

SUSTAINABLE DEVELOPMENT

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Report of the 12th Round of Labour Inspection in China for



by **Wei Chen**¹

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1. THE INSPECTION

The 12th round of labour inspection was carried out between 1st and 4th of December 2016.

Table 1-1: The 12th round of labour inspection – participating factories

| Factory | City/Province/Classification ² | Inspected before ? |
|----------------------------|---|--------------------|
| Suzhou Taping Garment | Suzhou/Jiangsu/I | No |
| Zhangjiagang Dongxiang Cap | Suzhou/Jiangsu/I | No |
| Changshu Ade-Way Wearing | Suzhou/Jiangsu/I | No |
| Changshu Huaerda Garments | Suzhou/Jiangsu/I | Yes |

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

Chapter 3 is dedicated to the topic in focus: wage formation and wage system.

Chapter 4 is dedicated to another topic in focus: environmental concerns and measures among the suppliers.

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.

With few exceptions, the inspected factories are very cooperative and holding a positive attitude towards this inspection. They have shown:

- * An increasing knowledge and acceptance of Stormberg’s CoC and requirement of compliance;
- * Willingness of cooperation and self improvement;
- * Increasing understanding of this inspection approach;
- * Openness.

² Classification in terms of provincial minimum wage and social security basic rate. The mandatory minimum wage level for Jiangsu I in 2016 is 1820 CNY/month, which is the highest level within the province and meant for the most developed areas.

2. The general results from this round of inspection

2.1 General information

All the inspected factories are located in the same administrative municipal city – Suzhou in Jiangsu Province – within a range of 70 kilometres. This area is considered as the most developed area in Jiangsu Province which is also one of the most developed provinces in China. It is also reflected in the mandatory minimum wage level in this area.

| | Taiping | DongXiang | Ade-way | Huaerda |
|---------------------------------|------------------|------------------|------------------|------------------|
| Ownership | Chinese, private | Chinese, private | Chinese, private | Chinese, private |
| Current working staff | 60 persons | 90 persons | 60 - 70 persons | 80 persons |
| Share of migrant workers | 0 | 1/3 | 1/2 | 0 |

All the inspected factories report that they are running below their production capacity.

Another phenomenon one should notice is that fewer migrant workers are employed and more factories employ only local residents. There has been a decreased supply of qualified skilled workers among migrant workers into the manufacturing sector generally. The “demographic dividend” effect is ebbing out in China, which means that China no longer enjoys the competition benefits from massive cheap labour. The competition of skilled and qualified workers on the labour market is getting stronger. More and more factories are facing challenges in employment and recruitment. They are becoming more dependent on local employment even though it is not sufficient for them to run at full capacity. A stable working staff is much more preferred.

Ade-Way Garments reported that they are getting a BSCI-certificate, which is an interesting approach and worth paying a good attention. The Business Social Compliance Initiative (BSCI) 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. BSCI is not a certification scheme. BSCI provides a system that helps companies to gradually improve working conditions in their supply chain. BSCI provides companies with a social auditing methodology and report. Therefore, a BSCI-report (not a certificate) will be a

valuable documentation since the report goes through different aspects within the company on its CSR-status according to BSCI-requirements.

2.2 Labour conditions

Some general principles with regard to the fundamental rights

| | Taiping | DongXiang | Ade-way | Huaerda |
|---|----------------|---------------------|----------------|----------------|
| <i>Any indication on Child Labour³?</i> | No | No | No | No |
| <i>Any indication on Forced Labour⁴?</i> | No | No | No | No |
| <i>No discrimination?</i> | | No indication found | | |
| <i>Any indication on harsh or inhuman treatment of the employees?</i> | No | No | No | No |

Regular employment

According to the Chinese Labour Contract Law, employers are obligated to sign on an individual written labour contract with all employees. This legal obligation of the employers has been much tightened lately. An employee is entitled to compensation and permanent employment contract if his/her employer fails to fulfil this duty.

| | Taiping | DongXiang | Ade-way | Huaerda |
|--|----------------|------------------|----------------|----------------|
| <i>Are employees' individual labour contracts in proper order?</i> | Yes | Yes | Yes | Yes |

Working time

Because all the inspected factories are running below its capacity and the order situation is far from optimal, the working time arrangement becomes more

³ In October 2016, the city of Changshu was caught much attention in the media where use of child labour was exposed. These two inspected factories in Changshu have nothing to do with this scandal, and there is no any indication of child labour there.
Use of child labour is strictly prohibited by the Chinese law. China has also ratified 2 ILO Core Conventions on child labour (no. 138 and 182).

