

PUMA' s Failure in CSR; Suppliers' critical conditions

China Labor Watch

June 2008

Table of Contents

I.	BACKGROUND	3
II.	DONGGUAN SURPASSING SHOE CO., LTD.	4
III.	TAIWAY SPORTS LTD. REPORT, “PUMA SUPPLIER’S UNCHANGED DREADFUL CONDITIONS	23
IV.	PUMA’S PUBLIC STATEMENT ON TAIWAY SPORTS LTD.	41
V.	CLW’S RESPONSE	48

I. BACKGROUND

PUMA AG (PUMA) is a German-based company that produces high-end sportswear. According to PUMA's financial report, in the year 2007, PUMA earned a profit of \$510,944,031 excluding taxes. Although the company's headquarters is in Germany, its main production sites are in China and other developing countries. While the company can afford to invest millions of dollars in advertising, behind the scenes, workers who manufacture its products still earn the bare minimum.

In the last three years, China Labor Watch (CLW) has been monitoring the conditions of PUMA's suppliers in China. During an investigation on Taiway Sports Ltd., a supplier that "has enjoyed an "A" ranking for years now" according to PUMA's 2005/2006 Sustainability Report, CLW has found deplorable conditions. Conveniently, on March 19th, after CLW notified PUMA about Taiway's conditions, PUMA said in a statement issued on April 2nd that Taiway is now only a "B+" factory and stated that many of CLW's findings on Taiway were either unfounded or largely exaggerated. In order to substantiate the accuracy of the report and emphasize the workers' poor conditions, CLW contacted Der Spiegel, a German media group, and arranged for them interviews with Taiway workers.

After the interviews, Der Spiegel published articles on April 19th and the 21st describing the conditions at Taiway. On May 5th, PUMA publicly responded to CLW, claiming that CLW has not sufficiently taken into account PUMA's efforts in improving the factory and stated once again that most of conditions described on CLW's report were unfounded.

Between May and June, over the course of one month, CLW completed a report on Surpassing Shoe Co. Ltd., another PUMA supplier located only a few miles away from Taiway, after interviewing some of its current and former workers. Gravely concerned about PUMA's repeated accusation, prior to the release of the Surpassing report, we invited reporters from WirtschaftsWoche - The German Business Weekly to interview a few workers from the Surpassing factory. We firmly believe that only through independent media broadcast would PUMA recognize the problems at its suppliers.

We resent PUMA's intention of using its efforts in a single supplier to portray itself as socially responsible. Poor conditions at Taiway have persisted for years, and it wasn't until the release of CLW's report on the factory that reform began to take place. Disappointingly, although the report on Taiway emphasized that PUMA should not limit its reforms to this one case, PUMA still failed to notice problems at its other suppliers.

The problems we found are not limited to one or two of PUMA's suppliers, but rather, it is a reflection of poor conditions rampant in PUMA suppliers in general. Hence, we suggest that PUMA not only focus on a single supplier, but commit to fostering improvements in all of its suppliers. PUMA needs to refocus its priorities and remediate its flawed audit system.

II. DONGGUAN SURPASSING SHOE CO., LTD.



Basic Facts

Factory Name

English: Dongguan Surpassing Shoe Co. Ltd., originally as Jian Yi Shoe manufacturer Ltd. (Hereinafter referred to as <Surpassing>)

Chinese: 东莞胜百吉鞋业有限公司(原名称:建溢制鞋有限公司)

Location

English: Chang'an Town, Shatou Industrial District, Dongguan City, Guangdong Province

Chinese: 广东省东莞市长安镇沙头工业区

Contact Number

Tel: 86-769 81608888

Fax: 86-769 81663888

Area

Approximately 150,000 square meters

Number of Workers

Peak Season: About 9,000 to 10,000 workers

Slow Season: About 6,000 workers

Male to female ratio is 4:6 during both peak and slow seasons

Product

Sports shoes

Primary Client

PUMA

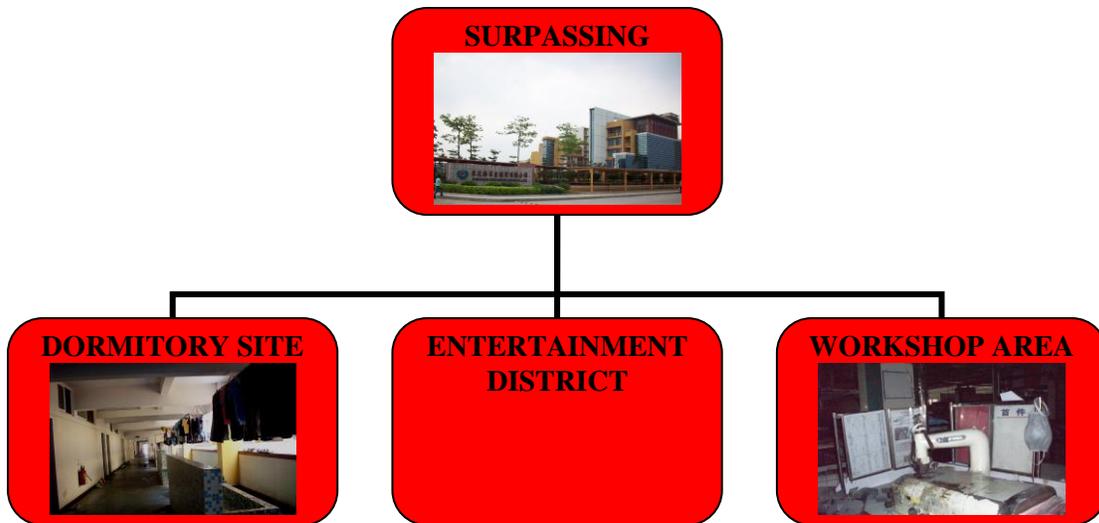
Surpassing is a factory invested by a Taiwanese corporation. The factory does not have its own brand, and it primarily produces sports shoes for its major client PUMA. In the past, the factory has been a supplier to Adidas, Reebok, Avia, Converse, L.A.Gear, And 1, and Asolo. Its busiest time is between May and June and the factory employs about 10,000 workers to manufacture shoes for PUMA. The factory consists of three districts--the workshop, dormitory, and entertainment districts.

On April 19th, 2008, China Labor Watch (CLW) has released an investigative report on Taiway Sports Ltd. that revealed the PUMA supplier's various approaches in taking advantage of its workers. As a result, PUMA stated that efforts have been made on factory's corrective action despite the fact that most of the findings by CLW are largely exaggerated and unfounded. We suggested that the findings at Taiway should not be taken into account as a single case; it is merely the reflection of PUMA suppliers' general conditions and that further improvements on audits needs to be taken to ensure a decent work environment for the workers. Regrettably, our suggestion was ignored and accused by the company of overstating.

At Surpassing Shoe Co. Ltd., just eight miles apart from Taiway, CLW discovered that similar critical conditions existed at Taiway are present, and that PUMA merely address the conditions in a factory that were brought to the attention of the public through the media and failed or chose not to monitor other suppliers efficiently, in this case, the Surpassing factory which is only about ten minutes driving from Taiway.

At Surpassing:

- Requires an employed referrer to each new worker; referrer will be partially financially responsible for the worker's misconduct.
- Excessive Overtime; workers are forced to work overtime, working about 12 hours a day on weekdays, at least 11.5 hours and sometimes even overnight on Saturdays.
- Workers are paid 64 cents an hour for each regular hour
- Excessive fines; workers could be fired and given a 43.35 USD fine if they refuse to work overtime up to three times.
- Poor management; workers have been insulted for filling out contract incorrectly, lectured for asking about payment details.
- Poor dormitory conditions. Garbage can be seen everywhere in the hallway, and at least 80 workers sharing one bathroom and restroom.
- Questionable food conditions; Insects are often mixed with the food.
- High risk work conditions; workshops reeks of an insistent mixture of chemical smell that makes workers feel uncomfortable and disgusted and the factory does not enforce workers to wear safety equipments unless audits are taking place.
- Unethical waste disposal procedure; waste such as paint and glue and etc. are dumped into the sewer.
- Workers have hard to quit; Surpassing rejects a large number of resignation requests and withholds workers' luggage.



