Did Dreams Come True?
Workers still live in fear of occupational injury

A Follow-up Investigation of Yiuwah Stationary

China Labor Watch

April 2010

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I. Executive Summary

After conducting a follow-up investigation of Yiuwah Stationary through offsite interviews, China Labor Watch (CLW) found a lack of compliance with pertinent Chinese labor laws on issues including overtime hours, social insurances and workplace safety. CLW urges Yiuwah Stationary and companies which outsource to Yiuwah, such as Walt Disney Company and Tesco PLC, to further implement effective remediation plans to address these issues.

This investigation report is a summary of follow-up of an initial investigation conducted in April 2009. In response to a deadly accident where an under-aged laborer was crushed to death while operating a cutting machine on April 5, 2009, CLW conducted an in-depth investigation of Yiuwah Stationary’s labor practices. In that investigation, CLW found that child labor is a widespread problem and that ignorance of work safety creates huge risks to occupational health and safety. Additionally, workers face inhumane treatments concerning excessive work hours, extremely low salaries and poor accommodation conditions. After the publication of the report, CLW wrote open letters to Disney and Tesco respectively. Tesco did not respond. Disney investigated working conditions in Yiuwah and reported progress of improvements through open letters. According to the findings of CLW’s follow-up in-depth investigations, Disney’s remediation plan has made noticeable progress and yet has also failed in many ways.

Through offsite interviews with workers of Yiuwah Stationary, CLW found:

- The employer retains workers’ ID cards for 3 days upon recruitment; in direct violation of Chinese law.
- No health examination or effective training was provided before workers were assigned to posts requiring workers to operate machines or face occupational hazards.
- During peak seasons between January and February, employees are at the factory for at least 96 hours per week while working for at least 81 hours with mandatory overtime on Saturdays and sometimes on Sundays.
- Employees are paid as low as $0.66/hour.
- Many workers do not have social insurance.
- Maternity leave is sometimes denied.
- A case of workplace injury was found during the investigation.
- Machines are not subject to regular maintenance.
- Dormitory conditions are poor, with each room housing 10-14 workers on average.
- Approval for resignation can be delayed for up to 2 months during peak seasons.

In comparison with working conditions found by CLW in April 2009, improvements were made regarding age limits, the signing process of labor contracts, overtime wages, working overtime on holidays, paid annual leave and refunds of monthly meal plans. However, Yiuwah did not effectively address the problem of workplace safety, which was a direct cause
of the deadly accident of April 2009. In addition to a lack of workplace safety, conditions regarding excessive overtime hours, low salaries and poor dormitory conditions were not improved. Many of the practices do not conform to pertinent labor laws in China, nor do they conform to the ethical standards adopted by Disney or Tesco. CLW urges Disney and Tesco, in collaboration with Yiuwah, to further implement effective remediation of non-compliance and unsatisfactory working conditions.

II. Background

The initial investigation of Yiuwah was triggered by a deadly accident on 5 April 2009, when a 17-year-old factory worker, Liu Pan, was crushed to death due to malfunction of a machine which he was operating. Liu Pan was illegally hired at the age of 15 and worked in the factory for two years prior to the deadly accident.

Liu Pan’s death unveiled the widespread use of underage laborers, a severe lack of workplace safety and other inhuman working conditions at Yiuwah. In the report of April 2009, CLW pointed out problems on child labor, disregard for signing labor contracts, extremely low salaries (below government mandated minimum wage), excessive forced overtime, a lack of training, a lack of explanation of occupational health and safety issues, malfunctioning and outdated machines, and poor dormitory conditions.

In response to CLW’s report of April 2009 and a letter of 7 May 2009, Walt Disney Company, whose licensees and sourcing agents worked with Yiuwah Stationary to produced Disney-braded products, confirmed that violations of workers’ rights were taking place at Yiuwah, especially on issues such as machines safety and child labor. In the letter, Disney promised to implement “an effective and sustainable remediation plan.” In July 2009, Disney addressed improvements made by the factory as well as ongoing remediation plans. According to Disney, Yiuwah Stationary has made improvements on age limits, machine safety, safety training for machines operators, paid vacation, wages and work-related injury insurance.

Employees at Yiuwah have demanded better working conditions, and CLW encourages Disney and Tesco to make a difference in the lives of these workers. While “every little helps” is a common slogan on receipts and bags around the world, does Tesco ever think

2 For the Walt Disney Company’s letter of 21 May 2009 to China Labor Watch, please see the appendix or go to http://www.chinalaborwatch.org/images/Disney%20Letter.pdf
3 For the Walt Disney Company’s letter of 30 July 2009, please see the appendix or go to http://corporate.disney.go.com/files/Yiu-Wah-Factory.pdf
about doing a little bit more to improve working conditions in its supplier factories? Indeed, every little bit helps to improve the lives of workers. While these workers produce products for Disney, whose famous slogan is “dreams come true,” to what extent have Disney’s remediation plans made the workers’ modest dreams for better working conditions to which they are entitled under Chinese law come true? In order to verify improvements and re-evaluate working conditions at the factory, CLW has, since April 2009, conducted monthly, in-depth, follow-up investigations, based on offsite interviews. The results of these follow-up investigations are reported below.

III. Factory Profile

Yiuwah Stationary is a medium-sized, Hong Kong-invested factory founded in 1987. The factory currently has over 2,000 employees. Yiuwah specializes in color printing and book binding. It supplies greeting cards, totes, notebooks, address books, gift boxes, stationary, calendars, posters, photo frames, photo albums, poly handicrafts and other paper goods to clients such as Walt Disney Company and Tesco PLC. Yiuwah exports its products to the United States, Canada, Germany, Belgium, Australia, Japan and Southeast Asian countries.

