

SwedWatch  
Report  
nr 31

# Reviewing Santa's Workshop



**Sveriges  
Konsumenter**  
THE SWEDISH CONSUMERS' ASSOCIATION

FAIR TRADE CENTER

**SWED  
WATCH**



SwedWatch is a non-profit organisation whose task is to critically examine Swedish business relations with developing countries focusing on environmental and social concerns. Swed-Watch consists of five member organisations: The Swedish Society for Nature Conservation, Church of Sweden, UBV/Latin America, Friends of the Earth Sweden and Fair Trade Center. The work is mainly financed by the Swedish Development Aid Agency, Sida. Website: [www.swedwatch.org](http://www.swedwatch.org)

## FAIR TRADE CENTER

Fair Trade Center is a Swedish non-governmental organisation (NGO) that has been promoting fair trade with developing countries since 1996. Its intention is to increase consumer and company awareness of social and environmental responsibility. Website: [www.fairtradecenter.se](http://www.fairtradecenter.se)

## Sveriges Konsumenter

THE SWEDISH CONSUMERS' ASSOCIATION

The Swedish Consumers' Association is an independent, NGO consisting of 27 member organisations plus individual members. The Swedish Consumers' Association aims to strengthen the position of consumers in order to improve people's ability to bring their consumer power to bear. Website: [www.sverigeskonsumenter.se](http://www.sverigeskonsumenter.se)

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# Foreword

Consumers care. They want to do their share for the environment and improving people's living standards through their choices when shopping. This goes for food, clothing – and for toys.

The problem is that they very often do not stand a chance. Finding information on the product is impossible and you certainly cannot get any information from the shop assistant on how the goods are produced. If you are lucky, you will be able to find a policy on the companies' website. But what does it mean – really?

At the time of writing, Christmas shopping is just getting started and only with regard to toys the turnover will be huge. This report sheds some light on the reality behind the store shelves. SwedWatch has through fieldwork reviewed how plastic cars, soft toy animals and other toys are produced. Some major improvements have taken place since the last study in 2004 and this shows that this business needs to be monitored and reviewed. The picture is still far from the cosy living room where the gifts are opened.

A lot remains to be done when it comes to working conditions in the toy industry. Companies must take their social responsibility and they must seek to constantly improve. There are no excuses – neither saying that consumers are not asking for it, nor saying that reasonable wages would make the toys too expensive.

This study is part of a project that during 2009 has been run by The Swedish Consumers' Association, in which Fair Trade Center has also contributed with a study. The aim is to find solutions – for the workers, for serious business and for consumers wanting to make an informed choice. We would like to thank the Swedish Consumer Agency for financing the project.

Last but not least, we would like to encourage the toy companies to help the consumers make use of their consumer power.

*Jan Bertoft*  
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The Swedish Consumers' Association

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# Executive summary

An estimated 80 percent of the world's toys are produced in China, most of them in the Southern province of Guangdong which attracts young workers from all over China. The first reports on dangerous working environments in toy production reached Europe in the mid 90s when two serious fires in toy factories had taken place in China and in Thailand. An international toy campaign was organised asking for better safety regulations in toy factories and the International Council of Toy Industries (ICTI) responded by adopting a first draft of a Code of Business Practice in 1995. Shortly after, several other issues such as excessive overtime hours and restriction of basic rights, came up as "new" problems in the toy industry, especially in China.

In 2004, SwedWatch conducted extensive research on the toy industry in the Province of Guangdong and reported about poor working conditions in many of the factories producing toys for the Swedish market. Along with several other reports, SwedWatch's documentation enjoyed extensive media attention and triggered a response from the Swedish companies involved.

The study in hand is a follow-up report, produced by SwedWatch in cooperation with its member organisation Fair Trade Center and the Swedish Consumers' Association. Five years after the first report was published, it aims to investigate if the companies who purchase these toys have succeeded in complying with their own CSR standards. The report is based on field studies of six factories (called Supplier A-F) producing toys for Nordic buyers such as Top-toy (BR-Leksaker and Toys R Us), Brio, Ica, Coop and Åhléns Group. Local research has been conducted by a local social compliance consultant with vast experience of factory surveys. The consultant has conducted off-site interviews with employees at the six factories in question and supplementary factory visits at three of the suppliers. Four of the suppliers had also been investigated in 2004 (Supplier A-D).

## Improvements made at factories supplying Swedish brands

The Chinese toy industry has faced many challenges since 2004. In 2007 a series of safety scandals involving poisonous lead paint took place, which made the world's biggest toymaker Mattel recall 21 million toys made in China. Just a year later the financial crisis and a global recession severely hit the Chinese toy producers. Since 2004 the number of toy factories in China has declined from around 10 000 to between 3 500 and 4 000 factories, mainly due to reduced demand during the recession.

Since 2004, most Swedish brands, supported by their business association, the Swedish Toy Association, have chosen to minimise the risk of human rights violations at supplier factories by working primarily through the international toy

industry's own verification system, ICTI CARE. Consequently, all six factories researched in this study are certified by ICTI CARE.

In general, the working conditions seem to have improved since SwedWatch's last survey in 2004. At that time a majority of the suppliers did not guarantee one day off per week and employees did not receive any written employment contracts. This time, all suppliers except Supplier F (supplying wooden toys to Brio), provide written employment contracts and guarantee one day off per week. In the 2004 report, five out of nine suppliers did not pay for overtime at legal rates, but in the current study five of six do comply with the legal requirements.

The most promising improvement since 2004 is that most employees are provided with labour contracts, which are a legal requirement in China, and workers seem to be more aware of their rights. At Suppliers A, B and C (manufacturing products for Ica, Åhléns Group, Coop, Top-toy and Brio) most of the problems found in 2004 are now more or less solved.

## Remaining issues

There are, however, still major issues remaining. Indications of non-compliance were detected at several of the suppliers with regard to provision of insurance, paid sick and annual leave as well as health and safety. Working hours are still not in line with legal requirements at all suppliers except at one (Supplier E producing for Brio) and far exceed the legal limit at two of the factories (Suppliers D and F producing for Brio and Top-toy), even though they are ICTI certified.

There are considerable differences in workload between peak and low seasons for all of the suppliers. The busy season is from June to September when the factories produce Christmas toys. At two out of six factories, workers were in general content with their working situation (Suppliers A and E producing for Åhléns group, Top-toy, Coop and Brio), at one there were some complaints concerning fear of being dismissed (Supplier B producing for Ica and Åhléns group) and at three suppliers workers expressed major complaints on working hours and other issues (Suppliers C, D and F producing for Brio and Supplier D for Top-toy).

Among the two suppliers which were not included in SwedWatch's research in 2004, results differ substantially. Supplier E (manufacturing for Brio) is in legal compliance with most issues, while Supplier F (also producing for Brio) does not fulfil many legal requirements, according to off-site workers interviews. Nevertheless, Supplier F is ICTI certified and Brio states that it has conducted other audits on top of ICTI CARE's audits, as well as having their own personnel present at the factory every week. This indicates that Brio needs to adjust its current monitoring system in a thorough manner. Several of the suppliers have started to take corrective action after SwedWatch submitted the results of their factory assessments in September 2009.

## Audits not enough – complementary methods needed

SwedWatch's conclusion is that CSR requirements and audits in most cases have had impact on factory standards. It is, however, very important to examine the outstanding issues which, so far, have not been solved through the purchasers' CSR efforts and social audits. At all suppliers, except in some aspects at Supplier B, the workers lack any real participation. This is, of course, to do with the legal restrictions against freedom of association in China, but nevertheless the fact is that Chinese legislation nowadays provides opportunities for negotiations about collective contracts in workplaces. This has, however, not happened at any of the factories examined.

The weaknesses regarding social insurance, non-paid leave and problems with health and safety once again show the need for workers' awareness and involvement, as well as communication systems between workers and management. Moreover, purchasing companies' CSR work needs to be further developed by, for example, supporting capacity building at the suppliers.

In the 2004 report, SwedWatch showed that buyers and auditors were often deceived by management when checking on social compliance. Even though SwedWatch's current study has not found any proof of the worst forms of cheating, there are worrying indications that false information is still given to buyers and auditors. Our own, as well as others reports, show unacceptable working conditions at ICTI Certified factories, which indicate that the ICTI CARE system lacks insight and needs to be reformed. SwedWatch recommends that ICTI CARE be transformed into a true multi-stakeholder initiative.<sup>1</sup>

ICTI CARE possesses an inherent weakness; it imposes only ethical and environmental requirements on suppliers without considering the need for fair purchasing practices (equitable prices and terms of delivery etc.) to make sure that suppliers are able to live up to these demands. Addressing fair purchasing practices, in combination with capacity building for suppliers and workers' training, has the potential to create sustainable improvements in working conditions in the Chinese toy industry. Audits and CSR requirements alone cannot solve the basic causes of non-compliance.

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<sup>1</sup> Multi-stakeholder initiatives are organised with parties from unions, NGOs and companies (public sector agencies could also be a part of MSIs). Examples of MSIs are the Ethical Trading Initiative and the Fair Wear Foundation.

# 1. Introduction

China is commonly referred to as the global factory and is, in many ways, the main centre of industrial production. Toys are no exception. Soft toys, toy cars and dolls are given to our children as signs of affection and consideration. In sharp contrast to this, the production of toys is dominated by young Chinese migrant workers working long hours for low wages. An estimated 80 percent of the world's toys are produced in China, most of them in the Southern province of Guangdong which attracts young workers from all over China.<sup>2</sup>

The first reports on dangerous working environments in toy production reached Europe in the mid 90s when two serious fires in toy factories had taken place in China and Thailand. An international toy campaign for better safety regulations at factories was organised and the International Council of Toy Industries responded by adopting a first draft of a Code of Conduct in 1995 (ICTI Code of Business Practice). Through extensive efforts from the industry and more careful monitoring by the governmental authorities much of the worst working environments in toy manufacturing were removed in the late 1990s. However, several other issues such as excessive overtime and restrictions on basic rights appeared as “new” problems in the toy industry, especially in China.

In 2004 SwedWatch conducted extensive research into the toy industry in Guangdong and reported about poor working conditions in many of the factories producing toys for the Swedish market. The research resulted in the publication of the report “Easy to Manage” and the film “Santa’s workshop”. SwedWatch’s documentation, together with several other reports, generated extensive media attention and triggered a response from the Swedish companies involved.

The response chosen by the Swedish brands (supported by their business association, the Swedish Toy Association) was to minimise the risk of human rights violations at suppliers by working primarily through the international toy industry’s own initiative, ICTI CARE, which was founded in 2004.

The Chinese toy industry has faced many challenges since 2004. In 2007 a series of safety scandals involving poisonous lead paint forced the world’s biggest toy-maker Mattel to recall 21 million toys made in China.<sup>3</sup> This led to stricter regulation, however China’s reputation was damaged and orders were lost.<sup>4</sup> Parallel to this, rising RMB<sup>5</sup> and escalating production costs placed additional pressure on the industry.

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2 Australian Consumers Association, “Choice” July 2008, p 27 and <http://www.icti-care.org/foundation.html> accessed 2009-08-27.

3 The Economist, “Plenty of blame to go around” September 29 2007, Vol 384, Issue 8548.

4 Business Week, “Bottlenecks in Toyland” October 15 2007, Issue 4054.

5 RMB = The Chinese currency, also called Yuan. The rate is 1 RMB = 1,06 SEK, 2009-11-12.



Just a year later in 2008, in the midst of the financial crisis and a global recession, demand from the American and European markets weakened, which hit the Chinese toy producers severely. After many years of continuously strong growth, the pressure on toy manufacturers in China is rising and many factories have been shut down during the last year.<sup>6</sup>

## 1.1 Methodology

SwedWatch has used several methods in order to discover as much information as possible about the current situation at toy manufacturers producing for the Swedish market. The most important part has been an elaborated and in-depth cooperation project with an experienced social compliance consultant with a local presence in the Guangdong province. Due to the political situation in China, this company prefers not to be mentioned by name since this may jeopardise its future work with similar studies in China. The local consultant has done hundreds of similar investigations of toy suppliers in Guangdong, both for non-governmental organisations and companies.

### **The local consultant reported to Chinese authorities**

In the end of the research process, one of the Chinese suppliers reported our local worker interviewers to the Chinese government agency which investigates local businesses on charges of violating laws covering “sensitive national data”. This agency has closed several local NGOs that had contracts with foreign organisations. Our local consultant was visited twice by four Chinese agents searching its office, going through all correspondence and reports. Up to the writing moment

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6 The Economist “Not playing” January 1 2009, Vol 390, Issue 8614, Business Week “As Factories Fail, So Does Business Law” April 13 2009, Issue 4126.



Manufacturing at Supplier A from a visit 2004. Photo: SwedWatch.

SwedWatch does not yet know the results of this investigation, but there is a risk that the local consultant we engaged will receive an order to close the office. SwedWatch most deeply regret this situation and request all buyers to take action against this sort of behaviour from their suppliers. It is extremely important that buyers inform its suppliers that they view independent investigations as necessary in order to reach positive results for Corporate Social Responsibility-related issues.

### **Two primary methods**

The local investigation was made using two primary methods; worker interviews off-site and supplementary factory visits. Off-site interviews with employees were conducted at a total of six factories manufacturing for the Swedish market.<sup>7</sup> Three of these factories have also received visits where the consultant has tried to cross-check information given by the workers, review relevant documentation and interview management. The reasons for the consultant's inability to visit the other three suppliers differed. Supplier A did not wish to receive any visits from SwedWatch's consultant referring to their disappointment in the results of the earlier survey on toys in 2004. As for supplier C and F, no buyers could arrange the visit. SwedWatch has chosen to codify the suppliers' names in order to mini-

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7 In 2004 SwedWatch investigated 9 suppliers, but unfortunately resource limitations made it only possible to include 6 suppliers in the 2009 survey.

mise the risk of endangering the suppliers' business relationships and opportunities.

