



ICTI CARE Foundation

Because We CARE

Improving labor
conditions for workers

Review of ICTI CARE Process
Activities 2010

Introduction



*Alan Hassenfeld
Co-Chair*



*Maria Livanos Cattai
Co-Chair*



*Christian Ewert
President and CEO*

Dear Friend,

In our last report “Review of ICTI CARE Process Activities 2008/9”, we wrote of the progress made through our expanded education and training activities for factories and identified areas for advancement and improvement. These included promoting greater professionalism in the conduct and reporting of audits as well as implementation of the Continuous Improvement Process (CIP) program to help factories comply with ICTI CARE Process wage and work hour standards. That work continues.

2010 was a period of fundamental changes in the world. While the early stages of global economic recovery were underway and manufacturers received larger orders, they also had to confront a shortage of qualified workers, comply with mandated increases in the Chinese minimum wage (20%) and meet peak production quotas. We believe these changes are irreversible and that they led to new challenges to toy manufacturers in meeting ICTI CARE Process standards.

This report highlights the steps we have taken during 2010 to advance the ICTI CARE Process 2010/11 objectives. It touches on the Foundation’s roll-out of the ICP Continuous Improvement Process, the application of which is strengthening our monitoring program and leading to increased transparency of wages and working hours records by factories.

Another key focus is the expansion of our multi-stakeholder education and training program for factory workers. Through a project, jointly funded by the ICTI CARE Foundation Asia Ltd. and Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ), we have been able to develop a pilot train-the-trainer program that promotes factory worker access to information about health, safety, and labor standards and provides confidential grievance channels to help promote sustainable change in working conditions.

Like any successful organization, a foundation must also evolve to remain effective in a changing environment. As such, we continue to seek new ways to improve and have a positive impact on working conditions in a changing world. The future of the toy industry demands it.

Conscious of the need for greater transparency and specificity in reporting, you will note advances in that regard in this new report and our website. That process will continue.

Complex issues like social compliance cannot be solved by the Foundation alone, but are the shared responsibility of all stakeholders. We are proud of our achievements in improving the treatment of factory workers in China and are also the first to concede that much more work lies ahead of us. We remain committed to helping factories improve their labor law compliance and to dropping those that do not comply from the program.

In closing, we would like to thank our stakeholders for their continued guidance and support as well as our staff for their dedication and commitment to our mission. We look forward to our continued work together as we meet new challenges and shape the future through our shared responsibility.

Sincerely,

Our Profile

The ICTI CARE Process Mission

...to enable the worldwide toy industry to assure consumers that its products are manufactured in safe and humane conditions by providing education and training for toy factory employees and enforcing a thorough and consistent monitoring program for toy factories...

Our Commitment

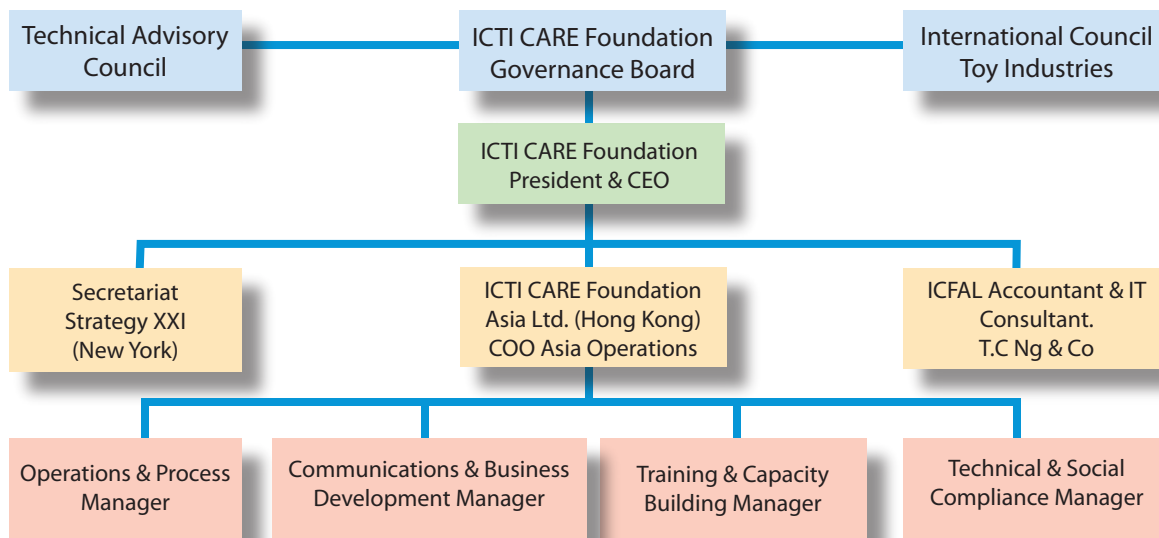
The commitment of the ICTI CARE Foundation is to improve working conditions for factory workers by eliminating substandard health, safety and labor practices.

