

Production of Olympics sponsored goods

April 21, 2008

What is Olympic Licensing?

The Beijing Olympics may become the most profitable Olympics in the Games' history, exceeding the US\$224 million surplus made by Los Angeles in 1984.

An official Olympic Games License is an agreement that grants the rights to use Olympic marks on products for retail sale. In return, licensees pay royalties for the rights, which go directly toward funding the Olympic Games: As the Beijing 2008 website states Olympic licensing provides the successful companies with an unparalleled business opportunity "Gain considerable profit through producing or selling the licensed products".

It is estimated that the sale of official Beijing Games mascots alone will bring in profits of more than US\$300 million. While the Olympics represent big bucks for many companies, these profits generally do not reach the workers making the sportswear and myriad of souvenirs being manufactured.

What did we find?¹

In June 2007 Play Fair published a report entitled: *No Medal for the Olympics on Labour Rights*. In the report we documented first hand research taken from just four of the 60 or so factories who have been given Olympic licenses to produce Olympic goods. These goods are being sold all across China and beyond – pens, hats, key chains, bags, T shirts...any and every souvenir of this great sporting event you could wish for - all recognisable by the Olympic logo. Many more millions of products will be sold during the actual Olympics.

Of the four manufacturers that Play Fair 2008 looked into, two were small sized operations by international standards and two were well established medium-sized companies with significant overseas client bases. One would expect working conditions to be reasonable in these specially accredited factories but what we found shocked even our researchers.

This report revealed appalling disregard for workers' health and for local Labour laws and regulations in the following areas: working hours; minimum wages; the hiring of minors and children; and health and safety conditions. Workers in all the factories cited in this report, many of which also produce goods for well known, international consumer brands, are requested to lie to inspectors and some are given detailed instructions on how to do this. Factories also have the necessary fake documents needed to fool auditors. No factory researched gave legally required maternity protection as required by Chinese laws. None of the factories monitored have branches of the official Chinese trade union nor unsurprisingly did any have adequate worker grievance procedures or democratically-elected workers committees. These practices clearly were employed before the companies received their Olympic licenses and are likely to continue once the Games move on.

Lekit Stationary Company Ltd.

¹ More details contained in the full report found at http://www.PlayFair2008.org/docs/PlayFair_2008-report.pdf

A Play Fair researcher was hired by Lekit Stationery Co. Ltd., a Taiwan-owned company at the start of 2007 and collected first hand information on the employment practices and working conditions at one plant. Play Fair found Lekit systematically pays its workforce less than 50% of the legal minimum wage for the area and requires them to work 13 hours a day with few, if any, days off during each month. Lekit was also one of many firms that uses a high percentage of casual labour in its manufacturing plants and does not appear to set aside register or pay social security payments for its staff at the present time or at any time in the past. The firm used an unnecessarily harsh system of fines and punishments to manage and discipline its staff. Lekit also hired children and forces them to work 13 hour days. The company took pains to cover up the fact that it has hired children and it kept no record of the employment of these children as well as for all the other factory workers in order to evade its current and future responsibilities as an employer.

Mainland Headwear Holdings Ltd.

The Group, established in Hong Kong in 1986, is engaged in the design, manufacture and distribution of headwear. According to the Mainland Headwear website and financial Report of 2006, in addition to holding a manufacturing and distribution license for the headwear of the 2008 Beijing Olympics Mainland also holds the worldwide exclusive manufacturing rights, and the distribution rights in China (including Hong Kong) and Japan, for FIFA branded headwear. Play Fair investigated the working conditions of its Shenzhen operation by interviewing both current and previous employees. Play Fair found that workers were forced to do overtime work for as many as 5.5 hours on weekdays and Saturdays, far exceeding the legal maximum limit of 1 to 3 hours overtime a day (or a total of 36 hours in a month). Play Fair also found that both the piece-rate workers and those working on an hourly basis were severely underpaid, respectively 57% and 35.7% less than the legal minimum standards, making merely 800 to 1,200 yuan a month. We also found that workers were coached to provide false answers to inspectors.

Eagle Leather Products Company Ltd.

