

**WORKER RIGHTS CONSORTIUM  
FACTORY INVESTIGATION  
L&Y EMBROIDERY (BANGLADESH)  
FINDINGS AND REMEDIATION**



**May 28, 2020**

## **I. Introduction and Summary**

This report concerns the Worker Rights Consortium's (WRC) investigation and resolution of labor rights violations at L&Y Embroidery ("L&Y"), a factory in Savar, Bangladesh that, at the time of the events covered in this report, employed roughly 40 workers. L&Y embroidered college logo hats as a subcontractor to another Bangladeshi factory, Han Apparels ("Han"), which Han, in turn, supplied to the university licensee, Zephyr Headwear ("Zephyr").

As discussed in this report, the WRC's investigation found that, between September 2018 and January 2019, in the course of downsizing its workforce, L&Y violated Bangladeshi labor law and university codes of conduct by terminating at least seven employees without providing them legally required notice and severance benefits.

Moreover, despite the fact that university codes of conduct require licensees and their suppliers to disclose all factories involved in the production of collegiate goods,<sup>1</sup> Han failed to disclose its subcontracting to L&Y to Zephyr. This failure on Han's part placed Zephyr in violation of its obligations to its licensor universities.

In November 2019, after two months of active engagement with Zephyr, the WRC secured the former's commitment to ensure that the workers L&Y had dismissed during the downsizing were paid their legally mandated severance benefits and notice pay. These payments were made on December 8, 2019 in the amount of US\$817.38 per employee, which is equal to an average of nine months' salary for each of the seven workers who were owed this compensation.

The WRC noted that this was the third instance that Zephyr's supplier, Han, subcontracted Zephyr's collegiate apparel production to another factory, without disclosing the subcontractor in question to the licensee, and, thereby, causing Zephyr to fail to disclose the subcontracted factory to universities. In light of Han's repeated and willful violation of its obligations to Zephyr under university codes, the WRC recommended and Zephyr agreed to impose economic penalties on Han that would, nonetheless, avoid negatively impacting Han's own factory workforce. As discussed in further detail in this report, in response to this recommendation from the WRC, as of February 2020, Zephyr has taken such action against Han, and the WRC is optimistic that this will prevent further such misconduct by this supplier.

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<sup>1</sup> IMG College Licensing, Special Agreement on Labor Codes of Conduct, Schedule I § I ("The term 'Licensee' shall for purposes of the Code, and unless otherwise specified in the Code, encompass all of Licensee's contractors, subcontractors or manufacturers which produce, assemble or package finished Licensed Articles for the consumer.") and Rider 1 ("Full Public Disclosure: Each Licensee shall disclose to the Collegiate Institution(s) or its designee the location [including factory name, contact name, address, phone number, e-mail address, products produced, and nature of business association] of each factory used in the production of all items which bear Licensed Indicia [as defined in the License Agreement]. Such information shall be updated upon change of any factory site location.").

## **II. Methodology**

The WRC's findings in this report are based on the following sources of evidence:

- Interviews with L&Y workers who were terminated between September 2018 and January 2019;
- Interviews with managerial staff of L&Y;
- Zephyr's records of orders for products supplied by Han;
- Communications with the management of Han and Zephyr; and
- Documentation related to L&Y workers' pay and benefits.

## **III. Findings**

### **A. Prior Labor Rights Violations and Failure to Disclose Subcontractors**

The WRC has reported twice previously, in [2016](#) and, again, in [2018](#), on violations of university codes of conduct by two other Bangladeshi factories subcontracted by Han to produce college logo caps for Zephyr. As in the current case of L&Y, neither of the factories where these violations were identified had been previously disclosed by Zephyr as suppliers of university goods.

In all three cases, however, during the WRC's investigation of complaints of labor rights violations, workers identified production of Zephyr's collegiate goods at these subcontracted facilities. Furthermore, in each case, the WRC was able to confirm that Han had subcontracted Zephyr's production to the facility without disclosing this information to Zephyr. The subsections below outline these two previous cases.

