

# Wal-Mart Standards Fail, Workers Suffer

*Investigation Shows Five Suppliers Fail to Meet Basic Standards*

## A China Labor Watch Investigation

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## **I. Executive Summary**

China is one of the world's top exporters and top recipients of foreign direct investment. The majority of this activity is concentrated in the Pearl River Delta of Guangdong Province, where a sprawling network of major cities like Shenzhen and boomtowns like Dongguan draw in millions of migrants from around the country to work in light manufacturing. Many of the region's factories produce for foreign companies.

Labor conditions in the Pearl River Delta have somewhat improved in recent years but remain devastatingly brutal, characterized by long hours, unsafe workplaces and restricted freedom of association, and are in blatant violation of Chinese and international labor law. The case of Wal-Mart, the world's largest retailer, shows that corporate codes of conduct and factory auditing alone are not enough to strengthen workers' rights if corporations are unwilling to pay the production costs associated with such codes.

Wal-Mart outsources production to around 100,000 supplier factories around the world, tens of thousands of which are located in China. Wal-Mart's own estimates point out that given the \$18 billion the company spent on products from China in 2006, if Wal-Mart were to be considered a sovereign nation in that year it would be China's fifth largest export market. Wal-Mart not only manufactures products in the country, but has also made a major retail push there, selling the products of Chinese labor back to middle class Chinese consumers. Wal-Mart had 267 retail stores in China as of October 31, 2009, up from 83 in 2007. Today, this number continues to grow.

Given the massive scale of Wal-Mart's operations in China, the limited number of factory investigations that CLW is able to conduct in a single year is particularly striking. The current report, which focuses on labor violations in five factories across a wide range of industries, attempts to illustrate systematic violations cited in Wal-Mart's supply chain.

## **II. Challenges to Wal-Mart's Ethical Sourcing**

Wal-Mart has pledged to increase sustainability in recent years. The Ethical Standards team has rolled out a number of reforms to its sourcing policies, promising to revamp Wal-Mart's factory audit system, create higher standards for supplier factories and offer more capacity-building support. Despite these policies, CLW investigations of randomly-selected Wal-Mart suppliers routinely identified their failure to implement even Wal-Mart's most basic standards. While Wal-Mart's Ethical Standards team has responded enthusiastically to help individual factories implement remediation plans, there is no evidence of systematic improvement. Given the tens of thousands of Wal-Mart suppliers in China, one-at-a-time improvement is inadequate.

CLW met with Wal-Mart's Ethical Standards team in New York on September 30 and October 1, 2009. CLW Executive Director Li Qiang described systemic challenges facing Wal-Mart's supply chain and raised the following concerns:

- ***Wal-Mart pricing is too low.*** As the world's largest retailer, Wal-Mart leverages its huge orders to convince factories to sell goods at low prices that are not sustainable. This puts pressure on other brands to pay less, thereby setting a dangerous industry precedent. In conversations with CLW, both factories and other brands frequently cite Wal-Mart's pricing structure as a major source of financial pressure.

- ***Wal-Mart's audits systematically fail to identify all labor violations.*** Although Wal-Mart has only worked with third party auditors since April, some auditors have a history of corruption, which allows violations to go undetected. After failing two Wal-Mart audits, factories may bribe auditors on the third audit to avoid losing Wal-Mart orders. Auditors lacking experience will often fail to identify issues or realize when they are being tricked. Possible solutions to this problem include supplementing Wal-Mart's internal audits with external monitoring, making more stringent requirements for "orange"<sup>1</sup> factories and extending the three "orange" limit to three years.

- ***Wal-Mart's corporate structure needs to focus on real change and not on image.*** CLW has found that Wal-Mart routinely turns a blind eye to poor conditions in supplier factories unless investigations are made public. Furthermore, even after an initial surge of activity following a report, factories investigated by CLW often revert to their original violations within one or two years. Wal-Mart has basic standards that it must enforce. It has the size and power to be an industry leader; Ethical Standards Program initiatives alone, however, will not result in the real change unless Wal-Mart's core corporate practices are addressed and revised. This will entail increased investment in the audit system and careful review of purchasing practices.

- ***Wal-Mart needs more transparent ethical sourcing efforts.*** First, it should be transparent about its response to allegations of violations in its supply chain and publicize steps taken to remediate factories. Changes to conditions in these factories and verification of improvements should also be made public. Second, Wal-Mart should clearly communicate the specific challenges facing its system and how new policies are to target such challenges.

### **III. Overview of Typical Violations**

The current report focuses on five Wal-Mart supplier factories that produce goods including decorations, shoes, tools, paper boxes and curtains. Investigations were conducted through external interviews, in which CLW investigators questioned factory workers about conditions inside. This investigative structure allowed the investigators to bypass fraudulence that is oftentimes endemic to the audit process. In fact, CLW found evidence of institutionalized procedures for audit fraud at two of the five factories. Earlier this year, CLW published a report documenting extensive audit fraud at another Wal-Mart supplier.

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<sup>1</sup> In Wal-Mart's color-coded factory performance classification system, an "orange" factory has not achieved a passing grade on Wal-Mart's audits. Wal-Mart will not place new orders if a factory is rated orange three times in 2 years, until an audit results in a green or yellow rating.