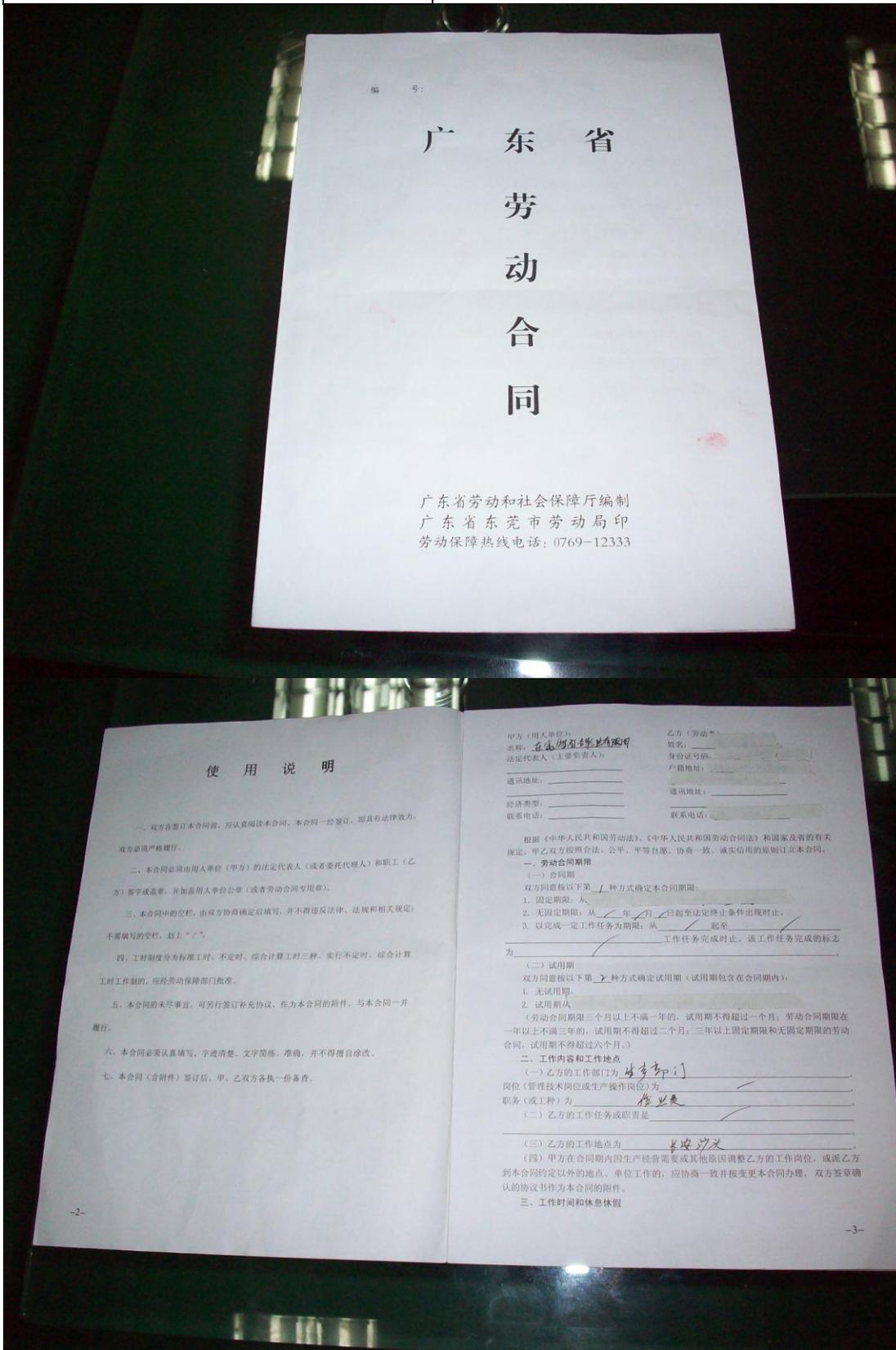
Contract & Hire

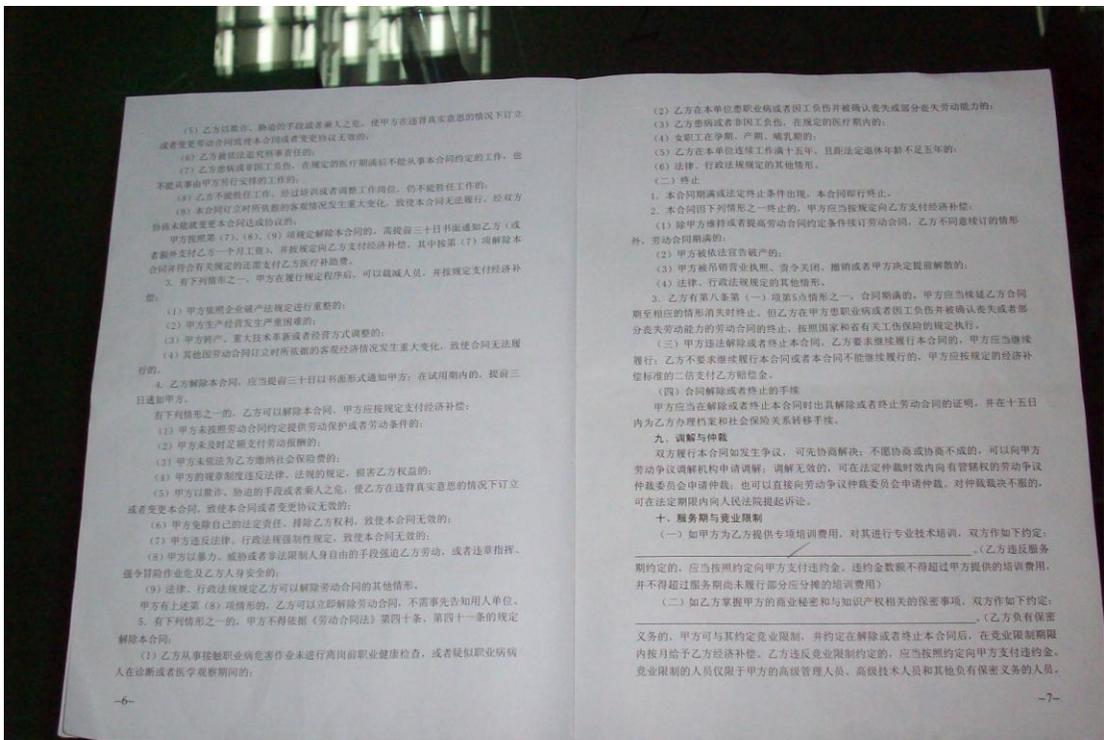
Workers are required to sign a contract upon employment, which is issued and distributed by the Dongguan City's Labor Bureau, and both workers and the employer are able to retain a copy.

Prior to signing the contract, Surpassing checks the applicant's personal identification and collects a photocopy. Surpassing does not spend time training new workers; they can only expect to learn through working with other experienced workers.

The recruiter first fills information on the contract regarding work post, wage, and wage distribution date and etc. and reads out the filled in information. According to workers, the practice is very inconvenient for workers because they don't have a chance to voice any comments or questions about the contract. Moreover, workers suggest that the contract is but a tool to pass the government and clients' audits, and the contract cannot be implemented as the law mandates.

Images: Surpassing Contract issued by Dongguan Labor Bureau.





(5) 乙方以欺诈、胁迫的手段或者乘人之危，使甲方在违背真实意思的情况下订立或者变更劳动合同致使本合同无效或者无效的；

(6) 乙方被依法追究刑事责任的；

(7) 乙方患病或者非因工负伤，在规定的医疗期满后不能从事本合同约定的工作，也不能从事由甲方另行安排的工作的；

(8) 乙方不能胜任工作，经过培训或者调整工作岗位，仍不能胜任工作的；

(9) 本合同订立时所依据的客观情况发生重大变化，致使本合同无法履行，经双方协商未能就变更本合同达成协议。

甲方按照第(7)、(8)、(9)项规定解除本合同的，或提前三十日书面通知乙方(或者额外支付乙方一个月工资)，并按规定向乙方支付经济补偿。其中按第(7)项解除本合同并符合有关规定的还应支付乙方医疗补助费。

3. 有下列情形之一的，甲方在履行规定程序后，可以裁减人员，并按规定支付经济补偿：

(1) 甲方依照企业破产法规定进行重整的；

(2) 甲方生产经营发生严重困难的；

(3) 甲方破产、重大技术革新或者经营方式调整的；

(4) 其他因劳动合同订立时所依据的客观经济情况发生重大变化，致使合同无法履行的。

4. 乙方解除本合同，应当提前三十日以书面形式通知甲方；在试用期内，提前三日通知甲方。

有下列情形之一的，乙方可以解除本合同，甲方应按规定支付经济补偿：

(1) 甲方未按劳动合同约定提供劳动保护或者劳动条件的；

(2) 甲方未及时足额支付劳动报酬的；

(3) 甲方未依法为乙方缴纳社会保险费的；

(4) 甲方的规章制度违反法律、法规的规定，损害乙方权益的；

(5) 甲方以欺诈、胁迫的手段或者乘人之危，使乙方在违背真实意思的情况下订立或者变更本合同，致使本合同无效或者变更协议无效的；

(6) 甲方免除自己的法定责任、排除乙方权利，致使本合同无效的；

(7) 甲方违反法律、行政法规强制性规定，致使本合同无效的；

(8) 甲方以暴力、威胁或者非法限制人身自由的手段强迫乙方劳动，或者违章指挥、强令冒险作业危及乙方人身安全的；

(9) 法律、行政法规规定乙方可以解除本合同的其他情形。

甲方有上述第(8)项情形的，乙方可以立即解除本合同，不需事先告知用人单位。

5. 有下列情形之一的，甲方不得依据《劳动合同法》第四十条、第四十一条的规定解除本合同：

(1) 乙方从事接触职业病危害作业未进行离岗前职业健康检查，或者疑似职业病病人在诊断或者医学观察期间的；

(2) 乙方在本单位患职业病或者因工负伤并被确认丧失或部分丧失劳动能力的；

(3) 乙方患病或者非因工负伤，在规定的医疗期内的；

(4) 女职工在孕期、产期、哺乳期的；

(5) 乙方在本单位连续工作满十五年，且距法定退休年龄不足五年的；

(6) 法律、行政法规规定的其他情形。

(二) 终止

1. 本合同期满法定终止条件出现，本合同即行终止。

2. 本合同因下列情形之一终止的，甲方应当按规定向乙方支付经济补偿：

(1) 除甲方维持或者提高劳动合同约定条件续订劳动合同，乙方不同意续订的情形外，劳动合同期满的；

(2) 甲方被依法宣告破产的；

(3) 甲方被吊销营业执照、责令关闭、撤销或者甲方决定提前解散的；

(4) 法律、行政法规规定的其他情形。

3. 乙方有第八条第(一)项第5点情形之一，合同期满的，甲方应当续延乙方合同期至相应的情形消失时终止。但乙方在甲方患职业病或者因工负伤并被确认丧失或部分丧失劳动能力的劳动合同的终止，按照国家有关工伤保险的有关规定执行。

(三) 甲方违法解除或者终止本合同，乙方要求继续履行本合同的，甲方应当继续履行；乙方不要求继续履行本合同或者本合同不能继续履行的，甲方应按规定的经济补偿标准的二倍支付乙方赔偿金。

(四) 合同解除或者终止的手续

甲方应当在解除或者终止本合同时出具解除或者终止劳动合同的证明，并在十五日内为乙方办理档案和社会保险关系转移手续。

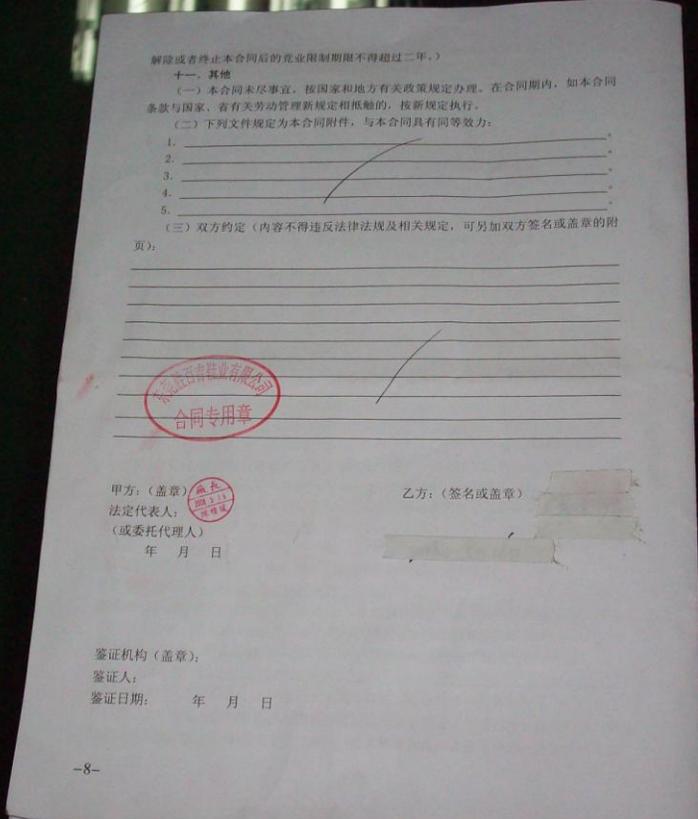
九、 调解与仲裁

双方履行本合同如发生争议，可先协商解决；不愿协商或协商不成的，可以向甲方劳动争议调解机构申请调解；调解无效的，可在法定仲裁时效内向有管辖权的劳动争议仲裁委员会申请仲裁；对仲裁裁决不服的，可在法定期限内向人民法院提起诉讼。

十、 服务期与竞业限制

(一) 如甲方为乙方提供专项培训费用，对其进行专业技术培训，双方作如下约定：
 乙方违反服务期约定的，应当按照约定向甲方支付违约金。违约金数额不得超过甲方提供的培训费用，并不得超过服务期尚未履行部分应分摊的培训费用。

(二) 如乙方掌握甲方的商业秘密和与知识产权相关的保密事项，双方作如下约定：
 乙方负有保密义务的，甲方可以与其约定竞业限制，并约定在解除或者终止本合同后，在竞业限制期限内按月给予乙方经济补偿。乙方违反竞业限制约定的，应当按照约定向甲方支付违约金。竞业限制的人员仅限于甲方的高级管理人员、高级技术人员和其他负有保密义务的人员。



解除或者终止本合同后的竞业限制期限不得超过二年。)

十一、 其他

(一) 本合同未尽事宜，按国家和地方有关政策规定办理。在合同期内，如本合同条款与国家、省有关劳动管理新规定相抵触的，按新规定执行。

(二) 下列文件规定为本合同附件，与本合同具有同等效力：

1. _____

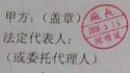
2. _____

3. _____

4. _____

5. _____

(三) 双方约定 (内容不得违反法律法规及相关规定，可另加双方签名或盖章的附页)：

甲方：(盖章)  乙方：(签名或盖章) _____

法定代表人： _____

(或委托代理人)

年 月 日

鉴证机构(盖章)： _____

鉴证人： _____

鉴证日期： 年 月 日

Work Hours

Under the agreement by both parties, workers work eight regular hours a day, five days a week, with at least one off day a week, and are entitled to paid vacation for national holidays, maternity leave, as well as mourning and marriage leave. When asked about the amount of payment given for these paid off days, workers are unsure of the methods used to calculate their wage.

Incident

Yin (Alias) was hired by Surpassing and asked to fill out a contract. When she had mistakenly filled out the contract and asked recruiter for a new one, the recruiter said, "Are you uneducated or illiterate? Just leave if you can't fill it out correctly!"

The work schedule designed by Surpassing is listed below:

Schedule	Monday ~ Friday	Saturday (Overtime)	Sunday
Morning	7:30AM ~ 11:30AM		Off
Lunch Break	11:30AM ~ 12:40PM		Off
Afternoon	12:40PM ~ 4:30PM		Off
Overtime	5:30PM ~ 9:30PM		Off
Average Daily Hours	12 Hours (4 Hours Overtime)	About 11.5 Hours or all night to fulfill production needs.	None

According to the schedule, Surpassing requires workers to work about 41.5 hours of overtime on a weekly basis. In some cases, workers are asked to work all night in order to fulfill the needs of a client. The most recent case of an all-nighter was on May 17th, 2008, in a workshop located on the second floor of building B.

When asked about overtime, workers responded that overtime is arranged by the factory and is compulsory. Depending on each supervisor's personality, refusal to work overtime could result in a minor warning (Three minor warnings is equivalent to one major warning which results in a \$43.23 (300 RMB) fine and unemployment. In other words, using the pay table below as reference, the fine is equivalent to a 17 to 27 percent worth of workers' wage) .

Absence from work will lead to a fine depending on the duration of absence; a half day absence leads to an \$11.53 (80 RMB) fine and a full day absence leads to a \$21.61 (150

RMB) fine. Moreover, coming to work late or leaving early could result in a minor warning.

Although the schedule stipulates that 7:30 AM is when work begins, Surpassing obligates workers to be present at workshops before 7:30AM, so at 7:20AM most workers have already begun the day’s work. Due to the large number of workers at Surpassing, the factory allows workers to leave work in groups every ten minutes, starting at the stipulated off time. Workers are unsure how the factory determines each group’s release time as they merely follow the orders of their supervisors.

Workers are able to take bathroom breaks during work hours, though one must find a substitute for his/her work post prior to leaving.

