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## **Code of Conduct is No More than False Advertising, Disney Suppliers Continue Exploiting Chinese Workers**

*By China Labor Watch*

*November, 2010*

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## **SUMMARY**

Founded in 1923, Walt Disney Co. has grown from a small animation studio to today's world entertainment empire. The history of Disney Consumer Products (DCP) began in 1929, when Walt Disney first licensed the image of Mickey Mouse for use on a children's writing tablet. DCP extends Disney's brand to merchandise ranging from apparel, toys and home décor to books and magazines, foods and beverages, stationery, electronics and animation art. Disney consumer products are sold in Disney Stores and Resort Parks, and in supermarkets everywhere in the world.

In 1995 and 1996, a number of cases of labor abuse were uncovered in Disney's suppliers in California, Central America, and East Asia. In January of 1996, after a series of investigations of Disney's suppliers in Haiti, the National Labor Committee released a report titled "The U.S. in Haiti: How to get rich on 11¢ an hour." In the years since, Walt Disney has been widely criticized for licensing its copyrights to "sweatshops."

In response to public criticism, in 1996, Walt Disney established Code of Conduct for Manufacturers and started an International Labor Standards program. In 2002, Project Kaleidoscope was initiated by a collaborative effort of the Walt Disney Company, the McDonald's Corporation, and seven organizations engaged in addressing international labor issues. With all the efforts made by Disney and labor advocacy groups, the overall conditions in Disney's Chinese suppliers have been improved during the past decade. Yet, violations of Disney's Code of Conduct and China Labor Law remained, especially in aspects related to overtime, wages, underage labor, and workers' living conditions. Accusations and criticisms have been long existed around Disney's audit system. Labor activists urge Disney to transparentize its supply chain and allow independent organizations and shareholders to participate in the monitoring process.

## **YIUWAH ACCIDENT**

On April 17, 2009, a 17-year-old worker was crushed to death by a paper crushing machine he was operating. The young victim was named Liu Pan, who had worked in the factory for more than 2 years until he died on the job. The accident factory, Yiuwah Stationary Factory, is located in Dongguan, Guangdong. This Hong Kong- invested factory specializes in color printing and binding, and produces greeting cards, packaging, bags, notebooks, address books, paper gift boxes, stationary, books and publications, calendars, posters, business cards, picture frames, portrait books, and POLY handicrafts.

Shortly after Liu Pan's death, China Labor Watch investigated Yiuwah factory. In a report titled "Shattered Dreams: Underage Worker Death at Factory Supplying to Disney, Other International Brands"<sup>1</sup>, China Labor Watch noted that, "the machines are old and outdated, which can often lead to work injury"; "dormitory conditions are poor"; "the factory violates China's Labor Law in terms of working hours, wages, and labor contracts". Through worker interviews, the investigators found that, Liu Pan actually was not the youngest in his factory – during peak season, the factory hires workers who are even as young as 13 years old. However, regardless of age, workers all "operate" like machines day and night. Often times, they can take only two days off in a month.

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<sup>1</sup> China Labor Watch. (2009, April 30). Shattered Dreams: Underage Worker Death at Factory Supplying to Disney, Other International Brands. Retrieved September 21, 2010, from [http://www.chinalaborwatch.org/investigations/2009\\_04\\_30/4-29%20Liupan.pdf](http://www.chinalaborwatch.org/investigations/2009_04_30/4-29%20Liupan.pdf)

The Yiwu accident caught public attention to the labor conditions in Chinese factories, especially those supplying for multinational companies, like Disney. In a New York Times article “Despite Law, Job Conditions Worsen in China”<sup>2</sup> release in June, 2009, it was mentioned that, Disney “has called the situation at the factory ‘unacceptable’”, and “cease new orders of any Disney-branded products in the Yiwu factory until conditions were improved.”

## DISNEY CONSUMER PRODUCTS

Founded in 1923, Walt Disney Co. grew from a small animation studio to today’s world entertainment empire. The Disney Company has four major business divisions: media networks, parks and resorts, studio entertainment and consumer products<sup>3</sup>.

The history of Disney Consumer Products (DCP) began in 1929, when Walt Disney first licensed the image of Mickey Mouse for use on a children’s writing tablet. DCP extends Disney’s brand to merchandise ranging from apparel, toys and home décor to books and magazines, foods and beverages, stationery, electronics and animation art<sup>4</sup>. Disney consumer products are sold in Disney Stores and Resort Parks, and in supermarkets everywhere in the world

Each year, sales of consumer products generate a significant part of Disney’s profits. Taking 2009 as an example, about 2,425 millions dollars of income was brought to Disney’s revenue by consumer products. However, DCP only shares a relatively small piece of pie compared with other three major segments. According to Disney’s financial reports from fiscal year 1997 through 2009, the annual revenue contribution due to DCP swung between 5%~7% from year to year. Nevertheless, benefiting from the affordable prices of its consumer products, Disney heroes have become more accessible to people, especially children from families with lower economic capacity, and Disney’s brand has been even more widely known all across the world.

The majority of Disney-branded products are manufactured by licensees, managed by DCP<sup>5</sup>. According to Disney’s licensee application requirements (2010)<sup>6</sup>, the applicant company “must be a manufacturer, not a middleman or distributor”. A list of numbers in Disney’s 2008 Corporate Responsibility Report

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<sup>2</sup> DAVID BARBOZA (2009, June 23). Despite Law, Job Conditions Worsen in China. *The New York Times*, pp.B1.