Factory contact information
Location: Nanchang Road,
Wang Niu Dun Chi Jiao Village,
Dongguan City, Guangdong Province
Telephone: 0769-88854823
Fax: 0769-88854823
Website: http://www.yiuwah.com.hk
E-mail: yiuwah@yiuwah.com.hk

IV. Findings

The findings of the follow-up investigation are reported as below.

1. Recruitment: illegally withholding workers’ IDs

During the recruitment process, Yiuwah violates Article 9 of the 2008 Labor Contract Law in China, as it retains workers’ ID cards for 3 days upon recruitment. Yiuwah also
violates Article 52 of the 1995 Labor Law in that the factory does not provide education on work safety and sanitation as required by the Labor Law.

In Yiuwah, the minimum age for employment is the age of 16 which is in compliance with the Labor Law in China. Valid ID cards are required for job application. During the recruitment process, an eligible applicant with a valid ID card is required to fill out a personal information form and then he/she will be invited for an interview with a manager. During the interview, the manager carefully explains the system and regulations of the factory. If the applicant accepts these terms, he/she passes the interview. Afterwards, a representative from the human resource department retains the new employee’s ID card for 3 days in order to verify the validity of the ID card. Retaining workers’ ID cards is illegal under Article 9 of the 2008 Labor Contract Law.

Upon the new employee’s first day of work, he/she signs a 2-year labor contract with a probationary period of 2 months. The contract is made in 2 identical copies, one held by the factory and the other held by the worker.

Health certificates are not required upon recruitment. A health certificate is a supporting document which proves that a health examination or an occupational health examination was conducted by a certified hospital or clinic within a certain period of time. While the Labor Law requires employers to educate employees on work safety and sanitation, no training or information session is provided to employees prior to beginning work.

2. Work hours: illegally excessive overtime

Work hours at Yiuwah well exceed the legally permissible maximum as stipulated under Chinese law. Article 36 of the 1995 Labor Law provides that laborers shall not work more than 8 hours per day, 44 hours per week. According to Article 41 of the Labor Law, maximum permissible overtime is 1 hour per day. Under special conditions, employers can extend work hours for no more than 3 hours with a maximum permissible overtime of 36 hours per month.

In Yiuwah, regular work hours for most workers are within the legal limit, while overtime hours and total work hours per week well exceed the legal maximum. Employees work 8 hours per day, 5 days per week. However, including the 2.5 hours workers receive for lunch and dinner, employees are at the factory 14.5 hours per day, working 8 hour days, and additional 4 hours overtime during peak seasons between September and February. In sum, this totals to at least 87 hours per week at the factory, with 72 work hours. In fact, from January to February, employees usually work until midnight; that would be 5.5 hours overtime in the evening everyday. In other words, from January to February, employees are at the factory 96 hours per week, with 81 work hours. During off-seasons from March to August, workers are at the factory for at least 81 hours per week, working for 66 hours.
Both the overtime hours per day and per month well exceed permissible overtime hours. Employees are required to work overtime for more than 4 hours per day during peak seasons and for 3 hours during off-seasons with mandatory overtime on Saturdays. Overtime hours per day exceed maximum permissible overtime of 1 hour per day. Overtime on Saturdays and occasionally Sundays is mandatory. That totals more than 100 hours overtime per month, which well exceeds the maximum permissible overtime hours of 36 hours per month as provided by Article 41 of the Labor Law.

Table 1. Work hours at the assembly department and paper cutting department

<table>
<thead>
<tr>
<th>Time</th>
<th>Hours</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>08:00-12:00</td>
<td>4 hr</td>
<td>Working</td>
</tr>
<tr>
<td>12:00-13:30</td>
<td>1.5 hr</td>
<td>Lunch break</td>
</tr>
<tr>
<td>13:30-17:30</td>
<td>4 hr</td>
<td>Working</td>
</tr>
<tr>
<td>17:30-18:30</td>
<td>1 hr</td>
<td>Dinner break</td>
</tr>
<tr>
<td>18:30-22:30</td>
<td>4 hr</td>
<td>Working overtime</td>
</tr>
</tbody>
</table>

--18:30-midnight during peak seasons between Jan. and Feb.
--18:30-22:30 during peak seasons between Sep. and Dec.
--18:30-21:30 during off-seasons between Mar. and Aug.

Workers at the assembly department and paper cutting department work from 8 am to 12 pm, from 1:30 pm to 5:30 pm and from 6:30 pm to 10:30 pm or later overtime in the evening during peak seasons between September and February, with a total of over 130 hours overtime per month during peak seasons. During off-seasons, they work overtime until 9:30 pm. During the past year, employees at the paper bags department literally worked all night on three occasions and worked until midnight on multiple occasions.

Table 2. Work hours at the printing department and die cutting department

<table>
<thead>
<tr>
<th>Time</th>
<th>Day Shifts</th>
<th>Night Shifts</th>
</tr>
</thead>
<tbody>
<tr>
<td>08:00-12:00</td>
<td>4 hr Working</td>
<td>20:30-23:30 3 hr Working</td>
</tr>
<tr>
<td>12:00-13:30</td>
<td>1.5 hr Lunch break</td>
<td>23:30-00:00 0.5 hr Break</td>
</tr>
<tr>
<td>13:30-17:30</td>
<td>4 hr Working</td>
<td>00:00-8:00 8 hr Working</td>
</tr>
<tr>
<td>17:30-18:30</td>
<td>1 hr Dinner break</td>
<td></td>
</tr>
<tr>
<td>18:30-22:30</td>
<td>4 hr Working overtime</td>
<td></td>
</tr>
</tbody>
</table>

Departments such as the printing department and die cutting department employ a shift work schedule. Daytime shifts run from 8am to noon, from 1:30 pm to 5:30 pm and from 6:30 pm to 9:30 pm. Night shifts run from 8:30 pm to 8:00 am with a break from 11:30 pm to midnight. Workers switch shifts every 2 weeks. Workers at the die cutting department receive a stipend of $0.44 per night shift, while those at the printing department receive a stipend of $1.17 per night shift.

