



FAIR LABOR
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INDEPENDENT EXTERNAL ASSESSMENT REPORT



COMPANIES: Delta Galil Industries Ltd.

COUNTRY: China

ASSESSMENT DATE: 07/15/19

ASSESSOR: Openview

PRODUCTS: Apparel

NUMBER OF WORKERS: 660

FLA Comments

Esquel Group ended their affiliation with the Fair Labor Association in May 2020. Therefore, there will be no further updates to the Company Action Plans contained in this report.

Due to this disaffiliation Esquel Group is no longer listed on the Fair Labor Association Website, however, their Independent External Assessment reports can still be found at <https://www.fairlabor.org/transparency/workplace-monitoring-reports>

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.

FLA Code Element	Number of Violations
Compensation	3
Hours of Work	5
Employment Relationship	18
Health, Safety, and Environment	2
Nondiscrimination	1

Findings and Action Plans

FINDING NO.1

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Recruitment, Hiring & Personnel Development

Finding Explanation

1. The factory has not hired any disabled workers, which is a violation of legal requirements that state at least 1.5% of the total workforce should be composed of disabled workers. Although the factory contributes to the Employment Security Fund in lieu of employing disabled workers as allowed under the local law, this practice carries the risk of discrimination based on FLA Workplace Code of Conduct and Benchmarks. [ND.2]
2. The factory does not conduct performance reviews for workers although the factory has written policies and procedures outlining the process for performance reviews. [ER.29.1]
3. Workers do not receive a copy of the workplace rules or written documentation that substantiates all the issues covered in orientation. [ER.15.3]
4. There are total 730 workers including 337 dispatched workers from Yiwushi Xinyue Labor Dispatching Co., Ltd. The proportion of dispatched workers employed is up to 46%, which exceeds the legal limit of no more than 10% of total workforce. Besides, there is no obvious identification on dispatched workers, who are widely used in each permanent position, including Cutting, Sewing, Knitting, Quality Control and Packing positions. [ER.7.1]
5. Job description includes a minimum age limit which may lead to discrimination during recruitment or promotion process. For example, inspection workers are required at least 25 years old. [ND.2.1]

Local Law or Code Requirement

Regulations on the Employment of Persons with Disabilities, Article 8; China Labor Contract Law, Article 66; Interim Provisions on Labor Dispatch, Article 4. FLA Workplace Code (Non-discrimination Benchmark ND.2; Employment Relationship Benchmarks ER.7, ER.15 and ER.29)

Recommendations for Immediate Action

1. Reduce the proportion of dispatched workers to be in full compliance with legal limit of no more than 10% of total workforce and do

not use dispatched workers in permanent position.

2. Remove the age limit from job description.

FINDING NO.2

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Compensation

Finding Explanation

1. The factory does not provide sufficient social insurance to all eligible workers. There are a total of 730 workers including 7 retired but re-recruited workers and 337 dispatched workers from Yiwushi Xinyue Labor Dispatching Co., Ltd. For workers directly employed by the factory, 212 out of 386 eligible workers (55%) were provided with pension, unemployment and medical insurances, 44 out of 386 of eligible workers (11%) were provided with maternity insurance and 355 out of 386 eligible workers (92%) were provided with work-related injury insurance, according to social insurance receipt and name list for June 2019. As a supplement, the factory has provided commercial accidental injury insurance to all workers not covered by work-related injury insurance, which is valid from March 25, 2019 to March 24, 2020 and has a maximum benefit amount of CNY 500,000 (USD 72,655) per worker. For dispatched workers, none of eligible workers were provided with pension, unemployment and medical insurances, only 2 out of 337 eligible workers (0.6%) were provided with maternity insurance and all 337 eligible workers were provided with work-related injury insurance, according to social insurance receipt and name list for June 2019. [C.1]
2. The contribution base of the five types of social insurances is not in line with legal requirements. The contribution is based on the local minimum requirement of CNY 3,060 (USD 445) per month instead of workers' average monthly wage of the previous year. About 70% of workers' average monthly wages of the previous year were higher than local minimum contribution base, ranging from CNY 3,100 (USD 450) to CNY 6,500 (USD 945). [C.10.1]
3. The factory only contributes to Housing Provident Fund for 12 out of 386 eligible workers (3%) directly employed by the factory and does not contribute to Housing Provident Fund for dispatched workers. [ER.22.1]
4. According to the compensation procedures and worker interviews, the factory does not take workers' external seniority (previous job experience prior to factory employment) into account when calculating annual leave, as required by law. [C.6]

Local Law or Code Requirement

The China Labor Law, Article 72; Social Insurance Law of the PRC, Article 12 and Article 58; Regulations on Management of Housing Provident Fund, Article 2, Article 3 and Article 15; Regulations on Annual Leave for Employees, Article 2. FLA Workplace Code (Compensation Benchmarks C.1, C.6 and C.10; Employment Relationship Benchmark ER.22)

Recommendations for Immediate Action

1. Provide social insurance to all eligible workers.
2. Contribute to social insurance based on worker's average monthly wage of previous year.
3. Provide all workers with legally required Housing Provident Fund.