Of the five factories included in the report, three were factories CLW had previously investigated. Given the impact of the economic crisis on the manufacturing industry, there was little improvement at any of these factories—workers at each faced long overtime hours and increased performance expectations in the pre-holiday peak production season. Moreover, conditions at the five suppliers represent typical forms of abuse that occur across Wal-Mart’s supply chain:

### ***Contracts***

Since the enactment of the 2008 Labor Contract Law, factories have gotten better at signing contracts with workers and providing them with individual copies (even if they do not subsequently follow the terms outlined in the contracts). Nevertheless, Dashing failed to provide copies of the contract to all workers. Workers at both Dashing and Stanley described difficulty quitting. When a factory refuses to process workers’ applications for resignation, workers will often work until their last month’s pay check is issued, thereby losing several days of wages at the beginning of the new month.

### ***Recruitment and Hiring***

Many factories have preferential hiring for women. This policy is institutionalized as a discriminatory hiring practice at Fan Chang, where males are only hired if accompanied by two females. Other factories discriminate based on different criteria: hiring at Stanley gives preference to workers from certain geographic areas and recruits reported being turned away because of their home province. At Ever Rite, pregnant women need not apply.

### ***Wages and Working Hours***

The most severe violations occur in the areas of wages and working hours. All 5 factories entered the busy season in September, and as a result, overtime increased to at least 3 hours/day, plus Saturdays and most Sundays, and total overtime at the factories ranges from 100-140 hours/month. Because China’s legal overtime limit is only 36 hours, factories very routinely break the law, therefore violations are particularly excessive.

The most severe overtime occurs at Dashing, where workers are sometimes required to work for 24 hours consecutively, from 8 AM one morning to 8 AM the next morning. After breakfast on the second day, they are expected to return to work. And overtime at Dashing is illegally underpaid at only \$0.44/hour, less than half the legal limit! At Ever Rite and Dashing, overtime wages are deducted when workers fail to meet production quotas. At Wing Fat, workers are only paid for 3 hours of overtime/day, and if actual overtime hours exceed this limit, these hours will be paid as regular wages. In addition, if workers cannot work overtime once, they will be denied further overtime opportunity for the remainder of the month.

In addition to manipulating overtime, factories reduce costs in other ways. At Stanley, the factory makes sure it gets maximum working time by requiring workers to punch in 20 minutes before they are scheduled to start work and 20 minutes after it ends, and this is time that should be scheduled for lunch or rest. At Ever Rite, the factory denies workers the right to purchase social security insurance, minimizing costs at the expense of workers' peace of mind in their old age. Fining workers can directly reduce wages: at Dashing, a worker who is absent for more than half a day or who drinks alcohol in the dormitory will have nine days worth of wages deducted. Stanley also has 74 punishable violations to reduce worker salaries and Ever Rite also implements fines, although recently punishment has more often taken the form of verbal abuse.

### ***Living Conditions***

Living conditions at the factories are uniformly poor. At Dashing, bathrooms have no running water (workers must carry in buckets of water to flush the toilets). Canteen food and sanitation is poor, but since the canteen fees are deducted from workers' wages regardless if they eat, many do. At Fanchang, meals are free therefore many workers eat in the canteen in spite of poor sanitation and portions so small they will still be hungry after. At Stanley, canteen food is worst for night workers, who also receive no subsidy and therefore feel that this poor treatment is particularly unfair. At Wing Fat, food is also poor but workers at the very least have the ability to leave the factory for meals.

### ***Working Conditions***

All five factories have a number of safety issues, however, overall performance is better at some than others. Safety begins as soon as workers are hired, and training at the factories ranges from none at all at Wing Fat to three days at Ever Rite. Stanley, which offers 2 days of safety training, has a strong safety program and even established a group devoted to improving safety performance. Stanley provides masks and earplugs to workers, yet denies workers gloves on the grounds that this will slow down production, and workers also complain of intense heat in the workshop. Workers at Wing Fat are also denied gloves and swelter in the heat. Workers complain of strong smells in the workshop at Fanchang and overall messiness at Ever Rite.

### ***Audit Falsification***

In addition to these clear violations of the law, managers of these factories actively work to prevent Wal-Mart from discovering failures to meet Wal-Mart standards. At Wing Fat and Dashing, the factory falsifies information and asks workers to lie during factory audits. At Wing Fat, records are hidden and an entire area of the factory is blocked off. At Dashing, workers sign false pay stubs and memorize cheat sheets to deceive clients. This practice not only demonstrates disrespect to workers by forcing them to lie on the factory's behalf, it also prevents Wal-Mart from acknowledging labor violations at the factories and working with them to make improvements.

## IV. Investigation Results

### 1. Dongguan Dashing Decoration Ltd.

CLW first investigated Dashing in May 2008, and conditions have not changed since the original investigation, nor do workers expect the factory to make any improvements. Workers are generally unsatisfied with the factory. One worker stated, “Dashing glitters like a star outside but inside it’s a mess.” Overtime at Dashing is particularly excessive and the factory conceals violations through audit falsification.