### **Selection of buyers and suppliers**

One of the most difficult parts in SwedWatch's reviews is usually to obtain information about production addresses. SwedWatch has chosen to partly include the same suppliers and buyers as during the previous research in 2004, because it makes it possible to monitor improvements. However, the buying companies were also asked to reveal other suppliers to be included in the research. Consequently, four of the suppliers are the same as in 2004 and two are new. The selection of suppliers was made by the buyers, consequently there is a risk that suppliers on the upper scale of compliance were chosen. The retailers were chosen because they all are well-known brands or department stores patronised by many Swedish consumers.

### **Workers' interviews and complementary information**

Approximately 20 – 30 workers (around 5% of the workforce) at the different factories were interviewed during this investigation. The workers were interviewed at random by two interviewers. The consultant has tried to interview an equal number of women and men as well as workers from different departments. Workers were approached outside the factory gate and dormitory building, and engaged in conversation with the interviewers.

The factory visits were announced. They were not actual social audits, but were termed factory walk-throughs. Time spent in the factories differed between 4 to 6 hours, including interviews with management. The visit was made by a person who was very experienced with social audits, and differed from those doing the workers interviews. As results in this report are presented, it is clearly mentioned when the source of information is exclusively workers' interviews and when it is also confirmed by documentation or management. The buyers required that they join some of the factory visits; this was the case with Ica at Supplier B as well as Brio at Suppliers D and E.

The background on toy manufacturing in Guangdong and the recent changes in the toy sector has been researched and partly written by Jerker Thorsell of Genombrott consultancy.

### **Feedback**

All the companies involved, both buyers and manufacturers, have been afforded the opportunity of reading the full report before publication. Their comments will be found in the end of the report and any factual errors have been corrected. In addition, SwedWatch has also asked for comments from Mr Tomas Brytting, Associate Professor of Business Administration and Director of Research at the Institute for Organisational and Worklife Ethics, Ersta Skondal University College. Nevertheless, Mr Brytting should not be regarded as a guarantee for the correctness of all facts presented in the report. Neither are the views presented

here necessarily shared by him. His comment can be accessed at [www.swedwatch.org](http://www.swedwatch.org).

## 1.2. Scope of research

This research on toy manufacturing in China is produced by SwedWatch in cooperation with its member organisation Fair Trade Center and the Swedish Consumers' Association. It aims to encourage toy importers to take on greater responsibility for working conditions down their supply chain. The aim is also to investigate how well the buying companies have succeeded in complying CSR standards in 2009, in comparison with the research conducted in 2004.

In a separate report ("Toy manufacturing in China – A follow up of social criteria for Gothenburg Municipality") SwedWatch presents the findings of the research carried out as a follow-up commissioned by the Gothenburg Procurement Company. It concerns compliance with Gothenburg's social requirements for public procurement of toys and hobby materials and is also published in December 2009.

This report begins with a short presentation of the Swedish toy sector, the ICTI Care initiative and an overview of the current situation in the Guangdong Province, home to most toy producers in China, and a review of some of the recently published NGO and media reports on the industry and its human rights record (Chapter 2). However, for more specific information on the Swedish toy market and the CSR work done in this sector in Sweden, SwedWatch refers to Fair Trade Center's report ("En rapport om Leksaker"<sup>8</sup>), which will be published at the same time as this report.

Chapter 3 is based upon field studies with research regarding six factories producing toys for Swedish buyers. The buyers in focus are presented in Chapter 4. Lastly, in Chapter 5 and 6, SwedWatch presents conclusions and a list of the main recommendations to retailers on how to improve their CSR work and practices.

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8 <http://www.fairtradecenter.se/material/rapporter>

## 2. Background

### 2.1. The Swedish toy market

In Sweden toys are sold in special toy retailers' shops, in department stores, supermarkets as well as at street markets and petrol stations. The biggest individual actor is the Danish company Top-toy A/S which sells its toys through BR-toys and Toys R Us (in the Nordic market) with around 33% of the market share in Sweden.<sup>9</sup> The total Swedish market for toys amounted to SEK 4.6 billion in 2008.<sup>10</sup> The other major actors among the toy retailers are Barnens Hus, Lekia, Lekringen, Leklust and Toyteam. Brio has only one store in central Stockholm, but is the biggest Swedish toy company within manufacturing and wholesaling.

MARKET SHARES ON THE SWEDISH TOY MARKET 2008:	
Special toy retailers:	62%
Department stores and supermarkets:	16%
Internet-shopping and postal order:	3%
Other actors (petrol stations etc.):	19%

(Source: GFK Market Kundindex <sup>11</sup>)

The Swedish Toy Association (SweToy) is the business association for toys, hobby and baby products.<sup>12</sup> SweToy's members are manufacturers, importers, wholesalers and retailers and SweToy works with everything that concerns the market for toys, hobby and baby products. SweToy is, in its turn, a member of the International Council of Toy Industries, ICTI. One prioritised issue on SweToy's agenda is social compliance, which is today carried out through following ICTI CARE's operations. Brio, as well as all the Swedish major toy companies, is therefore a member of SweToy/ICTI. Top-toy is part of ICTI through the Hong Kong Toys Council.<sup>13</sup> Ica and Åhléns group are, however, neither members of SweToy nor of ICTI.

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9 The Swedish Retail Institute, HUI, telephone interview with Per Hortlund, 30 March 2009.

10 Information from The Swedish Retail Institute, HUI, sent by email, 17 August 2009.

11 GFK Market Kundindex., [http://www.gfk.com/se/your\\_market/entertainment/toys/index.se.html](http://www.gfk.com/se/your_market/entertainment/toys/index.se.html), information given to Fair Trade Center/SwedWatch by email 31 August 2009. The definition of toys used here is "classic toys", which does not include electronic games.

12 The SweToy website, <http://www.swetoy.se/home/page.asp?sid=79&mid=2&PageId=639>

13 The Hong Kong Toy Council website, <http://www.toyshk.org/membership.asp>

## 2.2. ICTI CARE

The International Council of Toy Industries, ICTI, is the main industry association for toy producers. Its members are toy trade associations from 22 countries.<sup>14</sup> In addition to this, nine countries have companies represented in the process. This makes in total of 31 countries represented in the organisation.

In the 1990s, a growing number of large corporations adopted ethical Codes of Conduct. ICTI adopted its first draft of its Code of Conduct in 1995, the 'ICTI Code of Business Practice'. Later, in 2004, the ICTI CARE Foundation was founded to create an independent organisation to oversee and implement compliance with industry code standards. The ICTI CARE Process means that ICTI CARE trains and certifies auditors and audit firms so that they are authorised to audit factories for ICTI CARE. When in compliance with the ICTI Code according to the certified auditors report, which is then reviewed by the ICP technical team, the factory may then be awarded a 'Seal of Compliance'. At present, 2003 factories are involved in the ICTI CARE Process and 978 factories have been awarded the 'Seal of Compliance'.<sup>15</sup> ICTI CARE's initial audits are announced, but they are often monitored by follow up and Quality Control Audits which are unannounced.<sup>16</sup> The auditors interview employees as one part of the audit; however, these interviews are mostly but not entirely conducted within the factory premises.<sup>17</sup>

Toy brands and retailers can be part of the 'Date-Certain Program' meaning that they commit to a certain date by which they will only contract products from suppliers that are in the ICTI CARE Process. In practice this means that the factory should either have an ICTI Seal of Compliance or have completed the first audit and agreed to a Corrective Action Plan to address identified violations. Out of all 29 member companies of the Swedish Toy Association, almost 90 percent are part of the 'Date Certain Program' and 80 percent already commit to only buy products from factories that are in the ICTI CARE Process.<sup>18</sup> Their market is the about 2 000 factories that are involved in the ICTI CARE Process.<sup>19</sup> In reality however, it seems as not many of the Swedish member companies of ICTI actually live up to this promise. Only Åhléns group<sup>20</sup> and Micki Leksaker<sup>21</sup> state that they buy exclusively from ICTI certified factories. Other companies were not yet committed to a date from when this would be the case.<sup>22</sup>

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14 ICTI's website, <http://www.toy-icti.org/>

15 ICTI CARE's website, <http://www.icti-care.org/index.html> accessed 14 August 2009

16 ICTI CARE's website, <http://www.icti-care.org/handbook/section6.html>

17 Interview with Ian Anderson, Vice President of Asia Operations, ICTI CARE Foundation Asia Limited, 24 September 2008.

18 <http://www.icti-care.org/databases/date-certain.html?> Accessed 25 August 2009.

19 <http://www.icti-care.org/index.html> accessed 14 August 2009.

20 Åhléns is not a member of SweToy/ICTI, but has taken this decision anyway.

21 Micki Leksaker is a wholesaler within the toy sector in the Swedish market.

22 In Brio's reply to the study in hand, it now promises to buy only from ICTI Certified factories by 2010.



Manufacturing at Supplier C from a visit 2004. Photo: SwedWatch.

ICTI CARE is one of the many industry initiatives that have been initiated in the last decade. It is an industry-driven organisation with hand-picked civil society representatives on the governance board. The initiative has, during its half-decade of existence, exerted a considerable impact on both buyers and suppliers. This means that ICTI CARE is the all-out dominant initiative in the business. The total number of toy factories in China today is estimated to be between 3 500 and 4 000, hence about half of all Chinese factories are part of the process.<sup>23</sup>

Ian Anderson, Vice President of ICTI CARE Foundation Asia Limited, states that ICTI CARE has what he calls “shadow audits” whose task it is to check the quality of the auditors as well as the audit itself.<sup>24</sup> This is done if ICTI CARE receives information which causes doubt and has been in place for three years now. According to Ian Anderson ICTI CARE does sometimes find attempts to cheat, double records of working hours records etc. He believes that one of the reasons behind this is that buyers’ purchasing practices often make it very difficult for the suppliers to meet the criteria. Instead, buyers tend to increase pressure by demanding shorter lead-times and flexible deliveries.

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23 Telephone interview with Ian Anderson, Vice President of Asia Operations, ICTI CARE Foundation, 27 August 2008.

24 Telephone interview with Ian Anderson, Vice President of Asia Operations, ICTI CARE Foundation Asia Limited, 24 September 2009.

“Manufacturers are the ones who experience all the pressure today. But they cannot do it alone, there is an urgent need for more shared responsibility,” says Ian Anderson.

He finds, however, that an increasing number of buyers are currently developing capacity-building programmes and are working in closer cooperation with their suppliers which provides room for a more honest relationship than by focusing on demands and control. However, Ian Anderson does not believe that it is the role of ICTI CARE to impose demands on buyers, but rather to train them to improve their practices. He does, however, state that the buyers will need to report more from now on as to how many ICTI certified factories they actually use.

According to the ICTI CARE process, information concerning the content of the Code of Business Practice should be distributed to employees in ICTI certified factories. Currently ICTI CARE is in the process of starting to distribute a new, updated version of a “Workers Card” which all workers in ICTI certified factories should be provided with.<sup>25</sup> The card presents the basic criteria in the ICTI Code of Business Practice in Mandarin with information about a hotline to which workers can call in if they feel that these criteria are not met. It is the ICTI CARE Foundation, which manages the complaints. Where these complaints indicate a widespread and systemic problem of non-compliance, staff from ICTI CARE will conduct further investigations.<sup>26</sup> The hotline complaints mechanism was launched in October 2007 and has been arranged in an initial trial period in 35 factories.<sup>27</sup> So far not many workers have used the hotline according to Ian Anderson. The new “What you should know”- card is expected to be more effective due in part to better distribution to the workers.<sup>28</sup> ICTI CARE also plans a pilot project for worker training programmes. According to Ian Anderson, the reason for not having conducted worker training programmes until now is lack of resources. ICTI CARE has organised training inputs for managers during several years.

### 2.3. Guangdong

In 2007, Europe imported toys worth EUR 11 600 billion. Asia stands for 98 per cent of the import of toys to Europe, and of all Asian imports China accounts for

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25 Ian Anderson has provided SwedWatch with a copy of the text by email 2 October 2009.

26 Rees, Caroline. 2008. “Grievance Mechanisms for Business and Human Rights: Strengths, Weaknesses and Gaps”, Corporate Social Responsibility Initiative, Working paper No. 40. Cambridge, MA: John F. Kennedy School of Government, Harvard University, page 7.

27 Ibid.

28 Meeting with Christian Ewert, President and Chief Executive Officer, ICTI CARE, 2009-11-11.

91 percent, up from 88 percent the previous year.<sup>29</sup> Most major toy companies in Europe source from China. Within China, Guangdong is the centre of toy production. According to the China Toy Association, nearly 60% of the companies in southern China producing toys for the world market are located in the province of Guangdong.<sup>30</sup>

South China is the cradle of the first liberalisation wave of the late 1970s. Three of the five first economic free zones in China were located in Guangdong. Since then, the region has been one of the driving forces of the booming Chinese economy, with enormous expansion during the last couple of decades. Its capital, Canton, is said to be the fastest growing city in the fastest growing region in the fastest growing country on earth. The average growth rate of Guangdong Province during the last 30 years has been 9.8%.<sup>31</sup> Even in 2008, despite the general economic downturn, the Province's economy grew over 10% according to official figures.<sup>32</sup>

The economic crisis has hit China and Guangdong hard. The Swedish General Consulate in Canton estimates the total number of factory closures in the Guangdong Province in 2007-08 to be around 100 000.<sup>33</sup> Since 2004 the number of toy factories in China has declined from around 10 000 to between 3 500 and 4 000 factories.<sup>34</sup> This severe reduction of factories is not only due to the economic situation, but also to a considerable degree to the fact that the authorities are much more restrictive in issuing export licenses after the lead paint scandal.<sup>35</sup> The China Labor Bulletin, an influential non-governmental organisation based in Hong Kong, estimates that around 15% or 20 million of China's 130 million migrant workers lost their jobs the previous year (between mid 2008 and mid 2009).<sup>36</sup>

Needless to say, the province is facing great challenges in the next few years. Massive industrial and economic development has led to severe environmental destruction. Along with shrinking export growth, factory closures and labour market difficulties, the present situation is tough for Guangdong suppliers.<sup>37</sup> This

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29 Toy Industries of Europe "Facts and Figures" July 2008.

