



Management system audit report

Hempage

June 2011

FWF member since

1 October 2009

Sources of information

Interview with Robert Hertel (Director)

Interview with Tilman Herzog (Ecology and CSR, key account management)

Annual report and work plan

Archived documents

Database FWF

Audit conducted by:

Ivo Spauwen



Index

| | |
|---|----|
| 1. Introduction | 3 |
| 2. Executive summary | 4 |
| 3. Positive findings | 5 |
| 4. Sourcing | 5 |
| 5. Coherent system for monitoring and remediation | 6 |
| 6. Complaints procedure | 7 |
| 7. Improvement of labour conditions | 8 |
| 8. Training and capacity building | 8 |
| 9. Information management | 9 |
| 10. Transparency | 9 |
| 11. Management system evaluation and improvement | 10 |
| 12. Basic requirements of FWF membership | 10 |



1. Introduction

In June 2011 Fair Wear Foundation (FWF) conducted a management system audit (MSA) at Hempage AG (hereafter: Hempage). The MSA is a tool for FWF to verify that Hempage implements the management system requirements for effective implementation of the Code of Labour Practices, as specified in the FWF Charter.

Starting point for the MSA has been the work plan for 2011. FWF tailored the MSA to the specifics of the management system of Hempage in order to assess the key issues of interest. During the MSA, employees of Hempage were interviewed and internal documents have been reviewed.

FWF developed this report on the basis of findings collected during the MSA. The report contains conclusions, requirements and recommendations. If FWF concludes that the management system needs improvement to ensure effective implementation of the Code of Labour Practices, a requirement for improvement is formulated. The implementation of required improvements is mandatory under FWF membership. In addition, FWF formulates recommendations to further support Hempage in implementing the Code of Labour Practices. The numbering of the requirements and recommendations correspond with the numbers of the conclusions.

This report focuses on those aspects of the management system of Hempage that have been identified as key areas of interest for 2011. As FWF approaches the implementation of the Code of Labour Practices as a step-by-step process, it is well possible that MSA reports of subsequent years will focus on different aspects of the management system.

FWF will publish the conclusions, requirements and recommendations of all MSAs on www.fairwear.org. FWF encourages Hempage to include information from the MSA report in its social report.

2. Executive summary

Hempage meets most of FWFs management system requirements. With regard to the subcontractors of its main supplier, further efforts are needed to implement all of FWFs requirements.

The sourcing practices of Hempage generally support effective implementation of the Code of Labour Practices. Hempage works with a very limited number of suppliers. The company has a long term relationship of around ten years with its main supplier of clothing which represents approximately 95% of its purchasing volume. Hempage encouraged this supplier to join FWF as a factory member. This supplier (Hemp Fortex) joined FWF as a member factory in June 2011.

Hempage has substantial leverage as a customer at its main supplier (approximately 10% of factory production capacity). As far as this supplier is concerned this enables Hempage to work on improvements in working conditions. Through Hemp Fortex, Hempage works with a small number of subcontractors. Orders are subcontracted for specific clothing items (sweaters and jeans). Hempage has limited leverage at its subcontractors, which could mean in practice that there is limited potential for improvements that can be realised by Hempage and Hemp Fortex.

To date no audits have been carried out to monitor working conditions at the subcontractors of Hemp Fortex. As a result Hempage does not meet the threshold of 60% which is required on the basis of the duration of membership. The director of Hempage visits all factories where clothing is made at least once a year. Through these visits and by means of frequent communication Hempage has sufficient potential to actively follow up on corrective action plans resulting from audits.

To date FWF has received no complaints from workers employed in factories producing for Hempage.

The supplier register of Hempage for 2010 meets the requirements of FWF. It lists all factories that manufacture clothing for Hempage, including subcontractors.

In 2011 Hempage financed a training for worker representatives at its main supplier in China. The training was carried out by a local NGO in Qingdao that was recommended by various stakeholders in FWFs network in China.

