



WORKER RIGHTS CONSORTIUM

**WORKER RIGHTS CONSORTIUM REMEDIATION REPORT  
re LIANGLONG SOCKS CO. LTD (CHINA)**

*May 15, 2009*

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## I. Introduction

This memorandum updates the previous findings of the WRC regarding labor conditions at Lianglong Socks Company, Ltd., a factory located in the Chinese city of Zhujie, in Zhejiang province. Lianglong was a producer of school uniform socks for R.J. McCarthy, Ltd., a supplier for a number of the Catholic District School Boards in Ontario that are part of the joint affiliate with the WRC. The memorandum also contains our recommendations to R.J. McCarthy concerning engagement with this supplier and some recommendations concerning R.J. McCarthy's sourcing and compliance practices generally.

The WRC provided an investigative report to the affiliate on conditions at Lianglong on April 3, 2008,<sup>1</sup> which identified significant labor rights violations and made recommendations for remedial action. On June 11, 2008, R.J. McCarthy issued a letter outlining its response to the WRC report. R.J. McCarthy provided an additional update to the WRC on the situation at the plant in March 2009.

In early 2009, the WRC initiated a new round of assessment of the labor conditions at Lianglong. The WRC's methods of collecting information included a formal visit to the factory in March, arranged with the assistance of R.J. McCarthy, and other offsite research, including worker interviews. In both this recent research and the March factory inspection, the WRC found, unfortunately, that significant violations of Chinese labor law and of the labor policies of the Catholic District School Boards persist at Lianglong and that the factory management has not demonstrated a commitment to correcting these problems.

The WRC does not believe that the persistence of violations at the factory are reflective of a lack of effort on the part of R.J. McCarthy to try to convince the factory to take appropriate action. Instead, it is apparent that Lianglong's continued unwillingness to comply with Chinese labor law indicates that R.J. McCarthy – whose orders, by the former's own estimate, amount to less than 1% of Lianglong's total production – lacks sufficient influence to compel Lianglong to reform its practices. R.J. McCarthy pressed the factory to correct the violations, after being notified of the problems by the WRC, and made it clear that future orders were contingent on full remediation. As we discuss later, the fact that the factory failed to take adequate corrective action, despite these entreaties, speaks clearly to the need for R.J. McCarthy and other buyers to consider modifying their sourcing policies – by, among other measures, directing their orders to manufacturers for whom the buyer represents a significant portion of their total business.

The WRC cannot recommend at this time that R.J. McCarthy place any orders with Lianglong, unless and until the latter can first demonstrate that it has corrected the outstanding violations. At the end of this report, however, the WRC makes certain recommendations regarding steps that R.J. McCarthy *should* take in regard to its overall sourcing and compliance practices.

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<sup>1</sup> See WRC, "Assessment Regarding Lianglong Socks Company Limited (China)," <http://www.workersrights.org/freports/Lianglong.asp>.

On a more positive note, during the March factory visit, the WRC also worked with a local labor law expert to conduct a training session on Chinese labor law with the Lianglong workers. Two classes were held, with a total of sixty-four out of an estimated 200 workers at the factory attending, in which relevant portions of China's 2007 Labor Contract Law and other legal stipulations on wage levels and wage payment were explained. Notably, more than 75% of the workers who attended the training were new hires at the factory. The WRC appreciates R.J. McCarthy's effort to help coordinate the training and Lianglong's provision of the venue.

## II. Findings

### A. Withholding of Wages

According to recent interviews with workers, the company still persists in the practice of withholding the bulk of employees' wages until the end of the Chinese New Year, as was previously documented in the April 2008 WRC report. Workers reported that they receive "pocket money" from management twice a month, in the amount of 300 Yuan (roughly CA\$54) on the 15<sup>th</sup> and 30<sup>th</sup> of every month.

As was also stated in the WRC's previous report, this practice, while reportedly prevalent in the hosiery industry in Zhujie, violates Chinese Labor Law, which requires monthly payment of the full amount of wages owed.<sup>2</sup> It is worth noting that the amount Lianglong workers receive as "pocket money" is well below the current monthly legal minimum wage in Zhejiang of 850 Yuan (CA\$151).

According to R.J. McCarthy's previous communications to the WRC, the factory has claimed that managers have ceased withholding workers' wages and, instead, deposit these wages into two separate bank accounts for each employee. According to R.J. McCarthy, this system was justified by Lianglong as providing employees with both an account for daily expenditures and a savings account.

