

Pilot Project
for
Licensing Labor Code Implementation

Final Report
October 3, 2000

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To the Reader:

In Spring, 1999, representatives from a group of schools involved in the licensing labor code issue developed a pilot project that would explore the process of implementing labor standards at their licensees' manufacturing sites. The purpose of the pilot was to acquire data and experience that would enable institutions to better answer at least some of the questions surrounding imposition of labor standards through licensing programs: impact on licensees, the relation between codes and legal requirements, degree of transparency, worker security, and efficacy of monitoring, to name a few. In addition we expected that the pilot would help identify and focus attention on actual issues arising from the process of monitoring collegiate manufacturing sites.

With those objectives in mind, the schools asked Bruce Siegal of Collegiate Licensing Company to help design and oversee a program that would identify five licensees who were willing to participate; to engage a monitoring entity that could help guide remediation as well as perform objective audits; and to provide a project schedule that would allow for initial site assessment, code implementation, evaluation, and reporting.

What follows are the results of that effort--detailed accounts of auditing and remediation efforts spearheaded by Verité of Amherst, MA, at licensee sites in five different countries. To nobody's surprise, discrepancies requiring remediation were identified at each of the sites; and even after improvement efforts, there remains work to be done. But the experience does provide a sense of what is involved with a small number of sites--and a glimpse of the size of the task facing licensees of colleges and universities which, in the aggregate, have thousands of sites where goods bearing their logos are manufactured.

The pilot report does not attempt to draw broad conclusions, set new agendas, or advocate one approach over another; rather, it is offered as a starting point, as a piece of hard data, that students, faculty and administrators are free to use in developing their own strategies. We invite analysis, critique, and suggestions, and would welcome accounts of similar efforts from other schools.

We would like to thank CLC and Verité for their strong and sustained efforts. But in particular we would like to thank our participating licensees--College Concepts, Gear for Sports, M.J. Soffe, JanSport and Zephyr Graf-X--for stepping up to the plate, letting us into their sites, and allowing us to publish the results. These companies, by being willing to take a risk and open some of their factory sites to public scrutiny, have taken a leadership role and set a new standard for companies that would strive to improve the conditions under which collegiate-logoed goods are manufactured.

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Introduction

The Joint University/Collegiate Licensing Company (CLC) pilot project is a cooperative effort on the part of six universities and five United States companies under license with them to develop a better understanding of the labor-code implementation and monitoring process as part of their overall efforts to ensure that products bearing university logos are produced under fair labor conditions. This program was designed as an educational study to gain practical experience in working with independent monitoring agents and factory management to bring factory sites into compliance with labor-code standards.

The six universities who volunteered for the pilot project are Boston College, Duke University, Georgetown University, the University of North Carolina at Chapel Hill, the University of Wisconsin at Madison, and the University of Southern California.

Also volunteering for the pilot project were U.S. companies under license with the universities (the “licensees”): College Concepts, Gear for Sports, M.J. Soffe, Jansport, and Zephyr Graf-X. In turn, these U.S. licensees contract with factories in the U.S. and abroad to produce some of the products bearing university logos.

Formed in 1981, CLC assists colleges, universities and related organizations in protecting and controlling the use of their logos through trademark licensing. The CLC Consortium includes more than 180 universities, bowl games, conferences, the NCAA and The Heisman Trophy.

As universities and their licensees move toward more comprehensive labor-code monitoring programs, these participants desired to engage in a pilot program that would help facilitate the transition and contribute to the growing knowledge base.

Project History

In September 1999, CLC, participating universities and licensees began working with Verité, a non-profit organization based in Amherst, Mass. that specializes in comprehensive, third-party factory evaluations. In the past five years, Verité has developed an extensive global independent monitoring program through human rights inspections of factories worldwide and has conducted over 500 comprehensive factory evaluations in 50 countries.¹

For its audit teams, Verité uses a network of field-based international coordinators, auditors and worker interviewers linked with established human rights organizations and non-governmental organizations (NGOs) who are

¹ For more information on the standard Verité audit process, see Appendix A.

knowledgeable about local regulations and industry practices and who speak the languages and dialects spoken by workers.

In September 1999, CLC, Verité, and the participating universities and licensees met in Boston to organize the pilot program and establish its details. It was determined that CLC, on behalf of the universities, would function as a liaison between Verité and licensees.

For the pilot, each of the five participating licensees selected one test site in October 1999 from the group of factories with which they have manufacturing contracts. In most cases, the factories have contracts with many other companies in addition to the licensees, and the licensees represent only a small share of their overall business. The five licensees chose factories located in Costa Rica, El Salvador, Korea, Mexico and Taiwan.

Audit and Remediation Process

Working together, the pilot participants developed a five-part process designed to investigate and (if necessary) improve manufacturing conditions at the test factories:

1. Visit the factory and evaluate factory conditions against local laws, the CLC's Labor Code Standards and Verité's guidelines.

To accomplish this, audit teams made on-site inspections at the factory and conducted interviews with factory management personnel and a representative sampling of at least 10 workers. Interviewers walked through the factory and chose workers at random from a variety of production areas as well as during breaks in the cafeteria or rest areas.

Factory conditions were evaluated against local laws, CLC Labor Code Standards and Verité guidelines, developed from International Labor Organization (ILO) standards, Occupational Safety and Health Administration (OSHA) data, international labor and human-rights standards, as well as from Verité's accumulated experience with reasonable and customary practices in the manufacturing industry. Verité has adopted these guidelines for general use in the factory-evaluation and report-writing process.

2. Communicate the results of the initial audits to the licensees, then provide a reasonable period of time for the U.S. licensees to communicate the results to the pilot factories. (Because the U.S. licensees are separate from the factories and do not have direct control over them, the allotted time must be sufficient for discussion and negotiations as well as for implementation of corrections.)

To accomplish this, audit results were documented by Verité in an easy-to-read format that identified actual or potential problems and made recommendations for resolving those problems. The resulting audit reports were sent to the five participating licensees. For forwarding the results to the pilot factories, negotiating, and implementing corrections (with enough time to have their effects be felt by workers and reflected in worker interviews), pilot participants determined that a time period of at least three months was necessary.

3. Ask the licensees to track factory management's response to the reports and their recommendations.

Licensees were requested to communicate with factory management and document the factory's responses to the initial audit reports.

4. Revisit the factory and re-evaluate factory conditions against local laws, CLC's Labor Code Standards, and Verité's guidelines with special attention to the issues and recommendations brought out in the initial audit reports.

To accomplish this, Verité attempted to re-audit all of the factories, but was able to successfully re-audit only four of the factories. Interviews with factory management personnel and workers were again conducted at the four factories. (One of the pilot factories decided to not allow auditors back into their facility for this phase of the project.)

5. Summarize factory remediation efforts resulting from the pilot program.

To show how and to what extent factory management responded to the recommendations from the initial audits, this summary report cites the initial findings and recommendations for improvement (from the initial audit reports), factory management's reported response to the initial recommendations, the audit team's follow-up findings (from the follow-up audit reports) on the conditions that gave rise to the original recommendations, and factory management's response to the follow-up findings.

This summary report has the following sections:

- Introduction
- Factory Remediation Efforts By Country for Costa Rica, El Salvador, Korea, Mexico and Taiwan
- Pilot Project Conclusions, Recommendations and Discussion
- Appendix A (Verité Monitoring and Reporting Process and Protocols)

Issues and findings from the second audit but not cited in the recommendations section of the initial audit reports are outside the scope of the pilot, and have been provided to CLC to coordinate any necessary follow up.

Factory Remediation Efforts By Country

This section summarizes remediation results at the five factories chosen for the pilot program. The factories are located in:

- Costa Rica,
- El Salvador,
- Korea,
- Mexico, and
- Taiwan.

Costa Rica

A Costa Rican factory that manufactures T-shirts and jerseys was audited as part of the pilot project.

Factory Overview

The factory consists of two, one-story buildings constructed in the mid-1990s. One building contains the production areas and administrative offices. The other is used for storage. Both buildings have metal roofs with concrete floors and walls. There is no worker dormitory.

The factory employs about 170 workers. The majority of the workers are from a neighboring town. There are no contract workers. The typical worker is a woman, between the ages of 22 and 44, with an elementary- to high-school-level of education. Management reported that the annual turnover rate is 5 percent.

Audit Overview

The auditors conducted two audits six months apart: An initial audit on January 17-18, 2000 and a follow-up audit on July 3-5, 2000. During each audit, auditors interviewed one member of management. Auditors reported that management was cooperative.

Auditors also interviewed 15 workers during each of the audits. During the initial audit, 11 were interviewed in an office at the factory and four off-site. During the follow-up audit, nine were interviewed in the factory cafeteria and six off-site.

Of the 15 workers interviewed by auditors, 13 said during the initial audit that they are satisfied working at the factory, and 12 said during the follow-up audit that they are satisfied.

For this report, management provided specific responses to the initial audit findings, but did not provide specific responses to the follow-up audit findings.

Factory Code Readiness

Licensees agree to operate work places and contract with companies whose work places adhere to the standards and practices described below. CLC and the Member Institutions prefer that Licensees exceed these standards.¹

Initial Audit:

Auditors did not find any codes of conduct posted, nor were they able to find postings of any of the legal notices required by Costa Rican law. Further, auditors reported that the factory did not have a written set of personnel policies.

Recommendations:

- a. Post the [licensee's] Code of Conduct and CLC's Labor Code Standards. This code should be prominently posted in the factory, in Spanish.
- b. Post relevant national and local labor laws in all buildings where workers work.
- c. Develop a written set of personnel policies.

Management Response:

As reported by the licensee in a memo, factory management responded that:

- a. The "company will post our own Code of Conduct in the workplace."
- b. The factory will post all relevant national and local laws that are required by law.
- c. Policies "are currently being developed. Employees will be made aware of said policies as soon as possible."

Follow-up Audit:

Auditors did not see any codes of conduct posted, nor were they able to find postings of the legal notices required by Costa Rican law. However, auditors did report that the factory now had some written personnel policies although some of the recommended topics were not covered by the policies (specifically, wages, overtime rates, and leave).

1. Wages and Benefits

Licensees recognize that wages are essential to meeting employees' basic needs. 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.

Initial Audit:

By law, the legal minimum wages set by the Costa Rican National Council of Wages are 2,324 colones per day for unskilled workers and 2,665

¹ All italicized sections contain excerpts from the CLC Code of Conduct.

colones per day for skilled workers. Auditors examined factory payroll documents and reported that they found no evidence that any worker is earning less than the legal daily minimum wage. Auditors reported that they also did not find any evidence to indicate that employees are not receiving all legally-mandated benefits.

Recommendations:

None

2. Working Hours

Except in extraordinary business circumstances, hourly and/or quota-based wage employees shall (i) not be required to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture or, where the laws of such country do not limit the hours of work, the regular work week in such country plus 12 hours overtime; and (ii) be entitled to at least one day off in every seven day period.

Initial Audit:

Auditors interviewed management and workers, and found no evidence of employees being routinely expected to work 60 or more hours a week at the factory.

During interviews with workers, auditors found evidence indicating that some workers are subject to mandatory overtime even though they did not sign a contract containing a mandatory overtime clause. Management reported that workers have signed a contract agreeing to work mandatory overtime but that overtime is generally voluntary. Nine workers reported that overtime was voluntary; six reported that it was not voluntary. Eight workers reported that there is no penalty for not working overtime whereas five reported that there is a penalty, consisting of a verbal or written warning. Five reported that they had been told that overtime was mandatory at the time of their application whereas four said they were not told. Of the 14 workers who responded, 11 reported that they did not have a written employment agreement with the factory. Management did not provide a copy of an employee contract or agreement, but did provide a sample of an employee application, which asks the applicant, "Can you work overtime?"

Recommendation:

- a. Ensure that overtime is voluntary and that workers can decline overtime without penalty.

Management Response:

- a. As reported by the licensee in a memo, factory management responded that “although every effort is made to keep overtime to a minimum, it may be necessary to require employees to work overtime. All employees, therefore, should be ready to accept adequate notice. Employees are expected to work overtime when requested to do so.”

Follow-up Audit:

The newly-developed personnel policies furnished by management state that “even though it is not customary to work overtime hours, there are times when it cannot be avoided. Towards this, we depend on your utmost cooperation” [translated from the Spanish]. During the worker interviews, seven workers reported that overtime is not voluntary and eight workers said that it is.

3. Overtime Compensation

In addition to their compensation for regular hours of work, hourly and/or quota-based wage employees shall be compensated for overtime hours at such a premium rate as is legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate at least equal to their regular hourly compensation rate.

Initial Audit:

During the worker interviews, the auditors found evidence indicating that workers have to finish their production quotas before qualifying for overtime pay. (Nine out of 13 workers told auditors that they have to finish their daily quotas before being paid overtime rates.)

Recommendation:

- a. Pay workers for all overtime, regardless of whether quotas have been met or not.

