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Observation report to Norges Bank

In May 2017, the Council on Ethics recommended that Hansae Yes24 Holdings Co Ltd and its subsidiary Hansae Co Ltd be excluded from investment by the Government Pension Fund Global (GPFG) due to an unacceptable risk that the companies are responsible for systematic human rights abuses. The Council's assessment rested largely on the outcome of investigations into working conditions at Hansae's garment factories in Vietnam, which uncovered widespread infringement of employees' labour rights.

On 29 June 2017, Norges Bank announced 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 a period of observation.

In 2020, the GPFG divested from Hansae Yes 24 Holdings Co Ltd. Therefore, this observation report concerns only Hansae Co Ltd (Hansae).

Developments in 2019–2020

In its observation report for 2018, the Council on Ethics attached importance to the fact that Hansae had, since May 2017, implemented a series of measures to improve working conditions, particularly at Hansae Vietnam, and that Hansae's senior management had taken responsibility for driving the process forward. The Council estimated that the risk of Hansae being responsible for labour rights abuses at its factories in Vietnam was lower than when it recommended the company's exclusion.

The Council concluded that even through Hansae had implemented a number of changes to improve working conditions at the factory in Vietnam, it was too early to assess the adequacy of the changes implemented by the company, particularly with respect its operations in other countries.

In order to obtain a basis for assessing the efficacy of the company's initiatives, the Council commissioned an investigation into labour conditions at Hansae Haiti. The investigation was based on interviews with employees away from the factory premises, phone interviews with

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factory managers and a review of internal policies and factory documents. Due to the political situation in Haiti, it was not possible to perform a physical inspection of the factory for security reasons.

Through 2019 and 2020, the Council on Ethics has communicated with Hansae several times, most recently in November 2020, and has also held a videoconference with the company. Hansae has commented on the investigation into the factory in Haiti and has provided details of what the company is doing to improve working conditions at the company's factories and perform risk assessments. The company has also commented on a draft of this observation report.

Assessment of Hansae Haiti

Hansae Haiti produces garments for several US clothing brands and has around 2,500 employees. The investigation pointed to systematic discrimination of women in connection with recruitment (pregnancy testing), unpaid overtime and verbal abuse by managers for the purpose of increasing employees' productivity.

Better Work, a programme run jointly by the ILO and IFC to improve working conditions in the textiles industry, has inspected Hansae Haiti several times over the course of 2018 and 2019. Among its findings, Better Work pointed to repeated non-compliance of regulations relating to the handling of chemicals, inadequate fire safety measures and excessively high temperatures in parts of the factory.¹

Hansae rejects the investigation's claims that the company has demanded a pregnancy test as a condition of employment at Hansae Haiti. The company's own inquiries, based partly on interviews with employees, do not indicate any such practice. The company also says that it would be against company policy, which does not permit any form of discrimination. Better Work reported in 2019 that Hansae had sacked two pregnant employees without legal grounds. The company rehired them, even though the company claimed they had been dismissed due to behavioural issues, not because they were pregnant.

The company has also investigated the allegations of abuse: "Upon the conclusion of our investigation, we were not able to find any incidents of unreported verbal abuse or sexual harassment." Hansae writes, however, that a production supervisor at one of its factories in Haiti had been dismissed for sexual harassment and gross verbal abuse. The company further discloses that it has received a complaint about a manager at one of its factories, who had inappropriately pressurised employees to work faster.

Hansae has zero tolerance for harassment and investigates all such allegations. The company says that it will expand its training of managers and supervisors, with the emphasis on workplace communication, cooperation, etiquette and interpersonal relations, and will clearly communicate the importance of respecting employees' integrity and dignity and refraining from offensive behaviour. The zero-tolerance policy will be regularly communicated to all employees at the factories.

With respect to Better Work, Hansae states that the programme has inspected Hansae Haiti five times in the period July 2019 to March 2020, and the company has now addressed all the non-conformances pointed out in its report.

¹ Better Work Haiti, 20th Biannual Compliance Synthesis Report, https://betterwork.org/wp-content/uploads/2020/05/20th-BWH-Report_May-14.pdf

Policy and implementation

The previous observation report described Hansae's system for policy implementation and compliance. There is a compliance team at each factory, led by a compliance manager in each country where Hansae has operations. The compliance team investigates complaints, inspects the factory and equipment, reviews documents and interviews employees. Each team performs monthly self-audits based on a checklist. Employees and factory management, including Hansae's corporate management, have access to the results online. The compliance team leader reports to the head of the Compliance Department at head office, who in turn reports to the CEO.

