

LIVING WAGE AND ENVIRONMENTAL ASPECTS IN FOCUS

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Report of the 14th Round of Labour Inspection in China for

STORMBERG

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1. THE INSPECTION ²

The 14th round of labour inspection was carried out between 12th and 15th of March 2019.

Table 1-1: The 14th round of labour inspection – participating factories

Factory	Located region	Inspected before ?
Wandelong Garments	Ningbo Zhejiang Province	Yes
Ninghai Lansing Knitwear Garment Factory	Ningbo Zhejiang Province	Yes
Jiangsu Baojielong Feather Products	Yangzhou Jiangsu Province	No

This is an announced inspection, which means all involved factories were notified before inspection.

The general results from this round of inspection are presented in Chapter 2.

There are two topics – living wage and environmental aspects - putting forward in focus which are elaborated respectively in Chapter 3 and 4.

Table 1-2: Explanation of the score board

Score Scale 0-10	Indication
0	Terribly poor – can't be used
1-2	Very poor – enorm improvement needed
3-4	Poor – much improvement needed
5-6	Average – improvement needed
7-8	Good – on a good way
9-10	Extremely good towards perfect

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2. The general results from this round of inspection

2.1 General information

These three factories in inspection are located in Zhejiang and Jiangsu Provinces, which are economically most developed areas in China and have a long tradition in textile industry. Both provinces have a solid and mature supply chain for textile production, complete infrastructure as well as convenient logistic access (close to huge ports such as Shanghai and Ningbo).

These suppliers are located at textile industrial clusters where many textile and garment producers concentrate in a same area. However, due to the economic slowdown in China and intensified international trade barriers, the textile and garment industry, especially the export-oriented part, is facing serious challenges and pressure. As a result, many factories and producers have gone to the end.

In addition to the differences in products, there are also differences in terms of size and components of the working force, as illustrated below:

Table 2-1:

	Wandelong	Lansing	Baojielong
Ownership	Chinese, private	Chinese, private	Chinese, private
Working staff	>100	< 100	> 600 ³
Share of migrant workers	60%	0	0

2.2 Working environment

The working environment in all the inspected factories is fairly good, with some varieties. The workshops are equipped with ventilation, cooling and warming facilities. The emergency exits are clearly marked and kept clear and open. The fire-extinguish devices are properly placed according to the law, and the exercises are carried out regularly in cooperation with the relevant authorities.

³ Over 600 employees in total. 250 at the main factory and more than 350 employees at 3 branch factories.

Table 2-2: Working environment score

	Score	Remark
Wandelong	6	-
Lansing	5	The entrance of the factory should not be blocked by vehicles. In case of emergency, the emergence vehicles should have immediate access to the facility.
Baojielong	7	Excellent working environment in the workshops. There is dust plague to be noticed at the down processing workshop which should be paid attention to.

2.3 Basic labour rights

Neither child labour nor forced labour was discovered under the inspection. There has been no severe labour conflict reported at these factories. All factories have implemented major requirements from the Chinese Labour Contract Law. Standard written labour contracts are signed between the employers and the employees.

2.4 Labour conditions

Employment

As shown in table 2-1, the main labour supply for Wandelong remains to be migrant workers (from other regions). The main labour supply for Lansing and Baojielong is on the other side from the local residents. The differences in labour force origin may have implications for stability of the labour force, human resource management as well as social conditions.

All the inspected factories have expressed their major concern on access to labour force. All of them are facing challenges in recruitment. The average age of the current working staff rises, and the factories only manage to maintain an operational minimum working staff. In peak season and in case of mounting orders, they have to engage external teams often paid with higher wages. In the longer run, access to labour force will become the biggest bottleneck for production.

Wage

Detailed elaborated in Chapter 3.

Working time

A normal working day is 8-9 hours, and a normal working week is 6 days. Working on Sunday is voluntary. Overtime use becomes rare except for extraordinary circumstances from time to time.

Social security contribution

A strict compliance of the Labour Contract Law requires employers to pay social security contribution for employees from day one, namely when the employment relationship is established.

The regional minimum wage standard forms a base for the regional social security basic rate. Employers should contribute/pay 70% and employees contribute/pay 30%.