Employees are required to work overtime on Saturdays and need to get approval for skipping overtime work. They rarely work overtime on Sundays. If they happen to be required to work on Sundays, they are provided Tuesdays off. Most employees are not forced to work overtime on holidays.
3. **Wages: low salaries**

Employees’ hourly wage is $0.66. Base pay and overtime hourly wages, albeit low, are in compliance with the Labor Law. Regular workers with full attendance earn $190-205 per month. The average monthly earning includes base pay and overtime payment. Base pay for regular workers is $113/month, which approximates the legal minimum wage in Dongguan City. Base pay differs in accordance to job levels, and there is an annual promotion which is based on an examination.

Overtime hourly wages are in compliance with the Labor Law. The overtime hourly wage on weekdays is 1.5 times the workers’ regular hourly wage. On weekends, overtime pay is 2 times the workers’ hourly wage. Salaries are paid via wire transfer. Employees get pay slips which specify weekday hourly wages, weekday overtime hourly wages, weekend overtime hourly wages and insurance deduction. Although salaries are no less than the legal minimum monthly wages, the earnings are still extremely low. It is impossible for workers to support their living expenses with base pay.

Living expense in the area costs around $172 per month for a single person while the base pay is $113/month. Even if an employee lived in the dorms and dined in the cafeteria, it would cost around $165 per month as estimated by our investigators.

### Table 3. Cost of Living For Workers in Dongguan

<table>
<thead>
<tr>
<th>Expense</th>
<th>Cost per person (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>57</td>
</tr>
<tr>
<td>Rent and utility</td>
<td>26</td>
</tr>
<tr>
<td>Housekeeping supplies</td>
<td>4</td>
</tr>
<tr>
<td>Apparel</td>
<td>11</td>
</tr>
<tr>
<td>Communication</td>
<td>7</td>
</tr>
<tr>
<td>Travel</td>
<td>27</td>
</tr>
<tr>
<td>Social insurance</td>
<td>15</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>172</strong></td>
</tr>
</tbody>
</table>

4. **Benefits: poor benefits packages**

The factory violates the Labor Law as it only purchases social insurance for senior employees. According to Article 70 of the Labor Law, the social insurance system provides laborers with assistance and compensation in events of work injury.

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4 As of April 2010, latest regulations on an increased minimum wage have not entered into force. The factory has not adjusted wages in accordance to an increase of minimum wages.
unemployment, illness, maternity and old age. Article 72 requires employers and laborers to participate in the social insurance program. However, newly employed workers who join for less than 6 months are not entitled to purchasing social insurance. The factory only covers social insurance for senior employees and participation is optional. Employees decide whether they want to buy pension insurance and medical insurance. If one decides to buy either pension insurance or medical insurance, the factory deducts $13.91 per month from the employee’s salaries for each. More than 50% of employees do not have medical insurance. There were 2 workers who have been working for 4 months and have not gotten social insurance. Newly employed workers do not enjoy social insurance benefits to which they are entitled under the Labor Law and thus have no ways to mitigate risks to their livelihood.

Employees enjoy paid annual leave. Maternity leave is provided in the factory’s regulations while the approval of maternity leave varies on a case-by-case basis. If the management does not approve a worker’s maternity leave, the worker will need to take days off as unpaid personal leave.

5. Workplace safety: a hazardous work environment and a lack of education

Article 69 of the 1995 Labor Law provides that employers must offer occupational training for technical workers and Article 52 provides that employers must educate laborers about workplace safety and health in order to prevent work injury and occupational diseases. In addition to training and education, Article 54 requires employers to provide regular health examination for employers who work under occupational hazards and Article 65 provides that such health examination are mandatory for workers between age of 16 to 18.

Yiuwah does not conform to legal regulations regarding workplace safety. In Yiuwah, there are a large number of workers under age 18. Employees operate heavy-duty machines and are constantly exposed to mechanical and chemical hazards. However, no health examination or effective training is provided before assignment to a hazardous post or during employment. There are manuals for operating machines, but there is no handbook or training for employees other than machine operators. Regarding training for machine operators, “training” is actually a simple paper test, to which the factory distributes answers in advance. Workers do not learn any of the safety content in any way. The factory does not distribute handbooks on workplace safety, occupational hazards or occupational diseases.

Employees at the paper cutting department do not receive protective equipments such as gloves or masks. At the printing department, there is a very heavy smell of printing ink and masks distributed by the factory do not help much. Despite the fact that salaries at the printing department are a little higher than those of other departments (given the night shifts stipend of $1.17 per night,) young employees are unwilling to work at the printing department. Moreover, machines are not subject to regular maintenance. During the
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Did dreams come true?

interviews, CLW found a case of work-related injury. In March 2010, an employee wounded her finger when operating a machine and the distal phalanx of her finger was crushed. The employee did not receive proper medical treatment for the crush injury. Many employees at Yiuwah are worried about risks of workplace injuries.

6. Food and accommodation: poor dormitory conditions

The food provided by the factory is vegetarian and is described as very awful. A monthly meal plan costs workers $17.58. If a worker chooses to eat elsewhere, he/she needs to inform management of this decision to avoid having the costs of the meal plan deducted from their salary and the management will not deduct $17.58 from their salaries. However, if workers opt out of the meal plan without informing the management of his/her decision, the management deducts these expenses from workers salaries anyway.

