdong province. Inno implements the Handshake Workers Hotline, a grievance mechanism aimed at workers in 700 supply chain factories in China.

**“For a daily wage worker, very much is about health and safety, because they don’t have any insurance. They constantly live under potential risk of getting sick from the dangerous work and the chemicals,” says Dee Lee.**

As Chinese labour law does not recognize the right to form free trade unions, where workers directly elect their representatives, genuine collective bargaining is not possible. Instead, all trade unions in China must belong to the government-controlled All-China Federation of Trade Unions (ACFTU), which has no legal right to any form of industrial action, such as strikes. Hence, wage policy in recent years has been shaped mainly by illegal wage strikes and raises in the statutory minimum wage.<sup>52</sup>

### **Voices confirming the situation**

The current situation in China is confirmed by Li Wang, a labour rights researcher and Asia Monitor Resource Centre (AMRC) associate. Wang has given her view regarding the current situation and contacted various labour rights groups and organizations in Hong Kong. For safety reasons, Li Wang’s name is



**The factory I work at never closed during lockdown. We kept working, eleven hours a day.**

—Yuan Kaimin\*, leather factory worker, Guangdong



fictitious and the organizations she has been in contact with cannot be named in the report.

**“It is true that several factories in China closed down during the corona pandemic, including factories within the leather industry, and that workers during the lock-down received no compensation at all,” Li wang says.**

She adds that it is particularly difficult to verify information regarding the situation because of the increased general repression in the country. It is not only illegal to criticize the Chinese government, but also to support independent labour movements in China and to gather information.

**“Several people I interviewed shared similar information with me, but despite that, the information should still be handled with precaution. Right now, the uncertainty surrounding news and sensitive information from China is unusually high.”**

## AMRC

Asia Monitor Resource Centre (AMRC) is an independent think-tank in Asia, that publishes the Asian Labour Up-Date. The publication focuses on the labour market and labour rights issues and follows the latest developments in China.



**I earn a lot less than before, but it is useless to worry about it. If something bad happens, I cannot stop it.”**

—Huang Jianghua\*, leather factory workers, Shenzhen



# PAYING THEIR DUES

## – are companies taking responsibility?

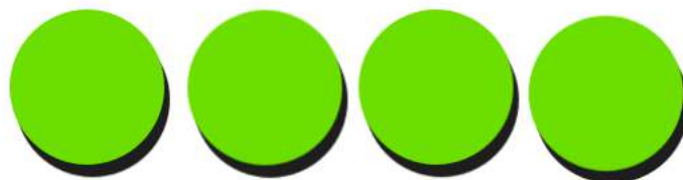
How are companies on the Swedish shoe market living up to their commitments to workers' rights? How are they ensuring that workers are being paid decent wages, and being provided with adequate health protection?

This report puts the spotlight on the performance of four leading shoe companies on the Swedish market, namely Eurosko, Nilson Group, Scorett and Vagabond Shoemakers. The Nilson Group includes the shoe chains Skopunkten, DinSko and Nilson Shoes. Together, the four companies have a turnover of close to 580 million USD (5 billion SEK).<sup>53</sup> Three of the four companies predict a decline in sourcing volume for 2020 of between -5 and -20% (Eurosko, Nilson Group, Scorett). Only Vagabond estimates that sourcing volumes will remain stable.

It is worth noting that the information presented on how the companies have acted during the pandemic is based solely on survey replies and have not been fact-checked by Fair Action. In the appendices to this report, you will find an overview of company responses.

### Are companies paying for agreed orders?

All shoe companies state that they are paying the originally agreed price for all in-production, finished and shipped orders and are not requesting discounts.



**4 out of 4 companies are paying the originally agreed price for all in production, finished and shipped orders without asking for discounts**

**-5 to  
-20%**

Expected decrease in leather shoe sourcing in 2020 (3 of 4 companies)

*None of the four* companies have, however, made a public commitment to pay suppliers the full amount for completed orders.

### **Are companies paying workers in their supply chains?**

*All* companies sourcing from *China* (Eurosko, Nilson Group, Scorett) claim that they are confident that a great majority of workers (80-95 percent) in their supply chain have been paid during lockdown.

Similarly, *all* companies sourcing from *India* (Eurosko, Scorett, Vagabond) claim that they are confident that all (>95 percent), or a great majority (80-95 percent) of workers in their supply chain have been paid during lockdown.

