

Unhappy Holidays at Merton Toy Factory

Poor Conditions Remain at Disney, McDonalds, Mattel Supplier

China Labor Watch Investigation

October 2009

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I. Executive Summary

Halloween is in the air. On Saturday, October 31, children across America will suit up for trick or treating while in Shenzhen, China, teenagers just a few years older will be gearing up for overtime factory work. Toy factories must meet the holiday rush with more hiring, longer overtime, and faster production. On Halloween, Chinese workers as young as 16 will complete their Saturday overtime at a frenzied pace. While American families, who will purchase these same toys in the holiday season, indulge in Halloween revelry, the workers can only hope for a Saturday night off.

At Merton Plastics and Electronics Factory, like other factories that produce toys for main customers Disney, Mattel and McDonalds, young workers and their older co-workers will spend Saturday on the job. They are **illegally underpaid** for Saturday work, because at Merton, **Saturday is mandatory** each week and counts as regular work. **Poor living conditions** include decrepit dormitory beds, no hot water for showers, and regulations prohibiting workers from airing out their bedding on weekdays.

In spite of these labor violations, Merton is one of the best factories in Disney's supply chain. In 2004, Merton was selected for "Project Kaleidoscope", a 5- year multi-stakeholder project led by Disney and McDonald's that involved regular monitoring and remediation. The project's final report shows that audits reached higher levels of success each year. After 5 years of improvement in Kaleidoscope, real changes have been made at Merton. But Disney, McDonald's and Mattel must continue to invest in Merton and other supplier factories until *all* illegal working conditions are eliminated.

China Labor Watch encourages Merton customers to address the following issues:

- *Illegal wages*: Merton operates on a 6 day/week system of 6 hours and 40 minutes per day. Saturdays are mandatory and treated as regular working hours paid at half the legal Saturday wage rate, or only \$0.71/hour. Workers make \$206-\$221 /month with overtime, before deductions for room and board
- *Excessive overtime*: Working hours last 11.5 hours daily with overtime, and total monthly overtime is 123 hours, in excess of the legal limit.
- *Vacation denied*: Workers are illegally denied annual vacation for Spring Festival.
- *Poor living conditions*: Food in the canteen is poor. In the dormitories, beds are falling apart because bugs have destroyed the wooden board worker sleep on, there is no hot water to shower or electrical outlets to charge phones, and workers are prohibited from airing out their bedding except on weekends.
- *Student workers*: The factory collaborates with local schools, who organize for student workers to pay off tuition by working at the factory, in spite of factory regulations prohibiting student workers.

Finally, auditors for Disney, Mattel and McDonald's have once again turned a blind eye to these violations, and in addition, the extensive Kaleidoscope investigations failed to uncover, or at least, to fix, these problems. These brands must change their monitoring systems to catch these issues themselves, rather than waiting for external allegations of illegal working to conditions to surface.

II. Investigation Background

CLW began investigating Merton in 1998, long before Kaleidoscope, when it was a sweatshop plagued with strikes and particularly poor conditions. CLW issued a report on Merton in 2000 detailing underpaid overtime regularly lasting through the night, 120 consecutive workdays without rest, excessive fines, overcrowded dorms, audit falsification and contract violations. Kaleidoscope was an opportunity to remedy these serious problems.

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. McDonald's, Mattel and Disney refuted CLW's investigation stating that the strikes were merely caused by a "disgruntled worker". Rather than explaining how Kaleidoscope was enabling changes at Merton, its customers denied the existence of serious problems that need to be fixed.

This tactic of evasion resonates with Disney's overall supply chain management strategy. This May, CLW issued a report about a Disney supplier in which an illegal child laborer was killed by unsafe machinery. Over several years of factory inspection, Disney auditors at the factory turned a blind eye to child labor, serious safety violations, and a number of other illegal labor practices. 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.

In this current report, many of the worst violations that led to Merton's long history of worker strikes have been addressed. The issues that remain are no less important, however, and Disney and other corporations' systemic issues with responsible sourcing remain. Kaleidoscope should be commended for its success, even as Disney and other corporations continue to oversee implementation of factory remediation at Merton. At the same time, Disney and others should change purchasing policies that direct orders to factories with the worst conditions, and an audit system that once again has failed to identify serious labor violations.