<sup>3</sup> Walt Disney Co. (2010). Company Overview. Retrieved September 21, 2010, from <http://corporate.disney.go.com/index.html>

<sup>4</sup> Disney Consumer Products. (2010). About us. Retrieved September 21, 2010, from [https://www.disneyconsumerproducts.com/Home/display.jsp?contentId=dcp\\_home\\_ourbusinesses\\_company\\_overview\\_us&forPrint=false&language=en&preview=false&imageShow=0&pressRoom=US&translationOf=null&region=0&ccPK=null](https://www.disneyconsumerproducts.com/Home/display.jsp?contentId=dcp_home_ourbusinesses_company_overview_us&forPrint=false&language=en&preview=false&imageShow=0&pressRoom=US&translationOf=null&region=0&ccPK=null)

<sup>5</sup> Walt Disney Co. (2009). Content and Products. *The Walt Disney Company 2008 Corporate Responsibility Report*. Retrieved September 21, 2010, from <http://disney.go.com/crreport/products/consumerproducts/supplychain.html>

<sup>6</sup> Disney Consumer Products. (2010). Become a Licensee. Retrieved September 21, 2010, from [https://www.disneyconsumerproducts.com/Home/display.jsp?contentId=dcp\\_home\\_help\\_help\\_become\\_li\\_icensee\\_en&forPrint=false&language=en&preview=false&imageShow=0&pressRoom=US&translationOf=null&region=0&ccPK=null](https://www.disneyconsumerproducts.com/Home/display.jsp?contentId=dcp_home_help_help_become_li_icensee_en&forPrint=false&language=en&preview=false&imageShow=0&pressRoom=US&translationOf=null&region=0&ccPK=null)

illustrated the distribution of Disney's business partners in the supply chain – the majority of Disney's active vendors and licensees are located in North America (35%), Asia and Middle East (20%) excluding China and Japan; at the same time, Chinese factories (including Hong Kong and Macau) counted 39% of all the factories actively supplying Disney in 2008.

In an article titled "From Disney to the Producers", the Dutch "Clean Clothes" campaign<sup>7</sup> pointed out that, Disney consumer products are usually produced in countries or in sites "where wage standards are very low, where labor conditions are not under control, and where it is difficult for the workers to organize themselves to defend their rights". Unfortunately, the Chinese labor market seems to meet all these "criteria". The sweatshop conditions in Disney's Chinese suppliers have been "nominated" multiple times by medias. Meanwhile, Disney's liabilities for poor labor conditions in its overseas supply chains have also concerned many labor activists as well as conscious consumers.

## "CUT AND RUN"

In the summer of 1993, No Sweatshop Initiatives was launched by former Secretary of Labor, Robert Reich, to fight against the increased sweatshop manufacturing conditions both in the United States and abroad. A series of discussions took place in the following years in California, New York City, Chicago, and other regions with a large manufacturing labor force. In 1996, The Apparel Industry Partnership was formed by representatives of industry, unions, consumer, human rights, and religious organizations, and was challenged by former President Clinton to "take steps to assure that company products are made in compliance with acceptable labor standards, and to inform consumers that the products they buy are not made under exploitative conditions"<sup>8</sup>. Under this atmosphere, multinational companies were expected to be more conscious than ever before to take actions to eliminate human rights exploitations and to ensure acceptable labor standards in their global supply chain.

During 1995 to 1996, a number of cases of labor abuse were uncovered in Disney's suppliers in California, Central America, and East Asia. In January 1996, after a series of investigations of Disney's suppliers in Haiti, National Labor Committee released a report "The U.S. in Haiti: How to get rich on 11¢ an Hour". The report noted that workers on Disney's production line were forced to work more than 10 hours a day for consecutively 50 days. However, the price of Haitian workers' hard work was as cheap as 1 dollar a day.

In this case, H.H. Cutler, a U.S.-based Disney licensee, subcontracted Disney orders to local Haitian factories. It was assumed that this was in a time when Disney still allowed its licensee to outsource the orders to other contractors. These Haitian local factories lying at the bottom of Disney's supply chain were most likely to practice lower labor standards and violate workers' human rights.

After Haitian sweatshops were exposed, instead of taking any active steps to address the labor violations, H.H. Cutler decided to abandon its Haitian contractors, which would cause immediate layoffs for more than 2000 employees, in equal to one tenth of all the assembly workforce of Haiti. At the same time, Disney Company took a silent strategy. When requested by labor activists to use its "weight as the

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<sup>7</sup> Clean Clothes Campaign. (1998). From Disney to the producer. Retrieved September 21, 2010, from <http://www.cleanclothes.org/news/4-companies/917-from-disney-to-the-producer>

<sup>8</sup> United States Department of Labour. (1997). Apparel Industry Partnership's Agreement. Retrieved September 21, 2010, from <http://actrav.itcilo.org/actrav-english/telearn/global/ilo/guide/apparell.htm>

licensing company to pressure Cutler from not pulling out of Haiti”, Disney “categorically refused”<sup>910</sup>. National Labor Committee criticized two companies’ “cut and run” strategies. In the same year, Disney established its first Code of Conduct for Manufacturers. Despite Disney’s efforts to build its first Code of Conduct, the company was nominated by Albion Monitor one of the “worst companies of 1996”<sup>11</sup> for the widespread sweatshop conditions in its global supply chain.