30 Recommendations to reduce the risk of human rights violations and improve access to justice, CIDSE Report February 2008, p 13.

31 Swedish Consul in Canton "Guangdongs ekonomi december 2008 – stark nog att rida ut den ekonomiska avmattningen?" memo 2 December 2008.

32 Swedish Consul in Canton "Guangdongs ekonomi inför Oxens år" Tele-message (A) 15 January 2009

33 Ibid.

34 Telephone interview with Ian Anderson, Vice President of Asia Operations, ICTI CARE Foundation Asia Limited, 27 August 2008.

35 Ibid.

36 China Labour Bulletin Research Reports, "Going it Alone – The Workers' Movement in China (2007-2008)" 9 July 2009, p 5.

37 Ibid.

is even more pressing for the toy industry, which in addition also has to handle the lack of trust since the lead paint scandal of 2007.

An estimated two to three million workers are employed in China's toy industry. The majority of them are migrant workers from poor rural areas far from the coast. They are young and are looking for an income to support themselves and often also relatives back home. Even though there have been some improvements in recent years, migrant workers still have limited civil rights.<sup>38</sup> Migrant workers are not entitled to the same social benefits as urban residents. Social security has been linked to the employee's place of residence. Despite recent efforts to gradually eliminate discrimination against rural migrant workers, migrants still have limited access to basic social security. For example it has not been possible for migrant workers to pay pension premiums in Guangdong and draw funds in another location, which is highly problematic for them since they often stay in Guangdong for a limited period of time only before migrating to other cities or moving back to their home provinces.<sup>39</sup> In general, working conditions in the toy industry are similar to those in the textile and electronics industries. Low wages, sometimes falling below the legal minimum wage, illegal working hours and compulsory work seven days a week are all common problems, especially during peak production periods.<sup>40</sup> Apart from this, several reports have described poor health and safety standards with hazardous paints and solvents, defective machinery, extreme heat and dust etc. Common health problems among workers are skin and respiratory diseases.<sup>41</sup>

Working contracts are often short term and sometimes do not exist at all. Contributions to social security systems are often limited or non-existent. Furthermore, workers often live on the factory premises, sharing rooms with several colleagues in crowded dormitories with limited sanitation facilities.<sup>42</sup>

### **New labour law with major impact**

On 1 January 2008, a new labour law came into force aimed at improving workers' rights and enforcing the right to employment contracts. The ever more obvious signals of discontent and unrest among workers all over the country were probably an important reason for the change. The new legislation is a clear

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38 The risk of human rights violations and improve access to justice, Case study I: Working Conditions in the Toy Industry in China, CIDSE Report, February 2008, p 13.

39 Information collected from different news items (CLB, Shenzhen's residence card offers little new for migrant workers, 4 Nov 2008, People's Daily Online, New rule helps millions of migrant workers join pension plan, 7 Feb 2008, People's Daily Online, China strives to improve social security for 210 mln migrant workers, 8 Dec 2008 and China National Committee On Ageing, Social security umbrella expanded, 14 July 2009.

40 See for example SwedWatch, "Silenced to Deliver - Mobile phone manufacturing in China and the Philippines", September 2008.

41 See for example China Labour Watch "Investigations of Toy Suppliers in China; Workers are still suffering" August 2007.

42 Ibid.

improvement; one example is the provision for collective contracts based on negotiations between employees and employer. Another example is the call for signed, written employment contracts for all.<sup>43</sup>

Labour law in China today contains a range of good provisions to protect workers' rights.<sup>44</sup> The problem has been, and still is, implementation. Labour law is seldom effectively enforced. One important reason is the ban on independent trade unions. The ILO convention no 87 concerning Freedom of Association and Protection of the Right to Organise Convention states that workers shall have the right to establish and to join organisations of their own choosing without previous authorisation. This freedom is restricted in China which only allows one, state-controlled trade union – All China Federation of Trade Unions. Neither can employees in China enjoy the fundamental right to negotiate collective agreements as stated in ILO convention no. 98. However, according to China Labor Bulletin (CLB), collective contracts directly negotiated by elected workers' representatives are legally enforceable in China today, and as such could provide powerful protection for the rights and interests of workers.<sup>45</sup> The law, however, states that the workers' representatives shall be chosen by the workers themselves "upon the guidance of the labour union at the next higher level".<sup>46</sup> CLB believes that even though the unions need to be part of ACFTU, the new law gives more room for grass roots activities.<sup>47</sup>

According to Aurret van Heerden, President and CEO of the US-based organisation Fair Labor Association (FLA), the fact that the new law gives the employees the means to enforce their own contracts means that the likelihood of real change is higher.<sup>48</sup> The law has received a considerable amount of public attention and is very well known, not the least on the factory floor.<sup>49</sup> Ian Anderson, Vice President of Asia Operations at ICTI CARE Foundation, agrees and says that the new labour law is an important reason for the improved situation he discerns in the toy business.<sup>50</sup>

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43 See the full text in English at the website of Beijing Review [http://www.bjreview.com.cn/document/txt/2007-10/16/content\\_80896.htm](http://www.bjreview.com.cn/document/txt/2007-10/16/content_80896.htm) accessed 4 September 2009

44 Please see appendix I for a review of relevant Chinese labour law.

45 China Labour Bulletin's website, Workers' Representation and Collective Contract, <http://www.clb.org.hk/en/node/100012>, accessed 1 October 2009

46 [http://www.bjreview.com.cn/document/txt/2007-10/16/content\\_80896.htm](http://www.bjreview.com.cn/document/txt/2007-10/16/content_80896.htm) accessed 4 September 2009

47 China Labour Bulletin's website, Workers' Representation and Collective Contract, <http://www.clb.org.hk/en/node/100012>, accessed 1 October 2009

48 Newsweek "Is China's Labor Law Working?" 14 February 2008 <http://www.newsweek.com/id/111027/page/1> accessed 20 August 2009.

49 Ibid.

50 Interview with Ian Anderson, Vice President of Asia Operations, ICTI CARE Foundation, 27 August 2008.

### **Squeeze on manufacturers**

As mentioned earlier the cost pressure on Chinese toy suppliers has been increasing quite substantially over the last few years. The rising RMB is one substantial reason. Four years ago, in 2005, the People's Bank of China introduced a floating basket of currencies against the RMB. Up to mid-2008 the RMB gained almost 20 percent on the dollar.<sup>51</sup> For companies paid mostly in dollars this means squeezed profit margins. The financial turmoil caused the RMB to fall against the dollar, but in mid-2009, the exchange rate is back almost on pre-crisis level and it is on the rise.<sup>52</sup>

Another important factor in relation to lower margins is the rising price of manufacturing-inputs. Electricity, petroleum, metals and wages have become increasingly more expensive during recent years.<sup>53</sup>

## **2.4. Continued reports on poor working conditions in toy manufacturing**

SwedWatch's conclusion in the report published in 2004 was that the level of compliance with ethical codes of conducts was low. All toy-suppliers studied in the Guangdong province, nine in total, breached the buyers' Codes of Conduct as well as the law.<sup>54</sup> The Swedish PhD student at Gothenburg University School of Business, Economics and Law, Niklas Egels-Zandén used primary data from SwedWatch to look deeper into the issue of the level of compliance.<sup>55</sup> The main explanation for the lack of compliance put forward by Egels-Zandén, was that suppliers have decoupled the formally monitored part of their organisation from the actual operational part, in other words, double bookkeeping - using one book for the auditors and one book for the business.<sup>56</sup> The reasons for this are complex but economic incentive structures (both factory owners and buyers profit on non-compliance, as long as it is not revealed), coupled with weak enforcement of national labour law, are two important forces.<sup>57</sup>

In August 2007, China Labor Watch (CLW), a US based organisation conducting research and studies on labour rights in China, released a report on toy suppliers. The organisation conducted research on eight toy factories, all of them located in

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51 China Daily "Rising RMB: Mix for China's exporters to fix" 19 April 2008 [http://www.chinadaily.com.cn/china/2008-04/19/content\\_6629096.htm](http://www.chinadaily.com.cn/china/2008-04/19/content_6629096.htm) accessed 20 August 2009.

52 The Global Times "RMB hits 7-month high, sends signals of recovery", 5 May 2009 [http://business.globaltimes.cn/Business\\_News/2009-05/429377.html](http://business.globaltimes.cn/Business_News/2009-05/429377.html) accessed 20 August 2009.

53 The Economist "Not playing" January 1 2009, Vol 390, Issue 8614.

54 SwedWatch, "Easy to manage", 2004.

55 Journal of Business Ethics (2007) 75:45-62 "Suppliers' Compliance with MNC's Codes of Conduct: Behind the Scenes at Chinese Toy Suppliers" Niklas Egels-Zandén.

56 Ibid. p 55.

57 Ibid.

Guangdong. The result of the CLW research gives broad evidence of non-compliance. All factories investigated failed to comply with the legal demand concerning giving correct employment contracts. In addition, the standard differed substantially between the factories. One of the suppliers had an ICTI certification and was certified according to ISO 9001. This factory did score better than the other suppliers studied.<sup>58</sup>

CLW concludes that the reason for these degrading and illegal conditions is the low prices paid by the American and European buyers. The organisation states that, in order to be able to maintain even modest profits, suppliers have no choice but to make use of the only flexible factor of production they have; workers' salaries and general treatment.<sup>59</sup>

Another organisation doing research on the conditions at toy suppliers in China is SACOM, Students and Scholars against Corporate Misbehavior, a Hong Kong labour rights group. SACOM did a series of investigations into Disney suppliers in Guangdong, China 2007 - 2009. The reports revealed systematic breach of Chinese law and the Disney Code of Conduct.<sup>60</sup> At one supplier, Tianyu Toys first surveyed in 2007, gross breaches of local law were found despite that the factory had been involved in the ICTI CARE Process since 2005.<sup>61</sup>

In a newly published report by SACOM and the European campaign "Stop toying around" launched in December 2009, the authors again showed that conditions at Tianyu Toys are still far from decent.<sup>62</sup> In the above-mentioned report, two factories involved in the ICTI CARE process<sup>63</sup> were investigated by interviewing workers about their working conditions. The results included excessive and forced overtime, lack of health and safety training and unacceptable living conditions. Moreover, workers were forced to give falsified answers to audit firms and were not given copies of employment contracts.

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58 China Labor Watch "Investigations of Toy Suppliers In China; Workers are still suffering" August 2007.

59 Ibid. p 5.

60 SACOM "Haowei Toys brings you... Mickey Mouse: A survey of Conditions at a Disney Supplier in China" September 2007 and SACOM, "Tianyu Toys brings you... Winnie the Pooh: A survey of Conditions at a Disney Supplier in China" October 2007.

61 Tianyu Toys received ICTI CARE certification in September 2009 according to the report "Exploitations of Toy Factory Workers at the bottom of Global Supply Chain" by SACOM and the campaign "Stop-toying around", December 2009.

62 SACOM and Stop-toying around, "Exploitations of Toy Factory Workers at the bottom of Global Supply Chain", "Stop-toying Around! Campaign for fair working conditions in toy production" consists of NGOs in France, Austria, Poland, Czech Republic and Romania. Authors: Perry Leung and Debby Chan, September 2009. Draft version sent to SwedWatch 5 October 2009.

63 One of the factories got its Seal of Compliance in September 2009, however the research was carried out in spring to summer 2009.



Manufacturing at Supplier B from a visit 2004. Photo: SwedWatch.

These two suppliers manufacture for Disney, Mattel and others. These world-famous brand companies have enforced CSR compliance work for several years. The campaign “Stop-toying around” draws the conclusion that the protective codes issued by brand companies and ICTI CARE are not enforced and that worker participation is urgently needed. Moreover, buyers need to change their buying practices in order to see real improvement.<sup>64</sup>

The patterns of the more recent NGO reports described above are similar to those that SwedWatch found in 2004.<sup>65</sup> SwedWatch could then conclude that all buying companies concentrated mainly on quality and price in their business negotiations with the suppliers. In general it still seems that CSR requirements are not included in the buying practices of the companies, instead companies risk sending conflicting signals to their suppliers; with one hand they ask for cheaper and faster production, and with the other they ask for labour law compliance. In 2004 all of the companies included in the research focused mainly on social auditing to ensure compliance with their CSR demands. Some of the companies stated that they were ready to pay the price for better compliance with labour

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64 SACOM and Stop-toying around, “Exploitations of Toy Factory Workers at the bottom of Global Supply Chain”, September 2009.

65 SwedWatch, “Easy to manage- a Report on the Chinese Toy Workers and the Responsibility of the Corporations”, October 2004.

law; however, few could give any concrete examples. According to the suppliers, the priorities for buyers in general are price, quality and fast delivery.

Despite this, SwedWatch's current study shows some signs of buyers, manufacturers and ICTI CARE's efforts having led to positive results. The most extreme working hours are gone, overtime is legally paid and copies of employment contracts are given to the workers. In order to make these improvements sustainable, as well as tackle outstanding issues, it is now high time to increasingly involve workers in the CSR process as well as allowing CSR requirements shape parts of the buying practices.

### 3. Current findings

In general, the working conditions seem to have improved since SwedWatch's research in 2004. None of the suppliers have any indications of discrimination or child labour cases. When it comes to fire safety, providing employment contracts and guaranteeing one day off per week, the compliance is fulfilled for all of them, except Supplier F. In the 2004 report, five out of nine suppliers did not pay for overtime correctly, but in the current study five of six do comply with legal requirements on that issue. Out of the four suppliers researched in 2004, all were now compliant on this issue, as compared to 2004 when three out of these four factories did not compensate overtime at legal rates.