Play Fair conducted interviews with workers on the working conditions at Eagle Leather Products Co., Ltd., a sub-company of the Silver Billion Group (<http://www.silverbillion.com>) producing bags for the Olympics. Eagle Leather Products was neither the best nor the worst employer that Play Fair researched. Its staff were not unhappy with the wages that they received, and it is believed they were paid in accordance with the minimum wage scheme for the area. However, the long periods of forced overtime and heavy penalties for any missed time we found can only be characterized as harsh and exploitative labour practices, unacceptable for a Hong Kong company and one designated as an Olympic Games licensee.

Yue Wing Cheong Light Products (Shenzhen) Co., Ltd

The Play Fair investigation team conducted interviews with workers licensed bag manufacturers for the 2008 Beijing Olympics; Yue Wing Cheong Light Products (Shenzhen) Co., Ltd. Play Fair found that this large, successful manufacturer systematically pays its workforce 64.6% less than the legal minimum wage for the area. The company pays its workers on a very low piece rate basis and requires them to work 13 hours a day with few, if any, days off during each month. The practice appears to have been the norm before the company became an official licensee of 2008 Beijing Olympic Games goods. Worse still, it appeared

to have taken a great deal of effort to hide from previous and current inspectors. In addition, the company appears to have no regard for health and safety issues. Dust, cotton and linen fabrics, and fluff from all the various materials were thick in the air in the workshops, making breathing uncomfortable. The existing ventilation system cannot remove the materials and no masks were provided to protect the workers from breathing in the small particles every day. In the weaving division, workers were exposed to hazardous dyeing agents, creating painful sores on their hands.

Are these factories any different from others in China?

To be fair to these factories we stress that we believe these companies are by no means any different from hundreds of thousands of other enterprises all over China that operate in similar lines. Reports of poor working conditions, low and unpaid wages, lack of basic labour rights such as maternity protection and medical care. The other main issue is of course the denial of freedom of association. Workers in China cannot form or join independent trade unions – instead they have to sign up to the state sanctioned All China Federation of Trade Unions, a quasi-government body which rarely supports workers in disputes. Labour activities are routinely detained or arrested for trying to establish unions or participate in strikes.

What happened next?

The Denials

Right after our report was launched most of the companies issued strong denials.

Eagle Leather Products: *"Of course it's not (true),"* Kenneth Chong, the general manager of the Hong Kong-based parent company, told AFP.

Patrick Wu, Hong Kong-based manager at Lekit Stationery Co, said he planned to investigate the matter further but that the allegations were most likely false: *"I strongly believe that our factory wouldn't do such things. Otherwise we wouldn't have survived from 1977 until now,"*

Peter Ho, the chief executive of Mainland Headwear Holdings, rejected the report as *"totally groundless."* The firm would welcome *"an open and objective assessment of our labour practices... which to our knowledge was not conducted by this organisation,"* he told AFP in a statement.

The fourth firm, Yue Wing Cheong Light Products, was unavailable for comment.

Bocog Reacts

Jiang Xiaoyu, vice president of the organising committee stated that more than 60 firms licensed by BOCOG had signed contracts pledging to abide by Chinese labour law and regulations outlawing practices such as child labour, forced overtime and payment of wages below the legal minimum. BOCOG said that all factories applying for licensing contracts had faced a rigorous vetting process that included key questions on labour rights and social responsibility.

"To use child labour is also clearly against government laws and regulations,"

"BOCOG strictly abides by government laws and regulations on labour laws so if the issue you mentioned really exists we will investigate them and tackle these issues very strictly to maintain the reputation of the Olympic movement and the Beijing Olympic Games."

BOCOG then reported that it was launching an investigation into the allegations in collaboration with the national and local labour authorities.

Results

In at least one factory inspections from national, provincial and local authorities all took place. On July 31, the Beijing Organization Committee of the 2008 Olympic Games (BOCOG) announced the results of its investigation into Play Fair findings of child labour and gross violations of adult workers' rights in certain factories producing licensed goods for the 2008 Olympics. While BOCOG confirmed some of Play Fair's findings, it neglected to mention others and failed to commit to acting positively to improve workers' conditions, choosing instead to cut and run from factories implicated in Play Fair's report.

According to BOCOG, local municipal authorities in Dongguan and Shenzhen formed a special team to conduct comprehensive investigations from June 12th to 18th and delivered an extensive report on the issue and from the end of June till the beginning of July, investigation teams from Guangdong Labor and Social Security Bureau, the Ministry of Labor and Social Security and BOCOG further reviewed the results of the investigation..