The investigation uncovered the following issues:

1. *Contract Violations* All workers not given a copy of the contract.
2. *Quitting Difficulties* Workers who work over six months have difficulty quitting
3. *Excessive Working Time* During peak season, workers only have two days off a month, and sometimes workers must work 24 hours consecutively
4. *Overtime Issues* Overtime is illegally underpaid and workers are fined for refusing to work overtime.
5. *Audit Falsification* Workers must sign false pay stubs to deceive clients
6. *Poor Living Conditions* Bathrooms have no running water; canteen sanitation is poor and fees are deducted from wages regardless of whether workers eat there.
7. *Excessive Fines* Workers fined 9 days wages for absence of more than half a day

#### A. Factory Profile

Dongguan Dashing Decoration Company was established in 2002. The factory area covers a total over 60,000 square meters. The factory specializes in production of candles and Christmas lights primarily for the US and German markets. It employs roughly 1,800 workers.

Address: Beihuan Road, Changpin Town, Dongguan City. 523500  
Tel: 0755-2416198

## B. Hiring and Labor Contracts

Dashing offers a contract to workers upon employment and they are not allowed to keep a copy. Workers state that the contracts are fake and do not include basic information that is required by the Labor Contract Law. Newly hired workers are not provided with sufficient training, and at their post, they must rely on themselves or occasionally senior workers to learn how to manufacture professionally.

Workers who wish to quit will only sometimes obtain full wages. During the process of determine wages owed, workers continue working at least several days which will not be paid. Often workers are unable to resign and have problems obtaining wages. The factory does purchase social insurance for workers, and will give workers their social security cards if they leave the factory.

## C. Wages and Working Hours

Normal working hours vary by department, but are generally 8 hours/day, 5 days/week.

Morning: 7:30 to 11:30 am	Afternoon: 1:00 to 5:00 pm	Overtime: 6:00 to 10 pm
Morning: 8:00 am to noon	Afternoon: 1:30 to 5:30 pm	Overtime: 6:30 to 11 pm

This schedule applies to most of the workshops at Dashing, though a few workshops are required to work from 7:30AM – 6:30PM with a very short lunch break. During heavy production periods, workers may work 8 hours of overtime until 1:00 AM or 2:00 AM. Normally, there are long overtime hours in the factory. This overtime is mandatory; and workers who refuse will receive a minor penalty equivalent to three day wages.

Workers generally rest two days per month. During the off season from October-March workers may rest 4 days, and during peak season from April-September they rest 2. During the peak season, workers must work overnight at least two days/month from 8:00AM until 8:00AM the next day. After, they rest for their lunch break, and continue to work as usual until the end of the second day.

Base salary is \$113/month at an hourly rate of around \$0.65/hour. Overtime wages are illegally low at rates of \$0.44/hour for regular overtime (45% of the legal minimum), \$0.88/hour for weekend overtime (68% of the minimum) and \$1.32/hour for holiday overtime (68% of the minimum). Usually, workers' schedules are adjusted so that work done on holidays counts as normal working hours paid at the base wage. It is extremely difficult to ask for a day off at Dashing, unless it is for sick leave, which requires medical authorization. There is no paid vacation and pregnant women are offered 45 days of unpaid maternity leave.

During wage distribution, CLW investigators discovered last year that workers are required to sign a false pay stub. Several days after signing false document, workers were given a chart with real figures. The following is information on these charts:

<i>Falsified Document</i>	<i>Actual document</i>
*Full attendance bonus- 50 RMB *Housing/Food Fee- 115 RMB *Regular Overtime- 4.62 RMB/Hour *Weekend Overtime- 6. RMB/Hour	*Full Attendance Bonus- 0 RMB *Housing/Food Fee- 160 RMB *Regular Overtime- 3 RMB/Hour *Weekend Overtime- 6 RMB/Hour

#### **D. Canteen and Dormitory Conditions**

Workers stated there is no expense to live in the dormitory, however, conditions in the dormitory are exceptionally poor. Each room has the capacity of 12 persons, and currently average 10 workers share one room. Communal restrooms on each floor have no running water and can hold no more than ten people. There is a bucket of water in the restroom for workers to flush the toilet, but since demand for water is higher than supply, most of the toilets are left un-flushed.

Regardless of whether workers eat in the canteen, \$23.53/month will be deducted from wages as the canteen fee. The canteen offers three meals/day. Workers complain that meat is rarely served, the canteen has very poor sanitation condition; and the area for dish washing is always filthy and greasy. There are a small number of restaurants around the factory that serve food at higher prices than other shops in Dongguan.

#### **E. Work Conditions**

Workers have production quotas, which some workers feel adds a great deal of pressure. If workers are unable to meet quotas four days in a row, on the fourth day Daxing will begin to deduct overtime wages. Some workers rush to complete production as fast as they are absolutely capable, and last year, workers reported beginning working early to meet quotas. One worker said, “Since we have to stand and work, when I get a chance to sit down during break time, I wish that I won’t ever have to get back up”.

#### **F. Fines**

The factory’s penalty system is both intense and unreasonable. One worker stated that he had been fined \$4.41, \$8.82 and \$44.12 in the past. The factory regulations for penalties states that a warning results in withholding one day’s salary or \$4.41, a minor violation results in withholding 3 days salary or \$8.82, and a major violation results in withholding 9 days salary which is \$44.12. An example of a minor warning is “filing to follow orders”. Examples of minor violations include refusing to work overtime or half a day’s absence. Examples of major violations include drinking or smoking in the dormitory or more than half a day’s absence.



