Cooperation and Conflict in a Commodity Chain: A case study of the Brazilian Leather and Footwear Complex

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EADI Workshop on Cluster and Global Value Chains in the North and Third World.
Universitá del Piemonte Orientale- Novara – Italy October 30-30th 2003
This paper presents the preliminary results of an investigation which constitutes part of a larger research project about Global Value Chains and Industrial Modernisation in Brazil aiming to inform public policies in two main areas: industrial development and employment. The export-lead Brazilian trade and industrial policies, of the last two decades, initiated the debate over issues such as the need to achieve international standards of quality and productivity and about strategies towards a better integration in the global economy. This is the context in which concerns about the development of internal commodity chains and industrial clusters are growing among policy makers and researchers. At the moment the need to develop and upgrade industrial clusters and internal commodity chains is a common point in government and business agendas.

The study was initially designed to focus on the patterns of labour relations in the footwear commodity chain in Brazil. The rationale for investigating labour relations in this commodity chain is two-fold. First, because Brazil is one of the largest shoe-exporters in the world, and second, because employment in the leather/shoe complex represents 5,1% of the total formal employment in the manufacturing sector. Gorini and Siqueira (1999) estimated that in 1999 there were 700 thousand workers formally employed by the leather and shoe industries in Brazil. In summary, the importance of this industrial complex in Brazil is expressed not only in terms of the volume and value of the exported goods, but also in its employment figures.

Although the initial focus of the study was mainly on the patterns of labour relations in the footwear commodity chain, from the onset of our research we realised that some questions needed to be addressed previously. In order to understand the dynamics of the labour relations developed in a commodity chain we should first of all question whether we could in fact speak of a commodity chain in the Brazilian shoe case. A commodity chain here is understood mainly as constituting a set of stable relations among enterprises (and its backward and forward linkages) that go beyond the customer/supplier trade exchange relations. In this sense, to answer the first question, we have to investigate the existence of such relations and their nature among enterprises and between labour and capital.

1 This study is supported by IPEA – Applied Economic Research Institute, a governmental agency of the Ministry of Planning of Brazil.

2 There were 238,759 workers in the shoe/leather complex at the end of 1997 for a total of 4,703,756 employees in the manufacturing segment. A clear distinction between the formal and the informal labour market was created in Brazil as a partially unexpected result of the Brazilian Labour Code (CLT). This Labour Code created the employment book. It is a kind of ID Card that makes it clear to workers, enterprises and labour courts, who is included or excluded from the formal labour market. Having the job contract signed in the employment book (carteira de trabalho) grants the employee all the main labour social benefits. Labour law is much more important to define labour and social rights than collective contracts. Therefore, the distinction between the formal and informal labour market in Brazil is similar to the distinction between unionised and non-unionised segments that mostly characterise contractual models of industrial relations. The last distinction doesn't make sense in Brazil, since unions represent all workers, regardless of being associated to the union or not – see (Noronha 1999).

3 Based on this estimation, the leather/shoe complex represents 15,0% of the total formal employment in Brazil. It is worth calling attention that these figures would be more impressive if we considered the informal market. Although there are no precise figures on the amount of informal workers, union representatives, during the interview, have stressed that informality in the footwear complex is high and constitutes one of the its main problems.
Two main assumptions guided our investigation. First, that the analysis of organisations (entrepreneur associations, labour unions, etc) would reveal both the patterns and the rationale for co-operation or conflict in the footwear industrial complex. And second, that co-operation among the links of the chain (including labour–capital co-operation) is a key factor to understand employment creation and industrial success.

The paper is divided into three sections. The first one discusses the concept of vertical business associations, which are those types of associations stressed by the literature on commodity chains.

By vertical entrepreneur organisations we mean the typical relation of commodity chains in which the enterprises are linked one to the other in stronger relations than just trade relations – for instance, technological or training co-operation between contracting enterprises. By definition vertical organisations are those between sellers and buyers aiming for a common benefit (or “public good”, in Olsonian terms) against other competitors, who can also be associated to other vertical organisations. The difficulty to obtain such a co-operation is to surpass contradictory interests, particularly prices. We can call vertical co-operation (and conflict) both the co-operation between segments of a commodity chain and between labour and capital -- this one will be dealt with in the third part of this paper.

Drawing from the cluster and the commodity chain literatures, the section discusses the issues of co-operation and conflict, understanding them as key elements for the economic success (or failure) and development of a commodity chain. The section introduces the main actors of the footwear chain in Brazil and analyses the nature of the relations developed by organisations representing these actors. We conclude this section by pointing out the flaws in these relations mainly in terms of the absence of co-operation among the organisations that represent the diverse sectors of the footwear commodity chain. In fact, vertical associations are quite rare in Brazil where horizontal associations predominate. These horizontal relations are examined in the second part of the paper.

In the second section of the paper we analyse horizontal organisations which are defined as those among competitors (i.e. enterprises of one specific sector such as the shoe industry) in the market seeking for the creation of public goods – for instance, tax reduction, price agreements or the promotion of a fair in a foreign country. They typically address their demands either to the government, to their suppliers, or to their customers, or even to face foreign competitors. The difficulty to get co-operation is to surpass the conflicts raised in the market competition. The principle guiding such a relation is equity – equal conditions for all the members is the principle that legitimates competition.