Although there are one hour lunch and dinner breaks implemented in the work schedule, due to the large amount of workers and the lack of windows for food distribution open, there is a long wait before workers actually get to eat. Most workers would try to finish their meals very quickly so that they can return to the workshop to take a nap in order to be ready for the rest of the day.

Wage & Benefits

Level	Wage (China Currency: RMB)	Wage (US Currency: USD)
A	1,600 ~1,800 RMB/Month	\$230.55 ~259.37 USD/Month
B	1,500 ~1,600 RMB/Month	\$216.14 ~230.55 USD/Month
C	1,100 ~1,200 RMB/Month	\$158.50 ~172.91 USD/Month

Note: Exchange rate as of May 28th, 2008: \$1 USD = 6.94 RMB

With the exception of office workers and management employees, workers are paid under the piece-rate system. The chart above is a pay method composed by Surpassing for piece-rate workers. From A, the highest pay level to C, the lowest, workers’ level of pay is determined by a manual labor contribution standard referred to as the IE Standard. The IE Standard determines a worker’s pay level by the amount of his/her average production with acceptable quality assurance within the stipulated work hours.

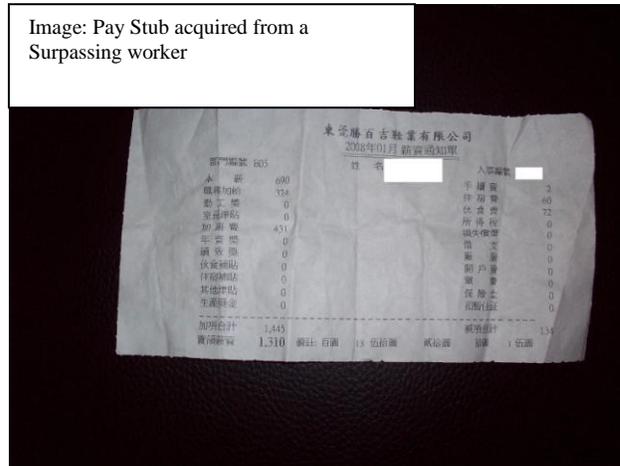
Surpassing distributes wages on the 25th of each month. Wages are distributed in two forms, cash or direct deposit. According to workers, cash payment is only for workers under probationary period, and regular workers’ wages are deposited directly to their bank accounts. When asked about the details of

Incident

Lee (Alias) once went to Surpassing’s HR department and inquired about the wage calculation. However, instead of receiving a proper answer to his question, he received a lecture.

payment calculation, workers said that they had no idea about how they are paid, and they can only blame their luck if they were underpaid.

Though Surpassing agreed in the contract to provide workers social insurance, which includes medical and work injury insurance as well as a pension, in reality, workers only receive pensions. Regarding insurance, workers said that Surpassing deducts about \$11.10 (77 RMB) from workers' monthly wage and most of them did not even receive a social insurance card.



Department Code: E05		Dongguan Surpassing Shoe Co., Ltd. 2008 January Pay Stub Worker Name: N/A		Human Resource Code: N/A
Base wage	\$99.42/ ¥ 690		Processing Fee	\$0.29/ ¥ 2
Work Subsidy	\$46.69/ ¥ 324		Accommodation Fee	\$8.64/ ¥ 60
Work Bonus	0		Meal Fee	\$10.37/ ¥ 72
Supervisor Subsidy	0		Income Tax	0
Overtime Premium	\$62.10/ ¥ 431		Damage Reimbursement	0
Annual Bonus	0		Advance	0
Performance Bonus	0		Factory Uniform	0
Meal Subsidy	0		Account Opening Fee	0
Accommodation Subsidy	0		Utility	0
Other Subsidy	0		Insurance Fee	0
Production Bonus	0		ID Withheld	0
Subtotal	\$208.21/ ¥ 1,445		Total Deduction	\$19.31/ ¥ 134
Actual Wage	\$188.76/ ¥ 1,310	Note: 100 RMB paper currency: 13 50 RMB Paper Currency: 0	20 RMB Paper Currency: 0 10 RMB Paper Currency: 1	Five RMB Paper Currency: 0

Canteen and Food Condition

The canteen is installed on the factory site and is located on the first floor of the supervisors' dormitory. An IC card is distributed to workers to pay for their meals, and each month, Surpassing deposits \$20.17 (140 RMB) in each worker's IC card and does not deduct the amount from their wage. At the end of the month, workers are able to transfer IC card's remaining balance to cash.

The factory canteen offers three meals a day, breakfast, lunch and dinner. There is a variety of dishes served, including stir fried dishes, soy milk, rice and soup noodles, and spicy kabob. The cost for stir fried dishes goes from \$0.29, \$0.50, \$0.72 (2.7, 3.5 to 5 RMB). Soy milk and congee cost \$0.22 (1.5 RMB) per cup or bowl compare to the market price outside which soy milk costs \$0.07 (0.5 RMB)/cup and congee costs about \$0.14 (1 RMB)/bowl.

When asked about the quality of food, workers expressed that the food has was of very poor quality, and one can often find insects mixed in the food.

The canteen does not have a unified management system; each window has a different contractor distributing food.

Surpassing deducts \$8.65 (60 RMB) every month from workers' wage for housing. There are three dormitory buildings on site, with each building consisting of six stories. Among the three dormitory buildings, two are for regular workers and one is for supervisors. In the dormitory buildings for workers, male workers live on the first floor and female workers live on the second floor and above.

There are big rooms and small rooms in workers dormitories; a big room has seven bunk beds, five sets of ceiling fans and two outlets. Each big room houses an average of 13 workers. A small room consists of four bunk beds, two ceiling fans and two outlets and houses an average of eight workers. Because electricity is only available in the dormitory between 4:30PM to 12:00AM, in the other hours, especially on the weekends, workers have to learn to survive without electricity.

There is no bathroom or restroom installed in the room. Public restroom and bathroom are installed at each end of the hallway on each floor. Inside each bathroom and restroom are 23 compartments, thus in other words, only 23 people are able to take shower or use the restroom. Such limited capacity, however, creates a certain level of inconvenience to workers since there are about eight rooms on each floor with a total of at least 80 workers. Because a large number of workers share one floor, and the floor has very limited space to dry clothes, many workers go to the top floor to try to find a space to dry clothes. Moreover, since there are no trash cans in the hallway, one can often find garbage laying everywhere on the hallway floor despite the fact that there are designated cleaning workers to clean the dormitory sites, thus raising a sanitation issue.

Images: Inside workers' room



Images: Dormitory hallway

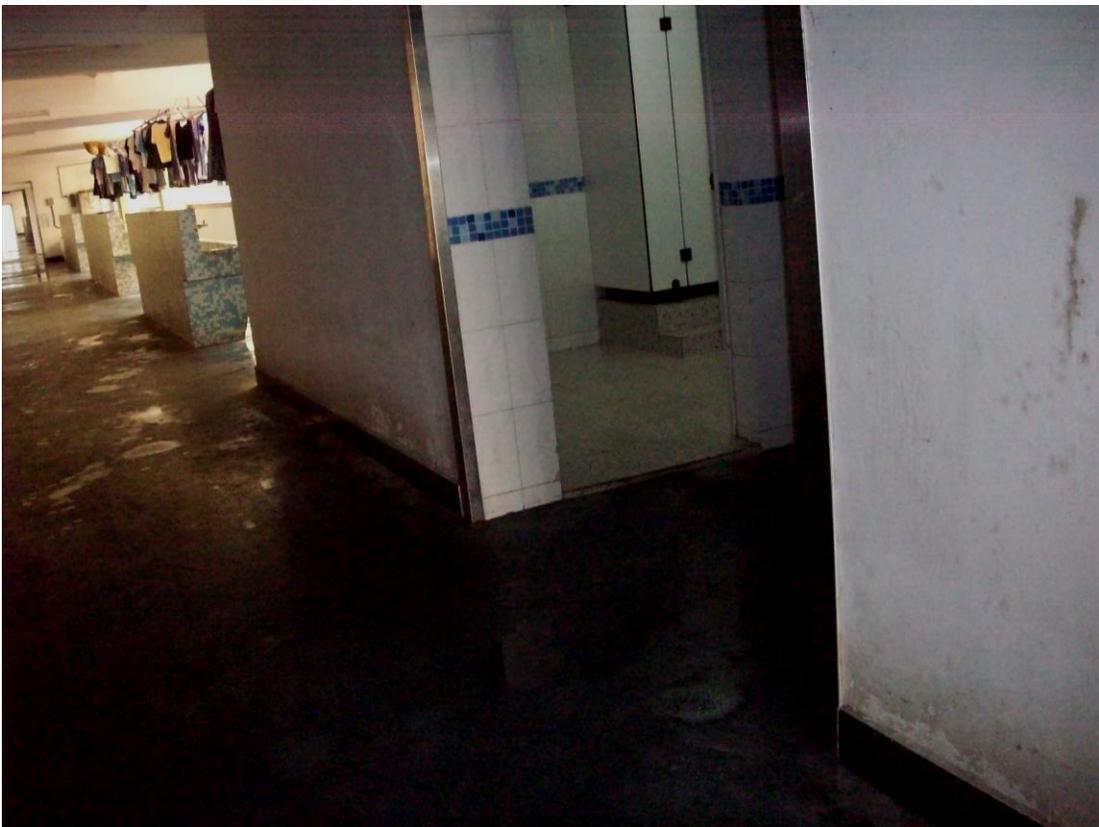


Image: Inside the restroom



Work Conditions

Although there are fans installed at workshops, it does not completely rid the air of the smell of chemicals used such as glue and ink. The workshops reeks of an insistent tingling smell that makes workers feel uncomfortable and disgusted.

Though Surpassing provides masks on a weekly basis and gloves periodically, due to lack of training, workers generally do not understand the significance of using these safety equipment supplies while at work. They only know that wearing these equipments bring them discomfort and delay work speed, thus lower wages. Surpassing does not enforce the use of safety equipments unless audits are taking place.

Incident

Wang, a print shop worker describes his painful experience: “My job requires me to be under daily exposure to ink. Since we didn’t understand the components in ink and possible risks it may cause, I don’t usually wear gloves since it delays my work speed, and I had to learned my lesson the hard way. My hand eventually started to decay, and it seems that the ink cleaner that I use at work has ripped open my flesh. It was a difficult time, I have to prevent my injured hand from water, especially when I am washing clothes, or my hand would start bleeding.

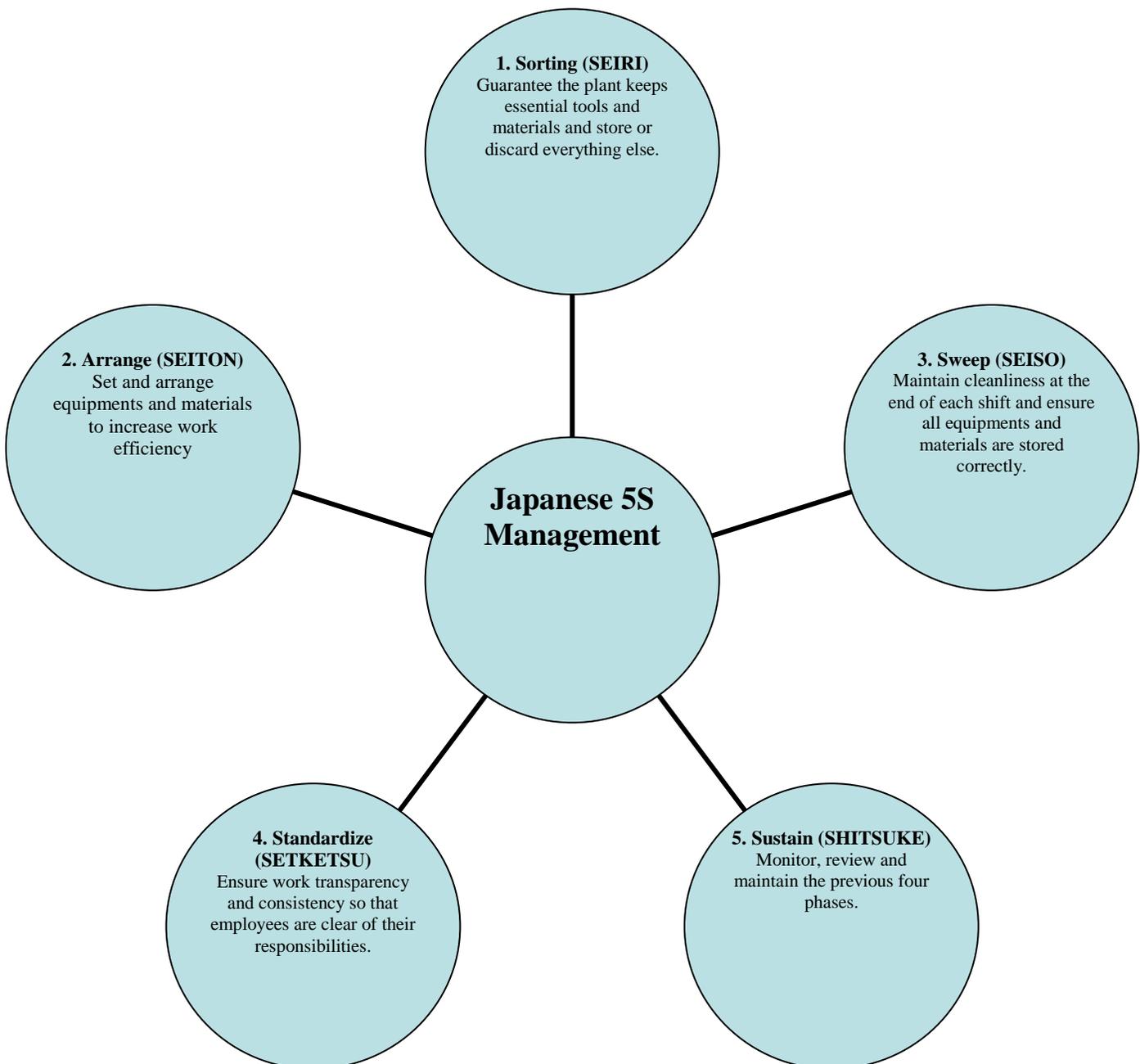
There are no designated specialists cleaning the machinery equipments onsite, and Surpassing does not periodically arrange technicians to perform maintenance on the machines.