## G. Audit Falsification

Clients and the local labor bureau conduct audits at Daxing on a monthly basis, and workers must memorize a cheat sheet. Workers who refuse to memorize it will be given a major warning, and workers who have successfully memorized the details are asked to return the cheat sheet in order to prevent information leakage.

## H. Other

There is no union at Daxing. Although complaint boxes are installed by the stairway on each dormitory floor, very few workers would utilize such a system to express their concerns. From their perspective, this system is useless as no one ever checks the boxes.



Image: A product obtained from Daxing

## 2. Shenzhen Shengfeng Shoe Factory, Ltd. (Ever Rite)

CLW has conducted previous investigations of Ever Rite, and presently workers' general assessment is that because orders are down, wages are not as high as before and conditions have similarly deteriorated. While conditions at Ever Rite may be better than other factories in the report and even represent some improvement over the past, the factory falls short of Wal-Mart's standards in major ways.

Issues in report:

1. *Discriminatory Hiring* The factory will not hire pregnant women.
2. *Excessive Overtime* Overtime hours regularly last 3 hours on weekdays plus every Saturday.
3. *Wage Deductions* Overtime wages are withheld when quotas are not met.
4. *Worker Abuse* Management often swears or curses at workers. Only workers who live outside of the dormitory are allowed to leave the factory for lunch.
5. *Insurance Issues* The factory does not purchase social security or any form of insurance but medical insurance.

### A. Factory Profile:

Ever Rite was originally Shengchang Shoe Factory (established in 2002) which merged with Yong Feng Shoe factory in 2008. It is a Taiwan-funded joint enterprise. Ever Rite is the largest shoe factory in Songgang, occupying over 50,000 square meters. The factory currently employs over 3,000 workers, with 20 production lines in the sewing department and 5 in the molding department.

Address: 268 Dongfang Banggang Rd at Songgang Road, Bao'an District, Shenzhen City  
Tel :0755-27099970

### B. Recruitment and Hiring

The factory is currently recruiting both male and female regular workers, between 18-38 years old, single or married, with at least a middle school degree. Female workers must be at least 1.45 meters tall, and male workers must be at least 1.6 meters tall. Female workers cannot be pregnant, and all workers must pass a physical examination. These hiring requirements are discriminatory.

Workers who meet the factory's requirements need only a valid ID card and 4 passport sized photos. Documents are not retained, nor is a deposit required. New employees must purchase uniforms, which are changed each year, but after the first year the factory no longer charges. There is a 3-day training for all newly hired workers, which focuses on fire safety. This is more safety training than any other factory in the report.

### **C. Labor Contracts**

Newly hired workers sign two copies of the labor contract, and one is retained by the factory while the other is given to the worker. The contract does not specify the position, a violation of the Labor Contract Law, and workers were uncertain about other details of the contract contents. The factory only offers medical insurance for workers, and workers must decide themselves whether they will purchase it. Workers stated that the factory charges \$0.59/month. Workers do not have an option of purchasing other forms of social insurance including social security.

Contract termination is conducted legally. At the end of each month the factory posts publicly on the announcement board the day before which workers must resign in the next month. Workers simply notify the factory at the beginning of the next month, and handle a few formalities on the actual day that they will leave. Worker turnover at the factory is very high.

### **E. Wages and Working Hours**

Recruitment ads specify that workers at the factory work 10 hours/day, of which 8 are normal working hours and the last 2 are regular overtime. Regular wages are \$0.76/hour, regular overtime is 1.5 times normal wages or \$1.14/hour and holiday overtime is paid at twice normal wages or \$1.52/hour. In total, workers make at least \$265/month before deductions. This is a significant improvement over the past, when the factory failed to pay regular overtime wages.

After deductions, workers usually make between \$221-\$235/month, of which \$132 is base salary. Because work is very tiring and wages are low, many workers take temp jobs during time off. The factory will also give paid time off when there are no orders. The factory pays wages on the 9<sup>th</sup> of each month via electronic transfer, and is generally on time and never later than the 15<sup>th</sup>.

Different departments have different working schedules. Each department is given different amounts of time for lunch; some get 70 minutes while some get 80 minutes. For example, some workers mornings begin from 6:30-11:30 AM and afternoons are 12:50-5:50 PM. Others begin from 7:13 AM-12:13 PM and continue from 1:23-6:23 PM.

Overtime is also specific to each department. Workers in the storage department stated that there was no overtime at night. But the molding department which has the hardest work does work overtime at night, up to 3 hours daily. Overtime wages are only paid on the condition that workers have already completed their production requirements and not otherwise. So, if workers complete 3 hours of overtime, they may only be paid overtime wages for 2 hours.

Workers must work overtime on Saturdays, while Sundays are off. Legal holidays are also rest days. Workers are given annual vacation after completing one year of work and

female workers are given maternity leave, an improvement over the past when only management level workers made this amount.