FINDING NO.3

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Hours of Work

Finding Explanation

1. According to the time records for the period from June 2018 to July 14, 2019 and worker interviews, about 90% of workers' monthly overtime hours exceeded the legal limit of 36 hours per month in all reviewed months, with a maximum of 154 hours in October 2018. About 20% of workers' daily overtime hours exceeded the legal limit of 3 hours per day on a total of 1 to 12 weekdays in all reviewed months. 1 out of 40 sampled workers' daily overtime hours reached 5.5 on August 1, 2018. [HOW.1.1]
2. According to the time records for the period from June 2018 to July 14, 2019 and worker interviews, about 60% of workers' weekly working hours exceeded 60 hours for a duration of 1 to 4 weeks per month in all reviewed months. About 10% of workers' weekly working hours were up to 74.5 in the week of March 11 to 17, 2019. [HOW.1.3].

3. According to worker interviews and time records for the period from June 2018 to July 14, 2019, about 60% of workers did not regularly receive one day off in every seven-day period in about 50% of the reviewed weeks. About 20% of workers worked a maximum of 20 consecutive days from October 29 to November 17, 2018. [HOW.2]

4. The factory production plan is based on 48 to 60 hours per week. Factory management sets production targets and production system at a level that workers need to work 8 to 20 overtime hours per week. [ER.24]

Local Law or Code Requirement

China Labor Law, Article 38 and Article 41. FLA Workplace Code (Employment Relationship Benchmark ER.24; Hours of Work Benchmarks HOW.1 and HOW.2)

Recommendations for Immediate Action

1. Ensure overtime hours do not exceed 3 hours per day and 36 hours per month.
2. Control total working hours do not exceed 60 hours per week.
3. Provide one day off in every seven-day period.
4. Set production plan based on regular working hours.

FINDING NO.4

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Industrial Relations

Finding Explanation

1. FLA Comments: 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]

Local Law or Code Requirement

FLA Workplace Code (Freedom of Association Benchmark FOA.2)

FINDING NO.5

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Grievance System

Finding Explanation

1. According to factory management interview, the factory provides four channels for workers to file complaints, which include writing suggestion letters to supervisors or management, directly speaking to supervisors or management, anonymously reporting through suggestion box and directly reporting to the General Manager. However, according to worker interviews, workers are only informed of one channel as directly speaking to supervisors or management. Workers are not aware of the other three grievance channels. In addition, 80% of the interviewed workers do not understand the grievance resolution process. [ER.25.3.2]

2. Interviews with workers and management note that some grievances have been raised in the last year and they are handled verbally or through meetings with workers. No related records are maintained. [ER.25.2]

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.25)

FINDING NO.6

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Workplace Conduct & Discipline

Finding Explanation

1. Interviews with workers and management note that some disciplinary actions have been taken in the last year and all these disciplinary action have all been handled verbally. No related records have been kept. [ER.27.3.4]
2. The disciplinary procedures do not require workers to sign written records of disciplinary actions taken against them. No worker has ever signed written records of disciplinary actions. [ER.27.3.3]

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.27)

FINDING NO.7

IMMEDIATE ACTION REQUIRED

FINDING TYPE: Health & Safety

Finding Explanation

1. The factory does not annually test the lightning protection system in production and office buildings. [HSE.13]
2. The factory has not conducted pre-assessment of occupational disease hazards, assessment of effects of occupational disease hazards control or assessment of current condition of occupational disease hazards since construction completed in 2013. [HSE.1]
3. There are eye protection shields installed on all over-locking sewing machines. However, three workers do not properly use the eye shields during working hours. [HSE.14.2]
4. There are no needle guards installed on six sewing machines. [HSE.14.1]
5. The water pressure of one eyewash station in chemical warehouse is too low to wash eyes in case of emergency. [HSE.6.1]

Local Law or Code Requirement

Technical Specifications for Inspection of Lightning Protection System in Building, Article 6; Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, Article 17 and Article 18; Code of Design of Manufacturing Equipment Safety and Hygiene, Article 6.1.6; Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, Article 25. FLA Workplace Code (Health, Safety and Environment Benchmarks HSE.1, HSE.6, HSE.13 and HSE.14)

Recommendations for Immediate Action

1. Test the lightning protection system annually and maintain test reports.
2. Provide more training on machine safety and supervise workers to use machine safety guards properly during work hours.
3. Install needle guards on all sewing machines.
4. Ensure proper water pressure of the eyewash facility in chemical warehouse.

FINDING NO.8

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Policies & Procedures (Macro)

Finding Explanation

1. The disciplinary procedures do not include workers' right to have a third-party witness present during the imposition of disciplinary

actions. [ER.27.4]

2. The factory does not have procedures for workers to raise health, safety and environmental concerns or indicating protection against retaliation for workers who raise health, safety and environmental concerns. [ER.31.2]

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.27 and ER.31)

FINDING NO.9

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Training (Macro)

Finding Explanation

1. The ongoing training to workers does not include Personnel Development, Retrenchment or Industrial Relations. [ER.1.2]

2. The orientation training to new workers does not include Personnel Development, Retrenchment or Industrial Relations. [ER.15.1]

3. The factory does not provide specific training to relevant managers or supervisors on Employment Functions including Personnel Development, Industrial Relations, Grievance System, Workplace Conduct & Discipline and Retrenchment. [ER.17.1]

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1, ER.15 and ER.17)

FINDING NO.10

SUSTAINABLE IMPROVEMENT REQUIRED

FINDING TYPE: Communication & Worker Involvement (Macro)

Finding Explanation

1. The worker integration component is missing across all Employment Functions. This indicates that the factory has not established procedures to request or receive workers' input/feedback regarding the creation, implementation, and updating of its policies and procedures. Workers are neither systematically integrated nor consulted in decision-making processes. [ER.1.3]

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.1)