Incident

On May 14, 2008, a female textile worker's hand was injured due to machine failure.

5S is a Japanese management practice introduced and implemented at Surpassing, the practice's core ideology is to raise employees' work conscience and quality.

5S consists of five phases, the chart below provides information for each of the phase: Such procedures may have the capability to ultimately advance a factory's operation if



truly implemented. However, 5S application at Surpassing can only be observed when clients come to audit.

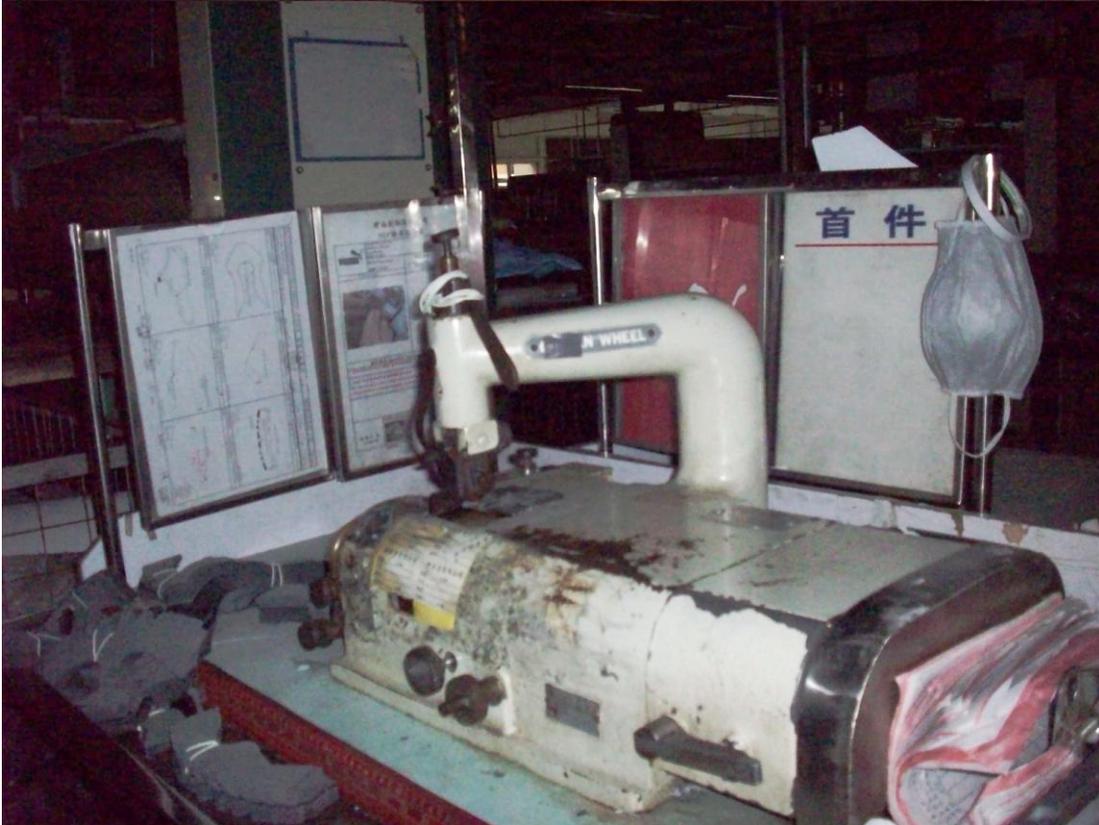
As mentioned in **Contract & Hire**, new workers are not provided with sufficient work training. Instead, the so-called training at Surpassing is new workers to learning from a designated senior worker while working. However, since the workload is usually heavy, and wage is earned by the amount of production, senior workers do not have time to help train new workers. Thus new workers largely learn by themselves.

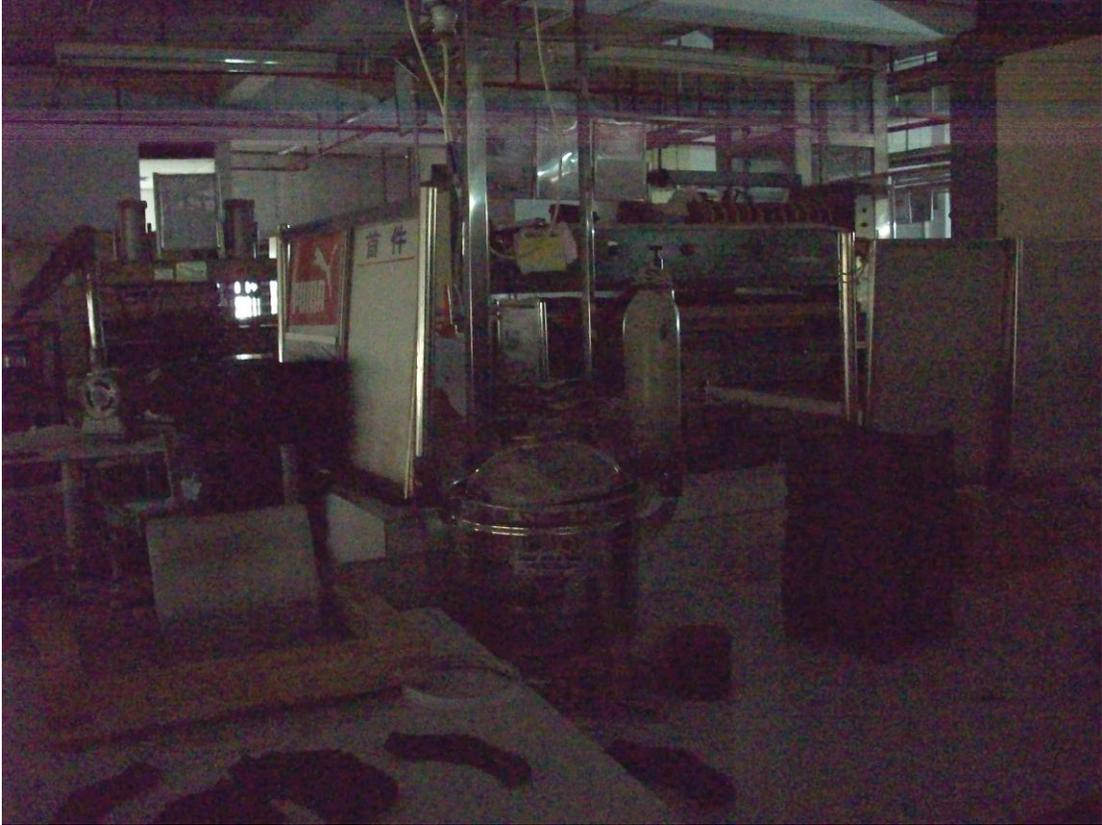
Images: Logo of PUMA found at Surpassing workshop





Images: Workshop conditions





Resignation

According to workers, Surpassing sets a three month probationary period for new workers, and during that period, resignation is not allowed. Moreover, even regular workers have difficulty quitting as Surpassing tends to reject resignation requests. Thus, many workers choose to leave without approval, which means forfeiting their wage. In many cases, workers are unable to retrieve their luggage because security requires workers on leave to be absent to work for three days before handing out a permission slip.

Other Conditions

- ❖ The most recent audit conducted by PUMA was on May 22nd, 2008.
- ❖ Surpassing requires an employed referrer to each new worker, if new worker does not comply with factory regulation, the referrer will be fined a \$21.61 (150 RMB) fine and not able to get a raise within one year timeframe.
- ❖ Upon employment, new workers are asked to pay a \$18.30 (127 RMB) fee, which includes \$11.10 (77 RMB) social insurance and a \$7.2 (50 RMB) IC card processing fee.
- ❖ Using a mobile phone at work is prohibited, and it will be taken away by supervisor for three months.
- ❖ Bonus is given to workers from time to time. In April, a client praised a production group, and each of the worker in the group was given \$4.32 (30 RMB) by Surpassing.
- ❖ Inside the entertainment district are pool and ping pong tables, basketball courts though the district is only open every Saturday and Sunday.
- ❖ Wastes such as glue, ink, oil are dumped into the sewer; the factory does not have a designated recycling area.
- ❖ Though a union is established at Surpassing, workers are not familiar with its purpose and function.
- ❖ Complaint system is established on site, though its effectiveness is unknown.

Image: Surpassing's designated area for waste disposal.



A Worker's Testimony

I was recently hired by Surpassing. Since it was peak season at that time, the recruiter did not raise too many requests. I was asked to fill out an application, provide an identification card, have a referrer and hands check. Male workers needed to perform an additional step, which is signing an agreement that he would not create violence onsite.



After being hired, I was led to a print shop in workshop building B. The workshop's environment is very difficult to get used to, especially the aggressive chemical scent and high temperature. At work, I have to share a small table with another worker. Since I have just started working, everything at the workshop is strange to me; I don't understand the production signs, and I don't know where to find tools or materials or how to utilize it. As a result, at my very first task, I placed the printing plates that have been integrated with codes for each shoe upside down and crippled the whole production unit. Then, the supervisor came and told me to be careful, since they don't have time to train me, I would have to learn it myself and be responsible for all the problems that I have created.

Although we have an hour each for lunch and dinner, since it takes more than ten minutes to walk from the workshop to the canteen, and there is additional wait time for food at the canteen, I did not have much time to eat. Everyday at work I feel tremendous pressure and anxiety.

Including overtime, everyday I have to work about until 9:30PM, then I return to my dorm room to eat, take a shower, and wash my clothes. When all is done, it is already past 11PM.

The constant nonstop working style at Surpassing has drained most of my energy, so I decided to quit. Resignation process did not go as smoothly as I thought, Surpassing rejected my request and stated that I was not allowed to quit within the three month probationary period though I knew that according to the labor law, I am entitled to quit at anytime during the probationary period and receive owed wage in full. When I asked for my wage, the management said it is impossible, and when I asked for my luggage out of the factory, I was told that first I would need to be absent to work three days in a roll, then I will be given a permission slip to allow me to retrieve my luggage. I was furious, but since I am a worker and only a worker, I had no choice but to only take some important assets and abandon most of my belongings.

III. TAIWAY SPORTS LTD. REPORT, “PUMA SUPPLIER’S UNCHANGED DREADFUL CONDITIONS



In March 2008, three years after the initial investigation, China Labor Watch conducted a follow up investigation on Taiway Sports, Inc. and found much of the poor conditions that were identified three years ago, still exist at Taiway;

- Poor contract procedure; Workers are able to use someone else’s name on the contract.
- Excessive Overtime; workers are forced to work overtime without overtime pay, working between 10 to 12 hours a day.
- Working 9 regular daily hours instead of eight hours as required by law.
- Withholds payment to workers. Wages are not distributed until the 25th of each month.
- Discrimination towards one’s background; different treatment based upon one’s provincial origin.
- Theft and violence often occur in dormitory and work place. Workers are forced to live outside the factory in order to avoid harm.
- Team leader retaliated against worker for filing complaints to high level manager.
- Excessive fines; workers are fined when bed sheet is not folded.
- Pitiable food quality; workers expressed that they are treated as pigs.

Hereafter provides the information and data gathered by CLW investigators over the course of three months. As an organization that serves to protect workers' rights in China, CLW hopes that PUMA, the factory's exclusive client would abandon the denial attitude which many corporations would often take, and shift its attention on improving its supplier's poor conditions.

Basic Facts

Taiway Sports LTD is a Taiwanese factory, belonging to the Taiwan Diamond Group. The factory produces mainly sports shoes and ice skates and exports its goods to Germany, Japan and the US. Its primary client is PUMA.