#### **1. Han Embroidery (2016)**

Han Embroidery was a factory that was subcontracted by Han Apparel to embroider college logo caps for Zephyr. Han Embroidery closed on October 25, 2015, without paying legally required severance benefits to its workers. 168 workers at Han Embroidery were owed, on average, the equivalent of six months' wages in unpaid compensation at the time the factory closed.

After a WRC investigation confirmed that Han Embroidery workers had been denied legally required compensation and that the facility had carried out collegiate production for Han Apparel that the latter had supplied to Zephyr, the WRC contacted Zephyr. Zephyr agreed to work with the WRC to ensure that these violations were remedied.

Zephyr secured a commitment from its supplier, Han, to make the Han Embroidery workers whole for the severance benefits that they were legally owed. The WRC then worked with Zephyr and the factory workers' union to organize the distribution of the funds to the former employees. Furthermore, Zephyr also committed to take steps to ensure that its supplier Han would not subcontract any further collegiate production without disclosing this to Zephyr. The case was concluded in April 2016.

## **2. KT Embroidery (2018)**

In May 2018, the WRC launched an investigation into the illegal termination of 17 workers from another subcontracted factory in Bangladesh, KT Embroidery. This case involved serious violations of freedom of association by the factory's management, including:

- The illegal dismissal of more than a dozen workers who had sought improvements to the factory's labor practices; and
- The imposition of a blatantly illegal requirement that the factory's remaining employees refrain from exercising their associational rights, as a condition of their continued employment.

In this case as well, during the WRC's investigation, workers reported that KT Embroidery had embroidered university logo caps, as a subcontractor to Han, for supply to Zephyr. However, by the time the violations at the factory were reported to the WRC, Han had already ceased its business relationship with KT Embroidery and, therefore, lacked leverage to compel KT Embroidery to reinstate the dismissed workers and lift its ban on associational rights.

As a result, the maximum remedy that could be achieved in this case was monetary compensation for the workers KT Embroidery had illegally dismissed. With Zephyr's support, the WRC secured for workers the equivalent, on average, of 15 months' salary, or roughly US\$1,430.59, per worker, which was paid in June 2018. In the aftermath of this case, Zephyr again committed to ensure that Han would cease its violation of university codes through use of undisclosed subcontractors.

### **B. Findings of Violations—L&Y Embroidery (2018–2019)**

#### **1. Failure to Provide Legally Required Notice and Severance Benefits**

In September 2019, the WRC received a complaint from the Bangladeshi trade union federation, National Garment Workers Federation (NGWF), regarding nonpayment of severance benefits to workers who had been laid off by L&Y between September 2018 and January 2019. The WRC launched an investigation of this complaint and attempted to contact L&Y's owner but received no reply. However, based on mutually corroborative and detailed testimony from employees, the WRC was able to confirm that L&Y had failed to provide legally mandated notice and severance benefits to workers when it terminated their employment.

Bangladeshi law requires that when workers are terminated as part of an economic layoff affected employees must be paid compensation in the amount of 30 days' basic wages for each year of service.<sup>2</sup> The law further requires that the employer must either provide one month's advance notice of the retrenchment or pay the workers an additional 30 days' wages.<sup>3</sup>

The WRC found that L&Y had failed to pay severance benefits, notice of retrenchment, or pay in lieu of notice to 17 workers from the factory when it terminated their employment. As a result,

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<sup>2</sup> Bangladesh Labor Act 2006, Article 20(a).

<sup>3</sup> Bangladesh Labor Act 2006, Article 20(c).

the WRC concluded, L&Y had violated both Bangladeshi law and university codes of conduct, which require payment of legally mandated compensation and compliance with all local labor laws.<sup>4</sup>

L&Y refused to cooperate with the WRC's investigation, and, because Han had, by then, ceased doing business with L&Y, Han lacked the leverage to require L&Y to do so. Nonetheless, the WRC was able to calculate the notice pay and severance benefits legally due to the workers based on their factory-issued pay records. Based on these records, the WRC concluded that the dismissed workers each were legally owed, on average, nine months' salary, the equivalent of US\$817.38 per employee.