In this section we analyse the horizontal relations developed among business associations in the footwear chain and trace their historical background to understand the influence of the Brazilian corporatist traditions in these kinds of associations. We conclude the section by arguing that the prevalence of horizontal associations, along with the federative and the

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4 By public good Olson understands those whose consumption can not be restricted only to those who contributed to their production. For instance, a tax reduction achieved by an entrepreneur association can not be confined to those enterprises that contributed to the association. Due to “free ride” behaviour, public goods are not produced in optimal amount (Olson 1965).
corporative design of Brazilian political institutions, undermines vertical co-operation typical of a commodity chain.

The third and last part of the paper discusses co-operation and conflict between labour and capital in the footwear industrial complex. First we draw a picture of the footwear union’s design, pointing out the historical aspects or elements that lead to the present pattern of relations. We argue that the union’s corporative design, rooted in statutory and inertial trends of institutions, created obstacles or weakened relations among unions of the other sectors. Other aspects raised in this section are the existence of free union associations (the “Centrals”) and their great difficulty to support thousands of small unions spread throughout the country. They were also unable to promote unification of small unions in order to obtain gains of scope. Following this discussion, we present the main points of the collective agreement negotiated by the unions, pointing out that workers in the footwear sector in Brazil are still struggling for basic rights such as wages and a formal contract. As stressed in the interviews with union leaders, the main issues in the shoe industry are the low wages, health, safety at the workplace, the existence of child labour and a vast contingent of informal workers.

We conclude the analysis of the preliminary results of the investigation by pointing out three variables, at an organisational level, which have a strong influence in defining the possibilities or difficulties for creating or constituting a footwear commodity chain, as a set vertical interaction, in Brazil. The first one refers to the Federative and corporative design of the Brazilian organisations that represent labour and capital interests. The second variable refers to the Brazilian Federative political system, with its three arenas of decisions and its effects on fiscal policies. And finally, the unbalanced relation between local and export oriented production, and the dependent way in which the export oriented footwear segment in Brazil is integrated in the international commodity chain.

1. Vertical Organisations

In this part we introduce some elements of the theoretical framework that guides the discussion on the nature and dynamics among the nodes of the footwear commodity chain in Brazil. We first briefly present the concept of vertical organisations and portray the main vertical organisations found in the Brazilian footwear commodity chain. Next, we discuss the nature of the relations among the organisations representing the various segments of this chain, highlighting the movements of co-operation and conflict in the last years among the main actors. We conclude that in this chain, vertical organisations follow a pattern characterised by either a low or no degree of integration, with little room for co-operation among its segments. This pattern of relations among vertical organisations strongly influences the shoe commodity chain in Brazil and can only be understood when we analyse the nature and the relations among the horizontal organisations of this chain. This is done in part two.
1.a. Commodity chains and Vertical Organisations.

The literature on commodity chains has its origins in the world-system theory in its attempts to understand the new international division of labour and the uneven consequences of the process of globalisation in the peripheral or semiperipheral economies. This literature is vast and it is beyond the scope of this study to review it. What matters at this point, is to highlight that the concept of a commodity chain as defined by Hopinks and Wallerstein (1986), and developed by other authors such as Gereffy & Korzeniewics (1990), has been an important methodological tool in understanding the structure of core-periphery relations.

In the present investigation we draw on the definition of commodity chains by Hopkins and Wallerstein (1986:159. In G. Gereffi & M. Korzeniewics), understanding it as "a network of labour and production processes whose end result is a finished commodity". According to (Gereffi and Korzeniewicz 1990), the first challenge posed to the studies on commodity chains starts with the definition of the anatomy of the chain itself. The authors suggest, as a first step to delineate a chain, to start with the final product operation for a consumable good and to move backwards until reaching the raw material input. Following this, there is the need to identify four properties for each segment or node of the chain: a)" the commodity flows to and from the node and those operations that occur immediately prior to or after it; b) the relations of production (i.e., forms of labour force) within the node; c) the dominant organisation of production including technology and the scale of production unit; and d) the geographic loci of the operation in question" (Hopkins & Wallerstein 1986; 160-63. In G. Gereffi & M. Korseniewics, 1990).

For example, the footwear international commodity chain encompasses a variety of processes that not only cut across diverse economic sectors but also across national boundaries. This commodity chain starts with the raw material supply network partly related to the agricultural sector (cattle), and partly to the extractive sector (crude oil, petrol-chemicals). The second segment of this chain is the production network encompassing the process of manufacturing components such as roughhides, tanned leather, equipment, chemicals, and the footwear production. The third segment is constituted of the export network encompassing activities and processes related to the distribution. And finally the marketing and design of the product. Each of these segments have different production processes, technological requirements, scale and type of production unit, different patterns of labour relations, and are located in diverse countries. What makes this a chain is not the traditional commercial flow between these segments (although this is a requirement), but how these nodes relate regarding issues such as market information, the definition of quality standards, upgrading of suppliers, technical training and innovation diffusion.

In Gereffi views (1990), in order to understand the functioning of this or another chain it is necessary to investigate not only the economic features and performance of the nodes of the chain but also the pattern and nature of the relations within and among these segments. A way to understanding this is to investigate the associations that represent the interests of the main actors of the chain. One aspect emphasised by the studies on commodity chains is the existence of a hierarchy and a structure of power among and within these
segments that define the allocation of financial, material and human resources among the nodes.