Management Response:

- a. As reported by the licensee in a memo, factory management responded that the factory is in compliance with all national and local laws.

4. Child Labor

Licensees shall not employ any person at an age younger than 15 (or 14, where, consistent with International Labor Organization practices for developing countries, the law of the country of manufacture allows such exception). Where the age for completing compulsory education is higher than the standard for the minimum age of employment stated above, the higher age for completing compulsory education shall apply to this section. Licensees agree to consult with governmental, human rights and nongovernmental organizations, and to take reasonable steps as evaluated by CLC, the applicable Member Institution(s) or their designee, and the applicable Licensee(s) to minimize the negative impact on children released from employment as a result of implementation or enforcement of the Code.

Initial Audit:

According to the U.S. Department of State, the Costa Rican Constitution and the Labor Code provide special employment protection for children and establish the minimum working age at 15 years. Adolescents between the ages of 15 and 18 can work a maximum of 6 hours daily and 36 hours weekly, while children under age 15 cannot work legally. After interviewing management and workers, examining personnel records and walking through the factory, auditors reported that they found no evidence of any child labor at the factory.

Recommendations:

None

5. Forced Labor

There shall not be any use of forced prison labor, indentured labor, bonded labor or other forced labor.

Initial Audit:

After interviewing management and workers, examining personnel records and walking through the factory, auditors reported that they found no evidence of any forced labor at the factory.

Recommendations:

None

6. Health and Safety

Licensees shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of Licensee facilities.

Initial Audit:

Auditors examined emergency-preparedness, medical and equipment records; spoke with management and workers, and conducted a comprehensive walk-through of the factory. Auditors reported that the building and machinery were in good condition and well-maintained. They found temperatures to be moderate at the time of the initial audit, but high (over 90 degrees) at the time of the follow-up audit.

During their interview with management, auditors were told that the factory has a committee of employees trained in fire-fighting and emergency safety but that it has not trained 20 percent of its workforce in fire-fighting or in first aid. In addition, auditors were told that the factory does not hold fire drills twice a year and that no specific record is kept of accidents and injuries.

During their walkthrough, the auditors observed that the factory did not have an audible fire alarm, battery-operated emergency lights, battery-powered exit lights, or posted emergency evacuation maps. In addition, they observed that aisles were not marked with lines or emergency exit routes. Auditors judged some of the aisles to be partially obstructed at the time of the audit, and other aisles to be less than the recommended width of 44 inches.

Auditors reported that some of the first-aid kits were not completely stocked at the time of the audit. In addition, they reported that some of the toilets were not clean and some were not stocked with toilet paper and hand soap.

On the day of the audit, auditors judged that the factory's air contained an excessive amount of dust and that ventilation was poor. During their worker interviews, they also found some evidence indicating that the factory was sometimes too hot when six workers reported that the factory is not well cooled. However, nine workers reported that the factory is well cooled.

During their walkthrough, the auditors estimated that 40 percent of the workers requiring personal safety equipment were using it and the rest were not. During the initial worker interviews, 10 workers said that they did not have access to any personal safety equipment.

Fire Safety Recommendations:

- a. Install an audible fire alarm.
- b. Install battery-operated emergency lights in all work areas and passageways.
- c. Conduct a fire drill at least twice a year.
- d. Make certain that 20 percent of the workforce is trained in the use of fire fighting equipment.
- e. Illuminate all exit signs with a light source backed up by battery.

Management Response:

As reported by the licensee in a memo, factory management responded that:

- a. The factory will install audible fire alarms.
- b. [Factory] management deems battery-operated emergency lights as not necessary due to skylights in the building.
- c. Fire drills will be conducted *at least* two times a year.
- d. [Factory] policy is to evacuate the building first. Then the fire committee will do its best to contain the fire.
- e. All exit signs will be installed and illuminated.

Follow-up Audit:

- a. Factory management reported that the factory was in the process of purchasing a fire alarm system which had not yet been installed.
- b. Auditors reported that battery-operated emergency lighting has been installed at the factory.
- c. Factory management reported that no fire drills have been conducted yet at the factory.
- d. Factory management reported that it has not yet scheduled any fire-fighting training for its workers.
- e. Auditors did not see any exit signs with battery-operated lighting.

Aisle- and Exit-Related Recommendations:

- a. Keep all aisles, exits, and passageways clear at all times.
- b. Mark the aisles of the production floor with yellow tape or paint.
- c. Mark emergency exit routes on the factory floors with yellow tape or paint.
- d. Post emergency evacuation maps prominently in each work area.
- e. Provide adequate space between all workstations to allow for the free movement of workers.

Management Response:

As reported by the licensee in a memo, factory management responded that:

- a. It is [factory] policy to keep aisles, passageways and exits clear at all times.
- b. The factory will mark aisles with tape.
- c. The factory will mark emergency exit routes to emergency exits.
- d. Emergency evacuation maps will be posted.
- e. It is [factory] policy to keep aisles, passageways and exits clear at all times.

Follow-up Audit:

- a. Auditors observed that some aisles were cluttered with packing and merchandise boxes.
- b. Auditors observed that aisles are now marked with two lines.
- c. Auditors did not observe any emergency exit routes marked on the factory's floors.
- d. Auditors did not observe any posted emergency evacuation maps.
- e. Auditors judged some of the factory's aisles to be less than the recommended width of 44 inches.

Health and Sanitation Recommendations:

- a. Completely stock the first aid kits.
- b. Train approximately 20 percent of the workforce in first aid.
- c. Keep records of all injuries and accidents that occur in the factory.
- d. Clean and sanitize all the toilet facilities on a regular basis.
- e. Keep all toilet facilities supplied with toilet paper, paper towels, and

hand soap at all times.

Management Response:

As reported by the licensee in a memo, factory management responded that:

- a. First-aid kits will be stocked and maintained.
- b. An adequate number of employees will be trained in first aid.
- c. The factory will comply with all national and local laws concerning accident and injury reporting.
- d. It is [factory] policy to keep all facilities clean and supplied with toiletries.
- e. [See (d) above.]

Follow-up Audit:

- a. Auditors observed well-stocked first-aid kits.
- b. Auditors reported that no workers were trained in first-aid.
- c. Auditors reported that no accident or injury records are kept.
- d. Auditors observed that some of the factory's toilets were not clean at the time of the audit.
- e. Auditors found that all of the factory's toilets were well stocked with toilet paper and hand soap at the time of the audit.

Working Environment Recommendations:

- a. Significantly improve the overall air quality and ventilation in the factory. Install exhaust fans and place floor fans where necessary.
- b. Install systems of temperature control in the factory so as to maintain an indoor temperature that is never below 60° F nor above 90° F during work hours.
- c. Provide easy access to ear plugs and dust masks to all workers.
- d. Educate workers as to the potential health risks of not wearing earplugs or dust masks. Require their use when deemed necessary to avoid serious injuries and illnesses.

Management Response:

As reported by the licensee in a memo, factory management responded that:

- a. [The factory] is currently investigating this situation.
- b. Due to the climate in Costa Rica, heating and cooling is not required.
- c. The noise level does not require earplugs. Dust masks are not necessary in this environment.
- d. [See above.]

Follow-up Audit:

- a. Auditors observed that ventilation in the factory was poor for control of airborne particles.
- b. Auditors reported that temperatures were high at the time of the audit.

- c. Auditors observed that most of the workers requiring earplugs were wearing them, but none of the workers requiring dustmasks were wearing them. During the worker interviews, five workers told auditors that they did not have access to personal protective gear but three workers said that they did.
- d. Management told auditors that workers requiring protective gear (such as dust masks or earplugs) have been provided with them, and that workers have been trained on the use of the gear. However, during the worker interviews, none of the 15 workers reported getting any information on the gear.

7. Nondiscrimination

No person shall be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.

Initial Audit:

After interviewing management, auditors reported that there was evidence that the factory discriminates against pregnant women when management reported that they ask female applicants about their pregnancy status at the time of their application and refuse to hire those who answer affirmatively.

Recommendation:

- a. Cease verbally asking female applicants about their pregnancy status.

Management Response:

- a. As reported by the licensee in a memo, factory management responded that the factory will follow the national and local laws regarding pregnancy.

Follow-up Audit:

- a. Auditors reported that management said it does not ask female applicants about their pregnancy status, but that six of the 15 workers they interviewed said that management does ask about pregnancy status at the time of application.

8. Harassment or Abuse

Every employee shall be treated with dignity and respect. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse. Licensees will not use or tolerate any form of corporal punishment.

Initial Audit:

Regarding sexual harassment, Costa Rican labor law requires employers to maintain conditions of respect for their employees through an internal policy that “prevents, discourages, avoids, and penalizes sexual

harassment.” To that end, employers are legally required to establish an internal procedure for processing cases of sexual harassment and to notify all employees of the content of the nation’s sexual harassment law. In addition, employers are also required to send any reports of sexual harassment that they receive in their workplace (as well as the results of any investigations into these reports) to the national office of the Ministry of Labor and Social Security.

Regarding verbal harassment, Costa Rican labor law also requires employers to show due consideration to employees and to refrain from verbal or other kinds of mistreatment.

After interviewing workers, auditors reported that there was some evidence that sexual harassment (reported by three out of 15 workers) and verbal and psychological harassment (reported by two workers out of 15) was occurring at the factory.

Recommendations:

- a. Investigate alleged incidents of sexual harassment.
- b. Conduct workshops on sexual harassment issues for all employees.
- c. Develop written policies on harassment.
- d. Cease all forms of verbal and psychological harassment.

Management Response:

As reported by the licensee in a memo, factory management responded that the “company will post our policy concerning our workplace Code of Conduct and will ensure management is aware and complies with said policy.”

Follow-up Audit:

Auditors reported that management has communicated to the workforce that sexual overtures and obscene language is not permitted. During the worker interviews, auditors also found some evidence that workers feel that the situation has gotten better when two workers reported abuse and harassment as past incidents and said that things have changed. However, two other workers did not speak of the abuse and harassment as past incidents.

9. Freedom of Association and Collective Bargaining

Licensees shall recognize and respect the right of employees to freedom of association and collective bargaining.

Initial Audit:

Costa Rican labor law grants workers the right to form unions, and prohibits actions that limit or impede the free exercise of the collective

rights of workers or their unions. After interviewing management and workers, auditors reported that there was some evidence that the right to form unions may have been interfered with when three of the workers they interviewed (out of 15) reported that one or two workers had been fired for trying to organize a union.

Recommendation:

- a. Guarantee workers' rights to associate freely and bargain collectively without penalty. Investigate claims that two workers had been fired for trying to organize a union. If found to be true, reinstate the workers and compensate them for back wages.

Management Response:

- a. As reported by the licensee in a memo, factory management responded that management "recognize[s] the right of collective bargaining and freedom of association, and will follow all the national and local laws."

Follow-up Audit:

- a. Although auditors reported a conversation with management during the follow-up audit in which they believed that management said it does not permit workers to form or join unions, the licensee later indicated that management's response was misunderstood, that management does permit workers to join and form unions, and that organizations have in fact been formed at the factory.

El Salvador

A factory in El Salvador, which manufactures T-shirts and jerseys, was audited as part of the pilot project.

Factory Overview

The factory consists of three, one-story buildings. Two were constructed in 1991 and the third was constructed in 1998. The main production building covers a total area of 60,000 square feet. The second building contains more production facilities and the third houses a cafeteria. Each of these buildings covers a total area of 30,000 square feet. All buildings have an asbestos roof, with walls and floors of concrete. There is no worker dormitory.

According to factory management, the factory employs 520 workers. The workers are from rural towns throughout El Salvador. Two employees are from the United States. The factory does not use contract workers. The typical worker is a married woman with children, 22 to 43 years old, with a sixth-grade level of education. Factory management reported that the annual turnover rate is 12 percent.

Audit Overview

The auditors conducted an initial audit and tried (but failed) to conduct a second, follow-up audit. The initial audit was performed on January 21, 2000. During the audit, auditors interviewed two members of management. Auditors reported that management was cooperative.

Auditors also interviewed 12 workers during the initial audit: 11 in an office at the factory and one off-site. Auditors were expecting to interview another group of workers outside the factory, but, at the scheduled meeting time, the workers failed to come to the interview.

Of the 12 workers interviewed during the initial audit, the auditors reported that many of the workers demonstrated a deep commitment to the plant. All of the workers said that they are satisfied working at this factory.

After the initial audit, factory management provided to the licensee a comprehensive response to the audit recommendations. In its response, factory management claimed that the worker interview portion of the initial audit was conducted improperly, that workers were “cornered” by interviewers, and that the audit was unreasonably disruptive. When the auditors attempted to re-audit the factory, they were denied entry and factory management communicated to them its decision to not allow the follow-up audit to take place.

Factory Code Readiness

Licensees agree to operate work places and contract with companies whose work places adhere to the standards and practices described below. CLC and the Member Institutions prefer that Licensees exceed these standards.¹

Initial Audit:

The auditors did not observe any codes of conduct posted, nor did they observe postings of the factory's personnel policies or of any of the relevant national and local labor laws.

