

# **WORKING CONDITIONS AND LABOUR RELATIONS**

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## **Report of the 11<sup>th</sup> Round of Labour Inspection in China for**

# **STORMBERG**

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# 1. THE INSPECTION

The 11<sup>th</sup> round of labour inspection was carried out between 24<sup>th</sup> and 26<sup>th</sup> of August 2015.

Table 1-1: The 11<sup>th</sup> round of labour inspection – participating factories

Factory	City/Province/Classification <sup>3</sup>	Inspected before ?
Fuzhou Uniontex Garments <sup>4</sup>	Fuzhou/Fujian/II	No
Fuzhou Fashion Flying <sup>4</sup>	Fuzhou/Fujian/II	No
Fuzhou Rainbowtex Garments <sup>4</sup>	Fuzhou/Fujian/II	No

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

Stormberg has been trading with suppliers in China since 1998, and they seek to form long-term business partnerships with companies and factories who share its commitment to quality and values. This also includes requirement that suppliers are compliant with labour and environmental laws.

All the selected factories in this round are subjected to inspection for the first time. They are all located in the same city – Fuzhou, the capital city of Fujian province. All these factories are Chinese private-owned enterprises but at different sizes: from a small size of 80 employees to a middle size of 260 employees and to a large size of 500 employees.

Chapter 3 is dedicated to the topic in focus: overtime practices among textile and garment enterprises.

Chapter 4 is dedicated to another topic in focus: labour relations in terms of unionization, collective bargaining and worker’s information, participation at workplace.

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<sup>3</sup> Classification in terms of provincial minimum wage and social security basic rate. For example, the current minimum wage of class I in Fujian province is 1500 RMB/month, while the minimum wage of class II in the same province is 1350 RMB/month.

<sup>4</sup> Special thanks to Karen from A-One and Jessica from Rainbow for their assistance and cooperation in this inspection round.

## **2. The general results from this round of inspection**

### 2.1 General information

All the inspected factories are located in the same city – Fuzhou, the capital city of Fujian province. Fujian province covers an area of 121 400 km<sup>2</sup> on the southeast coast of mainland China. Fujian is the mainland province which is closest to Taiwan. Fujian province has a population of 38 million people.

Because of the geographic location with Taiwan, Fujian has been considered the battlefield frontline in a potential war between mainland China and Taiwan for a long period between 1949 and late 1970s. Hence, it was developed much slower than the rest of China before 1978. Since 1978, when China opened to the world, Fujian has received significant foreign investment from overseas Chinese around the world and largely from Taiwan. Fujian gradually became a major production base in China for textile/garment products, shoes and electronic products.

Today, although Fujian is considered as one of the wealthier provinces of China, its GDP accounts for less than 4 pct. of the total GDP of mainland China (ranks at 11<sup>th</sup> place among all provinces in 2014). Its GDP per capita is only about the average of China's coastal areas (8<sup>th</sup> place among all provinces in 2014).

### 2.2 Labour conditions

#### **Employment**

As above-mentioned, these three inspected factories are in different sizes: from a total employment of 80 to a total employment of 260 and to nearly 500. About 80-90% of the employees work as first-line workers. 70 – 80% of the workers are migrant workers who come from the rural areas of other mainland provinces. All the employees are holding a written labour contract as the Labour Contract Law requires. All the labour contracts are kept in file at the municipal labour authorities in line with the regulation.

All the inspected factories reported that they managed to keep a stable working force during the past year in spite of a tighter labour market for skilled workers. Most of the employed migrant workers found their way back to the factories after the Chinese New Year vacation.

#### **Working time**

In average, the workers in the inspected factories work 10 hours a day and 6 days a week. It makes a working week of 60 hours, which is 50 pct. more than a (legally stipulated) standard working week of 40 hours.

More about those aspects around overtime is elaborated in Chapter 3.