In this sense when we think of a commodity chain, it is important to take into account not only the horizontal and vertical relations among the segments of this chain, but also the fact that these relations occur in a hierarchical structure that influences the possibilities of co-operation or conflict among these segments. For instance, in the case of the footwear commodity chain at the international level, the segments encompassing the activities of marketing, distribution and design are the ones (located in core countries like US, Italy, Spain) that, besides being the most profitable segments, are the ones with strong influence, as we are going to see in Brazil, on the configuration and pattern of relation among the internal nodes of the chain.

One of the main assumptions underlying the studies on the possibilities and constraints of mobility in the world system from a position of periphery to semiperiphery such as the East Asian and Latin America Nics have done in the last decades, is the idea of integrating into an international commodity chain. This is followed by a series of studies advocating that in a global economy the possibilities of building links to international chains or being upgraded in this chain is highly influenced by the level of integration of the segments of this chain at a local level. In the growing body of literature on commodity chains and clusters, there seems to be an agreement about the importance of understanding the nature of the organisation that represents the main actors of the chain and the type of relation they have been engaged in.

In this section we deal with relations among vertical organisations, understanding them to be important features of commodity chains. Through the vertical organisations, segments or enterprises can relate beyond traditional seller/buyer relations to encompass technological or training co-operation between customers and suppliers. Since a chain is characterised by hierarchical relations, co-operation among vertical organisations depends on the capability of these organisations to mediate or surpass the diverse and often conflicting interests of the segments they represent. In the next subsection we address the question about the existence of vertical organisations in the Brazilian footwear commodity chain.

1.b. Vertical Organisations in the Brazilian Footwear Commodity Chain.

Before attempting to present the vertical organisations (or the lack of them) in the footwear Brazilian commodity chain it is useful to introduce some of the main characteristics and relevant issues of the main segments of this chain. The two most important segments of the Brazilian footwear commodity chain are the ones linked to the raw material supply network, (rawhides and tanned leather), and the production of shoes and other leather goods. These segments are concentrated in two areas of the country (Franca and Sinos Valley) that respond for almost 61% of the total number of production units of the

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6 These areas considered the most important footwear clusters of Brazil. Accordingly data from Ministry of Labour (RAIS) in 1997 there were 2510 leather and shoed production units employing 122320 workers in Sinos Valley against 2931 units and 50014 employees in Franca revealing differences in the level of dispersion of these two clusters.
leather/shoe segment of the country and 72% of the employment in this chain. Although there has been a movement of production units, since the middle of last decade, of some enterprises towards the Northeast\textsuperscript{7}, these new areas haven’t yet challenged the position of these two traditional clusters located in the South.

The leather segment of the footwear chain in Brazil encompasses all stages of the productive process going from cattle raising, to slaughtering and to the preparation of rawhides and tanned leather. This could be a good starting point in attempts to have the various links of this segment working in a coordinate and co-operative way. In fact, as will be discussed in section 2, horizontal relations among the actors of this segment have been far from co-operative. Neither have they been successful in attempts to promote vertical relations among customers and suppliers within the segment nor among other nodes of the chain such as the footwear industry.

The configuration of the leather segment varies a great deal in terms of size, level of technology and even of market orientation. Here, we can find from very modern and large slaughterhouses to small and median units using traditional methods for dealing with meat and rawhides. Among the tanneries, small and median size production units predominate, again using different technologies, and also with a diverse market orientation. While some tanneries are totally oriented to the external market exporting semi-processed leather (in the forms of wet blue and crust), others’ main orientation is the supply of finished leather to the internal market.

Information and data on the destiny of the leather processed in the tanneries is not precise and varied according to the sources. For instance, while BNDES\textsuperscript{8} estimates that in 1998, 30% of the tannery production was exported and 70% was absorbed by the internal footwear segment of the chain, data from other sources present a higher percentage (51.8%) of leather being exported in the forms of wet blue or crust, stages that incorporated less value. This information, besides lacking uniformity among sources, reflects some of the dilemmas faced by this sector over the past years.

Co-operative relations within the leather segment have been difficult not only due to the complexity of the segment and its divergent interests, but mainly because these interests are guided by two diverse types of logic; One that focuses on export of semi-processed leather, and another that advocates restriction in the form of export taxes to the export of wet blue, or compensations to deliver finished leather to the internal market. The difficulties of co-operation within the leather segment are well illustrated by the existence (until recently) of two divergent national horizontal tannery associations: CICB (Center of the Tannery Industries of Brazil) founded in 1957, and Abicouro (Brazilian Association of Leather Industries) originated in 1996 from a dissidence headed by a state tannery association located in Sinos Valley (AICSUL).

\textsuperscript{7} This movement is reported to be mainly due to fiscal incentives offered by these states and also to lower wages of the area. These new areas present a different pattern of those of the south, being constituted mainly of large production units spread across diverse counties, and oriented towards the internal market. These new areas will be subject of further investigation in the second part of the research.

