

To Norges Bank

25. November 2021

**Recommendation to terminate observation of Hansae Co Ltd and Hansae
Yes24 Holdings Co Ltd**

Summary

In June 2017, the two South Korean companies Hansae Co. Ltd (Hansae) and Hansae Yes24 Holdings Co Ltd were placed under observation due to the risk of systematic labour rights abuses at Hansae's garment factories. Hansae produces textiles and garments in Vietnam, Myanmar and Haiti, among others.

During the observation period, Hansae has implemented numerous measures to improve working conditions at its factories. The company has also made changes to its management and compliance systems, and the sum of these measures may help to create lasting improvements.

The Council on Ethics considers that the risk of systematic labour rights abuses at the company's operations is no longer unacceptable, and recommends that observation of Hansae Yes24 Holdings Co Ltd and Hansae Co Ltd be terminated.

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1 Introduction

In June 2017, the company Hansae Co Ltd¹ (Hansae) and its parent company Hansae Yes24 Holdings Co Ltd² were placed under observation due to the risk of systematic labour rights violations at Hansae's garment factories.

Hansae has 11 subsidiaries, which produce textiles and garments in five countries (Vietnam, Nicaragua, Guatemala, Haiti, Indonesia and Myanmar). In 2020, the company established a new factory in the USA, which produces face masks. Hansae is listed on the stock exchange in South Korea. The company has around 30,000 employees.

At the close of 2020, the Norwegian Government Pension Fund Global (GPF) owned 1.22 per cent of Hansae's shares, worth NOK 67.5 million. The GPF currently owns no shares in Hansae Yes 24 Holdings Co Ltd.

1.1 Matters considered by the Council

Under section 5(7) of the Guidelines for Observation and Exclusion from the Government Pension Fund Global, the Council shall regularly reassess whether the grounds on which companies were placed under observation or excluded from the GPF still exist. The Council may, on the basis of new information, recommend that Norges Bank's decisions to observe or exclude companies be revoked.³

2 Background

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 Norwegian Government Pension Fund Global (GPF) due to an unacceptable risk of contributing to systematic human rights abuses. The Council's assessment was largely based on studies of working conditions at Hansae's garment factories in Vietnam, which revealed widespread labour rights infringements.

On 29 June 2017, Norges Bank published its decision to place the companies under observation. Norges Bank's Executive Board considered that the measures Hansae had set in train to improve working conditions were sufficient to warrant observation of its progress going forward. Norges Bank asked the Council to observe developments at the company.

The Council submitted observation reports to Norges Bank in February 2019 and November 2020. In these reports, the Council assessed Hansae's implementation of measures to improve working conditions and reduce the risk of labour rights abuses at its factories.⁴

The Council's 2017 recommendation

The recommendation to exclude Hansae was based largely on studies of working conditions at Hansae Vietnam's factories in the period from October 2015 to October 2016, which were

¹ Issuer ID: 15090563

² Issuer ID: 866436

³ [Guidelines for Observation and Exclusion GPF 29 November 2021 \(regjeringen.no\)](#)

⁴ The observation reports of 11 February 2019 and 24 November 2020 are available on the Council's website. www.etikkradet.no.

carried out by the US organisations Fair Labor Association (FLA) and Worker Rights Consortium (WRC).

The working conditions revealed at Hansae Vietnam included a lack of fire safety provisions, harassment, illegal restrictions on sickness absence, unfair dismissal, discrimination and constraints on unionisation. There were indications of similar norm violations at Hansae's subsidiary in Myanmar.

Following the studies carried out in 2016, Hansae made management changes at Hansae Vietnam and implemented measures to rectify the norm violations uncovered by WRC and FLA. Nevertheless, the Council recommended that the company be excluded from investment by the GPFG because the Council had not received information indicating that the company would commit to sweeping changes in order to develop a system that was capable of preventing labour rights abuses in the company.

The Council's observations

In its first observation report, in February 2019, the Council assessed Hansae's development since May 2017. In collaboration with one of its customers, Hansae had drawn up an action plan containing 262 action points to rectify the norm violations that the FLA and WRC's investigations had uncovered. In February 2018, FLA took the view that the company had completed the action plan.⁵ Hansae had also signed a Memorandum of Understanding with WRC in October 2017 with regard to further initiatives. The company had, moreover, implemented many improvements at the factory in Myanmar.