The auditors reported that the factory has comprehensive personnel policies covering most of the recommended topics: benefits, regular and overtime hours, overtime rates, vacation and leave, discipline and punishment, grievance procedures, and harassment and abuse. However, auditors reported that the personnel policies did not cover wages or deductions.

Recommendations:

- a. Post relevant national and local labor laws in all buildings where workers work.
- b. Post the factory's personnel policies in all buildings where workers work.
- c. Include policies concerning wages and all necessary deductions in the factory's personnel policies.
- d. Send the factory a code of conduct which represents [the licensee's] and the CLC's labor standards. This code should be prominently posted in the factory, in Spanish.

Management Response:

As forwarded by the licensee, factory management responded in its memo that:

- a. All national posters and information required through the Ministry of Labor are posted in the cafeteria.
- b. "The use and development of working policies and/or procedures is, as in all companies, a continuing work in progress, so to post and maintain all of the company's policies and procedures would be an arduous task and would give the plant a cluttered and non-professional appearance. I will ask the plant manager to prominently post a notice stating that all company policies and procedures are available for employee viewing in the Human Resource office at any time during normal working hours. We also have no objection to providing any employee an additional copy of any policy and/or procedure upon request."

¹ All italicized sections contain excerpts from the CLC Code of Conduct.

- c. “We already have a procedure related to employee wages and deductions.”
- d. “We have no Code of Conduct poster for [the licensee]. If you will send me one, I’ll be most happy to forward it on to [the factory] for posting.”

Follow-up Audit:

None

1. Wages and Benefits

Licensees recognize that wages are essential to meeting employees' basic needs.

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.

Initial Audit:

By law, the legal minimum wage in El Salvador is 1,260 colones per month. Auditors examined factory payroll documents and reported that they found no evidence that any worker is earning less than the legal minimum wage. In addition, after examining the documents and interviewing management and workers, auditors reported that they also did not find any evidence to indicate that employees are not receiving all legally-mandated benefits.

However, auditors did report that employee pay slips provided by management do not clearly show the pay for regular work hours, nor the overtime wage for overtime work.

Recommendation:

- a. Redesign pay slips so that the worker’s wage per hour and overtime wage per hour is clearly shown.

Management Response:

- a. As forwarded by the licensee, factory management responded in its memo that the “current wage slip for [factory] employees clearly separates and shows overtime hours and wages.”

Follow-up Audit:

None

2. Working Hours

Except in extraordinary business circumstances, hourly and/or quota-based wage employees shall (i) not be required to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture or, where the laws of such country do not limit the hours of

work, the regular work week in such country plus 12 hours overtime; and (ii) be entitled to at least one day off in every seven day period.

Initial Audit:

The auditors interviewed management and workers, and found no evidence of employees being routinely expected to work 60 or more hours a week at the factory.

During interviews with workers, the auditors found evidence indicating that some workers are subject to mandatory overtime when four workers reported that overtime is not voluntary. However, management and eight workers told auditors that overtime is voluntary.

In addition, nine workers reported during the worker interviews that the factory does not use a time clock, rather an attendance sheet that is signed by workers.

Recommendations:

- a. Ensure that overtime is voluntary and that workers feel free to decline overtime without fear of dismissal, penalty or reprisal of any kind.
- b. Install a time clock to record work hours. Require workers to punch their own time cards.

Management Response:

- a. As forwarded by the licensee, factory management responded in its memo that “employee overtime has been and shall remain voluntary.”
- b. As forwarded by the licensee, factory management responded in its memo that “employees currently punch in and out on a time clock. They punch in and out on a work sheet rather than a standard card. Their punched time is on the same sheet that they turn in with their completed work for the day. These punched time and work records are retained in the payroll office the same as a standard time card.”

Follow-up Audit:

None

3. Overtime Compensation

In addition to their compensation for regular hours of work, hourly and/or quota-based wage employees shall be compensated for overtime hours at such a premium rate as is legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate at least equal to their regular hourly compensation rate.

Initial Audit:

The Salvadoran Labor Code requires employers to pay their employees for all overtime hours at double their regular wage. After examining factory payroll documents and interviewing management and workers, the

auditors reported that they did not find any evidence that workers were being paid less than the legal overtime rate.

However, auditors also reported that six of the interviewed workers did not know their overtime pay rate and that the overtime wage being paid to workers cannot be determined from the current pay slips.

Recommendations:

- a. Redesign pay slips so that the worker's wage per hour and overtime wage per hour is clearly shown.
- b. Conduct a training for all workers on how their overtime pay is calculated.

Management Response:

- a. As forwarded by the licensee, factory management responded in its memo that the "current wage slip for [factory] employees clearly separates and shows overtime hours and wages."
- b. As forwarded by the licensee, factory management responded in its memo that "all employees are instructed on the amount and method of calculating and paying their wages at the time of employment."

Follow-up Audit:

None

4. Child Labor

Licensees shall not employ any person at an age younger than 15 (or 14, where, consistent with International Labor Organization practices for developing countries, the law of the country of manufacture allows such exception). Where the age for completing compulsory education is higher than the standard for the minimum age of employment stated above, the higher age for completing compulsory education shall apply to this section. Licensees agree to consult with governmental, human rights and nongovernmental organizations, and to take reasonable steps as evaluated by CLC, the applicable Member Institution(s) or their designee, and the applicable Licensee(s) to minimize the negative impact on children released from employment as a result of implementation or enforcement of the Code.

Initial Audit:

After interviewing management and workers, examining personnel records and walking through the factory, auditors reported that they found no evidence of any child labor at the factory.

Recommendations:

None

5. Forced Labor

There shall not be any use of forced prison labor, indentured labor, bonded labor or other forced labor.

Initial Audit:

After interviewing management and workers, examining personnel records and walking through the factory, auditors reported that they found no evidence of any forced labor at the factory.

Recommendations:

None

6. Health and Safety

Licensees shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of Licensee facilities.

Initial Audit:

The auditors examined emergency-preparedness, medical and equipment records; spoke with management and workers, and walked through the factory. The auditors reported that the building and machinery were in good condition and well-maintained although some of sewing machines lacked standard needle guards.

During their interview with management, the auditors were told that the factory has 17 employees trained in the use of fire-fighting equipment and 20 employees trained in first aid. During their walkthrough, auditors observed that there was a well-marked, properly-maintained and easily-accessible fire extinguisher within 75 feet of each worker. The auditors also observed during the walkthrough that there was at least one first-aid kit for every 100 workers but that some of the first-aid kits were not well-stocked with medical supplies.

During the walkthrough, the auditors observed that aisles were clear and of the recommended width, and were marked with lines and emergency exit routes. There were the recommended number of emergency exits for each work area, and exits were located on opposite sides of the rooms. Emergency escape maps were posted.

However, the auditors also reported that exit signs were not illuminated by battery-powered lights and that there were no battery-powered emergency lights in the factory's work areas or hallways.

Toilets inspected by the auditors were reported as clean, free of offensive odors and well-stocked with toilet paper and hand soap. Auditors reported that they found no evidence that toilet use was restricted or monitored in any way.

Auditors reported that clean drinking water was available at all times to workers. During the worker interviews, auditors did find some evidence possibly indicating that that cafeteria sanitation may be inadequate: four workers reported that the cafeteria food is insufficient and of poor quality, and one worker reported contracting intestinal flu from the cafeteria food.

On the day of the audit, auditors judged that the factory's air quality was poor. During the worker interviews, auditors also found evidence indicating that the factory is inadequately ventilated when eight workers reported that the factory air is too dusty; seven workers reported that the factory is not well-ventilated, and seven reported that it is not well-cooled (with two workers saying that the factory becomes particularly hot during the summer). However, five workers told auditors that the factory is well-ventilated and three said that it is well-cooled.

Nine out of 12 workers said that they had access to personal safety equipment, mainly dust masks. However, six workers reported that workers have access to masks but do not use them, with five reporting that the dust masks interfered with their work and one saying that the masks are uncomfortable due to the indoor heat of the factory.

Fire Safety Recommendations

- a. Illuminate all exit signs with a light source backed up by battery power.
- b. Install battery-operated emergency lights in all work areas and passageways.
- c. Train approximately 20 percent of the workforce in the use of fire-fighting equipment.

Management Response:

As forwarded by the licensee, factory management responded in its memo that:

- a. Lighted Emergency Exit signs had been ordered before Verité's audit but had not been received. These lighted exit signs have been installed and are operational. These lighted exit signs also contain internal batteries.
- b. [The factory] operates only during daylight hours. With the doors, windows and open areas there is no necessity for powered lights within the plant. In the past, we have lost power. However, due to the numerous windows, doors, open areas and the fact that [the factory] operates only during the daytime, there is not loss of light.
- c. [The factory] has a professionally trained fire response team. It is [corporate] and [factory] policy that, in the event of a fire, it would be better for the employees to exit the building as rapidly as possible, allowing those employees that are properly and more thoroughly trained to respond to the fire emergency. Experience has shown, and

we are steadfastly committed to the belief, that having a team of properly trained employees respond to a fire emergency is better than having a large number of employees try to fight a fire with extinguishers, where they get into each other's way and get themselves and/or others injured. To ensure the quick exit of employees during an emergency, [the factory] holds an emergency exit drill each quarter.

Follow-up Audit:

None

Aisles and Exits Recommendations:

None

Health and Sanitation Recommendations:

- a. Keep first-aid kits well-stocked with medical supplies.
- b. Train approximately 20 percent of the factory workforce in first aid.
- c. Provide cafeteria meals that are nutritious and substantial.

Management Response:

As forwarded by the licensee, factory management responded in its memo that:

- a. [The factory] has a full-time doctor, nurse and operational clinic within the plant during all operational hours. Those first-aid kits within the plant are designed to handle only small non-emergency and non-serious situations, and are stocked accordingly. All other medical situations, personal and/or work-related, are handled by the doctor and/or nurse.
- b. All medical situations, personal and work-related, are handled by the plant doctor and/or nurse. Both are full-time employees and on duty during all working hours. Those other trained employees are trained in CPR.
- c. The food provided for the employees in the cafeteria is nutritious, of good quality and at a low cost to the employee. Meals are available for over 500 plus employees and we have few questions, complaints and/or concerns from the employees concerning the food, its quality and/or nutritious value.

Follow-up Audit:

None

Working Environment Recommendations:

- a. Equip all sewing machines with needle guards.
- b. Improve the overall air quality and ventilation in the factory. Install exhaust fans in all production areas.
- c. Ensure that comfortable dust masks and earplugs are accessible to all workers.

Management Response:

As forwarded by the licensee, factory management responded in its memo that:

- a. Without the benefit of more precise information on which machines were allegedly not guarded, I walked the sewing floor checking the equipment and found that, as of this time, all sewing equipment had the proper needle guards in place. I did find a few occurrences where the employee had turned the guard up and was operating the equipment with the guard not properly in place. I also observed that the floor supervisors had corrected these situations as soon as they found them. However, I did report my observations to the plant manager, and he said that he would follow up with the employees to ensure their safety.
- b. The plant currently has twenty-six (26) large and operating exhaust fans in the plant. All but a few are operating in the production area. The plant does get hot during the summer, it's in Central America. However, besides the exhaust fans, there are numerous other fans above the employee's work areas providing additional cooling air flow. There are also a number of water stations available to employee's work areas.
- c. All appropriate safety equipment is provided to employees, which includes dust masks and earplugs.

Follow-up Audit:

None

7. Nondiscrimination

No person shall be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.

Initial Audit:

After interviewing workers, auditors reported that there was some evidence that pregnancy tests may be given to female applicants. Management reported that female applicants are neither required to take a pregnancy test nor asked about their pregnancy status. However, nine of the 11 workers who responded to questions about pregnancy testing implied that part of the general health exams they undergo before they are hired may involve a pregnancy test, though they were generally uncertain of this. One worker reported that an applicant is not hired if the result of the test is positive, whereas three other workers reported that nothing happens.

Recommendation:

- a. Make certain that no female applicants are tested for pregnancy.

Management Response:

- a. As forwarded by the licensee, factory management responded in its memo that “[the factory], its manager, supervisors and clinic personnel do not conduct pregnancy testing on women applicants or employees, nor do they conduct any physical exams related to pregnancy, nor ask any questions during an interview or during employment that relate, in any way, to a woman’s pregnancy status or likelihood to become pregnant. Pregnancy testing is a violation of [corporate] operational rules. Each plant manager and sub-contractor is required to sign [the corporate] policy Statement on Non Pregnancy Testing.

Follow-up Audit:

None

8. Harassment or Abuse

Every employee shall be treated with dignity and respect. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse. Licensees will not use or tolerate any form of corporal punishment.

Initial Audit:

After reviewing factory documents and interviewing management and workers, the auditors reported that there was no evidence of any sexual, verbal, psychological or physical harassment or abuse at the factory.

