

# Vision: April 2011

## Verité up close:

### A Letter from CEO Dan Viederman



When we talk about “sweatshops,” most people picture factories in China or Bangladesh, making t-shirts or shoes for a household brand. But some of the most awful violations of labor rights take place in workplaces that are dramatically different from that scene: in distant agricultural fields, or impenetrable forests thick with trees. It is in these settings that commodities are sourced, and where there is a strong possibility of labor exploitation—including modern-day slavery.

This presents a challenge to Verité and the labor rights world. We’re used to attaching a brand name to a product and its supply chain. Yet commodities—rubber, cattle, fish, coffee, minerals, timber—are by definition “unbranded.” Chances are you haven’t bought branded cotton, gold, or cows. And the exploitation of the workers doing the harvesting, mining, or otherwise producing commodities often takes place in hard-to-reach locations, on dispersed and distant farms, deep in mountains or underground, on fishing boats and in coastal communities.

How do you change labor practices when you don’t know who the employer is? Think of the number of businesses which are implicated when, for instance, a debt-bonded farmer harvests cotton:

- which is then processed several times;
- crosses several borders;
- before it ends up as a fabric purchased by a Chinese factory;
- which in turn produces a pair of pants;
- which are then sold to any of several well-known apparel brands.

Companies have to instigate efforts to trace the supply chains of all of the commodities that make up their product, or they risk facing a storm of criticism when someone else does it for them.

First, companies should identify whether their products use any commodities that might be produced using forced labor or exploitative working conditions. Verité’s new [Forced Labor Commodities Index](#) is a good place to start. We invite you to check back with [this site](#), as we continue to update it with new information and solutions-oriented suggestions. Another good resource is the [US Department of Labor’s list](#) of goods made with forced or child labor.

The second step is to assess working conditions close to the raw material source. This usually means driving responsibility for working conditions into the business practices of suppliers. This is an expensive proposition, but cost is no excuse for ignoring links to slavery. The brand must require that its business partners and suppliers take responsibility for labor rights, building understanding and capacity where it doesn't exist. Verité builds this capacity for brand's supply chains through our [Systems Approach to Social Responsibility programs](#).

Third, in order to resolve labor problems in commodity supply chain, companies must join in with industry-wide initiatives to ensure that traders, agents and other middlemen take responsibility for labor conditions. These industry initiatives should report externally, or have NGO and trade union participation to continue to push for improvement—even when it's difficult.

Verité is involved in several new initiatives to strengthen respect or labor rights in commodity production. Later this year, we will be issuing a detailed set of recommendations to address labor rights issues in:

- Sugar cane production in the Dominican Republic;
- Fishing in the Philippines and Indonesia;
- Shrimp production in Bangladesh;
- Brazil Nut harvesting, corn and peanut growing, and cattle ranching in Bolivia.

Labor rights in factory settings are hard to solve. In commodity chains, our collective effort has only just begun. We will continue to report on Verité's strategies in this field over the next several months.

Another note: Please join me in welcoming Tabe Tang, our newest Senior Consultant / Auditor in our China office. Before joining Verité, Tabe has worked as a senior EHS compliance auditor, and at Foxconn Technology Group. Tabe has joined as an Environmental Health and Safety crew member.

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## Latest News:



The Sustainable Apparel Coalition [announces its launch](#), including Verité's participation. The Coalition will generate a common approach to reduce the environmental and social impacts of apparel and footwear products sold around the world, importantly integrating social issues into the definition of sustainability.

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## Special Report:

### Help Wanted



[“It all starts with hiring.”](#) Help Wanted: Our initiative for brands, governments, investors, and NGOs to end forced labor. Next: Help Wanted’s Phase 2, offering companies concrete tools to combat human trafficking in their supply chains.

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## From the Field:

### Verité China Office Director Wenjuan Yao



*Verité China Program Director Wenjuan Yao recently presented an analysis of trends in labor relations in China. An excerpt follows.*

High profile strikes at Honda, and the tragic spate of suicides at FoxConn, brought China’s working conditions abruptly and dramatically back into international consciousness over the past year. Underlying these high-profile cases is a fluid labor situation that presents challenges and opportunities for companies trying to ensure working conditions among their Chinese suppliers.

A look at five trends can help us understand what is going on in China’s workplaces.

1. Characteristics of a new generation of Chinese workers
2. Labor shortage
3. Wage increases
4. Increases in the number of labor disputes
5. The growing number and influence of domestic NGOs on supply chain issues

1. **Characteristics of a new generation of Chinese workers**

Time magazine described Chinese migrant workers as “an increasingly influential group in one of world’s most powerful economies.” Let’s look at some characteristics of this group compared to their parents, and how they would shape the future within supplier factories.

The ACFTU issued a report last year which indicates that the new generation of migrant workers (born after 1980), constitutes nearly 50% of the total 230 million migrant workers in China. Compared to their parent’s generation, they got into the urban job market much younger, at an average age of 17 years old compared to their parents’ average age of 23 years old.

The new generation has a higher level of education. Though the majority still remain at junior high school level, the rate of high school and vocational school graduates has increased, especially among the younger age group.

Compared to their parents, the values of new generation migrant workers are also changing. In Verité’s own research conducted last year, among 1080 workers surveyed, over 50% percent of them cited as reasons for leaving home to work the gaining of experience, seeing the world or learning skills. Research conducted by the ACFTU showed 71 percent of workers citing these type of reasons as their major purpose for migrating to cities to work, which is different from their parent’s generation--76 percent of workers born in the 1960s said earning money was their primary reason for coming to work in cities.