\textsuperscript{8} BNDES- National Development Bank. And the others sources are Department of export and the CICB- Brazilian Centre of the Tanneries.
The existence of horizontal organisations, at state and national levels in the leather segment, contrast with the lack of vertical organisations, at a national level or even at a local one, capable of building links with other segments of the chain such as the footwear or components. Interviews with members of the leather and shoes horizontal entrepreneur associations have pointed out that vertical co-operation at the level of firms, typical of a commodity chain (customers and suppliers) is not a common procedure in the footwear industrial complex. As posed by an interviewed, these relations are improving, but most of the time there is a “strong jealousy between the tanners and shoe producers that see the other in better positions and with easy jobs”. Although we believe that the explanation for this pattern of behaviour goes beyond individual or firm features, this statement illustrates the lack of integration among customers and suppliers of this chain.

At this point we could ask if in the footwear segment of the chain, there have been efforts to build co-operative vertical relations with others segments, or if there are organisations able to act as a catalyst to integrate the nodes of the chain. To address this question we have to understand the main features and modus operandis of this segment. First, the national footwear industrial complex encompasses the following sectors: a) leather shoes and leather goods such as travel bags (female shoes predominate in the Sinos Valley while Franca concentrates on male shoes); b) sport shoes, such as tennis shoes, aiming at the internal market; c) rubber and synthetic footwear oriented to special internal niches such as safety equipment. In this segment we can observe a correlation among the type of produced good (leather or synthetic), market destination (external or internal) size of the firm and regional concentration. For instance, while in the South (Sinos Valley) the predominant pattern is one of small and median enterprises producing leather footwear for the external market, in the Northeast we have few large firms oriented to the internal market, while in Franca and S. Paulo there is a mixed pattern where we can find export oriented as well as firms supplying the internal market with leather and synthetic goods. This typology, although simplified, illustrates the complexity of the sector and points out the existence of at least two different and sometimes divergent kinds of logic guiding the behaviour of this segment.

There is an association (Abicalçados) in the footwear complex, which could be seen as an umbrella attempting to cover or represent the interests of this vast range of enterprises at a national level. Studies of the Sino Valley cluster point this association as having little or no interest in promoting vertical integration among the other segments of the chain. This may be partly explained again by the logic that guides the firms that are said to dominate the association, and partly by the nature of these horizontal organisations, as will be discussed latter.

The other segments of the footwear commodity chain, constituted of firms producing machines and equipment, chemical components, and footwear part supplies, are “covered” by horizontal organisations that have been effective in providing technical support and other services typical of these associations. Although they are not as expressive in the chain as are the leather and shoe segments, they have attempted to create vertical links and partnerships through events such as international fairs and/or projects to develop a design and a trade stamp named By Brazil.
It is worth mentioning that in the state of Rio Grande do Sul there are local free\(^9\) Entrepreneurs Industry, Trade and Service Associations (ACI), not found in other states, that could be understood as vertical organisations in the sense that over the past years they have acted to promote integration among segments of the Sinos Valley cluster. But this association only has local influence and in representing all sectors, it has to be cautious in dealing with conflicting interest of its members.

Studies\(^{10}\) on the Sinos Valley cluster have also stressed the conflicting interests and the lack of co-operation among the segments of the footwear commodity chain in the area. The authors attribute the lack of vertical and horizontal co-operation to a range of factors such as the crescent diversification of the cluster activities, the new and complex power structure of the cluster, as well as dominant influence of the footwear association in constraining vertical initiatives. All of these can be considered important factors in the definition of a pattern of the relation in the commodity chain. However, our hypothesis is that the explanation for the weak or even lack of integration among the segments of the Brazilian footwear industrial complex is in the very nature of the horizontal organisations and of the Brazilian Federative system. These two elements have been shaping the relations between the diverse segments of what could be a commodity chain. This argument is developed in the next section.

2. Horizontal Organisations

In this part we show that, as opposed to vertical organisations, horizontal organisations are widespread in Brazil due to its historical corporatist background. Besides, the complex Brazilian federative political arrangement, in which all three levels of the executive governments (federal, state and municipality) are able to tax and implement fiscal incentives, leads to the creation of a great number of entrepreneur or labour organisations, which not necessarily favour co-operation. Together, the great number and the corporatist design of the majority of the organisations are more likely to sediment conflict than co-operation. Co-operation boosted in a whole sector tends to lead to vertical conflicts, since vertical and horizontal market co-operation is quite often contradictory.

The perception of corporatism as the main trace of both the Brazilian political system and the industrial relation model was spread among trade-union experts in the mid-’70s\(^{11}\). However, its roots had been formerly established by law during the authoritarian era of President Getulio Vargas (1930-45). The Labour Code (CLT\(^{12}\)), based on the Italian fascist model, enforced the creation of labour unions and also entrepreneur unions.

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\(^9\) The idea of free association come in contrast to the corporatist associations and will be discussed later.

\(^{10}\) Bazon, 2000; Humphey, 1995; Nadvi, 1999; Schmitz, 1995

\(^{11}\) Philippe Schmitter, Luiz Werneck Viana, Amaury de Souza, and Kenneth Paul Erickson were the authors that first critically emphasised corporatism in the Brazilian model of employment relations – see (Schmitter 1971), (Vianna 1976), (Souza 1978), (Erickson 1979).