Recommendations:

None

9. Freedom of Association and Collective Bargaining

Licensees shall recognize and respect the right of employees to freedom of association and collective bargaining.

Initial Audit:

The El Salvadoran Labor Code grants workers the right to associate freely and to form unions. Twelve workers interviewed were unaware of their legal right to form a union. Four workers reported that they thought they had no right to organize a union.

Recommendation:

- a. Hire a local NGO (Verité can recommend) to conduct trainings to educate workers about their legal rights and responsibilities as employees.

Management Response:

- a. As forwarded by the licensee, factory management responded in its memo that “the right of free association for the employees within [the factory] is not restricted, limited and/or curtailed in any way. Their right of association is posted on the various Codes of Conduct posted within the plant. We are considering other methods of better communicating information to our employees in the future.”

Follow-up Audit:

None

Korea

A Korean factory which manufactures caps was audited as part of the pilot project.

Factory Overview

The factory is a one-story, 3,600-square-foot masonry building constructed in 1969. It appeared to the auditors to be well-maintained and structurally sound. There are no dormitories.

According to management, the factory employs 38 production workers. All of the workers are Korean; there are no contract workers. The typical worker is a married Korean woman in her early 30s with a high-school education. Management reported that the turnover rate for the past year was 15 to 20 percent.

Audit Overview

The auditors conducted two audits six months apart: An initial audit on December 14, 1999 and a follow-up audit on June 26, 2000. During each audit, the auditors interviewed two members of management. The auditors reported that management was cooperative.

The auditors also interviewed 15 workers during each of the audits. During the initial audit, 11 were interviewed in a private room at the factory and four off-site. During the follow-up audit, all of the 15 workers were interviewed at the factory.

Of the 15 workers interviewed by the auditors, 13 said during the initial audit that they are satisfied working at the factory, and all 15 said during the follow-up audit that they are satisfied at the factory.

Factory Code Readiness

Licensees agree to operate work places and contract with companies whose work places adhere to the standards and practices described below. CLC and the Member Institutions prefer that Licensees exceed these standards.¹

Initial Audit:

The auditors observed a posted Code of Conduct, but reported that local labor laws are not posted.

The auditors also observed posted personnel policies. They reported that the personnel policies are comprehensive and cover most of the recommended topics: benefits, regular and overtime hours, overtime rates, vacation and leave, and grievance procedures.

However, none of the workers interviewed knew that grievance procedures are included in the personnel policies. According to

¹ All italicized sections contain excerpts from the CLC Code of Conduct.

management and the auditors, grievance procedures are included in the policies.

The auditors also reported that while there had been no incidents of harassment or abuse and workers reported no complaints regarding discipline and termination, the factory's policies on these issues are not included in the personnel policies.

According to workers and management, written copies of the policies have not been distributed. The auditors reported that most workers were unaware of at least some portion of the policies, and none of the workers knew that the personnel policies were posted, although the auditors observed that they were posted.

Recommendations:

- a. Educate workers on the factory's grievance procedures.
- b. Distribute written copies of the factory policies to all workers.
- c. Include policies on harassment and abuse and discipline and termination in the factory personnel policies.
- d. Post the local labor laws in the local language, in a central location.

Management Response:

Following the initial audit, the licensee reported that factory management responded that it was "planning to take steps to comply" with the audit's recommendations.

Follow-up Audit:

- a. After interviewing workers and management, the auditors reported that some workers were still unaware of the factory's grievance procedures. According to the auditors, management has informal and unwritten grievance procedures and workers interviewed said they felt comfortable going to supervisors or management with any problem. Six workers reported that there were set grievance procedures but not in writing. Four workers reported that there were no grievance procedures and two were unaware if there were any grievance procedures.
- b. The auditors reported that the factory's written personnel policies were not distributed to all workers.
- c. The auditors reported that the factory's written personnel policies were still incomplete.
- d. The auditors again reported that relevant local and national labor laws were not posted in the factory.

Management Response:

- a. The factory keeps [a copy of] Korean standard labor laws in the factory in order to [ensure that] all employees know their labor rights. And the factory observes [all] related statutes.
- b. The factory keeps a copy of factory policies in the factory in order to [ensure that] all employees are well aware of related factory policies.
- c. Naturally, any act of harassment, abuse, or discipline is prohibited. And the factory has added this provision to factory policies.
- d. The factory keeps [a copy of] Korean standard labor laws in the factory.

1. Wages and Benefits

Licensees recognize that wages are essential to meeting employees' basic needs.

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.

Initial Audit:

After examining factory payroll records and interviewing management and workers, the auditors reported that they found no evidence indicating that any workers at the factory are receiving less than the legal minimum wage.

However, the auditors did report that they found evidence indicating that the factory is not providing all of the legally-mandated benefits. By law, women must be given 60 days of paid maternity leave. Management reported that women are given 30 days of paid maternity leave. Workers reported that no paid maternity leave is given.

The auditors reported that pay slips show regular and overtime rates and hours worked as well as bonuses and deductions. However, many workers interviewed did not understand how their pay was calculated. Four workers thought they did not earn the legal minimum wage and one worker was not sure. (According to the auditors' analysis of payroll records, all workers appear to earn the minimum wage.)

The auditors also reported that workers do not punch a time clock, and that most of them were not aware of how their hours are recorded.

Recommendations:

- a. Provide maternity leave as legally required.
- b. Educate workers on how to calculate their pay, including overtime, bonuses, deductions, and benefits.
- c. Record workers' hours by means of an automatic time-keeping device that workers operate themselves.

Management Response:

Following the initial audit, the licensee reported that factory management responded that it was “planning to take steps to comply” with the audit’s recommendations.

Follow-up Audit:

- a. Management and the workers interviewed again reported that no paid maternity leave is given to workers.
- b. The auditors reported that workers interviewed generally did not understand how their pay was calculated.
- c. The auditors also reported that workers do not punch a time clock to record their hours, and that most workers interviewed did not know how their hours were recorded.

Management Response:

- a. The factory has provided three months of maternity [leave] with salary.
- b. Each employee’s salary amount includes overtime, bonuses, etc. and is decided [at the time of hiring] after negotiations between the factory and each employee. So every employee knows well their salary details when employed by the factory. And they can confirm by checking the salary details when they receive [their] salary.
- c. The factory has furnished an automatic time card machine in the factory [since] August 2000. And the factory [now] pays salaries according to this time card.

2. Working Hours

Except in extraordinary business circumstances, hourly and/or quota-based wage employees shall (i) not be required to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture or, where the laws of such country do not limit the hours of work, the regular work week in such country plus 12 hours overtime; and (ii) be entitled to at least one day off in every seven day period.

Initial Audit:

The auditors examined payroll documents and interviewed management and workers, and found no evidence of employees being routinely expected to work 60 or more hours a week at the factory.

Recommendations:

None

3. Overtime Compensation

In addition to their compensation for regular hours of work, hourly and/or quota-based wage employees shall be compensated for overtime hours at such a premium rate as is

legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate at least equal to their regular hourly compensation rate.

Initial Audit:

After examining factory payroll records and interviewing management and workers, the auditors reported that they found no evidence indicating that any workers at the factory are receiving less than the legal overtime rate.

Recommendations:

None

4. Child Labor

Licensees shall not employ any person at an age younger than 15 (or 14, where, consistent with International Labor Organization practices for developing countries, the law of the country of manufacture allows such exception). Where the age for completing compulsory education is higher than the standard for the minimum age of employment stated above, the higher age for completing compulsory education shall apply to this section. Licensees agree to consult with governmental, human rights and nongovernmental organizations, and to take reasonable steps as evaluated by CLC, the applicable Member Institution(s) or their designee, and the applicable Licensee(s) to minimize the negative impact on children released from employment as a result of implementation or enforcement of the Code.

Initial Audit:

After interviewing management and workers, examining personnel records and conducting a comprehensive walk-through of the factory, the auditors reported that they found no evidence of any child labor at the factory. They also judged that the steps the factory takes to verify workers' ages are effective.

Recommendations:

None

5. Forced Labor

There shall not be any use of forced prison labor, indentured labor, bonded labor or other forced labor.

Initial Audit:

After interviewing management and workers, examining personnel records and conducting a comprehensive walk-through of the factory, the auditors reported that they found no evidence of any forced labor at the factory.

Recommendations:

None

6. Health and Safety

Licensees shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of Licensee facilities.

Initial Audit:

The auditors examined emergency-preparedness, medical and equipment records; spoke with management and workers, and conducted a comprehensive walk-through of the factory.

The auditors found the factory containing the recommended number of exits. During their walk-through, the auditors observed that exits were unlocked and unblocked. However, during the worker interviews, two workers reported that exits were not always unlocked and unblocked.

Factory aisles were kept clear and were of a sufficient width to allow for the free movement and easy evacuation of workers.

During their walk-through, the auditors observed that some of the exits were not marked. In addition, they observed that emergency exit routes were not painted on the floor.

The auditors also reported that they found some evidence that fire drills are not held twice a year when eight workers interviewed reported that fire drills were not conducted twice a year. Management told the auditors that fire drills were conducted twice a year.

In addition, the factory was equipped with an audible fire alarm and a visible and accessible fire extinguisher within 75 feet of every worker. The auditors also reported that a sufficient number of supervisors and production workers are trained in the use of fire-fighting equipment.

However, the auditors reported that adequate maintenance records are not kept for the factory's equipment.

During their walk-through, the auditors did not observe any first-aid kits.

Toilet facilities were clean and free of offensive odors and, at the time of the audit, well-stocked with toilet paper and hand soap. However, during the worker interviews, two workers reported that the toilets are not always stocked with toilet paper.

Although the auditors found temperatures to be adequate at the time of the audit, four of the workers interviewed reported that the factory is not always adequately heated and one worker reported that the factory is not adequately cooled.

The auditors rated the air quality and ventilation at the time of the audit as high. However, six workers described the air as dusty and five workers reported chemical smells.

The auditors also rated lighting in the factory at the time of the audit as high. However, two workers reported that lighting was insufficient.

Fire Safety Recommendations:

- a. Make certain that fire drills are conducted twice a year.

Management Response:

Following the initial audit, the licensee reported that factory management responded that it was “planning to take steps to comply” with the audit’s recommendations.

Follow-up Audit:

- a. Ten workers again reported that fire drills were not conducted at least twice a year.

Management Response:

- a. The factory has plans to conduct fire drills two times, [in] April and October, in every year. This year, a fire drill will be conducted in October 2000.

Aisle and Exit Recommendations:

- a. Make certain that all exits are marked with a sign that is visible 100 feet away and illuminated with a light source backed up by battery.
- b. Mark evacuation routes on the floors with highly visible yellow paint or tape.
- c. Make certain that exits remain unlocked and unblocked at all times workers are in the factory.

Management Response:

Following the initial audit, the licensee reported that factory management responded that it was “planning to take steps to comply” with the audit’s recommendations.

Follow-up Audit:

- a. The auditors reported that the factory’s exit signs were not illuminated by battery-operated lighting.
- b. The auditors observed evacuation routes marked on the floors with painted lines.
- c. The auditors reported that two of the factory’s exits were locked and blocked at the time of the audit.

Management Response:

- a. The factory has repaired exit [signs so that they are] illuminated always with a light source backed up by a battery even when the electricity [has been] cut off.
- b. [Issue resolved.]
- c. After the visit of the [audit team,] the factory made exits always unlocked and unblocked when workers are in the factory.

Health and Sanitation Recommendations:

- a. Make certain that the factory has at least one well-stocked and easily accessible first-aid kit.
- b. Make certain that the toilet facilities are always stocked with toilet paper.

Management Response:

Following the initial audit, the licensee reported that factory management responded that it was “planning to take steps to comply” with the audit’s recommendations.

Follow-up Audit:

- a. The auditors observed two well-stocked first-aid kits.
- b. The auditors observed that toilet facilities were well-stocked with toilet paper at the time of the audit.

Management Response:

- a. [Issue resolved.]
- b. [Issue resolved.]

Working Environment Recommendations:

- a. Keep maintenance records for the equipment and machines.
- b. Make certain that the factory is adequately heated and cooled.
- c. Explore ways to reduce airborne dust and chemical odors.
- d. Make certain that lighting is adequate in all sections of the factory.

Management Response:

Following the initial audit, the licensee reported that factory management responded that it was “planning to take steps to comply” with the audit’s recommendations.

Follow-up Audit:

- a. The auditors again reported that the factory does not keep adequate maintenance records.
- b. Two workers reported that the factory is not adequately heated, and five workers reported that the factory does not have an adequate cooling system.
- c. The auditors reported that the production floor was poorly ventilated.

- d. Five workers reported that the factory does not provide adequate lighting for the jobs they perform.