The Value We Create

We strongly believe in the fundamental value of the ICTI CARE Process and of the strategies that support it, which together offer many benefits and opportunities to contribute to society:

- Promotes ethical manufacturing throughout the toy industry supply chain, worldwide: i.e., fair labor practices and worker health and safety
- Works to eliminate child labor, forced labor, indentured workers, and other unethical hiring practices
- Improves the lives of 1.4 million factory workers in over 2,500 factories.
- Increases labor practices transparency, including wages and working hours
- Employs market leverage to compel factories to comply
- Reduces the number and cost of multiple audits by multiple customers in each factory
- Serves as a recognized mechanism to certify ethical manufacturing
- Demonstrates the toy industry's commitment to socially responsible business practices.

Organization Chart



Advancing the ICTI CARE Progress

2010 Key Accomplishments

- 1** Added ILO Conventions about weekly rest, forced labor and equal remuneration for men and women to the ICTI Code of Business Practices.
- 2** Phased-in the new ICTI CARE Process Wages and Working Hours Policy (Continuous Improvement Process). After full briefings of what it entails, over 90% of ICP factory owners/managers agreed to work progressively, over time, towards full compliance with ICP standards.
- 3** Engaged the NGO community about its stepped up demands for improvement in Date Certain compliance, subcontracting, wages and working hours.
- 4** Implemented a pilot train-the-trainer program that provides in-factory training on labor standards to workers; a Public Private Partnership that includes Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) was formed to carry out this program.
- 5** Signed MOU's with AUCHAN, Dollar General and Target Australia recognizing the ICTI CARE Process.
- 6** Conducted a second yearly factory survey with INFAC to assess changes to the market situation and new challenges for China-based factories. Summary is available on our website. www.icti-care.org

Achieving Factory Transparency

As widely reported in the media, and confirmed by our 2010 factory survey conducted by INFAC, the market situation has become increasingly challenging for China-based factories. In addition rising labor and raw material costs, continued currency appreciation (RMB), price pressure from buyers, and consumer demand for higher quality toys and lower prices, the ICTI CARE Process (ICP) also placed a large number of demands on factory working conditions in the form of fire protection and security equipment, minimum wages and work contracts.

In response to market conditions, many factories demanded longer shifts from workers. It became clear that they were not meeting wages and working hours' requirements, that this practice was leading to inaccurate reporting and that a new approach to the "pass-fail" monitoring system was needed. After working closely with manufacturers to better understand the issues that kept them from complying with ICP standards and meeting transparency requirements, a new Working Hours and Wages Policy was developed and put into practice in 2010 with the idea that it would continually be updated based on our learnings.

Advancing the Goal

The Continuous Improvement Process, integral to the new policy, offers toy factories the opportunity to qualify for ICP compliance certification more quickly, provided it is completely transparent about its current wages and working hours' practices and has no other serious violations reported in its initial audit. This approach, combined with extensive education and outreach efforts, led to breakthroughs in transparency about wages and working hours records by factories, while still maintaining the ICP's rigorous standards.

90%+ ICP factories opted to commit to transparency

37.6% increase in the number of factories holding a Seal of Compliance from 1,035 to 1,424

(Note: Certified factories enrolled in ICP by end of December: 1,578, an increase of 10.8%)

48 Factories were dropped from ICP due to allegations of unethical behavior, including bribe-related issues.

20% of factory audits reflected greater compliance in the payment of wages including overtime.