### **F. Canteen and Dormitory**

Factory buildings in this industrial area are old, and canteen and dormitory conditions at Ever Rite are poor. The canteen food is poor quality. There are two canteen payment plans: \$32 and \$40 per month, and workers are free to choose either. Office workers generally choose the \$40 option. Dormitory fees are \$10/month and sanitation is poor. Each room houses 8 workers which do not have independent bathrooms. In order to shower, workers must go to the first floor. Workers must apply for special permission to live outside of the dormitory. Only workers who receive this special authorization are allowed to leave the factory and eat outside at lunch time.

### **G. Occupational Safety**

The factory provides workers with protective equipment. The workshop is very dirty because of the fleece which is attached to the shoes. Workers who use glue have stains on their clothing. Still, worker injury is uncommon. The factory organizes annual medical inspections, but workers must pay \$6.

### **H. Other**

In spite of the factory's size, workers did not know what the union did and if workers have problems, they would go to Human Resources.

Managers' attitudes are poor. Management is very strict and often swears and curses at workers. The dormitory manager inspects dorm rooms daily, and will not even allow workers to remove shoes anywhere but under their beds.

### 3. Stanley (Zhongshan) Tool Co. Ltd.

CLW has conducted previous investigations of Stanley Factory in 2008, and conditions at the factory have changed very little. Due to the economic crisis, the factory has had no problem hiring workers and many applicants compete for a single position. Stanley has done well in the current employment environment of the Pearl River Delta region.

The investigation revealed the following issues:

1. *Discriminatory hiring.* The factory discriminates according to the geographic location of workers' hometown, favoring some provinces over others.
2. *Rest Deduction.* Workers must clock in to work early and punch out after their shift ends, reducing rest time by about 20 minutes on either end.
3. *Poor living conditions.* Food quality is poor, and particularly so during the night shift for which workers receive no subsidy.
4. *Safety issues.* Some workers are refused gloves because it will slow down production. Many workers receive no safety training.
5. *Quitting difficulties.* Because of difficulties quitting, many workers leave without factory authorization and must lose 10 days of wages when they quit.

#### A. Factory Profile

Stanley (Zhongshan) Tool Co., Ltd. is a Taiwan-owned enterprise that was established in May 2002. The factory employs more than 500 workers. Its area covers 8000 square meters. The factory's main products include wrenches, piping, connecting rods and H handles.. Products are mainly sold in America.

Address: Xiaolan Town,  
Zhongshan North Road,  
248 CAS  
Tel :0760-22239019

#### B. Hiring and Labor Contracts

During worker recruitment, the hiring staff asks where workers are from and verifies IDs. Workers stated that currently, people from Guangxi and Sichuan are hired more easily. During the investigation a jobseeker was refused after hiring staff saw her ID card, presumably because she was not from a desirable location. Although the



factory's hiring advertisements do not state geographic preference, there seems to be geographic discrimination.

The factory signs labor contracts with workers but only after the probationary period. The contract length is for 2 years with a 2 month probationary period. There are two copies of the contract and workers receive a copy. Contract contents are very simple and follow guidelines set in the work handbook, distributed during training. If workers lose the handbook, they must submit a report to HR and pay a fee of \$1.47 for a new copy.

Costs for medical examinations are reimbursed only after workers complete one year. Uniforms and shoes are provided for free, but if workers leave the factory before working 6 months and cannot return the uniform they must pay a fee before the factory will process their application to leave. The 2 uniforms cost \$6 each and shoes are \$13/pair. Workers are able to receive a new pair of work shoes after one year. Workers must provide 30 days notice in order to quit, or else the factory will not process their request, and in the probationary period workers must give 3 days. The factory will only pay full wages to workers who have followed the appropriate procedures.

### **C. Working Hours**

Normal working hours at the factory are 8:00 AM-noon and 1:00-5:00 PM with rest from 10:00- 10:10 AM and 3:00-3:10 PM. Lunch is from 12:00-1:00 PM and dinner is at 5:00 PM. Workers are required to meet 10 minutes before clocking in each day for a morning meeting, which is unpaid. Overtime is mandatory, and this year overtime is generally only for two hours/day. At times the factory will hire short-term workers to fill large orders. They received the same base salary and overtime wages as regular workers, but not the same benefits, such as free room, board and an annual bonus.

A practice from the 2008 investigation continues, where workers must punch in and out of work 20 minutes before or after a shift starts or ends. This is very inconvenient since workers must calculate this extra time in their daily schedules. If workers are on time but miss this window, they must get a written statement from their supervisor and go to HR for manual processing. This is acceptable twice per month, past which it is viewed as tardiness or leaving early, and without a supervisor's statement it is seen as absenteeism.

### **D. Wages and Benefits**

Workers are paid an hourly wage, calculated as: base wage /21.75 \*days worked. Base wages vary by department and worker's position reflects production needs and individual performance. The wrench processing, heat treatment and rod and handle divisions are paid a base salary of \$118/month, the letter rolling and packaging divisions are paid \$115/month, and the chemical treatment group is paid \$125/month since they encounter dangerous particles. Overtime is paid according to labor law; regular overtime is 1.5 times normal wages, and weekend overtime is double. The factory is divided into two shifts, and night shift workers receive no subsidy.