- Address: Xiaobian Industrial District, Chang'an Town, Dongguan City
 东莞市长安镇宵边工业区
- Contact Number: 0769----5536597
- Number of workers: About 4,000, with a male to female ratio of 4:6

Contract

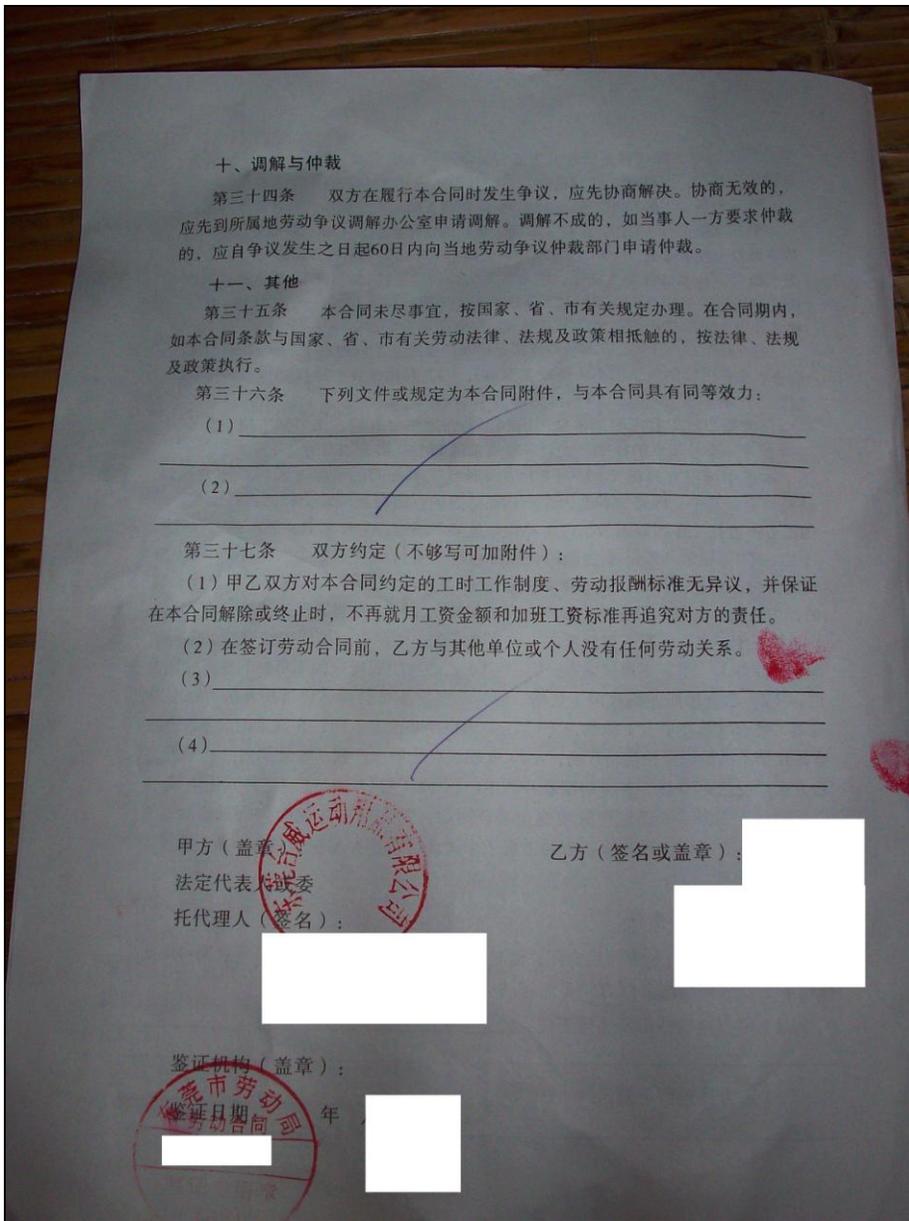
There is no deposit required upon recruitment, only personal identification is required. Though workers have to sign a contract, many felt like it was simply a part of procedure. For instance, one interviewed worker said though he used someone else's name on the contract, he is still able to work. Workers are required to sign a new contract each year, and if one wishes to quit before the contract expires, all awards will be deducted.

Asking for days off is extremely difficult at Taiway. In October 2006, a woman who requested for days off was rejected by her team leader. When she reported the rejection to a higher ranking manager, the team fired her for complaining to the manager.

Moreover, it is very difficult for workers to quit. Thus in order to leave, workers have tried many different strategies to get fired at the minimum cost.

Some make mistakes intentionally after receiving monthly wage, while some continue to skip work until Taiway fires them. In Taiway, workers are able to obtain their deserved wage after being fired though factory will deduct penalty for each mistake or violation workers commit.

Though the new labor law has been established and effective since January 1st, 2008, a group of workers still have the old contract signed before 2008.



Work Hours

Morning	7:30am ~ 12:00pm, 12:15pm, 12:30pm
Lunch Break	12:00pm, 12:15pm, 12:30pm ~ 1:15pm
Afternoon	1:15pm ~ 4:15pm, 4:30pm, 4:45pm
Overtime	4:15pm, 4:30pm, 4:45pm ~ 6:15pm, 6:30pm, 6:45pm

Taiway gives its workers lunch breaks in several shifts. The factory separates them into three groups: first group leaves for lunch at 12:00pm, followed by a second group at 12:15pm, and a third group at 12:30pm. It also requires workers to arrive to work at least 20 minutes earlier than the stipulated time, obligating employees to work the additional hour without pay.

Though Saturday and Sunday are scheduled as off days, in some cases, Taiway will rearrange workers' off days to the upcoming week and asks them to work on weekends. That standard was established in September 2006, and previously, workers had to work until 11 PM even on Saturdays.

Currently, workers work an average of 2.5 hours of overtime daily. During peak season, however, workers have to work until at least 10:30pm. In other words, including overtime, workers regularly work at least 52.5 hours per week and about 62.5 hours during the peak season.

During work hours, workers are able to take a short restroom or water break after obtaining a pass from supervisor.

Some workers have reported that there were instances when Taiway reneged on agreements for overtime pay for overtime work.

Working Conditions

At work, there are no restrictions on using the bathroom. The shaping department consists of eight conveyer belts for production. The number of workers at each belt varies: some belts have about 80 to 90 workers and some have 20 to 30 workers. According to workers, they are required to produce about 2,700 pairs of athletic shoes and 3,000 pairs of casual shoes per day.

According to workers who use glue to attach the shoes, although they do not know the components of the glue, they can smell a distinctive smell when applying it to the shoes and at times experience dizziness and drowsiness and have a hard time breathing.

Workers are required to apply a type of chemical fluid when washing the shoes. Though workers do not know the name or the effect of the fluid which they are exposed to, they have expressed that after using the fluid for a period of time it feels like the fluid is dissolving into their flesh.

Wage and Remuneration

Before September 2006, Taiway paid workers by a piece-rate. Currently, the factory pays its workers an hourly wage. Taiway pays regular workers by the minimum wage, of 770 RMB which includes 4.42 RMB per regular work hour, eight regular work hours a day

and 21.75 work days a month. The wage does not include overtime, subsidy or award. Moreover on factory's pay details, Taiway pays workers 6.64 RMB per regular overtime hour, 8.84 RMB per rest day (weekend) hour, and 13.28 RMB per holiday hour.

Cafeteria workers are paid by the base wage of 700 RMB if they work 26 days in one month. The wage will not be paid in full if the worker fails to work 26 days during that month. According to cafeteria workers, however, since workers have to take turns to work, many workers are only able to work about 24 to 25 days a month and cannot receive the minimum wage in full.

Taiway distributes wages in cash on the 25th of each month and provides pay stub. During investigation, CLW investigators asked the question whether there has been any case of wage miscalculation and obtained different answers from different workers. A sewing department worker from Guangxi said, "Sometimes it's a couple of RMB less and sometimes it is almost 100 RMB. I tried to complain to my team leader every time, and he promised to take care of it right away but never did. My problem was never solved because I am from Guangxi province, my team leader is from the Henan province, and there are very few workers from the Guangxi province."

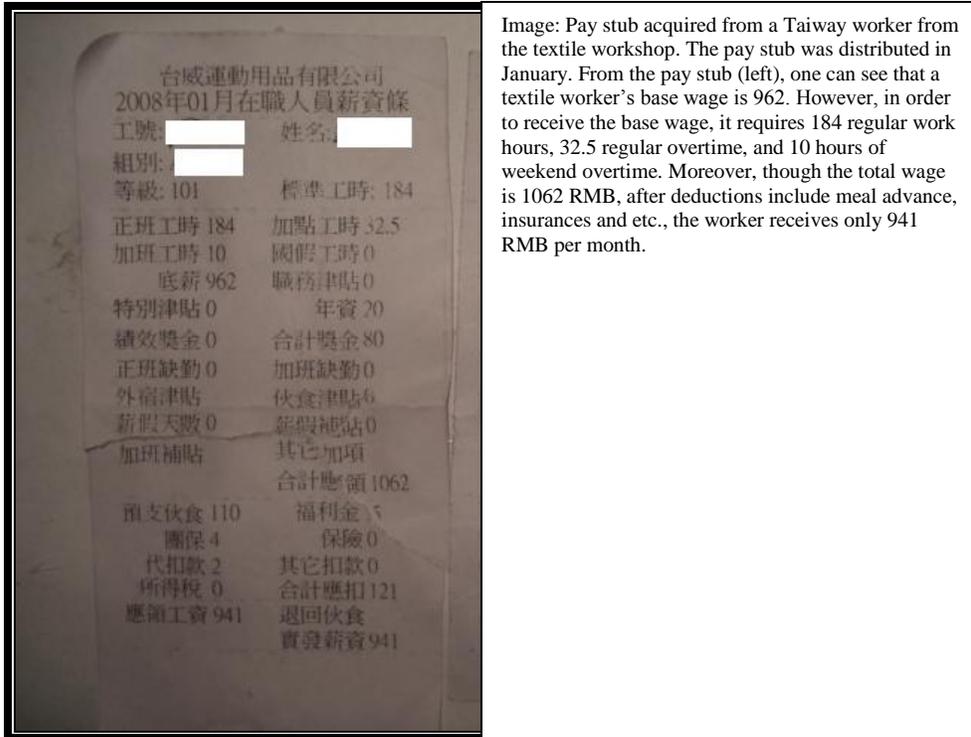
When workers from the Henan province were approached with the same question, they responded quite differently. They said that when wage miscalculation is brought to the attention of the team leader, they either receive the remaining wage in couple days or in the next payment.

Many workers also said that workers from the Henan and Sichuan provinces are paid much higher than workers from other provinces because they receive more awards. For instance, a team leader from Henan province often pays subordinates who are also from Henan higher awards.

In the past, Taiway provides uniforms to workers, and if workers need an additional uniform, the factory charges 25 RMB for a winter uniform and 15 RMB for a summer one. After April 2008, Taiway no longer requires workers to wear uniform to work.

Taiway offers a paid maternity leave, paying the minimum wage of 770 a month. May 1st and October 1st have a three day paid vacation. There is also a bereavement leave for 15 days, a marriage leave for 3 days, Qingming Festival, Labor Day, Dragon Boat Festival, and Autumn Moon Festival for one day.

Under the Labor Law article 72, employers are responsible for providing workers pension as well as unemployment, medical, work injury, maternal and social insurance. Taiway, however, only provides social insurance to workers and work injury insurance to a small group of workers. There is a clinic on site, workers are required to pay a fee to receive treatment for injuries. Although the factory states that they only charge workers for the cost of the medical supplies that they use, according to interviewed workers, the medical supply price they pay to the clinic are more expensive than the market price.



Taiway Sports Ltd.