The investigation was reported as showing that from January to February 2007, Le Kit Stationery Co. Ltd (Dongguan) was believed to have used child labour by employing 8 students for packaging work, which was not related to Olympic products. In addition, labour contracts were not signed with some of its workers. *"BOCOG has decided to terminate Le Kit Stationery Co.'s right to manufacture and sell Olympic licensed products and revoked its licensing contract with the company".*

In addition, Eagle Leather Products (Dongguan), Yue Wing Cheong Light Products (Shenzhen) and Mainland Headwear Holdings Ltd., (Shenzhen) had *"overtime issues, but no child labor issues were discovered. BOCOG has decided to suspend approval of all Olympic products designing of the three licensees, and requested they rectify their production and business operations in accordance with local labor bureaus' requirements immediately."*

With respect to the three suspended companies, BOCOG states that they have to 'rectify their operations in accordance with the Labour Bureau's requirements', but provided no detail on what these requirements are, or how workers themselves will be able to effectively participate.

Lekit which previously denied all allegations later admitted it had indirectly hired children. Due to large orders Lekit stated it hired another company - Leter Stationary to make packaging products which were not directly Olympic products. Mr Lee stated that "We didn't know that they would hire children," [Leter

Stationary is directly opposite Lekit's plant] and "We will not use them again, and in future we will make sure that all sub-contractors are qualified." ²

The local authorities also announced that at Mainland Headwear Holdings Ltd., 2,779 of the 3,000 employees were each forced to work 40 to 53 extra hours in May, while at the Yue Wing Cheong Light Products Co. Ltd., 1,779 of the 2,600 staff were each forced to work 60 to 100 extra hours. No more details as to the other two factories were given.

Labor authorities in southern China were reported to impose total fines of 1.36 million yuan (178,900 U.S. dollars) on Mainland and YWC for forcing their employees to work overtime. Xinhua stated that: "*Mainland would be fined about 833,700 yuan and Yue Wing Cheong 533,700 yuan, equivalent to 300 yuan for each employee..... Mainland had already paid the workers the money owed and Yue Wing Chong had been ordered to pay the arrears*". Both companies applied for a public hearing after which the labour authorities would consider (other) penalties.

What happened then?

While Play Fair 2008 appreciated the fact that BOCOG and the Chinese authorities acted upon its report and confirmed widespread use of overtime for three of the suppliers, and the use of underage workers as well as contract violations at the fourth, Lekit Stationary, regrettably the BOCOG statement ignored other issues such as the detailed evidence of workers being underpaid, of health and safety regulations being ignored, dubious hiring practices, lack of legal maternity leave and a structural lack of safe channels for workers to report their grievances.

BOCOG's actions also suggested that once these four factories had been dealt with then the problem was solved...alas it's not quite so simple. Our findings on wages, health and safety, hiring practices and other issues show that the problems run much deeper. As indicated in our report, we believe these four factories to be the rule not just for other Olympics licensees but the sector as a whole, and as far as Lekit is concerned, our follow up research would suggest that the company's practice in respect of employing schoolchildren is just the tip of an iceberg in China. ³We were also disappointed that the BOCOG investigation findings did not mention other redress for the underpaid workers.

Despite Play Fair strongly urging BOCOG not to 'cut and run' from these factories but instead to work with them to put in place proper working conditions (and actually implement China's own labour laws!) they decided to terminate Lekit's Olympic product license and demanded the company stop manufacturing and selling the products.

Has the IOC done anything?

² A Dongguan official said the children had gone to work at Leter Stationery because their parents had no time to look after them during the holidays. Children of migrant workers – the majority of those working in factories in the Pearl River Delta are often denied basic educational access and many schools for migrants continue to be shut down to the authorities. Discrimination against migrant workers from the countryside is institutionalized in China in the form of discriminatory residence policies (Hukou) and as a result many have unequal access to health, social insurance medical care and education – worsening the growing trend towards child labour. Education plays a vital role in prevention of child labour.

