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## **The Council on Ethics' annual observation report on Hansae Co Ltd and Hansae Yes 24 Holdings Co Ltd**

In May 2017, The Council on Ethics recommended that Hansae Yes24 Holdings Co Ltd and its subsidiary Hansae Co Ltd be excluded from the Government Pension Fund Global (GPF) due to an unacceptable risk that the companies were responsible for systematic human rights violations. The Council's assessment was based largely on investigations into working conditions at Hansae's garment factories in Vietnam, which found widespread labour rights violations.

On 29 June 2017, Norges Bank published its decision to place the companies under observation. Norges Bank's board considered that the measures Hansae had initiated to improve working conditions were sufficient to warrant observing future developments.

The recommendation to exclude Hansae and Hansae Yes 24 from the GPF was based on investigations carried out at Hansae Vietnam's factories by the US organisations The Fair Labor Association (FLA) and the Worker Rights Consortium (WRC). Both these organisations have updated their reports on working conditions at Hansae Vietnam after the Council concluded its assessment of Hansae in May 2017.

In October 2017, Hansae's US consultant sent the Council a progress report on Hansae's efforts to reduce the risk of labour rights violations. Furthermore, the Council held meetings with Hansae og Hansae Yes 24 in Vietnam and South Korea in November 2018.

### **Developments since May 2017**

#### ***Hansae Vietnam***

As described in the Council on Ethics' recommendation of May 2017, Hansae had already begun to implement measures to improve working conditions at its factories in Vietnam at the end of 2016. This work has continued in 2017 and 2018.

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In conjunction with one of its customers, Hansae drew up a plan containing 262 action points to correct the norm violations that had been uncovered by the FLA and WRC's investigations. In February 2018, the FLA was of the opinion that the company had implemented the action plan.<sup>1</sup> Hansae also signed a Memorandum of Understanding on further measures with the WRC in October 2017. These reports form the most important foundation for assessing improvements compared with the situation described in the Council's recommendation.

*Production targets* – High production quotas and high indoor temperatures were deemed to be a contributing factor to fainting episodes and exhaustion among the employees. According to Hansae, production quotas are no longer based on managers' subjective assessments. The factories in Vietnam now use software to calculate production quotas, based on the workers' actual performance during normal working hours and taking account of rest breaks.

As part of the MoU with the WRC, Hansae has identified employees who were penalised or were not given planned pay rises because they did not meet their production quotas. Hansae has now paid these workers in arrears.

*High temperatures, working environment and health* – Air conditioning systems have now been installed in all factory buildings. According to the latest FLA report, Hansae has also made many changes to its health and safety routines. For example, all employees receive necessary personal protective equipment and sickbay employees must record all accidents and cases of illness that happen at the factories. Furthermore, fire safety is said to have been improved through the implementation of numerous measures.

*Involuntary overtime* – Hansae has introduced a system where employees who so wish can sign up in the morning for overtime. Employees who do not wish to work overtime do not need to explain why. Hansae has now paid out a total of USD 750,000 to employees at its factories in Vietnam to compensate them for previously unpaid overtime.<sup>2</sup>

*Wage deductions for lawful sickness absence* – Approved sickness absence is not penalised. Caring for a sick child is accepted as lawful grounds for absence. Hansae Vietnam has worked with the trade union to provide support for workers suffering from chronic illnesses.

*Unfair dismissal* – The investigations carried out by both the FLA and WRC revealed that many workers had been unfairly dismissed. Hansae has offered to rehire these workers in similar positions and to pay a cash settlement for lost earnings.

*Discrimination* – Hansae has written to all those female employees who did not have their contracts renewed between 1 November 2015 and 31 October 2016. Hansae has offered to rehire those women who were pregnant when their contracts expired in similar positions. The company has notified all employees that contract renewal is based on assessments of job performance, and that pregnancy is not an issue.

*Complaints mechanisms* – At the Council's meeting with Hansae, the company explained that it had created many communication channels for employees. These include the opportunity to communicate through mobile phone apps, social network sites, suggestion boxes, an anonymous whistleblower channel and emails, which can be sent straight to head office. The company carries out third-party interviews with employees and meetings are held between factory management, middle managers, work supervisors and employee representatives.

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<sup>1</sup> FLA: Final Report. Third Party Complaint; Hansae Vietnam, February 21 2018, [http://www.fairlabor.org/sites/default/files/documents/reports/final\\_report\\_hansae\\_vietnam\\_february\\_2018\\_0.pdf](http://www.fairlabor.org/sites/default/files/documents/reports/final_report_hansae_vietnam_february_2018_0.pdf)

<sup>2</sup> Memorandum of Understanding between Hansae Co.Ltd. and the Worker Rights Consortium regarding the Remediation Plan for Hansae Vietnam, <https://www.workersrights.org/university/WRC-Hansae%20MOU.PDF>

*Freedom of association* – Under the MoU with the WRC, Hansae has a duty to ensure that no employee in a management position is nominated for or elected onto the union’s governing board. In 2017, Hansae supported a training programme in unionisation. The objective was to teach workers about the principles and practice of freedom of association. The training was carried out in conjunction with a local university and covered the nomination and election of production workers to positions on the union’s governing board, as well as the rights and responsibilities of board members. Around 40 employees have completed this course of training, including board members, managers and employee representatives.