There are, however, still issues remaining. Indications of non-compliance were detected at several of the suppliers when it comes to the issue of providing insurance, paid sick and annual leave as well as health and safety issues. Working hours are still beyond legal stipulation at all suppliers except one and far beyond at two of the factories, even though these factories are ICTI certified.

Five of the six suppliers investigated have been well-adapted to social requirements from buyers for several years. Most of them go through social audits repeatedly every year. Supplier E reports that it has been audited every week over the last 6.5 months, which shows the sometimes absurd consequences for manufacturers. All the suppliers have several international buyers and some of them are much bigger than the Swedish buyers (such as Tesco and Walmart) and obviously more influential. It is consequently natural to assume that some of the improvements found also could be traced to these buyers setting and following up on social demands over the last few years.

(ALL ICTI CERTIFIED)	SUPPLIER A*	SUPPLIER B	SUPPLIER C*	SUPPLIER D	SUPPLIER E	SUPPLIER F*
Known buyers	Top-toy, Åhléns Group, Coop	Ica, Åhléns Group, Disney <sup>1</sup> , Kmart, Walmart	Brio	Brio, Top-toy, Walmart <sup>2</sup> , Carrefour, Tesco	Brio, Anchon <sup>3</sup> , Tesco, Bigloe	Brio
Production	Plastic toys	Soft toys	Plastic and metal toys	Plastic toys	Microscopes & binoculars	Wooden toys
Number of employees	600	500	700	1 500	800	400
Excessive OT <sup>4</sup>	Yellow	Yellow	Yellow	Red	Green	Red
Guaranteed one day off <sup>5</sup>	Green	Green	Green	Green	Green	Red
Correct OT pay <sup>6</sup>	Green	Green	Green	Green	Green	Red
Providing employment contracts	Green	Green	Green	Green	Green	Red
Health & Safety <sup>7</sup>	Yellow	Yellow	Green	Yellow	Yellow	Red
Fire Safety	Green	Green	Green	Green	Green	Red
Provision of full social insurance	<sup>8</sup> Yellow	Green	<sup>9</sup> Green	Red	<sup>10</sup> Yellow	Red
Paid sick & annual leave <sup>11</sup>	Green	Yellow	Yellow	Red	Green	Red
Transparency <sup>12</sup>	Yellow	Red	Green	Red	Green	<sup>13</sup> Red

\* = Research carried out using off-site worker interviews only.

1 The international buyers are only stated by the supplier, not confirmed by the buyers.

2 Ibid.

3 Ibid.

4 **Red**=excessive OT throughout the year according to workers interviews (confirmed at factory visit at Supplier D), **yellow**=working hours/week over legal limit and ILO standard in peak season according to workers interviews, **green**=working hours within legal/ILO limit, confirmed by management.

5 **Red**=All workers claim that they are not guaranteed 1 day off per week, **green**=management state workers are having one day off per week and this is confirmed by workers or a majority of workers state they do have 1 day off.

6 **Red**=All workers give specific information on OT compensation which shows illegal compensation, **green**=management state workers are compensated at legal rates and this is confirmed by workers or a majority of workers state they are compensated at legal rates.

7 **Red**=No Health & Safety training, non provision of adequate PPE, **yellow**=non enforcement of using Personal Protection Equipment (PPE) or lack of information on chemical use, **green**=no indication of lack of H & S issues.

8 Conflicting reports given by workers and ICTI protocols provided by Åhléns might either indicate false information given by manage-

ment to auditors or a lack of communication from the management to their employees regarding the coverage of insurance.

9 At Supplier C the workers interviewed reported that all workers were provided with social insurance and that RMB 87 was deducted per month for insurance coverage. The workers, however, could not provide details of the insurance coverage and there one case was described to interviewers where legal compensation for an accident was not actually provided.

10 The management of Supplier E provided a copy of a waiver issued by the local government which gave Supplier E the right not to cover all employees with all legally binding social insurance. Nevertheless, an increase in the number of fully insured employees is recommended.

11 **Red**=not provided with either paid sick or annual leave, **yellow**=paid either sick or annual leave, **green**=provided with both paid sick & annual leave.

12 **Red**=Hiding subcontracting or home working arrangements, time recording etc, **yellow**=indications of payments for giving information to auditors, **green**=no indications of coaching or cheating.

13 There were no reports about coaching by management of the workers, but Brio as a buyer was not aware of all the indications of non-compliances at Supplier F, which probably means that Supplier F has not been transparent about its working conditions.

There are sharp differences in production demands between peak and low seasons for all of the suppliers. The busy season is from June to September when the factory produces Christmas toys. According to the manager at Supplier D, production volume in peak season is approximately three times higher than in low season.<sup>66</sup> During low season, many of the factories do not have sufficient work for the workers. On the other hand, during peak season, the factories are short of labour and need to hire temporary workers to meet the demand.

### **Workers' complaints**

At two of six factories (Suppliers A and E), workers were in general content with their working situation, but at three suppliers (Suppliers C, D and F) several workers expressed complaints. At Supplier B some workers who had been employed for nearly ten years expressed fear of being sacked, since some long-term workers had been given notice before they reached ten years of service (after ten years of service it is stipulated by the Chinese labour Contract law of 2008 that the employer must provide permanent employment with open-ended employment contracts).<sup>67</sup> At Supplier F the workers complained that their first month's wage was deposited. According to the workers they would not get it back until they left the factory. Both at Supplier D and F the workers complained of tiredness because of too much overtime on a regular basis. In contrast to this, at Supplier C some workers complained about low income during low season due to lack of orders and lack of overtime (workers are then only paid the minimum wages at regular hours). As a result the turnover rate was high; one interviewee from the packing workshop reported that in her department alone, about ten workers left the factory every day.

### **Labour relations**

Most suppliers have local workplace unions, nevertheless at all suppliers except Supplier B these representatives are appointed by the management or are from ACFTU. The workers do not know the real function of these factory unions. At Supplier D the manager simply admits that there is "No elections, the officers were appointed by the ACFTU".

The exception is at Supplier B where the workers have chosen their own representatives and it was shown through documentation at the factory visit that the union did handle relevant cases.

None of the factories had negotiated collective contracts between workers' representatives and the employer as prescribed in Chinese law (see Appendix I).

### **Working hours and benefits**

One major issue in 2004 research was the excessive overtime at eight out of

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66 SwedWatch's consultant interview with management at Supplier D, 14 July 2009.

67 See the full text in English on the Beijing Review website [http://www.bjreview.com.cn/document/txt/2007-10/16/content\\_80896.htm](http://www.bjreview.com.cn/document/txt/2007-10/16/content_80896.htm) accessed 4 September 2009.

nine suppliers. Five of these suppliers reported around 90 hour working weeks. Today, most suppliers still violate Chinese law concerning working hours during peak season, but there are only two of six factories that have extreme overtime (Suppliers D and F) and none have working weeks longer than 76 hours.

The other four suppliers more or less followed the Chinese law (40 hours regular/week and 36 hours overtime per month, see Appendix I) during off-season. Suppliers A-C reached a working week just slightly over the legal limit during low season, and around 63-66 hours per week during peak season. Time records provided by Supplier E showed that working hours during March, April and May 2009 reached up to 53 hours per week. Supplier E had a time recording system based on finger prints, which gave little chance of cheating with time records. This system meant that the employees themselves could keep track of their working hours.

SwedWatch have found that although both Suppliers D and F are ICTI certified, as well as audited by major brands several times a year, they both reached working weeks between 69 and 76 hours. At Supplier D workers reported that regular overtime was 3.5 hours per day until 10.00 p.m. During peak season (May to November) they worked overtime up to 11.00 p.m. or even 2:00 a.m. if the schedules were tight.

Workers should be guaranteed one day off per week. SwedWatch's conclusion is that this was followed at all suppliers except at Supplier F. During peak periods the employees at Supplier F are not guaranteed one day of rest per week which is a violation of the principle rule of the Weekly Rest Convention of ILO as well as Chinese labour law.<sup>68</sup> At Supplier D a few interviews indicated that the workers in the moulding department might not be guaranteed one day off, but the factory provided documents showing that this was practised.<sup>69</sup>

## **Wages**

All suppliers pay the workers at least the legal minimum wage. In the area covered by this research, minimum wages varied between RMB 770 and 900 per month depending on the location of the factory.<sup>70</sup> All suppliers, except Supplier F, paid the workers with the correct overtime rate. The wages differed from RMB

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68 ILO C14 Weekly Rest (Industry) Convention, 1921 and Chinese Labour Law, Article 38. The information about Supplier F was gathered from workers' interviews only and could not be confirmed by checking time records etc. since no factory visit was conducted at Supplier F.

69 The time records provided by the factory stated that all workers had a day off on Sundays, including the workers in the moulding workshop. However, according to one worker in the moulding department and confirmed by four workers in other departments, workers in the moulding department worked on Sundays as well. It was, however, not clear if workers then got another day off in the week or not.

70 Information gathered by SwedWatch's local consultant and given in e-mail correspondence during September 2009.

800 per month up to RMB 3 000 per month depending on overtime and the nature of the work.

Workers interviewed at Supplier F say that their average wage was around RMB 1 200 – 1 400 and that they were paid by piece rate. For overtime in the evenings they were paid RMB 3.5 per hour extra, however, if overtime was paid according to the legal rate this should be RMB 4.43 per hour. If the legal rates had been applied (including overtime), workers should have been paid at least RMB 1 710 per month, not 1 200-1 400.

Interviews with factory workers in China show that it is very hard to live on the minimum wage, which most employers offer as basic wages for full-time work.<sup>71</sup> A living wage is a wage that covers the costs for food, housing, clothing, medical care, education as well as some savings.<sup>72</sup> The simplest type of accommodation (one rented room/apartment outside the factory) cost RMB 500 to 700 a month (EUR 50 to 75).<sup>73</sup> Since the minimum wage does not cover these costs, most employees find that they have no other option than to stay in the factory dormitories, where they get room and board for free or at low cost. These low wage levels often mean it is crucial for workers to work a lot of overtime.<sup>74</sup>

### **Health & Safety**

Concerning health and safety issues there are some non-compliant findings noted at all suppliers except at Supplier C. In the 2004 SwedWatch report, Supplier C received a very poor rating concerning health and safety, so this marks a clear improvement. Also the other three suppliers investigated in 2004 showed improvements; for example when it comes to providing health and safety training for employees. At Supplier F there are indications of major breaches regarding compliance with Chinese law and buyer's requirements. At Supplier F, 15 workers reported that they had never participated in any kind of fire drills or emergency evacuation exercises. Two workers interviewed from the painting workshop reported that they were only provided with cotton masks, not carbon filter respi-

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71 SwedWatch, Silenced to Deliver - Mobile phone manufacturing in China and the Philippines, September 2008. *Stitching a Decent Wage across Borders: the Asia Floor Wage Proposal 2009*, Jeroen Merk, Clean Clothes Campaign and the Asia Floor Wage Campaign, October 2009.

72 Many companies have objected to this concept since there has been no exact definition of what a living wage is. This is indeed the case – there are many different definitions and not one of them is perfect. Some examples are presented in Fair Trade Center, 2008, *Social Responsibility in the Supply Chain: Problems, Solutions and Ways Forward*, p 17-19. [http://www.fairtradecenter.se/sites/default/files/Problems\\_and\\_Solutions\\_2.pdf](http://www.fairtradecenter.se/sites/default/files/Problems_and_Solutions_2.pdf) - accessed 2009-10-14.

73 *Stitching a Decent Wage across Borders: the Asia Floor Wage Proposal 2009*, Jeroen Merk, Clean Clothes Campaign and the Asia Floor Wage Campaign, October 2009.

74 See, for example, SwedWatch's earlier reports on toys, mobile phones and public procurement for discussions on this connection.

rators which are required. None of the employees interviewed had gone through any health and safety training.

There were indications that Supplier A and B needed better enforcement of their routines for use of the Personal Protection Equipment (PPE). At Supplier A, two workers report that they only use the carbon filter masks while using glue when there are auditors around. At Supplier B one office clerk told the researchers that the operators at the stuffing machines only use the cotton masks provided by the management during the period of an audit.

At Supplier E three male workers from the paint spraying workshop reported that they were not aware of the characteristics of the paints they used. They added that they were not given any training or orientation on possible hazards related to the chemicals used at the factory. The only training they got was on how to operate the equipment they used.

### **Insurance**

Chinese Labour Law stipulates that social insurance (work-related injury, medical, retirement, unemployment and maternity insurance) is mandatory. In many cases the workers did not know if they were insured or not. When checking documents at the factories, many inconsistencies and lack of standardisation of insurance were found.

Only one supplier out of six, Supplier B, could show adequate social insurance for all employees. At Supplier A all of the workers interviewed reported that the factory provided social insurance only for the management personnel and supervisors; while production workers had no coverage. However, audits conducted by ICTI CARE say that the factory provided all employees with the correct insurance.<sup>75</sup> This might either indicate false information given by management to auditors or a lack of communication from the management to their employees regarding the insurance coverage.

The management of Supplier E provided a copy of social insurance coverage waiver issued by the local government. The factory provided comprehensive social insurance coverage (work-related injury, medical, retirement and unemployment) for 368 out of the total 836 employees and collective accident insurance for all.

### **Paid sick and annual leave**

Although the law prescribes that there should be five days paid annual leave per year, in reality not many of the employers in Guangdong's factories provide their

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<sup>75</sup> The results of the ICTI audit were referred to during a meeting with Filippa Bergin, Manager Environmental and Social Compliance, Åhléns, 7 September 2009.

employees with any paid annual leave.<sup>76</sup> Suppliers B, C, D and F did not provide their employees with paid annual leave.

As for paid sick leave Suppliers C, D and F did not provide it according to worker interviews. At Supplier B it was confirmed through a document check that it did not pay annual leaves but did pay sick leave. Judging on the basis of workers interviews it is only Supplier A and Supplier E that both provide paid sick and annual leave.<sup>77</sup> This was confirmed by documentation at Supplier E.