³ See: www.PlayFair2008.org/docs/Child_labour_July_2007.pdf

To our surprise the IOC so far has failed to comment on the BOCOG report, nor have undertaken any practical action to ensure the problems are addressed and will not occur elsewhere. This is not a problem limited to China - several sportswear brands, have confirmed that the findings of our report focus on issues which they have identified for improvement throughout their entire supply chains.

What next?

The findings in this report were extremely worrying – child labour, excessive working hours, routine underpayment of wages and blatant disregard for Chinese labour laws are not minor imperfections that can be easily explained away.

Play Fair therefore again urges the IOC to step up to the starting line and take charge of the preparations for the Olympic Games in Beijing by ensuring that Chinese workers are not being abused in the race to take the gold in the Games. It is time for the IOC to finally put in place a mechanism for ensuring that those businesses with which it is associated adhere fully to the Olympic Ideal.

It may be too late for China's Olympic workers but not for those producing for Vancouver in 2010 and London in 2012.

Play Fair also urges the Chinese government – along with governments around the world – to ensure that working conditions such as these are eradicated and that companies exploiting workers are brought into line.

What's going on right now? Have things improved?

After the report was issued it became incredibly difficult to get more information from the factories. Several news agencies tried. In April this year we wrote to all four factories again (and checked they received our request). We asked them in particular what corrective measures have been put in place in order to improve upon the issues of concern and if and how workers who had been regularly underpaid have received any compensation and wage arrears.

We have received two responses so far. Neither of which has covered the issue of compensation.

Mainland

Play Fair met with Mainland in the autumn of 2007 through the ITUC/GUF/HKCTU Hong Kong Liaison Office and IHLO met them again informally in April 2008. Out of all the factories we investigated, Mainland were both the most vocal in their initial denials and the most forthcoming about the actual situation in the factory.

In a letter dated 14 April, Pauline Ngan, Deputy Chair and Managing Director of Mainland, acknowledged that some issues were not "*properly managed*". The letter stated that at the time of the report, workers were indeed working in excess of 36 hours maximum (according to Chinese law), but that in the past year they had taken a number of steps to reduce working time and control (including supervision of working time and shifting of production). Lean manufacturing was also being implemented in a pilot project in a further attempt to reduce working hours. They also stated the issue of wage payment was one of their major concerns and that all workers (piece-rate or otherwise) were

guaranteed wages at or above the local minimum wage and any overtime was based on overtime premiums based again on the local minimum wage.

Pauline Ngan then went on to give more detailed responses to the concerns in original report such as the issue over obstacles to workers resigning and poor hiring practices. Mainland also responded to the allegations that workers were coached in order to reply positively to auditors; *"While we are very familiar with the efforts that many companies employ to "pass" a social compliance audit by one of their customers, including coaching workers on what to say if they are selected to be interviewed, at Mainland, we do not coach our workers..... While we are not perfect as a company, we are not interested to hide our practices to mislead you, our customers or the Chinese government."* They also said they had checked the issue of ventilation problems and believed that the current air system *"adequately ventilates"* the airflow and quality and stated that they also provide workers with maternity leave as well as funeral leave and marriage leave and educate workers on their legally mandated benefits.

The Play Fair report initially – wrongly - stated that there was no ACFTU Branch in the factory – according to workers. In the case of Mainland we heard during a meeting with executive that there was in fact a union branch at the factory which regularly organises "social activities". We regret this error but at the same time this exemplifies the ambiguous role of the ACFTU as a "trade union". At Mainland as in many Chinese factories workers have no idea there is a trade union – they simply exist as a formality or a social activity organiser.

In addition Mainland also informed us of a worker suggestion box as a means to *"enhance the communication between workers and management"*. In our meeting we questioned the need for all suggestions to be signed as this obviously affects the usefulness of any grievance mechanism. Mainland wrote in their 14 April letter that *"when we have reviewed the effectiveness of the above efforts to encourage good communication between employees and management, we have concluded that we do need to improve on our efforts to create better communication and grievance system,"* To this end, the Human Resources and Administration Director has recently completed a fair labour training course on grievance procedures and will be implementing new practices by the third quarter of 2008.

Yue Wing Cheong

In a letter dated 14 April 2008, Yue Wing Cheong Light Products (Shenzhen) Ltd wrote;

We regret the report titled "No medal for the Olympics on Labour Rights" which was unilaterally made with inaccurate, exaggerated and unbalanced accusations against our Company, Yue Wing Cheong Light Products (Shenzhen) Ltd ("YWC") on its employment and labour conditions.

