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## INDEPENDENT EXTERNAL ASSESSMENT REPORT



COMPANIES: Fast Retailing Co., Ltd.

COUNTRY: China

ASSESSMENT DATE: 11/14/17

ASSESSOR: Elevate

PRODUCTS: Apparel

NUMBER OF WORKERS: 1234

## Summary of Code Violations

Companies that join the FLA agree to uphold the FLA Workplace Code of Conduct throughout their entire supply chain. The Code of Conduct is based on International Labour Organization (ILO) standards, and defines labor standards that aim to achieve decent and humane working conditions.

While it is important to note when violations of the FLA Workplace Code of Conduct occur, the purpose of these assessments is not simply to test compliance against a particular benchmark, but rather to develop an understanding of where and how improvements can be made to achieve sustainable compliance. Code of Conduct violations can be found throughout the course of an assessment of the employment and management functions, and are addressed in companies' action plans.

## Findings and Action Plans

### FINDING NO.1

#### SUSTAINABLE IMPROVEMENT REQUIRED

#### FINDING TYPE: Review Process (Macro)

##### Finding Explanation

1. The factory does not regularly review and update any of its policies and procedures or their implementation. Since there is no review process, there is no consultation with the workers, either. ER.1 ER.29 ER.30 ER.31

##### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.29, ER.30, and ER.31)

#### COMPANY ACTION PLANS

##### Action Plan no 1.

##### Description

1. From Jan 13 - Mar 23 2018, company top management together with supervisors from each department as well as worker representatives discussed, revised and finalized the employment principles under the guidance of lawyer. The final version will be confirmed by the law consultant by the end of Apr 2018, and will be translated to Japanese from Chinese;
2. Factory will create internal document management procedures where defines the process to create and update all relevant documents, and maintain the records.
3. From then on, all the policies and procedures will be reviewed and updated as per established procedure, all the regular check and confirmation will be recorded in certain format.

### FINDING NO.2

#### SUSTAINABLE IMPROVEMENT REQUIRED

#### FINDING TYPE: Recruitment, Hiring & Personnel Development

##### Finding Explanation

1. The factory does not have policies and procedures for performance reviews, and does not conduct performance reviews for regular workers or workers in their probationary period. ER.1, ER.29

## COMPANY ACTION PLANS

### Action Plan no 1.

#### Description

1. To encourage the workers to realize their full potential, the company implement "More pay for More work" piece rate system in the premise of setting minimum wage support for the workers;
2. While carrying out the industry standard working hour, the company also select the best three workers in the production lines awarded with cash on the basis of attendance status, production efficiency, timely delivery and other requirements;
3. As approved by the General manager, the company is setting up a persuasive and transparent evaluation standard covering for all employees. Here is the timeline:  
By Dec 2018, draft evaluation plan together with trade union;  
By Dec 2019, implement evaluation policy for middle management team for trial operation;  
By Dec 2020, review, confirm and update the evaluation policy;  
By Dec 2021, carry out for all employees.

## FINDING NO.3

## IMMEDIATE ACTION REQUIRED

### FINDING TYPE: Compensation

#### Finding Explanation

1. While the factory contributed to all 5 insurance schemes for all workers, calculations of contributions to workers' social insurance are not based on workers' actual wages. For example, according to local law the factory should contribute CNY 441.12 (USD 66.84) to pension insurance for a worker who earns a monthly wage of CNY 5514 (USD 835.45), but the factory only contributes CNY 232.48 (USD 35.22). ER.22, C.10
2. The factory does not pay into the legally required Housing Provident Fund for any of the workers. ER.22 C. 10

#### Local Law or Code Requirement

Labor Law of the People's Republic of China, Article 72; Social Insurance Law of the People's Republic of China, Articles 58 and 60; Regulation on the Housing Provident Fund Management, Article 15 (2002); FLA Workplace Code (Employment Relationship Benchmark ER.22; Compensation Benchmark C.10)

