

SEVERE ENVIRONMENTAL MEASURES AND THEIR INDUSTRIAL IMPACT

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**Report of the 13th Round of Labour
Inspection in China for**

STORMBERG

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1. THE INSPECTION ²

The 13th round of labour inspection was carried out on 18th and 19th of September 2017.

Table 1-1: The 13th round of labour inspection – participating factories

Factory	Belonging Export Company	Inspected before ?
De Yu Manufacturing Garments Co., Ltd		Yes/2012
Taida Plastic Manufacturing Garments Co., Ltd	Shijiazhuang V-Sheng Trading Co., Ltd	Yes/2012
Long Teng Manufacturing Garments Co., Ltd		Yes/2012
Shunxinyuan Manufacturing Garments Co., Ltd		Yes/2012

All the chosen factories for inspection at this round were inspected in 2012.

The general results from this round of inspection are presented in Chapter 2 with reference to the inspection report from 2012 and with a focus on development during the past five years.

Chapter 3 and 4 are dedicated to topics in focus. The first topic in focus concerns the enhanced environmental measures enforced by the authorities and the impact industry is facing. The second topic in focus concerns labour market as all the inspected factories rating access to labour force as the biggest bottleneck for further development. How come?



Products produced for Stormberg under a Chinese character for happiness.

The picture was taken at one of the inspected factories.

A sign?

² Special thanks to Mr. Wang Jiao from Shijiazhuang V-Sheng Trading Co., Ltd for his kind assistance and contribution to this inspection round. Thanks to all inspected factories for their kind cooperation.

2. The general results from this round of inspection

2.1 General information

Three of those four inspected factories are located in Qing County of Cangzhou City, Hebei Province. The fourth is located in Jinghai County of Tianjin City. Qing County and Jinghai County are neighbour counties although they administratively belong to two different cities.

Tianjin is an important harbour city in the Northern part of the Chinese coast line. There are a number of export-oriented garment factories in the suburban area of Tianjin and Cangzhou, but the concentration of export-oriented garment factories in this area is far from the level of that in the Southern part of the coast line (for example in Guangdong or Fujian Province) or that in the middle part (for example Zhejiang Province).

Logistically set Cangzhou enjoys very much its geographic position: near Tianjin harbour (shipping), directly on the Beijing-Shanghai High-Speed Train Line (passenger) and on the route of the Beijing-Shanghai Highway (goods).

Since all the factories were also inspected in 2012. The following report will focus on the development over the past five years and refer to the inspection report from 2012.

2.2 Working environment

The working environment in all the inspected factories is fairly good. The workshops are equipped with ventilation, cooling and warming facilities. The fire fighting devices are properly placed according to the law.

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 **except for social security contribution**. Standard written labour contracts are signed between the employers and the employees.

2.4 Labour conditions

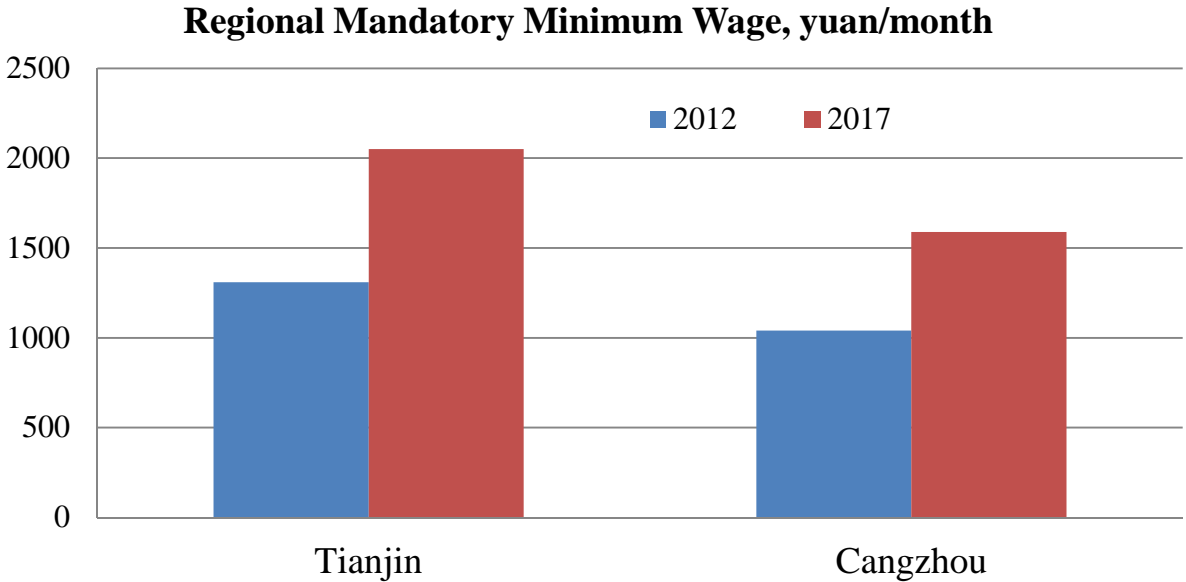
Employment

The main labour supply in the Cangzhou/Tianjin area is from the local residents. All the inspected factories have expressed their major concern on access to labour

force. All of them are facing challenges in recruitment. This issue is furthermore elaborated in chapter 4.