Hempage is very transparent with regard to implementation of FWF membership. The company published the report of FWFs management system audit of 2010 and factory audit reports on its website. Its annual report includes the names of suppliers and subcontractors and offers a detailed status update on the corrective action plan resulting from the most recent audit.

According to Hempage various improvements were realised until 2011 in follow up of the audit at its supplier Hemp Fortex in 2009. As Hemp Fortex joined FWF as a member company in 2011 FWF will carry out an audit to verify the reported improvements in 2012.

3. Positive findings

Conclusions

1. Hempage works with a limited number of suppliers. The company has a long term relationship of over ten years with its main supplier of clothing, which represents approximately 95% of its purchasing volume.
2. Hempage encouraged its main supplier to join FWF as a factory member. The supplier (Hemp Fortex) joined FWF as factory member in June 2011.
3. Hempage is very transparent with regard to implementation of FWF membership. The company published the report of FWFs management system audit of 2010 and factory audit reports on its website. Its annual report includes the names of suppliers and subcontractors and offers a detailed status update on the corrective action plan resulting from the most recent audit.
4. In 2011 Hempage financed a training for worker representatives at its main supplier in China. The training was carried out by a local NGO in Qingdao that was recommended by various stakeholders in FWFs network in China.

4. Sourcing

Conclusions

1. The sourcing practices of Hempage generally support effective implementation of the Code of Labour Practices. Hempage has no written policy which describes its purchasing practices. Hempage generally aims at having long term relations with suppliers.
2. Hempage works with a very limited number of suppliers. The company has a long term relationship of around ten years with its main supplier of clothing, which represents approximately 95% of its purchasing volume. This supplier (Hemp Fortex) is a FWF member factory. Hempage has substantial leverage as a customer at this supplier (approximately 10% of factory production capacity). This enables Hempage to effectively work on improvements in working conditions with the supplier.
3. No clothing is produced in low risk countries; all orders are produced in China.
4. Hempage produces two collections per year. The company fixes its prices for every production season of 6 months in dialogue with suppliers. Hempage gives estimates on order quantities and fabric orders to suppliers as early as possible. As a result of its business model and niche market Hempage is able to offer its suppliers flexibility on lead times. Rather than placing pressure on suppliers through delivery times, Hempage delays its catalogue for the new season.
5. The audit carried out at the factory of above mentioned supplier in 2009 on behalf of FWF to verify improvements in working conditions pointed out that wage payments are in accordance with the local legal minimum wage. During this audit no excessive overtime was found among production workers.
6. Through Hemp Fortex, Hempage works with a small number of subcontractors. Presently the number of subcontractors is two; in 2009 orders were placed at four subcontractors. Orders are subcontracted for specific clothing items (sweaters and jeans). Whereas Hemp Fortex tends to suggest candidate subcontractors Hempage



decides if orders are placed. Hempage has limited leverage at its subcontractors, which means in practice that limitations may exist in what improvements can be requested. Staff of Hemp Fortex is generally aware of requirements regarding labour standards stemming from FWF membership. When a candidate supplier is visited, staff of Hemp Fortex carries out a quick-scan audit which follows FWFs audit methodology, with the exception that no off-site worker interviews are done. The willingness to commit to a process of continuous improvement and the existing level of working conditions are taken into account when in decision making on order placement. Suppliers are not requested to sign the questionnaire that refers to FWFs Code of Labour Practices before order placement.

Requirements

6. All subcontractors should be requested to sign the questionnaire that refers to FWFs Code of Labour Practices before order placement, to ensure their commitment to the improvement process.

5. Coherent system for monitoring and remediation

Conclusions

1. The main factory of the most important supplier of Hempage was audited twice: in 2008 on behalf of Hempage and in 2009 on behalf of FWF. In 2011 this supplier (Hemp Fortex) joined FWF as a member factory.
2. The director of Hempage visits the factories where clothing is made at least once a year. In addition to this Hempage employs a full time local quality controller which visits the factories and pays attention to basic issues. Through these visits and by means of frequent communication Hempage actively follows up on corrective action plans.
3. To date no audits have been carried out to monitor working conditions at the subcontractors of Hemp Fortex. As a result Hempage does not meet the threshold of 60% which is required on the basis of the duration of membership. If subcontractors would be audited Hempage would meet the threshold of 90%, which is normally required for the third year of membership. Hempage is presently planning audits at the two most important subcontractors.