### **Wage**

- According to Fuzhou Municipal Bureau of Statistics, the average monthly salary income in Fuzhou was 4900 RMB last year. Be aware that this income calculation is all inclusive and not adjusted for overtime and benefits/bonuses.
- The mandatory minimum wage in Fuzhou is currently 1350 RMB per month.
- According to AFWA's formula<sup>5</sup> for living wage calculation, the living wage level in Fuzhou should be around 2700 RMB per month.
- The average wage level in the inspected factories is 3300 – 3500 RMB per month. It is about 150 pct. higher than the minimum wage and about 25 pct. higher than the living wage level.
- Adjusted for the actual working hours (as above-mentioned), the average wage level in the inspected factories is about 2 267 RMB per month for a standard working week of 40 hours. It is only 68 pct. higher than the minimum wage however 16 pct. lower than the calculated living wage.

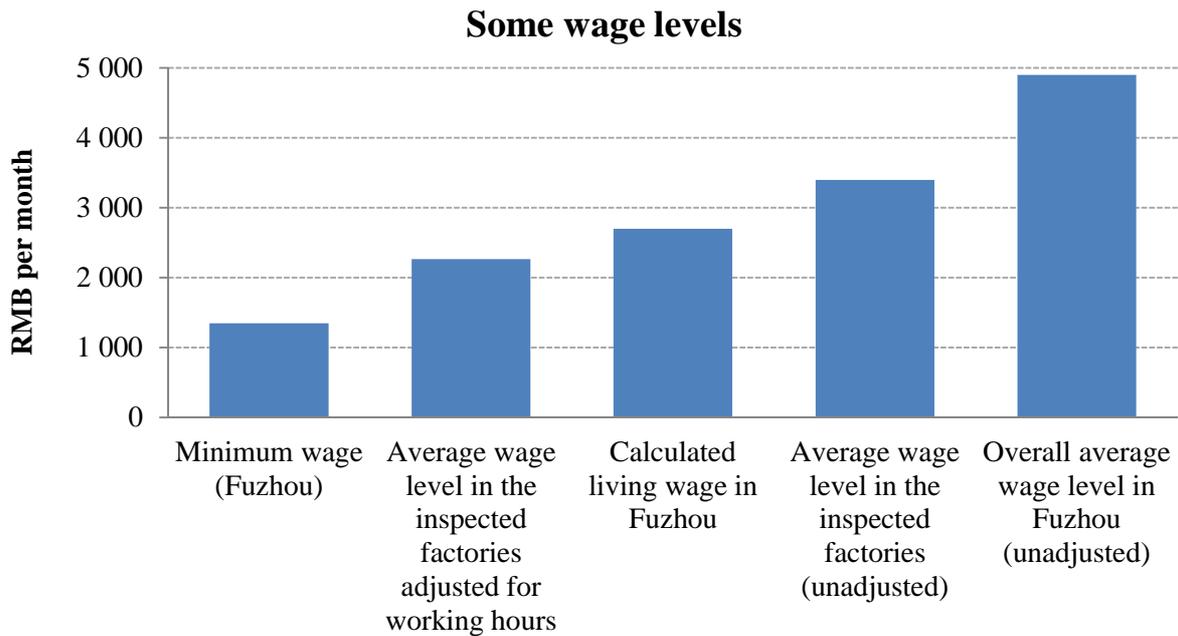
### **Other benefits**

There are some benefits for the workers which should be considered as part of their actual income besides the wage, such as:

- Food and accommodation allowance: 250 RMB per month
- No-leave bonus: 100 RMB per month
- Service year bonus: 10 RMB per month per service year
- Summer allowance: 30 RMB per month (June – August)

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<sup>5</sup> 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. Since Fuzhou (Fujian province) is somehow on the average, we assume that the living wage in Fuzhou should be 2 times minimum wage standard.



### **Social security contribution**

All employers are obligated to pay social security contribution for their employees after the Chinese Labour Contract Law took into effect in 2008. As for many small private enterprises, it brought to higher labour cost since they did not really have this obligation before.