Table 2-3:

	Wandelong	Lansing	Baojielong
Share of working staff covered/paying by/to Social Security Scheme	40%	100%	100%

The different practice regarding social security contribution may be reflected in the labour force origin.

The Chinese government sent out a strong political signal at the People’s Congress Assembly in March, which indicates the government is targeting full compliance of social security requirements for all enterprises. In return, the enterprises will get tax reduction. It is foreseen that all employers/employees will soon be left to no option other than full social security compliance.

2.6 Labour relations

All the inspected factories are unionized. However, the functioning of labour union and the practice of social dialogue differs very much.

Table 2-4: Labour relation and social dialog

	Score	Remark
Wandelong	3	Unionised, but union not active. Not functioning.
Lansing	3	Unionised, but union not active. Not functioning.
Baojielong	9	Active union. Collective agreement established. Union involved in wage determination. Works Council established. Good dialogue and communication.

2.7 A special remark – BSCI

BSCI - The Business Social Compliance Initiative is a supply chain management system that supports companies to drive social compliance and improvements within the factories and farms in their global supply chains. BSCI is powered by Foreign Trade Association based in Brussels. BSCI sets out its own Code of Conduct (CoC 2.0), which is similar to Stormberg's CoC. As we pointed out in the previous inspection reports, BSCI is not a certification scheme. BSCI may provide with a system that helps companies to gradually improve working conditions in their supply chain. BSCI provides companies with a social auditing methodology and report as service.

All the inspected factories/companies have engaged BSCI before. However, there is now serious doubt putting on the BSCI Scheme in China, and the whole BSCI practice in China has been casted negative light on. Many companies, including some of Stormberg's suppliers, have reported that a BSCI-report can be easily acquired/purchased as long as an amount of 40 000 CNY being paid. One should wonder what kind of purpose it serves.

3. Topic in focus: Wage and Living Wage

Minimum wage

A minimum wage is the lowest remuneration that employers can legally pay their workers. Thus, it is often called as Statutory Minimum Wage Standard. A minimum wage should reflect the minimum income necessary for a worker to meet their basic needs.

As different parts of China have very different standards of living, China does not set one minimum wage for the entire nation. Instead, the task of setting minimum wages is delegated to the local governments. Each province, municipality, or region sets its own minimum wage in accordance with its own local conditions.

Table 3-1: Current minimum wage standard

	CNY/month	Regional/provincial classification
Wandelong	1860	Zhejiang II/Ningbo I
Lansing	1530	Zhejiang IV/Ningbo III
Baojielong	1600	Jiangsu II/Yangzhou II

Actual wage levels

Around 30% of the employees at the inspected factories receive monthly salary. 70% of the employees, mostly workers, work on piece wage. Their total wage income can be divided into the following components:

- Piece wage;
- Bonus (such as no-leave bonus, result bonus) and other allowance (such as housing and food allowance, especially applicable for migrant workers)

For an “average”⁴ worker in a piece wage system, the wage income is illustrated in the following table:

⁴ Skill level decides productivity which has a lot to say about receivable wage in a piece wage scheme. By “average” it means a worker of average skill level and working at an average tempo.

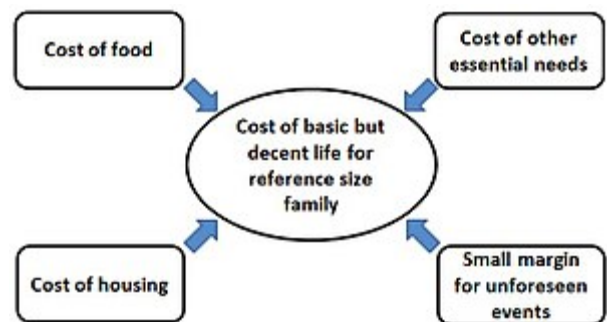
Table 3-2: Wage level

	Piece Wage CNY/month	Total Wage ⁵ CNY/month	Total wage adjusted for working time ⁶ CNY/month
Wandelong	5000	6000	4513
Lansing	4500	5000	3761
Baojielong	3500	3500	2632

Living wage and calculation of living wage

The goal of a living wage is to allow a worker to afford a basic but decent standard of living. Due to the flexible nature of the term "needs", there is not one universally accepted measure of what a living wage is and as such it varies by location and household type.