## ESTABLISHMENT OF “CODE OF CONDUCT”

In April 1997, the Workplace Code of Conduct was developed by the White House Apparel Industry Partnership to fight against sweatshops in the U.S. and abroad, with the hope that “consumers can have confidence that products that are manufactured in compliance with the standards are not produced under exploitative or inhumane conditions”. The Code defined a set of labor standards in the apparel industry in relation to forced labor, child labor, harassment or abuse, health and safety, freedom of association and collective bargaining, wages and benefits, hours of work, and overtime compensation.

Shortly after the Code was formulated, Disney modified accordingly its own Code of Conduct for Manufacturers<sup>12</sup>. In a 1997 letter to the Dutch “Clean Clothes” Campaign regarding the concerns over poor working conditions in Haitian factories, vice president and managing director of Disney stated that Disney had developed a program that was “among the most comprehensive and sophisticated program among all multinational companies”<sup>13</sup>, which could be the “International Labor Standards Program” announced later by the Disney. In addition to these steps, as noted by National Labor Committee, Disney was relocating its production to China.

## PRODUCTION LINE IN CHINA

### Sweatshops in Southwest China

Between 1998 and 2000, Hong Kong Christian Industrial Committee (CIC), a faith-based organization, ran a series of labor investigations in Southern China covering sixteen factories supplying Disney. CIC released two reports based on its findings, namely “Mulan’s sisters: Working for Disney is no fairy tale”(1999) and “BOM- Beware Of Mickey Disney sweatshops in the South China”(2000).

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<sup>9</sup> Jennie, B. (1996). Disney, Others Exploit Haitian Labor. *Albion Monitor*. Retrieved September 21, 2010, from <http://www.albionmonitor.com/1-31-96/haitilabor.html>

<sup>10</sup> Ray, L. (1997). This Week in Haiti. *Haiti Progres*, 15(21): 13-19. Retrieved September 21, 2010, from <http://www.hartford-hwp.com/archives/43a/281.html>

<sup>11</sup> Russell, M. (1996). The Ten Worst Corporations of 1996. *Multinational Monitor*, 17(12). Retrieved September 21, 2010, from <http://multinationalmonitor.org/hyper/mm1296.04.html>

<sup>12</sup> Clean Clothes Campaign. (1998). From Disney to the producer. Retrieved September 21, 2010, from <http://www.cleanclothes.org/news/4-companies/917-from-disney-to-the-producer>

<sup>13</sup> Clean Clothes Campaign. (1998). From Disney to the producer. Retrieved September 21, 2010, from <http://www.cleanclothes.org/news/4-companies/917-from-disney-to-the-producer>

A number of violations of China's Labor Law and Disney's Code of Conduct were identified in these factories. Workers were forced to work excessive overtime, whereas their pay was far below the legal minimum wage standards and often times delayed. According to a worker, he and his co-workers were allowed to take only two days off all through the year except the annual leave during Chinese New Year. With minimum labor protections, workers were exposed to chemical hazards and dangerous working conditions. They lived in poor accommodation conditions, in which usually more than 20 people shared one dormitory room. Although the Code of Conduct had been established, workers were barely benefiting from it. Almost no worker interviewed had ever heard of Disney's Code of Conduct or its International Labor Standards program.

CIC noted that, Chinese workers were “in a very disadvantageous situation” – few of them have knowledge about their own legal right; they have minimum network or resources to help them defend their rights; they do not know how to seek help from brand companies or request international support. “In the face of exploitation by management, they can do nothing but tolerate it because they must keep a job to support their own livelihoods and those of their families.”<sup>14</sup>

In addition, several concerns were raised by CIC in its reports:

First, instead of taking further constructive steps to address the labor issues identified by CIC, Disney simply stopped placing orders to three of the four factories focused in the first report. As a result, the workers of these three factories lost their income and were left in a worse situation. For this reason, CIC did not disclose the identifiable information about the later 12 factories in its second report<sup>15</sup>. CIC pointed out that as the licensing company, Disney should take responsibilities and leverage the improvement of labor conditions in its suppliers, rather than just “cut and run”.

Second, apparently Disney had failed to fully implement its Code of Conduct, evidenced by the widespread labor violations in Disney's suppliers. Although the Code requires manufacturers to communicate the code to their employees, very few workers were aware of the Code, let alone knew the Code was supposed to protect their rights. CIC criticized that the Code was used as a public propaganda by Disney, instead of a tool to ensure social compliance in its supply chain.

Third, CIC indicated that Disney's multi-level subcontracting system is “too complicated to monitor”. During CIC's investigations, the Geneva-based quality control firm, SGS (Societe Generale de Surveillance), was hired by Disney to carry out audits in their Chinese toy factories. The audit procedure includes 4 components: 1) Disney designs a questionnaire focused on the issues of “child labor, wages, and safety”; 2) the auditors visit the factories with a checklist and collect data by observation and asking questions; 3) based on the data, the auditors evaluate the factories' performance for each of the issues and decide whether the factory's conditions are acceptable; 4) Lastly, Disney decides what to do with the findings. This audit activity was called by “Clean Clothes” Campaign the “company controlled or internal

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<sup>14</sup> Hong Kong Christian Industrial Committee. (1999). Mulan's sisters, Working for Disney is no fairy tale. Retrieved September 21, 2010, from <http://www.cleanclothes.org/news/4-companies/910-mulans-sisters-working-for-disney-is-no-fairy-tale>

<sup>15</sup> Hong Kong Christian Industrial Committee. (2001). Labour rights violations at 12 China factories. Retrieved September 21, 2010, from <http://www.cleanclothes.org/news/4-companies/912-labour-rights-violations-at-12-china-factories>

monitoring”<sup>16</sup>. CIC urged Disney in its report to introduce an independent monitoring system and “disclose all information on its suppliers for public scrutiny”.