Management Response:

- a. The factory keeps maintenance records for the equipment and machines in the factory.
- b. The factory is heated and cooled adequately [so that workers can] work under [good] conditions.
- c. The factory [does] not have treated material that has chemical odors. There is no problem with airborne dust because of the ventilation equipment.
- d. The factory has given attention to maintaining adequate lighting inside of the factory. This is also important [from the] factory's [point of view] because of the improved productivity.

7. Nondiscrimination

No person shall be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.

Initial Audit:

After interviewing management and workers, the auditors found no evidence of systematic discrimination in the areas of hiring, salary, benefits, advancement, discipline, termination or recruitment practices on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion or social or ethnic origin.

Recommendations:

None

8. Harassment or Abuse

Every employee shall be treated with dignity and respect. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse. Licensees will not use or tolerate any form of corporal punishment.

Initial Audit:

The auditors found no evidence of any harassment or abuse at the factory.

Recommendations:

None

9. Freedom of Association and Collective Bargaining

Licensees shall recognize and respect the right of employees to freedom of association and collective bargaining.

Initial Audit:

By law, workers have the right to independent association, collective bargaining, and collective action. The auditors reported that none of the 15 workers interviewed appeared to be aware of their legal right to form or join a union.

Recommendation:

- a. Make certain that workers understand that they have a legal right to form and to join unions.

Management Response:

Following the initial audit, the licensee reported that factory management responded that it was “planning to take steps to comply” with the audit’s recommendations.

Follow-up Audit:

- a. The auditors found workers to be aware of their legal right to form and join unions. The auditors also found that the factory respects this right. There is no union at the factory.

Management Response:

- a. Every employee could know that they have the legal right to form and join unions because the factory keeps [a copy of] Korean standard labor law in the factory.

Mexico

A factory in Mexico, which produces undergarments, pants and shirts, was audited as part of the pilot project.

Factory Overview

The factory consists of a one-story building constructed in 1960 with a total floor space of 1,486 square meters. There are no worker dormitories.

According to management, the factory employs 193 workers, including 129 production workers. The workers are from the neighboring town or from other towns nearby. There are no contract workers. The typical worker is a single woman, between the ages of 19 and 39 years old, with a high-school level of education. Management reported during the follow-up audit that the annual turnover rate is 10 percent.

Audit Overview

The auditors conducted two audits six months apart: An initial audit on December 8-9, 1999 and a follow-up audit on July 13, 2000. During the initial audit, the auditors interviewed two members of management and during the follow-up audit, one member of management. Auditors reported that management was cooperative.

Auditors also interviewed 15 workers during each of the audits. During the initial audit, nine were interviewed in a factory office or at the factory's nursery and six were interviewed off-site. During the follow-up audit, eight were interviewed at the factory and seven off-site.

Of the 15 workers interviewed by auditors, 10 said during the initial audit that they are satisfied working at the factory, and seven said during the follow-up audit that they are satisfied.

Factory Code Readiness

Licensees agree to operate work places and contract with companies whose work places adhere to the standards and practices described below. CLC and the Member Institutions prefer that Licensees exceed these standards.¹

Initial Audit:

The auditors did not see any codes of conduct posted, nor were they able to find postings of any labor laws. The auditors reported that the factory does have internal policies but that they are not posted or distributed. After interviewing workers, the auditors reported that workers were not aware of the factory policies.

¹ All italicized sections contain excerpts from the CLC Code of Conduct.

Recommendations:

- a. Send the factory a code of conduct which represents [the licensee's] and the CLC's labor standards. This code should be prominently posted in the factory.
- b. Prominently post the factory's personnel policies and workplace regulations. Distribute a copy to each worker.
- c. Prominently post relevant national and regional labor laws.

Management Response:

- a. Will post by May 10.
- b. Will develop and distribute a company policy manual by the end of 2000.
- c. A copy of the national labor laws is available in the Human Resources Manager's office. In Mexico, there is no regulation to have the laws posted.

Follow-up Audit:

- a. The auditors observed that a Code of Conduct was now posted.
- b. The auditors reported that personnel policies were not posted in the factory nor distributed to workers.
- c. The auditors did not see any postings of local or national labor laws.

Management Response:

- a. [Issue resolved.]
- b. Management will develop and distribute a company policy manual by the end of 2000.
- c. A copy of the national labor laws is available in the Human Resources Manager's office. In Mexico, there is no regulation to have the laws posted.

1. Wages and Benefits

Licenses recognize that wages are essential to meeting employees' basic needs.

Licenses 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.

Initial Audit:

After examining factory payroll documents and interviewing management and workers, the auditors reported that they found no evidence that any worker is earning less than the legal minimum wage.

However, the auditors did report that most of the workers interviewed did not understand how their pay is calculated. They also reported that the factory's pay slips do not clearly show the number of regular and overtime hours worked, or the rates for these hours.

The auditors reported that they did not find any evidence to indicate that employees are not receiving all legally-mandated benefits.

Recommendation:

- a. Provide workers with comprehensive and clearly presented pay slips that detail exactly how their pay was calculated, including a listing of hours worked (regular and overtime), rates per hour, bonuses, and deductions. Conduct a training for all workers to explain to them the new pay slip and how their pay is calculated.

Management Response:

- a. On the payroll [slip] appears the regular hours and overtime: completed.

Supervisors will discuss payroll slips with each employee to ensure that they do in fact understand the payroll system. This should be completed by the end of May.

All new employees go through a training program that includes a complete explanation of how their pay is calculated. The Human Resources department then requests that each employee sign that they understand the payment system. This list is kept on file in the HR office.

Follow-up Audit:

- a. After interviewing workers, auditors estimated that less than half of the workers interviewed understood how their wages are calculated. They also reported that the factory's pay slips do not clearly show the number of regular hours worked, or the rates for regular and overtime hours.

Management Response:

- a. Management will conduct a seminar for all employees who desire additional information in regards to how their pay is calculated. Our goal will be to conduct this seminar by December 2000.

2. Working Hours

Except in extraordinary business circumstances, hourly and/or quota-based wage employees shall (i) not be required to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture or, where the laws of such country do not limit the hours of work, the regular work week in such country plus 12 hours overtime; and (ii) be entitled to at least one day off in every seven day period.

Initial Audit:

Auditors interviewed management and workers, and found no evidence of employees being routinely expected to work 60 or more hours a week at the factory.

During interviews with workers, auditors found evidence indicating that some workers are subject to mandatory overtime when several workers reported that they do not feel free to decline overtime work because they feel pressured and threatened.

Recommendation:

- a. Permit workers to decline overtime at all times without pressure or penalties of any kind.

Management Response:

- a. Overtime is costly and never to be a general condition. However, in extreme business situations, overtime is required. When possible, [the factory] relies on volunteered participation. [Factory] policy is to comply with Mexican labor law requirements, with regard to hours and pay. This is consistent with CLC Code of Conduct. This means that, when necessary, an employee is required to work no more than three extra hours per day, or nine extra hours per week. An employee may be asked to work an additional nine hours per week, but this cannot be mandatory.

Follow-up Audit:

- a. During the follow-up audit, all of the workers interviewed reported overtime to be voluntary.

Management Response:

- a. [Issue resolved.]

3. Overtime Compensation

In addition to their compensation for regular hours of work, hourly and/or quota-based wage employees shall be compensated for overtime hours at such a premium rate as is legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate at least equal to their regular hourly compensation rate.

Initial Audit:

Mexican labor law requires employers to pay employees 200 percent of normal wages for the first nine hours of overtime in a week and 300 percent for every hour afterwards. At this factory, some workers are paid hourly wages while others are paid on an efficiency incentive basis. After reviewing factory documents, the auditors reported that those workers who are paid on the efficiency incentive basis are not paid traditional overtime rates; their “overtime pay” is determined by how much they produce.

During the worker interviews, the auditors found evidence indicating that some workers may not be receiving legal overtime rates. Three of the 15 workers interviewed said they are paid less than the legal overtime rate. The other 12 did not know how much they were paid for their overtime work.

The auditors reported that the factory's payroll documents do not clearly show how overtime is calculated.

Recommendation:

- a. Pay workers the equivalent of legal overtime rates for all overtime work performed and clearly document overtime payments.

Management Response:

- a. A worksheet showing examples [of actual overtime hours and rate per hour versus regular hours and pay] will be done by the end of May.

Each payroll [slip] shows exactly how many hours were overtime.

The supervisors are already trained [as to how overtime is calculated] and prepared to explain how it will be paid any overtime.

Follow-up Audit:

- a. After interviewing management and workers, the auditors reported that there is evidence that workers may misunderstand how overtime is calculated but no evidence that workers are being improperly paid for overtime. According to the auditors, some workers interviewed reported that when they work beyond eight hours a day to finish their production quotas, they are not paid at overtime rates. However, management told the auditors that overtime rates begin after a certain number of hours per week, not per day.

Management reported that the regular workday at the factory is 9.5 hours, and the regular workweek is 47.5 hours. According to management, overtime pay starts only after workers have completed working 48 regular hours and overtime is conducted on Saturdays from 8 a.m. to 1 p.m.

Management Response:

- a. [Issue resolved.]

4. Child Labor

Licensees shall not employ any person at an age younger than 15 (or 14, where, consistent with International Labor Organization practices for developing countries, the law of the country of manufacture allows such exception). Where the age for completing

compulsory education is higher than the standard for the minimum age of employment stated above, the higher age for completing compulsory education shall apply to this section. Licensees agree to consult with governmental, human rights and nongovernmental organizations, and to take reasonable steps as evaluated by CLC, the applicable Member Institution(s) or their designee, and the applicable Licensee(s) to minimize the negative impact on children released from employment as a result of implementation or enforcement of the Code.

Initial Audit:

After interviewing management and workers, examining personnel records and walking through the factory, the auditors reported that they found no evidence of any child labor at the factory. They judged the steps taken by the factory to verify workers' ages as effective.

Recommendations:

None

5. Forced Labor

There shall not be any use of forced prison labor, indentured labor, bonded labor or other forced labor.

Initial Audit:

After interviewing management and workers, examining personnel records and walking through the factory, auditors reported that they found no evidence of any forced labor at the factory.

Recommendations:

None

6. Health and Safety

Licensees shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of Licensee facilities.

Initial Audit:

The auditors examined emergency-preparedness, medical and equipment records; spoke with management and workers, and conducted a comprehensive factory walk-through.

During their interview with management, the auditors were told that only four workers are trained in first aid. Management also reported that records are kept of accidents and injuries.

During their walk-through, the auditors observed that there were the recommended number of exits, and that exits were unlocked and unblocked. However, they also reported that the factory's fire alarm

system had only one alarm and that there were no battery-operated emergency lights or battery-powered exit signs.

The auditors observed that aisles were not marked with lines (to indicate areas that needed to be kept clear) nor were emergency exit routes painted or marked on the floor. The auditors judged some of the aisles to be partially obstructed at the time of the audit, and other aisles to be less than the recommended width of 44 inches. The workspaces were also judged to be insufficiently large.

The auditors reported that the factory did not have one well-stocked first-aid kit for every 100 of its employees.

In addition, they reported that some of the toilet facilities were not stocked with toilet paper and hand soap. However, they reported that all of the toilets were clean and free of offensive odors.

Although the auditors reported that the factory air was not dusty on the day of the audit, they also reported that some workers told them that the factory air contained dust and clothing fibers. However, all of the workers reported that they had access to dust masks and auditors observed some workers wearing masks the day of the audit.

During their factory walk-through, auditors reported that not all of the machinery was equipped with safety devices. They also found evidence indicating that machinery posed an increased risk when workers reported that the production machinery needs to be repaired constantly.

Fire Safety Recommendations:

- a. Illuminate exit signs with a light source backed up by battery power.
- b. Install battery-operated emergency lighting throughout the factory.
- c. Improve the factory's fire alarm system.

Management Response:

- a. We are investigating the cost and ability to get battery-powered "SALIDA" signs.
- b. We have installed emergency lights.
- c. Will call local fire department chief to inspect building and make suggestions for improvement. This will be done for the end of June.

Follow-up Audit:

- a. The auditors reported that exit signs were now illuminated with a light source backed by battery power.
- b. The auditors observed that the factory now has battery-operated emergency lighting.
- c. The auditors reported that the factory still does not have an audible fire

alarm that can be rung from various points in the factory.

Management Response:

- a. [Issue resolved.]
- b. [Issue resolved.]
- c. Management will investigate the possibility of replacing the existing fire alarm system.

Aisle and Exit Recommendations:

- a. Widen the aisles between workstations.
- b. Mark aisles on the factory floor with yellow paint or tape to indicate which areas to keep clear.
- c. Keep aisles clear of obstruction at all times.
- d. Mark emergency exit routes on the floor with yellow paint or tape.

Management Response:

- a. We are undertaking a project to re-set the lines to obtain equal space per operator -- this project will also resolve the aisles between units.
- b. Will be done when the re-setting of the lines will be complete.
- c. Supervisors are the [ones] responsible for keeping main aisles clear.
- d. Will be done when the re-setting of the lines will be complete.