Seven year after, the actual implementation and practice has become more complicated and diversified:

- None of the inspected factories has actually fully complied with this regulation. The coverage on their employees is below 50 pct.
- The local government and labour authorities are no longer insisting on full compliance.
- Many employees, especially those migrant workers, are not willing to be covered/reported to the social security scheme in the hosting city because:
  - a) They are already covered by “New Rural Corporative Medical Insurance” from their hometowns. They don’t want to pay double and to be double insured.
  - b) They are not interested in pension insurance, since the current system doesn’t have a national converting and transferring mechanism. They are not able to take with them their earned pension rights back to their hometowns.
  - c) Because of the floating character of migrant workers, the migrant workers have more uncertainties in relation to their occupational

lives. The current social security scheme is too complicated for them to associate with.

One can say that there are still many shortcomings in the social security scheme in China which makes it difficult and unrealistic for full compliance according to the Labour Contract Law both for employers and for workers, especially for migrant workers.

### 2.3 Working environment, health and safety

The working environment in all the inspected factories is fairly good. The workshops are equipped with ventilation, air-condition or cooling/warming facilities. Lighting at the workshops is adequate. Fire fighting devices are properly placed, the emergency exits are clearly marked and kept unblocked, and the emergency lights are properly installed.

At least two fire exercises are carried out at the factories under the supervision of local fire departments.

### 2.4 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.

### 2.5 Labour relations

See chapter 4.

### 2.6 Suppliers outlook

The situation for textile and garment industry is worsening. A lot of factories had no choice other than shut-down.

All the inspected factories have seen some garment factories nearby have suffered the fate of closure.

Fortunately, all the inspected factories have reported that they are doing fine. In spite of all the difficulties, they managed to maintain a stable access to orders and a stable production.

They still have a strong confidence to survive the economic downturn. However, they admit that it is more demanding and requires more innovative and efficient management to be able to move forward.

All the inspected suppliers are holding a good faith and trust in Stormberg. They all praise the good relationship and cooperation with Stormberg.



### 3. Topic in focus: overtime

According to the Chinese Labour Law, overtime should be paid as following:

- Overtime out of a normal working day (8 hours) should be paid at 150% of the wage.
- Overtime in weekend (Saturday and Sunday) should be paid at 200% of the wage.
- Overtime in holidays (such as May 1<sup>st</sup> and National Day) should be paid at 300% of the wage.

We are aware from the previous inspections that use of overtime is a common practice among the textile and garment enterprises. It is seldom that the overtime is paid as the Labour Law stipulates.

In this inspection round, we intended to look deeper into the overtime question.

- How much is the overtime now, and how much is the overtime in high and low seasons.

All the inspected factories said that there was no longer clear distinction between high and low season. The production volume has become evener over the year.

On the customer's side, they take Stormberg as a good example where Stormberg always places order in good time and leaves the suppliers sufficient time for planning, further working and completing. The practice of Stormberg does help the factories to even out high and low seasons.

On the enterprise's side, they are interested in a more smooth production rhythm over a year.

However, the problem is that overtime has become a part of "normal" working time - a kind of branch norm and standard.

In average, a worker works 10 hours a day, and 6 days a week. It means use of overtime at 20 hours a week, where 10 hours overtime during the normal working days and 10 hours overtime on Saturday.