Requirements

3. Hempage is required to arrange audits at all subcontractors of its main supplier Hemp Fortex in order to monitor working conditions in these factories.

Recommendations

1. With regard to Hemp Fortex the primary responsibility to monitor and improve working conditions at the factory and its subcontractors lies with the supplier as it joined FWF as a member factory. As an affiliate member that is placing orders at member factory FWF expects Hempage to request copies of audit reports. Hempage and Hemp Fortex should assess on the basis of points in the corrective action plan if and how Hempage should revise its purchasing practices to contribute to implementation of living wages.
2. On request FWF could provide on the job training for the local quality controller of Hempage in China to strengthen his role in the process of following up corrective action plans.
3. It is recommended to arrange a combined audit at subcontractors to minimize travel costs.

6. Complaints procedure

Conclusions

1. To date FWF received no complaints from workers employed in factories producing for Hempage.
2. FWF verified that the FWF Code of Labour Practices including the contact information of the local complaints handler of FWF is posted in the work place of the main supplier of Hempage.

7. Improvement of labour conditions

Conclusions

1. The audits carried out on behalf of Hempage (2008) and FWF (2009) pointed out the following: In 2009 it was found that several improvement points had been realised after the audit in 2008. After the 2008 audit the FWF Code of Labour Practices was posted in the factory. General awareness of Chinese labour legislation was found to have improved. In other areas further improvement is still required. The factory had a workers' representative committee in March 2009, but it did not function properly at that time. The 2009 audit pointed out that the factory does not record the actual working time of all workers. Not all workers were given by social insurance, and some contracts do not include the date when the contract was signed. Points for improvements still existed with regard to fire safety. No non-compliances were found on discrimination, child labour and forced labour in 2008 and 2009.

2. According to Hempage improvements were realised on all above mentioned issues between 2009 and 2011. A status update from Hempage can be found in its annual social report (published on FWFs website). As Hemp Fortex joined FWF as a member company in 2011 FWF will carry out an audit to verify the reported improvements in 2012.

Based on results of audits carried out by FWF teams to verify improvements FWF has drawn up an overview of improvements in labour conditions in factories. The overview is annexed to this report. This overview includes results of audits by FWF local audit teams. Results of audits by other initiatives or improvements reported by the member company that were not yet verified are not summarized.

Recommendations

1. Hempage could use the wage ladder tool developed by FWF to further work towards implementation of living wages in factories. FWF recommends to assess in cooperation with key suppliers which have demonstrated a reasonable amount of progress in implementation of a CAP how further steps forward towards payment of living wages for a regular working week can be made.

8. Training and capacity building

Conclusions

1. Hempage staff is sufficiently informed about FWF membership and steps taken for the implementation of the Code of Labour Practices.

2. In April 2011 Hempage financed a training for worker representatives at its main supplier in China. The training was carried out by a local NGO in Qingdao that was recommended by various stakeholders in FWFs network in China. In 2009 Hempage financed a training on Chinese labour law and international labour standards for all workers of its main supplier in China.



9. Information management

Conclusions

1. The supplier register of Hempage for 2010 meets the requirements of FWF. It lists all factories that manufacture clothing for Hempage, including subcontractors.
2. Hempage has a functioning workflow to keep its supplier register up to date.

10. Transparency

Conclusions

1. Hempage mainly informs the external public about its FWF membership through its website. In addition the company informs consumers about FWF membership by means of product hangtags and its product catalogue.
2. Hempage submitted its 2010 annual social report to FWF but has not made it public through its website.
3. Hempage is very transparent with regard to implementation of FWF membership. The company published the report of FWFs management system audit of 2010 and factory audit reports on its website. Its annual report includes the names of suppliers and subcontractors and offers a detailed status update on the corrective action plan resulting from the most recent audit.