### **Punitive fines**

Workers interviewed at Supplier F reported that monetary deductions were imposed on workers who do not comply with the factory's established rules and regulations. For example RMB 5 would be deducted for being 10 minutes late for work, or for minor quality defects. The practice of imposing punitive fines as a disciplinary measure is in violation of Chinese Labour Law.

### **Code awareness**

ICTI requires that certified factories inform their employees about the ICTI Code and standards in the local language. Written information about ICTI's Code of business practice was visible at the time of the factory visits at Suppliers B, D and E. Many of the workers did not know exactly what a code of conduct is, but they knew about some of the issues and that they get auditors coming and asking questions from time to time. Some workers expressed that they thought that these audits did help to improve their working situation. Only at Supplier F none of the workers knew anything about auditors or the content of codes of conducts.

### **Transparency**

In SwedWatch's report from 2004 it was indicated that seven suppliers out of nine were non-transparent towards social audits in different ways. Many workers then reported being coached by management on what to tell social auditors. SwedWatch's local consultant reports that this habit has indeed increased in Guangdong since 2004, as well as double booking of time records and wages etc.

Nevertheless, in the study in hand it was less common that workers reported coaching by management. Only at Supplier A there was clear indication of coaching. One worker stated that he was given RMB 50 (which is more than one day's wage) from the management after he had been interviewed by auditors. He had, however, not been informed by the management on what to say to auditors, and not asked to lie. However, the habit of paying workers after talking to social auditors sends a clear signal to the employees that they should speak well about their employer.

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<sup>76</sup> According to Swedwatch's local consultant this was the same experience at many hundreds of social audits in factories in Guangdong.

<sup>77</sup> At Supplier A conflicting reports from workers made it difficult to be totally sure whether paid annual leave was always provided or not.



Toy workers at a supplier for Top-toy from a visit 2004. Photo: SwedWatch.

At Supplier B, workers interviews indicated that overtime in excess of three hours was recorded manually and paid in cash and not shown in official time records, which indicate that the factory had not been transparent in their time recording practices. At Supplier B the workers had been informed that social auditors might come and speak to them, but not coached on what to say. At Supplier B there were also indications from workers interviews that the factory had started extensive subcontracting without telling the buyers. All interviewed workers stated that the supplier used subcontractors, but the management denied this when asked by SwedWatch's consultant.

At Supplier D six interviewed workers, who worked in the sewing workshop, reported that they brought work home at nights. They took home toy accessories, for example eyes and paws, and did some hand sewing after their work at the factory was finished. One worker reported she saw many workers from the sewing workshop bringing back work to their homes/living quarters. Work done at home was paid on piece-rate. These statements also indicate that the workers from the sewing workshop worked more than 69 hours per week during peak season. This habit is most probably in conflict with buyers' policies and not sanctioned by them.

### **Actions taken after findings were revealed**

Several of the suppliers have started to take corrective action after SwedWatch submitted the results of their factory assessments in September 2009. According to Brio, Manufacturer F has now made considerable efforts to comply with Brio's requirements. Among the issues which have now been corrected are that employees have been provided with employment contracts, safety equipment is in place and all employees have received training in health and safety and legal rights. Suppliers B, C, D and Supplier E have sent SwedWatch corrective action plans for non-compliance issues identified.

### **3.1. The views of the manufacturers**

The managers generally feels that buyers demand more and more when it comes to quality and CSR, but at the same time prices have dropped due to several different reasons. Supplier E estimates that prices have declined 5-10% in 2009 mainly because of weakened demand on the international market. Many of the managers mention that higher prices of raw material and following various regulations at the same time has increased costs extensively over the last few years. SwedWatch has conducted interviews with management at Suppliers B, D and E, through our local consultant. The views of the managers are generally the same concerning CSR requirements, reasons for non-compliance and the price pressure from buyers. They all express that the CSR requirements have been effective in improving working conditions, but they are all critical about the fact that it is the manufacturers who has to bear all the costs.

One manager thinks that the awareness among the workers themselves has increased a lot over the last few years. The manager at Supplier D says for example that he senses a growing awareness among workers, especially with the help of the Internet.

The costs of quality inspections and increasing social and environmental audits are, in most cases, paid by the factories. The cost of CSR requirements is difficult to estimate, but Supplier B says that it spends approximately RMB 1 million every year on improving working conditions. Supplier D has an annual budget of RMB 500 000 only for activities related to social compliance audits. The manager for Supplier D says that the company tries to calculate the costs for complying with the Code of Conduct before it accepts an order. However, in general it is difficult to get the buyers to accept rising costs.

Managers tell SwedWatch that changes in delivery dates and production volume are common and if the supplier does not meet delivery dates they are fined by the buyers.<sup>78</sup> The manager at Supplier D thinks that it is difficult to achieve compliance on working hours and wages due to the pressure of cost control. Many man-

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78 SwedWatch's consultant interview with management at Supplier D on 14 July 2009.

agers express that they experience a dilemma between social compliance on one hand, and demands for shorter lead-times and lower prices on the other.

“There are limits to overtime, but if delivery deadline is changed, it is really difficult for us to re-plan and maintain overtime within acceptable limits”, says a manager at Supplier B.

One manager argued that most costs can be met, but wages increase would be difficult to bear.

The manager at Supplier E expresses that the previous “fun” toy industry is no longer fun at all and refers to the numerous industry standards and regulations that have to be met, labour shortages and increased labour cost, and the continued price running tendencies of buyers.

Despite the difficulties the three managers say that when it comes to their companies they have been able to fulfil demands from the buyers and survived, and they do see that complying with the set requirements is a necessity to obtain orders nowadays. But they believe it is unfair competition when some suppliers can offer a much lower price by not fulfilling all requirements.<sup>79</sup>

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79 SwedWatch’s consultant interview with management at Supplier B on 31 July 2009.

## 4. The retailers

Below is a presentation of the Swedish and Danish companies that SwedWatch has chosen to investigate within the scope of this research. This information is complemented by the report “En rapport om leksaker” by Fair Trade Center which analyses eight major actors on the Swedish toy market (in addition to ICA, Top-toy, Brio and Åhléns Group also adding COOP, Leklust, Barnens hus and Lekia).

### The retailers’ CSR strategies<sup>80</sup>

RETAILER	TOP-TOY	BRIO	ICA	ÅHLÉNS GROUP
Market share <sup>14</sup>	33%	7%	6%	2%
Own production?	No	No	No	No
Total number of toy suppliers?	Approx. 286 suppliers in 2009.	Approx. 145, among which 4 produce Brio-labelled products.	19	12
Certified factories?	67% are ICTI certified. The remaining 33% are internally audited.	No – 80% are ICTI certified. Goal to have 100% ICTI certified by the end of 2010.	No – Goal to have all suppliers internally audited by 2011.	Yes – 100% ICTI certified.
Code of Conduct?	Yes, since 1999.	Yes, since 1995 (and the ICTI Code since 2005).	Yes, since 1996.	Yes, since 1994 (revised 2001)
Are all ILO core conventions included?	No <sup>15</sup>	No <sup>16</sup>	Yes	Yes
Are there any follow up routines?	Yes	Yes	Yes	Yes
Any measures taken other than social audits?	Top-toy states that it moves production to better-performing suppliers despite increasing costs. <sup>17</sup>	Yes, training for management at Brio-labelled suppliers. Sharing costs for audits from time to time. Reduced number of suppliers.	Yes, some management training conducted. Reduced number of suppliers.	Yes, reduced number of suppliers.

<sup>14</sup> GfK kundindex, [http://www.gfk.com/se/your\\_market/entertainment/toys/index.se.html](http://www.gfk.com/se/your_market/entertainment/toys/index.se.html)

<sup>15</sup> 24th of November Top-toy sent SwedWatch an internally revised Code of Conduct (July 2009) which do refer to freedom of association, however, it still lack inclusion of all ILO core conventions. This revised code is not official and applicable yet.

<sup>16</sup> The ICTI Code of Business Practice does not refer to any other ILO conventions than one concerning Child labour, the Code has no paragraphs on the core conventions concerning freedom of association and the right to collective bargaining other than referring to local law.

<sup>17</sup> SwedWatch, Appendix 2, “Billig, snabb och lydig-en rapport om kinesiska leksaksarbetare och företagens ansvar”, October 2004. Confirmed again by Top-toy in November 2009.

<sup>80</sup> Information is partly researched by Emma Hernborg at Fair Trade Center and published in the report “En rapport om leksaker”, Fair Trade Center, <http://www.fairtradecenter.se/material/rapporter>.

## 4.1. Brio

Brio is one of the most famous Swedish toy companies, mostly known for its wooden trains. Earlier, Brio managed a franchise chain of shops called Brio Partners, but it does not own any of these shops in Sweden anymore.<sup>81</sup> Brio owns only one shop in central Stockholm.

The Brio company was formed in 1884 and is today an international group with the Brio, Simo and Alga brands.<sup>82</sup> The Brio Group consists of two divisions; Brio Toy and Brio Baby (prams and furniture). Brio Toy consists of Scanditoy, an extensive toy wholesaling business in the Nordic region. Scanditoy distributes Brio Toys and a lot of other branded toys to Scandinavia. The company has about 340 employees, is represented in over 50 countries and has been listed on the stock market since 1985. 2008-2009 Brio experienced a major liquidity crisis and were close to bankruptcy.

Brio's head office is located in Malmö, Sweden. The company has about 50 distributors worldwide and subsidiaries in Scandinavia, Germany, France, Japan and Hong Kong.

### **Corporate responsibility**

Brio has worked with ethical requirements as concerns its suppliers since 1995, and since 2005 on the basis of ICTI's Code of Business Practice.<sup>83</sup> The ICTI Code lacks paragraphs on the fundamental rights to freedom of association and collective bargaining and does not refer to any ILO Conventions other than on child labour (the ICTI Code of Business Practises states only that employees should have the right to "freely exercise their rights of employee representation as provided by local law"). Brio works with a suppliers' manual which includes references to ICTI's Code of Business Practice which all of their suppliers have to sign.

Their CSR work has higher priority at the four factories where Brio manufactures its own BRIO labelled products than for the rest of the product range. These Brio manufacturers are all ICTI certified factories and go through ICTI audits once a year as well as Brio's own complementary social audits, conducted by independent external audit companies. In addition, Brio personnel visit these factories on a regular basis for production and quality reasons.

In addition to the external audits by ICTI and other independent auditors that are carried out on an annual basis, Brio's own monitoring is conducted by Brio's purchasing and management personnel in Sweden and Asia. Brio's Quality Manager Göran Kullberg informs SwedWatch that Brio started off several activities after SwedWatch's last report in 2004. Examples of these activities were training

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81 Information given by Jessica Nyström, Information Director, Brio, in an email 13 September 2009.

82 [www.Brio.net](http://www.Brio.net), accessed 2009-05-19

83 Brio's website, [http://www.brio.net/BRIO\\_NET/Sverige/?b=2](http://www.brio.net/BRIO_NET/Sverige/?b=2)

on CSR for middle and top management at production plants for Brio branded goods, financial assistance during the process of certifying factories, environmental audits of the largest factories and strengthening the quality assurance organisation. However, the period of serious profitability and liquidity problems in 2008 seriously affected the range and pace of the company's development efforts.

Prior to the crisis, the Brio Group had a goal that all suppliers should be ICTI certified by 2007/2008, Brio's CEO, Andreas Sbrodiglia, tells SwedWatch that this goal has been revised to the end of 2010.<sup>84</sup> Göran Kullberg however states that all large and important suppliers to Brio Group are ICTI certified and approximately 80 percent of the purchased volume is from certified suppliers. When buying one-off, seasonal products BRIO admits that they have not always conducted social audits nor visited factories. Brio states that information about its social requirements is given to factory management and that it is also required that information should also be available in Chinese to the employees.

Brio's CEO, Andreas Sbrodiglia, expresses an understanding for the fact that these CSR demands will cost something for the buyer and he means that Brio is ready to pay this price to safeguard its brand name. It is, however, difficult to obtain any more detailed information on how this is done. Göran Kullberg says that occasionally Brio shares the costs for social audits with their suppliers.

According to Göran Kullberg, ICTI CARE is much focused on fire safety and health and safety issues. Regarding the issue of excessive working hours he thinks that ICTI has succeeded in getting the manufacturers to give legal payment, something he believes means a lot to the workers.

He thinks that Brio's own external audits and ICTI's are done in generally the same manner. The most common non-compliance issues are notations on rules and regulations on fire safety and health and safety, but there have also been cases of non-compliant wage levels.

According to Brio, the issue of corporate responsibility is of highest priority and should be integrated into the company's business processes. Generally for all sustainability work, the new CEO Andreas Sbrodiglia wants Brio to focus on working environment, working conditions and outer environmental issues. Andreas Sbrodiglia informs SwedWatch that Brio has recently employed a Supply Chain Director, with overall responsibility for Corporate Responsibility in executive management, and a project manager, responsible for Brio's Corporate Responsibility projects.

Brio buys from Suppliers C – F in our report. Initial response on the findings was that the conditions at Supplier F were not acceptable. Brio was negatively surprised since it knew that recent audits were made both by ICTI CARE in January 2009 and another audit firm conducted one additional audit in June 2009 at

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84 Letter to Swedwatch from Andreas Sbrodiglia, CEO, Brio, 13 October 2009.