## **2. Failure to Disclose Subcontractor for College Logo Products**

The WRC's investigation found that L&Y embroidered college logo caps for Han that the latter supplied to Zephyr. This finding was confirmed by mutually corroborative testimony from factory workers and other nonproduction staff, as well as photographs taken at the facility showing that university logo caps were being embroidered there.

Finally, records of orders placed with Han Apparel that Zephyr provided to the WRC showed that Han had supplied collegiate caps to Zephyr during the same time period that, according to workers' testimony, L&Y had produced college logo caps for Han. Based on all this evidence, the WRC found that Han had, once again, violated university codes of conduct by failing to disclose its subcontracting college logo cap production to L&Y.

## **IV. Recommendations for Corrective Action and Current Status**

### **A. Recommendations**

The WRC recommended that, in order to comply with university codes of conduct, Zephyr:

1. Disclose L&Y Embroidery as having been a supplier to Zephyr for college logo products;
2. Assist the WRC in arranging access for the WRC to L&Y in order to review documents and interview relevant staff, as part of the WRC's investigation;
3. Impose meaningful financial consequences on Han for its repeated failure to disclose subcontracting of college logo apparel production; and
4. Establish safeguards to ensure that, going forward, its suppliers will not subcontract production of collegiate goods without full disclosure of information concerning the subcontractor as required under university codes of conduct.

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<sup>4</sup> IMG College Licensing, Special Agreement on Labor Codes of Conduct, Schedule I §§ II.A ("Legal Compliance: Licensees must comply with all applicable legal requirements of the country(ies) of manufacture in conducting business related to or involving the production or sale of Licensed Articles.") and B.1 ("Wages and Benefits: Licensees ... shall pay employees, as a floor, at least the minimum wage required by local law or the local prevailing industry wage, whichever is higher, and shall provide legally mandated benefits.").

## **B. Current Status**

In November 2019, Zephyr agreed to ensure payment of legally owed notice pay and severance benefits to the seven workers who had been terminated by L&Y during the time period when Zephyr's caps were being produced at the facility (September 2018 to January 2019).

Despite L&Y's refusal to cooperate with the WRC's investigation, the WRC was able, working with the union federation, to identify a total of seven workers who had been dismissed from the factory during this period without notice or severance benefits. Representatives of Han, Zephyr, and the WRC oversaw the distribution of a total of US\$5,721.67, or US\$817.38 to each worker, in compensation for the unpaid severance benefits and notice pay in December 2019.

The distribution of these funds resolved the nonpayment to workers of pay in lieu of notice and severance benefits. However, because this was the third time that Han had subcontracted Zephyr's college logo cap production to another factory without disclosing this information, the WRC also recommended that Zephyr impose economic consequences on Han for this repeated noncompliance.

Zephyr's response to this recommendation by the WRC was to eliminate the role that Han had played, up to that point, as Zephyr's buying agent with other factories in other countries. By doing so, Zephyr placed a tangible economic penalty on Han for the latter's repeated violation of university codes. Importantly, because this impacts Han's business interests as a buying agent, but not as a manufacturer, this avoids having a negative effect on Han's own workers—which is often a concern when buyers impose financial consequences on noncompliant factories.

## **V. Conclusion**

Over the course of three separate WRC investigations of its subcontracting practices, carried out over a period of four years, Han repeatedly demonstrated that it was unwilling to comply with university codes of conduct in this area. Zephyr, in this and previous cases involving Han, responded appropriately to the WRC's findings by taking steps to correct the violations of workers' rights with which Zephyr unfortunately had been associated as a result of Han's undisclosed subcontracting.

However, it seems quite certain that, absent tangible consequences for its repeated noncompliance, Han would continue to violate university codes with respect to disclosure of its subcontractors. It is important, then, that Zephyr has imposed direct economic consequences on this supplier, while, at the same time, avoiding an adverse impact on Han's own workers. The WRC is optimistic that this resolution will prove a positive precedent for other university licensees and suppliers in addressing such issues in the future.