Some researchers have worried that the new generation of migrant workers can be characterized as having “higher vision with lower capabilities” as compared to their parents. It is clear that the new generation does have higher expectations on career development. In Verité’s own research conducted last year, 55 percent of workers in their early twenties said they wanted to start their own business in two years.

These younger workers are also less afraid of speaking up for their own rights and interests. The research report issued by the ACFTU stated that only 6.5 percent of the young workers surveyed said that they would not complain to the authorities out of fear of possible retaliation should their rights be violated; for reporting grievances, 45.5% of the surveyed said that they would do it collectively, which is substantially higher than their parent’s generation.

When asked about the plan to return home, more than 55% said that they do not plan to do so, as they would like to settle in cities. Twice as many workers in 2009 (40%) rented their own housing in places where they work, compared to 2006.

In conclusion, using one new generation of migrant worker’s own words, they come to work not only for money, but also “for experiencing life and achieve [their] dreams.”

## **2. Labor shortage**

Since its inception in 2004, there has been some question about how real or lasting the labor shortage in China is. This year, we can see that the shortage is full-scale: businesses are not only short of skilled workers, but also unskilled workers.

Prior to 2005-6, the direction of movement of migrant labors was predominantly from inland provinces such as Sichuan, Hunan, Anhui, and Hubei to the three coastal areas: Pearl River Delta in the South, Yangtze River Delta near Shanghai, and around the Bohai Sear in the northeast. But between 2005 and 2006, the population of Sichuan province increased by 8 million. The tide had turned.

Data released by the National Bureau of Statistics indicate that in 2009, the number of migrant workers working in the Yangtze River Delta reduced nearly 8% compared to 2008, and reduced by 22% in the Pearl River Delta, whereas migrants working in their own provinces increased over 8 percent.

Some of Verité's direct experience reflects this trend. We recently received a call from a factory owner we've worked with over the past four years, asking whether we could help him design a good wage structure. He wants to encourage his workers to work more efficiently in their regular work hours, rather than in overtime hours. We asked the extent of his workers' overtime. He reported that it averages around 40 to 50 hours per week. He explained he could not find enough workers to keep up with his orders. He had to use 500 workers to meet full production capacity of the facility—which needs 800 workers.

### **3. Wage increases**

The series of suicides at Foxconn and the workers' collective action at the Honda factory in the spring of 2010 brought great urgency to increase wages. By the end of 2010, all 31 provinces have increased, or decided to increase, the minimum wage. By the end of March 2011, over 10 provinces increased the minimum wage again, with a rate ranging from 14 to over 30 percent. We expect to see increases in many other provinces later in the year. According to the plan announced by the Ministry of Human Resources and Social Security last year, the wage level will be doubled in five years; the increase rate would be at least around 15% a year from now until 2015.

### **4. Increases in the number of labor disputes We've seen a huge burst of labor disputes.**

The increase is primarily due to the launch of the Labor Contract Law in 2008, as well as the lower cost for filing dispute arbitration cases by workers. The number of collective labor disputes is small relative to the total number of labor disputes, but they represent a notably large number of workers. According to official data, the number of workers involved in collective labor disputes constitutes more than a third of the total workers involved in all disputes. They tend to be more intense than individual disputes, as collective actions usually have stronger antagonism between parties. Due to the lack of sufficient controls, including lack of human resources on the part of authorities, collective actions sometimes get violent; workers have to bring their issues to the streets in order to gain more attention from the authorities.

The All-China Federation of Trade Unions (ACFTU) is still nothing more than a government arm, so workers generally do not trust it. In the case of last year's Honda factory dispute, the local ACFTU acted on the factory management's behalf; it was quickly kicked out from the negotiation process by the workers, who then requested a labor scholar to be their representative, instead.

#### 5. **The growing influence of domestic NGOs on supply chain issues.**

If the government is ineffective, and the workers can't trust the union, who else can they seek help from? Chinese NGOs have been growing rapidly since the new century, both in number and influence. From 2005 to 2009, the number of civil organizations increased by 35%, and "private non-enterprises" (the legal status often adopted by civil society groups that cannot or choose not to register as NGOs due to the vagaries and restrictions of Chinese law) likewise demonstrated significant growth. Environmental-related NGOs grew from zero to over 7,000. This sector is the major driving force for the recent media campaign that has put Apple in the "Hot Pot" this year. After Apple issued its 2011 Supplier Responsibility Progress Report in February, over 30 Chinese domestic environmental NGOs generated a large media campaign against the company. All major media, including CCTV, have covered the story, and the public's awareness of supply chain working conditions is unprecedentedly high. Much as in the West, the strategy of attacking iconic brands has garnered significant public attention.

#### **Conclusions**

From all we discussed above, we can expect the following changes:

- Labor costs will continue going up in months and years to come;
- Pressures from domestic Chinese stakeholders to international brands on improving supply chain working conditions to will grow substantially;
- and workers will strive for better working conditions and be less afraid of standing up for their own rights and interests.

President Kennedy had a famous quote: "A rising tide lifts all boats." China's economy, the international community, as well as all factories have been benefiting from the unlimited and well-disciplined cheap labor supplies in China over the past 30 years, and we are now facing the turning point. When the tide goes down, the competition for survival will become fierce. The suppliers will need to compete not only for better price, but also for workers, by providing better pay, better working conditions, better public relations. They will inevitably have to change from the relatively rough management style to which the sector has become accustomed to a more fine tuned style. Chinese suppliers will need to deal with employee relations, management of environment issues and broader stakeholder engagement with more care and skills. Meeting CSR requirements may – finally -- become a real competitive advantage for them in the near future.