The factory purchases social insurance for every worker, including worker injury insurance, medical insurance, unemployment insurance and social security. Workers are given paid annual leave. The factory offers paid sick leave at 80% normal salary. In December, workers who worked in the factory for over one year are able to receive a bonus equivalent to their base wage and workers whose tenure is less than one year receive a bonus that is half of their base wage. Workers are also given a \$3 bonus at New Year and \$7 at Mid Autumn Festival.

Wages are distributed on the 10<sup>th</sup> of each month, or if the 10<sup>th</sup> is a weekend than the Friday prior, with no cases of wage arrears. Wage charts are sealed and include detailed explanation.

### **E. Canteen and Dormitory Conditions**

The factory offers free dormitory housing to all workers, but workers must share the cost of utilities. There is no subsidy for workers who live outside of the factory dormitory. Ten workers live in each dorm room, divided into top and bottom bunks. Each room has its own bathroom, but the bathrooms are so small that 3 people cannot even fit inside. There are no nozzles on the hot water machine, and the hot water can only be put in a pan and added to the cold water shower to warm it up. The balcony is too small for clothes to dry if they are put there. Nevertheless, these are the best living conditions in the area so workers do not complain.

Newly hired workers are given a free canteen card, and each month, workers can eat in the canteen at no charge for 21 days, or a total of 42 meals. Breakfast is not served. Lunch and dinner consist of one meat and two vegetable dishes, and servings are extremely small and meat is indistinguishable. Workers state that night shift meals are even worse. Twice per week, the factory serves chicken drumsticks for lunch and one is equivalent to a meal. If workers finish all meals, they can purchase additional ones for \$0.51/meal. Although staff cleans the cafeteria after each meals, the cafeteria floor is still very slippery. There is an area outside the door where workers discard extra food and place trays, and this area consistently smells rancid.

### **F. Safety Issues**

The factory provides protective equipment for all workers in the factory, and safety glasses and earplugs are required for workers to enter the workshop. Some workshops and positions require masks and aprons, which are provided for free. Workers have repeatedly asked for gloves because they use a large quantity of oil, but the company believes that gloves would slow production or even lead to worker injury. Four workers in the wrench division get one pair of gloves to share, and other groups get none. If workers want to avoid hand injury, they must go outside to buy clothes themselves. Workers often use gloves they have purchased themselves until they are ragged, and only then will they buy a new pair.

The workshop is so hot that workers are soaked in sweat by the end of each day. There is no air conditioning, and the fans only help some areas while many are broken and not fixed in a timely manner. Because the doors are always open, there are few vents. From June to October, workers can buy a glass of iced tea for \$0.15 but this is not sufficient to stave off the intense heat in the workshop

Each machine has its own daily maintenance checklist, but one worker of two years stated they had never had ever checked the machine. Emergency safety equipment is similarly left alone except for cleaning when the factory has orders. When machines break, although there is maintenance staff, workers generally must fix things themselves even though it takes longer for workers to figure out how.

The factory currently arranges two days of training for each newly hired worker, led by two staff who show cartoon videos relating to workplace dangers and safety measures and awareness. After, supervisors advise new workers to be careful as they go directly to their post where older workers guide workers on operations. EHS announcements are posted at each entrance. On the top are written some emergency rescue measures for workers to review, accompanied by emergency exit routes, an introduction to the workshop, daily production records, an analysis of safety at every position in the workshop and a chart of 5S scores.

### **G. Rewards and Punishments**

Being ten minutes late for work or leaving early leads to a warning. In order to receive a \$4.41 perfect attendance monthly bonus, workers cannot be late, leave early, request time off, or miss work. Workers requesting more than two sick days will need to provide a medical statement. Workers cannot request more than 12 days of personal leave off each year, and no more than 4 days consecutively. Workers who request more than 12 days off per year must make up time off during the annual vacation, and requesting time off when orders are rushed is considered absenteeism.

The factory has a list of 74 punishable behaviors, and it records one by one all written warnings, demerits, merits, and major merits in order to figure worker's annual bonus. One minor merit will cancel out one written warning, one merit will cancel one demerit or three written warnings. After calculating all merits and demerits, worker's annual bonus will no longer change, and the worker's record will start afresh. If workers violate operating procedures or fail to follow the schedule, they will be punished by deductions of canteen meals, from one to fourteen meals.

### **H. Other**

**Union-** There is no union at the factory. There is an organization called EHS, which is responsible for environment, health and safety by means of education.

**Audits-** The factory often has customers visit. Because the factory is kept up very well, it does not give workers advanced notice of what to do or not to do.



## 4. Wing Fat Paper Box Factory

Following the launch of the 2008 Labor Contract Law, the factory has put forth effort to improve wages and working hours with limited effect. Although overtime wages are paid at a higher rate, by counting worker's overtime hours as regular working hours, the factory skirts its responsibility to pay these wages legally.

The investigation revealed the following issues:

1. *Illegal Overtime System* Overtime is scheduled to avoid paying some overtime wages and if workers refuse to work overtime they will be denied further overtime opportunities for a month.
2. *Safety Issues* There is a shortage of safety equipment and no safety training for newly hired workers.
3. *Poor Living Conditions* Dormitory rooms are tiny and house 12 people at capacity. Canteen food is poor, and most workers choose not to eat at the factory
4. *Inadequate Compensation* Workers not adequately compensated when service length was reset last year
5. *Audit Falsification* The factory hides records and blocks off part of the factory.