2008 January employee pay stub

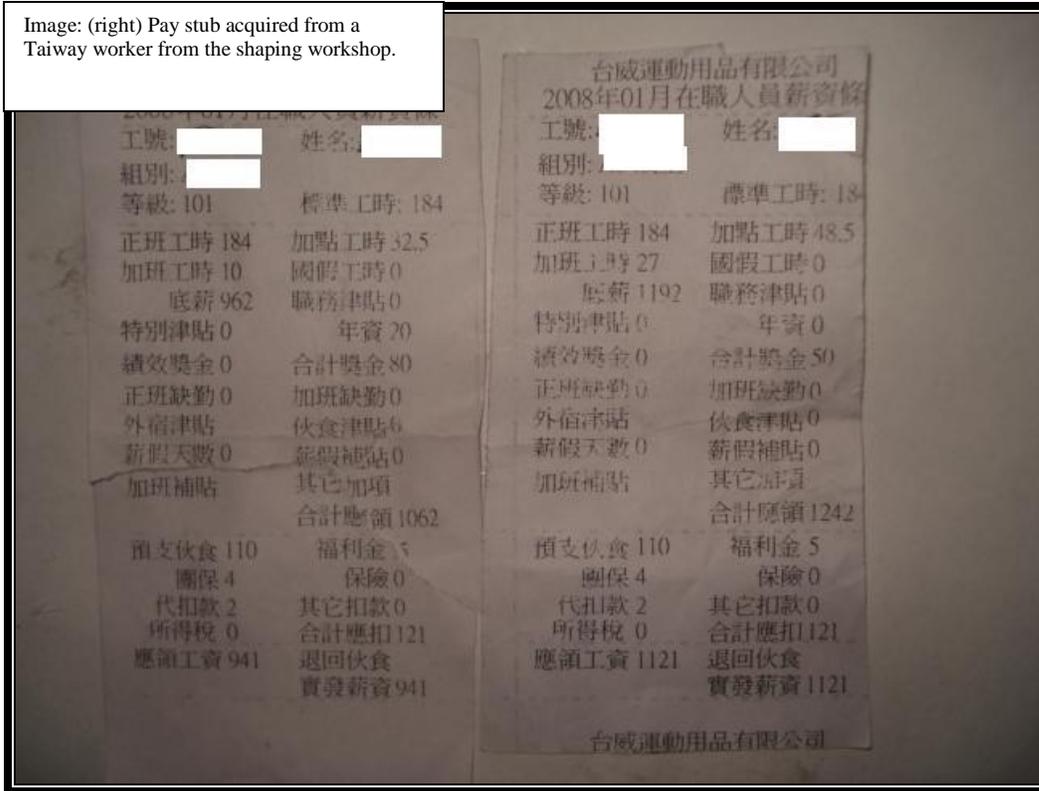
Factory ID: N/A Name: N/A

Group: Textile

Level: 101 Standard Work Hour: 184

Regular Work Hour:	184	Regular Overtime:	32.5
Weekend Overtime:	10	Holiday Overtime:	0
Minimum Wage:	962	Employment Subsidy:	0
Special Subsidy:	0	Annual Bonus:	20
Achievement Award:	0	Total Award:	80
Regular Work Absence:	0	Overtime Work Absence:	0
Accommodation Subsidy:	0	Meal Subsidy:	0
Paid Vacation:	0	Paid Vacation Subsidy:	0
Overtime Subsidy:	0	Other:	0
(Deductions)		Total Wage:	1062
Meal Advance:	110	Benefit:	5
Group Insurance:	4	Insurance:	0
Withhold:	2	Total Deduction:	121
Income Tax:	0	Remaining Meal Cost:	0
Wage:	941	Actual Wage:	941

Image: (right) Pay stub acquired from a Taiway worker from the shaping workshop.



Taiway Sports Ltd.
2008 January employee pay stub
 Factory ID: N/A Name: N/A
 Group: Shaping
 Level: 101 Standard Work Hour: 184

Regular Work Hour: 184 Regular Overtime: 48.5
 Weekend Overtime: 27 Holiday Overtime: 0
 Minimum Wage: 1192 Employment Subsidy: 0
 Special Subsidy: 0 Annual Bonus: 0
 Achievement Award: 0 Total Award: 50
 Regular Work Absence: 0 Overtime Work Absence: 0
 Accommodation Subsidy: 0 Meal Subsidy: 0
 Paid Vacation: 0 Paid Vacation Subsidy: 0
 Overtime Subsidy: 0 Other: 0

(Deductions) Total Wage: 1242
 Meal Advance: 110 Benefit: 5
 Group Insurance: 4 Insurance: 0
 Withhold: 2 Total Deduction: 121
 Income Tax: 0 Remaining Meal Cost: 0
 Wage: 1121 Actual Wage: 1121

Living and Canteen Conditions

There are five dormitory buildings on site. Canteens are built on the first floor in three of the five dormitory buildings. The second and third floors house male workers and female workers occupy the rest of the dormitory. Each dormitory room is about 30 square meters, installed with an independent bathroom, four to five bunk beds able to house ten to twelve workers, and two fans. Dormitories distribute hot water from 5 PM to 6 PM and after 8:30 PM.

Workers who are not living in the factory dormitory can receive a 60 RMB subsidy a month. Many male workers choose to live outside the factory because there are limited spaces in the dormitory and it is safer living outside the factory though the average spending on rent including utilities costs about 200 to 300 RMB. According to interviewed workers, theft often occurs in the dormitories. A worker from Henan said, “My meal card which I can deposit money to buy food was stolen two months in a row, and the broken door was never fixed. There used to be eight people living in my room, but because of theft, five people have left!”

Taiway conducts a dormitory room audit each week. First place receives 100 RMB, second place receives 50 RMB, and the awards are distributed among workers whose room is nominated. Furthermore, rooms in poor condition will be fined a 10 RMB penalty.

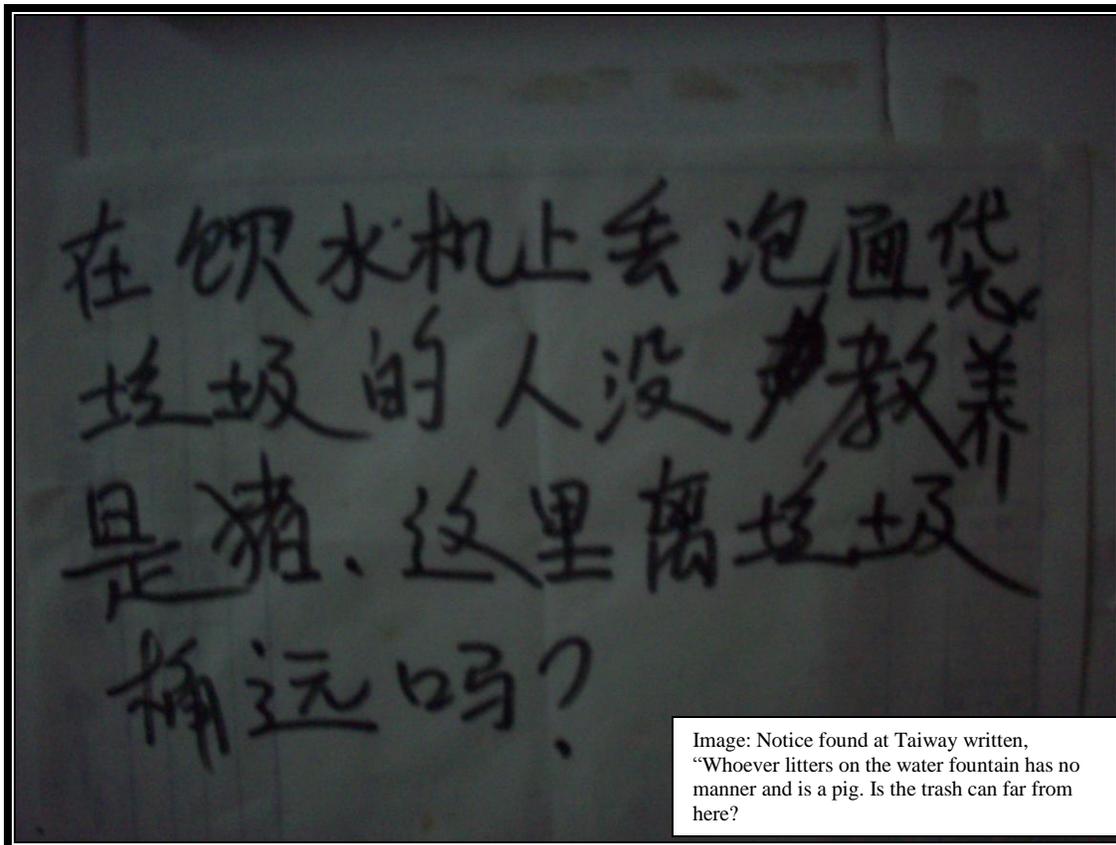
There are three canteens in Taiway, each with eight televisions installed. The largest canteen can hold about 2,000 workers, and the small ones hold about 700 workers. In the beginning of each month, Taiway deposits 110 RMB in each worker’s meal card and deducts the amount from workers’ wage at the end of the month without workers’ consent.

The canteen offers five different types of dishes for each meal. The price of each meal varies depends on the quality and quantity of the food, from two meat and one vegetable dish which costs about 3 RMB, two meat and two vegetable dishes that costs 4 RMB, to quality meal that charges 6, 8, or 10 RMB. When asked to describe the quality of food, workers replied, “it tastes like pig food.” However, workers have no choice but to dine in the canteen because there are no other restaurants nearby. Workers who live offsite are more fortunate than workers who live on site, because they only have lunch in the factory canteen and breakfast and dinner offsite though food offsite are generally more expensive.

Image: Workers' dormitory







Fines and Penalties

Taiway implements many fines. For instance, fighting at work will lead to three major penalties, and each major penalty costs 90 RMB, thus the total of a 270 RMB fine. If it is a serious case of violence, workers will be marked three penalties and fired. Smoking in a dormitory room will lead to one to three major penalties for everyone in the room, and smoking at work will lead to one major penalty, a 90 RMB fine. Unfolded bed sheets will also lead to one major penalty. Being more than one minutes late for work will lead to a deduction worth half an hour of wage and skipping work one day will lead to deduction worth three days' wage.

Other Conditions

About 40 percent of workers at Taiway are from the Henan province, 40 percent from the Sichuan province, and the remaining 20 percent are from other provinces. Due to

discrimination, workers from Henan and Sichuan have formed their own provincial groups and sometimes fight with rival groups. According to workers, in 2007, due to provincial discrimination, a Henan worker ripped open a Sichuan worker's stomach and broke his finger.

As a result, Taiway now avoids in recruiting workers from Sichuan and Henan province. In addition, it now recruits mainly female workers between 18 and 40 years of age.

According to PUMA, in 2005, it introduced its S.A.F.E Pocket Guide which provides information on PUMA's social, health, safety and environment standards and etc. Copies of the Pocket Guide are printed and sent to its suppliers for distribution for workers. However, on March 20th, 2008, after interviewing seven workers from Taiway, none of the interviewed workers have received such guidebook.

Conclusion

At Taiway, the factory demonstrates a number of failures in its management; long regular work hours and overtime; discrimination based on origin; excessive fines; food and living conditions are extremely poor.

Work Hours

At Taiway, the government stipulated contract law means nothing; it is simply words that are irrelevant to factory's production and heavy exploitation to workers in order to pursue higher profit. Though the contract law regulates that the daily work hours cannot exceed eight hours, Taiway requires workers to arrive to work 20 minutes earlier than the stipulated work time with no overtime pay, including lunch and dinner break, workers have no choice but to sacrifice one extra hour working for free, contributing to work while knowing they are receiving nothing in return but their decaying life. By obligating workers to work one extra hour with no overtime pay, under China's new guideline of 21.75 average working days per month, each year Taiway squeezes about \$873,430 USD (6,201,360 RMB) from its 4,000 workers.

At Taiway, during the peak season, workers are required to work the average of 250 hours per month, and at the end of the day, they gained nothing but an exhausted and sore body, low wages, and humiliation.

Wage and Remuneration

With the inflation in various commodities during the past few years, it is difficult for average workers, especially Taiway workers who are required to work extra hour for free, to self-sustain or support a family. In addition to the low paid wages, Taiway also posts various fines in attempt to cover their cost. In Taiway, workers not folding their bed sheets before going to work will be fined 24 RMB, equivalent to six hours worth of wage.

Work Conditions

At Taiway, team leaders and supervisors judge and issue awards to their subordinates not by their work performance, but on their provincial origin. In the factory consisted with employees mostly from Henan and Sichuan province, team leaders and supervisors tend to favor workers who share the same provincial origin as them. Workers working under a team leader whose provincial origin is different than theirs should not expect to receive a fair award or a response for their miscalculated wage. The system has been greatly influenced and corrupted by such discrimination; workers from a province that is weak in numbers at Taiway can only blame their parents giving them birth at a wrong place.

Living and Canteen Conditions

Theft and violence often occurs in the dormitories and work places. Because of theft, many workers who used live in the factory dormitory because of work convenience are forced to rent apartments offsite and pay a significant portion of their wages to avoid their belongings being continuously stolen.

Due to discrimination, workers from Henan and Sichuan have formed their own provincial groups and sometimes fight against each other. Such large scale violence promotes Taiway's system of discrimination, weakens workers' desire to work, and endangers the whole factory's safety. However, without any effective corrective action that could solve the root of the crisis, Taiway now merely rejects all applicants from Henan and Sichuan, thus adding another aspect that contributes to the discrimination at workplace.

Food is an essential element in human's daily life; the right nutrient enhances immune system, increases durability and the drive to work more efficiently. In Taiway's canteen, however, workers are viewed as cattle, fed by the lowest quality of food. Many workers expressed that the canteen food tastes like pig food though they have no choice but to continue to eat such horrible food because there are no other restaurants nearby.

