



ANNUAL REPORT

2009



中国劳工观察
CHINA LABOR WATCH



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Dear Stakeholders,

2009 was a year of economic crisis and recovery. Governments across the world invested billions of dollars in revitalizing struggling economies. Corporate responsibility program budgets were cut and workers were laid off. Those whose jobs remained faced major challenges. CLW continued to stand up for these workers' rights and believes in the importance of implementing China's 2008 labor law in spite of economic difficulties.

In 2009, CLW engaged new approaches and entered new partnerships to defend the rights of workers in China. In six formal reports covering over 30 factories, CLW uncovered violations of the law in the supply chain of 15 corporations. We targeted retailers, brands and auditing companies and advised corporate executives on how to protect the rights of Chinese workers. Media, corporate, NGO and academic stakeholders around the world took notice.

In tough economic times, corporate responsibility programs took major hits, and CLW provided support wherever we could. In private corporate partnerships, CLW offered hotline services to workers at 35 factories, trainings to workers at five, and supplemented audits for brands and industry coalitions, benefiting over 25,000 workers. These initiatives stand to drive sustainable, profitable growth while also protecting workers' well-being.

CLW made new allies in the labor movement even as it strengthened ties with existing ones. We have organized and participated in several campaigns in the past year with our partners, such as the toy industry campaign, the Milwaukee Clean Clothes Campaign, etc. Many NGOs, academics and private individuals across the world supported our work. With this assistance, CLW trained over 100 workers and activists out of our Shenzhen office and offered free legal advising to hundreds more. CLW joined with international labor groups including French-based NGO Peuples Solidaires to pressure Disney for improvements. We will continue to partner with other organizations and individuals to promote the labor conditions in China, as well as to provide help for other NGOs which sharing goals with us.



Photo by Tomas Donoso

China Labor Watch views Chinese workers' rights as inalienable human rights and is dedicated to promoting workers' fair redistribution of wealth under globalization.



Tough economic times made CLW's volunteers especially critical. Special thanks go to: Katherine Wrightson; Ebi Spahiu; Hannah Joseph; Sumit Banarjee; Yanni Gao; Pei Ju Tsai and Ping Ping Zhang.

My heartfelt thanks go to everyone who supported CLW in 2009. Our efforts made an impact on thousands of workers' lives, raised awareness, and improved corporate responsibility efforts in important and lasting ways.

Sincerely,

A handwritten signature in black ink, appearing to be 'Li Qiang', written in a cursive style.

Li Qiang

Founder and Executive Director

China Labor Watch



TOY INDUSTRY

Shattered Dreams: Underage Worker Death at Factory Supplying Disney

A tragedy occurred in early April when a 17 year old child worker was mutilated by a malfunctioning machine and subsequently died producing for Disney and other international brands. After Chinese media reported the incident, CLW conducted a follow-up investigation that uncovered other violations of child labor laws, worker safety issues, contract violations, forced overtime at illegally low wages, and vacation and maternity leave routinely denied. On April 30, CLW released its report. The New York Times first reported that Disney would abandon the factory, but in July, Disney agreed to an extensive remediation plan.

The Paris-based Peoples Solidaires (PS) launched an urgent appeal in July targeting Disney which was critical to this campaign’s success. PS organized Südwind Agentur (Austria), Spolecnost pro Fair Trade a rozvojove vzdelavani (Czech Republic), and AUR– National Association of Human Resources Specialists (Romania) to generate thousands of letters to Disney.



Disney products

Five months after Liu Pan's death, CLW conducted another investigation at Yiuwah to verify the success of Disney's changes. While improvements to safety and child labor issues were underway, wages remained illegally low and workers were routinely denied their legal right to purchase medical and retirement insurance. PS again helped CLW reach out to Disney after the follow-up report.

Disney’s Best Not Good Enough

In October, CLW conducted a follow-up investigation at Merton Toy Factory, a supplier to Disney, McDonald’s and Mattel. CLW’s first Merton investigation took place in 1999, and since then one major strike at the factory in 2006 resulted in one worker’s death. Merton’s international customers have focused on improvement at Merton through the Kaleidoscope project, and indeed conditions today are much better than a decade ago. Nevertheless, CLW found that workers in some departments worked 300 hours in September. In addition, the factory rearranged rest time in order to cut overtime wages. Peoples Solidaires included the Merton case in a “Stop Toying Around” campaign demanding Disney improve supplier conditions.

Labor Violations Exacerbate Ethnic Tensions in South China.

In June, ethnic violence at the Early Light International factory in Shaoguan triggered massive riots across China. CLW explained to the New York Times and other media that serious labor violations have plagued factory workers from both Uyghur and Han ethnic groups in some export-oriented factories. Following the incident, CLW published an investigation on a different Early Light International factory in Shenzhen with serious violations including unpaid overtime, poor dormitory conditions and illegal labor contracts. CLW also issued a series of recommendations for government, nongovernment and corporate groups to resolve the conflict.



