

China Labor Watch

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National Labor Committee

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Worker and Human Rights

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EMBARGOED UNTIL December 15, 12-noon

December 2005

Wal-Mart Sweatshop Toys Made in China

“Always Low Prices” Means Rolling Back Respect For Human Rights

Lungcheong Toy factory
Zhouwn Industrial District
Dongguan City, Guangdong Province
China

Hong Kong owned

Phone: 86-769-2200168

Production: Battery-operated radio controlled toy cars and trucks for Wal-Mart, Mattel, MGA and others.

For the last four years, beginning in 2002, we have been quietly observing a large factory in the south of China which produces toys for Wal-Mart, Mattel, and more recently for MGA. Three thousand workers at the Lungcheong Toy factory in Dongguan City in Guangdong Province specialize in manufacturing radio operated plastic toy trucks—like MGA’s “Big Foot Ragin’ Monster Truck,” which was made in the factory in October and purchased in a Wal-Mart store this December for \$64.97.

For years, and especially of late, Wal-Mart and Mattel have been telling the American people how seriously they are committed to their corporate codes of conduct, and how much time and money they have put into expanding their factory monitoring programs. However, the concrete results have been very disappointing, as serious human right violations continue unabated year after year at the Lungcheong Toy factory, in some instances even worsening. This raises very serious questions as to why the



combined efforts of Wal-Mart, the largest toy seller in the world, and Mattel, one of America's leading toy companies, not to mention MGA, have been so ineffective over the last four years.

In the end, what we see is that the constant relentless push to slash production costs, which is being led by Wal-Mart and followed by other companies, always trumps all the fine words about corporate codes of conduct and monitoring schemes. Someone has to pay the cost for all the cuts, and as the factory owners are no angels either, it is the workers who pay the price in increased production quotas, forced overtime while being shortchanged on their wages and benefits, and denied their fundamental rights.

As of December 10, 2005, the legal rights of the Lungcheong Toy workers continue to be systematically violated.

Denied Maternity Leave:

- Women are routinely denied their legal right to three months maternity leave with pay, which in Dongguan City would be 574 yuan, or \$70.78 a month.

Illegally Denied Health Insurance/Work Injuries Result in Termination:

- Article 72 of China's Labor Code requires that companies inscribe their workers in social health insurance and pension programs. The Lungcheong factory fails to do this. No new workers receive health insurance. This is one of the areas where there has actually been deterioration in respect for the law. In the past, the factory insured at least those employees working in the most hazardous areas, such as the metal and mold injection units.

Now, in order to get a job, new workers must first sign an agreement that if they are injured on the job they acknowledge that the company bears absolutely no responsibility.

In the spray paint department, workers report that illnesses are common. Despite the fact that they are constantly working with oil-based paints, toxic solvents such as benzene, and other chemicals—and where paint fumes hang thickly in the air—no effective safety precautions are taken. The workers do not have gloves or even the most rudimentary respiratory mask. If a worker falls ill, from what the workers call “poisoning,” they are given a small amount of money by management and asked to leave the factory. Workers wanting to keep their jobs have to spend money out of their own pocket to try to cure their occupational related illnesses.

New workers receive just a one-week probation/training period after which they are placed on a production line operating at full speed. There is no instruction on health and safety issues. Moreover, workers are frequently shifted to different jobs, sometimes even in the course of a single day. Under these conditions, injuries are more common. Here, too, the procedure is the same. If a worker is injured on the job, they will be taken to the factory clinic for basic treatment, after which management will arrange a very modest settlement with the worker who is then forced to quit.

(It is interesting to note that although the workers receive very little training in regard to work skills or health and safety issues, they are instructed that it is forbidden to spread information that is harmful to the factory’s image or to reveal the factory’s production process.)

13-hour Shifts, Six and Seven Days a Week/Mandatory Overtime Exceeds China’s Legal Limit by 300 Percent:

- All overtime work is mandatory. During the peak season which lasts about seven months, from May through early December, the standard shift is from 8:00 a.m. to 9:00 p.m., or 13 hours a day, six and seven days a week. This would put the workers at the factory from 78 to 91 hours a week while actually working 66 to 77 hours, given the hour breaks for both lunch and supper. Even at the low end, if a worker is working 66 hours a week, this amounts to 26 hours of overtime a week and more than 100 hours a month, which exceeds China’s legal limit by approximately 300 percent. (The legal limit is 36 hours per month, and all overtime is supposed to be voluntary.)

The workers report that during the busy season it is not uncommon to be kept working until midnight, or even be required to work the entire night through.

