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Jochen Zeitz, CEO
PUMA-WAY 1
91074 Herzogenaurach
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Dear Mr. Zeitz,

On May 5th, 2008, Dr. Reiner Hengstmann from PUMA's Global Head Environmental & Social Affairs has kindly sent me PUMA's response towards China Labor Watch (CLW)'s recent report on its supplier, Taiway Ltd. As a result, I would like to present my appreciation to PUMA's statement and offer you CLW's perspective on the findings.

After a thorough investigation by CLW investigators, we are glad to say that we have found that Taiway has remediated and responded to some of the issues brought to their attention regarding workers' safety, food conditions, and resignation procedures. Nevertheless, we are disappointed to see that PUMA and Taiway still fail to acknowledge other abusive conditions that persist in the plant.

We share PUMA's sentiment that an investigation conducted by another, neutral organization would be useful; we, moreover, welcome a third party evaluation our own work. We hope that an investigation carried out by PUMA, Taiway and a third party accredited by the FLA would verify our findings.

The following is our response to PUMA's statement:

Contracts and Recruitment

Based on current Taiway workers' remarks, we suggest that Taiway's recruitment procedures be reformed. For instance, one hired worker claims that she was able to use her younger sibling's personal ID to get hired. An undeniably noteworthy fact is that Taiway has raised its recruiting standards, implementing stronger verification of personal

IDs and introducing an ID detector device. However, one problem presented by the adjusted recruitment procedure is that it only accepts the second generation personal ID.

Legally, although the government has introduced a second generation of personal IDs, unless the ID is expired, it is not prohibited for job applicants to provide a first generation personal ID. We believe Taiway's conduct discriminates against applicants with older IDs and infringes upon their rights. Hence, **we request that Taiway's exclusive use of the second generation ID in the recruitment process be terminated.**

Wages

Following Taiway management's readjustment on April 1st, average daily work hours have decreased from 11 and 12 hours to 10 hours, while the number of weekly days-off have raised from one to two days; paid vacation days have been allotted according to existing laws and monthly wages have been adjusted from 690 RMB to 770 RMB in accordance with the local minimum wage requirement.

However, in terms of wage distribution, Taiway distributes wages on the 25th of each month, effectively withholding 25 days worth of wages from workers. Wages are also directly deposited into each worker's bank account, as opposed to paper currency.

Concerning inadequate overtime payment, we confirm that the issue has received dramatic remediation following Taiway's corrective actions.

PUMA alleged that CLW miscalculated workers' wages. However, in fact, by obligating workers to arrive to work 20 minutes earlier than the stipulated work start time each morning without appropriate compensation, in addition to lunch and dinner breaks (20 minutes + 20 minutes + 20 minutes = 60 minutes or one hour), Taiway workers are forced to work one extra hour a day.

According to PUMA, "A simple calculation will find that if the 690 RMB minimum wage that CLW based its calculation on are divided by 21.75 days and 8 hours, it makes an hourly wage of 3.965 RMB. So in case of CLW's allegation, Taiway would be betraying the workers of 3.965 RMB x 4000 workers = 15,860 RMB per working day."

Because labor law states that daily work hours exceeding eight hours are considered overtime, workers are entitled to the regular overtime premium of the extra hours, and thus, the hourly wage that workers deserve is 6.64 RMB, instead of 3.965 RMB as suggested by PUMA. We do appreciate PUMA's objective calculation method of incorporating one extra decimal behind the regular hourly premium under its calculations to accommodate our previous calculation result.

Below, please find our calculation details.

1 extra hour x 6.64 RMB (overtime premium) x 21.75 work days a month x 12 Months x 4,000 Taiway workers = 6,932,160 RMB

Putting aside the disagreement regarding the accuracy of the wage calculation, in PUMA's response, PUMA tactfully avoided a serious question that must be raised and addressed: **Will Taiway return these cheated wages to its workers?**

We ask that Taiway reimburse the hard-earned wages that it cheated over the past five years to its rightful payees.