At the same time as the confidence that workers have been paid wages is high, *none* of the companies have been in dialogue with unions or worker representatives in producer countries during the pandemic in order to confirm this information.



**0 out of 4 companies have spoken directly to unions or worker representatives about the situation.**

In addition to not having had any dialogue with worker representatives, Scorett states that it has not had a discussion with suppliers on how to ensure wages and cannot actually verify their claims relating to wages, which the other companies say they can. Scorett sources 18 percent of its leather shoes from China and 7 percent from India.

### **Have *all* workers received wages, not only permanent employees?**

As home-based workers and short-time contract workers have been more severely impacted by income losses during the pandemic than workers with permanent employment, a survey question was added to get a better understanding of which workers the companies are referring to when stating that they are confident that all (>95%), or a great majority (80-95%) of workers have received wages during periods of lockdown.

The responses show that Nilson Group refer to all worker categories in their claims: permanent employees, short-term contract workers, daily wage workers, and home-based workers.

Eurosko and Vagabond only refer to permanent employees, and Scorett does not specify which employment statuses it refers to.

The average percentage of workers with permanent employment at the factories used by the companies are, however, substantially higher than estimated averages in China and India.

At supplier factories in China, the percentage of workers with permanent employment ranges between 80-95 percent (“the great majority”) and <95 percent (“all”), according to the companies.

In India, the percentage of workers with permanent employment ranges between 60-80 percent (“the majority”) and <95 percent (“all”), according to the companies.

### **Are the companies ensuring a safe work environment?**

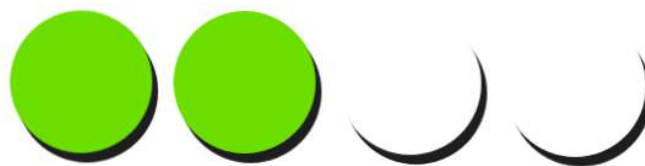
All companies have engaged in dialogue with all (>95%) or a great majority (90-95%) of suppliers regarding Covid-19 related health and safety measures at the factories. *None* of the companies have, however, supported suppliers by co-financing prevention efforts.



**0 out of 4 companies have supported suppliers by co-financing Covid-19 related prevention efforts..**

### **Looking ahead**

*Two out of four* companies (Eurosko, Nilson Group) are supporting legally binding human rights due diligence.



**2 out of 4 companies support legally binding regulations on human rights due diligence worker representatives about the situation.**

# CONCLUSIONS

## **Workers bear the brunt of the pandemic**

Accounts from China and India show that as the pandemic hit the leather industry, many buying companies did not pay the full amount for orders already in-production or bargained for heavy discounts, leaving the factories to carry the costs of wages and raw materials. The lack of liquidity at factories trickled down to the factory employees, the tannery workshops, the home-based workers, and the informal daily wage workers and their families, who have been left without due wages, income or severance payments.

In India, we are hearing accounts of breadwinners without food for their families, of children who might never go back to school, and of men and women forced into debt. In China, factories have been shutting down in silence, leaving workers without compensation and secure source of income from one day to the next.

## **Going against the trend**

As the Covid-19 pandemic hit, leather shoe imports plummeted. During the first six months of 2020, Swedish imports from China and India dropped by 31 and 40 percent respectively, compared to the same period in 2019.

While many companies turned their backs on their suppliers by cancelling ongoing orders, it is encouraging news that *Eurosko, Nilson Group, Scorett, and Vagabond claim to have paid for all their orders already in production without requiring discounts.*

## **All companies are ensuring that wages are being paid...**

It is also promising that all four companies are *confident that wages have been paid to workers* in their supply chain, and that three of them have been in dialogue with factory management on how wages can be assured.

## **...but none have talked to the workers**

Yet, *none of the companies have been in contact with unions or worker representatives to verify their claims.* Since accounts from



workers and civil society organizations show that non-payments of salaries have been one of the most serious effects on leather workers during the pandemic, Fair Action finds it disappointing that those most seriously affected have not been heard from about their situation, nor have been asked to validate information received from suppliers. According to ILO, social dialogue is key to shaping relevant responses to the crises.<sup>54</sup>

The UN Guiding Principles stipulate that companies should “*involve in meaningful consultation with potentially affected groups and other relevant stakeholders*”, such as workers and trade unions in their supply chains.<sup>55</sup> Brands should consult them directly or, in situations where this is not possible, consult experts such as civil society organisations and human rights defenders.