Supplier F. Brio says to SwedWatch that it is now working hard to improve the non-compliances found and Andreas Sbrodiglia visited China in October 2009 to ensure that this is implemented. According to Brio several improvements have been reported at Supplier F by November 2009 and an external audit conducted in November 2009, also shows major improvements at Supplier F. Brio has drawn the conclusion that their efforts so far have not been sufficient.<sup>85</sup> Brio also state that it has introduced new, stricter internal purchasing guidelines (from autumn 2009) where it should no longer be possible to place an order before a social audit has been conducted.<sup>86</sup>

## 4.2. Top-toy

Top-toy A/S is the largest toy retailer on the Northern European market. Top-toy A/S is a holding company that consists of the following companies: BR Toys, Toys R Us (Scandinavia) and Top-toy (Hong Kong) Ltd.<sup>87</sup> Top-toy was established in 1963 by the Gjoerup family, the company operates the BR chain in Sweden, Denmark, Norway, Finland and Germany as well as the Toys R Us chain in Sweden, Denmark, Norway, Finland and Iceland. In the 2007-2008 financial year, Top-toy had a turnover of over EUR 400 million and employed 2 600 full-time employees. The head office and the distribution centre are located in Denmark, while the sourcing office is located in Hong Kong.

On 17 June 2009, Top-toy announced its acquisition of the principal assets and activities of K.E. Mathiasen A/S, the Nordic region's largest distributor of toys, leisure and multimedia products for children and youth.<sup>88</sup> This means that Top-toy became both the largest retailer and the largest toy distributor in the Nordic region.<sup>89</sup>

Top-toy's CEO Lars Gjoerup participated actively in the 2004 survey. For the report in hand Top-toy offered its assistance to arrange factory visits in the beginning of the research. However, Top-toy later declined being interviewed by SwedWatch on any of the findings and on its CSR-work arguing that since it had no longer business activities with two (supplier B and C) of the four original suppliers from 2004, it could not make any comments. By e-mail, Lars Gjoerup however states that Top-toy, after 2004, has added further resources in order to

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85 Letter to Swedwatch from Andreas Sbrodiglia, CEO, Brio, 13 October 2009.

86 Email from Jessica Nyström, Communications Manager, Brio, 26 October 2009.

87 Top-toy website, <http://www2.top-toy.com/Service?SuccTPL=TTtoptoyGroupTPL&lang=E>, accessed 24 August 2009.

88 Press release from Top-toy 17 June 2009, "TOP-TOY Holding A/S to acquire K.E. Mathiasen effective 1 July 2009", <http://www2.top-toy.com/media/VEJLED/562968.pdf>, accessed 24 August 2009).

89 Market no 34-35, "Jätten tar över hela spelplanen", 19 August 2009, Kalle Östgren, accessed 24 August 2009).

ensure social compliance.<sup>90</sup> The company has also been given the opportunity to read and comment on the information about Top-toy before publication.

### **Corporate responsibility**

Top-toy adopted a Code of Conduct in 1999, which according to Top-toy has been revised in July 2009, however it is still not applicable.<sup>91</sup> The code in force lacks paragraphs on the fundamental rights to freedom of association and collective bargaining and does not refer to any ILO Conventions or any other international norms.<sup>92</sup>

According to the Top-toy website, all the factories are inspected prior to placing an order. Top-toy endorses the international guidelines issued by ICTI and the Code of Conduct includes requirements concerning working conditions, staff facilities, child labour etc.<sup>93</sup> Lars Gjoerup, CEO, writes that since 2004 the company has doubled the size of its social audit team in China, and has appointed a Group Sustainability Manager covering CSR activities and a CSR consultant in its headquarters.<sup>94</sup> Top-toy monitors relevant manufacturers and their facilities to ensure compliance with its Code of Conduct. Manufacturers are asked to show all documentation that may be needed to demonstrate compliance with Top-toy Code of Conduct. Top-toy requires full access to all facilities for on-site inspections, including unannounced visits, by their own personnel and/or assigned representatives. Top-toy may also conduct interviews with employees during their audits. According to the company's own website, Top-toy's Code of Conduct should be available in full to all personnel in the local language. A Chinese translation of the code is published on the site.<sup>95</sup>

In 2004, Top-toy told SwedWatch that their suppliers were divided into four categories on the basis of compliance with their Code of Conduct, with A representing the best category and D the worst as concerns compliance. According to Top-toy 76% are in category A and 24% in the category B to D in 2009.<sup>96</sup>

According to Top-toy, if non-compliance issues are found they will enter into a dialogue with the manufacturer to improve the overall working environment for all personnel. It will request adequate Corrective Action Plans (CAP) to correct any non-compliant findings and undertake follow-up announced or unannounced visits to ensure that necessary improvements are made. If the situation

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90 E-mail from Lars Gjoerup, CEO, Top-toy A/S, 10 October 2009.

91 As per information sent 24th of November 2009.

92 Top-toy website, <http://www2.top-toy.com/Service?SuccTPL=TTtoptoyGroupTPL&lang=E>, accessed 24 August 2009.

93 Top-toys Code of Conduct, <http://www.top-toy.com.hk/coc.html>, accessed 23 September 2009.

94 E-mail from Lars Gjoerup, CEO, Top-toy A/S, 10 October 2009 and Veronique Bagge, CSR Manager, Top-toy, 24 November 2009.

95 Top-toys website, <http://www.top-toy.com.hk/coc.html>, accessed 15 October 2009.

96 Information sent by email to SwedWatch from Top-toy on 24th of November 2009.

does not progress in an acceptable manner, Top-toy has the right to terminate the manufacturer relationship.

The company actively promotes that its suppliers only source from factories which are involved in the ICTI Care Process.<sup>97</sup> Top-toy demands that the factories should either be ICTI-certified or subject to an internal Top-toy audit.

Concerning sharing the costs for CSR compliance with their suppliers, Lars Gjoerup states that there have been several cases when Top-toy has moved production from low grade factories to high grade factory and hereby increased costs by 20-40% for the same product.

Top-toy source from Suppliers A and D in SwedWatch's research presented on page 24-31<sup>98</sup>. Top-toy has declined to give any comment on these findings.

### 4.3. Ica

The Ica Group is one of the Nordic region's leading retail companies, with its main focus on food items. It consists of 2 200 of its own and retailer-owned stores in Sweden, Norway and the Baltic countries. The Ica Group's net sales amounted to EUR 8 548 million in 2007.<sup>99</sup> The Group includes Ica Sweden, Ica Norway and Rimi Baltic, as well as Ica Bank, which offers financial services to Swedish customers. Ica AB is a joint venture where 40 percent is owned by Hakon Invest AB and 60 percent by Royal Ahold N.V. Ica's market share for toys in Sweden is approximately 5%.<sup>100</sup>

Currently Ica has 19 active suppliers for their toy range. These are responsible for approximately 30% of the toys sold at Ica, while the other 70% comes from large brands such as Lego, Mattel, Simba Dickie etc.<sup>101</sup>

#### **Corporate responsibility**

Ica adopted a code of conduct in 1996 as part of its environmental policy. The requirements include references to ILO's core conventions.

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97 Email from Veronique Bagge, Top-toy, 7 October 2009.

98 Toy-toy has informed SwedWatch per email 17 April 2009 that Top-toy is sourcing from supplier A - D. However later SwedWatch was informed that no order was in placed with Supplier B and C in 2009.

99 ICA's Annual Report including the Corporate Responsibility Report for 2008, page 4, [http://www.Ica.se/file\\_archive/pdf/2009-06-03\\_ICA\\_Annualreport\\_ENG\\_final.pdf](http://www.Ica.se/file_archive/pdf/2009-06-03_ICA_Annualreport_ENG_final.pdf), accessed 25 August 2009. Currency converted from SEK to EUR according to Forex 20 October 2009 (EUR 1 = SEK 10.64).

100 E-mail correspondence with Niklas Waren, ICA Global Sourcing Ltd, 16 April 2009.

101 Telephone interview with Lena Bergendahl, Environmental and Social Manager, 17 September 2009 and e-mail correspondence with Niklas Waren, ICA Global Sourcing Ltd, 16 April 2009.

Ica is a member of the BSCI (Business Social Compliance Initiative), an industry-driven initiative which offers companies a common social management system with the aim of improving working conditions in supply chains.<sup>102</sup> The system is regulated by the BSCI Code of Conduct which is based on the ILO and UN Conventions concerning workers' rights. The audit results made within BSCI can later be shared among its member companies. On its website Ica states that "suppliers in risk countries must fulfil the BSCI Code of Conduct, which is best assured through a BSCI audit performed by a third part."<sup>103</sup> Ica is also a member of the UN initiative Global Compact and has signed its ten principles.<sup>104</sup> Ica has sourcing offices in Vietnam and China in order to monitor compliance. In China, Ica has had offices in Shanghai and Hong Kong since 2008, employing three auditors specialised in CSR.

Lena Bergendahl, the company's Environmental and Social Manager, explains that Ica has a goal to have reviewed all their suppliers (within the total range of products) with social audits by 2011. For toys, Ica has audited two thirds of its suppliers so far. Ica divides its suppliers into four levels from "good" to "non-acceptable". For toys 80% are regarded as "good" and "acceptable", at 10% of the factories Ica sees "need for improvement". Yet another 10% are regarded as "unacceptable". For certifications Ica says that it favours suppliers who can show certificates not only from ICTI CARE, but also SA8000 or BSCI audits for example.

For suppliers placed in the categories "need for improvement" or "unacceptable" category, Lena Bergendahl says that Ica has quite strict follow-up routines with action plans and re-audits within a certain time frame. At these suppliers Ica establishes individual corrective action plans.

Ica cannot promise that all employees have information about the content of Ica's social demands today, but according to Lena Bergendahl it would be desirable.

Lena Bergendahl thinks that audits alone cannot change poor working conditions. She regards audits as a starting point that need to be complemented with ethical purchasing patterns, capacity building, coaching of the suppliers and training. However, so far no other measures have been taken than audits and some training for management. There are some plans for the future including more capacity building projects in CSR.

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102 The BSCI website, <http://www.bsci-eu.org/index.php?id=2014>, accessed 24 September 2009.

103 The ICA website, [http://www.Ica.se/FrontServlet?s=in\\_english&state=in\\_english\\_dynamic&viewid=558203&showMenu=in\\_english\\_6\\_1](http://www.Ica.se/FrontServlet?s=in_english&state=in_english_dynamic&viewid=558203&showMenu=in_english_6_1), accessed 25 August 2009.

104 ICA's Annual Report including the Corporate Responsibility Report for 2008, page 4, [http://www.Ica.se/file\\_archive/pdf/2009-06-03\\_ICA\\_Annualreport\\_ENG\\_final.pdf](http://www.Ica.se/file_archive/pdf/2009-06-03_ICA_Annualreport_ENG_final.pdf), accessed 25 August 2009.

“We need to make our suppliers understand that these issues are good for them, not that they do it just to please us, in order to achieve sustainable improvement and not only window-dressing”, says Lena Bergendahl.

Ica has run four training inputs so far concerning their social requirements and what they expect from their suppliers. These training courses were directed at suppliers in general, not only toy manufacturers.

Ica sources only from Supplier B presented above. Ica purchases for approximately USD 20 000 annually from supplier B, which is quite low compared with orders placed with other suppliers, according to Ica.<sup>105</sup> Ica has judged Supplier B as “acceptable” with only minor non-compliances found during an audit made in April 2008, hence Ica has not prioritised any follow-up audit at Supplier B. Ica did ask supplier B if it used subcontractors in the audit in April 2008, and the supplier stated that it did not.

#### 4.4. Åhléns Group

Åhléns is one of the leading retailers in Sweden with operations focused on four business areas: Fashion, Beauty, Homeware and Media.<sup>106</sup> Åhléns is part of the Åhléns Group which also has business operations in Norway. Åhléns Group had a turnover of EUR 545 000 in 2008<sup>107</sup>, and employs more than 5 000 employees. The Åhléns Group AB is a wholly owned subsidiary of Axel Johnson AB, which in turn is wholly owned by Antonia Ax:son Johnson and family.

Of the total purchasing of Åhléns toys, 50% is bought through its own purchasing and 50% is purchased through wholesalers. The company has around 250 suppliers in Asia within all ranges of products. Åhléns Group has three purchasing offices in Asia; in Hong Kong, Shanghai and New Delhi. The majority of toys are sourced from China.

##### **Corporate responsibility**

The Åhléns Group has enforced a code of conduct since the mid-90s which was revised in 2001. The code refers to the ILO core conventions.<sup>108</sup>

To date it has been the responsibility of the managers of the three purchasing offices to audit whether the code of conduct is implemented at suppliers’ factories or not. However, according to Filippa Bergin, Manager Environmental and Social

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105 E-mail correspondence with Niklas Waren, ICA Global Sourcing Ltd, 16 April 2009.

106 The Åhléns website, [http://www.ahlen.se/common/bottom\\_menu/in\\_english.html](http://www.ahlen.se/common/bottom_menu/in_english.html), accessed 25 August 2009.

107 Currency converted from SEK to EUR according to Forex 20 October 2009 (EUR 1 = SEK 10.64).

108 Åhléns Code of Conduct, [http://www.ahlen.se/om\\_ahlen/foretagsinformation/varderingar\\_och\\_policies/allman\\_uppforandekod.html](http://www.ahlen.se/om_ahlen/foretagsinformation/varderingar_och_policies/allman_uppforandekod.html), accessed 5 October 2009.

Compliance, the Åhléns Group plans to increase the quality of the monitoring of its Code of Conduct. One measure is to recruit an Audit Manager for the Åhléns Group's three buying offices in Asia during the autumn of 2009, another is to complement its own controls with third party verification.

"This is a new thing for us. Our aim is that we will verify 50% of our total purchase value from Asia within three years from now", says Filippa Bergin.

In 2008 the company started to work on their purchasing strategies. The Åhléns Group has decided to focus its efforts for CSR compliance at the suppliers where it has the largest leverage. Consequently, the Group has decided to reduce the number of suppliers in order to achieve better control over CSR compliance as well as more efficient business processes. The company has reduced the number of toy suppliers from 28 in 2008 to 12 in 2009.

For toys, the Åhléns Group places much trust in the ICTI CARE process. As a result of SwedWatch's last research in 2004, the Group took a decision to purchase exclusively from ICTI certified factories. In addition to that, their own purchasing office managers have visited all toy suppliers (within their direct sourcing). According to Filippa Bergin, ICTI CARE checks that the employees also receive information about their rights as stipulated in the standard.