### **Questions around “Auditing System”**

In September, 2005, the fifth Disneyland on the world opened in Hong Kong. In June, a labor activist group, Students and Scholars against Corporate Misbehavior (SACOM), was formed by a group of Hong Kong-based students and professors. While Disney was preparing for its opening, SACOM was busy assigning its first investigation to Disney’s suppliers in Southern China. In August 2005, collaborating with National Labor Committee (NLC), SACOM published its report “Disney’s Children’s Books Made with the Blood, Sweat and Tears of Young Workers in China”<sup>17</sup>.

All three factories under investigation belong to a Hongkong-invested company and were situated in Pearl River Delta region. In addition to a number of labor violations in relation to excessive overtime, compulsory labor, illegal low pay, and poor living conditions, bloody accidents took place at a shockingly high rate in these factories.

Some surveyed workers reported that “almost every day someone is injured”. “While producing a book like this ‘Mickey and Friends, Haunted Halloween’”, according to a female worker, “there are many chances that injuries could happen. When making this cover, we use a machine to press this edge. There is no safety device – all depends on your carefulness...When we put it in, if we are not careful, our fingers will be pressed together with this book.” The company ranked in 2004 among the top 30 factories in Shenzhen Industrial Area with highest number of work-related injuries. However, it is believed that the incidence of injuries was seriously underreported as the factories always tried to hide the numbers from authorities. Some workers reported that less serious injuries were simply treated in factory clinic; the factory would send injured workers to hospital only when serious accidents took place.

The terrifying and sad contrast between lovely Disney animation characters and the bloody Disney production line gathered quite an amount of attention. Medias, including the New York Times and CNN, covered the bloody story as well as the criticisms raised by labor activist groups against Disney. However, Disney denied the accusation and responded that the company “conducts regular social compliance audits of the independently run factories that produce Disney branded merchandise.” The company said none of the 20 such audits at its Chinese supplier factories since 1998 exhibited “the severity of the violations reported by the NLC and SACOM”<sup>18</sup>

However, Disney’s audit procedure was just another target of criticism. Labor activists<sup>25</sup> believed that Disney’s audit system was defective. Factories usually were well informed beforehand and thus were able to coach their workers and prepared perfectly for the audit. In addition, as mentioned before, the independence and objectiveness of the so-called “company controlled”audit activities were doubtful.

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<sup>16</sup> Clean Clothes Campaign. (1998). Codes of Conduct for Transnational Corporations: An Overview. Retrieved September 21, 2010, from <http://www.cleanclothes.org/component/content/article/3-codes-of-conduct/574-codes-of-conduct-for-transnational-corporations-an-overview>

<sup>17</sup> National Labor Committee & SACOM. (2005). Disney’s Children’s Books: Made with the Blood, Sweat and Tears of Young Workers in China. Retrieved September 21, 2010, from [http://www.cirromero.de/fileadmin/download/cora/sacom\\_national\\_labor\\_committee\\_2005\\_disneys\\_childrens\\_books.pdf](http://www.cirromero.de/fileadmin/download/cora/sacom_national_labor_committee_2005_disneys_childrens_books.pdf)

<sup>18</sup> Roben.F.(2005). Group calls Disney site sweatshop. The New York Times. Retrieved September 21, 2010, from <http://www.nytimes.com/2005/08/19/business/worldbusiness/19iht-disney.html>

Similar like what CIC requested years ago, SACOM and National Labor Committee addressed an open letter<sup>25</sup> to Disney Company and stated that Disney should disclose its Chinese factories information to allow other independent organizations to monitor the factories' compliance to labor standards, that Disney should allow labor rights and human rights organizations to deliver training to workers in order to raise workers' awareness of their rights.

Since 2006, Disney started to work with Verite to audit Disney's suppliers in China<sup>27</sup>. Verite is a non-profit organization based in Amherst, Massachusetts, which monitors international labor conditions in multinational corporate supply chain. A representative of Verite's Shenzhen office disclosed that "normally when Disney gives Verite a factory to audit, it is because it has failed a previous audit."<sup>19</sup> In this sense, it is possible that factories which have passed the audit by coaching the workers and lying to the auditors are less likely to be monitored by Verite, and thus, the labor issues lied in those factories remain under the radar.

## **NEW EFFORTS: PROJECT KALEIDOSCOPE**

In 2002, Project Kaleidoscope was initiated by a collaborative effort of the Walt Disney Company, the McDonald's Corporation, and seven organizations engaged in addressing international labor issues. Disney and its project partners were hoping to facilitate the internal communications within factories by engaging "key stakeholders, including workers and supervisors, as well as managers, in collaborative efforts to identify issues, develop solutions and monitor progress"<sup>20</sup>. The project formulated a set of compliance guidelines to serve as a "uniform code" based on Disney and the McDonald's codes of conduct. In addition, a self-assessment tool and audit tool were developed as a part of the systems-based approach. Ten factories in Southern China producing apparel, footwear, toys, and other promotional items were selected to pilot the project. All the factories produced for both Disney licensees and McDonald's restaurants. The project was aimed to form a new compliance approach to "develop factory-based systems that can further pinpoint the source of recurring compliance issues with the objective of resolving and preventing them from recurring"<sup>21</sup>.