### **Daily wage workers receive no compensation**

Brands are not only responsible for their direct employees, but every single worker in their supply chain.

Although permanent employment is often regulated in national law in producing countries, accounts from workers and civil society organizations show a different story. While the figures from the four surveyed companies in general show a picture of a high average percentage of permanent employment in their supplier factories, the general picture from the ground indicates a much lower percentage. At many factories in India, the percentage of permanent employers is estimated to 30 percent,<sup>56</sup> implying that millions of contract workers, daily wage workers and home-based workers are left excluded from all kinds of social security.

### **Living wage needs to be ensured**

Although the current situation of the Covid-19 pandemic was unprecedented, the challenges for people working in the leather industries in China and India are not new. Decades of low wages and lack of access to social security has left millions of workers with small or no margins to live off when facing mass layoffs or delayed or non-payments of salaries. Ensuring living wages in the supply chain must become a company priority.

### **Legally binding instruments**

Indeed, previous negligence in improving wages and working conditions for people in the sector has exacerbated the impact of the corona pandemic. It is clear that current voluntary measures for companies to ensure decent working conditions in the supply chain has been far from sufficient. Preventing human rights risks such as low wages, reprisals when organizing in unions, and

unhealthy working conditions, must become part of business hygiene.

Nilson Group and Eurosko stand behind the idea of legally binding human rights due diligence at an EU level. They are not alone. From all across Asia and Europe, voices from human rights organizations, multi-stakeholder initiatives and companies, are calling for legally binding regulations on businesses to conduct human rights due diligence.

Legally binding regulations would imply that companies who are serious in their efforts to improve working conditions, would be competing on more equal grounds with companies who today take short-cuts at the expense of people and the environment.

# HOW WE DID THE RESEARCH

## **Interviews with civil society organizations**

This report is mainly based on interviews with four civil society organizations, all engaged in worker's rights issues, conducted by Fair Action in June 2020. Three are Indian organizations: Cividep, the Social and Labour Organization and Change. The fourth is a Chinese organisation, the Inno Community Development Organization. See pages 18 and 27 for further descriptions of these organisations. In addition, consultant and freelance journalist Mats Wingborg conducted the interview with Li Wang\*, a former Asia Monitor Resource Center associate, in October 2020.

## **Interviews with workers**

In addition to interviews with civil society organizations, seven leather workers were interviewed. Quotes from workers are included in the report as testimonies from the supply chain of leather shoes and do not constitute a representative sample. Travel restrictions and lockdowns restricted the possibility of reaching out to workers.

Two leather workers were interviewed in India by Cividep in June 2020. Five leather workers were interviewed in Guangdong, China, by Inno in July 2020. The interviews concerned how workers had been affected by the pandemic and the lockdown.

The identities of the interviewees have been withheld for security reasons, given the dire situation regarding civic space in the two countries. For the same reason, Fair Action does not mention the name of the factories where the workers are, or have been, employed.

[Clean Clothes Campaign](#) was also consulted during the work of the report and reviewed the recommendations.

## **Shoe company surveys**

Five shoe companies on the Swedish market were selected for a survey sent out in September 2020, all of which have previously used leather produced in China and /or India.<sup>57</sup> The survey regarded how they responded to the Corona pandemic to ensure workers'

rights throughout their supply chain. The companies selected were: Nilson Group (Nilson Shoes, DinSko, Skopunkten and the franchise chain ECCO stores), Eurosko, Scorett, Vagabond Shoemakers and Haglöfs.

As Haglöfs, according to the survey, has not sourced leather or leather shoes from China or India during 2020, they were excluded from the report.

The companies' responses were sent to Fair Action in September 2020. The brands had the opportunity to fact check the parts of the report regarding their policies and practices, prior to publishing.

# ACKNOWLEDGEMENTS

First and foremost, we would like to thank Usha Rani, Amundha Priya, Chen Jun, Li Wuying, Yuan Kaimin and Huang Jianghua to have shared your valuable accounts about the situation of leather workers.

A particularly big thank you to Pradeepan Ravi at Cividep India for sharing your expertise and for coordinating the interviews. Many thanks also to Sonia Wazed at Society for Labour and Development, Saraswathi Paneerselvam at Change and Dee Lee at Inno Community Development Organization for sharing your great knowledge and insights with us.