### ***Costec – Myanmar***

Hansae has informed the Council that it has carried out numerous improvements at the factory in Myanmar. According to the company, working hours are now within the maximum legal limit of 60 hours per week. The production system is currently being evaluated. Employees can give notice that they wish to work overtime, in a system similar to that used at Hansae Vietnam. A complaints mechanism has also been created. Employees have taken part in a training programme on freedom of association, and a so-called Workplace Coordination Committee has been set up to facilitate dialogue between the workers and factory management.

### ***Policy and implementation***

According to the new human rights policy that was published in August 2017, Hansae shall operate its business in a way that respects internationally recognised human rights, such as those reflected in the company’s Code of Conduct. The company also says that it performs due diligence assessments to prevent human rights violations, for example when establishing operations in new countries. The policy has been approved by the board of directors and has been communicated externally and internally to all employees, business associates and stakeholders. Hansae also says that senior executives, middle managers and employees have received training in the new policy, human and labour rights and the UN Guiding Principles for Business and Human rights.

Hansae also reports that it has strengthened its compliance organisation and that more resources have been allocated to compliance. There is a compliance team at each factory, which is led by a compliance manager in each country where Hansae operates. Each team performs monthly self-audits, based on a checklist. Employees and factory management, including Hansae senior executives, have access to the results online. The head of the compliance team reports to the head of the Compliance Department at head office, who in turn reports to the CEO.

### **Hansae’s response to the draft observation report**

Hansae has been sent a draft copy of the Council’s observation report. The company had no comments with respect to its contents, but wishes once again to underline *“that Hansae is strongly committed to operating all of its businesses in strict compliance with internationally recognized human rights principles and practices, and will continue to dedicate our efforts to implement and enforce a variety of measures that can significantly improve labor practices and working conditions in all aspects in all of our factories.”*

### **The Council’s assessment**

Since May 2017, Hansae has implemented a raft of measures to improve working conditions, particularly at Hansae Vietnam. The Council notes that Hansae’s top management has taken

responsibility for driving the process forward. This approach indicates a change in attitudes to labour rights within the Group. In this respect, the introduction of the new human rights policy throughout the Group is an important step.

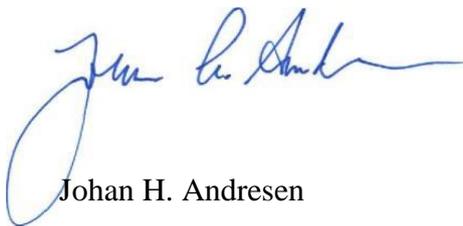
At its factories in Vietnam, Hansae has provided managers and employees training in human rights and has strengthened its efforts to comply with both its own and its customers' codes of conduct. More resources, improved audits and clear reporting lines are positive elements in this work. The Council notes that Hansae has worked to strengthen freedom of association within the framework of Vietnamese law, and that has set up many different complaints mechanism that employees can use. Given the right treatment, such complaints give important feedback to the company about unacceptable or unlawful practices and lead to further improvements. The Council has also noted that Hansae has compensated those employees who were unfairly dismissed or were forced to work without pay.

Hansae wishes to run its business in accordance with UN guidelines on responsible business practice. The company has made changes in its management structure and reinforced its compliance organisation, both at group level and at the factories, to ensure that the company's policies are implemented throughout the organisation. It also attaches importance to the performance of due diligence assessments, for example when setting up operations in new countries. The improvements in the working conditions that Hansae has implemented at the factories in Vietnam are positive. The Council considers the risk that the company is responsible for labour rights violations at these factories to be less now than when the Council recommended the company's exclusion from the GPF. G.

However, it is too early to determine the extent to which the changes that Hansae has implemented are sufficient, particularly with respect to Hansae's operations in other countries. For example, the Council is not entirely clear how Hansae identifies risk in different countries and situations where the company has operations, how these risks are prevented, mitigated and reported.

The Council on Ethics therefore wishes to continue observing Hansae's efforts to prevent labour rights violations. In order to obtain a foundation for assessing the extent to which the company's measures are effective, the Council will carry out new investigations at the company's factories in 2019. These will be included in the Council's further observation of Hansae and Hansae Yes 24 Holdings.

Yours sincerely,



Johan H. Andresen

Chair of the Council on Ethics