Dormitory conditions are poor. There are 8 double-deck bunk beds in each room and each room houses 10-14 people on average. Shared restrooms are located on the first floor of the dorms. Dormitories are usually unlocked and cases of theft are common.

7. Quitting procedures

The length of a pending period for resignation approval depends on the work season and availability of workers. If it is during peak seasons and the factory faces a shortage of workers, managers would delay resignation approval. There was one case at the die cutting department where a worker’s resignation application was delayed for 2 months. This delay in workers’ ability to change jobs is significant. Without the right to form independent labor associations or engage in collective bargaining, oftentimes workers’ only recourse to protect their labor rights is to “vote with their feet,” allowing them to take advantage of the free labor market by going to where salaries are higher and conditions are better. When this labor mobility is denied, workers’ ability to take advantage of China’s increasingly free market economy is denied as well. As China’s economy continues to modernize, at the bare minimum, labor needs to be provided with

A room in the dormitory at Yiuwah.
equal opportunity for mobility as capital.

V. Discussion: a pressing need for further remediation

Compared with the findings of April 2009, labor rights conditions in April 2010 have improved on multiple fronts, including the use of child labor, the signing process of labor contracts, overtime wages, working overtime on holidays, paid annual leave and meal plan refunds. The factory has made moderate improvements regarding mandatory overtime and insurance. Yet the factory has made no improvements regarding wages, maternity leave, technical training, education on workplace safety, machine safety, health examination and dormitory conditions.

A comparison of labor conditions between April 2009 and April 2010

<table>
<thead>
<tr>
<th>Issue</th>
<th>Status</th>
<th>April 2009</th>
<th>April 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child labor</td>
<td>Improved</td>
<td>No age limits</td>
<td>Min. age of 16</td>
</tr>
<tr>
<td>Seizure of ID</td>
<td>NA</td>
<td>NA</td>
<td>Recruiter seizes workers’ ID cards for 3 days.</td>
</tr>
<tr>
<td>Labor contracts</td>
<td>Improved</td>
<td>Disregard for contracts</td>
<td>Workers sign contracts on the first day.</td>
</tr>
<tr>
<td>Wage</td>
<td>No improvements</td>
<td>$113/month</td>
<td>$113/month</td>
</tr>
<tr>
<td>Overtime wages</td>
<td>Improved</td>
<td>Illegal overtime wages</td>
<td>Legal overtime wages</td>
</tr>
<tr>
<td>Excessive mandatory overtime</td>
<td>Moderate improvements</td>
<td>Mandatory overtime on Sundays and holidays</td>
<td>Mandatory overtime on Saturdays and sometimes Sundays but no overtime on nation-wide holidays</td>
</tr>
<tr>
<td>Paid vacation</td>
<td>Improved</td>
<td>Paid vacation routinely denied</td>
<td>Paid annual leave</td>
</tr>
<tr>
<td>Maternity leave</td>
<td>No improvements</td>
<td>Maternity leave may be denied</td>
<td>Maternity leave may be denied</td>
</tr>
<tr>
<td>Insurance</td>
<td>Moderate improvements</td>
<td>Many workers were unaware of eligibility of buying social insurance.</td>
<td>The factory only purchases social insurance for senior employees.</td>
</tr>
<tr>
<td>Technical training</td>
<td>No improvements</td>
<td>No training provided</td>
<td>Ineffective training provided for machine operators only</td>
</tr>
<tr>
<td>Education on</td>
<td>No improvements</td>
<td>No training or</td>
<td>No training or</td>
</tr>
</tbody>
</table>
Among the violations disclosed in this report, workplace safety requires the most attention. In 2009, one of the primary issues revealed by the deadly accident was a lack of machine safety. In July 2009, Disney noted that the factory has implemented safety training for machine operators and will provide more training in the future. However, in the interviews with workers, CLW found that safety training for machine operators is the only training the factory provides. Moreover, the “training” is merely a simple, paper-based test, and the answers are distributed in advance. Machine operators are simply required to fill out the test. In addition to the ineffective machine safety training, there is still no regular maintenance of machines which are in fact outdated and sometimes malfunctioning. Employees are still exposed to mechanical and chemical hazards with no education and no effective training on occupational health and safety. The factory does not provide regular health examinations. In addition, some employees are unable to mitigate risks as they do not have social insurance. With no social insurance and extremely low salaries, workers might not be able to support their living expenses in events of work injury, illness, maternity or old age.

The practices of Yiuwah Stationary fail to conform to the 1995 Labor Law, the 2008 Labor Contract Law, as well as Disney’s and Tesco’s corporate codes of conduct. According to Disney’s Code of Conduct for Manufacturers, employers shall not require employees to work longer than the limits on regular and overtime hours allowed by local laws except in extraordinary business circumstances. In Yiuwah Stationary, employees work over 100
hours overtime per month all year long, while the maximum permissible overtime hours per month are 36 hours according to the 1995 Labor Law in China. Overtime hours during both peak seasons and off-seasons well exceed permissible overtime hours. Moreover, Disney’s Code also required manufacturers to “provide employees with a safe and healthy workplace in compliance with all applicable laws and regulations.” However, the findings of our interviews show that the factory has made little improvement on workplace safety and relevant training.