However, there is no precise way to calculate how many hours of overtime the workers actually work—such as a review of pay stubs—since management instructs the workers to always punch their time cards out at 10:00 p.m. Overtime after 10:00 p.m. is worked off the clock and paid in cash.

It is further complicated by the fact that the legal overtime premium is only paid for overtime worked between 6:00 p.m. and 8:00 p.m., after which the wage reverts back to the regular hourly wage with no premium.

Also illegally, on Saturdays, the workers are paid just half of the overtime premium required by law, which is 100 percent. (By law, weekday overtime is to be paid at a 50 percent premium,

while Saturday and Sunday must be paid as double time, and work on statutory holidays must be paid as triple time.)

No Statutory Holidays:

- Nor does the Lungcheong factory pay for national statutory holidays, such as New Years, which is another violation. If a worker does not work on these holidays, they are not paid.

No Paid Leave:

- Lungcheong workers are also denied their legal right to paid leave to get married, for the birth of a child, or to bury family members.

Nominal Wage Increase Wiped Out By Increased Production Quotas, Increased Fees and Fines:

- The Lungcheong factory did, in word, honor a government decreed minimum wage increase in March of 2005, which raised the legal minimum wage from 450 yuan, or \$55.49 a month to 574 yuan, or \$70.78. (The Lungcheong factory actually raised the rate to just 570 yuan.) Still, this raised the hourly wage from 32 cents to 41 cents, a nominal increase of 27 percent.

Though inflation in China is low in relation to many other developing countries, still between early 2002 and October 2005, the compounded inflation rate was 6.5 percent. And there were strikes at the Lungcheong factory in 2003 and 2004 over the low wages.

However, the workers now report that the wage increase was basically a wash. Management responded to the increase by speeding up production lines and increasing production quotas. At the same time many fees, such as for dorms and food, were increased. More fines were handed out, and existing bonuses taken away. Pretty much the workers feel they are in the same position they were before the nominal increase.

Dorm fees went from 30 yuan (\$3.70) per month to 50 yuan (\$6.17). The dorm conditions remain primitive and very cramped. Each dorm room measures approximately 11 feet by 20 feet and contains 20 bunk beds. Aside from the three fans, the only other piece of furniture in the room is a shared desk. There are no private bathrooms. Each floor has one public bath and shower room. Hot water is only available between 5:00 p.m. and 10:00 p.m. Since the capacity of the boiler is limited, not everyone gets to take a hot shower after work.

The cost for food rose as well. In the past, the company deducted 110 yuan (\$13.56) a month for food. Now the cost has risen to approximately 183 yuan (\$22.56) a month, while the quality of the food as also deteriorated. The system was changed so that rather than deducting a flat amount each month, the workers would be charged per meal according to what dishes they selected.

Now the cafeteria offers two sets of meals. For two rmb, 25 cents, workers can get two vegetable dishes and one meat dish. For example, on April 6, 2005, the meal was greens, several small pickle slices and boiled pork leg with seaweed, though—the workers say—it was

very hard to find the pork. For three rmb, 37 cents, a worker could purchase two meat dishes and one vegetable dish. On weekends, two vegetable and two meat dishes are sold for 3.8 rmb, or 47 cents. However, in December, the prices were raised to three rmb for the very cheapest meal. Also, as mentioned earlier, at the same time that prices were going up, all the workers agree that the food had gotten much worse. This means that even if a workers limits himself or herself to just two of the cheapest meals per day, they will now be spending 183 yuan, or \$22.56 a month on food—a nine dollar a month increase over past food deductions.

The Lungcheong workers are supposed to get a 30-yuan (\$3.70) attendance bonus each month if they never miss a day or come in late. However, this bonus was done away with in September 2005.

The workers are supposed to receive a small year-end bonus based upon seniority, receiving 30 yuan (\$3.70) after one year, 60 yuan (\$7.40) after two, 180 yuan (\$22.19) after three years and so on. However, no worker has ever received this bonus.

In 2002, workers could get a monthly bonus of 50 yuan (\$6.17) to 150 yuan (\$18.50) based upon productivity and seniority. This bonus no longer exists.

However, fines have increased. For being one minute late to work, a worker is fined 1.5 yuan, or 18 cents. For being 10 minutes late, the fine increases to 30 yuan, or \$3.70—which is more than a full day's wage. Anyone arriving 30 minutes late will be docked their entire day's pay, including overtime.