In August 2017, Hansae published its new human rights policy, which expressed Hansae's commitment to operating its business in a way that respects internationally recognised human rights. The policy was approved by the board of directors and was communicated externally and internally to all employees, business associates and stakeholders. The company had made changes in its management structure and strengthened its compliance organisation at group level and in its factories in order to ensure implementation of the guidelines throughout the organisation.

As the basis for its second observation report, the Council commissioned a study of working conditions at Hansae Haiti in 2020. The study showed evidence of discrimination in the employment of women (pregnancy testing), unpaid overtime and verbal harassment by supervisory staff for the purpose of increasing employee productivity. Nevertheless, the scale of the norm violations here was less than at Hansae Vietnam. Following the study, Hansae informed the Council that the company had carried out its own investigations and initiated measures to improve working conditions and rectify non-conformances at the factory.

Hansae has described its system for ensuring compliance with internal guidelines. There is a compliance team at each factory, which is led by a compliance manager in each country in which Hansae operates. The compliance team investigates complaints, inspects the factory and equipment, reviews documents and interviews workers. Each team carries out monthly checklist-based self-audits. Employees and factory managers, including Hansae's senior executive team, have access to the results. The compliance team leader reports to the leader of the Compliance Department at head office, which reports in turn to the CEO.

⁵ 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.

Since 2017, furthermore, the company has established multiple channels through which employees can report complaints about labour rights infringements. Hansae has introduced regular meetings between factory management, middle managers and supervisors, and employee representatives. These meetings have now been suspended due to the Covid-19 situation. Complaints are dealt with by the compliance team at each factory. Measures are evaluated by factory management and the Compliance Department at head office, which also monitors their implementation.

Hansae has explained that it performs risk assessments at each new factory in order to prevent injuries and other incidents, and to ensure compliance with the authorities' requirements. The risk assessment is based on checklists and is followed up by monthly self-audits.

The Council had planned to commission a new study of the company's factories in Myanmar in 2021, to assess whether the changes Hansae had made had resulted in lasting improvements to working conditions. However, the pandemic and the military coup in Myanmar on 1 February 2021 have made it difficult to carry out any such study of working conditions. Hansae has informed the Council that the factories in Myanmar have been forced to close several times, and that the political situation in the country has put the company in a challenging situation. It has therefore not been possible for the Council to examine working conditions at the factories.

3 Information from the company

The Council has communicated regularly with Hansae since 2017. Hansae has commented on draft versions of observation reports, the Haiti factory report and a draft version of this recommendation. Hansae has provided detailed information on what the company is doing to improve working conditions at its factories. The Council has also held meetings with Hansae, including a visit to its factories in Vietnam in 2018.

Commenting on this recommendation, the company wrote: *"Hansae will continue in our efforts to build a culture that promotes and prioritizes our employees' rights, and to implement and monitor measures to continuously improve working conditions and labor practices at all our factories."*

4 The Council's assessment

In its 2017 recommendation, the Council made it plain that Hansae had to create the preconditions for lasting improvement in working conditions at its factories, which would require a significant change in attitude within the company and a comprehensive system through which the company communicated that norm violations are unacceptable. The Council also underlined the necessity of establishing channels for real dialogue between workers and management, and of respecting freedom of association.

Early in the observation period, Hansae implemented numerous measures to improve working conditions at its factories. The company improved its management system and established a compliance system where working conditions are monitored, complaints collected in and investigated, and non-conformances rectified.

Nevertheless, the Council's study of the Haiti factory in 2020 showed that implementation of the company's guidelines in practice remain challenging for Hansae, and that labour rights abuses could still occur at the factories. However, compared with the findings of the many

investigations the Council has had carried out in the textiles industry over the past five years, the norm violations at Hansae's factory in Haiti were not especially serious or systematic, and are not per se sufficient to exclude the company from the GPFG.

The Council attaches importance to the positive developments at the company since 2017. In the Council's view, the company now appears to be working more systematically in the area of labour rights and working conditions than it did before. The Council therefore recommends that observation of the company be terminated. However, the Council considers that Hansae must continue working to prevent labour rights abuses and safeguard good working conditions at its factories in order for the measures it has implemented in recent years to have a lasting impact. When observation is terminated, the Council will no longer perform specific investigations or continue its dialogue with the company, but will monitor its performance in the same way as other companies in which the GPFG has invested.

5 Recommendation

The Council on Ethics considers that the risk of systematic labour rights abuses in the company's operations is no longer unacceptable and recommends that observation of Hansae Yes24 Holdings Co Ltd and Hansae Co Ltd be terminated.

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