In February, 2005, shortly after the interim report was released, Disney held its annual board meeting in Minnesota. A shareholder resolution titled "China and Labor Standards" was introduced by the Office of the Comptroller of New York City. The proposal pointed out that a number of violations of Disney's corporate code of conduct had been revealed by labor advocacy groups in factories supplying products for Disney, and a large majority of workers surveyed at those supplier factories were unaware of the corporate code of conduct of Disney. These labor issues would lead to "negative publicity, public protests and a loss of consumer confidence", which could have a "negative impact on shareholder value". The

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<sup>19</sup> China.Org.Cn.(2009). Campaigners keep up pressure in Disney child labor storm. Retrieved September 21, 2010, from [http://www.china.org.cn/china/news/2009-08/14/content\\_18335073.htm](http://www.china.org.cn/china/news/2009-08/14/content_18335073.htm)

<sup>20</sup> Project Kaleidoscope.(2008). Executive Summary. Retrieved September 21, 2010, from [http://www.asyou sow.org/human\\_rights/docs/Project%20K%20summary.pdf](http://www.asyou sow.org/human_rights/docs/Project%20K%20summary.pdf)

<sup>21</sup> Project Kaleidoscope.(2008). Final Report. Retrieved September 21, 2010, from [http://www.asyou sow.org/human\\_rights/docs/ProjectKaleidoscope-final-report2008.pdf](http://www.asyou sow.org/human_rights/docs/ProjectKaleidoscope-final-report2008.pdf)

resolution requested that Disney's Board of Directors should review these issues and report to shareholders by September 2005<sup>22</sup>.

However, the Disney Board of Directors recommended that shareholders vote No on the resolution. The matter was left unsettled.

The final report of Project Kaleidoscope was released in 2008. It pointed out the limits of conventional audits: first, conventional audits can only reflect facility conditions at a particular point in time; second, as negative findings from audits are “linked to potential loss of business”, factory management often times only focus on “securing passing scores” rather than “identifying opportunities for improvement”. The report then remarked that conventional audits alone cannot systematically address labor issues, and that “sustainable solutions to systemic issues require something different”. It was concluded at the end of the report that factories participating in Project kaleidoscope have “expanded and/or improved their systems for communicating with workers and receiving feedback”; “between 78% and nearly 100% of workers surveyed said conditions in their factories had improved since the systems-based approach was implemented”, especially in aspects such as “timely pay, good treatment by supervisors, congenial living environments”; in addition, the factories also “see value in actively managing the compliance process”, particularly in “reduced worker turnover, increased productivity, and enhanced competitiveness”<sup>23</sup>.

### **Henry Merton – A Case of a Kaleidoscope Factory**

Henry Merton is a Hong Kong-invested company and a major plastic toy producer in Dongguan. Its customers include Walt Disney, McDonalds, and other multinational brands. In 2002, the two brand companies with other organizations initiated Project Kaleidoscope to facilitate the improvement of labor conditions in their global supply chain. Merton was selected as one of the 10 pilot factories for the project

Since 1998, China Labor Watch has followed the labor conditions in Merton factories in Southern China. A 2001 report revealed a variety of labor violations in Merton factories – workers were required to work underpaid overtime, regularly lasting through the night; the workers were kept working 120 consecutive workdays without rest while being paid at illegally low rate; they had to keep themselves very “well-behaved” to prevent various penalties set by the factories; the dormitory rooms were very poor and usually 20 people had to crowd in one room; workers had few ideas about their legal rights; when workers signed the labor contracts with the factories, they were not explained or provided with a copy of the contract; workers were coached and threatened to lie to the auditors and authorities, and so on. It is easy for people to associate these findings to sweatshops conditions. Nevertheless, Merton was one of the best factories in Disney's supply chain (2009) .

Four years after Kaleidoscope's launch, CLW returned to Merton after a major protest in 2006 involving nearly a thousand workers, numerous injuries and arrests. In a CLW follow-up investigation, many of the same wage, working hour and safety violations from the 2000 report persisted. Disney and Merton's other major customers refuted CLW's investigation stating that the strikes were merely caused by a “disgruntled

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<sup>22</sup> National Labor Committee & SACOM. (2005). Disney's Children's Books: Made with the Blood, Sweat and Tears of Young Workers in China. Retrieved September 21, 2010, from [http://www.cirromero.de/fileadmin/download/cora/sacom\\_national\\_labor\\_committee\\_2005\\_disneys\\_childrens\\_books.pdf](http://www.cirromero.de/fileadmin/download/cora/sacom_national_labor_committee_2005_disneys_childrens_books.pdf)

<sup>23</sup> Project Kaleidoscope.(2008). Final Report. Retrieved September 21, 2010, from [http://www.asyou sow.org/human\\_rights/docs/ProjectKaleidoscope-final-report2008.pdf](http://www.asyou sow.org/human_rights/docs/ProjectKaleidoscope-final-report2008.pdf)

worker". Rather than explaining how Kaleidoscope was enabling changes at Merton, its customers denied the existence of serious problems that need to be fixed (2009) .

In a report issued in 2009 after the implementation of the Project Kaleidoscope, China Labor Watch noted that many of the worst violations that led to Merton's long history of worker strikes have been addressed. However, the violations of Disney's Code of Conduct and China Labor Law remained in aspect of overtime, wages, underage labor, and workers' living conditions.

China Labor Watch pointed out that the systematic failure of Disney's auditing force allows the company to produce toys and other products in sweatshop conditions, defend itself with flawed audits, and address serious problems only when called upon to act by external allegations.

(See Appendix I for a comparison of findings from investigations conducted by China Labor Watch between 1998~2009.)