RETAIL INDUSTRY

Wal-Mart Fails to Implement Standards; Workers Suffer

On September 23rd, CNBC's original "The New Age of Wal-Mart" starring David Faber featured CLW Executive Director Li Qiang speaking on Wal-Mart's ethical sourcing challenges in China. In the special, Li discussed CLW's latest in nearly a decade of reports about the world's largest retailer, entitled "Wal-Mart's Road to Sustainability- Paved with False Promises?" and released in July. Under scrutiny were Wal-Mart's failed auditing system and purchasing policies that force suppliers to sell at artificially low prices- ultimately leading to cuts in workers' pay.

CLW's July report focused on two factories, Hantai and Huasheng. The Hantai investigation was a follow-up to a 2008 report which documented denial of overtime wages, excessive hours, and disguised lay-offs. When David Faber visited Hantai for CNBC's program, workers described working overtime through the night. CLW's report also discussed Huasheng Packaging Factory, where a number of labor violations were accompanied by elaborate documentation of factory procedures to cheat Wal-Mart auditors. Li Qiang argued that such measures are endemic to Wal-Mart's supply chain.



In a meeting with Wal-Mart executives in September, Wal-Mart described improvements to their system and CLW drove home its point about unsustainable purchasing and auditing practices. Following the meeting, CLW published another report entitled "Investigation Shows Five Wal-Mart Suppliers Fail to Meet Basic Standards." In the pre-holiday crunch, CLW investigated factories producing shoes, Christmas lights, tools, curtains and paper boxes. Violations include excessive overtime, safety issues, discriminatory hiring, and audit falsification. The report illustrated major challenges facing the retailer, and while dialogue with the company was constructive, its massive supplier base had a long way to go before Wal-Mart could reach any of its sustainability goals.

Investment Giant KKR Reaps Profits from Dollar General's Sweatshop Goods

Less constructive were CLW's discussions with another major retailer, Dollar General, and its primary investor, the financial holding company Kohlberg Kravis & Roberts (KKR). Following a 2008 report about KKR's abuse of workers, CLW met with both Dollar General and KKR five times in 2009 to discuss the importance of addressing these problems and strategize corporate responsibility tactics with the retailer. But while KKR kept the discussions focused on the company's collaborations with the nonprofit Environmental Defense Fund, which other labor groups have criticized as overlooking worker rights, Dollar General continued selling cheap goods to cash-strapped American consumers at the expense of Chinese workers.

CLW released a report prior to Christmas entitled "Investment Giant KKR Reaps Profits from Dollar General's Sweatshop Goods" about four DG supplier factories producing appliances, plastic kitchenware, household goods and electronic fireplaces. Hours at the factories ranged from 2-4 hours of overtime daily,



full weekend overtime, and in some factories illegal contracts and a lack of insurance or even basic safety equipment; workers earned as low as \$147/month. Dollar General does not even have a Corporate Responsibility Department, let alone sufficient infrastructure to control rights abuses in its massive Chinese supply chain. Instead of responding to the report, DG flat-out denied production at the factories, even though CLW has shipping records to the contrary.

CLW's report was well timed. Released the same week Dollar General went public, DG's stock performance faltered as a result of the poor press. Apparently, even in tough economic times American investors will not support what CLW labeled as "the worst labor performance in China of all major US retailers".

Corrupt Audits Damage Worker Rights

2009 was a year of new approaches for China Labor Watch. In addition to opening discussions with Dollar General through its majority shareholder, KKR, CLW also took aim at another major player in the corporate responsibility field: factory auditors. In December, CLW released a report entitled "Corrupt Audits Damage Worker Rights: A Case Analysis of Corruption in Bureau Veritas (BV) Factory Audits." BV, a Paris-based certification giant, conducts audits for a number of multinational corporations including Dollar General. By pressuring BV to improve performance, CLW took an innovative and comprehensive approach to our goal of defending worker rights.

Based on investigations of over 80 factory audits in Guangdong Province from 2007-2009, CLW identified BV as the worst example of auditor corruption of all major certification companies. In the report, CLW points out a case of BV auditor corruption highly publicized in the Chinese media. The report analyzes almost a dozen specific cases of BV auditor corruption since 2007 and demonstrates various ways in which individuals employed by BV undermined the audit process. It details conditions at factories audited by BV where serious worker rights abuses have taken place. Finally, it explains how BV's current anti-corruption program has failed.

In a series of meetings with BV in 2009, CLW stressed the importance of bolstering BV's anti-corruption program. In response to the report, BV investigated all cases reported by CLW, resulting in the termination of several auditors. Nevertheless, BV failed to take responsibility for the failure of its anti-corruption program, stating that corruption is an industry wide problem.