Tesco adopts ethical standards provided by the Ethical Trading Initiative Base Code (ETI Base Code) and assesses suppliers to ensure they meet the ethical standards. According to Article 1 Section 2 of the ETI Base Code, retaining workers’ identity papers is prohibited, while Yiuwah retains workers’ ID cards for 3 days upon employment. Article 3, Section 1 requires employers to provide “a safe and hygienic working environment” and take measures to prevent occupational injury and health problems. Article 3 Section 2 regulates that employers shall provide “regular and recorded health and safety training.” Yet employees in Yiuwah constantly face mechanical as well as chemical hazards with little protection, no effective training and no health examination. Article 6 Section 8 provides that overtime shall not exceed 12 hours per week while overtime hours in Yiuwah are at least 25 hours per week.

VI. Conclusion

Yiuwah Stationary does not conform to pertinent labor laws in China as employees have their identity cards withheld, face excessive mandatory overtime, low salaries, denial of maternity leave, a lack of insurance coverage, a lack of training and health examination, mechanical and chemical hazards, delays of resignation approvals, and poor dormitory conditions. Most of the labor rights violations and inhuman treatments violate the 1995 Labor Law and the 2008 Labor Contract Law in China and Yiuwah fail to meet the ethical standards adopted by Disney and Tesco.

As a responsible corporation, Disney has investigated the working conditions in Yiuwah and the factory has made improvements, especially on issues of child labor and overtime wages. Yet major problems, such as excessive mandatory overtime hours and a lack of workplace safety conditions remain unresolved. The companies and the factory need to design effective training and education programs addressing machine safety and occupational health as well as safety. To reduce risks of occupational injury, the factory should provide training

6 Tesco explains on their website under corporate responsibility section that they assess suppliers to ensure they are able to meet standards provided by the ETI Base Code. http://www.tescocorporate.com/plc/corporate_responsibility_09/your-questions-answered/
For the ETI Base Code, please go to http://www.ethicaltrade.org/resources/key-eti-resources/eti-base-code
for machine safety and regular maintenance of machines. To reduce risks of occupational disease, the factory should implement education programs on occupational health, require employees to use protective equipments, and provide health examination. The factory should also provide social insurance as a way for workers to mitigate risks. In addition to workplace safety, the factory should improve its management on granting maternity leave and approving resignation. The illegal requirement regarding excessive overtime should be resolved. Working condition can also be improved by raising hourly wages and the quality of food and accommodation.

CLW calls for Disney and Tesco, in collaboration with Yiuwah Stationary, to design and implement effective remediation plans to address these issues. The companies must not only ensure proposed plans are in place, but monitor the quality of implementation and evaluate program results.
Appendix 1: CLW’s letter to Tesco

September 18, 2009

Corporate Responsibility Team
Tesco PLC
New Tesco House
Delamare Road
Cheshunt
Hertfordshire
England EN8 9SL

To Whom It May Concern:

On June 22, the New York Times cited Tesco as a customer of Yuwah Factory, where the tragic death of a child laborer in April shocked international onlookers. On July 30, another international customer at Yuwah, Disney, pledged to address all of the major concerns that we found in our investigation of the factory following Liu Pan’s death.

Tesco is just as responsible as Disney, and we write to you today to inform you of CLW’s recent follow-up investigation at Yuwah which reveals that in spite of some changes, Disney’s plan has failed in several serious ways.

Child labor and safety problems at Yuwah led in concert to the tragic death of Liu Pan. The factory has, in fact, made changes in these areas. During the recruitment process, the factory now collects IDs for one week of inspection. Nevertheless, workers tell us that underage workers are still employed. Regarding safety, the factory now offers safety training to workers who operate machines, but not other workers. This training consists of a brief talk by the section leader and a few pages of materials with blurry handwriting. Many workers do not take the training seriously and throw away the materials or stash them under their beds after. Of course, training is a process, however, Yuwah has still not achieved an adequate level of success given the high stakes of worker injury.

In addition to these more shocking violations are equally serious forms of abuse that continue at Yuwah—issues like illegal wages and a social insurance policy which, unlike child labor and safety training, can be immediately revised. Worker salaries have not changed and still fail to meet minimum wage standards for overtime wages which are only 4.8 RMB/hour for regular, weekend and holiday overtime. These wages fall short of wage requirements of 6.56 RMB/hour for regular overtime, 8.75 RMB/hour for weekend overtime and 13.12 RMB/hour for holiday overtime. This policy can and should be changed immediately.

Workers are also denied their legal right to purchase social security or medical insurance. The factory limits the number of workers who can purchase this insurance,
and workers are told that they must wait until older workers retire before they will have this right. Some workers have waited 2 years and are still unable to purchase insurance.

Has Tesco been aware of this situation in its supplier factory? Has Tesco audited the factory since the incident to investigate whether conditions have improved? In reality, Disney purchases only 10-15% of product at Yiwuh, which represents limitations to what Disney can achieve there. Given Tesco’s size, power, and clearly stated dedication to Corporate Responsibility, your company has a responsibility to assist Disney in promoting meaningful change at Yiwuh.

We look forward to a conversation with Tesco about how to improve factory conditions at Yiwuh, and Tesco’s procedures for factory monitoring and remediation. You may contact CLW at clw@chinalaborwatch.org or reach us at 212-247-2212.

Sincerely,

Li Qiang  
Executive Director
Appendix 2: Correspondence between CLW and Disney

May 7th, 2009

Robert A. Iger, CEO
The Walt Disney Company
500 South Buena Vista Street
Burbank, CA 91521
Phone: (818) 560-1000
Fax: (818) 560-1930

Dear Mr. Iger,

I write regarding very disturbing evidence of widespread, systematic and serious violations of human, children’s and worker rights at the Yiwuhua Stationary factory in China where your Disney products are produced. Last month, the death of 17 year old worker Liu Pan in this factory alerted our investigative team of the possibility of both child labor and unsafe working conditions in the factory. Our follow up investigations revealed these and other serious violations of worker rights.