Follow-up Audit:

- a. The auditors judged aisles to still be narrow.
- b. The auditors observed that aisles are now marked with two lines.
- c. The auditors observed that aisles between workstations were blocked with production material and that exits were blocked by loading trucks.
- d. The auditors observed that emergency exit routes are now marked on the factory's floors.

Management Response:

- a. Aisles have been adjusted and judged by engineers to provide sufficient space.
- b. [Issue resolved.]
- c. Management recognizes the need to keep aisles and exits clear and will stress this requirement to all supervisors, managers and operators.
- d. [Issue resolved.]

Health and Sanitation Recommendations:

- a. Train approximately 20 percent of the workforce in first aid.
- b. Provide at least one well-stocked first-aid kit per 100 employees.
- c. Make certain that all toilet facilities are stocked with toilet paper and hand soap.

Management Response:

- a. A doctor is in the factory 2 hours per day.
An emergency facility is less than 5 minutes from the factory.
- b. The Manager of Human Resources is the person responsible for maintaining first-aid kits.
- c. The Manager of Human Resources is the person responsible for maintaining toilet supplies.
Will begin to use a sheet to monitor the maintenance of the toilet supplies on a regular daily basis to assure that toilets are stocked and clean.

Follow-up Audit:

- a. Management reported that four employees are trained in first aid. However, management also reported that a doctor visits the factory for two hours daily in case of an emergency. The auditors also reported that there is a staffed medical facility within ½ mile of the factory that is accessible to workers at all times.
- b. The auditors reported that they did not see any first-aid kits at the factory.
- c. The auditors reported that bathrooms were stocked with the recommended supplies at the time of the audit. However, during the worker interviews, nine workers told the auditors that the toilet facilities are not kept stocked with toilet paper and 10 said that they are not stocked with hand soap.

Management Response:

- a. [Issue resolved.]
- b. First-aid kits were there.
- c. Management will continue to monitor restroom facilities to ensure that they are stocked with all supplies on a regular basis.

Working Environment Recommendations:

- a. Replace obsolete factory machinery.
- b. Equip all factory machinery with adequate safety devices.
- c. Find ways to reduce dust and clothing fibers in the factory's air.
- d. Increase workers' individual workspace.

Management Response:

- a. The machinery is replaced as needed. It is based on age, deterioration, and production needs.
- b. All the belts on the machines have guards.
PPE equipment (masks) are available to employees.
Needle guards are available upon request.
- c. Employees can request masks, and the dust level in the factory is not excessive or dangerous to a person's health.
- d. We are undertaking a project to re-set the lines to obtain equal space per operator -- this project will also resolve the aisles between units.

Follow-up Audit:

- a. During the worker interviews, auditors were again told by several workers that factory machinery breaks down frequently.
- b. The auditors reported that factory machinery was now equipped with adequate safety devices.
- c. The auditors observed that factory air quality was average at the time of the audit but that there was much lint visible near the production lines. During the worker interviews, 11 workers told auditors that the factory is not well ventilated for dust; nine reported that it is not well ventilated for fumes.
- d. During their walkthrough, the auditors observed that workstations remain crowded together. They judged that there may not be enough space around the workstations for workers to be able to evacuate easily in the event of an emergency.

Management Response:

- a. Sewing machine mechanics are on staff full time to keep machines adequately maintained. Machines will be replaced on an as needed basis.
- b. [Issue resolved.]
- c. Employees can request masks, and the dust level in the factory is not excessive or dangerous to a person's health.
- d. The lines between operators have been adjusted and the aisles have been marked. Management and engineers have judged that there is sufficient space to evacuate in the event of an emergency.

7. Nondiscrimination

No person shall be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.

Initial Audit:

After interviewing workers, the auditors reported that there was some evidence indicating that female applicants may be given pregnancy tests. (Three of the workers interviewed, all recently hired, reported that they had a physical exam in order to verify whether they were pregnant.) However, during the interview with management, management denied that applicants are given pregnancy tests.

Recommendation:

- a. Communicate to management that pregnancy testing would not be acceptable. Further investigate the possibility of pregnancy testing at this factory.

Management Response:

- a. As of 9/23/99, all pregnancy testing and any direct or indirect questions about pregnancy have been discontinued from all of our hiring procedures. The purpose of avoiding the exposure of pregnant women to improper work conditions will be achieved by describing the functions of the position to all aspirants, and asking them to acknowledge that it presents no threat to their health. We have a letter signed from our doctor as proof that he knows this policy.

Follow-up Audit:

- a. Auditors reported that they again found evidence indicating that female applicants may be given pregnancy tests when they observed in the factory's files a photocopy of a letter giving legal permission for the employment of a 15-year-old that had attached to it a medical record with results from a pregnancy test.

In addition, auditors reported that two of the interviewed workers said that female applicants are asked about their pregnancy status when applying for a position at the factory. However, seven interviewed workers said that applicants are not asked.

Management Response:

- a. Management reiterated that female applicants are not required to take a pregnancy test as of 9/23/99 and reported, "we showed the auditor a letter from the company to the doctor advising to no longer test for pregnancy. The doctor also signed this letter indicating his understanding of the new policy.

[The applicant's] letter and test referred to by the auditor [above] was dated 3/15/99 – clearly before the tests were stopped.

Also, the paragraph mentions that the applicant was 15 years old and requesting permission to work. This implies that the company hires underage workers which it certainly does not. As of September 1999, an applicant must be able to prove they are 16 years old to be employed."

8. Harassment or Abuse

Every employee shall be treated with dignity and respect. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse. Licensees will not use or tolerate any form of corporal punishment.

Initial Audit:

After interviewing workers, auditors reported that there was some evidence indicating that sexual and verbal harassment was occurring at the

factory. Nine of the 15 workers interviewed reported, both for themselves and on behalf of others, that many workers experience some kind of harassment. One female employee reported being sexually and verbally harassed by a member of management. She stated that he used to invite female workers out and would threaten them with losing their jobs if they were not willing to date him. She also reported that four months ago he tried to hit her. All of the other eight workers reported that they are insulted, yelled at, and treated disrespectfully by the same person. They said that he shouts and insults workers until they cry.

Management indicated to the auditors that they knew about this manager's behavior, but said it is due to his high level of responsibility, and has not taken any action. The auditors reported that in Mexico there is a certain margin of tolerance when managers raise their voice, especially when they are in positions of high responsibility.

During the worker interviews, workers reported that the current grievance procedure – to address the department of Human Resources – has not effectively dealt with all worker grievances (such as cases of harassment).

Recommendations:

- a. Ensure that the factory will not tolerate any kind of verbal, psychological, physical, or sexual harassment. Investigate claims of harassment. If the claims are substantiated, discipline or fire the employee responsible.
- b. Develop effective grievance procedures.

Management Response:

- a. Will include a statement on harassment/abuse [that no form of harassment or abuse will be tolerated] as a company policy. Again, we will give a sensitivity training to supervisors before the first of July.
Investigation of claim completed.
- b. Grievance procedures are as follows:
 - First line: Discuss the grievance with the supervisors. If they don't [believe] that their problem will be resolved, they go to the second line.
 - Second line: Is the Human Resources Manager.
 - Third line: General Manager of the factory
 - Fourth line: President of the company.

Any of the above can be verbal or written communication.

In addition, in the factory exists a letter box into which all the employees are free to put their letters. As a company policy, the only one who can open that letter box is our company president and he personally will check their individual grievances with the Human Resources Manager. And, as always, the General

Manager's door is open at any time for all the employees.

Follow-up Audit:

- a. The auditors reported that management had conducted an investigation into the allegations, found no evidence to substantiate the charges, and took no action against any particular employee. However, management also reported that one member of management was transferred to another factory at the beginning of this year. None of the workers interviewed during the follow-up audit reported harassment or abuse at the factory.
- b. Management reported that workers can verbally communicate their complaints to supervisors and to the manager of Human Resources. However, five interviewed workers reported that the factory has no grievance procedure (seven reported that they did have such procedures). Of 13 workers who responded to the question about the procedures' effectiveness, 11 described them as ineffective.

Management Response:

- a. [Issue resolved.]
- b. Management will convey to all employees via a poster or memo the existence of the current grievance procedures within the factory. They will also conduct a study in regards to the effectiveness of the current policies.

9. Freedom of Association and Collective Bargaining

Licenseses shall recognize and respect the right of employees to freedom of association and collective bargaining.

Initial Audit:

The Mexican Constitution guarantees workers the right to form unions, organize and bargain collectively. Auditors reported that they found some evidence indicating that management may have interfered with this right: workers told them that there have been reprisals against workers for trying to form a union. Some of the workers interviewed claimed that approximately two years ago workers were fired for trying to form a union.

The workers interviewed reported that there was no union in the factory and that they believed they are not allowed to have unions in the factory. However, management reported that there is a union with 100 percent of workers enrolled.

Recommendations:

- a. Respect the right of workers to form unions without interference or penalty of any kind. Investigate the claim that workers were fired two years ago for trying to form a union. If the claims are borne out,

- compensate these workers for the loss of their jobs.
- b. Hire a local NGO (Verité can recommend) to educate workers on their legal rights to form and join unions.

Management Response:

- a. In our Human Resources [department] exists a copy of the union contract. All employees are members of the [union].
- b. The factory owners will take the recommendation to hire a local NGO into consideration.

Follow-up Audit:

- a. During the worker interviews, seven workers again told auditors that two years ago workers were fired for trying to organize a union in the factory.
- b. Six of the interviewed workers again told the auditors that they did not have the legal right to form or join unions and five reported that the factory does not allow workers to form or belong to a union.

Management reiterated that they permit workers to freely associate and to form and join unions. In addition, management reported that workers in the factory are covered under a collective bargaining agreement although auditors reported that none of the workers expressed awareness of this agreement during the worker interviews.

Management Response:

- a. Management will conduct an investigation to determine the validity of the alleged firing.
- b. Management reiterated they permit workers to freely associate and to form and join unions.

Taiwan

A factory in Taiwan, which manufactures jackets and shirts, was audited as part of the pilot project.

Factory Overview

The factory consists of one three-story concrete building constructed in the late 1970s. Administrative offices and the cutting sections are on the first floor, sewing lines are located on the second floor, and the third floor is the worker dormitory. Twenty-eight foreign contract workers reside in the dormitory. Four workers are assigned per room, and each worker has 60 square feet of living space.

According to management, the factory employs 60 production workers. The workers are mainly from Taiwan. Twenty-eight are contract workers from Thailand. The typical worker is female, 30 years old, with a middle- to high-school education.

Audit Overview

The auditors conducted two audits six months apart: An initial audit on November 18, 1999 and a follow-up audit on June 23, 2000. During the initial audit, auditors interviewed two members of management. During the follow-up audit, auditors interviewed one member of management. Auditors reported that management was cooperative.

During the initial audit, the auditors interviewed 27 workers: 13 formally and 14 informally. Of the 13 formal interviews, 11 were conducted at the factory and two outside the factory. All 13 workers said that they were satisfied working at the factory, and the auditors emphasized that workers were extremely pleased with the treatment they received from factory management.

During the follow-up audit, 20 workers were interviewed: 10 at the factory and 10 off-site. All of the workers reported that they were generally satisfied working at this factory.

Factory Code Readiness

Licensees agree to operate work places and contract with companies whose work places adhere to the standards and practices described below. CLC and the Member Institutions prefer that Licensees exceed these standards.¹

Initial Audit:

Auditors observed posted codes of conduct, but did not see any of the relevant national or local labor laws posted. However, the auditors

¹ All italicized sections contain excerpts from the CLC Code of Conduct.

reported that management made a 200-page book containing national labor laws accessible to workers.

The auditors reported that the factory has a written set of personnel policies but that copies are not distributed to workers. Management told the auditors that the policies are verbally explained to workers at the time of their hiring.

Recommendations:

- a. Prominently post relevant national and local labor laws in Chinese and Thai.
- b. Distribute a written copy of the company's personnel policies to all workers in a language they understand, in addition to communicating them verbally.

Management Response:

- a. We have books of laws written in Thai, available for the Thai workers.
- b. We will post in Thai too.

Follow-up Audit:

- a. The auditors observed that national and local labor laws were now posted in a prominent position.
- b. Auditors reported that factory personnel policies had not been translated into Thai or distributed to Thai contract workers.

Management Response:

- a. [Issue resolved.]
- b. We will translate the factory's personnel policies into Thai by November 1 and post them.

1. Wages and Benefits

Licensees recognize that wages are essential to meeting employees' basic needs.

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.

Initial Audit:

After examining factory payroll documents and interviewing management and workers, the auditors reported that they found no evidence that any worker is earning less than the legal minimum wage.

However, the auditors did find some evidence indicating that workers may not be receiving all of the benefits to which they are legally entitled. Taiwan labor law stipulates that workers receive an incremental amount of paid leave for every year that they are employed at the factory. Four Taiwanese workers with more than one year at the factory reported that

they did not receive any paid leave. Three other Taiwanese workers with more than a year at the factory were unaware of the amount of paid leave they are to receive.