In 2005, after receiving complaints from workers at Taiway factory, CLW began its initial research on the factory and discovered a number of horrifying conditions. Three years after, CLW conducted a follow-up investigation on Taiway, and discovered that, poor conditions remain at work place.

As Taiway's primary client, PUMA has the responsibility to commit to the supplier and conduct regular and effective audits to ensure that its products are produced ethically. However, despite its code of conduct and social sustainability report produced annually, it seems that the only aspect PUMA is after is maximizing the company's profit, investing more and more money in advertisement and composing reports that essentially creates a mirage to the audience internationally, making believe that PUMA is a responsible and respectable company, while behind the scene, workers struggle and suffer, working days and nights manufacturing PUMA's products.

According to PUMA's S.A.F.E. department, the company wants their suppliers to continuously improve themselves. Despite the statement, however, after the course of three years, conditions at Taiway persist; long work hours, low pay, poor living conditions, discrimination and more. Workers are still suffering under the vicious cycle created by PUMA, while the company climbs higher latter in revenues claiming itself to be socially responsible.

It is never CLW's aim to criticize any particular company; our ultimate goal is to advance workers' position at work place, maintain social justice, and ensure companies are complying with their own code of conduct. Li Qiang, Executive Director of China Labor Watch believes, "Compared to other companies in the same industry, PUMA tends to put less attention on workers' conditions. Using Taiway as an example, the factory's unchanged conditions suggest that PUMA merely focuses on marketing the finished products rather than what workers have to go through each day during the process of production."

As a company expands and develops to a level that it is internationally known and its products, become the popular commodities used among the general public, its place in the society is significant and irreplaceable. Each approach it constructs, can greatly impact the society. Therefore, the company has a much greater responsibility not limited within the business sector, but also outreaches to maintain social justice and ethics, and serves as a reputable model to other businesses as well as the general public. PUMA certainly represents the company described above, though it frequently enjoys avoiding its responsibility and shifting blames. CLW hopes that by reporting the findings gathered from Taiway, it would gain the company's attention to begin its production ethically, and offer workers better work conditions, rather than being a pure profiteer and ignore workers' critical conditions. In the end, PUMA is the key pull these workers out of the cycle of vicious exploitation. *Our belief is in accordance with PUMA's Sustainability Report, that to ensure ethical sourcing, it is ultimately up to the company's commitment.*

Recommendations

China Labor Watch urges PUMA to take the following actions:

- Obey Chinese labor laws and regulations.
 - Not abandon its supplier factories, but rather commit to them and to be resolute in making sure that violations are corrected.
 - PUMA and its supplier factories should not impose any form of retaliations on workers who filed complaints.
 - PUMA should urge its supplier to offer workers legal work hours, fair wages that allows sustainability and eliminate discrimination at work place.
 - PUMA should also publicize the results of factory audits.
-

To Consumers

April 21st, 2008

Dear friends,

More than four thousand Chinese workers are currently working under heavy exploitation and they desperately need your support! We hope you will join our writing campaign to PUMA, to urge the German-based sports company to improve the working and living condition of their supplier factories' workers in China.

The following is an investigative report summary on one of the supplier factories of PUMA. Based on the information obtained from many sources, including interviews conducted with workers from the factory, this report is intended to document several instances, in which the factory operators violate their workers' legal rights, to disseminate that information to the international community, and to call for corrective actions by the factory to improve working conditions for its workers.

Below is the summary of our findings, each day, workers are forced to work under the critical conditions described below.

PUMA Supplier's unchanged dreadful conditions

Basic Facts

Taiway Sports LTD is a Taiwanese factory, belonging to the Taiwan Diamond Group. The factory produces mainly sports shoes and ice skates and exports its goods to Germany, Japan and the US. Its primary client is PUMA.

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|--|

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Theft and violence often occurs in the dormitories and work places. Because of theft, many workers who used live in the factory dormitory because of work convenience are forced to rent apartments offsite and pay a significant portion of their wages to avoid their belongings being continuously stolen.

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Friends, Chinese workers need your help to fight against corporate greed. Please take action now! We sincerely appreciate you help.

In Solidarity,

Li Qiang

Executive Director, China Labor Watch

Please direct your appeal to the individuals below:

--

Dr. Reiner Hengstmann
Global Head Environmental & Social Affairs
PUMA AG
Unit 802, 8 F.
Equitable Bank Tower
8751 Paseo de Roxas Avenue
Makati City
Philippines 1226
phone +632-8897144 (direct line)
fax. +632-8860718
mail: reiner.hengstmann@puma.com

--

Please sign your name under the following letter to urgently demand PUMA to take immediate measures to improve workers' working conditions in the factory and announce these improvements to the public:

To Whom It May Concern:

This letter is regarding to your China-based supplier factory's management. I am a consumer, and I recently have read a China Labor Watch's investigation report on your supplier factory, Taiway Sports Inc. After reading the report, I became very aware and concerned about the workers' situations in the factory. I wish you would take your time to truly focus on your supplier factory's management and take immediate actions to improve workers' working conditions rather than shifting blames and avoiding the problems.

Regards,

Please following this letter to your friend

IV. PUMA'S PUBLIC STATEMENT ON TAIWAY SPORTS LTD.

DR. REINER HENGSTMANN ■ GLOBAL HEAD SOCIAL & ENVIRONMENTAL AFFAIRS
PUMA AG/WORLD CAT LTD ■ UNIT 802, 8/F., PASEO DE ROXAS AVENUE, EQUITABLE BANK TOWER ■ MAKATI,
PHILIPPINES 1226
■ TEL +632 88607 17 ■ FAX +632 88607 18

Mr. Li Qiang

China Labor Watch
Executive Director

Via Email

01.04.08

Puma statement regarding the CLW report on Taiway

On April 2, 2008, the US-based non-governmental organization China Labor Watch (CLW) submitted a copy of a report prior to publication to PUMA that described working conditions in one of PUMA's exclusive footwear suppliers in China for our comment. The report made several allegations against this key supplier of PUMA, including non-payment of minimum wages, excessive overtime hours, discrimination, poor food and excessive fines. We responded to the first draft of the report within the allocated time frame, pointing out specific errors such as miscalculation of minimum wages and other items that are legal under the new Chinese Labor Contracts Law. Following the report, we audited the facility and conducted further investigations into these matters to remediate these findings..

After a thorough review of the final version of the CLW report released on April 21, 2008, we noticed that our comments and the additional information we provided had not been sufficiently taken into account. Although we appreciate that the gravest errors made in the initial draft have been removed - particularly the allegations of non-payment of minimum wages - we believe that a number of wrong statements - both in fact and in conclusion - remain in this version of the report and must be addressed. The unfair allegation that Puma is "the worst company in the industry" is untenable. CLW does not take into account our

current efforts to effect improvements within our suppliers and our industry through our work in cooperation with the FLA, through brand collaboration or our own auditing, monitoring and remediation practices.

In our view, the report misrepresents the situation in the factory and our own remediation work with the factory management. **Following the release of the report, we raised a third-party complaint on Taiway to the FLA. This means that through the FLA, credible third parties will be called upon to investigate the allegations made by CLW.**

Below, please find our comments responding to this report.

Withheld wages.

According to Guangdong Wage Payment Ordinance, wages must be paid **within 30 days**. This means worker's October wage must be paid before 30th November
《广东省工资支付条例》的规定，工资支付周期不能超过一个月，实行计件工资制也一样。也就是说，工人10月的工资，工厂应该在11月30日前发放。 . In Taiway, workers are paid on the 25th of each month, **which is in compliance with the law.**

CLW alleges that subcontracted cafeteria workers are not paid the full minimum wage if they do not work 26 days in a month. This is wrong as our current remediation with the factory management involves ensuring that the cafeteria workers earn MORE than the minimum wage given the longer number of hours that they work compared to regular production workers.

We noted that periodically supervisors asked workers to come in 20 minutes early for meetings and this extra time was not included in the regular hours nor overtime. We had already advised Taiway to make all meetings part of the regular workday schedule and to pay them accordingly. Taiway management announced this to the whole workforce and has committed to provide further training for supervisors on this. We have found no other case of non-payment of overtime hours rendered. The allegation that Taiway forces an extra hour on all workers derives from these extra 20 minutes. In compliance with the law, all mandatory breaks, such as lunch and dinner breaks , is time that workers get paid for. Therefore breaks should not be included to expand the 20 minute period to a full hour.

Another inaccurate allegation CLW made refers to the wage payment by Taiway. According to CLW, based on the legal number of 21.75 working days per month, Taiway betrays its 4000 workers of a total 6,201,360 RMB per year. A simple calculation will find that if the 690 RMB minimum wage that CLW based its calculation on are divided by 21.75 days and 8 hours, it makes an hourly wage of

3.965 RMB. So in case of CLW's allegation, **Taiway would be betraying the workers of 3.965 RMB x 4000 workers = 15,860 RMB per working day.** However, CLW accuses Taiway of betraying the workers of a total of 6,201,360 RMB per year. Dividing 6,201,360 RMB by 15,862 RMB makes 391 working days per year. The flaw here is that a year has only 365 days, How can CLW come up with 391 days? And if the legal number of working days per month was 21.75, the total number of working days per year would amount to only 261 days?

Contracts and Recruitment

We responded to the following allegations in our letter to CLW. However, these have not been taken into account in the final version of the report.

The use of fake identities during the application process had already been noted by PUMA and Taiway as a serious concern. As such, Taiway only accepts applicants with 2nd generation IDs cards which can be verified by using an ID screening machine. Furthermore, Taiway strongly encourages current workers to obtain a 2nd generation ID card. Also salaries are paid to all employees only through a personal account opened at a contracted China Post Bank. Using the bank's account screening system ensures another layer of scrutiny of the applicant's identity.

According to the new China Labor Law Article 97, contracts signed prior to January 1st, 2008 are still valid until the contracts are up for renewal. Taiway intends to sign new contracts with these workers upon expiration of their contracts.

Some discriminatory recruitment practices were noted. However this was mostly due to the negligent re-use of old recruitment materials for internal hiring. This practice did not involve the alleged issues, where applicants from specific provinces were allegedly discriminated. Because of the shortages in skilled labor, Taiway continues to hire all qualified applicants regardless of provincial origin. The hiring figures from the identified provinces for 2008 are as follows:

	January	February	March
Sichuan	27	46	39
Henan	53	186	149

All employees and management staff are given clear resignation procedures and these are properly documented in the employee handbook. In addition, every worker can directly send his/her resignation through the HR department mailbox

. This channel of direct resignation would bypass their direct supervisors, and workers are guaranteed full rights and proper resignation processing without being influenced. Given the exigencies of peak season manufacturing, most supervisors do attempt to dissuade workers from

resigning. Taiway management had been advised to address this through further training of supervisors on proper and constructive worker communication, as well as further worker training on the direct resignation method through the HR mailbox system.

Working Hours

Excessive overtime (overtime in excess of the legally allowed limit of 20 hours per week) remains a challenge in Taiway and is an endemic problem throughout the rest of the industry, partly due to shortages of skilled staff in China. Apart from tight peak production schedules, power disruptions meant that work had to be rescheduled to some rest days and nights. We are working with our factories, including Taiway, to enhance productivity and management systems as well as skills to minimize the need for excessive overtime, and overtime in general.

Taiway management responded by introducing a 58-working-hour pilot week in March 2008, which entailed 2 hours of voluntary overtime from Monday to Friday and 8 hours on Saturday, amounting to a total of 18 hours per week. This schedule conforms to our Code of Conduct that allows for a maximum of 60 hours of work per week, including both regular and overtime work. All overtime and rescheduled work still requires the voluntary sign-off from every individual worker - a practice that Taiway management has already been undertaking in compliance with the Code of Conduct.

Working Conditions

A number of allegations made by CLW refer to discrimination of provincial origin, retaliation by supervisors against worker complaints and excessive disciplinary fines. These issues were addressed in our letter to CLW, but were not taken into account. Please find the details below..

- **Discrimination**

The CLW report claimed that workers coming from the same region as their supervisors received higher bonuses. In general, the bonus system of Taiway works in such a way that direct supervisors cannot directly determine the workers' bonuses. Bonus payments are determined on the basis of data administered by an IT database and performance ratings that are linked to specific bonus amounts. Theoretically, it is impossible that bonus payments are affected by discrimination as they are managed by a computer system. However, Taiway management has committed to further monitor the bonus system and ensure everyone is treated equally.

- **Retaliation by supervisors**

The factory has implemented several grievance channels, including separate complaint boxes for direct supervisors all the way up to the CEO of the Group. Workers are also encouraged to directly complain to their trade union representatives and directly to PUMA S.A.F.E. staff if they feel unfairly treated.

PUMA S.A.F.E. had to intermeditate on a number of occasions over the past two years, and there has not been a single case of retaliation against any worker who raised a complaint. All complaints about specific people within the factory are addressed to the Workers Disciplinary Committee, which is a worker-elected tribunal, as well as to Taiway senior management.