## **DISNEY CEASED ORDERS FROM YIUWAH**

On May 7<sup>th</sup>, 2009, right after the Yiuwah accident, China Labor Watch addressed an open letter<sup>24</sup> to the president of Disney, Robert A. Iger. CLW stated that although the factory had been gone through multiple audits by Disney, the serious labor violations had not been remedied, which indicated that Disney's audits were defective to identify the reoccurring labor violations. Disney should address this systematic problem to prevent other young workers, like Liu Pan, from being exposed to dangerous and hazard working conditions.

In response<sup>25</sup> to China Labor Watch, Disney stated that they were in discussion with licensees, vendors and Yiuwah factory to find out an "effective and sustainable" solution to address the labor issues identified in Yiuwah. In terms of the issues of audit system corruption, Disney did not give direct answer. Rather, the company emphasized on its corporation with independent labor monitoring organizations including Verite and CREA. In addition, Disney noted that similar labor issues were arising in factories both within and outside of China, particularly in factories that "are not often owned by Disney licensees and vendors, are geographically distant, and produce for a number of brands and retailers".

The statement made by Disney indicated: 1) labor violations are widespread in multinational corporate supply chains in China and many other areas, and conditions identified in Disney's suppliers are not the only cases; 2) because many problem factories produce for several brands at the same time and due to distant geographic locations, Disney has very limited influence on these factories.

In the Disney Customer Products licensee application instructions, Disney requires that the eligible company "must be a manufacturer, not a middleman or distributor"; Disney's Code of Conduct also requires that the licensee must use subcontractors for the manufacture of Disney products, the licensee must get a written authorization from Disney Company and the subcontractor also should "enter into a

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<sup>24</sup> China Labor Watch.(2009, May 7). An Open Letter to Disney. Retrieved September 21, 2010, from [http://www.chinalaborwatch.org/investigations/2009\\_08\\_05/CLW%20letter%20to%20Disney%20CEO.pdf](http://www.chinalaborwatch.org/investigations/2009_08_05/CLW%20letter%20to%20Disney%20CEO.pdf)

<sup>25</sup> Walt Disney Co. (2009, May 21). A Letter to China Labor Watch. Retrieved September 21, 2010, from [http://www.chinalaborwatch.org/investigations/2009\\_08\\_05/Disney%20Letter.pdf](http://www.chinalaborwatch.org/investigations/2009_08_05/Disney%20Letter.pdf)

written commitment with Disney to comply it Code of Conduct". Apparently, Disney has not been able to enforce its influence on manufacturers through these criteria or regulations.

In Disney Corporate Responsibility Report of 2008, the company explained its multi-level supply chain system, which includes licensees and vendors on the second layer, agents, sub-vendors, and distributors on the third layer, and factories and workers at the bottom of the supply chain. Disney stated that the "selection of the factories is a key component of" each licensee's and vendor's "business operations", that Disney only has "some influence" on the business entities, like the factories, that they work indirectly<sup>26</sup>.

Within one month after Disney promised to work on Yiuwah's issues, the company announced on June 17, 2009, that it would cease new orders of any Disney-branded products in the Yiuwah factory until conditions were improved<sup>27</sup>. China Labor Watch then allied with the France-based Peuples Solidaires in an open letter campaign pressuring Disney to make changes to the factory, and face public outcry, which then generated thousands letters from consumers and shareholders to Disney. Under this pressure, Disney released a letter on July 30 outlining a number of changes it would implement at Yiuwah.

## **DISNEY'S SUPPLY CHAIN AND WORKERS' FUTURE**

The page of Yiuwah accident has turned over. However, related discussions and efforts made to protect workers' rights are continuing. In the past decade, the accusations and criticisms have been long existed around Disney's audit system. China Labor Watch suspected that Disney's audit system is corrupted and urged Disney to disclose its list of auditing companies. Requests were also made repeatedly by labor activist that Disney should make factory information accessible to allow independent organizations and shareholders to participate in the monitoring process. Yet, Disney has not taken any meaningful steps to improve the transparency of its supply chain. Disney says, "In our contracts with licensees and vendors, many of them have required us to agree to keep their factory sources confidential".

**In August, 2010, China Labor Watch ran an investigation of two factories supplying for Disney. The "historical issues" remain:**

Underage and child labor are widespread in the factories. These young workers work as many hours as their adult counterparts;

Averagely, weekly working time exceeds 72 hours. The workers are required to work overtime as many as 130 hours a month, while they can usually take one day off each month;

The overtime compensation is as low as 97 cents/hour, far below the legal standard;

Workers are not provided the minimum social insurance required by law;

Long-term exposure to chemical hazards has led to a running nose, dry lips, rashes, among other allergy symptoms. The factory took a stand-by strategy without providing education, adequate labor protection or physical examinations to the workers.

This reminds us again of Disney's Code of Conduct for Manufacturers:

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<sup>26</sup> Walt Disney Co. (2009). The Walt Disney Company 2008 Corporate Responsibility Report. Retrieved September 21, 2010, from [http://corporate.disney.go.com/files/FINAL\\_Disney\\_CR\\_Report\\_2008.pdf](http://corporate.disney.go.com/files/FINAL_Disney_CR_Report_2008.pdf)

<sup>27</sup> China Labor Watch.(2009, May 7). An Open Letter to Disney. Retrieved September 21, 2010, from [http://www.chinalaborwatch.org/investigations/2009\\_08\\_05/7-1%20CLW%20letter%20to%20Disney.pdf](http://www.chinalaborwatch.org/investigations/2009_08_05/7-1%20CLW%20letter%20to%20Disney.pdf)

**Child Labor - Manufacturers will not use child labor.** The term “child” refers to a person younger than 15 (or 14 where local law allows) or, if higher, the local legal minimum age for employment or the age for completing compulsory education.

