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July 27, 2009

Mike Duke  
CEO, Wal-Mart Stores, Inc.  
702 Southwest Eighth Street  
Bentonville, AR 72716-8611  
Tel: 502-731-4000

Dear Mr. Duke,

I write regarding very disturbing evidence of widespread, systematic and serious violations of worker rights at the **Hantai Shoe and Huasheng Packaging factories in China** where your **Wal-Mart** products are produced. On July 29, 2008, Wal-Mart promised CLW an investigation to assess violations discovered in CLW's July 15 2008 investigation of Hantai Shoe Factory. One year later, Wal-Mart's investigation still has not arrived. In the meantime, CLW has conducted new investigations targeting both Hantai and Huasheng Packaging factory and discovered serious new violations of worker rights.

Shortly after Wal-Mart's pledge to CLW last year, you stated in Beijing in November that all workers in Wal-Mart's supply chain should be treated with the "*respect and dignity* they deserve". This statement is published in Wal-Mart's 2009 Corporate Sustainability Report, alongside a commitment to make all supplier factories **compliant with local social regulations** by 2011. The report also explains that Wal-Mart will use outside auditing companies to audit its supply chain, and reserve its own auditing force to **address external allegations**. In order to make good on your word, Wal-Mart **must verify the violations** which CLW has discovered, and **implement remediation plans** in Hantai and Huasheng factories immediately.

Specifically, we urge you and the Wal-Mart company to immediately address and correct the following violations: At Hantai old problems persist, like the inhumane **overtime system, safety issues, incomplete contracts** and **poor dormitory conditions**, and new problems include **disguised layoffs** and **caps on already low wages**. At Huasheng, violations include **incomplete contracts, wages paid below the minimum wage, inadequate overtime wages, overcrowded dorms, and safety issues**. One Huasheng worker told us, "Each day after I clock in, I constantly think of the approaching time to clock out, but when work is slow I also hope that there will be more work so I can make more money. It is truly pitiful: To have trouble feeding my family or to toil at this job, which can I choose?" *Is this the respect dignity Wal-Mart workers deserve?*

What makes matters worse is that **Wal-Mart has conducted audits** of both of these factories, and CLW has also provided independent investigation data on Hantai to supplement Wal-Mart's efforts. At Huasheng, we discovered a document used to **falsify information** for Wal-Mart audits. This document instructs management to **force workers to lie** about wages, benefits and working time, to **hide or "adjust" official documents** relating to working schedules, safety procedures and environmental records, and to rush out of the main Huasheng factory to **conceal the second factory** by blocking the road. Wal-Mart's auditors only inspect conditions at the first factory, covering less than 60% of the Huasheng's total workforce. Clearly the auditing process has fundamental problems that need to be addressed.

We urge Wal-Mart to commit to the following concrete steps to address these violations.

*Hantai Shoe Factory:*

- 1) **Disguised layoffs:** Due to economic difficulties this year, former management have had their positions changed, taking heavy wage reductions. These changes are forced and non-consensual. The contract remains unchanged and workers are given no subsidies.

Another strategy of disguised layoff relies on a trend we reported last year for management to verbally abuse and even beat workers. This has been institutionalized and management will ridicule workers until they quit. A final method to force worker resignation is to reassign workers posts to departments they are entirely unfamiliar with. When workers are unable to complete satisfactory work they will be forced to quit.

- *Disguised layoffs allow the factory to reduce its workforce without paying mandatory severance payments legally required by the 2008 Labor Contract Law (LCL), and are a common trend post-economic crisis. Wal-Mart must investigate illegal work position changes and abusive management, and ensure that workers receive legal severance.*
- 2) **Incomplete contracts:** As CLW discovered last year, contracts state the work position but workers are also required to date a condition that the factory can adjust work positions, enabling disguised layoffs. The contract does not include relevant occupational hazards for specific posts, including specific occupational hazards, measures for worker safety or the number of medical examinations required per year.
    - *This disregard for contracts is clearly in violation of China's Labor Contract Law, which requires that all workers sign contracts. Furthermore, according to Article 19 of the law the contract must clearly state the work the job entails as well as occupational hazards. The contract system must be re-evaluated.*
  - 3) **Inhumane overtime system:** Last year's system has persisted, where overtime is mandatory and workers are denied all overtime for a month if they refuse to work excessive overtime each day. Workers must complete overtime work from Monday-Friday for around five hours each day; otherwise, they will be given no overtime at all. Neither the Labor Bureau nor the factory union has approved this system.

If overtime hours surpass a monthly limit, the factory will refigure the extra time into the next month. When the factory distributes overtime wages, it will only pay for the number of hours stated in the system limit, and the next month's overtime work will be calculated according to a smaller limit with the previous month's hours subtracted from the total.

- ***The current overtime system is involuntary and illegal. All overtime work should be voluntary. In addition, all overtime work should be paid according to legal standards.***
- 4) **Wage calculation:** Already low wages are now capped for both overtime and piece rate work. Last year, the factory did not have a cap on the maximum number of "pieces" workers could be paid, however, a limit was created this year. Now if workers wages surpass 70 RMB in one day, they will still be paid only 70 RMB.
- ***Wage caps must be eliminated.***
- 5) **Poor dormitory and canteen conditions:** Janitors do not work on weekends so the factory will not have to pay them overtime. Bathrooms are dirtiest on the weekends because workers are all in the dormitory, and at these times bathrooms are not cleaned.

Workers who live outside of the dormitories cannot eat in the cafeteria. Workers living in the dormitories are charged a rather high monthly canteen fee of 170-180 RMB regardless of whether they eat in the cafeteria. The current policy has led to reselling of canteen cards and when the factory discovers these transactions, it deducts the monthly canteen fee from the worker who sold the card. Canteen food has not improved since last year. Workers state that canteen food is poor, and even sometimes tastes rancid.