In the March factory visit, the WRC investigator asked factory managers whether they could show him the relevant bank receipts for these deposits and the numbers of the accounts to which they are depositing wages. To respond this question, the factory managers said they had told R.J. McCarthy that they "*have a plan*" to pay wages to workers' banks account at the time they are earned, but that this plan has not been implemented owing to a "technical reason." Lianglong management claimed the factory had only reopened on February 20 after having been closed for the Chinese Lunar New Year<sup>3</sup>. This would have been less than a month before the March factory visit. However, other research by the WRC indicated that some workers had been working at the factory since February 8. In addition, other persons interviewed by the WRC indicated that the factory manager and owner had admitted maintaining the practice of paying back workers for the entire year's wages at the end of each Chinese New Year.

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<sup>2</sup> Labor Law, Art. 50 ("Wages shall be paid monthly to laborers themselves in form of currency. The wages paid to laborers shall not be deducted or delayed without justification.").

<sup>3</sup> In China, it is typical for factories to close during the Chinese Lunar New Year so that workers may return to their home villages to visit with family. Chinese Lunar New Year typically lasts for seven days.

**Conclusion: Lianglong continues to violate Chinese law by withholding employees' wages for a period of more than one month at a time, and, moreover, appears to have made inaccurate claims regarding its remediation of this violation.**

## **B. Nonpayment of Minimum Wage and Excessive Hours of Work**

The WRC finds that Lianglong still does not pay the required legal minimum wage. Like many other sock factories in the area, Lianglong has adopted a piece rate system of compensation. According to national and provincial law and regulations, however, minimum wage requirements still apply.<sup>4</sup> Overtime hours must be paid at a piece rate that reflects the legally required premium for such work – 150% of the regular wage rate for all work over eight hours in a day and 200% of the regular wage rate for work on weekends.

The WRC finds that Lianglong fails to provide employees with legally required time off from work. Workers in the factory's major departments (knitting, fixing and packing) said that they work almost every day, sometimes working nearly an entire month without a single rest day – a clear violation of Chinese law, which mandates that employees must receive at least one day off per week.<sup>5</sup> Workers described their daily work schedules and monthly wages as follows:

Department	Working hours	Monthly wages
Fixing	0730 – 2000, with two 30 minute breaks	1150 Yuan
Knitting	Almost 12 hours a day, two shifts a day	1500 to 1650 Yuan, depending on the worker's skill
Packing	Similar to fixing	1100 – 1200 Yuan

In September 2008, the city of Zhujie raised the local minimum wage applicable to Lianglong's employees to 850 Yuan per month. This represents a minimum hourly wage of 4.89 Yuan for a monthly schedule of five 8 hour days per week. Therefore, if an employee works thirty days in a month, and roughly 11.5 hours per day, and is

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<sup>4</sup> Labor Law, Article 48, ("The State shall implement a system of guaranteed minimum wages. Specific standards on minimum wages shall be determined by the people's governments of provinces, autonomous regions or municipalities directly under the Central Government and reported to the State Council for the record. Wages paid to laborers by the employing unit shall not be lower than the local standards on minimum wages.")

<sup>5</sup> Labor Law, Arts. 38 ("The employing unit shall guarantee that its staff and workers have at least one day off in a week.") and 41 ("The employing unit may extend working hours due to the requirements of its production or business after consultation with the trade union and laborers, but the extended working hour for a day shall generally not exceed one hour; if such extension is called for due to special reasons, the extended hours shall not exceed three hours a day under the condition that the health of laborers is guaranteed. However, the total extension in a month shall not exceed thirty-six hours.").

paid the legally required premiums for overtime and weekend work, the legal minimum monthly compensation is 2,312 Yuan.<sup>6</sup>

Lianglong factory managers have repeatedly claimed that they are paying workers a wage of roughly 1500 Yuan per month – which, as shown above, accurately describes wages for employees in the knitting department – but even this figure is far below the legal minimum wage due for the working hours that employees have reported. R.J. McCarthy reported that factory management also asserted, and that employees interviewed on site also stated, that Lianglong no longer requires employees to work mandatory overtime, and properly compensates all overtime worked. In light of management’s previous dishonesty and obvious coaching of employees during the WRC’s earlier investigation of Lianglong, these statements can be given little credence when, as here, they are contradicted by multiple off-site worker interviews. Moreover, as noted in the WRC’s previous report and recently reconfirmed by R.J. McCarthy, factory management has repeatedly failed to provide accurate payroll information to either R.J. McCarthy or the WRC, so it is impossible to verify management’s claims in this regard.