\(^{12}\) In 1943 the employment law was joined in a labour code known as CLT (Labour Law Consolidation, in a literal translation).
In the 80’s, after the democratization, the Brazilian political pluralist system left behind the former corporatist intentions, but the industrial relations organisations inherited the corporatist design left by President Vargas. The main corporatist traces of labour and entrepreneur organisations still in force are (a) the necessity of the unions' recognition by the Labour Ministry -- otherwise the collective contract has no legal value; (b) the Labour Ministry's power to define the trade-union jurisdiction -- usually the Ministry allows for the creation of one union per city and per industry; (c) union monopoly of representation -- two unions are prohibited to dispute the same regional jurisdiction; (d) compulsory contribution for unions even by non members, and; (e) the normative power of the Labour Justice.

We do not intend to discuss or review the literature on Brazilian corporatism. There is a wide and rich production on labour unions corporatist organisations. However, it is surprising how neglected the debate on entrepreneur corporatist unions has been.

In fact it is well known that entrepreneur and labour unions are roughly a kind of mirror of each other. That is, the collective agreement is made between a labour union from a specific sector or municipality with an entrepreneur union with a similar scope. The mirror isn’t perfect. Entrepreneur unions are more likely to be regional while labour unions tend to be more municipal. Recent data show there are over 10,000 unions in Brazil. In the footwear commodity chain (excluding cattle-raising, meat-industry, slaughterhouses and trade) there are 84 entrepreneur unions and 104 labour unions. This number shows the high fragmentation of collective agreements in this sector.

Furthermore, entrepreneur unions usually work as lobbying associations. They co-ordinate not only collective agreements but also industrial co-operation. They guide their actions to pressure federal, state, or even municipal governments. Secondarily they promote technological diffusion, training programme trade or legal support to their associates. In some cases entrepreneur unions are by far more dedicated to lobbying than to dealing with labour and capital issues.

Besides entrepreneur unions there has been a proliferation of entrepreneur free associations (as we discussed in the previous part), particularly in the last two decades. Entrepreneur unions and associations are frequently perceived as similar types of organisations with similar goals and characteristics. But they aren’t. They have two distinguishing traces. First, the regional and industrial scopes of entrepreneur unions are defined by law, which means that they necessarily are local and horizontal organisations, meaning specifically of one segment of industry. In contrast, entrepreneur associations are freely built and so can group either enterprises of similar or different sectors. Therefore, in principle, they can favour either horizontal or vertical co-operation. The second distinctive point is that entrepreneur unions were established to promote collective agreements. Although many unions may put industrial

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13 In many aspect the Brazilian Labour Law lost its corporatist characteristics in the democratization during the 80’s. See (Noronha 1999)
14 The “b”, “c” and “d” characteristics have been diluted by legal, administrative and union’s political attitudes. It means that Brazilian corporatist is not as pure as it was in the past, according to Schmitter’s definition – see (Schmitter 1974).
15 This debate is constantly renewed. See (Tavares de Almeida 1988), (Tavares de Almeida 1996), (Rodrigues 1990).
policies before collective issues in their agendas, they can never abandon the function they were created for. This is opposed to free associations, which are forbidden by law to sign collective agreements. Sometimes entrepreneur associations are able to diffuse patterns of negotiation to a range of unions but they do it informally and especially when the same people are in charge of both unions and free entrepreneur association.

Associations are specialised in lobbying and in promoting co-operation, even if such co-operation occurs only as an “external incentive” to maintain the association's attractiveness or its legitimacy\(^\text{17}\). Entrepreneur unions can formally do both, promote collective agreements and lobby, and in fact they frequently do so. They may refrain from their lobbying activities if a specialised association exists.

The legal imposition of both the belonging and the payment to a union, the corporativist system of industrial relations solved the initial problems of the promotion of collective actions for both workers and entrepreneurs. But they created two other problems: the fragmentation of their associations and a rigid pattern of internal co-operation that possibly promotes horizontal co-operation but is liable to obstruct vertical co-operation.

The first negative effect is clearly expressed by the number of unions. The greater the number of unions, the more difficult the promotion of national interests of a specific sector. In addition, the Brazilian corporatist system is by nature also federative. The unions are created according to the federal political system. Labour and entrepreneur unions rarely have a national scope. Only industries that are by nature national, such as airlines, have a national union. Municipal, inter-municipal, or state unions predominate in all the other cases.

The more regionally disperse an industry (or a cluster) is, the higher the number of unions. São Paulo State and Rio Grande do Sul State express this situation well. In Rio Grande do Sul State there are 17 entrepreneur unions and 38 labour unions, considering only the shoe/leather sectors. In São Paulo State data show 8 and 14 unions, respectively.

The production in São Paulo State is concentrated in 3 cities, each one at least 200 kilometres from the other. The most important one, Franca, is a typical cluster. Together they concentrate 60% of the employment of the São Paulo State shoe industry. Rio Grande do Sul State has a more disperse production. This State has the main shoe cluster in Brazil, a region called Vale dos Sinos. Over 20 cities are in this Valley region. They are small cities and 15 or 30 kilometres apart. But this municipal dispersion of the production leads to the creation of many labour unions, entrepreneur unions, as well as associations.

The history of the organisational creation can be summarised as follows. The Valley has a secular tradition in shoe production through small or even familiar industries spread throughout the region. In the 60's and 70's the scale of production changed after governmental incentives to export. More recently the internationalisation of the production and the rupture with familiar and traditionalist management\(^\text{18}\) lead to an increased and complex competition

\(^{17}\) Particularly for big groups external incentives are seen by Olson (1971) as essential to maintain organisations.