III. Company Profile

Merton Plastics and Electronics Factory is Hong Kong-owned. The factory covers an area of 160,000 square meters and employs nearly 10,000 people. Main products are plastic toys, and customers include Disney, Mattel and McDonald's (other brands in the factory could not be confirmed). All products are exported to America, Japan, Southeast Asian countries, etc. Merton is one of the largest toy factories in Dongguan City.

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IV. Investigation Results

1. Recruitment and Hiring

All year, there is a recruitment banner hanging on the main factory gate for male and female workers, with an age minimum of 16. The factory will hire any female but selection for males is stricter: tattoos and long hair are unacceptable and workers must pull back their sleeves for inspection that arm muscles are sturdy. Workers need valid IDs to enter the factory. After, they must undergo a physical exam, which merely consists of peeing in a cup while other areas of the body do not need to be checked.

The day workers enter the factory, they are given factory name-cards, uniforms, hats and electronic cards for free, and to be returned when workers leave. The factory also plays a training video, which covers facts about the factory background, human resources, and safety, and many newly hired workers watch the video without much enthusiasm.

2. Labor contracts

The labor contract is signed 3 months after hiring. The contract is for 3 years, with a 3 month probationary period. There are two copies of the labor contract, and both the factory and the worker get a copy. There are, however, exceptional cases; one worker, who had worked at the factory for four months, signed two copies of the contract and the factory retained both.



Workers outside the workshop before the workday starts

3. Wages and Working Hours

The factory is on a 6 day/week, 6 hour and 40 minute/day system, and in principle one day of rest is allotted each week. Unless the factory has very tight production catch-up, rest is generally scheduled on Sunday and there is no overtime planned for Saturday night.

Each day, workers work about 11 and a half hours. Working time after 3:30 pm is considered overtime and workers work about 60 hours of overtime/month. The first 6 hours and 40 minutes on Saturdays counts as regular working hours, and only after 3:30 PM does this Saturday work count as weekend overtime, paid legally at twice normal pay. That means that every Saturday, almost 7 hours of work are illegally underpaid at half the legal rate. In total, workers work around 123 hours overtime/month.

Assembly Department Schedule	
Morning	7:30-11:30 AM
Lunch	11:30 AM-12:45 PM
Afternoon	12:45-6:15 PM
Dinner:	6:15-7:30 PM
Overtime:	7:30-10:00 PM

Overtime is generally voluntary. Because overtime and regular working hours are continuous, workers usually choose to work overtime. Workers need only ask their supervisor not to work overtime and they will be excused, unless orders are busy, and then the supervisor will direct them to speak with the workshop manager. In general, workers do not seek out the manager, and it is difficult to request leave from overtime.

Only the Fuel Injection dept. pays piece rate wages, and other departments work on hourly wages. Wage calculation consists of base wages + overtime wages, and regular workers are paid 770 RMB (\$113) base wages. Regular overtime wages are 1.5 times normal wages, weekend overtime is 2 times and holiday overtime is 3 times. Normally, workers make 1400-1500 RMB (\$206-\$221) /month before deductions for room and board. Long term workers' base wages are 400 RMB (\$59) more than regular workers, and managers make 400 RMB (\$59) more than long term workers. A length of service reward will be implemented on October 1, but no worker has yet completed the necessary time requirement. Wages are distributed on the 28th of each month in cash along with a wage calculation chart.

4. Labor Protection

Workers are required to wear uniforms and hats at work, and workers missing either will not be allowed to enter the workshop. The following issues exist:

- The Assembly Departments assembles wrestling dolls for Mattel using Glues 502 and 207, which dry very quickly. If workers carelessly spill glue on their hand, the skin will harden and die.
- There are ultrasound machines in the workshop, which give off an ear piercing noise. On the machine a warning is posted that reads "Earplugs required within 20 meters", but the machine operators do not wear earplugs, and nearby assembly department workers feel irritated by the drone.



Assembly Department Workshop

- In the Fuel Injection Department, workers all wear masks and gloves, but many workers feel the plastic smell is very strong.
- There is a first aid kit in every department, but the kits are locked with a key.

5. Canteen and Dormitory Conditions

The factory provides room and board. For food, the factory adds 250 RMB (\$37) /month to each worker's dining card. If workers spend this money completely, they must add money to the card themselves to eat in the factory canteen. If workers do not spend the money completely, the extra funds will be paid to them upon showing the card during wage distribution. Newly hired workers must add 50 RMB (\$7.35) to the card in the first week in order to use it in the factory.