- ***Janitors must be paid overtime to clean bathrooms on the weekends. The factory should revise its canteen policies and give all workers a choice to eat in the canteen.***
- 6) **Safety issues:** There is no safety training. When workers first enter the factory, they complete a medical examination (50 RMB paid by workers), run through a two-hour training covering factory rules, and go to the factory floor where section managers introduce their work, which they begin immediately.

Protective safety equipment including gloves, masks and earplugs are only provided once or twice a month, and the factory refuses to replace worn out equipment. Workers are aware of the importance of safety equipment but minimize usage to make it last. Other safety hazards include the widespread use of the chemicals Tianna (*tiannashui*) and toluene (*jianben*) in the Printing Dept. There are no scheduled medical examinations or work rotation management policy for special work in the Fuel Injection Dept.

- ***Wal-Mart must conduct a thorough investigation. Safety training must be provided to workers covering safety equipment and a worker handbook must be developed outlining occupational safety hazards. Protective equipment must be replaced more regularly. Safety conditions in the workshop should be re-evaluated.***

*Huasheng Packaging Factory:*

- 1) **Incomplete contracts:** The contract lacks required information on work position and occupational hazards. The contract states that working hours are unfixed, and is unclear about wages, stating only “piece rate” for wage calculation. Workers themselves were unable to offer further explanation on how this piece rate system is calculated.
  - *See Hantai Factory Violation 2.*
  
- 2) **Sub-Minimum Wages:** Wages sometimes fail to meet the minimum wage standard. Workers paid in the piece rate system are paid only 1 fen per 1 square meter of paper and may make only 30 RMB/day when orders are slow. This is an hourly rate of only 3.75 RMB/hour. All workers in the 15 day probationary period are paid at a rate of 3.5 RMB/hour and overtime wage of 4.5 RMB/hour. Rest days depend on orders and workers may work one month without rest. Workers were unclear about factory policy for paid vacation and holidays, nor was this explained when they entered the factory.
  - *The Shenzhen minimum wage standard is 5.17 RMB/hour and 7.76 RMB/hour for overtime work. Workers in the probationary period make only 68% of this minimum, and most workers only make 73% of this minimum when orders are slow. Wages for all workers must meet the minimum wage standard.*
  
- 3) **Overtime Pay Denied and Wages Capped:** Workers on the piece rate system are not paid any overtime wages, and salaried workers’ wages are capped at 1300 RMB/month.
  - *Overtime pay is legally required, regardless of wage calculation methods. All workers, including those paid on a piece rate system, should be paid at the legal rate of 1.5 times normal pay for regular overtime, 2 times for weekend overtime, and 3 times for holiday overtime. Wal-Mart should investigate this wage calculation system as well as wage caps which may lead to arbitrary wage deductions.*
  
- 4) **Overcrowded Dorms:** Each dorm room houses 12 workers. Night workers and day workers are assigned to the same rooms and often disturb one another’s sleeping time. The dormitory doors do not lock and it is also hard to guarantee security in the rooms; theft is common. A room only has one electric outlet, and workers must make a line for charging cell phones. Finally the building is old and water collects following rain.
  - *Dormitory conditions should be improved.*
  
- 5) **Safety issues:** Training for newly hired workers is extremely limited, and the factory merely states factory rules and working time. Workers are not given a work manual. The paper cutting machine is extremely noisy, but workers in the surrounding area do not wear ear plugs or other protection. These machines make workers irritable, and it is necessary to leave the area and still yell to have a conversation. The paper separating and cutting machines release a large amount of paper particles and workers do not have masks. Workers in charge of collecting the paper inhale a large amount of this debris.

Workers also do not wear gloves in the factory, including the paper cutting department, printing department and binding department. In the process of production at a printing factory, workers come in contact with a large number of chemical materials. Without the protection of gloves, masks and other protective equipment, the likelihood of work related injury is high, and the factory turns a blind eye to these issues.

- *See Hantai Factory Violation 6.*

**Wal-Mart's auditors have certified both of these factories as meeting its labor standard requirements:** How have these auditors missed disguised layoffs, major safety issues, illegal wage calculations and even a second factory at Huasheng?

Each year that Wal-Mart has been in these factories, it has conducted audits and failed to identify these problems. Even after CLW explicitly informed Wal-Mart of the issues, they were neither recognized nor improved. This systematic failure of Wal-Mart's new auditing mechanism to uncover blatant and serious labor violations in these factories represents major flaws in the Wal-Mart factory auditing system. CLW strongly suspects that auditor corruption is at the root of the problem that has allowed Hantai and Huasheng to pass these inspections and produce goods sold in Wal-Mart stores throughout the world.

- *Wal-Mart must publicly disclose the names of the auditing companies that have certified both Hantai and Huasheng and failed to identify the problems in the report. Furthermore, Wal-Mart should conduct a wholesale re-appraisal of its auditing system. Instances of corruption are rarely isolated, and it is highly likely that these issues are representative of wider corruption in the Wal-Mart auditing system.*

We look forward to a conversation with Wal-Mart about how to improve factory conditions and particularly the apparent problems with its auditing system in China. CLW approves of Wal-Mart's goals to improve its effective response to external allegations and make its suppliers compliant with social regulations by 2011. This achievement can only be achieved by investing more in Huasheng and Hantai factories. You may contact CLW at [clw@chinalaborwatch.org](mailto:clw@chinalaborwatch.org) or reach us at 212-247-2212.

Sincerely,

Li Qiang  
Executive Director