#### Recommendations for Immediate Action

1. Calculate contributions to all five types of social insurance based on workers' actual wages, as required by law.

## COMPANY ACTION PLANS

### Action Plan no 1.

#### Description

- 1-1. There are at least 4 reasons workers do not want to increase the contribution base of social insurance:
  - a. the premium base in 2018 is 2890RMB, the income for new workers is about 3350RMB. To follow the regulation, RMB268 will be deducted for social insurance and another RMB168 will be cut from the income, which net income would be RMB2914;
  - b. Most the workers coming from rural area, the rural cooperative medical insurance is covering part of the social insurance, and there is repeat purchase for them;
  - c. The income for workers are not high itself, after the deduction of social insurance and housing fund, there is not much left in hand for the workers. Increasing the contribution would result in the loss of the workers;
  - d. The age difference. The young workers have high turnover rate and they are not prepared to purchase social insurance. The workers aged more than 45 are too old to start the contribution for social insurance.
- 1-2. Due to the high turnover rate and low profit of the industrial, the company will be overburdened for the company financial;
- 1-3. The company will follow the guidance of the local government to increase the social premium base and housing fund.
- 2-1. From Dec 2017, the top management of the company play a positive role to promote housing fund contribution, on the basis

of volunteer to purchase, they are about 60% of the employees contributed for housing fund.

2-2. To continue the promotion of all employee participated in housing fund, the company will explain benefits housing fund in orientation training and the worker representatives provide training to change the mindset for the existing workers who do not purchase housing fund.

2-3. Here is the plan for all employees to join housing fund by Dec 2022:

- Jan 2018, 722 purchased out of 1180 (61.2%);
- Jan 2019, 885 purchased out of 1180 (75%);
- Jan 2020, 1003 purchased out of 1180 (85%);
- Jan 2021, 1121 purchased out of 1180 (95%);

## FINDING NO.4

### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Hours of Work

##### Finding Explanation

1. During a review of time records from November 2016 to November 2017, assessors found the following: 47 out of 50 sampled workers' monthly overtime hours ranged from 38 to 58 hours in October 2017; 49 out of 50 sampled workers' monthly overtime hours ranged from 64 to 76 hours in August 2017; and 49 out of 50 sampled workers' monthly overtime hours ranged from 52 to 58 hours in April 2017. The average monthly overtime was 62 hours. The maximum monthly overtime was 76 hours in August 2017. This is in violation of the local legal limit of 36 hours of overtime per month. HOW.1 HOW.8

2. The factory does not have a system in place to identify pregnant and breastfeeding workers. HOW.5

##### Local Law or Code Requirement

Labor Law of the People's Republic of China, Article 41; FLA Workplace Code (Employment Relationship Benchmarks HOW.1, HOW.5, and HOW.8)

##### Recommendations for Immediate Action

1. Do not allow working hours to exceed 36 hours of overtime each month. Implement a reasonable production plan and increase productivity using positive means (such as bonuses).

### COMPANY ACTION PLANS

#### Action Plan no 1.

##### Description

1. The company follows the local regulation but considering the balance of the health and expectation for higher income of the workers, the company extends the working hours accordingly, as well as following the industrial standards of production partners.

2-1. As authorized by the general management, the Admin Dept will create the management policies for pregnant and breastfeeding workers and draft the management format;

2-2. Admin dept will also invite trade union representatives to discuss and revise the policy;

2-3. All departments will provide training to employees in the morning meeting and identify the relevant workers to register in Admin Dept.

## FINDING NO.5

### SUSTAINABLE IMPROVEMENT REQUIRED

#### FINDING TYPE: Industrial Relations

##### Finding Explanation

1. FLA Comment: The Chinese constitution guarantees Freedom of Association; however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union – the All China Federation of Trade Unions (ACFTU). According to the

International Labor Organization (ILO), many provisions of the Trade Union Act are contrary to the fundamental principles of freedom of association, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. Recently, however, the government has introduced new regulations that could improve the functioning of the labor relations' mechanisms. The Amended Trade Union Act of October 2001 stipulates that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. It also grants the trade union an enhanced role in dispute resolution. In December 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements. FOA.2, FOA.10, FOA.11, FOA.13

2. The factory does not provide specific training to the relevant supervisors on Industrial Relations and Freedom of Association. The factory does not provide specific or ongoing training to workers on Industrial Relations and Freedom of Association. The orientation training provided to workers does not cover Industrial Relations and Freedom of Association, either. ER.1, ER.15, ER.17, ER.25

#### Local Law or Code Requirement

FLA Workplace Code (Freedom of Association Benchmarks FOA.2, FOA.10, FOA.11, and FOA.13; Employment Relationship Benchmarks ER.1, ER.15, ER.17 and ER.25)

## COMPANY ACTION PLANS

### Action Plan no 1.

#### Description

1. The company will follow trade union law in PRC, and respect the regulations.

2-1. The company will review the employment regulation and invite trade union representatives to discuss, revise and finalize the regulation.