When buying from wholesalers, the Åhléns Group requests the wholesaler to sign an undertaking that it will comply with the Åhléns Group Code of Conduct; it is later up to the wholesaler to monitor compliance. Filippa Bergin says that much of the Åhléns Group's buying goes through well-known brand companies as Brio and Disney, which have their own codes of conduct and follow-up mechanisms. Regarding changed business practices, Filippa Bergin states that the Åhléns Group has chosen to concentrate the number of suppliers and will continue to do so. She regards their own audits as more of assistance to their suppliers, which would then be complemented by third party audits, which maintain the verification role.

According to Filippa Bergin, Åhléns is now in the process of elaborating a new CSR strategy for the entire Åhléns Group.<sup>109</sup> One of the goals is that the Group will increase the range of "sustainable products", however, not especially regarding its toy range.<sup>110</sup>

The Åhléns Group buys from Suppliers A and B in the investigation above. These suppliers show quite good compliance to legal and code requirements. Nevertheless, after SwedWatch revealed the findings from our research, the Åhléns

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109 Interview, Filippa Bergin, Manager Environmental and Social Compliance, Åhléns, 7 September 2009.

110 The definition of "sustainable products" is not totally clear, but Filippa Bergin means that Åhléns will offer their customers more socially and environmentally labelled/certified products in the future.

Group decided to conduct their own third party audits at these suppliers. Among other issues, the Group identified that were remaining irregularities regarding time records with supplier A. With regards to functioning workers participation, Åhléns' investigations shows that Supplier A did have a worker committee which was functioning, in conflict with the findings from Swedwatch's result. Filippa Bergin has informed SwedWatch that Åhléns will further discuss the reports about subcontracting arrangements with Supplier B. Åhléns' review of six toy suppliers are available to download from [http://www.ahlens.se/om\\_ahlens/pressinformation](http://www.ahlens.se/om_ahlens/pressinformation).

## 5. Conclusion

SwedWatch's follow up investigation of four factories first examined in 2004 shows many improvements in several important aspects of working conditions. The most promising is that employees are provided with labour contracts and are more aware of their rights. Among other visible improvements at these four suppliers is less extreme overtime, legal overtime pay, one day off guaranteed per week, guaranteed minimum wages and health and safety training inputs.

For Suppliers A, B and C most of the criticisms from 2004 have more or less been remedied, for Supplier D there are still indications of working hours above the legal limit and non provision of full social insurance.

For the two suppliers who were not included in SwedWatch research in 2004, the result of this review differs considerably. Supplier E is in legal compliance with most issues, while Supplier F has much non-compliance and is not used to CSR requirements and social audits on any large scale. Nevertheless, Supplier F is ICTI certified and Brio, which is the only Swedish buyer from this supplier, states that it has done parallel audits as well as having personnel on site every week. As SwedWatch did not visit this factory, but is able to draw conclusions on the basis of worker interviews only, it is hard to speculate about the reasons for the non-compliant situation at this supplier. It is also important to keep in mind that the suppliers investigated are suppliers that were initially selected by the buyers.

Within SwedWatch's research on the follow up of the social requirements of Gothenburg Municipality ([www.swedwatch.org](http://www.swedwatch.org)), it is also evident that it is suppliers with no experience of CSR requirements and audits which perform worst. So it should be safe to conclude that, on the basis of SwedWatch's study in 2009, it is proved that CSR requirements and audits in most cases do have some impact on factory standards.

Having said this it is however very important to look at the outstanding issues which so far have not been reached by the buyers' CSR efforts and social audits.

### **No workers' participation**

At all suppliers, except in some aspects Supplier B, the workers lack any real participation. This has, of course, to do with the situation of legal restrictions against freedom of association in China, but nevertheless the fact is that Chinese legislation nowadays provides opportunities for negotiations on collective contracts in workplaces. All factory unions must be part of ACFTU, but they may elect their own representatives and more or less function on a local level. Buyers must elaborate ways to support this development; a first step could be to arrange workers' training inputs in cooperation with labour NGOs and their suppliers.

Several suppliers do still not cover all legally required social insurance, only two suppliers pay sick and annual leave as legally stipulated and all except one sup-

plier have some indications of lack of health and safety measures. This again shows that workers' participation in monitoring systems is crucial.

### **Poor Transparency**

Even though SwedWatch's current study does not find any proof of the worst forms of supplier cheating as concerns the buyers and auditors, there are worrying indications that it is still happening. All workers at Supplier B report that the factory subcontracts extensively (without telling the buyers) as well as having a system where workers do not register overtime after 3 hours. Supplier D has a system of home working which most probably the buyers do not know about. These examples are not only found in Swedwatch's research, but stated in many reports from China and confirmed by ICTI CARE as well.<sup>111</sup>

Reports from SwedWatch and others show that ICTI Certified factories still can have several unacceptable non-compliances and this is a clear sign that changes to the ICTI CARE system are necessary. SACOM and Stop-toying-around's recent report (launched in December 2009) shows this with clarity; suppliers being repeatedly audited, but still workers give evidence about compulsory working conditions. It is not enough to simply state that "there will always be those who will try to cheat and these are the people we need to weed out" as Ian Anderson argues at ICTI CARE.<sup>112</sup> SwedWatch believe that it is time to reform ICTI CARE and to turn it into a true multi-stakeholder initiative. A multi-stakeholder initiative is organised with parties from unions, NGOs and companies (public sector agencies could also be a part of MSIs).<sup>113</sup>

It is basically good that ICTI CARE is organised, especially in an industry so divided and characterised by many middle men a system that starts with the producer is necessary. However, it is also essential that all parties in the supply chain take their part of the responsibility in order to make it work at the producer stage. As ICTI CARE works now for the buyers, it is too much of an indulgence. Merely signing on to ICTI CARE will not help the situation. Still, codes of conducts remain too much an issue between buyers and managers only, without involving the participation of the people it is all about; the employees in the Chinese factories. Another limitation regarding ICTI CARE has to do with the fact that the ICTI Code of Business Practice does not refer to any ILO conventions, other than the one on child labour.<sup>114</sup> The content of the code is very weak with regards to the fundamental right of freedom of association and collective bargaining.<sup>115</sup> ICTI CARE also needs to increase its transparency on whether, and to what extent, companies have implemented the ICTI Code.

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111 Interview with Ian Anderson, Vice President ICTI CARE Asia, 24 September 2009.

112 Ibid.

113 Examples of MSIs are Ethical Trading Initiative and Fair Wear Foundation.

114 The ICTI Code of Business Practice, <http://www.toy-icti.org/info/codeofbusinesspractices.html>

115 Ibid.

It is evident that audits and CSR requirements cannot solve the root causes of non-compliance, and if these are not solved, there is a major risk that buyers and suppliers instead continue to play ‘cat and mouse’ while spending loads of valuable resources.

ICTI CARE possesses an inherent problem – i.e. only imposing demands on the suppliers. However, buyers also have to provide fair purchasing practices, which mean equitable prices and terms of delivery.<sup>116</sup> This, in combination with capacity building for the suppliers and worker training, have the potential to lead to sustainable improvements of working conditions in the Chinese toy industry.<sup>117</sup>

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116 This view is supported by the German toys campaign “Aktion fair spielt”, in a letter from Uwe Kleinert, coordinator of the German toys campaign “Aktion fair spielt”, sent by e-mail to SwedWatch’s consultant Jerker Thorsell 18 September 2009. It was also strongly expressed by ICTI CARE’s Vice President, when SwedWatch spoke to him, 24 September 2009.

117 This view is supported by Fair Wear Foundation in the report “Best practices in factory training in China: Contributing to more worker participation in the improvement of working conditions, Paper by the Fair Wear Foundation (FWF)”, September 2009, <http://goodelectronics.org/news-en/best-practices-in-factory-training-in-china-contributing-to-more-worker-participation-in-the-improvement-of-working-conditions>, accessed 1 October 2009.

## 6. Recommendations

As for the buyers involved in this report, the Åhléns Group, Brio, Top-toy and Ica, some important efforts have absolutely been made since 2004, but necessity of enforcement still remains:

### **All retailers**

- All retailers need to work with their suppliers to conduct corrective action plans to solve (and when needed; further investigate) non-compliance issues found in SwedWatch's research.
- All the retailers need to become involved in more capacity building projects with their suppliers; conduct workers and management training etc. As it is now, the focus is too much on auditing and control.
- The workers needs to be regarded as key stakeholders and involved in the monitoring of working conditions at the factories.
- Analysis of root causes of the problems found is essential.
- Facilitate and encourage the election of local unions which also can negotiate collective contracts for workers.
- Make a more distinctive change in purchasing practices in order to share costs for CSR with suppliers (including better planning of production so the problems with seasonal peak loads are mitigated).
- Should develop strategies for working towards living wage for those producing their toys.

### **Top-toy**

- Top-toy's internally revised Code of Conduct must include all ILO core conventions; and be put in force as soon as possible.
- Top-toy also needs to increase its transparency (it has been difficult to research Top-toy as their CEO has decided not to answer many questions from SwedWatch and the information on the website is not very informative).

### **Brio**

- Brio needs to reduce their total number of suppliers in order to obtain better control and to make enforcement of its social demands feasible. It also needs to improve its monitoring of social requirements; especially of factories supplying smaller quantities.
- Brio should revise its/ICTI Code of Business Practice so that it refers to and includes all ILO core conventions.

## **All suppliers**

- Respect and facilitate internal & external social audits including workers interviews ensuring each individuals safety.
- Take action on the indicated non-compliances found, together with the buyers. Focus should be on transparency and sustainable improvements.
- Discuss with buyers about sharing costs (by giving more time, planning better or paying better prices for example) for increased social requirements. Openly report on difficulties in following requirements if buyers are not ready to pay the price for these.
- Be transparent. Discuss the challenges rather than hide them from the buyers.
- Involve employees by arranging workers' training with external experts (workers' rights NGOs or consultants).
- Facilitate and encourage the election of local unions which also can negotiate collective contracts for workers.

## **ICTI CARE**

- ICTI CARE needs to be reformed. ICTI CARE should develop into a true multi-stakeholder initiative. A start could be to invite NGOs and trade unions to a meeting with this aim.
- The retailers, the wholesalers and the agents all have to become much more involved in the ICTI CARE process and change their purchasing practices accordingly.
- It is necessary that ICTI CARE begin to work much more with workers' training and facilitate and encourage the election of local unions which then also can negotiate collective contracts for Chinese workers.
- The ICTI Code of Business Practice needs to be revised (start referring to ILO conventions; include all ILO core conventions such as fundamental human rights - the right of freedom of association and collective bargaining). It should also include the right to a living wage.

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# Appendix I. The legal framework

Below is a presentation of the legal framework for decent working conditions in China. SwedWatch also elaborates on how this framework differs or refers to the ICTI CARE standard (which most Swedish toy companies abide by).

## China and ILO Core Conventions

China has been a member of the International Labour Organisation (ILO), the UN organisation for labour issues since 1983.<sup>118</sup> The ILO has agreed on eight core conventions dealing with forced labour and slave labour, freedom of association, the right to organise and the right to collective bargaining, the right to equal remuneration for work of equal value, discrimination and child labour.<sup>119</sup>

China has ratified four of the ILO core conventions; the ones on Equal Remuneration Convention (no 100), Minimum Age Convention (no 138), Worst Forms of Child Labour Convention (no 182) and Non-Discrimination, Employment and Occupation (no 111). China's laws are quite well adapted to ILO's core conventions with the important exception of the ban on union rights and collective bargaining.<sup>120</sup> China has still not ratified the Convention on Freedom of association, the right to organise and the right to collective bargaining (conventions 87 and 98). As a member of ILO, China is however in reality still obliged to follow these conventions. The ILO core conventions are the basic set of rules that most larger companies and public purchasers will include in their sets of standards. Worth mentioning here is that this is not the case with the ICTI Code of Business Practice, which does not refer to the ILO conventions, except on the child labour issue.<sup>121</sup>

## Chinese national legislation on working conditions

### Working hours

Legal working hours in China are 40 hours per week. On top of that, the maximum overtime should be no more than 36 hours per month, making a maximum

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118 The Swedish Ministry for Foreign Affairs, Human rights in China 2007, [http://www.manskligarattigheter.gov.se/extra/faq/?module\\_instance=3&action\\_question\\_show.2558.0.=1](http://www.manskligarattigheter.gov.se/extra/faq/?module_instance=3&action_question_show.2558.0.=1), accessed 1 September 2009.

119 ILO Core conventions, <http://www.labourstart.org/rights/#en> accessed 1 October 2009.

120 The Swedish Ministry for Foreign Affairs, Human rights in China 2007, [http://www.manskligarattigheter.gov.se/extra/faq/?module\\_instance=3&action\\_question\\_show.2558.0.=1](http://www.manskligarattigheter.gov.se/extra/faq/?module_instance=3&action_question_show.2558.0.=1), accessed 1 September 2009.

121 The ICTI Code of Business practice, <http://www.toy-icti.org/info/codeofbusinesspractices.html>

working week of 49 hours.<sup>122</sup> ILO's Hours of Work (Industry) Convention sets the limit to 48 hours of regular work per week.<sup>123</sup>

Despite the Chinese law and the ILO convention on working hours, the industry praxis in China is that working hours are much longer. The different provincial governmental authorities are able to permit waivers to companies, especially in industries with seasonal production cycles like the toy industry.<sup>124</sup> On the basis of industry praxis and the exceptions issued by local governmental authorities, ICTI CARE has decided to accept 66 hours a week as a working hours standard.<sup>125</sup>

“We know that the working hours are much higher most of the time and that is why we want to bring it down step by step. The most important thing is to get the factories to be transparent and that they pay the workers with the correct over-time compensation”, says Ian Anderson, Director of ICTI Care for Asia.