- Excessive disciplinary fines

Taiway has implemented a behavior bonus system, which pays extra money on top of production and basic wages, in relation to ideal behavior in the factory. This behavior bonus resulted out of brainstorming sessions by PUMA and NGOs, such as the Fair Labor Association (FLA). Instead of fining workers by automatically deducting money from their wages or issuing multiple warnings, the Behavior Bonus is meant to serve as an incentive and reward for workers to fully comply with factory policies and Codes of Conduct. Because of its nature as a behavior bonus, workers that were non-compliant, did not receive the full bonus amount.

To ensure fairness to the workers, worker behavior and any reduction of the bonus amount is audited and reviewed by the Worker Disciplinary Committee which has been in place since 2006. This committee is independently run by the factory workers' union and its committee members elected by the workers.

Investigation of the records of the Worker Disciplinary Committee does not confirm that bonuses were not paid if workers had not folded their bed sheets or as a consequence of other frivolous allegations as claimed in the CLW report. Instead, we found out that several workers' bonus had been reduced because the workers had been smoking inside the dormitory which represents a violation of factory rules and is considered a health & safety hazard. Taiway was advised to strengthen their worker and supervisor training on disciplinary procedures. Taiway management was requested to make clear to workers that behavior bonus payments and other similar incentives and rewards are not part of a guaranteed compensation. In particular, Taiway was advised to implement other means of enforcing compliance to rules and on this front the management is welcoming any constructive suggestions, not just from PUMA, but also from the CLW.

Subcontractor management (cafeteria staff)

The PUMA S.A.F.E. auditors noticed during the last PUMA S.A.F.E. Audit in February 2008 that the subcontracted kitchen staff was not always paid according to legal requirements by the subcontractors. Taiway agreed to strengthen their internal subcontractor monitoring practices, and any shortfalls in wages would be shouldered by Taiway. Taiway management also committed that continued poor performance on the part of the subcontractor would result in a termination of the contract by Taiway.

Living and Canteen Conditions

Prior to 2005 workers had to pay for additional uniforms. This had been raised in subsequent PUMA audits and Taiway has since stopped charging for additional uniforms. As of 2008, uniforms are no longer required in the workstations.

Thefts and petty violence are a concern whenever a large number of people live and work together on a regular basis. Taiway has responded to the security issue by employing an additional nine security staff and the installation of additional monitoring equipment at dormitory entrances.

Taiway's food services operate all day with 4 licensed catered contractors. On average during lunch and dinner time, the Taiway food service offers at least 28 different items of food selection as well as a full service mini-mart to cater to the workers' individual dining preferences. This food service was introduced in 2005 to provide workers dining choices as well as protect workers from unlicensed and unsanitary dining conditions found in external canteens and restaurants. However, based on a recent internal food survey, 10% of factory workers were dissatisfied with the cost of the food supplied in kitchens. Taiway was advised to continue to work closely with their food supply contractors to improve food quality and service at a more affordable price.

Our investigations show that Taiway uses an automatic deduction method to collect meal fees, which goes against workers' choice to dine at the main cafeteria or elsewhere. The management agreed to work together with the workers' union to come up with other measures by which to collect only meal fees that workers choose to avail.

Taiway established a clinic at the factory to provide free clinic service to workers. Taiway merely charges for the medicines used in the treatments - also charged at a subsidized rate and not at market price. Workers are also enrolled in the legally mandated social insurance program after successfully passing the probation of one month. This covers basic medical care, work injury, unemployment and pension. Currently in Dongguan, maternity leave is not still applicable for migrants according to the social insurance regulation in the region.

Other Conditions

Taiway employs a number of employee communication strategies including the provision of an employee handbook, quarterly employee newsletters and several notice boards in prominent points in the living and working areas of the factory. The Puma S.A.F.E. Pocket Guide has since been incorporated in the employee handbook, which we in Puma can confirm. New employee orientation and refresher training on factory policies is also strongly encouraged by Puma S.A.F.E. to reinforce written materials provided to employees. In this area, Taiway management committed to further improve their delivery of worker trainings as well as the distribution of worker education materials.

Conclusion

Based on the clarifications made above, the most critical aspects of the CLW report on Taiway are unfounded or misrepresent the actual situation.

While PUMA has a robust and externally accredited monitoring system for all suppliers worldwide in place, we are also aware of the challenges our suppliers face in the daily implementation of international social standards. Hence, we continue to support the continuous improvement of all our suppliers including Taiway and the Diamond Group, which show a strong commitment to their own corporate responsibility, through capacity building of factory management on compliance-related management systems such as the human resources and health & safety functions.

PUMA's membership in the FLA and the publication of our factory lists and regular sustainability reports ensure the transparent approach regarding supply chain standards that PUMA has chosen. As such, we welcome any constructive input that will contribute to the improvement process of our suppliers as long as this input is based and communicated on accurate facts.

Provided this condition is met by CLW we would welcome the CLW to proactively participate in a joint review of Taiway's progress.

V. CLW'S RESPONSE



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May 21, 2008

Jochen Zeitz, CEO
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Dear Mr. Zeitz,

On May 5th, 2008, Dr. Reiner Hengstmann from PUMA's Global Head Environmental & Social Affairs has kindly sent me PUMA's response towards China Labor Watch (CLW)'s recent report on its supplier, Taiway Ltd. As a result, I would like to present my appreciation to PUMA's statement and offer you CLW's perspective on the findings.

After a thorough investigation by CLW investigators, we are glad to say that we have found that Taiway has remediated and responded to some of the issues brought to their attention regarding workers' safety, food conditions, and resignation procedures. Nevertheless, we are disappointed to see that PUMA and Taiway still fail to acknowledge other abusive conditions that persist in the plant.

We share PUMA's sentiment that an investigation conducted by another, neutral organization would be useful; we, moreover, welcome a third party evaluation our own work. We hope that an investigation carried out by PUMA, Taiway and a third party accredited by the FLA would verify our findings.

The following is our response to PUMA's statement:

Contracts and Recruitment

Based on current Taiway workers' remarks, we suggest that Taiway's recruitment procedures be reformed. For instance, one hired worker claims that she was able to use

her younger sibling's personal ID to get hired. An undeniably noteworthy fact is that Taiway has raised its recruiting standards, implementing stronger verification of personal IDs and introducing an ID detector device. However, one problem presented by the adjusted recruitment procedure is that it only accepts the second generation personal ID.

Legally, although the government has introduced a second generation of personal IDs, unless the ID is expired, it is not prohibited for job applicants to provide a first generation personal ID. We believe Taiway's conduct discriminates against applicants with older IDs and infringes upon their rights. Hence, **we request that Taiway's exclusive use of the second generation ID in the recruitment process be terminated.**

Wages

Following Taiway management's readjustment on April 1st, average daily work hours have decreased from 11 and 12 hours to 10 hours, while the number of weekly days-off have raised from one to two days; paid vacation days have been allotted according to existing laws and monthly wages have been adjusted from 690 RMB to 770 RMB in accordance with the local minimum wage requirement.

However, in terms of wage distribution, Taiway distributes wages on the 25th of each month, effectively withholding 25 days worth of wages from workers. Wages are also directly deposited into each worker's bank account, as opposed to paper currency.

Concerning inadequate overtime payment, we confirm that the issue has received dramatic remediation following Taiway's corrective actions.

PUMA alleged that CLW miscalculated workers' wages. However, in fact, by obligating workers to arrive to work 20 minutes earlier than the stipulated work start time each morning without appropriate compensation, in addition to lunch and dinner breaks (20 minutes + 20 minutes + 20 minutes = 60 minutes or one hour), Taiway workers are forced to work one extra hour a day.

According to PUMA, "A simple calculation will find that if the 690 RMB minimum wage that CLW based its calculation on are divided by 21.75 days and 8 hours, it makes an hourly wage of 3.965 RMB. So in case of CLW's allegation, Taiway would be betraying the workers of 3.965 RMB x 4000 workers = 15,860 RMB per working day."

Because labor law states that daily work hours exceeding eight hours are considered overtime, workers are entitled to the regular overtime premium of the extra hours, and thus, the hourly wage that workers deserve is 6.64 RMB, instead of 3.965 RMB as suggested by PUMA. We do appreciate PUMA's objective calculation method of incorporating one extra decimal behind the regular hourly premium under its calculations to accommodate our previous calculation result.

Below, please find our calculation details.

1 extra hour x 6.64 RMB (overtime premium) x 21.75 work days a month x 12 Months x 4,000 Taiway workers = 6,932,160 RMB

Putting aside the disagreement regarding the accuracy of the wage calculation, in PUMA's response, PUMA tactfully avoided a serious question that must be raised and addressed: **Will Taiway return these cheated wages to its workers?**

We ask that Taiway reimburse the hard-earned wages that it cheated over the past five years to its rightful payees.

Work Hours

A worker from the Henan Province remarked, "In the past, extending work hours was very usual. In many cases we have worked from ten extra minutes to 30 minutes with inadequate pay". Although Taiway no longer obligates overtime after regular hours, workers still work overtime unless advised not to. In some cases, workers would work overtime for a period of time (usually no more than one hour), only to be notified afterwards that overtime is not required and thus no payments will be issued.

Moreover, Taiway's work schedule consists of three shifts. When the two hour overtime does not take place, all three shifts have a unified end time of 4:30 PM. However, for those whose shift was originally scheduled to be off at 6:15 PM, when the two hour overtime does not take place, they should be entitled to get off at 4:15 PM to fulfill the eight work hour stipulation. In this case, workers under such shift have to work 15 extra minutes. In addition, Taiway's current clock in time is from 7:05 AM - 7:20 AM. As work begins at 7:30 AM, workers sacrificed 10 ~ 25 minutes of their time working for free.

According to workers, the resignation procedure was extremely complicated in the past. Taiway would often prevent workers from resigning by persuasion, delay or even outright denial. Though the HR mailbox system described by PUMA in its response was only officially launched on April 21st, 2008, we acknowledge the effort. Nevertheless, currently, even some Taiway supervisors are uncertain of the mailbox's exact location.

Working Conditions

We concur with Taiway's fair and just wage system in terms of the base wage and bonuses. According to workers, however, many are unaware of the details of the system. During an interview, a worker said, "When I participated in a pre-employment training, the subject of wage and work hours was brought forth, and the training agent explained, 'Anyhow, you should not randomly ask for days off; don't miss work, be late or leave early.' One day I asked for three days off and when I returned, I found out that not only was my bonus penalized, my base wage was deducted as well; I had no idea what was going on."

With regards to the grievance redress system, though a number of complaint boxes are established on site, very few workers choose to file complaints through this channel. According to workers, this method is useless, and they would rather complain to machines than to the hypocritical Taiway management.

On PUMA's statement it is written that a number of employee communication strategies, such as the provision of an employee handbook, have been implemented at Taiway. However, many workers have never seen such a handbook and could care less, as they perceived it to make little difference under the management of Taiway.

Bonus System

We understand that the bonus based on performance rating is (200 RMB/Monthly work days) x accomplishment x rating ratio x number of days in the month. However, only a few workers are able to understand the system. From our investigation, if workers fail to reach a quota or make an error, there is a possibility of bonus deduction, and on many occasions, heavy criticisms from supervisors.

By mutual consent between both parties—workers and management—a dormitory room in good condition leads to a “behavioral bonus.” However, we were also informed that those whose rooms are rated below 75 are penalized by a 10 RMB fine. When asked about Taiway's bonus system, a female worker, she said, “Only those who have good relations with the building manager can get that bonus. As for me, don't even think about it.” We expect and are eager to see Taiway's bonus system continue to improve and distribute the bonus fairly.

Living and Canteen Conditions

Since April 1st, 2008, Taiway began using catered contractors to operate its food service. The canteen offers free rice that is better in quality than the rice used in the past, and workers may choose food according to their preferences. However, the cost of food has increased considerably. Using a rough calculation, workers would now need to pay 100 RMB a month more for the food service, despite some continued dissatisfaction with the food quality.

In Puma's response to our report, the company mentioned that theft and petty violence are concerns wherever a large number of people live and work together on a regular basis, and that Taiway has implemented several action plans to prevent further harm to workers.

Taiway established a clinic facility at the factory to provide free clinic service to workers. We hope that the quality of the clinic employees will improve over time, as one worker was once prevented from purchasing more medical supplies from the clinic by the clinic employee.

Other Conditions

Taiway's basic conduct is in compliance with the labor law. However, the majority of workers do not have social insurance. Taiway inform those who wish to have insurance to file an application to Taiway—but only when asked.

Conclusion

In conclusion, having recognized the efforts made by PUMA, we stand firmly behind the belief that there is much in PUMA's social responsibility standard that can be addressed and improved.

Sincerely,

Li Qiang

Executive Director
China Labor Watch