Specifically, we urge you and the Disney company to immediately address and correct violations of child labor, worker safety issues including a lack of training or explanation of occupational hazards and the use of outdated and malfunctioning machines; contract violations with many workers never having signed a labor contract, forced overtime with workers getting only two days off a month and being forced to work on Saturdays and holidays, and vacation and maternity leave routinely denied.

What makes matters worse is that Disney has conducted audits of the Yiwuhua factory in China, which the factory proudly displays on its website. How have these auditors missed noticing children working, untrained workers on dangerous machines, contracts blatantly disregarded, forced overtime and vacation and maternity leave routinely denied?

We urge Disney to commit to the following concrete steps to address these violations.

1.) Illegal Child Labor: The workers report that there are children 14 and 15 years of age illegally employed, and workers as young as 13 hired in the busy season. Liu Pan was 17 when he died and 14 or 15 when he began working in the factory.

- Disney must not further punish these children by simply firing them. These children should receive a stipend of one year’s salary and paid transportation to

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return home to their families. This way, they may have a chance to return to school.

2.) Worker safety issues: All that is necessary for hire at the Yinwah is a valid ID card. No health inspection is required. No training is provided and workers are directly put onto the factory floor. In addition to lacking health exams or training, there is no internal factory handbook providing relevant information about the factory to workers.

Because the machines are old and outdated they often lead to worker injury. In our investigation, we spoke with a worker from Sichuan who explained that the pressure from the machines would often lead to worker injuries and that the extreme temperatures from a machine had scalded four fingers of his left hand. In the case of casualties, the factory will pay $23,529 in addition to providing $7,353 in insurance- a total of $30,882.

Nevertheless, the unsafe machinery continues to be used. Chinese media reports on Liu Pan’s death explain that a new worker was put on the same machine shortly after the machine malfunctioned and caused his death.

- Disney must conduct a thorough investigation. Outdated and dangerous machines must be replaced or fixed. Safety training must be provided to workers and a worker handbook must be developed outlining occupational safety hazards.

3.) Contract violations:

When entering the factory, workers only sometimes sign a labor contract. The contract is for one year with a 3 month probationary period. One reason workers do not sign a contract is that they fear if they want to leave the factory during the period of the contract they will be unable to as it would violate the contract terms. The factory does not give workers a copy of the contract and tells workers who have misgivings about the contract that it doesn’t matter because the contract is bogus and all they need to do is sign.

- This disregard for contracts is clearly in violation of China’s Labor Contract Law, which requires that all workers sign contracts. Furthermore, according to Article 19 of the law the contract must clearly state the work the job entails as well as occupational hazards, which are currently not included in the contracts. The contract system must be re-evaluated.

4.) No paid vacation or maternity leave: Paid vacation is limited at the factory and workers are denied rest on national holidays as well as for maternity leave. Instead of taking paid vacation, workers are forced to take unpaid time off. Lax hiring procedures allow workers to quit and get rehired in lieu of paid vacation.

- Disney must immediately correct these violations.
5.) Low pay and forced overtime: There is mandatory and illegal overtime, giving workers only two days off per month. Overtime pay is also shockingly low, and workers only receive 60% of the legal minimum for their overtime work.

The base salary is only $0.66/hour or $1,356/year, the minimum wage in Dongguan. Workers are required to work around 22 hours of overtime each week and are only compensated $62.12. This means that workers are illegally underpaid $463.44 each year, around 40% of the overtime pay they are owed! Instead of paying workers at the legal rate of 1.5 times normal pay for regular overtime ($0.97) and 2 times for weekends and holidays ($1.30), the factory only pays at the rate of $0.71/hour.

- The current overtime system is involuntary and illegal. All overtime work should be voluntary. In addition, all overtime work should be paid according to legal standards.

6.) Disney auditors have certified this factory as meeting its labor standard requirements: How have these auditors missed noticing children working, untrained workers on dangerous machines, contracts blatantly disregarded, forced overtime and vacation and maternity leave routinely denied?

Each year that Disney has been in the factory, for over two years, it has conducted audits on the factory and failed to identify these problems. This systematic failure of the Disney auditing mechanism to uncover blatant and serious labor violations in the Yuwah represents major flaws in the Disney factory auditing system. CLW strongly suspects that auditor corruption is at the root of the problem that has allowed Yuwah to pass these inspections and achieve the Disney certification it so proudly displays on its website.

- Disney must publicly disclose the names of the auditing company that have certified Yuwah over the past two years and failed to identify the problems in the report. Furthermore, Disney should conduct a wholesale re-appraisal of its auditing system. Instances of corruption are rarely isolated, and it is highly likely that the incident in Yuwah is representative of wider corruption in the Disney auditing system.

We look forward to a conversation with Disney about how to improve factory conditions and particularly the apparent problems with its auditing system in China. You may contact CLW at clw@chinalaborwatch.org or reach us at 212-247-2212.

Sincerely,

Li Qiang
Executive Director

China Labor Watch
China Labor Watch

Did dreams come true?
July 1, 2009
Robert A. Iger, CEO
Jennifer Anopolsky, Senior VP Corporate Responsibility
The Walt Disney Company
500 South Buena Vista Street
Burbank, CA 91521

Dear Mr. Iger and Ms. Anopolsky,

On May 21st, you pledged to CLW that Disney would invest in **improving Yuwah** rather than abandoning the factory in search of another cheap supplier to exploit. Yet on June 17, Disney announced that it would cease new orders of any Disney-branded products in the Yuwah factory until conditions were improved. Disney reneged on its promise of monitoring and remediation at Yuwah under scrutiny from the New York Times, which featured Liu Pan’s death in a June 23rd article about deteriorating working conditions in China.