Thank you, consultant and writer Mats Wingborg, and Li Wang, labour rights researcher and former co-worker at the Asia Monitor Resource Centre (AMRC), for your help with cross-checking accounts from China.

We are grateful for the invaluable guidance and statements from several organizations and individuals in China, although your names will have to remain confidential.

# APPENDIX 1: SURVEY RESPONSES

The following tables provide a summarized version of the survey and company responses. Find all survey questions [here](#).

	VAGABOND SHOEMAKERS	EUROSKO NORGE AS	SCORETT FOOTWEAR AB	NILSON GROUP AB
Turnover 2019 (SEK)	920 million	1,3 billion	853 million	2 billion
Expected impact on total sourcing volume 2020 of leather shoes in 2020 compared to 2019	Stable 5% to -5%	Decrease -5% to -20%	Decrease -5% to -20%	Decrease -5% to -20%
Corresponding value in monetary terms (SEK)	3 million	10 million	No answer	No answer
Has made a public commitment to pay suppliers for completed orders	NO	NO	NO	NO
Is paying the originally agreed price for all in-production, finished, and shipped orders, without any request for discounts or rebates	YES	YES	YES	YES
Is engaged in dialogue with workers' unions and/or workers' representatives on how to ensure workers' rights and wages during the Covid-19 pandemic	NO	NO	NO	NO
Is engaged in dialogue with suppliers regarding Covid-19 related health and safety measures at the factories	Yes, with all suppliers (<95%)	Yes, with the great majority of suppliers (80%-95%)	Yes, with the great majority of suppliers (80%-95%)	Yes, with all suppliers (<95%)
Has taken measures to share the burden of occupational health and safety costs, related to Covid-19, with suppliers, as recommended by Fair Wear and Ethical Trading Initiative? ( <a href="https://bit.ly/2CZHk0S">bit.ly/2CZHk0S</a> )	NO	NO	NO	NO
Support an EU legislation for human rights due diligence	Has not yet taken a stand	Yes	Has not yet taken a stand	Yes

## China

	VAGABOND SHOEMAKERS	EUROSKO NORGE AS	SCORETT FOOTWEAR AB	NILSON GROUP AB
Percentage of total leather shoe production that takes place in China (on average, in terms of sourcing value).	n/a	35%	18%	75%
Percentage of leather tanning that takes place in China (on average, in terms of sourcing value).	n/a	20%	18%	75%
Engaging in dialogue with factories to ensure that workers in the supply chain have been paid wages during periods of lockdown, will be paid wages, or are otherwise provided for during lockdown.	n/a	Great majority of suppliers (80%-95%)	No suppliers <1%	Great majority of suppliers (80%-95%)
Is confident that workers in factories in our supply chain have been paid wages during periods of lockdown, will be paid wages or are otherwise provided for during lockdown.	n/a	True for the great majority of suppliers (80%-95%)	True for the great majority of suppliers (80%-95%)	True for the great majority of suppliers (80%-95%)
Can provide verifications for the answer above by request. (Fair Action has not requested verifications)	n/a	YES	NO	YES
Number of workers with permanent employment (country average)	n/a	The great majority of workers (80%-95%)	Unknown	All workers (>95 %)

## India

	VAGABOND SHOEMAKERS	EUROSKO NORGE AS	SCORETT FOOTWEAR AB	NILSON GROUP AB
Percentage of total leather shoe production that takes place in India (on average, in terms of sourcing value).	0%	15%	7%	n/a
Percentage of leather tanning that takes place in India (on average, in terms of sourcing value).	25%	40%	7%	n/a
Engaging in dialogue with factories and tanneries to ensure that workers in the supply chain have been paid wages during periods of lockdown, will be paid wages, or are otherwise provided for during lockdown.	All suppliers (>95%)	Great majority of suppliers (80%-95%)	No suppliers <1%	n/a
Is confident that workers in factories in the supply chain have been paid wages during periods of lockdown, will be paid wages or are otherwise provided for during lockdown.	True for all suppliers (>95%)	True for the great majority of suppliers (80%-95%)	True for the great majority of suppliers (80%-95%)	n/a
Can provide verifications for the answer above by request.  (Fair Action has not requested verifications)	YES	YES	NO	n/a
Number of workers with permanent employment (country average)	The great majority of workers (80% - 95%)	The majority of workers (60 -80%)	Unknown	n/a



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\* Fictitious name