The goal is that all ICTI certified factories will meet the 66 hour working week rule by 2012. ICTI CARE has set up three categories for their certified factories; class A factories already comply with 66 working hours a week, within class B ICTI CARE accept that employees work 72 hours per week and within the category “conditional” more than 72 hours working hours are accepted. According to ICTI CARE, class B and Conditional Seal Factories needs to participate in a Continuous Improvement Program (CIP) so that continuous reduction of working hours can be ensured.<sup>126</sup>

All workers have the right to one free day a week according to Chinese law.<sup>127</sup> This is also in accordance with the ILO convention no 14 Weekly Rest (Industry)

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122 Article 41 of The Chinese Labour Law stipulates that the total extended working hours in a month shall not exceed 36 hours.

123 The ILO's C1 Hours of Work (Industry) Convention states that working hours shall not exceed eight in the day and 48 in a week. It is allowed to employ people for shifts in excess of eight hours per day and 48 hours per week, but only if the average number of hours over a period of three weeks or less does not exceed eight per day and 48 per week (Article 2c). <http://www.ilo.org/ilolex/english/convdisp1.htm>

124 Information given by Ian Andersson, Director Operations Asia, ICTI Care, 24 September 2009. Waivers that permit more working hours than the law are more or less common in different regions and differ from time to time, according to Ian Anderson.

125 Telephone interview with Ian Andersson, Director Operations Asia, ICTI Care, 24 September 2009. Chinese document sent from SwedWatch consultant in China with an ICTI policy from 22 July 2009 confirms this. The Procurement Company Gothenburg though, demands that the companies should follow national laws.

126 Chinese document sent from SwedWatch consultant in China with an ICTI policy from 22 July 2009 confirms this complemented by e-mail correspondence between ICTI CARE and SwedWatch Chinese consultant, accessed 8 September 2009.

127 Labour Act. Dated 5 July 1994, CHAPTER IV, Section 38.

Convention, ratified by China.<sup>128</sup> ICTI CARE also demands from all ICTI Care certified factories that employees are guaranteed the right to minimum one day rest per seven days.<sup>129</sup>

### **Payment**

China has a system with different set of minimum wages for different locations and regions.<sup>130</sup> All employees must be guaranteed payment of the legal local minimum monthly wage. In the areas covered by this research, minimum wages varied between RMB 770 and 900 per month depending on the location of the factory.<sup>131</sup> Overtime is legally required to be paid at 150% for weekday and 200% for rest day.<sup>132</sup> Overtime on national holidays must be paid at 300%.<sup>133</sup>

### **Contracts**

The 1994 China Labour Law stipulates that “labour contracts shall be concluded if labour relationships are to be established” (Article 16).<sup>134</sup> The Labour Contract Law, effective as of 1 January 2008, reaffirms the same requirement in its Article 10 and further provides that “the employer and the employee shall each hold one copy of the labour contract”.

### **Insurance**

The Chinese Labour Law mandates that all employees should be provided with comprehensive social insurance; retirement, accident, medical and unemployment insurance.<sup>135</sup> However, the government’s insurance program is not popular with the workers, especially not with migrant workers, because they cannot bring the social insurance coverage with them when they move from one city to

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128 ILO C14 Weekly Rest (Industry) Convention, <http://www.ilo.org/ilolex/english/convdisp1.htm>, accessed 25 September 2009.

129 ICTI, Appendix IIa: Guidance Document, <http://www.toy-icti.org/info/appendixII.html>

130 Regulations concerning minimum wages in enterprises, 1993, <http://www.ilo.org/dyn/natlex/docs/WEBTEXT/44000/65000/E94CHN02.htm>, accessed 25 September 2009-09-25.

131 Information gathered by SwedWatch’s local consultant and given in e-mail correspondence in September 2009.

132 Labour Act. Dated 5 July 1994, CHAPTER IV, section 44, <http://www.ilo.org/dyn/natlex/docs/WEBTEXT/37357/64926/E94CHN01.htm#Chap4>

133 “Implementation Measures for Paid Annual Leave for Employees of Enterprises”, which was promulgated by the “Ministry of Human Resources and Social Security”, came into force on 18 September 2008. Information received by e-mail from SwedWatch local consultant 2009-10-05.

134 Labour Act. Dated 5 July 1994, <http://www.ilo.org/dyn/natlex/docs/WEBTEXT/37357/64926/E94CHN01.htm#Chap3>

135 Labour Insurance regulations of the People’s Republic of China, [http://www.novexc.com/labor\\_insur\\_regs\\_51.html](http://www.novexc.com/labor_insur_regs_51.html), accessed 25 September 2009. Labour Act. Dated 5 July 1994, CHAPTER IX, <http://www.ilo.org/dyn/natlex/docs/WEBTEXT/37357/64926/E94CHN01.htm#Chap9>, accessed 28 September 2009.

another, as is often their practice.<sup>136</sup> As a compromise, local governments may issue waivers that allow factories not to provide 100% social insurance coverage for employees. However, if employers have not received any permission for exceptions, they must cover all employees with the above mentioned compulsory insurance cover.

### **Child labour**

China has ratified ILO Convention no 182 regarding the elimination of the worst forms of child labour. According to the Chinese labour law employers are not allowed to employ workers under the age of 16.<sup>137</sup> There are also specific rules protecting young workers aged 16 to 18 from hard and hazardous working conditions.<sup>138</sup>

### **Health & Safety**

China has quite comprehensive legislation on health and safety requirements, including fire safety regulations.<sup>139</sup> The law requires, for example, regular health and safety training, fire drills twice a year and use of adequate Personal Protection Equipment (PPE).<sup>140</sup>

### **Paid sick and annual leave**

The law says that for an employee whose working tenure at the same company is one to ten years, there should be five days paid annual leave per year.<sup>141</sup> If the employee was asked by the factory to not take the leave, he/she should be paid at

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136 The information is given by SwedWatch's local consultant who has interviewed many hundreds of migrant workers and collected their views on the social insurances scheme. The consultant has also collected information on the local authorities' policies and examined the waivers issued to the local manufacturers. (e-mail correspondence in September 2009).

137 Provisions on Prohibition of Child Labour, [http://english.gov.cn/laws/2005-07/25/content\\_16967.htm](http://english.gov.cn/laws/2005-07/25/content_16967.htm), and Regulations Banning Child Labour, 2002, <http://www.ilo.org/dyn/natlex/docs/WEBTEXT/63806/65269/E02CHN01.htm>, accessed, 25 September 2009.

138 Labour Act. Dated 5 July 1994, CHAPTER VII, <http://www.ilo.org/dyn/natlex/docs/WEBTEXT/37357/64926/E94CHN01.htm#Chap7>, accessed 28 September 2009.

139 See, e.g. Labour Act. Dated 5 July 1994, CHAPTER VI, Law of the People's Republic of China on Work Safety, June 29, 2002, [http://english.gov.cn/laws/2005-10/08/content\\_75054.htm](http://english.gov.cn/laws/2005-10/08/content_75054.htm) and The Law on the Prevention and Treatment of Occupational Diseases, May 1, 2002, [http://www.ilo.org/dyn/natlex/natlex\\_browse.details?p\\_lang=en&p\\_country=CHN&p\\_classification=14&p\\_origin=COUNTRY&p\\_sortby=SORTBY\\_COUNTRY](http://www.ilo.org/dyn/natlex/natlex_browse.details?p_lang=en&p_country=CHN&p_classification=14&p_origin=COUNTRY&p_sortby=SORTBY_COUNTRY), accessed 15 October 2009.

140 Ibid.

141 Labour Act. Dated 5 July 1994, CHAPTER IV, section 44, <http://www.ilo.org/dyn/natlex/docs/WEBTEXT/37357/64926/E94CHN01.htm#Chap4>

300% of the basic wage for those five days.<sup>142</sup> According to Chinese law, sick leave can be paid less than the local legal minimum wage, but should not be paid less than 80% of the local minimum wage.<sup>143</sup>

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142 “Implementation Measures for Paid Annual Leave for Employees of Enterprises”, which was promulgated by the “Ministry of Human Resources and Social Security”, came into force on 18 September 2008. Information received by e-mail from SwedWatch local consultant 5 October 2009.

143 Opinion of the Ministry of Labour on Several Issues Concerning the Implementation of the PRC Labour Law,(August.11, 1995 ), Art. 59. Sent to SwedWatch by its Chinese consultant.

## Appendix II.

# Comment by the Åhléns group

Åhléns is one of the leading retailers in Sweden with operations focused on four business areas: Fashion, Beauty, Homeware and Media. Åhléns is part of the Åhléns Group, with a turnover of EUR 545 000 in 2008, and more than 5 000 employees. The Åhléns Group is a wholly owned subsidiary to Axel Johnson AB.

Since 2004, and the last investigation by Swedwatch, the Åhléns group started buying solely from ICTI certified suppliers. The group also reduced its numbers of suppliers with approximately 2/3ds. Today the Åhléns group has 12 active toy suppliers who are all ICTI certified. Since 2004 we have seen dramatic improvements in working conditions among our suppliers. These positive changes has remained despite the past recession, and the increased competition caused by most buyers reducing their number of suppliers. However, the group is working with a reinforced organisation to continue to meet the remaining challenges that are still present regarding Chinese working conditions.

In 2008 the group made a strategic commitment on sustainability, which currently entails adapting and developing the groups buying processes and behaviour. For example; the group is changing its assortment to include more sustainable products, as well as excluding certain chemicals and materials which can be harmful to man or the environment. The group is also investing on improving supply chain control and support to suppliers. Part of the improved supply chain control is a choice to involve third party auditors which independently audit the groups' suppliers.

As part of commitment the group has made a special study into our toy suppliers to evaluate the effects of third party audits by ICTI. The group has focused on six large suppliers, and performed re-audits to confirm the results of the ICTI certification. The ICTI certification has in large been useful to the group as it provides detailed data in a number of areas of inspection. However, the group found that there were remaining problems with overtime reporting in one of our suppliers, despite the ICTI certification. This study is available on our webpage, [http://www.ahlens.se/om\\_ahlens/pressinformation](http://www.ahlens.se/om_ahlens/pressinformation). We will focus on the issue of overtime, along with two other issues that are a challenge in China, namely the questions of how to enforce and encourage so called living wage and collective bargaining. The group is also increasingly complementing control of suppliers (both our own, and the third party audits) with education and support to our suppliers.

## Appendix III. Comment by Brio

**Quality assurance is important to BRIO and we welcome transparency.** The result, mainly in one of the factories that BRIO contracts (factory F), disappointed us immensely and is not what BRIO represents. BRIO has a long-term ambition for the company's responsibility initiatives and has, for many years, improved monitoring and carried out a number of external and internal audits. We have now taken immediate action to tackle the non-compliance issues that have arisen.

**The majority of the non-compliance issues have already been rectified.** In concrete terms BRIO has, since September, screened the whole of factory F, which received the worst result in the inspection. Together with factory management, BRIO's quality and procurement team has laid out a clear action plan and complied with the measures. On November 13, 2009, we carried out an external audit with the help of the same auditors that Swedwatch used, which showed improved results following the efforts put in, see below.

Factory F	4 months ago	Today	Next year	
Issue	Swedwatch report interviews July 2009	Follow-up audit November 2009	Goal December 2010	Comment
Excessive overtime	Red	Yellow	Green	Discussions initiated to evaluate annual production flow
Guaranteed one day off	Red	Green	Green	Actions taken to guarantee one day/week off
Correct overtime pay	Red	Green	Green	A new wage system in October 2009
Providing employment contracts	Red	Green	Green	All employees signed 2-year contracts
Health & Safety	Red	Yellow	Green	Warning signs and machine instructions installed
Fire safety	Red	Green	Green	Two fire drills conducted in one year, safety signs in place
Provision of full social security	Red	Yellow	Green	All employees will have adequate insurance by November 2009
Paid sick leave and annual leave	Red	Green	Green	All employees signed 2-year contracts including legally mandated components

*Red: non-compliance, Yellow: Action taken towards compliance, Green: compliance.*

Factory F now has employment contracts with clear wage conditions and rules for paying overtime plus routines for the employees' participation and representation. Safety equipment is now available and all employees have completed health and production safety training and, not least, on issues concerning what rights they have as employees.

**BRIO has clear demands and continual follow-ups – but it has obviously not been enough.** We have, for a few years, chosen to use the ICTI regulations, and believe that as a relatively minor player that it is through a joint international organization that we have the greatest opportunity to influence. Our own follow up has however not been sufficient and BRIO is now working to design an improved in-house control tool that includes more, in-depth and unannounced controls. Meanwhile we want to work towards continued development of the ICTI's work and its Code of Business Practice.

**Our overall responsibility and sustainability initiatives have gradually made headway.** Management has clarified the decision that all BRIO's toy suppliers must be ICTI certified by no later than the end of 2010. The handling of responsibility issues in the company has been clarified and the organization has been reinforced with the ambition for sustainability to be an integral part of BRIO's procurement work and the rest of the business. We will be continuing our efforts at factory F in 2010, mainly in areas such as working environment and environmental impact and will take with us experience gained to other major suppliers.

However, improved regulations and more controls do not lead to changing one of the most important factors behind the difficulty of getting to grips with the problems in manufacturing – the industry's major seasonal variations. BRIO evaluates how we can take responsibility for achieving a more even production flow throughout the year and thereby even-out periods of heavy workload – when working conditions in the factories tend to worsen. We also check how we can cut back on the total number of suppliers to underpin the opportunities for cooperation and follow-ups. We are not quite there yet, but we are already seeing clear results from the measures taken so far.

BRIO AB

Malmö, Sweden, November 2009

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SwedWatch is a non-governmental organisation whose task is to critically examine Swedish business relations with developing countries focusing on environmental and social concerns. SwedWatch consists of five member organisations: The Swedish Society for Nature Conservation, Church of Sweden, UBV/Latin America, Friends of the Earth Sweden and Fair Trade Center. The work is mainly financed by the Swedish Development Aid Agency, Sida.

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