A Worker Has to Paint 250 Toy Trucks an Hour, or One Every 14 Seconds/ Workers Paid Just 18 Cents for Every \$64.97 Toy Truck They Assemble:

- Production quotas have been increased. In the spray paint department, each worker must paint 2,000 large pieces (such as the body of the MGA “Big Foot Ragin’ Monster Truck”) each day, or 250 pieces an hour and one every 14 seconds. For smaller pieces, workers are required to paint up to 4,000 a day, or one every 7.2 seconds. The work pace is intense and relentless.

An average assembly line of 55 workers is given a production quota of assembling 1,000 MGA “Big Foot Ragin’ Monster Trucks” in eight hours. In effect then, each worker must complete 2.27 trucks per hour, or one every 26.4 minutes. Given the 41 cent-an-hour wage, this means that the direct labor cost to assemble these toy trucks is just 18 cents. The direct labor cost for assembly comes to less than 3/10 of one percent (0.00277) of the toy truck's retail price of \$64.97 in Wal-Mart.



Lungcheong Paystub August 2005

Worker in the Spray Paint Department

- **Paid below the minimum wage—earning just 33 cents an hour, which is 20 percent below the legal rate.**
- **Forced to work more than 62 hours a week without overtime pay.**

Lungcheong workers are paid by a piece rate and according to how many operations they complete each hour. By law, the production quota and piece rate must be set at a level so that at least the minimum wage of 41 cents an hour is paid. This is not the case at the Lungcheong factory. Often production goals are set so high that many workers must remain working long overtime hours without pay just to complete their goal and receive their base wage. Of course, this is blatantly illegal.

This pay stub, from August 2005, is for a worker in the spray paint department. (His name has been removed for obvious security reasons.) The pay stub shows that he worked 270.5 hours in August, 2005, or 62.47 hours a week, including 22.47 hours of overtime. The overtime hours actually worked could have been even more extreme since the Lungcheong factory has the practice of requiring workers to punch their time cards out at 10:00 p.m. only to continue working off the clock.

For the month of August this person earned a total of 722.58 yuan, or \$89.10, including the base wage, wage supplement, attendance bonus, meal and seniority stipends. This amounts to \$20.58 a week for working at least 62.47 hours, meaning that this worker is earning just 33 cents an hour, which is 20 percent below the legal minimum wage, despite all the overtime hours.

This person's wage would have actually declined the following month, since the 40 yuan, \$4.93, attendance bonus was discontinued in September 2005.

Even considering just the recorded overtime hours--22.47 hours a week and 97.3 hours a month—these overtime hours exceed China's legal limit by 270 percent!

LUNGCHEONG PAY STUB

TRANSLATION:

Month: August, 2005

Workers No. (blank)
Worker name: (blank)
Work hours: 188
Pay: 0
Overtime 54.5
Overtime pay 0
Weekend Overtime 28
Weekend pay: 0
Perfect Attendance
Reward: 40
Food Subsidy: 0
Seniority subsidy: 10
Miscellaneous Subsidy: 0
Rewards: 0
Left over from last month: 0
Piece-rate wage: 595.22
Overtime Pay: 76.36
Other: 0
Night meal subsidy: 1
Phone fee subsidy: 0
Total Salary: 722.58
Deduction for water and electric: 0
Deduction for food card: 126
Fines: 0
Uniform IC card: 0
Deduction for Medical: 2
Actual Payment: 595

月 份 2005年08月
工 号
姓 名
出勤工时 188
出勤工资 0
加班工时 54.5
加班工资 0
假日工时 28
假日工资 0
全勤奖 40
伙食补贴 0
年资补贴 10
杂项补贴 0
奖 金 0
补 上 月 0
计件工资 595.22
补时工资 76.36
其 它 0
夜餐补贴 1
补电话费 0
应发工资 722.58
扣水电费 0
扣饭卡 126
罚 款 0
工衣IC卡 0
扣医疗 2
实发工资 595 DEC 11

Wal-Mart's Mark-up is \$14.40 on every \$29.97 Toy Truck It Sells

- Import records show Lungcheong toys in China shipping 10,000 radio-controlled toy trucks (Item # B7431) to Mattel, which entered the port of Long Beach on September 20, 2005 with a landed Customs value of \$157,650. The landed Customs value of **\$15.77 per toy truck**, represents the entire cost of production including all materials, direct and indirect labor, shipping costs and profit to the factory in China. We were able to track this very toy truck (Item No. B7431) to Wal-Mart, where it is on sale for \$29.97. *This means that the mark-up on the price of each truck is \$14.40.* This proves, at the very least, that there is money enough here to guarantee that the legal rights of the workers in China are respected—if only Wal-Mart had the will to do so.