This change in course is **irresponsible** and **inhumane**. After taking advantage of Yuwah’s cheap prices at the expense of its workers, immortalized by Liu Pan, Disney sets a terrible precedent by abandoning its supplier at the first sight of a reporter. Disney production may only account for 5-15% of Yuwah production, but Disney’s audits have driven international faith in Yuwah and Disney’s actions now have a profound effect on the work conditions and livelihoods of the workers who, for three years, have faithfully produced cards and gift boxes bearing the Disney name.

The issues at stake run deeper than a single factory. Just as Liu Pan’s death represents deteriorating work conditions in China, Yuwah represents the **failure of Disney’s standards** to protect Chinese workers. Disney claims to engage with a number of multi-stakeholder forums to identify best practices to improve monitoring and remediation approaches. Yet time and again, these practices have failed to materialize. In fact, this is the **third factory** in a year that Disney has abandoned after a CLW investigation!

A vicious cycle has emerged in Disney’s Chinese supply chain. First, Disney chooses suppliers that charge **cheap prices** for goods. Second, factories facing razor-thin profit margins **pay low wages and cut safety standards** to make ends meet. Third, **Disney’s poor auditing system** turns a blind eye to violent labor abuses. Fourth, a strike, tragedy or investigation occurs and Disney is confronted with a remediation opportunity. Finally, instead of improving its suppliers, **Disney washes its hand of the exploited factories** and moves on to new factories to **begin the process again**.
Just last December, Disney abandoned Debao Plastic Factory after workers organized a strike to protest 80 days without receiving wages. CLW reported the following conditions at Debao, a Disney audited factory, last November shortly before Disney abandoned the factory:

- **Poverty-level wages:** The average worker at Debao made between 900 and 1,100 RMB per month ($132-$162). There were also hourly workers at Debao, paid at a rate 25 RMB ($3.70) per day for the first three months of employment. This is 10 RMB below the minimum wage of 35.44 RMB ($5.21) per day.

- **Long hours & mandatory overtime:** Workers worked at least 12 hours a day, seven days a week, in excess of the legal limit. With overtime, they often put in 14 or more hours, and sometimes even worked through the night. Furthermore, workers did not receive overtime pay for the work they put in on weekends.

- **Dangerous work environment:** There were no air conditioners on the molding department floor, where temperatures get very high. Many workers fainted on the job due to the heat. Workers in the manual department who make paper boxes often cut their fingers, but Debao did not provide them with gloves. Some of the workers in the molding department who work with extremely hot objects were equipped with gloves, but many did not wear them because of a lack of training and awareness about workplace safety issues.

- **Squallid living conditions:** Drinking water was only available on the first floor of the dormitory, meaning that workers on other floors trekked through the facilities to obtain clean water. Although workers paid a six RMB cleaning fee for their dorm room, it was still dirty and infested with cockroaches and mosquitoes. The showers lacked hot water and workers complained about the quality of the food in the cafeteria which cost them between 3-5 RMB for lunch and dinner.

Last June, CLW contacted Disney directly about China Innovation Co, a third Disney-audited supplier factory with equally dismal labor conditions. Shortly thereafter, disgruntled workers organized a strike to combat excessive violations. Disney abandoned China Innovation Co. too, confronted with the following violations:

- **Safety problems:** Workers were not given necessary safety equipment including face masks and access to eye-washers. The ventilation system was always turned off except during audits. Illegal chemicals were used and no health examinations were provided.

- **Illegal deductions:** Workers were owed money for overtime work as well as for social insurance fees, including pension, medical and work injury.

- **Labor contracts:** Workers were not given a copy of the labor contract.

- **Workers coerced to cheat auditors:** During audits, face masks were distributed, the ventilation system was turned on, and use of the paint gun was prohibited. In addition workers were asked to leave certain areas of the factory, including about 800 workers who left the drawing department. When audits ended, workers returned to the factory and if necessary, worked overtime lasting all night. Workers were given small bonuses for leaving the factory and for answering auditors’ questions “correctly”. 


Liu Pan’s death must mark an end to this pernicious cycle of paying unsustainable prices to factories and abandoning them when the results become evident. Disney must carry out its original promise to implement a remediation plan in Yiwuh, following CLW’s original recommendations.

By investing in its supplier partners, Disney can actually realize its standards instead of simply talking about them. Finally, Disney can re-envision its auditing system as a way to improve factories in need, rather than a way to assuage fears that cheap goods actually bear a human cost.

It is time to stop running, to invest in Disney’s failed monitoring and remediation mechanisms, and to take responsibility for the tragedies they have caused. Yiwuh Factory is the place to start.

We still look forward to a conversation with Disney about how to improve factory conditions at Yiwuh, and Disney’s best practices for factory monitoring and remediation. You may contact CLW at clw@chinalaborwatch.org or reach us at 212-247-2212.

Sincerely,

Li Qiang
Executive Director
July 30, 2009

Dear Friends:

You may be aware of concerns raised regarding working conditions in the Yiu Wah factory in Dongguan, China. We want to take this opportunity to share with you some facts regarding the situation as well as progress that has been made thus far.