Requirements

2. The annual social report must be posted on the corporate website of Hempage.



11. Management system evaluation and improvement

Conclusions

1. Hempage evaluates its FWF membership as part of ongoing discussions with Hemp Fortex.

Recommendations

1. It is advised to carry out a formal evaluation at least on an annual basis to assess if the process of improving working conditions in factories is effective.

12. Basic requirements of FWF membership

Conclusions

1. Hempage has handed in a work plan for 2011.
2. Hempage has paid its membership fees for 2009-2011.

| | Summary of most important findings from audit (June 2009) carried out on behalf of a FWF affiliate member which is a customer of Hempage AG. | Summary of most important findings from audit (June 2009) carried out on behalf of FWF to verify improvements in the factory which is the main supplier of Hempage AG. |
|--|--|---|
| Workers interviews | Twelve workers were interviewed prior to the date of the audit. In addition, individual worker interviews were held with randomly selected workers of the factory. | Two male workers were interviewed prior to the date of the audit, outside the factory premises. Short interviews were also conducted with two male and eighteen female workers on the shop floor. |
| Documentation | Since inconsistencies were found between production records and time records, it was determined that the facility kept falsified records. | No falsification found. |
| Sourcing practices (price, leadtime, quality requirements) | Not part of this audit. | Findings from this audit exclusively relate to another affiliate member of FWF and are included in the MSA report on this affiliate. |
| Monitoring system of FWF member company | FWF code was not provided to the facility. | At the time of the audit the factory had not received the report and corrective action plan from the previous out carried out on behalf of the FWF affiliate which is a customer of Hempage AG. The factory has direct communications with Hempage AG on follow up on the corrective action plan. |
| Management system factory to improve labour standards | Management and the workers were not aware of the FWF code and did not receive trainings on the code elements. Facility does not establish a system to select and inspect the social compliance performance of its subcontractors. | After the 2008 audit the FWF Code of Labour Practices was posted in the factory. General awareness of Chinese labour legislation was found to have improved. |
| Communication, consultation and grievance procedure | Not part of this audit. | No non-compliances found |
| Employment is freely chosen | No non-compliances found | No non-compliances found |
| No discrimination in employment | No non-compliances found | No non-compliances found |
| No exploitation of child labour | No non-compliances found | No non-compliances found |
| Freedom of Association and the Right to Collective Bargaining | No functioning worker representation structure exists in the factory | The factory has established a workers' representative committee in March 2009. However, the committee has not been functioning so far and the representatives are appointed by the management. |
| Payment of a Living Wage | Facility fails to pay 300% of regular wage to workers for the legal holiday working. | Wages are paid in accordance with legal requirements according to Chinese labour legislation. |
| No excessive working hours | Overtime compensation for salary workers was not calculated accurately. They were compensated based on local minimum wage, not their exact fixed salary as signed in the labour contract. Facility does not record reasons for overtime work. Facility does not establish a voluntary overtime system to ensure that all the workers are arranged for overtime work voluntarily. | The factory has not recorded the actual work time of all workers. Security guards of the factory has been working more than the legal maximum of 40 hours per week. |
| Occupational health and safety | Facility does not have fire inspection certificates for all its buildings. One fire extinguisher in the weaving workshop was found under pressure. 3 sewing machines were missing needle guards. There is no ergonomic program in place. Workers were not provided with floor mats or chairs with back support. | Fire drills have not happened in 2009. Some signs of fire exits are not equipped with light and powered by charged batteries. Three exit doors on the 2nd and 3rd floor should be changed such that it is to be pushed open from inside the shop floor. |
| Legally binding employment relationship | 64 out of 126 workers are not covered by occupational injury insurance, 76 out of 126 workers are not covered by retirement insurance and child-bearing insurance, 80 out of 126 workers are not covered by medical insurance. | Not all workers are covered by the social insurance. Some contracts don't include the date when the contract was signed. |
| Special remarks | None. | None. |