Manufacturers employing young persons who do not fall within the definition of “children” will also comply with any laws and regulations applicable to such persons.

**Health and Safety - Manufacturers will provide employees with a safe and healthy workplace in compliance with all applicable laws and regulations,** ensuring at a minimum reasonable access to potable water and sanitary facilities; fire safety; and adequate lighting and ventilation. Manufacturers will also ensure that the same standards of health and safety are applied in any housing that they provide for employees.

**Compensation** - We expect manufacturers to recognize that wages are essential to meeting employees’ basic needs. **Manufacturers will, at a minimum, comply with all applicable wage and hour laws and regulations, including those relating to minimum wages, overtime, maximum hours, piece rates and other elements of compensation, and provide legally mandated benefits.** Except in extraordinary business circumstances, **manufacturers will not require employees to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by local law or, where local law does not limit the hours of work, the regular work week plus 12 hours overtime.** In addition, except in extraordinary business circumstances, **employees will be entitled to at least one day off in every seven-day period.**

**Manufacturers will compensate employees for overtime hours at such premium rate as is legally required** or, if there is no legally prescribed premium rate, at a rate at least equal to the regular hourly compensation rate.

An investigator wrote the following words in her dairy:

“Whenever the machines were operating, some of the workers must be ready to work. They are affiliating with machines, just like a screw. The workers, especially those who look fresh and young, have no choice but to exchange the best time of their life for a job to support their own livelihoods. After this peak season, some of them might be moving forward to find a job in another factory. Would their future also lie in the next factory as well?

## APPENDIX 1: HENRY MERTON LABOR CONDITIONS FROM 1998 TO 2009

Labor Issues	1998~2000	2006	2009	Violations of Disney's Code of Conduct
<b>Recruitment and hiring</b>			The factory will hire any female but selection for males is stricter;	Nondiscrimination ; Child Labor
			There are a large number of underage workers (school workers) in the factory.	
<b>Labor contracts</b>	In order to deal with the inspections by the authorities, the factory signs fake contracts with workers;		The labor contract is signed 3 months after hiring;	Other Laws
	Only the boss has the copy of signed contract.		Both the factory and the worker get a copy of the signed contract.	
<b>Wages and working hours</b>	Each day, workers work about 12.5~14hours;  Only the three-hour night shift is counted as overtime work;	Each day, workers work about 11 hours; overtime hours go up to 70 hours/month;	The factory is on a 6day/week, 6 hour and 40 minute/day system;  Each day, workers work about 11.5 hours; Working time after 3:30 pm is considered overtime;  The first 6 hours and 40 minutes on Saturdays counts as regular working hours;  Workers work around 123 hours overtime/month;	Compensation; Involuntary Labor
	One day off each month if there is no production deadline; many workers have to work 120 days consecutively before getting one day off;		Workers take Sunday off.	
	Workers have to work overtime; those not working overtime are considered absent from work, and will be fined 49 RMB on each occasion;	Overtime is required and those refusing to work overtime are subject to salary deductions;	Overtime is generally voluntary;	

	Workers are paid on product count;  After all kinds of deductions, the average monthly pay is below 400 RMB.	Workers are paid minimum wage in Dongguan;  No base pay for workers who get piece rate.	Regular workers are paid 770 RMB (\$113) base wages/month;	
	No overtime pay.	No overtime pay.	Regular overtime wages are 1.5 times normal wages, weekend overtime is 2 times and holiday overtime is 3 times	
	Wages of the first 40 days are held up as deposits.	Workers do not get pay slips;  Worker's salaries are normally withheld for a month.		
<b>Labor protection</b>	Workers have to wear uniforms and pay out of their own pockets to buy the uniforms; if the workers lose the uniform or do not return the uniform when they quit, a deduction will be made from their wages;  Gloves or masks are not provided to workers;		Workers are required to wear uniforms and hats at work;	Heath and Safety
	The fume in the spraying department is very strong, but the workers are never explained the safety hazards with paints;		Workers in the Assembly Department are not protected when using super glues that harm their skin; Although required, earplugs are not provided to the machine operators working under an ear piercing noise; Workers feel the plastic smell is very strong in the Fuel Injection Department, even after wearing masks;	
	Factory clinic is accessible, but the medical expenses are deducted from workers' wages.		First aid kits are locked, thus are not accessible to the workers	

<b>Canteen and Dormitory Conditions</b>	Each month, 111 RMB is deducted for living expenses, water and electricity bills, and miscellaneous fees, from workers' monthly pay;	Each month, workers must pay 250 RMB (31.25) for room and board;	The factory adds 250 RMB (\$37)/month to each workers' dining card;	Health and Safety
	Food is not enough for workers and many workers are left hungry;		Workers all feel the food smells badly;	
	Each dormitory room houses at least 17 workers;		Most dorm rooms house 10 workers;  Drinking water is not provided;	
	In winter, they have enough hot water for shower, but hot water is not available after 23:30pm.		No hot water to shower or electrical outlets to charge phones.	
<b>Rewards and punishment s</b>	Workers are paid 25 RMB as bonus if they do not take any leave in a month;		The perfect attendance bonus is given when workers are not absent and do not ask for time off for one month;	
	Workers are loosely fined, or even fired for various reasons.		If workers make mistakes, the factory will post a public announcement as punishment.	
<b>Leaving the Factory</b>	If workers quit, they cannot get back the deposit which is the 40 days' wages.		Turnover is high, and 40~50 people leave and are hired daily;	Other Laws
	Workers do not get paid on the day they take leave.		It is hard to resign.	
<b>Benefits</b>			Pregnant women get three months of paid vacation;	Other Laws
			No annual vacation;	

		The factory dose not provide workers with adequate insurance; half of the workers have work injury insurance, which is required by law to be provided to all workers.	The factory does not buy insurance for workers in the probationary period; After the probationary period, workers must apply to the factory to purchase social insurance.	
<b>Trade Union</b>	Workers don't know if the factory has a union.			
<b>Others</b>	Workers are required to lie to the inspectors and auditors.			