### A. Company Profile

Wing Fat specializes in production of boxes, paper products and toys. The company offers customers special OEM and ODM service. Since its establishment in 1979, Wing Fat's production capabilities have extended beyond paper products, printing and packaging to include hardware, plastic, and electronics. The factory covers an area of more than 350,000 square meters and employs a workforce of over 1000 employees. Annual production of paper products and printing exceeds 10,000 tons. Its goods are exported to more than 20 countries in Europe and America.

Address: No. 3 Yu Cai 1 Road, Fu Cheng Ao Community, Ping Hu Street, Long Gang District, Shenzhen City, Guangdong Province, 518111  
Tel: 0755 - 8401 5276

### B. Recruitment and Hiring

The factory has three ways of recruiting workers. First, the factory hangs a sign for recruitment at the factory gate. Second, the factory looks for workers through the hiring market. Third, the factory hires through introductions. The factory hires workers from 17-45 years of age, and requires health certification. Newly hired workers are issued two summer uniforms at no fee which they are free to exchange for new uniforms at HR if they become damaged. Workers are required to return the uniforms when leaving the factory, or else they will be charged \$2.20/uniforms. Workers are required to buy winter uniforms which cost \$8.82 each.

The factory does not offer training to newly hired workers. Mostly, older workers will lead newly hired workers in introducing work.

### **C. Labor Contracts**

Newly hired workers sign a contract, with a time period of 3 years. Workers state that originally, contracts were signed once per year, but in order to avoid signing unfixed contracts, contracts are now signed for 3 years. In 2008, all workers' total length of service was reset to zero. All workers are paid a base salary of \$132, and workers are not compensated additionally for having worked more years at the factory.

### **D. Social Insurance**

The factory allows workers to purchase social insurance, and deducts \$11/month from wages. At most, workers have only purchased insurance for a year, because in the past the factory did not offer it. Newly hired workers currently do not purchase social insurance.

### **E. Wages and Working Hours**

The factory operates on a 5 day/week, 8 hour/day system. Workers normally work three hours of overtime/day. Overtime wages are paid for weekend work. Currently, the factory has a formal overtime limit, and on paper, at least, workers are only supposed to work 36 hours of overtime/month.

In reality, workers have two cards to record working hours. One card is able to record overtime hours beyond the limit, and workers say the other card, which cannot record hours beyond the limit, is used for inspection purposes. If overtime exceeds 36 hours, workers can make up the extra time during normal working hours. For example, if yesterday workers had 4 hours of overtime, one hour exceeds the 3 hour daily limit, so today, they can work one hour less. Many workers wait until they have accumulated 11 hours of extra overtime and choose to take a day off. This is a method by which the factory avoids paying required overtime wages.

Wage calculation consists of base wage plus overtime wages. Base wage is \$132/month for workers who work all normal working hours. If workers do not work overtime, total wages will be \$132 minus deductions for dormitory and canteen. Because overtime is controlled, managers are able to withhold overtime opportunities from workers as punishment as a management strategy. When managers schedule overtime, if workers are unable to work, they will not be provided any overtime opportunities for a month. Managers can also use this tactic to coerce workers to quit.

### **F. Canteen and Dormitory Conditions**

The factory provides room and board to workers and each month, canteen and dormitory fees are deducted from workers' wages. Dormitory fees are about \$8.82/month. Each room houses 12 workers. The rooms themselves are dirty and crowded. Floors are concrete, walls are moist with humidity, and the rooms are so crowded with people that

there is not even room for a table. Workers with computers must place them on their beds.

Canteen fees are \$0.51/meal for 1 meat and 2 vegetable dishes. Soup and rice are served separately and are all you can eat. Breakfast includes steamed buns, rice noodles, fried noodles or rice porridge. Food in the cafeteria is not good, and many workers would prefer to eat in restaurants outside or cook themselves in rented rooms. Outside, workers can purchase meals of 1 meat and 1 vegetable dish for \$0.59, or 2 meat and 2 vegetable dishes for \$0.74.

### **G. Safety Protection**

The factory only provides protective equipment for some workers. Only workers in the Printing and Paper Cutting departments are given masks and gloves and other workers are not. The exhaust fans in the Packaging and Storage depts. are rarely turned on, and on hot days, only fans are used. The lighting is poor in the workshops because it is an old building. It is also very humid.

### **H. Audit Falsification**

During audits, the factory will block off the entrance to several departments with safety problems. The factory will take worker's regular time record cards, so there will be no way to record actual overtime.

### **I. Other**

In 2008, the factory bought out the length of service from each worker, and each worker was compensated with one month salary for each year of employment. The payment standard was implemented according to base wage. Because previously, overtime wages were not paid to workers, workers felt that the factory should also compensate them for overtime.

## 5. Dongguan Fanchang Curtain Products Co., Ltd.

The investigation revealed the following issues:

1. *Hiring discrimination*: Male workers are only hired if accompanied by two females.
2. *Excessive Overtime*. Workers work at least 11 hours/day. There is no guarantee of rest for 1 day/week, and overtime generally exceeds 100 hours/month.
3. *Poor Living Conditions*. Canteen food is poor and workers are often left hungry.
4. *Poor Working Conditions*. Workers complain of a strong odor in the workshop.