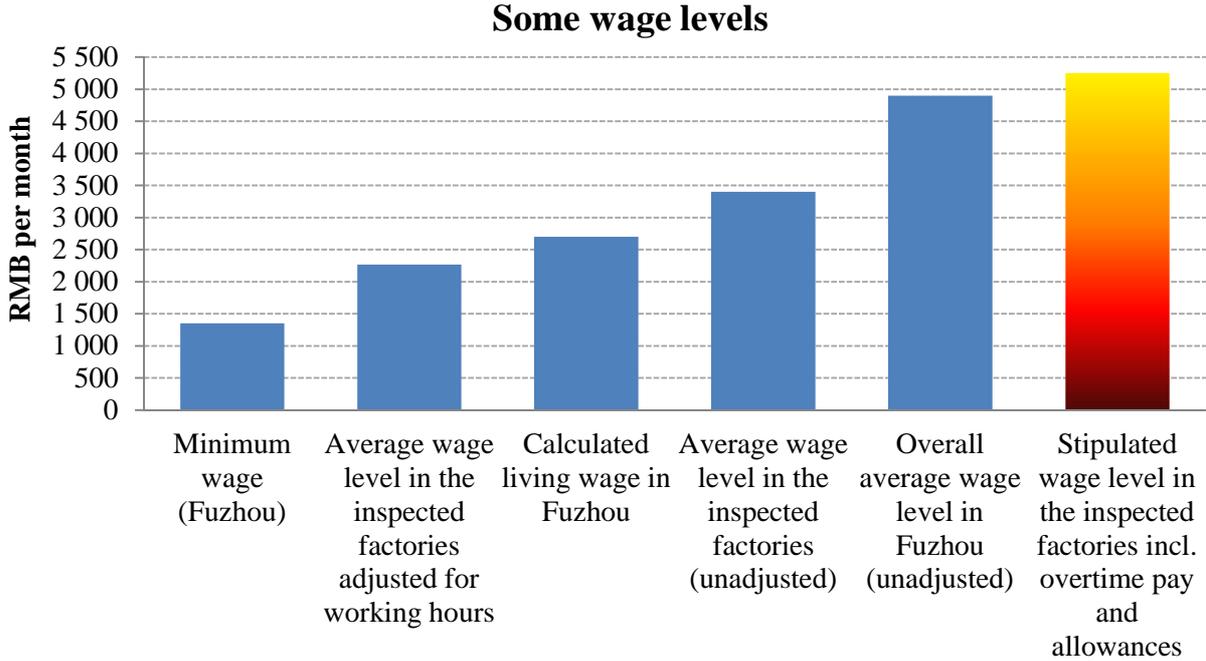
- Do workers get overtime pay according to the Law?

If a factory complies fully with the Labour Law, the workers should get compensation for overtime as follows:

- \* 50 pct. extra pay for 10 hours overtime during the normal working days;
- \* 100 pct. extra pay for 10 hours overtime working on Saturday.

Unfortunately, it is normally not the case. The workers often get no extra pay for the overtime. They may get a free meal or 3 RMB for each incident of overtime (not for each overtime hour).

Given that a worker normally works 60 hours a week for a monthly wage of 3400 RMB as reported by the factories, the “correct” monthly wage should be at 4800 RMB if the overtime was paid according to the Law. Adding on different allowances and bonuses, the worker should have a monthly income above (rather than below) the average monthly income level in Fuzhou at 4900 RMB.



One of the inspected factories (Fashion Flying) claimed that they actually paid overtime according to the Law. Given the fact that the average wage level in this factory is not obviously higher than that of other factories, it means either they have a lower basic wage or they don't have much overtime use.

➤ Why becomes overtime a common practice

If a factory wants to eliminate or reduce overtime, they should expand the capacity by hiring more workers.

**When employers don't have the burden of paying extra for overtime, there is no incentive for employers to eliminate or reduce the use of overtime while they are at the same time able to maintain the flexibility in employment facing kinds of uncertainties in operation.**

If employers have to take on extra costs for overtime, they will have no choice other than reducing or eliminating overtime.

➤ How “voluntary” are workers to work overtime?

As described above, a worker is facing the followings:

\* If you don't want to work any overtime, only a standard working week of 40 hours, you can get an income at about 2250 RMB in a month, which is higher than the minimum wage, but lower than the living wage;

\* you can work overtime as you are required and work 60 hours a week without any extra overtime pay. Then you will get about 3400 RMB/month, which is about 25 pct. higher than the living wage;

\* If your employer pays you extra for the overtime as the Law says, you should have a monthly pay over 5000 RMB, which is even higher than the average wage level in society. However, you won't get it in reality, maybe just a free meal as the overtime compensation.

In a sense, a worker doesn't have a choice other than working longer so as to reach an income level above the living wage level.

The so-called “voluntariness” of workers on overtime is just about that.