Since its establishment over 20 years ago, YWC has always strived to comply with applicable labour laws of the People's Republic of China and provide a satisfactory working environment for all its employees. While there could be minor non-compliance issues at times, YWC would like to stress that any such minor non-compliance issues were neither intentional nor exploiting in nature. YWC has always rectified any non-compliance issues at the earliest possible opportunity.

We would like you to note that YWC has recently introduced the Lean Manufacturing program to improve manufacturing efficiency in the hope that we

can ultimately reduce the working hours of YWC's employees. Issues on employees working conditions have also received top management's additional attentions. We believe that this demonstrates YWC's ongoing effort to improve the working environment of its employees.

We encourage you to check with local and regional labour authorities in Shenzhen and the BOCOG for information regarding YWC's labour compliance. [BOCOG clearly stated that YWC had overtime problems and the local authorities stated that at Yue Wing Cheong Light Products Co. Ltd., 1,779 of the 2,600 staff were each forced to work 60 to 100 extra hours earning the company a fine of 533,700 yuan, equivalent to 300 yuan for each employee]

If you would like to arrange an independent inspection of our factory by a professional auditor, you are welcome to contact us for arrangement of same.

We look forward to seeing verified, unbiased and balanced reports published by your organisation or associates."

Play Fair response

We stand by our original research and the BOCOG investigation also supports our findings despite the negative tone of Yue Wing Cheong and the initial denials of the companies involved. While we welcome the fact that YWC has responded, we also note that YWC does not explicitly deny any of our specific findings – nor indeed those found by the BOCOG investigation.

Mainland's response is encouraging in that it does acknowledge past problems, - indeed Mainland has also been open about overtime issues in meetings with the IHLO and with a variety of auditors and MSI projects. However, Mainland does not address specific concerns about reimbursement of wages to its workers and it informally continues to state that there were no wage issues, but simply overtime problems which it is trying to fix. However, workers mainly work overtime to earn enough money to make ends meet. Factories often argue that "we can't stop workers from doing overtime". In reality, workers need overtime because wages are too low. Mainland has also taken up comments about grievance procedures and the need for more worker participation. It remains to be seen to what extent Mainland management is willing to go.

We acknowledge the frank admission of Mainland that many companies coach their workers (indeed numerous CSR practitioners and auditors state similar things). Companies and brands need to go beyond a simple checklist auditing process – now widely discredited – towards building a more sustainable and open solution through the genuine participation of workers.

While we acknowledge that Mainland has made some improvements as a result of our initial research, we need to stress that:

- *The monitoring of working conditions needs to be done within China by the relevant authorities, for example the labour inspectors. The IOC and the Olympic movement should be capable of guaranteeing that Olympic products are made in decent working conditions without relying on the research work of NGOs and foreign trade unions.*
- *Play Fair's [latest report](#) highlights just how little things have changed for Chinese workers and indeed for sportswear and related workers worldwide...*

- *Certain issues such as overtime, low wages and poor working conditions are still prominent in China, where labour laws are on the books, yet lack enforcement. Even the Chinese Trade Union ACFTU has started to acknowledge the existence of ongoing problems identified by the two Play Fair 2008 reports. On 7 March 2008 the Workers' Daily, the official newspaper of ACFTU, published a worker's letter: "I am a worker from a handbag factory in Dongguan, Guangdong province. We use a time-punching machine to record our work hours. However, at 8 o'clock every night, our company stops using the time-punching machine, but it doesn't mean that we can leave work. We have to work at least till 10 pm, even till midnight. After 8pm, our work hours are not recorded in the punch card, which means we won't get paid for that. If we are at the peak season, we go to work on Saturdays and Sundays. We keep demanding overtime wages, but the only reply we got from the company is that when we don't have enough orders in the future, we could take those day-offs back." It comes with a comment from the vice-chairman of ACFTU Tong Li, saying that "forced overtime, unreasonable heavy workloads are common problems in labour intensive industries and seriously threaten workers' health"*⁴

⁴ excerpts from http://big5.china.com.cn/gonghui/2008-03/07/content_11883997.htm