Advancing the ICTI CARE Progress

Educating and Training Factory Workers

We recognize that in addition to ongoing auditor and management training, a meaningful social responsibility program should include initiatives aimed at ensuring the health, safety and well-being of the 1.4 million workers in ICP factories who produce children's toys. That is the reason why we implemented a pilot train-the-trainer program in 2010 to increase worker access to information about their rights under Chinese labor law. A Public Private Partnership was formed to carry out the pilot program funded jointly by ICTI CARE Foundation Asia Ltd. (57%) and Deutsche Gesellschaft für Internationale Zusammenarbeit (43%).

Pilot Train-the-Trainer Project Focused on Factory Workers

An introductory two-day train-the-trainer seminar was held in Shenzhen for 16 worker representatives and 17 middle management representatives from eight factories in seven cities from three provinces. Among them were personnel managers and health and safety supervisors. Participants who completed the introductory seminar in October 2010 are responsible for providing worker training at their own factories using the program's various training methods, materials and innovative training videos focused on three content areas:

- Occupational Safety and Health
- Labor Standards (including updated regional standards, employee benefits)
- Communication and Grievance Channels

The first in-factory training sessions were scheduled to take place December 2010 but were delayed until April 2011 due to factory logistical issues and the need to edit and refine training materials. The in-factory training will continue throughout 2011. A review and impact assessment will be conducted upon completion of the program. It will then be rolled out, over time, to other factories participating in the ICTI CARE Process so as to achieve a sustainable impact on factory working conditions.

Participants in the Public Private Partnership created to support the pilot training program include:

- ICTI CARE Foundation Asia Limited (ICFAL)
- Deutscher Verband der Spielwaren Industrie e.V. (DVSI), the German Toy Association
- Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), a German Government corporation funded by the German Federal Ministry of Economic Cooperation and Development (BMZ)
- Chinese Ministry of Commerce (MOFCOM)
- China Toy Association (CTA)

We also support factory workers by making available pocket-size information cards highlighting labor rights entitled, "What You Should Know" and which include a confidential toll-free helpline service number. As of December 2010 cards have been distributed to approximately 600,000 workers in 1,000 factories; this will continue in 2011.

Managing Worker Complaints

1,163 worker complaints/enquiries were received and reviewed by ICP Operations team

Three main areas of grievance were:

- **Resignation terms (11.6%)**
- **Calculation of wages including OT compensation (6.6%)**
- **Termination (5.7%)**

181 "emergency cases" were directly followed up by the Operations team in conjunction with their service providers

982 cases were handled by the helpline service provider, CLSN-OHCS (China Labor Support Network – Occupational Health Consultation Services Co. Ltd.).

Advancing the ICTI CARE Progress

Factory Management and Auditor Training

Factory management and productivity programs were scaled back in 2010 while the Operations team worked to design and deliver the pilot train-the-trainer program for factory workers. The tailor-made compliance awareness and productivity training programs newly started or carried through into 2010 include:

- Productivity Training by the Hong Kong Productivity Council - 4 factories in Guangdong Province (2 in Dongguan, 1 in Shenzhen and 1 in He Yuan)
- INFACT training - 2 factories (FIS- "Factory Improvement and Solution Plan" Project)
- Trained and accredited 34 new auditors.