Hansae has informed the Council that it intends to gradually introduce third-party inspections at all its factories, but that the Covid-19 pandemic has delayed the implementation of this initiative. The company also plans to introduce incentives to encourage greater compliance and this will be included in assessments related to promotions.

Complaints mechanism

Both in its letters to and at its meeting with the Council, Hansae has explained that since 2017 it has set up many communications channels for employees, through which they can raise potential improvement points and submit complaints about infringements of their labour rights. In addition, meetings are held between factory management, middle managers, supervisors and employee representatives. This latter measure has been suspended due to the Covid-19 situation.

Complaints are handled by the compliance team at each factory. Measures are assessed by factory management and the compliance team at head office, which also monitors their implementation. The company has disclosed that more complaints were submitted in 2019 than in 2018, which it sees as an indication that the system is working.

Risk assessments

Hansae writes that it performs risk assessments at each new factory in order to minimise and eliminate as far as possible risk relating to the operation and to prevent injuries and other incidents.

“Our first approach is to ensure that all of our new factories strictly follow and implement our compliance requirements, [...] along with any other specific local requirements of each country. These measures are implemented by each factory's Compliance and Human Resources Teams under the supervision of the top management team of each factory and the Compliance and Sustainability Team at Hansae headquarters in Korea.”

The risk assessment is based on checklists. Subsequently, the normal procedures for monthly self-audits are performed.

Hansae's comments to the observation report

The company underlines that:

“Hansae does not, and will not, in any way tolerate any type of discrimination, especially gender discrimination in the form of administering or requiring pregnancy testing during hiring process. We will continue to closely monitor all of our factories to ensure that no such type of discriminatory practice ever happens. Furthermore, we will continue to implement those policies and practices that aim to promote and ensure the health, safety and general wellbeing of all our employees at all of our factories, and to promote a corporate culture that prioritizes workers' rights and corporate social responsibility.”

The Council's assessment

The Council on Ethics' recommendation in 2017 was based on working conditions at Hansae's factories in Vietnam. The Council evaluated the measures the company had implemented at these factories in its observation report for 2018. The Council considered that the improvements in working conditions that Hansae had instituted were positive, and that the risk of the company being responsible for labour rights infringements at these factories was at that time lower than when the Council recommended the company's exclusion.

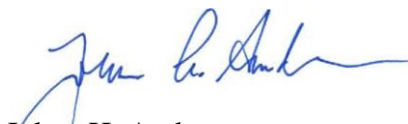
To assess the implementation of Hansae's policy in other parts of the company's operations, the Council chose to investigate Hansae's factories in Haiti. In general, the norm violations here were smaller in scope than at Hansae Vietnam. With the exception of pregnancy testing, the findings of the Council's investigations coincide largely with the results of Hansae's own inquiries. It is difficult for the Council on Ethics to determine the cause of the deviation between the Council's investigation and Hansae's own inquiry into this matter. In any case, it is not something that by itself would cause the Council to recommend that the company be excluded from investment by the GPF. Hansae has now implemented measures to improve its labour practices and corrected non-conformances at Hansae Haiti.

The Council understands that the most important changes that Hansae has implemented at the corporate level to prevent labour rights infringements took place in 2017 and 2018. Since then, the company has worked to implement these changes at its factories. It appears to the Council as though the company is now working more systematically with regard to labour rights and working conditions than it did when the Council issued its recommendation. Nevertheless, the findings of the Council's investigation as well as Better Works' report may nevertheless indicate, that breaches of labour rights still occur at the factories and that the implementation of its policies at the company's factories remains a challenge for Hansae.

The Covid-19 pandemic has made it difficult for the company to implement certain measures as planned. It also makes it difficult for the Council on Ethics and other bodies to investigate working conditions, since that requires a physical presence at the factories being inspected. In such a situation, there could be a greater risk that labour rights will be infringed.

To assess whether the changes implemented by Hansae have produced a lasting risk reduction, the Council would nevertheless like to continue observing the company's efforts to prevent labour rights infringements. Pandemic permitting, it would also like to perform a new investigation of the company's factories in 2021.

Yours faithfully,



Johan H. Andresen
Chair