**Conclusion: Lianglong continues to violate Chinese law regarding minimum wage and maximum hours of work and has failed to give a verifiable accounting of its actual practices in this area.**

### **C. Terms of Employment**

In its prior inspection of Lianglong, the WRC found that the employment contracts that the factory executes with individual employees contain an illegal clause requiring the employee to compensate the company if the worker stops working at the factory. In the most recent inspection, the WRC did not ask the factory to provide a copy of the contract, but, instead, during our presentation to employees on their rights under the labor laws (detailed below), the WRC asked the employees in attendance – most of them new hires – whether they have received an employment contract. The employees, however, appeared to have no idea what a labor contract was, indicating that they had not received one from the company. Failure to execute an employment contract with a worker at the time the employment relationship is established is a clear violation of the 2007 Labor Contract Law.<sup>7</sup>

**Conclusion: Lianglong continues to be in violation of China’s Labor Contract Law because it fails to provide all employees with employment contracts.**

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<sup>6</sup>  $(850 \text{ Yuan} + 4.89 \text{ Yuan} / \text{hour} \times 3.5 \text{ hours} \times 22 \text{ weekdays} \times 150\%) + (4.89 \text{ Yuan} / \text{hour} \times 11.5 \text{ hours} \times 8 \text{ weekend days} \times 200\%) = 2,312 \text{ Yuan}.$

<sup>7</sup> Labor Contract Law, Arts. 10 (“To establish an employment relationship, a written employment contract shall be concluded. In the event that no written employment contract was concluded at the time of establishment of an employment relationship, a written employment contract shall be concluded within one month after the date on which the Employer starts using the worker.”); and 16 (“The Employer and the worker shall each hold one copy of the employment contract.”).

## D. Social Benefits

Under Chinese law, employers must provide various forms of social insurance to workers under the required individual employment contracts, including social security (pension), workers' (injury) compensation, disability insurance, and maternity benefits to employees.<sup>8</sup> Lianglong admitted at the time of the WRC's previous inspection that it did not provide any of these benefits. Management stated that the factory intended to begin providing the first three benefits (social security, workers' compensation, and disability insurance) in the near future.

Lianglong management subsequently informed R.J. McCarthy that such enrollment had been implemented in August 2008. During the most recent factory inspection, management was asked to document that enrollment of its employees in these mandatory government social benefit programs had actually occurred. The information provided by the company only indicated that twelve of its employees were covered by only two of these programs – social security and workers' compensation.

**Conclusion: Lianglong has failed to demonstrate that it has enrolled the majority of its workforce in any of the legally-mandated social benefit programs, or that it has enrolled any of its employees in all these programs.**

## E. Physical Facilities

In the WRC's previous report, we cited the inadequate and unsanitary nature of the employee dormitories and restrooms, a condition which we found of considerable importance given that nearly all workers live in dormitories on the factory premises. In our most recent visit to the factory, management showed us a new building, which, when completed, will be a new toilet facility for workers. As R.J. McCarthy had previously reported to WRC, the factory has not, however, demonstrated any significant improvements to its dormitory facilities.

**Conclusion: The WRC is hopeful that, when completed, the building will provide adequate toilet facilities for workers. Currently, however, we cannot verify that employees have either adequate toilet or dormitory facilities.**

## III. Recommendations

Lianglong repeatedly failed to demonstrate a commitment to correcting the extensive violations of worker rights found in the WRC's previous report. As this is the case, we cannot recommend to R.J. McCarthy that it place additional orders with the company until and unless these violations have been verified as remedied. The WRC understands that, although R.J. McCarthy on multiple occasions requested that the company correct these violations, its business represents only a small percentage of Lianglong's business. Therefore, R.J. McCarthy alone lacks meaningful influence with Lianglong.

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<sup>8</sup> Labor Contract Law, Art. 17, ("An employment contract shall specify the following matters: ... (7) social insurance.")

We therefore recommend that R.J. McCarthy take the following steps with regard to this factory:

- (1) Inform Lianglong management that any future orders are contingent on verification that the labor rights violations identified in this memorandum and/or the WRC's previous report have been corrected;
- (2) Work with the WRC to locate an attorney or other person who can assist workers in obtaining compensation from the factory for the labor rights violations occurring during the period of R.J. McCarthy's business relationship with the factory;

More generally, the WRC observes that this case underscores the utility to R.J. McCarthy, and other suppliers, of:

- (3) Consolidating future orders into factories for whom the supplier represents a substantial share of production;
- (4) Verifying, before placing any initial order, that a factory is in compliance with local labor law and the District Schools Boards' labor policies. The WRC is willing to consult with R.J. McCarthy and other suppliers regarding the process and methodology for such verifications.
- (5) In countries like China, where very few means of recourse exist for workers to defend their rights, arranging, at the time orders are placed, for the supplier to permit the WRC and/or its designees to conduct a training program for workers, on company time, regarding: (a) their rights under local labor law, (b) their rights under the District School Boards' labor policies, and (c) avenues for workers to bring complaints to the supplier and the WRC.