A living wage, in some nations such as the United Kingdom and New Zealand, generally means that a person working 40 hours a week, with no additional income, should be able to afford the basics for a modest but decent life, such as, food, shelter, utilities, transport, health care, and child care.



There is no unified method to calculate the living wages. Some institutions/organisations have given it a try.

The Asia Floor Wage Alliance (AFWA), an international alliance of garment trade unions and labour rights activists from across Asia, came together in 2005 to demand workers are paid a living wage. They calculated a formula for defining a figure for what a living wage should be across all Asian garment producing countries, based on purchasing power. According to their calculation, the living wage in China stands at 1.5 – 2.6 times minimum wage level depending on province with a national average at 2.15 times. Taking into account those provincial minimum wage standing at national level, we come to the estimates of the living wage ratio to minimum wage for the inspected factories as following:

⁵ Inclusive bonus and allowance

⁶ Actual working time (234 hours per month) adjusted to normal working time (176 hours per month/40 hours per week) according to the labour law regulation.

Table 3-3: Estimating the living wage level

	Minimum wage CNY/month	Estimated living wage ratio to minimum wage	Estimated living wage CNY/month
Wandelong	1860	2.25	4185
Lansing	1530	2.10	3213
Baojielong	1600	2.15	3440

The comparative table 3-4 shows that:

- The wage income levels at all inspected factories are far above the regional minimum wage standards, even when the wage income level is adjusted for working time after tax and social security fee;
- All the inspected factories come with a higher actual wage level than the estimated living wage level;
- Baojielong in Jiangsu province comes much under the estimated living wage level when its total wage income adjusted for working time after tax and social security fee.

Table 3-4: Actual wage level comparing to living wage level

	Minimum wage CNY/month	Total Wage CNY/month	Total wage income adjusted for working time after tax and social security fee ⁷ CNY/month	Estimated living wage CNY/month
Wandelong	1860	6000	4234	4185
Lansing	1530	5000	3495	3213
Baojielong	1600	3500	2368	3440

⁷ The social security fee is 351 CNY/month on employee's side. No personal income tax on income below 5000 CNY per month after social security fee. 3% personal income tax on income between 5001 and 8000 CNY/month.

4. Topic in focus: Environmental aspects

China's mounting environmental crisis is endangering the pace of its economic growth and threatening the legitimacy of the ruling party. The cost of environmental damage is estimated to 3 to 10 percent of its gross national income, according to various estimates from different agencies.

New strict environmental requirements and measures have been put into force. It imposes major impact on the textile and garment enterprises like Stormberg's suppliers.

Impact on enterprises

Factories like Wandelong and Lansing have little pollution danger from themselves. Still they are facing increasingly regulative requirements from the authorities:

- A domestic sewage fee (5000 CNY a year) is imposed
- Factory must purchase a quote for production waste (waste cloth pieces). The price is 19 000 CNY per ton. A government contracted company is assigned to handle the production waste.

Factory like Baojielong has in addition dust plague in connection with down processing which should be coped with. Water emission in this process is also taxed/quoted.

A process of internalising environmental effect/cost is ongoing which affects every actor in the industry.

Impact on supply chain

Along the supply chain, the printing and dyeing part of the textile industry has been most heavily affected. Many small printing and dyeing factories have been shut down. High certification standard and procedure is required. Production volume among these large printing and dyeing factories is strictly supervised and limited. The situation leads to shortage and uncovered demand of cloth material in the market and consequently higher prices. It affects the production and cost situation among garment factories on the upper side of the supply chain.

Views and initiatives from the inspected factories

- All the inspected factories have expressed their understanding towards these new environmental measures enforced by the authorities. A kind of

consensus can be sensed as necessity for environment protection in spite of the difficulties and cost pressure they are currently experiencing.

- Higher raw material prices are also expected as the environment costs will be internalised and reflected in the supply chain.
- The factories are putting higher focus on environmental concern. They are paying much attention to environmental standard and certification holding by their suppliers. All purchasing from the suppliers must be environmentally documented.
- The overall environmental measures carried out by the authorities wash out the “bad ones” and make the “good ones” survive to the benefit of environment.
- The factories are also facing higher environmental requirements from their customers such as chemical handling, use of environment friendly materials, use of recyclable materials, etc. The factories are willing to cooperate with their customer to develop and experiment on an environment friendly production and consumption of textile and garment.