Wage

The regional mandatory minimum wage standards in these two areas have increased by over 50 pct. from 2012 to 2017, which means over 10 pct. annual increase.



The regional minimum wage standard is often an indicator for the local living costs. The increase in minimum wage standards may indicate that the living costs in these areas have increased by 50 pct. over the past five years.

However, the average monthly income for an average skilled worker has increased from around 2500 RMB in 2012 to around 3000 RMB (Cangzhou) and around 3500 RMB (Tianjin) in 2017, which means 20 – 40 pct. increase over the past five years. **The wage level hasn't therefore kept pace either with the minimum wage level or with the living wage level.**

There are some benefits offered by the factories, such as non-absence reward, production-related bonus, which can provide employees with some extra income. It is however conditional.

Working time

A normal working day is **10 hours**. It is still a common practice that workers get only **1-2 days free** in a month. Thus, workers work for at least **280 hours** in a month of 30 days. Overtime comes in addition.

All the inspected factories report much less use of overtime. Overtime will only be needed in so-called high seasons or in case of order-jam.

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.

Few workers are covered by the social security scheme in the inspected factories.

The main reason for such a low social security coverage has something to do with the working force in these factories. As above-mentioned, the main labour supply in the area is from the local residents. They are characterised as residents in rural area. The rural areas in China are today covered by a so-called “New Rural Collective Insurance Scheme (NRCIS)” which contains some similar elements in a social security scheme such as minimum health insurance and minimum pension insurance. When workers in the inspected factories are already covered in NRCIS, there is less incentive for both workers and employers to get double or overlapped insured. In some cases, the employees will get a little cash compensation instead.

The local labour authorities are aware of the mixture of being rural resident and industrial worker, and consequently the crossing of two collective insurance schemes. The local labour authorities haven’t insisted on or made clear guidelines on this issue.

2.6 Labour relations

As detailed described in 2012, these factories are unionized, without much union activity to see. The situation hasn’t changed since then. **The local unions in the factories are still not active.**

2.7 A special remark – BSCI

All the factories are now members of BSCI - 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.

3. Severe environmental measures strangling the industry?

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. In the past several years, it has been more and more clear that the Chinese ruling party and the Chinese Government has made up mind – something must be done and something has been done.

New strict environmental requirements and measures have been put into force. In the following the direct and indirect impact on the garment and textile industry as a whole and these inspected factories especially will be referred according to the statements from these factories.

Regional impact

- Jingjinji Metropolitan Region, also known as Beijing-Tianjin-Hebei, is the national capital region of China. It is the biggest urbanised region in Northern China that includes an economic region surrounding Beijing, Tianjin, and Hebei. All the inspected factories are located in this capital region.

- In case of major events (such as people's congress sessions, Party Congress, international events, important visits) taking place in Beijing or Tianjin and in time of heavily polluted days (especially in Spring and Autumn), all industrial activities will be ordered to shut down in this region, including these garment factories who have almost no direct pollution at all. This order comes often suddenly and unpredictably.

- The authorities have chosen a unison approach. They close all factories in the region in the first place and then give those factories permission to restart after an environmental evaluation. Many factories in metal and chemical branch have been permanently shut down.

- The coal-based heating- and boiling system has been banned and all factories must renovate to gas- or electricity based heating- and boiling system. It requires new investments on facilities.

The inspected factories have reported that these measures have severely affected the production and delivery throughout this year, and have caused a lot of trouble for factories to run a normal business.

Impact on the textile and garment industry

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.

- The inspected factories expect that the situation will get better in the coming years as the rules and procedure getting more clear and predictable. The market situation will get stabilised. However, higher raw material prices are also expected as the environment costs will be internalised and reflected in supply chain.

- The inspected factories have to put higher focus on environmental concern. They pay 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 with regard to environment. It automatically provides garment factories with confidence that their suppliers meet the environmental requirements.

4. Access to labour becomes biggest bottleneck

The employment among the inspected factories is ranged from 60 to 160 persons. There are several characteristics regarding the employment situation among the inspected factories:

- All employees are local residents who live close-by;
- The area is not a migration destination, which means few migrant workers come to this area and access to migrant workers is very limited;
- Most of the employees are over 45 years old. There are few young workers;
- It is difficult to recruit new workers

The textile and garment industry is characterised by relatively low pay and long working hour. The industry is therefore little attractive to younger generation with higher education who is much more informative than older generations.

Even when the factories have lowered the threshold by offering paid training/apprenticeship towards unskilled workers, the new recruitment is still inadequate. More automation in production process is being considered.

The inspected factories report that access to orders is stable, but access to labour becomes the biggest bottleneck for production. The factories are striving to maintain a stable working staff at the factories. They may manage that in the coming five years. However, it may become such a big challenge for the factories in matter of survival in longer run when the working force is getting older and the access to new recruitment can't be opened up.