Of course no worker is nowadays forced to stay on overtime. As the inspected factories reported, the employers will make necessary adjustment and arrangement if some workers don't work overtime, and no worker will get any penalty for not working overtime. No-leave bonus doesn't apply for overtime which means a worker won't risk missing no-leave bonus when he/she refuses overtime.

## **4. Topic in focus: labour relations**

### 4.1 unionisation and collective bargaining

According to All-China Federation of Trade Unions (ACFTU), which is the only legally allowed trade union organisation in mainland China, there are 290 million trade union members in China. Over 80% of all enterprises and entities of all kinds of ownership are organised. And over 80% of organised enterprises have collective bargaining and collective agreements.

Based on our experiences from earlier inspection rounds, we know that the majority of enterprises in textile and garment branch are small and private-owned ones, and thus we assume the situation should be somehow like this:

- More and more of them have been organised over the past 10 years;
- Most of them should have a trade union in the enterprise now;
- Not many factory trade unions are active and carrying out trade union activities;
- Few factory trade unions actually conduct collective bargaining.

Our findings in this inspection round reflect this reality but with some positive surprises.

\* The smallest one of the inspected factories (Uniontex) is not organised.

\* The largest one of the inspected factories (Rainbow) has a trade union which was established for 5 years ago. The factory trade union has little union activities. No collective bargaining is carried out.

\* The third one (Fashion Flying) has 260 employees and has had a trade union since 2003. The employees elect their representatives – employee representatives, and those employee representatives elect a trade union committee and a chief union officer (trade union chairperson). The factory trade union does carry out a collective wage bargaining with the factory management every year. During the annual wage negotiation, the trade union and the management will agree upon a wage increase frame – for instance 8 pct. wage increase on all piece wages for 2015. The bargaining demands were collected and formed based on the opinions from the employees through those employee representatives. The factory trade union reported that they had a very good relationship and cooperation with the factory leadership/management. They feel great support from the employer to the trade union.

It is a positive surprise for us since it is the first time we find one of Stormberg's suppliers who conducts collective wage bargaining. A good labour relation, through real collective bargaining and through good dialogue and cooperation between the social partners, plays an essential role for a sound development of enterprise. Fashion Flying, being a relatively small and private-owned enterprise, has reached a higher goal which few of similar enterprises has been able to do so.

#### 4.2 Worker's information and involvement

\* General meeting is often functioned as the main information channel between workers and management. As a rule at least one general meeting will be held in each month.

\* Information board is another important channel for information. Important notices such as work plan, overtime, benefits/piece wage standard, are often written on the information board. In case of illiteracy, an oral message is guaranteed to be given. In one of the inspected factories, a large LCD-board is used as information board. It shows real time working tempo at each working station and for each worker. Since the working tempo connects directly to the income, the factory believes it contributes to transparency at workplace.

\* If the factory has a trade union, workers have an information channel through the trade union and their union shop stewards.

\* The factories often operate with a so-called "opinion box". Workers can put their opinions, suggestions or complaints in written into this box. The employer/management shall give a feedback in time. The "opinion box" is often managed by the trade union.

\* All the inspected factories said that they were always open for direct communication between employees and employers. In any case, the employees are welcomed to make direct contact/conversation with the management.

Through these abovementioned information channels, the factories believe adequate information concerning workers' wage, working time, safety and working environment, activities (including union activities), is provided. Active involvement of the employees is encouraged.

#### 4.3 Training possibilities

\* New employees are always provided with a training course (1 day). On this training course, all information with regard to working procedures, rules and regulations, working conditions, rights and benefits, health and safety, shall be

gone through. New employee training course must be carried out within one month after arrival.

\* At the situation of shortage of skilled workers, the factories are open for recruitment of inexperienced and unskilled workers. If they are really interested in working in the factory and in this branch, they will be given a training program as apprentice. The training/apprentice period varies from 1 month to 6 months, depending how fast he/she learns. She/he gets paid according to the actual “non-failure” products.

\* Any current employees who want to acquire higher skills or advance to a higher technical position, will be given a chance for internal training or learning by doing according to the qualification.