Work Hours

A worker from the Henan Province remarked, "In the past, extending work hours was very usual. In many cases we have worked from ten extra minutes to 30 minutes with inadequate pay". Although Taiway no longer obligates overtime after regular hours, workers still work overtime unless advised not to. In some cases, workers would work overtime for a period of time (usually no more than one hour), only to be notified afterwards that overtime is not required and thus no payments will be issued.

Moreover, Taiway's work schedule consists of three shifts. When the two hour overtime does not take place, all three shifts have a unified end time of 4:30 PM. However, for those whose shift was originally scheduled to be off at 6:15 PM, when the two hour overtime does not take place, they should be entitled to get off at 4:15 PM to fulfill the eight work hour stipulation. In this case, workers under such shift have to work 15 extra minutes. In addition, Taiway's current clock in time is from 7:05 AM - 7:20 AM. As work begins at 7:30 AM, workers sacrificed 10 ~ 25 minutes of their time working for free.

According to workers, the resignation procedure was extremely complicated in the past. Taiway would often prevent workers from resigning by persuasion, delay or even outright denial. Though the HR mailbox system described by PUMA in its response was only officially launched on April 21st, 2008, we acknowledge the effort. Nevertheless, currently, even some Taiway supervisors are uncertain of the mailbox's exact location.

Working Conditions

We concur with Taiway's fair and just wage system in terms of the base wage and bonuses. According to workers, however, many are unaware of the details of the system. During an interview, a worker said, "When I participated in a pre-employment training, the subject of wage and work hours was brought forth, and the training agent explained, 'Anyhow, you should not randomly ask for days off; don't miss work, be late or leave early.' One day I asked for three days off and when I returned, I found out that not only was my bonus penalized, my base wage was deducted as well; I had no idea what was going on."

With regards to the grievance redress system, though a number of complaint boxes are established on site, very few workers choose to file complaints through this channel.

According to workers, this method is useless, and they would rather complain to machines than to the hypocritical Taiway management.

On PUMA's statement it is written that a number of employee communication strategies, such as the provision of an employee handbook, have been implemented at Taiway. However, many workers have never seen such a handbook and could care less, as they perceived it to make little difference under the management of Taiway.

Bonus System

We understand that the bonus based on performance rating is (200 RMB/Monthly work days) x accomplishment x rating ratio x number of days in the month. However, only a few workers are able to understand the system. From our investigation, if workers fail to reach a quota or make an error, there is a possibility of bonus deduction, and on many occasions, heavy criticisms from supervisors.

By mutual consent between both parties—workers and management—a dormitory room in good condition leads to a “behavioral bonus.” However, we were also informed that those whose rooms are rated below 75 are penalized by a 10 RMB fine. When asked about Taiway's bonus system, a female worker, she said, “Only those who have good relations with the building manager can get that bonus. As for me, don't even think about it.” We expect and are eager to see Taiway's bonus system continue to improve and distribute the bonus fairly.

Living and Canteen Conditions

Since April 1st, 2008, Taiway began using catered contractors to operate its food service. The canteen offers free rice that is better in quality than the rice used in the past, and workers may choose food according to their preferences. However, the cost of food has increased considerably. Using a rough calculation, workers would now need to pay 100 RMB a month more for the food service, despite some continued dissatisfaction with the food quality.

In Puma's response to our report, the company mentioned that theft and petty violence are concerns wherever a large number of people live and work together on a regular basis, and that Taiway has implemented several action plans to prevent further harm to workers.

Taiway established a clinic facility at the factory to provide free clinic service to workers. We hope that the quality of the clinic employees will improve over time, as one worker was once prevented from purchasing more medical supplies from the clinic by the clinic employee.

Other Conditions

Taiway's basic conduct is in compliance with the labor law. However, the majority of workers do not have social insurance. Taiway inform those who wish to have insurance to file an application to Taiway—but only when asked.

Conclusion

In conclusion, having recognized the efforts made by PUMA, we stand firmly behind the belief that there is much in PUMA's social responsibility standard that can be addressed and improved.

Sincerely,

Li Qiang

Executive Director
China Labor Watch