2-2. The company will respect trade union and reach an agreement with trade union for the improvement suggestions for workers' condition and environment. For the important advice, top management will have direct dialogue with trade union;

2-3. The company respect the right to join trade union;

2-4. The HR will provide training to the new workers for the valid collective contract and information about trade union in orientation training;

2-5. HR provide regular training to the existing supervisor and workers regarding industrial relations and freedom of Association.

## FINDING NO.6

## SUSTAINABLE IMPROVEMENT REQUIRED

### FINDING TYPE: Environmental Protection

#### Finding Explanation

1. The factory added a printing section in April 2017, but did not obtain an Environmental Impact Registration form for the new construction. In addition, the factory's Environmental Impact Assessment report did not cover two of the generators used in the factory since 1997. HSE.1 HSE.4

2. There are no labels on the hazardous waste containers, or on the installations and sites for collection and storage of hazardous waste. HSE.9

3. The factory does not provide regular or ongoing training to workers on Environmental Protection. The orientation training provided to workers does not cover Environmental Protection, either. ER.1 ER.15

#### Local Law or Code Requirement

Environmental Impact Assessment Law of the People's Republic of China, Articles 16 and 22; Law of Prevention and Treatment of Environmental Pollution by Solid Wastes of the People's Republic of China, Article 52; FLA Workplace Code (Employment Relationship Benchmarks ER.1 and ER.15; Health, Safety & Environment Benchmarks HSE.1, HSE.4, and HSE.9)

## COMPANY ACTION PLANS

### Action Plan no 1.

#### Description

- 1-1. The company will follow the environmental regulation and apply for environmental assessment impact for the newly added process as per local regulation;
- 1-2. The company will conduct regular inspection for the noise,dust,waste air emission,electronic radiation, etc in production and dormitory area.
- 2-1. The company segregate the industrial and domestic waster and label them, set up secondary containers for all the chemicals used as per MSDS. All the wastes will be collected by qualified company.
- 3-1. The company will define the environmental protection policies and write down in employment manual;
- 3-2. HR will translate the environmental terminology to an easy-understanding language in the orientation training materials for the workers;
- 3-3. HR provide annual training for the existing employees regarding the code of conduct, including environmental protections.

## FINDING NO.7

### IMMEDIATE ACTION REQUIRED

#### FINDING TYPE: Health & Safety

#### Finding Explanation

1. There is no guardrail installed on a 1.6m high ladder in the raw material warehouse on the first floor of one block of 3-storey building. HSE.14

#### Local Law or Code Requirement

GB17888.3 -2008, Article 7.1.2 & 7.1.4 (Safety of Machinery - Permanent means of access to machines and industrial plants - Part 3: Stairways, stepladders and guardrails); FLA Workplace Code (Employment Relationship Benchmark HSE.14)

#### Recommendations for Immediate Action

1. Install guardrails on all ladders taller than 0.5 meters to prevent falls.

### COMPANY ACTION PLANS

#### Action Plan no 1.

#### Description

To ensure the safety use for the mobile ladders, the company installed the iron guardrail for the the ladder.

## FINDING NO.8

### SUSTAINABLE IMPROVEMENT REQUIRED

#### FINDING TYPE: Health & Safety

#### Finding Explanation

1. The factory does not take proactive steps to reduce repetitive-motion stress/injuries. The factory has not conducted an ergonomics assessment. There are not enough mats provided to workers working in a standing position in the cutting workshop and back rests on the seats in other workshops (sewing, inspection, finishing, packaging, etc.). HSE.17

#### Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark HSE.17)

### COMPANY ACTION PLANS

#### Action Plan no 1.

### Description

1. The company management will study the ergonomics knowledge, will conduct ergonomic assessment if there any unnecessary motions or any further actions in need;
2. To reduce the repetitive-motion stress or injuries, the company will :
  - set up speakers in the production workshop and play relaxing music;
  - Arrange 1-3 minutes' every hour to change the motions to check the products or clean the spots around them or to drink water, do stretching, etc.
  - For the workers who stand up to work, the company provide adjustable chairs for them to use freely.