The auditors reported that all workers' pay slips, even Thai workers', are written in Chinese only.

Further, auditors found evidence that Thai contract workers may have paid illegally-large fees to obtain employment. Thai law² sets the legal limit on the fees which employment brokers can charge workers at \$56,000 New Taiwanese Dollars (US\$1,750)³ up front, and at NT\$1,000 (US\$31) per month for a management fee. Most of the Thai workers, both those interviewed formally and informally, reported paying employment broker fees between 90,000 and 180,000 Thai Baht (US\$2,368 and US\$5,625).⁴

Taiwan law regarding foreign employment requires pregnancy testing for foreign workers before and after they enter Taiwan. Management reported that if a foreign contract worker becomes pregnant then she is sent back home, with the worker paying the cost of the return fare.

After interviewing the Thai contract workers, auditors also reported that workers may have signed a document agreeing to pay deductions without full knowledge or consent. Taiwan labor law requires employers to obtain the consent of foreign workers before withholding and depositing a percentage of their wages in accounts in the worker's name. Thai workers reported that NT\$3000 is withheld monthly and deposited in an account in their name as "run-away insurance." Management showed documentation that workers agreed to these deductions. However, the auditors judged it possible that the workers signed the document without full knowledge or consent because most of the foreign workers told them that they wished the factory did not force them to save. Given their high level of debt, the auditors felt that it was unlikely that these workers would enter into the deposit program voluntarily.

Recommendations:

- a. Grant all employees their legally entitled amount of paid leave.
- b. Write pay slips in Thai for Thai workers.
- c. Use only employment brokers that adhere to Thai laws with respect to employment broker agent fees. Arrange refunds from current employment brokers to foreign workers for any amounts paid by workers in excess of the legal limits on broker fees.

² Verité's knowledge of the Thai law regarding limits on employment broker's fees comes from a conversation which Verité had with a Thai labor official while conducting research on contract labor in Taiwan.

³The exchange rate at the time of this audit was approximately NT\$32 to the US Dollar.

⁴The exchange rate at the time of this audit was approximately 38 Baht to the US Dollar.

- d. Allow foreign contract workers who become pregnant to work for the majority of their pregnancy, if they choose, and have the factory pay for their return trip home, as would naturally occur at the end of their contracted work time.
- e. Ensure that foreign workers' consent to the practice of the factory depositing part of their wage in a special account was obtained completely voluntarily and with full knowledge.

Management Response:

- a. The employees that are paid by the month are given paid leave after one year of work. The employees that are paid by the piece don't have paid leave after one year of work, but we will give them red envelope [containing a bonus] before Chinese New Year.
- b. We have done it already.
- c. [Both the Taiwan and Thai employment brokers] are professional and reputable. [The Taiwan broker] has a Certificate of Registration (ISO 9002). They confirmed that the domestic and international placement fee is NT\$56,000.
- d. We cannot pay for it. It is illegal.
- e. I had a meeting with the foreign workers and they have consented to the deposit of a part of their wage into a special account.

Follow-up Audit:

- a. During the worker interviews, workers told auditors that they did not know whether or not they are receiving their legal benefits. According to Taiwan labor law, workers shall be paid for all holidays prescribed by the central competent authority. In addition, foreign contract workers in manufacturing are to be given seven days of paid vacation after one year of service, up to 14 days of excused, unpaid leave, and up to 30 days of sick leave per year. All seven contract workers interviewed were unaware of whether they received paid national holidays or paid sick leave. Three of the contract workers, employed at the factory for over a year, were unaware of whether they receive a vacation benefit.
- b. The auditors reported that factory pay slips given to contract workers are now in Thai.
- c. The auditors reported that contract workers again told them that they had paid high employment fees. Five of the seven contract workers reported paying employment broker fees between Thai Baht 101,000 and Baht 165,000. According to the auditors, no new contract workers have been hired since the previous audit, and all the contract workers reported having the same employment broker as in the last audit.
- d. The auditors reported that they now had more information about Taiwanese laws regarding foreign contract workers at Taiwanese factories. According to Taiwan law, foreign workers are required to undergo a pregnancy test every six months, and if they fail the test, the

worker “shall be immediately repatriated by the employer.”

Management reported that foreign contract workers who become pregnant are sent back home.

- e. Management again provided records of the deposits and reported that, in signing, Thai workers have given their consent to the deductions and the other terms of the agreement. However, the auditors reiterated their belief that, given their high level of debt, it is unlikely that contract workers would risk the possibility of not being hired by not signing any agreement management asks them to sign. It is not known whether workers signed the agreement before accepting the position in Thailand or only after arriving in Taiwan.

Management Response:

- a. Will inform contract workers with the details of the benefits.
- b. [Issue resolved.]
- c. This issue has been addressed and a copy of standard agent fees has been distributed to the contract workers. They may use it for the future. We are unable to help them on this issue now.
- d. [Issue resolved.]
- e. It will be explained to all contract workers that the savings account is strictly voluntary.

2. Working Hours

Except in extraordinary business circumstances, hourly and/or quota-based wage employees shall (i) not be required to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture or, where the laws of such country do not limit the hours of work, the regular work week in such country plus 12 hours overtime; and (ii) be entitled to at least one day off in every seven day period.

Initial Audit:

Auditors interviewed management and workers, and found no evidence of employees being routinely expected to work 60 or more hours a week at the factory. They also found no evidence of employees being routinely expected to work seven days a week.

Recommendations:

None

3. Overtime Compensation

In addition to their compensation for regular hours of work, hourly and/or quota-based wage employees shall be compensated for overtime hours at such a premium rate as is legally required in the country of manufacture or, in those countries where such laws do not exist, at a rate at least equal to their regular hourly compensation rate.

Initial Audit:

After examining factory payroll documents and interviewing management and workers, the auditors reported that they found no evidence that any worker is earning less than the legal overtime wage.

Recommendations:

None

4. Child Labor

Licensees shall not employ any person at an age younger than 15 (or 14, where, consistent with International Labor Organization practices for developing countries, the law of the country of manufacture allows such exception). Where the age for completing compulsory education is higher than the standard for the minimum age of employment stated above, the higher age for completing compulsory education shall apply to this section. Licensees agree to consult with governmental, human rights and nongovernmental organizations, and to take reasonable steps as evaluated by CLC, the applicable Member Institution(s) or their designee, and the applicable Licensee(s) to minimize the negative impact on children released from employment as a result of implementation or enforcement of the Code.

Initial Audit:

After interviewing management and workers, examining personnel records and conducting a comprehensive factory walk-through, the auditors reported that they found no evidence of any child labor at the factory.

Recommendations:

None

5. Forced Labor

There shall not be any use of forced prison labor, indentured labor, bonded labor or other forced labor.

Initial Audit:

After interviewing management and workers, examining personnel records and conducting a comprehensive factory walk-through, auditors reported that they found no evidence of any forced labor at the factory.

Recommendations:

None

6. Health and Safety

Licensees shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of Licensee facilities.

Initial Audit:

Auditors examined emergency-preparedness, medical and equipment records; spoke with management and workers, and conducted a comprehensive factory walk-through.

On the first and second floors of the factory, the auditors found two exits per floor, exit doors unlocked and unblocked, exits doors swinging outward and located at opposing ends of the floor. Each work station was no more than 200 feet from the nearest available exit. Exits were clearly marked with a sign visible from 100 feet away and illuminated by a light backed by battery. Emergency exit maps were posted in all work areas and emergency exit routes were painted on the floor. However, the auditors reported that the Thai translation of fire safety and control information was not as thorough as the same information posted in Chinese.

On the third floor of the factory, where worker dormitories are located, two workers reported that, at night, the main exit is closed and cannot be opened if there is a power outage. According to these workers, a second emergency exit is locked and the key kept by the on-duty security guard. (Auditors also reported that a second key is located next to the door, in a "Break-Glass" box, but that workers are not aware of the existence of the box.)

The auditors reported that the factory was equipped with an audible fire alarm and battery-operated emergency lights located in hallways, stairwells, and work areas. A visible and accessible fire extinguisher was located within 75 feet of every worker, and the factory keeps up-to-date maintenance records on all fire extinguishers.

The auditors noted that factory aisles were clear, although they described the factory as dirty. They reported that the aisles were of a sufficient width to allow for the free movement and easy evacuation of workers and were marked with two lines to indicate the area to be kept clear.

The auditors confirmed that fire drills are conducted at least twice a year and that a sufficient number of supervisors and production workers are trained in the use of fire-fighting equipment. However, management reported that only 1 percent of the workforce is trained in first-aid.

Three of the five Thai contract workers interviewed reported that the meals the factory provides for them are too oily and heavy.

The auditors reported that workers were wearing dust masks at the time of the audit. (During the worker interviews, two out of 13 workers reported that the factory's air is dusty.)

Equipment had the appropriate safety devices and appeared well-maintained. However, the auditors reported that the permits for the

factory's freight elevator were not valid.

Management reported that contract workers are not allowed to leave the dormitories after 11:00 p.m., although they may leave the dormitories and stay away for the weekend if they tell the factory where they are going.

Fire Safety Recommendations:

- a. Ensure that the translation of fire safety and control information into Thai is complete and comprehensive.

Management Response:

- a. We translated all fire extinguisher signs into Thai and set up a fire-breaker team as well as first aid.

Follow-up Audit:

- a. Auditors reported that some fire protection and control information was still available only in Chinese, and not in Thai, the language spoken by contract workers at the factory.

Management Response:

- a. Will post fire safety and control information, written in Thai, by November 1.

Aisle and Exit Recommendations:

- a. Install exit doors in the factory which can be easily opened from the inside, even when locked.

Management Response:

- a. The problem has been remedied.

Follow-up Audit:

- a. Management confirmed that dormitory exits could not be opened from the inside when they were locked from the outside. Although a key to the second emergency exit is available in a "Break-Glass" box next to the door, auditors noted that trying to locate and gain access to this key could impede the quick evacuation of the dormitory during an emergency.

Management Response:

- a. The "Break-Glass" box was installed after the first audit, at the recommendation of the auditors. During the follow-up audit, auditors determined that the "Break-Glass" box would be difficult to locate during an emergency evacuation. So, we will keep the doors unlocked.

Health and Sanitation Recommendations:

- a. Train approximately 20 percent of the workforce in first aid.
- b. Clean the factory on a regular basis.
- c. Provide suitable food for the Thai contract workers.

Management Response:

- a. A hospital nurse was brought in to train the workers, but no pictures were taken as evidence of the training.
- b. We will clean the factory more often.
- c. We have asked the chef to improve food preparation to be more suitable to Thai workers.

Follow-up Audit:

- a. Management again reported that only one employee (or 1 percent of the workforce) was trained in first aid. However, the auditors did report that the factory has an adequate amount of first-aid kits that are visible, accessible, and well-stocked. There is a staffed medical facility within ½ mile of the factory that is accessible to workers at all times.
- b. The auditors again observed that the factory was excessively dirty and dusty.
- c. The auditors did not report any violations in this area.

Management Response:

- a. Will train 20 percent of the workers in first aid.
- b. Will clean the factory thoroughly by November 1, and management will establish a schedule for more frequent cleaning of the factory.
- c. [Issue resolved.]

Working Environment Recommendations:

- a. Reduce the amount of dust in the factory air.
- b. Obtain validation from the appropriate authorities for the factory's elevator permits.
- c. Allow workers the unrestricted freedom to come and go as they please from the factory dormitories.

Management Response:

- a. We will try to reduce the amount of dust, and will give the workers dust masks if needed.
- b. The elevator is used for piece goods and not for people.
- c. I have a meeting with the foreign workers and discussed the issue.

Follow-up Audit:

- a. The auditors observed that there continued to be a significant amount of dust in the factory and that the ventilation for dust and for control of fumes was of low quality.
- b. The auditors reported that the factory now has validation from the appropriate authorities for the elevator.

- c. The auditors did not report any violations in this area.

Management Response:

- a. Will improve the air quality by November 1.
- b. [Issue resolved.]
- c. [Issue resolved.]

7. Nondiscrimination

No person shall be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.

Initial Audit:

After interviewing management and workers, auditors reported that they found no evidence of systematic discrimination in the areas of hiring, salary, benefits, advancement, discipline, termination or recruitment practices on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion or social or ethnic origin.

Recommendations:

None

8. Harassment or Abuse

Every employee shall be treated with dignity and respect. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse. Licensees will not use or tolerate any form of corporal punishment.

Initial Audit:

After interviewing management and workers, the auditors reported that they found no evidence of any harassment or abuse at the factory.

Recommendations:

None

9. Freedom of Association and Collective Bargaining

Licensees shall recognize and respect the right of employees to freedom of association and collective bargaining.