⁴ Employment should be freely chosen. Forced labour is one of the worst forms of violation on the fundamental worker's rights. China hasn't ratified these two ILO Core Conventions on forced labour (no.29 and 105). However, use of forced labour in the ordinary employment is strictly prohibited and criminalised by the Chinese legislation. Some indication on forced labour can be for example workers are required to lodge "deposits" or their ID cards with their employer. By this way the workers are "forced" to stay with their employer, probably against their own will.

“normal”. Normally a working day is now 8 hours, and Sundays are secured as free days.

The use of overtime becomes rare. In case of need for overtime, max. 3 hours overtime will be put in a weekday. Sundays may also be used in overtime.

| | Taiping | DongXiang | Ade-way | Huaerda |
|----------------------------|----------------|------------------|----------------|----------------|
| <i>Normal working time</i> | 8 hours/day | 8 hours/day | 8 hours/day | 8 hours/day |
| | 6 days/week | 6 days/week | 6 days/week | 6 days/week |

More about overtime, see Chapter 3.

Wage, benefits and social security contribution

See Chapter 3

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.

| | Taiping | DongXiang | Ade-way | Huaerda |
|---|--|--|--|--|
| <u>Production site</u> | | | | |
| Does the working environment look satisfactory with regard to lighting, noise, ventilation and cleanness? | Yes | Yes | Yes | Yes |
| Are the fire-fighting equipments properly placed? | Yes | Yes | Yes | Yes |
| Are the emergency exits clearly marked? | Yes | Yes | Yes | Yes |
| Any regular health and safety training for the employees? | No, except for fire-fighting exercises | Yes. HSE training program in addition to fire-fighting | No, except for fire-fighting exercises | No, except for fire-fighting exercises |

exercises

Living quarters

| | | | | |
|-------------|----------------|-----------------|-----------------|----------------|
| Dormitories | N.A | Good conditions | Good conditions | N.A |
| Canteen | Nice and clean | Nice and clean | Nice and clean | Nice and clean |

2.4 Labour relations

| | Taiping | DongXiang | Ade-way | Huaerda |
|---|----------------|------------------|----------------|----------------|
| <i>Organised ?</i> | Yes | No | Yes | Yes |
| <i>Trade union in the enterprise ?</i> | Yes | No | Yes | Yes |
| <i>Collective bargaining?</i> | No | No | No | No |
| <i>Is the union functioning ?</i> | No | N.A | Yes | No |
| <i>Are the workers' representatives or union representatives given access to the wage determination ?</i> | No | Yes | Yes | Yes |

3. Topic in focus: wage system

Most of the factories within garment and clothing are still using a piece wage system for workers and a monthly salary system for their administration personnel. The factories within caps like Dongxiang Caps use monthly salary system only.

Wage system:

| | Taiping | DongXiang | Ade-way | Huaerda |
|---|--|------------------------|--|--|
| Wage system | Piece wage for workers; Monthly salary for management | Monthly salary for all | Piece wage for workers; Monthly salary for management | Piece wage for workers; Monthly salary for management |
| Average income per month for workers | > 4 000 | 3 000 – 4 000 | > 4 000 | > 4 000 |
| Reference: Minimum wage standard | | | | 1 820 |
| Average monthly income in this area | | | | 5 400 |

The wage income for workers in the inspected factories is clearly above the minimum wage standard and still below the overall average income in the area. Taking into account working hours and possible overtime, the actual income adjusted for working hours will still be higher than the minimum wage standard.

Almost all the inspected factories comply with their employer’s obligation with regard to social security. Generally, there is still no full compliance of employers’ social security obligation among many enterprises in China. The problem is on the one hand caused by the enforcement which differs from time to time and from region to region. In case of massive complains from enterprises about heavy burden of labour costs, the local labour authorities overlook this problem and rarely come to inspection.