\(^{18}\) An interesting analysis focusing on ethnical and traditionalism was developed by (Bazan 2000).
among competitors, among suppliers, between labour and capital, and among states and municipalities. In this process many organisations were created.

In Rio Grande do Sul most municipalities have a general entrepreneur association involving all industry, trade and services. In São Paulo, the most industrialised state in the country, state organisations, especially the corporatist FIESP, seem to obscure the local ones. In the federative system, the stronger a state association (or union) is, the weaker the local ones. Therefore, 2 reasons may explain the more centralised organisational pattern in the São Paulo footwear industry. First, the municipal nature of the Franca cluster contrasting to the regional (many municipalities) characteristic of Vale dos Sinos. Second, the power of the Federative Entrepreneur Union of São Paulo State.

As we have pointed out there is a great variety of associations: “There are "peak" associations, that bring together all business bodies, sector-specific and sub-sectoral associations, regional associations as well as local chambers of commerce. Many of these bodies are well-staffed and undertake a range of activities. Many others are small in scale and scope, and quite a few exist on paper only. In addition to providing potential benefits to their members, associations can, as Moore and Hamalai (1993) observe, act as political platforms for their organizers and office bearers” -- (Nadvi 1999). The use of organisations as a political platform to both entrepreneurs and workers is well known by the bibliography, but the corporatist-federative design of Brazilian organisations makes it even more evident.

The picture below shows the variety of types of organisations (labour and entrepreneur) found in the footwear commodity chain according to 3 variables: (1) the direction of their links (horizontal and vertical); (2) the nature of their creation (corporatist or free); (3) their regional scope (national, state, or municipal). In the second picture we detail the types and the relative importance of organisations found in the commodity chain.

A first conclusion evidenced by the pictures is the non-existence of truly vertical organisations.

Entrepreneur organisations are not really vertical in the sense a commodity chain is. They are general, involving all industries (mostly state unions) or industry trade and segment (municipal associations). Typically entrepreneur organisations are either a state corporative general federation or a free horizontal association. A third common type is the municipal union, more frequent in Rio Grande do Sul.

Labour organisations are typically municipal or inter-municipal unions, sometimes with strong political identities with National free associations (the “Centrals”), but fragile organisational links to them, since the Centrals are not able to support the unions. Intermediate labour associations are not important at all. However, the free federation of footwear and clothing commodity chains is the first organisational expression of commodity chain concerns. They are too new to be assessed. Anyhow it is not really motivated by a perception that would be necessary to narrow the links of commodity chain unions. Actually they reflect the industry classification defined by law, and applied by Labour Ministry, in which clothing and footwear is usually mixed-up.

The main conclusion that can be drawn from the picture is the predominance of horizontal-corporatist organisations. Even when they are free associations they
have been built in order to favour horizontal co-operation, and sometimes inspired by corporatist traditions.

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<td>Corporatist unions</td>
<td>Horizontal organisations</td>
</tr>
<tr>
<td>--------------------</td>
<td>--------------------------</td>
</tr>
<tr>
<td>• municipality</td>
<td>Most labour and entrepreneurs unions are municipal or inter-municipal. This is the more diffuse type of organisation. They are the main base for labour association and co-operation in general and particularly to the shoe complex.</td>
</tr>
<tr>
<td>• state</td>
<td>Some few entrepreneur unions of the shoe complex industry have a state jurisdiction, instead of municipal one. This is the case of the tannery industry in São Paulo. There is no labour union of the shoe complex unified at state level</td>
</tr>
<tr>
<td>• national</td>
<td>Sindifrios (slaughterhouse)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Free associations</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• municipality</td>
<td>AICSUL – Only the shoe tannery industry of Rio Grande do Sul has a state free association. The lobbying action at the state level has been taken by entrepreneur unions, specially those located in the main clusters. State level free associations can also be a base to the creation of an opposition to a national association.</td>
<td>ACI – Industrial and commercial entrepreneur associations. They are very common in Rio Grande do Sul, but not in São Paulo or in Franca. Probably the type of cluster (regional in Rio Grande do Sul and municipal in Franca) explains the creation of municipal organisations in the former.</td>
</tr>
<tr>
<td>• state</td>
<td></td>
<td>CUT / CNTV – CUT and other “Centrals” are labour organisations based on free political association of labour unions. They intend to represent all workers. The CNTV is a new association that groups the shoe and clothing commodity chain.</td>
</tr>
<tr>
<td>• national</td>
<td>Except for the tannery association in RGS all other entrepreneur free horizontal associations have a national scope. Shoe, Machinery, leather-goods, etc. Lobbying for exporting policies is the main goal of such organisations. ABICALÇADOS, CICB, ASSINTECAL, ABRAMEQ, ABAEX, ABEQUITIC, ABECA</td>
<td></td>
</tr>
</tbody>
</table>
3. Labour and capital relations in a commodity chain

In this part we discuss two topics. Co-operation among labour unions and co-operation and conflict between labour and capital. For this purpose we first present the agenda of collective contracts.