Initial Audit:

The Taiwan Constitution grants workers the right to form and join unions. Ten of the 13 workers formally interviewed reported that they thought they did not have the right to form and join unions.

Recommendation:

- a. Hire a local NGO (Verité can recommend) to educate workers on their legal right to form and join unions.

Management Response:

- a. We do not prohibit unions. We are a small factory, and workers can talk to the Manager and the President to discuss the collective bargaining issue.

Follow-up Audit:

- a. Twelve non-contract workers reported that they were unaware of their legal right to form and join a union. One non-contract worker reported that workers had no legal right to form or join a union.

Management Response:

- a. We will publicly display the right of employees to form and join unions.

Pilot Project Conclusions, Recommendations and Discussion

Feedback was solicited from the participating licensees and Verité at the conclusion of this project. The following are some of the specific comments that were offered:

Licensee Comments

- Some licensees reported that they would have liked for the auditors to meet with factory management to explain the audit process and to communicate to the factories the goal of achieving improved working conditions rather than punishment.
- Some licensees viewed the process as “negative.” They suggested the audit report include more of the factory management’s information and describe more positive conditions, rather than focus on what the auditors judged to be areas of concern, which was the report format used for this project, and currently is standard auditing practice.
- Licensees emphasized that monitoring agents should be objective and unbiased, and that if the factory management does not believe that the monitoring agents are impartial, management may have serious concerns. One licensee stated that some factories feel that certain monitoring agents have an agenda to promote unionization of the workers.
- During the course of the project, several licensees had questions about Verité’s benchmarks and how they align with local laws, industry-wide practice and accepted norms.
- Some licensees questioned Verité’s recommendation that at least 20% of workers be trained in fire safety and first aid, pointing out that some local law does not require this.
- Some licensees questioned Verité’s recommendation that factory management inform workers of their legal rights to form and join unions, but agreed that they should be required not to discriminate against or prevent lawful free association and attempts to organize.
- Some licensees felt that mandatory overtime could be required as long as it is disclosed to employees upfront that such overtime may be necessary for scheduling purposes.
- Some licensees requested that the recommendations and findings sections provide more detail and more specific actions for remediation.

- Some licensees pointed out some of the costs of carrying out their obligations under the program, including travel to and from the factory, management time in responding to reports, purchase of equipment and devices in response to findings, updating employee handbooks and training employees on wage calculations, and providing sensitivity training to managers and supervisors.
- For example, A licensee expressed concern that the universities may impose unrealistic requirements as a result of the findings.

Verité Comments

- In our experience, we have found that it is as important for participants to understand the report-writing process as understanding the process of data collection. Identifying risk and exposure, which compliance monitoring is specifically designed to do, will generally focus on areas of concern or specific violations. While information is gathered on all aspects of a factory's operations and conditions, the areas of concern will naturally be the focus of an audit report.
- It is common for the monitoring process to be viewed with some ambivalence by factory management. In our experience most management personnel are cooperative, but not all are. Because both the fair evaluation of a facility and the implementation of corrective measure rely on cooperation of the factory, our teams are trained to be sensitive to management's concerns. They begin all audits with a meeting with the factory management in which they describe our audit process and generally conclude with a debriefing of most health and safety findings. Findings in areas that require analysis of documents, such as payroll matters, or information that could compromise the confidentiality of a worker, such as a charge of harassment, are released only to the client, who is responsible for follow-up with the factory.
- Verité's evaluation process relies heavily on worker interviews. The information and in some cases the identity of the workers is necessarily confidential, both to preserve the trust of the worker and to protect the worker against possible reprisal, which is in our experience not uncommon. When weighing contradictory information provided by management and workers, we rely only on answers that are confirmed by more than one interviewer to generate a definite recommendation. Information that is provided by only one worker is not discounted but rather used to generate cautionary recommendations, often to investigate further or to ensure that such a condition does not exit.
- In the absence of a comprehensive body of internationally accepted standards, Verité has compiled monitoring benchmarks comprising OSHA, ILO and other international labor and human rights norms, clients' compliance criteria and local labor laws. In the absence of laws in areas of concern, we have established guidelines based on our research and years of experience in the field. An example of a benchmark that is not mandated by law is our recommendation that 20

percent of the workforce trained in the use of fire-fighting equipment. This derives from our research into factory fires in China, where over the last five years the majority of workers died because they were removing inventory during or after the fire at the request of management. The 20 percent figure is an average of the national regulations of various countries we have operated in, which range from 100 percent in some countries to zero in many others.

General Conclusions and Recommendations

The participants viewed this pilot project as an important step in our understanding of the process of labor code monitoring that provided some insight into the many issues that must be considered when working with licensees to bring factories into compliance with labor code standards. This report reflects the considerable time and effort that goes into the auditing, remediation and verification of factory sites for compliance with labor code standards. Code monitoring is a complex and detailed process. To be effective, it will require close coordination, communication and cooperation among licensors, licensees, factory management and monitoring agents.

Absent clear laws and/or accepted standards, factory management and monitoring agents may disagree as to the interpretation of labor code standards. Some licensees did not agree that certain findings constituted code violations, and viewed the process as overly subjective. With time, uniform, consistent and clear standards and practices should emerge.

The following recommendations grew out of the participants' experiences during the pilot project:

- Encourage more communication between monitors and licensees about the auditing and reporting process, its strengths, and its limitations before the audits begin.
- Define more specifically the roles and responsibilities of monitors and licensees. During the course of the pilot project, it became clear that the auditors and some of the licensees at times considered certain responsibilities to fall within the other's purview.
- Provide specific information about standards in advance of the initial audit, including how they are adopted and applied, to give greater opportunity for questions and discussion.
- Provide a feedback mechanism between factory management and Verité to give the factories a greater sense of involvement in the process. For example, input and feedback could be solicited from recently audited factories by letter asking for their opinions on the audit and the way it was conducted. During

the course of the pilot project, one factory questioned auditors' identification and confidentiality of the worker interviews, but had no formal way to register their questions concerning the monitoring process. As one licensee termed it, factory management does not feel "heard" in the current process.

- Strengthen consensus between monitors, licensees and factory management around the audit process in general, which would improve communication flow and factory support of monitoring.
- Work towards the creation and adoption of industry-wide standards. This matter is becoming one of urgency for the factories that are being monitored by different buyers' monitors several times a month.
- Clearly define the expectation of all participants for the outcome of the pilot project.

Discussion Topics Going Forward

We hope that this project has provided a contribution to the important effort to foster improvement of the working conditions in factories that produce licensed collegiate products and will serve to facilitate more dialogue among all the stakeholders. This report should serve as a catalyst to stimulate discussion and advance the resolution of many important issues, including those set forth below:

- Who ultimately resolves disagreements between licensees and monitors as to whether an auditor's finding constitutes an actual code violation that requires remediation, and who ultimately determines the sufficiency of remedial efforts?
- What aspects of the audit process should be made available to the public, keeping in mind the licensee's or the factory's right to protect against the release of protected proprietary or confidential information or materials? What are the legal implications of causing the release of such information or materials?
- To what extent will universities be involved in the "nuts and bolts" of the auditing process?
- How do we define the expectations of universities as to what they can accomplish through labor code monitoring and how will we evaluate whether those expectations are being met?
- What is the best and most cost-effective system for conducting factory site monitoring and verification on an ongoing basis?
- What can be done to promote uniform and consistent code standards and monitoring/verification programs among universities, other licensors and companies?
- What are the costs to licensees and/or factories of implementing internal monitoring systems and of submitting to independent monitoring systems?

Conclusions, Recommendations and Discussion

- In this current difficult market, will licensees and/or factories be in a position to justify absorbing these additional costs? If certain licensees or factories are unwilling or unable to comply with code requirements, what impact will the elimination of their collegiate business have on universities that rely on royalty revenues, employees of the licensees, and employees of the factories?
- If the process of improving working conditions results in higher costs for licensees, will customers be willing to pay that cost? When comparing two items, one made in a plant seeking to improve working conditions and one made in a plant seeking only reduced costs, how will the customer know which is which? Will the price difference prevent them from buying the former?
- What impact will labor code monitoring have on relationships between universities and licensees? Will the process be one marked by understanding and cooperation among licensors, licensees and monitoring agents, or will it be contentious and punitive?

These are some of the issues that merit the focus, thought, discussion and resolution by those involved in the labor code process as it moves forward.

Appendix A

Verité Monitoring and Reporting Process and Protocols

Verité's factory evaluation process varies somewhat according to the specific requirements of the company that hired Verité (Verité's client) to monitor and report on conditions at specified factories where its goods are produced. However, all audits share the features summarized here.

Verité audits are conducted by international coordinators, auditors and worker interviewers who are linked with established human rights organizations and NGOs. Requirements for the teams include knowledge of local regulations and industry practices, facility in dialects spoken by the workforce, gender-match and experience in production.

The typical audit takes one-to-three days for a four-person team. A standard Verité audit includes:

- Interviews with management personnel familiar with the factory's policies and pay systems during which auditors collect a wide variety of factory documents (see list below),
- A walkthrough of the entire factory (including production areas, storage facilities, rest areas, cafeteria spaces, and dormitories), and
- Confidential interviews with at least 10 production workers (or, at factories of over 600 workers, approximately 1.5 percent of the workforce), conducted both on-site and off-site.

During the audit, auditors collect information regarding:

- Factory ownership and relationship history
- Subcontracting arrangements
- Audit/legal history
- Personnel policies and workplace regulations (including grievance procedures, discipline and termination policies, restrictions on movement, fines and pregnancy testing)
- Employment contracts and fees
- Legal and informational postings (including Codes of Conduct and local laws)
- Union activities
- Personnel files
- Contract labor
- Forced labor
- Child labor
- Harassment and abuse

- Wages and benefits
- Pay practices
- Production quotas
- Hours and overtime
- Medical care/accidents and injuries (first-aid kits, worker health, accident logs, and infirmary)
- Toilet facilities (sanitation, ratios, condition, toilet paper, soap and water)
- Cafeteria/canteen (sanitation, water-testing, and fire safety)
- Chemical safety (including training, storage, and labeling)
- Elevators
- Boiler/generator
- Fire/safety hazards
- Exits
- Fire extinguishers
- Aisles and exit routes
- Emergency systems
- Working environment (air quality, ventilation, temperatures, noise levels, lighting)
- Personal protective equipment
- Machine safety (including training and maintenance records)
- Electrical safety
- Factory structure(s)
- Worker dormitories

Documents collected by auditors during the audit include:

- Business cards of factory owners and managers
- Business cards of agents
- Factory organization chart
- Factory copy of Code of Conduct
- Manufacturing agreement
- License to operate factory
- Plant safety certificates
- Chemical-handling safety certificates and notices
- Fire-safety inspection certificate
- First-aid training certificates
- Floor plan of factory showing square footage and the location of emergency equipment and emergency exits
- Fire prevention notices
- Fire escape instructions
- Notices that are posted for employees regarding wages, health, safety, restrictions, etc.
- Copy of contracts between employee and employer
- Copy of contract between agent and employer
- Two different pay stubs from different workers

- Two time cards
- Sample identification card of employee
- Health insurance identification card
- Union identification card
- Productivity record for one day
- Daily attendance sheet
- Regulation handbook
- Minimum wages paid to workers according to task level
- Copy of pages from the medical/accident log
- Any other written material that may be helpful in determining compliance with Code of Conduct

After auditors have inspected the factory, conducted the worker interviews and collected as much information and as many documents as they can, an audit report is generated. It includes factory background information, recommendations for improvement, findings, supporting documentation (where relevant), excerpts from relevant local labor laws, and a list of Verité's core guidelines and benchmarks used in its auditing and report-writing process. The focus of the report is on perceived or suspected violations of either law or the client's Code of Conduct, or, absent clear code or legal guidelines, Verité's benchmarks. Information that has no bearing on suspected or observed violations is not included in the report, or is summarized only in brief.

The main challenge in preparing an audit report is describing inconclusive or contradictory findings. The report-writing protocols adopted by Verité to address the difficulties posed by gray areas call for "hard" or definitive recommendations for improvements only in cases where either violations are observed by the auditor at the time of the audit (e.g., inadequate number of exits) or the preponderance of evidence indicates a violation (e.g., worker testimony confirmed by payroll documents). "Soft" recommendations (written using the words, "make certain" or "ensure") are made in cases where the findings suggest a possible violation but are not conclusive (e.g., only two of 15 workers report not being paid for their overtime hours) or contradictory (e.g., payroll documents do not support worker claims of non-payment of minimum wage).

After passing through several levels of analysis, fact-checking and editing, the audit report is sent to the client. In most cases, the client creates its own management action plan to send to the factory (derived from the recommendations section of the audit report) and Verité's role in this phase of the monitoring process is completed. However, in some cases (depending on the nature and severity of violations and the client's business relationship with the factory), Verité will also be retained to provide follow-up seminars or workshops for factory managers, supervisors and workers on issues related to gender & cultural sensitivity, health & safety, and management improvement, among others.