The canteen offers 3, 4 and 5 RMB (\$0.44, \$0.58, \$0.74) packaged meals. For 3 RMB (\$0.44), workers get one vegetable and one meat dish and for 4 RMB (\$0.58) another dish is added. Workers all feel the food smells badly, and many workers would rather go outside to eat. Outside, fast food restaurants offer 2, 3, 4 and 5 RMB (\$0.29, \$0.44, \$0.58, \$0.74) meals, but sanitation is generally poor.



Factory Cafeteria environment



Workers eating outside the factory

Dormitory fees are 55 RMB (\$8.08)/month, and rooms can house up to 12 workers. Because of high turnover, many rooms are free and none are filled to capacity. Most rooms house 10 workers. The dormitory beds are rusted and their wooden planks have been eaten away by bugs; even a little force will cause them to crack open. The dormitory rooms do not have an independent toilets or washrooms. There are two bathrooms on each floor, and 5 shower rooms.

The dormitory provides hot water, but not for showering, which can only use water that comes out of the buckets in the shower room. Workers purchase most drinking water at the factory store or return with water purchased outside.

No electricity is provided in the dormitory rooms, and to charge cell phones workers must give their phones to the residential supervisor and ask for the key to the Phone Charging Area. Workers are only allowed to charge for 3 hours.

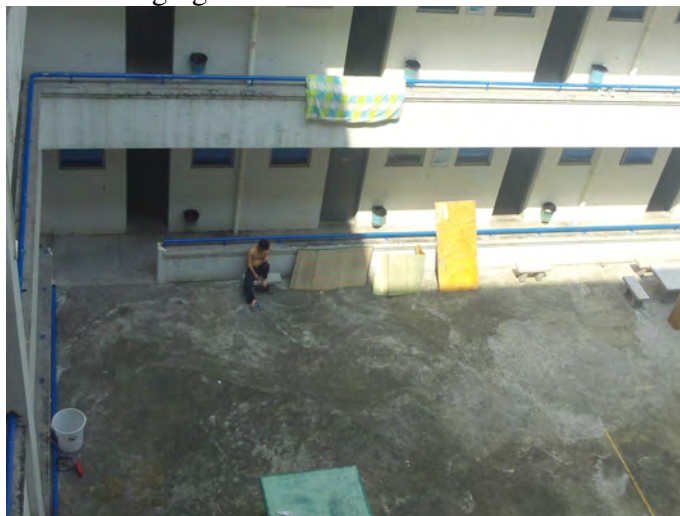
The dormitory rules state that workers can only air out their quilts and



Bed board, splitting



Phone Charging Area



Workers air out quilts on weekends only

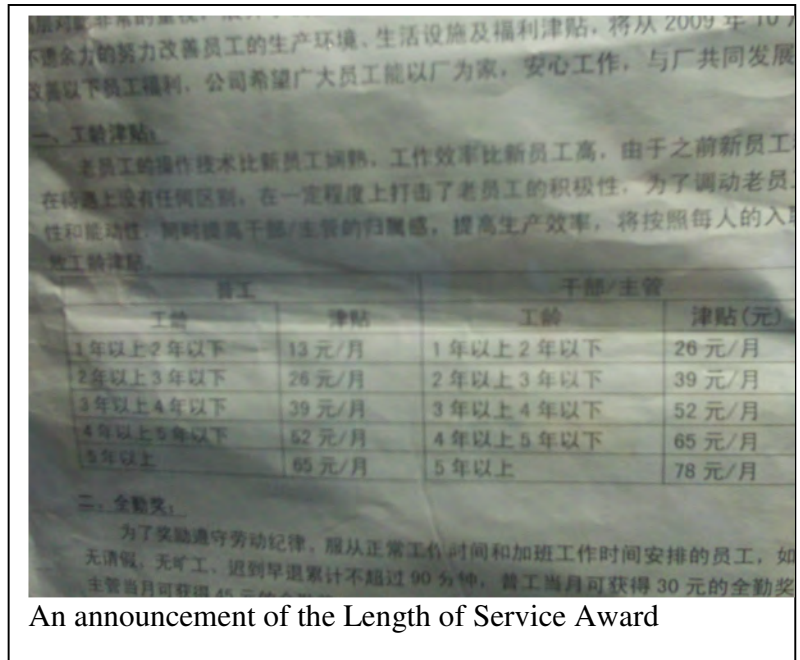
sleeping mats on Sundays, and if they are outside normally, workers will be given a warning.