2011 Strategy: Increase Capacity and Accountability

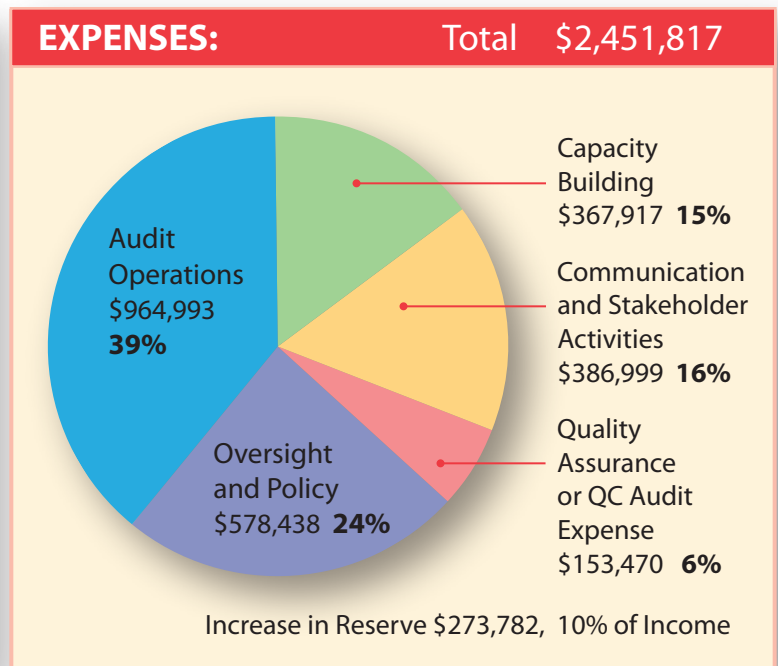
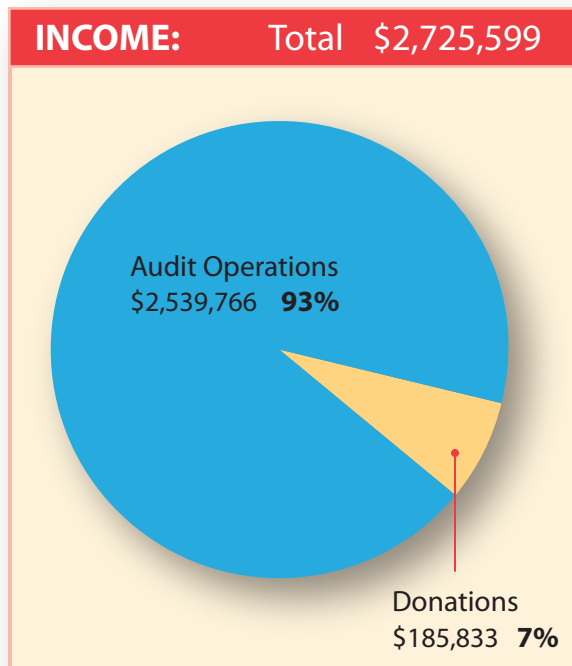
The original ICP strategy remains valid — increase our own capacity and that of stakeholders throughout the supply chain to bring about sustainable change in working conditions through monitoring, training and education. As such, we continue to embrace an integrated approach working in partnership with industry, government and NGOs and remain focused on the Date Certain Program for toy brands, the code convergence process and factory engagement to achieve our goal.

Our 2011 goals are to:

- Improve ICP systems and processes
- Continue to implement Wages and Working Hours Policy, transparency and auditor integrity programs
- Enhance effectiveness of factory worker training programs
- Continue to proactively engage and communicate with key stakeholders.

2010 Financial Highlights

(US\$ 000)