Disney encourages remediation of non-compliance and aims to stand by factories and factory managers that share our commitment to improving working conditions. In the case of Yiu Wah, we launched an investigation into the working conditions there as soon as concerns were raised, and engaged factory management in a dialog about the issues and improvement opportunities. We can now report that Yiu Wah’s factory management has demonstrated its commitment to improving working conditions, and has already taken the several steps detailed below as part of an ongoing improvement plan. As a result, the factory remains eligible to produce products for our brands while they continue implementing their remediation plan. Contrary to some inaccurate reports, our company did not sever ties with Yiu Wah, nor did we instruct licensees and agents to do so. We did indicate to the factory that substantive progress had to be made before they would be considered eligible for new orders. At this point in time, and in light of the improvements made thus far, we believe Yiu Wah has met that condition.

Specifically, the factory has already made the following improvements:

- Implemented an improved process for verifying workers’ ages before employment
- Confirmed that only age-eligible workers are employed at the facility
- Equipped machinery with safety devices
- Implemented safety training for machine operators, with more training to follow
- Now providing paid vacation and rest days
- Now paying workers the correct minimum wage rate
- Now covering all workers with work-related injury insurance

In addition, the following activities have taken place or will occur in the next few weeks in order to provide support for further improvements:

- An independent, comprehensive assessment was conducted by Verité, a non-profit monitoring and training organization
- A confidential worker helpline – operated by a Chinese NGO – has been installed
- An occupational health worker committee will be created with the assistance of a Hong Kong based NGO
- Management training on social compliance will be conducted by Verité

We will continue to monitor this situation very closely and encourage the factory’s continued improvement.

Very truly yours,

Jennifer Antipolsky
October 29th, 2009

Robert A. Iger, CEO
The Walt Disney Company
500 South Buena Vista Street
Burbank CA 91521

Dear Mr. Iger,

I write regarding China Labor Watch’s recent investigation of Merton Plastics and Electronics Factory where your Disney toys are produced. CLW has investigated Merton several times over the past decade, and published reports following strikes in 2000 and 2006. Subsequently, inclusion of Merton in the Kaleidoscope factory remediation project brought significant change to the factory. Nevertheless, according to a recent investigation similar violations to those reported by CLW in the past continue today.

Specifically, we urge you and the Disney company to immediately address and correct violations of illegal scheduling where Saturday is not continued overtime and therefore is both mandatory and paid at half the legal overtime wage; excessive overtime with 11.5 hours of work each day and 123 hours of overtime/month; no annual vacation for Spring Festival; difficulty quitting; and poor living conditions.

CLW began investigating Merton in 1998, long before Kaleidoscope, when it was a sweatshop plagued with strikes and particularly poor conditions. CLW issued a report on Merton in 2000 detailing underpaid overtime regularly lasting through the night, 120 consecutive workdays without rest, excessive fines, overcrowded dorms, audit falsification and contract violations. Kaleidoscope was an opportunity to remedy these serious problems.

Four years after Kaleidoscope’s launch, CLW returned to Merton after a major protest in 2006 involving nearly a thousand workers, and numerous injuries and arrests. In a CLW follow-up investigation, many of the same wage, working hour and safety violations from the 2000 report persisted. At the time, Disney refuted the CLW investigation and stated that the strikes were merely caused by a “disgruntled worker”. Rather than explaining how Kaleidoscope was enabling changes at Merton, Disney denied the existence of serious problems that need to be fixed.

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This tactic of evasion resonates with Disney’s overall supply chain management strategy. This May, CLW issued a report about a Disney supplier in which an illegal child laborer was killed by unsafe machinery. Over several years of factory inspection, Disney auditors at the factory turned a blind eye to child labor, serious safety violations, and a number of other illegal labor practices. The systematic failure of Disney’s auditing force allows the company to produce toys and other products in sweatshop conditions, defend itself with flawed audits, and address serious problems only when called upon to act by external allegations.

In this current report, many of the worst violations that led to Merton’s long history of worker strikes have been addressed. The issues that remain are no less important, however, and Disney’s systemic issues with responsible sourcing remain. Kaleidoscope should be commended for its success, even as Disney must continue to oversee implementation of factory remediation at Merton. In addition, Disney should change purchasing policies that direct orders to factories with the worst conditions as well as the audit system that once again failed to identify serious labor violations.

We urge Disney to commit to the following concrete steps to address these violations:

1) **Illegal Work Scheduling**: Merton operates on a 6 day/week system of 6 hours and 40 minutes per day. Saturdays are mandatory and treated as regular working hours paid at half the legal Saturday wage rate, or only $0.71/hour.
   - *According to the Labor Law, all Saturday work is considered overtime, and therefore must be voluntary and paid at the legal rate of 2 times normal wages.*

2) **Excessive overtime**: Working hours last 11.5 hours daily with overtime, and total monthly overtime is 123 hours, in excess of the legal limit.
   - *Confirm that overtime hours do not surpass the legal limit.*

3) **No annual leave**: The factory does not provide paid annual vacation.
   - *Paid annual vacation should be implemented starting in 2010.*

4) **Difficulty quitting**: Workers are routinely denied applications to quit. When workers in the probationary period apply to leave the factory, managers change their request to “voluntary quitting” so wages will not be paid. After the probationary period, workers are made to wait in order to leave the factory with the wages they are entitled- one worker who applied to leave in September 2009 was only approved for February 2010.
   - *Investigate and revise quitting procedures to comply with the Labor Law.*

5) **Poor living conditions**: Food in the canteen is poor. In the dormitories, beds are falling apart because bugs have destroyed the wooden boards workers sleep on, there is
no hot water to shower or electrical outlets to charge phones, and workers are prohibited from airing out their bedding except on weekends.

- Dormitory and canteen conditions should be investigated and improved.

We look forward to a conversation with Disney about how to improve factory conditions and particularly the apparent problems with its auditing system in China. You may contact CLW at clw@chinlaborwatch.org or reach us at 212-247-2212.

Sincerely,

Li Qiang
Executive Director