One of the motivations of this research was to question how co-ordinated the collective agreements were in the footwear commodity chain. By former studies we know that the contractual pattern varies considerably in each link of a commodity chain. On the other hand there are some indications showing similarities among unions belonging to the same sector. Both the sectorial market and institutions work to establish such a similar pattern. The corporatist and sectorial design of labour and entrepreneur unions reinforces isomorphism among labour contracts from the same sector -- a shoe industry would have a more similar contractual pattern with its competitors than with its suppliers. Similarly, the federative political system and the economic regional disparities reinforce local patterns. Industry and federative variables are equally strong determinants of contractual patterns.

However, our hypothesis was that if we found a real commodity chain in the footwear complex we would probably also find a contagion effect of labour contractual patterns all through the links of a chain. It would indicate an expressive change in the logic of a contractual pattern. For instance, labour would need or seek a vertical contract instead of a corporatist (and therefore by industry and not commodity chain) or a federative (municipal or state) contractual pattern.

The federative and horizontal logic imposed by the Brazilian political and industrial relation system would be challenged if the links of the footwear commodity chain were effective. Despite the weak links we described in the former sections, there has been some cluster and commodity chain logic informing the labour contracts.

Patterns of labour contracts result from the types (vertical or horizontal; local, regional or national) of links or relations between labour unions and entrepreneur unions. In the former section we have seen the basic structure in which such links occur.

Before discussing co-operation and conflict in labour issues, it is necessary to examine the type of contacts among labour unions found in the footwear complex. According to a survey applied to labour representatives from the shoe and leather industry, the contacts between union leaders are fairly rare. Union leaders live in a sectorial and fragmented world. They know only their base. They are informed about the collective contract agreed on in other cities from the same state, but they seldom know details about the neighbour's union from a different sector of their commodity chain.

Unions in the shoe complex are mostly isolated local and sectorial unions, with some relation to municipal neighbours from the same sector. The national free associations (specially CUT) are a reference to define the agenda and a style of union policy. However, they never have direct influence on, for example, training, advisors or other kinds of support.

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19 The more recent and comprehensive research was accomplished by (DIEESE 1999).
20 For a discussion on institutional isomorphism see (DiMaggio and Powell 1983).
The need for vertical commodity chain co-ordination is felt by some leaders. Recently a National Federation of Clothing and Footwear (CNTV) commodity chain was created. It is not a real commodity chain since there are two chains involved – clothing and footwear\textsuperscript{21}. Furthermore, it was inspired by the metal sector experiences, whose vertical links are considerably stronger than those of footwear. The CNTV has no effective existence. A Congress recently promoted by the Federation failed due to internal political conflicts. The main Central in Brazil (CUT) has been trying to promote union unification. In such a process, sectorial or commodity chain designs have been encouraged instead of local grouping. A possible, but not yet solid, successful experience happened with the creation of the Shoe/Leather Unified Union of São Paulo city – a commodity chain similar to a labour union.

In spite of the fragile and rare relations among labour unions, shoe and leather keep contractual patterns considerably similar: Low wages\textsuperscript{22}, no benefits added to the basic CLT contract,\textsuperscript{23} and traditionalism and personalised relations in the shop-floor. The main concerns in collective agreements are basic-wage, health, and safety at the work-place.

Training and quality are perceived as entrepreneur matters, as well as many other labour topics. Two reasons may explain such perceptions, the first one being the need to surpass very basic claims. The second one concerns the existence of an old and expressive, although controversial, semi-public training system based on a percentage of the payment rolls enforced to all enterprises. The *Banco de Horas*, (work-hour bank\textsuperscript{24}) is the sole "modern" topic in the collective agreement agenda, but it is a quite contentious matter.

The "bank" is a new system which changes the way the maximum working hours are computed from a weekly basis to an annual basis. The system introduces a flexible working-day. The alleged advantages and drawbacks are to avoid the turn-over and the overtime payment.

The frequency of contacts between labour leaders and entrepreneurs is also revealing. The above mentioned survey asked how frequent the unions have any kind of contact with enterprises -- personal, phone, letters, formal or informal. The answers varied from once a year to daily. The predominant pattern is a sporadic contact, possibly monthly, with just a few enterprises.

The Shoe Union in the Franca cluster seems to be an exception, with a daily exchange between entrepreneurs. Some outstanding experiments happened in Franca, such as the creation of a free and bilateral council to solve individual labour disputes, without the Labour Court interference. No matter how effective the free council might be, its creation shows a pattern of relationship and frequency of contact not easily found in this shoe commodity chain.

\textsuperscript{21} Considering this is a free federation, there was no reason to join clothing and footwear in the same organisation but imitate the industrial classification defined by CLT – the corporatist labour law.

\textsuperscript{22} See comparative data showing that the shoe industry has one of the worst average wage among all industries. (Moreira and Najberg 1997).

\textsuperscript{23} CLT defines the minimum right enforced to all private enterprises, like a national minimum wage, the maximum of 44 work-hours per week, 30 days per year holiday, job interdiction to children younger than 14 year-old and many other rights or benefit. On top of that many enterprises particularly from chemical, metal or other strong sectors add other social benefits.