Priorities and Progress

| ACTIVITY AREA | 2010/11 OBJECTIVE | PROGRESS IN 2010 |
|---|--|---|
| Operations/Factory Monitoring | | |
| Factory Participation in ICTI CARE Process | Increase factories enrolled to: - 2,600 in 2010; actual 2,313 - 2,500 in 2011 revised due to changed global demand for toys. | <ul style="list-style-type: none"> • 1,578 certified factories enrolled • Another 735 factories engaged; total 2,313 • 413 new applications received • 1,164 Seals of Compliance issued. |
| Environmental Health & Safety | Increase monitoring focus on this area. | <ul style="list-style-type: none"> • Began researching environmental auditing criteria. |
| Brand and Retailer Commitment | Demonstrate Date Certain Program compliance to reinforce factory and NGO support. | <ul style="list-style-type: none"> • 107 more brands joined Date Certain. |
| Factory Transparency | Improve wages and working hours' practices in factories. | <ul style="list-style-type: none"> • "Pass/fail" system replaced with a new Working Hours and Wages Policy • Seals of Compliance increased from 947 to 1,424 factories, including 230 on probation • Over 90% of ICP factories opted for transparency. |
| Audit Quality | Improve accredited auditor performance and ICP audit criteria. | <ul style="list-style-type: none"> • 124 accredited auditors among eight audit companies • 34 new auditors trained and accredited • 2,454 audits conducted • 7,149.5 audit man-days • 1,163 worker helpline complaints followed up. |
| Audit Integrity | Put in place an Audit Integrity Improvement program to increase quality control and tackle audit integrity issues. | <ul style="list-style-type: none"> • 20 auditors removed due to (suspected) unethical behavior • 48 factories dropped from ICP due to alleged unethical behavior (mostly bribery). |
| Human Resources | Increase ICFAL headcount to meet increased factory auditing and training requirements. | <ul style="list-style-type: none"> • Two new ICFAL auditors hired. |
| Education and Training | | |
| Ethical Manufacturing | Build awareness of factory owners and managers to encourage compliance with ICP health, safety and labor standards. | <ul style="list-style-type: none"> • Three seminars held on Continuous Improvement Process (May 18, 22, 27) in collaboration with local Chinese toy associations and Hong Kong Polytechnic University. • Two factories provided with compliance awareness training and onsite-support and monitoring. |
| Audit Quality | Ensure ICP accredited auditors maintain ICP standards and auditing requirements. | <ul style="list-style-type: none"> • 125 auditors attended two ICP auditor refresher courses. |
| Factory worker empowerment | Design and deliver pilot train-the-trainer PPP in cooperation with GIZ, DVSI and China Toy Association. | <ul style="list-style-type: none"> • Produced training manual, presentation and three educational training videos • Delivered initial two-day train-the-trainer program for 33 factory workers/managers from eight factories • First in-factory training rescheduled to April 2011 • Continued helpline service and distribution of worker information cards. |
| | Identify additional opportunities to support factory workers. | <ul style="list-style-type: none"> • Three factories received worker training by ICP NGO training partners on topics of "Worker Representatives Schemes" and "Anti-Sexual Harassment." Trainers were recommended and monitored by ICP staff. |
| Purchasing practices | Participate in one major retailer buyer training program. | <ul style="list-style-type: none"> • Discussions held with a major retailer about buyer training program development. |
| Capacity Building | | |
| Factory Education | Disseminate ICP information via China Toy Association publications and membership meetings. | <ul style="list-style-type: none"> • ICP presentation made at the 2010 Toy Expo, Shanghai. |
| | Conduct Factory Management and Productivity Training. | <ul style="list-style-type: none"> • Four remaining factories completed the CIP training conducted in collaboration with the China Training Institute 2009 program. |

Governance Board

Co-Chair: Alan Hassenfeld, Chairman of the Executive Committee of the Board of Directors of Hasbro, Inc.

Co-Chair: Maria Livanos Cattai, Former Secretary General of International Chamber of Commerce (ICC)

Amir Dossal, Executive Director of the United Nations Fund for International Partnerships (UNFIP)

Peter Eio, Former President of LEGO in the Americas and former Chairman of the Toy Industry Association

Gary Hutchens, Former President of the International Council of Toy Industries

George Irwin, Chairman and CEO of IToys Inc.

Geoff Massingberd, Senior Vice President, Corporate Responsibility, Mattel

Alan Munn, Former President and CEO of Tomy Europe

Jane Nelson, Senior Fellow and Director of the Corporate Social Responsibility Initiative at the Kennedy School of Government, Harvard University

William Reese, President and CEO of the International Youth Foundation

Paul Rice, President and CEO Fair Trade USA

Arnie Rubin, President of the International Council of Toy Industries (ICTI) and Chairman of the Toy Industry Foundation

Pär Stenbäck, Former Minister of Foreign Affairs of Finland

Kenneth Ting Woo-Shou, Chairman of Kader Industrial Company Limited

Auret Van Heerden, President and CEO of the Fair Labor Association

T.S. Wong, Managing Director of Jetta Company Ltd., Honorary President of Hong Kong Toys Council



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