The problem is on the other hand caused by system failure. Today the social security scheme in China is regional based. Each province/region has its own social security scheme and standards for fees and pay-outs. Without a national converting system, the migrant workers can not benefit at their hometowns from the rights they have acquired through their jobs at another region. Therefore a lot of migrant workers/employees themselves are not interested in being covered by the social security scheme at their working regions. Thus they can at least run from paying their own share of the social security contribution, and keep more

income in cash rather than the future assurance/rights. In addition, many migrant workers are already covered by the New Agricultural Health Insurance Scheme from their hometowns. Therefore it is much less incentive both for migrant workers and for employers to get double insured.

Social security:

| | Taiping | DongXiang | Ade-way | Huaerda |
|---|----------------|------------------|----------------|----------------|
| Coverage of Social Security | all | 40% | all | all |
| Extra Commercial Insurance paid by employer?⁵ | No | Yes | Yes | Yes |

Reference:

Employer's social security contribution in % of worker's payroll: approx. 18%

In order to get hold of a stable working staff, many enterprises operate enterprise based benefits. So do the inspected factories as well.

Factory based benefits:

| | Taiping | DongXiang | Ade-way | Huaerda |
|---|----------------|------------------|----------------------------------|----------------|
| Bonus: e.g. no-leave bonus, annual bonus, service year bonus | Yes | Yes | Yes | Yes |
| Free meals at canteen | Lunch | Lunch | Lunch/dinner for migrant workers | Lunch |
| Dormitory for migrant workers | No | No | Yes, free | No |
| Holiday benefits | Yes | Yes | Yes | Yes |
| Annual health check | No | No | Yes | No |

⁵ It refers to commercial insurances like collective injury and accident insurance.

As described in the previous chapter, all the inspected factories reported that there has been much less use of overtime work, and a normal working week becomes 8 hours a day and 6 days a week. Sundays are as a rule secured as free days. 2 factories reported that they are able to pay overtime as the Labour Law stipulates. 2 factories have put in place a flexible working time arrangement.

Working time and overtime:

| | Taiping | DongXiang | Ade-way | Huaerda |
|---|----------------|------------------|----------------|----------------|
| Overtime pay according to the law⁶ | No | Yes | Yes | No |
| Worker's freedom of choice in case of overtime | Yes | Yes | Yes | Yes |
| Other working time flexibility arrangement⁷ | Yes | No | Yes | No |

To sum up, what workers want most at workplace?

- * to get better paid for work;
- * to feel safe both in a working environment and in employment;
- * to be decently treated.

However, there have been some changes in worker's demands in a more long term direction. They appreciate more security and predictability in employment. They want more free time and flexibility in working time. They want better but also fair pay.

In order to meet workers' requirements and secure a stable working staff, the employers, in addition to wage, social security, numerous factory based benefits, have to develop a fair wage system with overtime pay and a flexible working time arrangement, as we have seen among the inspected factories.

As the income level among the inspected factories has already gone much up, the trend will be to provide employees with more free time and more flexibility.

⁶ 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 1st and National Day) should be paid at 300% of the wage.

⁷ It refers to a flexible working hour arrangement like a kind of working hour account. Employees can take out overtime hours as free hours afterwards based on agreement with employers.

4. Topic in focus: environment concerns and measures

The inspected factories share their deep concerns for the ongoing environmental crisis in the country. The knowledge about environment protection and concerns for environment is increasing among the factories.

These factories do not have any pollutant discharge themselves. However, the raw materials they put into production may still have environmental consequences such as water pollution and chemicals (in connection to dyeing and chemical fibre fabric).

How much do the inspected factories know about pollution discharge among their raw material suppliers?

Not much. They choose their suppliers based on acquiring knowledge about:

- * strength in law/regulation enforcement in the area where the suppliers locate;
- * size of the suppliers (the large-sized suppliers are often better regulated than the small ones);
- * possibility of environmental label on products

In addition, the inspected factories have their own procedures for raw material control (especially for chemicals), through random internal control and external third-part tests.

No concrete environmental project has been reported or confirmed to carry out among the inspected factories.

The inspected factories are willing to meet the environmental requirements from Stormberg. They are all positive to possibility of facilitating any environment-related project in cooperation with Stormberg.