\textsuperscript{24} A system that change the way the maximum working hours are computed from a weekly base to a annual base. The system introduces a flexible working-day. The alleged advantage and drawback are avoiding the turn-over and the overtime payment.
Unionist tradition, the level and importance of industrialisation of each state or region, and remaining traditionalistic industrial relation practices are probably the sources of the differences found in Franca (SP) and Vale dos Sinos (RGS). Even a more antagonistic union practice may impose stronger collective relationship (not necessarily co-operative) between labour and entrepreneur unions or associations. Historical changes in the pattern of collective negotiation are undoubtedly associated to those variables.

However, institutional variables are also relevant. The first one is the already mentioned corporatist-federative profile of union organisations. Their federative aspect makes them fragmented at the same time their corporatist shape tends to highlight internal labour horizontal co-operation as well as internal entrepreneur co-operation to face collective agreements. The long history of corporatist organisations bonded internal identities. On the other hand, the same organisations are likely to blur the possible vertical co-operation, be they among enterprises or between collective representations from the two sides, labour and capital. Due to the very nature of such type of organisation, topics susceptible to co-operation are unlikely to be processed.

Apart from the typical collective agreement concerns, two explosive issues took place in the last decade, i.e. informal contract and child-labour. The international denunciations boosted by foreign competitors had an expressive impact in the local and international public opinion. Child-labour was deeply rooted in the familiar tradition of Vale dos Sinos and Franca. The joined action from ILO, national public agencies, entrepreneur and labour associations had effects considered positive by all members. In this case, labour and capital co-operation was firstly encouraged (or constrained) by external agents.

Informal labour contract in the shoe complex has an analogous history. The adoption of an informal contract by enterprises rises a problem of collective action. It is not only a quarrel that opposes labour to capital, as has usually been analysed. Indeed, an informal contract implies a considerable pay-roll reduction, but its adoption is more feasible for small enterprises, which are less exposed to Labour Ministry inspection. While it was confined to familiar or small enterprises it was not perceived as unfair competition among entrepreneurs. However, when its adoption was extended to bigger enterprises, the perception among entrepreneurs changed. Law-abiding entrepreneurs didn’t denounce their colleagues, but made their approval clear to the labour union complaints about informal contract arrangements. Reports from entrepreneurs and labour leaders make the effectiveness clear of selective action taken to the Labour Court against such practices.

The internationalisation of the shoe industry as well as the juridical principle of “liability for independent contractors” (responsabilidade solidária), in which the enterprises are also considered responsible by the contractual practices of their suppliers, indirectly settled a labour contractual pattern to the footwear commodity chain. This is a non-intentional and non-planned result. In the absence of vertical free institutions, enabled by their own nature to promote

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25 Therefore it is a complex matter in which traditional familiar child work as apprenticeship started to be meddled to hard industrial job – For details see the study sponsored by UNICEF/ILO and developed by DIEEESE, a Brazilian labour free association, [DIEEESE, 1994 #869].

26 Better to say a relative effectiveness, since the informal labour contract is still very common, particularly in the shoe industry. See [DESEP/CUT/SNF, 1999 #833]
vertical co-operation, the production of collective goods happens when external agents enforce\textsuperscript{27} it or bond the member of a vertical relation (be they an inter-entrepreneur or a labour-capital relation) into a new pattern of co-operation.

4. Remarks for further researches

The shoe clusters analysed in Brazil show a dependent insertion in the international footwear commodity chain, as has been pointed out by Gereffi. As a country in the periphery of the productive system it has a low comparative bargaining power. Besides, the very concept of the commodity chain can not be applied internally to describe the relations among national enterprises. If the Brazilian production can be properly described as an international link of the commodity chain, its national links are very loose. The conflicts among the shoe complex partners of the chain are based on different commercial interests, particularly between export oriented production and local oriented ones.

However, the conflicts between segment members of the chain, no matter whether export or local oriented, can probably be explained by the history of identity construction on industry (or segments of industry) bases. Similarly, a history of repeated disputes reinforced rivalry. Declarations from entrepreneurs show a low pattern of enterprise co-operation. The non-existent vertical organisation that typify commodity chains is a proof of the difficulty to surpass exclusively horizontal ties.

The main hypothesis guiding this research claims that at the base of the predominant (although also problematic) horizontal co-operation are both the corporatist legal arrangement and the federative political system. We show that even the new and free association reflects the shape of corporatist labour and entrepreneur unions.

Regarding collective agreements of the segment member of the commodity chain, their agendas, although relatively similar, depend on the corporative-federative logic. The communication among labour leaders is uneven and rare as well as those between labour and capital. Again, horizontal links are, by far, stronger than vertical ones. Even so, there have been some initial but expressive changes in the labour relation pattern on the grounds of international integration, increased competition and external influences, particularly those regarding child-labour and the informal labour market. The current predominant horizontal pattern of labour and capital organisation constrains vertical co-operation (or even just correlation). Despite the constraints imposed by the four variables here considered (1) the direction of the organisational links (horizontal or vertical) (2) market orientation; (3) the nature of their creation (corporatist or free) and (4) their regional scope (national, state, municipal), further research is necessary to explain the regional differences found in the clusters analysed.

\textsuperscript{27} Apart from individual co-operation or topic experiences of collective labour-capital co-operation, the most expressive experience happened in the 80’s when “Camaras Setoriais” (Commodity Chains Chambers) were organised by the federal government. . There has been other regional attempts but not in the shoe complex.
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