Many Girls Below 16 Years of Age Illegally Work at Luncheong:

- Age discrimination in China is common, and the Lungcheong factory is no exception, with a policy of hiring just 18 to 25 year olds. Almost all the workers are from the rural provinces of Guizhou, Hunan and Hubei. Seventy percent of Lungcheong's workers are women.

Though child labor laws are not widely violated in China's export assembly factories, at Lungcheong, there are many young girls below the age of 16 who are working in the factory illegally. In fact, before inspections, supervisors remind the underage workers to remember the false names and ages on their factory ID cards in case they are questioned by the monitors.

Creating a Contingency Workforce to Serve the Multinationals:

- By subcontracting out their production to factories such as Lungcheong in China (Wal-Mart, the largest retailer in the world, does not own a single factory), multilateral companies such as Wal-Mart, Mattel and MGA can absolve themselves of any year round responsibility to the workers. This allows the U.S. corporations to treat the Lungcheong workers as a contingency workforce. During the four and a half month slow season, lasting from mid-December through April, there is often very little work at the Lungcheong factory. One woman described working just four hours in a full week, and receiving just 10 yuan, or \$1.23, in wages. Of course, no one can survive on wages like this. Even if the workers worked eight hours a day and five days a week—the regular workweek in China—after deductions for just room and board, the workers would be earning just \$9.68 a week, or 24 cents an hour.

In the past, the Lungcheong factory would routinely lay off hundreds of workers during the slow season, targeting workers who were either 30 years of age or older as well as those who worked in departments where they would be exposed to toxic chemicals and as a result suffered frequent illnesses. Management felt that neither of these groups could maintain the intense work pace demanded at the factory.

Now, Lungcheong management has found another way to squeeze money out of its employees. Management is no longer giving permission to workers to leave the factory during the slow season, but rather is forcing them to quit. If the worker does quit, they can forfeit some of the back wages owed them. The factory always holds back one month's wages so that new employees only receive their first pay at the beginning of the third month of work.

Nor does the Lungcheong factory pay severance to workers who leave, which by law, should amount to one month's wage for each year worked.

A Company Union:

- A union was established at the Lungcheong plant in 2004. The workers do not know much about the union other than that three people occupy the union office and that the main function of the union appears to be organizing weekend dance parties, which are mostly attended by office staff, but very few workers. The workers are charged one yuan per month, or 12 cents, as union dues.

The union is reported to have an emergency fund which is meant to provide assistance to destitute workers, especially new workers arriving penniless from the countryside. The workers think this is a great idea, but no one knows of a concrete instance when the emergency money was actually allocated.

Wal-Mart and Mattel Audits Have Badly Failed:

- Factory social audits of the Lungcheong factory by Wal-Mart, Mattel, and other corporations have badly failed over the last four-year period.
- Monitoring visits are known in advance. Signs are posted on every workshop door instructing the workers how to respond to questions that the monitors may ask. To avoid any mishaps on the day of the audit, new workers along with those that cannot be trusted to strictly adhere to the script are required to take a day off—without pay. In a pattern that has existed for years, management has the workers so terrified that the vast majority of employees censor themselves, knowing if they are not very careful in what they say to the monitors, they will be immediately fired the minute the monitors leave. Workers who are chosen by the monitors for interviews and who respond correctly are given a 200 yuan, \$24.66, bonus, which is one and a half week's wages.

It was the same back in April and June of 2002 when inspectors from Wal-Mart and Mattel visited the factory. The visits were announced 10 days in advance. In preparation, dangerous chemicals were hidden. Safety gloves and respiratory masks were distributed. The cafeteria

was cleaned and temporarily, especially on the day of the visit, the food suddenly improved. Workshops were cleaned. Overtime was reduced for a 10-day period. Ventilation was improved in the spray paint department and other areas where chemical fumes were a problem. Wal-Mart will conduct such single day audits once, or at most, twice a year.

Suggestion/complaint boxes are placed everywhere around the factory, but the workers regard these as completely useless.

Workers Publicly Scolded:

- According to the workers, factory managers are very tough, often publicly scolding workers in front of their colleagues, both to embarrass and make an example of them. The managers “often go too far,” the workers say. They do not feel that the managers respect their human rights.

Illegal Subcontracts:

- At least in the past—and we do not know if this is continuing—during particularly busy periods the Lungcheong factory subcontracted out a considerable amount of work to a number of factories. For example, in 2002, Lungcheong subcontracted large orders to the Xingyue Toy factory in Guangzhou, where working conditions were much worse than at Lungcheong. At Xingyue, workers could be at the factory up to 19 hours a day, seven days a week, while earning just 21 cents an hour. Some Lungcheong subcontractors paid wages as low as 13 cents an hour.