2001 Report is available at

[http://www.chinalaborwatch.org/investigations/2001\\_11\\_01/index.php](http://www.chinalaborwatch.org/investigations/2001_11_01/index.php)

2006 Report is available at

[http://www.chinalaborwatch.org/investigations/2006\\_07\\_27/index.php](http://www.chinalaborwatch.org/investigations/2006_07_27/index.php)

2009 Report is available at

[http://www.chinalaborwatch.org/investigations/2009\\_11\\_17/20091029merton.php](http://www.chinalaborwatch.org/investigations/2009_11_17/20091029merton.php)

## APPENDIX 2: DISNEY'S CODE OF CONDUCT FOR MANUFACTURERS



### Code of Conduct for Manufacturers

At The Walt Disney Company, we are committed to:

- a standard of excellence in every aspect of our business and in every corner of the world;
- ethical and responsible conduct in all of our operations;
- respect for the rights of all individuals; and
- respect for the environment.

We expect these same commitments to be shared by all manufacturers of Disney merchandise. *At a minimum*, we require that all manufacturers of Disney merchandise meet the following standards:

<b>Child Labor</b>	Manufacturers will not use child labor.  The term "child" refers to a person younger than 15 (or 14 where local law allows) or, if higher, the local legal minimum age for employment or the age for completing compulsory education.  Manufacturers employing young persons who do not fall within the definition of "children" will also comply with any laws and regulations applicable to such persons.
<b>Involuntary Labor</b>	Manufacturers will not use any forced or involuntary labor, whether prison, bonded, indentured or otherwise.
<b>Coercion and Harassment</b>	Manufacturers will treat each employee with dignity and respect, and will not use corporal punishment, threats of violence or other forms of physical, sexual, psychological or verbal harassment or abuse.
<b>Nondiscrimination</b>	Manufacturers will not discriminate in hiring and employment practices, including salary, benefits, advancement, discipline, termination or retirement, on the basis of race, religion, age, nationality, social or ethnic origin, sexual orientation, gender, political opinion or disability.
<b>Association</b>	Manufacturers will respect the rights of employees to associate, organize and bargain collectively in a lawful and peaceful manner, without penalty or interference.
<b>Health and Safety</b>	Manufacturers will provide employees with a safe and healthy workplace in compliance with all applicable laws and regulations, ensuring at a minimum reasonable access to potable water and sanitary facilities; fire safety; and adequate lighting and ventilation. Manufacturers will also ensure that the same standards of health and safety are applied in any housing that they provide for employees.

<b>Compensation</b>	We expect manufacturers to recognize that wages are essential to meeting employees' basic needs. Manufacturers will, at a minimum, comply with all applicable wage and hour laws and regulations, including those relating to minimum wages, overtime, maximum hours, piece rates and other elements of compensation, and provide legally mandated benefits. Except in extraordinary business circumstances, manufacturers will not require employees to work more than the lesser of (a) 48 hours per week and 12 hours overtime or (b) the limits on regular and overtime hours allowed by local law or, where local law does not limit the hours of work, the regular work week plus 12 hours overtime. In addition, except in extraordinary business circumstances, employees will be entitled to at least one day off in every seven-day period.  Manufacturers will compensate employees for overtime hours at such premium rate as is legally required or, if there is no legally prescribed premium rate, at a rate at least equal to the regular hourly compensation rate.  Where local industry standards are higher than applicable legal requirements, we expect manufacturers to meet the higher standards.
<b>Protection of the Environment</b>	Manufacturers will comply with all applicable environmental laws and regulations.
<b>Other Laws</b>	Manufacturers will comply with all applicable laws and regulations, including those pertaining to the manufacture, pricing, sale and distribution of merchandise. All references to "applicable laws and regulations" in this Code of Conduct include local and national codes, rules and regulations as well as applicable treaties and voluntary industry standards.
<b>Subcontracting</b>	Manufacturers will not use subcontractors for the manufacture of Disney merchandise or components thereof without Disney's express written consent, and only after the subcontractor has entered into a written commitment with Disney to comply with this Code of Conduct.
<b>Monitoring and Compliance</b>	Manufacturers will authorize Disney and its designated agents (including third parties) to engage in monitoring activities to confirm compliance with this Code of Conduct, including unannounced on-site inspections of manufacturing facilities and employer-provided housing; reviews of books and records relating to employment matters; and private interviews with employees. Manufacturers will maintain on site all documentation that may be needed to demonstrate compliance with this Code of Conduct.
<b>Publication</b>	Manufacturers will take appropriate steps to ensure that the provisions of this Code of Conduct are communicated to employees, including the prominent posting of a copy of this Code of Conduct, in the local language and in a place readily accessible to employees, at all times.

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