### A. Factory Profile

Dongguan Fanchang Curtain Products Co., Ltd. is a mainland subsidiary of Taiwan Yi Feng Integrating Holding Co established in 1994. The factory area covers over 2666,878 square meters. During the peak production period, the factory employs over 8,000 people (in three factories). Currently, over 3,000 people are employed. It is the world's largest window curtain manufacturer. Products include wooden shutters, aluminum blinds, plastic blinds, vinyl shutters, curtains and rolling shutters. The factory exports to Europe and America and is a special window curtain product supplier to Wal-Mart.

Location: Wang Shi Gang Jian Ave., Tutang District, Changping Town, Dongguan City, Guangdong Province

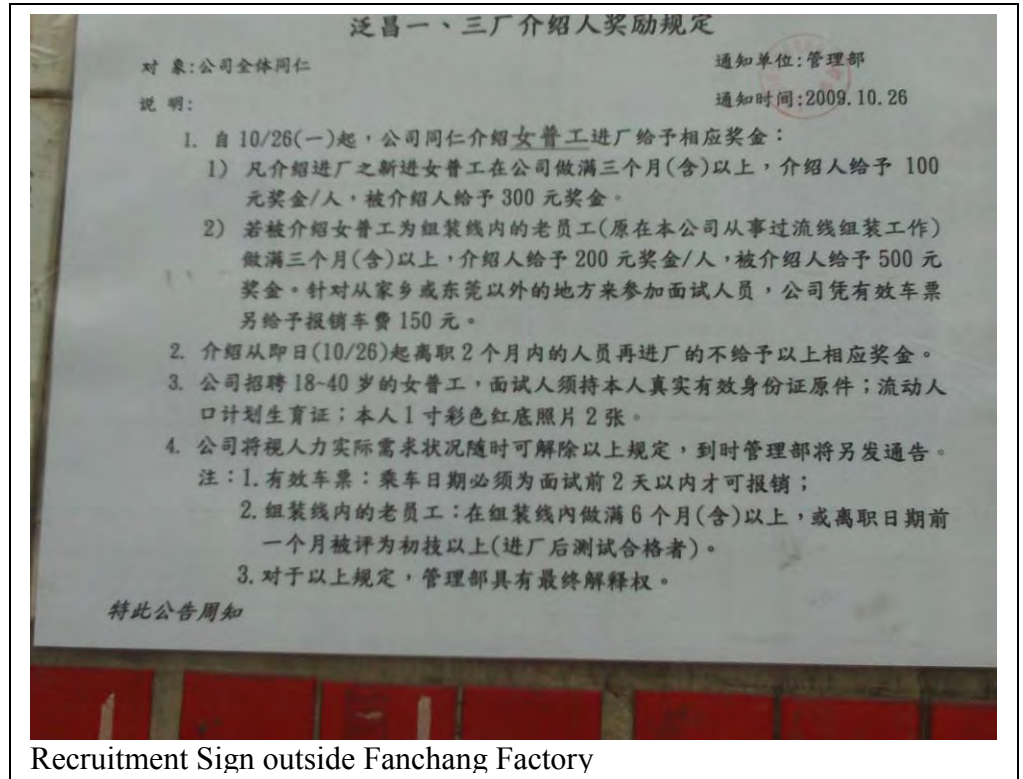
Tel: 0769-83393789

### B. Recruitment and Hiring

The factory is currently conducting large-scale recruitment of female workers.

Requirements are middle school education and ages between 18-45. Male workers require an introduction and must be accompanied by two female workers hired at the same time;

that is, no male can be hired alone. Applicants must bring their ID cards, highest academic diplomas, migrant registration, and child planning certificate.



Recruitment Sign outside Fanchang Factory

The factory recently conducted a major layoff. Now that orders have increased, the women who work in the factory are extremely busy, yet the factory still will not hire male workers.

### **C. Labor Contracts**

Workers sign a contract when they are hired. The contract length is for one year with a three month probationary period. Some workers believe the contract is false, because it was not approved by the local labor department.

### **D. Wages and Working Hours**

Working hours are on a 5 day/week, 8 hour/day system and base wages are \$113. Regular overtime wages are 1.5 times regular wages, and weekend overtime is 2 times normal wages. After deductions for insurance, average monthly wages are \$206.

Overtime work lasts at least 3 hours/day, and sometimes even later. Workers work overtime each Saturday. Currently because the factory must catch up on orders, there is no guarantee of rest on Sundays. Overtime generally exceeds 100 hours/month.

### **E. Canteen and Dormitory Conditions**

The factory provides free dormitory housing, and there is no subsidy for workers who live outside. The dormitory can hold up to 8 people/room, and at present there are generally 4-5 people/room.

The canteen food is prepared elsewhere and the taste is not good, with little oil and rarely any meat. Many workers reluctantly eat at the canteen because it is free. After a certain period of time, however workers will be so hungry that they will go outside the factory to purchase some meat.

### **F. Working Conditions**

The factory offers safety equipment to workers, but the smell of plastic in the workshop is very strong. Workers complain that even wearing a mask, they can still smell this rancid odor.