This toy truck was made in October. Workers took this photo and smuggled it out of the factory, which enabled us to track it to Wal-Mart.

AMS Bill of Lading Detail

Source: AMS Database

Shipper

LUNG CHEONG TOYS LTD. O B
MATEL ASIA PACIFIC SOURCING LTD.
LUNG CHEON BLDG.,1 LOK YIP ROAD,
ON LOK TSUEN,FANLING,N.T.
HONG KONG

Consignee

MATEL INC.
333 CONTINENTAL BLVD, EL SEGUNDO,
CA 90245, USA ATTN:KATHY PARROW -
RUTH IBARAKI T:310-252-2867
F:310-252-5850

Notify Party

MATEL INC.
333 CONTINENTAL BLVD, EL SEGUNDO,
CA 90245, USA ATTN:KATHY PARROW -
RUTH IBARAKI T:310-252-2867
F:310-252-5850

Packaging Information

Weight: 24825 KG
Measurements: 1084 CM
Quantity: 2500 CTN
TEU's: 8.00

Shipment Detail

Carrier: USLB - U S LINES LTD
Vessel: MARUBA COTOPAXI
Voyage: 526E
B/L: USLBHMC526146
Pre Carrier: DONGGUAN
Lloyd's Code: 9031466
Inbond Code:
Estimated Value: \$ 157,650.00

Country of Origin: PEOPLES REP OF CHINA
Coastal Region: WEST
US Port: 2709 LONG BEACH
For Port: 57018 SHEKOU
US Dest:
For Dest:
Mode of Transport: 10
Arrival Date: 09/20/2005

AMS Commodities

Container	Qty	Description
TRLU6758269	600	2500 CARTONS PLASTIC TOYS STORE DOOR DELIVERY MARKET CODE 02 USA -600 CTNS 6V TRUCK ASST. ITEM NO. B7431-999F QTY. 2400 PCS 600 CTNS H.T.S. CODE 9503.80.0000 -600 CTNS -DO- -600 CTNS -DO- -700 CTNS 6V TRUCK ASST.
TRLU6752487	600	2500 CARTONS PLASTIC TOYS STORE DOOR DELIVERY MARKET CODE 02 USA -600 CTNS 6V TRUCK ASST. ITEM NO. B7431-999F QTY. 2400 PCS 600 CTNS H.T.S. CODE 9503.80.0000 -600 CTNS -DO- -600 CTNS -DO- -700 CTNS 6V TRUCK ASST.

Note: Bills of lading that contain multiple commodities will list the total weight and TEU's for the entire bill of lading

Source: AMS Database

<p>TRLU5281398 600</p>	<p>2500 CARTONS PLASTIC TOYS STORE DOOR DELIVERY MARKET CODE 02 USA -600 CTNS 6V TRUCK ASST. ITEM NO. B7431-999F QTY. 2400 PCS 600 CTNS H.T.S. CODE 9503.80.0000 -600 CTNS -DO- -600 CTNS -DO- -700 CTNS 6V TRUCK ASST.</p>
<p>CAXU5801238 700</p>	<p>2500 CARTONS PLASTIC TOYS STORE DOOR DELIVERY MARKET CODE 02 USA -600 CTNS 6V TRUCK ASST. ITEM NO. B7431-999F QTY. 2400 PCS 600 CTNS H.T.S. CODE 9503.80.0000 -600 CTNS -DO- -600 CTNS -DO- -700 CTNS 6V TRUCK ASST. ITEM NO. B7431-999F QTY. 2800 PCS 700 CTNS H.T.S. CODE 9503.80.0000 S C#0017 05 TOTAL THREE (3) X 40'HC & ONE (1) X 45'HC CONTAINERS ONLY</p>

Marks & Numbers

Container	Marks & Numbers
TRLU6758269	TYCO R C
	6V TRUCK ASST.
	B7431-999F
	CHINA
	1 ASST.CONTAINS
	4 PIECES
	NO MARKS
	4 PIECES
	NO MARKS
	NO MARKS

Note: Bills of lading that contain multiple commodities will list the total weight and TEU's for the entire bill of lading



AMS Bill of Lading Detail
Source: AMS Database

Marks & Numbers

Container	Marks & Numbers
	NO MARKS
	NO MARKS
	4 PIECES
	NO MARKS
	4 PIECES
	NO MARKS

PIERS Commodities

Qty	Units	Commodity Description	Harm Code	JOC Code
2500	CTN	PLASTIC TOYS	950390	7379000

Note: Bills of lading that contain multiple commodities will list the total weight and TEU's for the entire bill of lading