ELECTRONICS INDUSTRY

Labor Violations Linked to Suspicious iPhone Death

In July, a worker at Foxconn Electronics Factory plummeted to his death after losing the latest model of Apple's iPhone and being beaten by Foxconn security. While police, Foxconn and Apple struggled to uncover the details of this suspicious suicide, China Labor Watch raised concerns over another, ongoing tragedy: Foxconn's inhumane and militant management system which lacks fundamental respect for workers' rights. France24 and other media pointed out a 2008 CLW investigation of Foxconn revealing serious labor violations including excessive working hours, unpaid wages for up to 30 minutes of work



each day, compulsory overtime and extremely poor dormitory conditions. One worker described working at Foxconn as “dehumanizing.”

GARMENT INDUSTRY

Milwaukee Police Uniforms Made in Sweatshop Conditions

The Milwaukee Clean Clothes Campaign and Unite Here worked with CLW to investigate a supplier factory of Milwaukee city police uniforms as part of a contract awarded to the Spiewak company. CLW found that at Spiewak’s supplier, some workers earned wages below the minimum wage, were underpaid for overtime, received no paid vacation or holidays, worked excessive overtime and did not receive copies of their contracts. In November, CLW Program Coordinator Gregory Fay spoke at the Sweatfree Communities Summit in DC about this case. Spiewak claimed that these conditions did not apply to the specific workers who produced the uniforms, who supposedly received double the wages of other workers. The Milwaukee city government accepted this explanation and continues to purchase police uniforms made in these illegal conditions.

Deadly Fire Kills Five at Regina Miracle Factory

Five workers were killed at Regina Miracle Company in August in a fire thought to be caused by inappropriate machine operations. CLW’s 2007 Regina investigation found long hours and low wages.

CLW SHENZHEN

Leading the Way for Stronger Shoe Industry Sourcing Practices

On May 19, CLW hosted a conference for the staff of several shoe and athletic apparel industry corporate responsibility (CR) departments in Shenzhen. The topic of the conference was factory closures, CR challenges that closures present to multinational corporations, and best practices for handling factory consolidation and factory closure in the current economic crisis. Participants in the conference could speak freely as they were not formally representing their employers, including Nike, PUMA, Adidas, Timberland and others.



Worker Training for Hundreds of Activists

CLW organized free legal training classes for workers and labor activists at its Shenzhen office. The trainings were held one or two times each month. In total, CLW hosted 13 training sessions with over 120 participants. Hundreds of pamphlet with understandable and accessible legal knowledge and case studies were distributed. Topics included labor law, severance, occupational injury, and other issues legislated by

China’s new 2008 labor law, which is still unclear to many workers. The training sessions were engaging, interactive and received positive feedback from participants.



VOLUNTEER & INTERNSHIP

We strongly encourage people who are interested in labor issues to apply for internship and volunteer positions with CLW. CLW provides interns and volunteers a good platform through which to examine labor conditions in China, as well as offers opportunities to strengthen analytical skills, writing skills, translation experience, and more. In 2009, interns and volunteers have made great contributions to CLW.

**FOR THE YEAR ENDING DECEMBER 31, 2009****Revenues**

Direct public support	\$169,958
Interest income	\$30
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Total revenues	\$169,988

Expenses

Program expenses - China	\$49,037
Officer salary	\$65,308
Payroll tax & benefits	\$12,205
Rent	\$10,800
Travel & Entertainment	\$10,195
Consultants expense	\$8,115
Telephone and internet	\$4,346
Office supplies and expenses	\$4,338
Professional fees	\$2,935
Dues and subscription	\$1,309
Training	\$1,224
Utilities	\$1,042
Insurance	\$726
Depreciation	\$701
Bank service charge	\$477
Postage	\$265
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Total expenses	\$173,023

(Deficit) for the year	(\$3,035)
Net assets at the beginning of the year	\$12,354
Net assets at the end of the year	\$9,319



ACKNOWLEDGEMENT

CLW would not be possible without the contributions of the following supporters, who share our commitment to making social and economic justice a reality for workers in China. We would like to acknowledge generous support from the following organizations and individuals during the year of 2009. Donations from anonymous donors in 2009 are also gratefully acknowledged.

Etienne Amory	Allen Y Graubard	Kevin E O Neill
Ann Narie Birky & Richard B. Britton	Ms Sophia Gutherz	James Rogers & Nancy L Forsythe
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CONTRIBUTION FORM

China Labor Watch is a non-profit organization. Your contribution allows us to continue to focus on labor conditions in China. Your contribution is tax deductible under Section 501(c)(3). All contributions through this form are allocated to our annual fund. Upon request, we will send a receipt of your contribution if you complete the following information.

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This gift is ANONYMOUS. *(Only CLW staff will see your name.)*

Please send a check in the amount of your contribution made payable to the China Labor Watch, and the completed contribution form to the following:

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Thank you for making a world of difference!