6. Rewards and Punishments

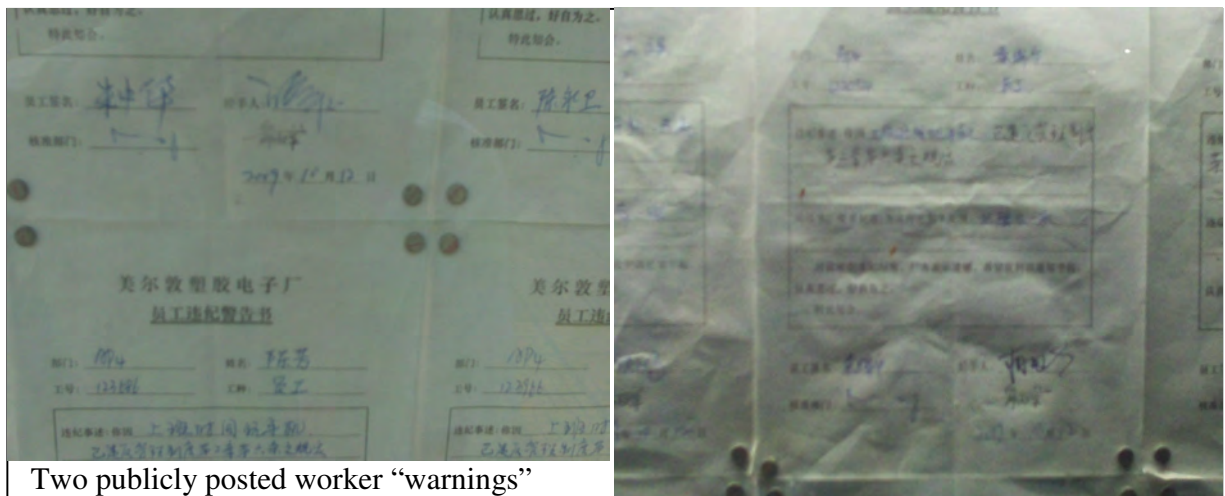
The factory gives awards for perfect attendance and long service. The perfect attendance bonus is given when workers are not absent and do not ask for time off for one month. After one year, workers are given the long service bonus of 13 RMB/month (\$1.91).

The factory does not have rules for fines, but if workers make mistakes, the factory will post a public announcement as punishment. There is management specifically devoted to Discipline and Supervision, who inspect each workshop, photograph all behavior that violates factory codes and record a list of warnings. According to older workers, the warning list is only meant to frighten newly hired workers. Older workers who sleep on the job merely open one eye to look at the warning list. Many of

the warnings are given for playing with cell phones; of 20 violations on a recent warning chart, half were for playing with cell phones. Actually, many workers just take out their phones to look at the time or answer a call, and this is considered playing with cell phones.



An announcement of the Length of Service Award



Two publicly posted worker "warnings"

7. Leaving the Factory

There are three ways of leaving the factory: resigning, being fired and quitting without leave. If workers quit without leave, the factory will not pay the worker's wages. Currently turnover is high, and 40-50 people leave and are hired daily.

There are a few problems with resigning. Many workers in the probationary period and especially the first ten days want to resign, and the workshop manager writes in their resignation announcement and application that they are quitting without leave. This way workers can leave the same day but will not be given wages. If workers want to resign after the probationary period, after the worker has completed a resignation application, the workshop manager may not give the application to the HR department and the worker's request will not be approved. Some workshops will make an order in which it will allow workers to quit. One worker who applied in September 2009 was not approved to resign until February 2010.

8. Benefits

According to the worker handbook, women who are pregnant, giving birth, breastfeeding or menstruating are entitled to paid vacation. Workers confirm that pregnant women get three months of paid vacation, and only the menstruation leave is not given.

The factory gives no annual vacation (at Spring Festival), and one worker who has been at the factory for 10 years stated that there has never been annual vacation, and he was unclear what this even is. Vacation is given for other legal holidays. 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.

9. Other

Quality Control issues– Because colors bleed out during the production process, workers must touch up products with oil, though they are unclear what kind of oil. After the oil is added, the dirty paintbrushes are hidden because customers do not permit this.

Underage workers- There are a large number of underage workers at the factory, who are assigned to the Assembly department. The factory cooperates with several technical schools to send new students to work at the factory, and presently students from Guangzhou Xincheng Technical School work there. These students come because their



Student workers playing basketball after work

instructors organize it, and their salaries pay tuition. The factory regulations clearly state that the factory does not hire student workers.