
RISK ANALYSIS

INTRODUCTION

LC Kidswear B.V. is one of the 14 independent brands within the Jolo Fashion Group, a Dutch company specialized in children's wear, selling in over 20 countries. The brand started in 2008 with Le Chic, a festive girls-only clothing brand with a trendy touch and a little bling for special and ordinary days. The collection is characterized by pretty dresses, skirts, cardigans and tops in classic colours, which are romantic but also comfortable. LCEE was introduced in 2013 as Le Chic's cool little brother. The collection is a combination of uplifting colors, sporty inspiration and classic details with a twist. Both brands operate in the age segments kids 92 to 164, baby 62 to 92 and newborn 50 to 68.

The supplier base of LC Kidswear is concentrated in China, where 82% (based on purchasing value) of production takes place. The second production country in the past season was Turkey with 11% followed by India with 7%. Production in Turkey and India can fluctuate, depending on the needs of the brand. Policy is that production takes place in China, unless it is not possible to produce there, for example when special requirements such as organic cotton cannot be provided by the Chinese suppliers. With most suppliers in China there is a longer term business relation. Production is characterized by relatively small quantities in many different styles and detailed design, which requires flexibility and craftsmanship of production locations.

In July 2016 LC Kidswear signed the 'Dutch Sustainable Garment and Textile Agreement', an agreement with the Dutch Government and several non-profit and labour associations to work toward a more sustainable business in the years to come.

RISK ANALYSIS

For this risk analysis the focus is on China, because of the fact that most of the production takes place in this country. However, this does not mean that we ignore India and Turkey completely, because also in these countries similar risks can be expected. The team of LC Kidswear works towards having 1 supplier in Turkey, 1 supplier in India and all the rest in China. For the Turkish and Indian supplier, the intention is to only work with production locations that already hold an SA8000 certificate or have a valid BSCI audit or equivalent. In this way the attention can be on China, without running unacceptable risks in the other countries.

LC Kidswear realizes that a thorough risk analysis and assessment of specific suppliers will only be possible if we have a higher level of transparency in our supply chain. This means that we not only want to know our suppliers, but also their production locations involved in the production of LC Kidswear garments. For this purpose Jolo Fashion has organized a supplier summit in November 2018 to inform the group's most important Chinese suppliers about transparency, risk assessment and sustainability with a focus on the Sustainable Development Goals (SDG's) of the United Nations. During this summit Jolo Fashion has handed out its Producer Assessment Policy with minimum requirements for production locations. These minimum requirements address the most important risks, which will be assessed for each of the production locations by an independent CSR consultant/auditor. Depending on the outcome, a Corrective Action Plan will be written together with the production location manager and the supplier in order to take the necessary actions should that be required. Jolo Fashion Group has the goal to have an assessment done at each of the production locations of its most important suppliers by the end of 2019, which will cover 15 suppliers with in total around 30 production locations. It is the aim that all suppliers and all production locations of LC Kidswear will be involved in this process.

In the risk analysis below, each of the themes of the 'Dutch Sustainable Garment and Textile Agreement' are addressed in two ways. First of all the risk is being analysed in relation to China as a country. Secondly the risk is being analysed based on our personal conversations with suppliers and our personal visit of production locations.

THEME 1: DISCRIMINATION AND GENDER

According to the I-CSR Risk Checker, discrimination and gender form a high risk in China. Especially migrant workers without housing licence fall within the risk group. Even though in China women are fully part of economic activity, still discrimination based on gender occurs, as well as sexual intimidation. Next to women, specific religious groups and LHBT-persons run high risks of being discriminated. The Human Development Index (HDI) by the United Nations, measures health, standard of living, and learning opportunities. China was ranked 90 out of 187 countries in 2015. The Gender Development Index (GDI) measures differences between male and female development based on the same components. China was ranked 94 in the GDI.

According to FWF's (Fair Wear Foundation) country study of 2015, freedom of speech remains limited. The so-called Great Firewall of China continues to block international social media such as Facebook, Twitter and YouTube. The effectiveness of Non-governmental Organisation (NGOs) is also limited with a concern that the regulation in China grants authorities control over foreign NGOs with political, religious and human rights organisations, limiting the impact of NGOs not affiliated with the Chinese government.

During our visits to suppliers and production locations, we discussed this topic. All suppliers say that in China in general workers are being treated equally and paid according to their work and performance. It does not matter whether they are men, women, representing ethnic groups or religions. Regarding the limited freedom of speech and the firewall, the general opinion of suppliers is that this is annoying for them too. During day to day business, most communication takes place via Skype or We Chat. During the Supplier Summit, short films and documentaries are shown in order to update suppliers and local office staff about relevant sustainability topics which are more difficult for them to find, because of the blocking of YouTube. So far, we received feedback that this information is appreciated and both the local staff and suppliers are very eager to learn more about this.

Based on the above, LC Kidswear wants to continue to inform local staff and suppliers about relevant developments to jointly work towards a more sustainable supply chain and continue to have open discussions on this and other topics during visits and the Annual Supplier Summit. However, because of the fact that we deal with laws from the central and local governments, we do not see that LC Kidswear can contribute more than this to the situation. We therefore do not give additional priority to this theme.

THEME 2: CHILD LABOUR

According to the I-CSR Risk Checker, child labour in China increased due to the economic crisis. Companies try to find ways to avoid legislation and especially children of migrant workers run risks as they are not registered or go to school. This risk is assessed a lower risk compared to other Asian countries.

China has ratified both ILO Convention 138 (minimum working age) and 182 (worst forms of child labour). Both the Chinese Labour Law and the Regulation on the Prohibition of Child Labour forbid any employing units employing teenagers under 16 years old. For youth workers aged 16 to 18, it is legal to work, under some special protection. Employing units hiring juvenile workers must register with the local Labour Administration Authorities and the young workers must undergo regular physical checks. Juvenile workers are also prohibited from any over strenuous, poisonous, harmful or dangerous operations.

According to FWF's (Fair Wear Foundation) country study of 2015, child labour has not been a common issue in the Chinese garment industry because of the negative image that child labour has. Stakeholders mention that the younger generation is less eager to join garment factories to perform such labour intensive jobs. FWF audits have not revealed cases of child labour in the formal garment companies in China. FWF auditors occasionally find juvenile workers aged 16 to 18, 16 being the minimum working age in a country where school attendance is compulsory until the age of 15. In the limited cases when FWF auditors do find juvenile workers, they are usually not employed according to the legal provisions for protection, and they are not protected against excessive overtime and hazardous work. Audits conducted between 2008 and 2015 show that 4% of factories have no effective age verification system in place.

During our talks with suppliers and production locations, it became clear that they were a bit insulted by questions around child labour. All confirmed that there is no child labour and that this is something to look for in countries like India. During our visits, we have not seen child labour happening.

We do not see child labour as a priority risk to be addressed in our action plan. We do however want to ensure that production locations have a documented management system to prevent child labour from happening. Also it is important to ensure special protection to young workers by means of an effective and documented management system. Questions around this are included in our MRQ (Minimum Requirements) assessment form.

THEME 3: FORCED LABOUR

Although China has not ratified ILO convention 29 (Forced Labour) and 105 (Abolition of Forced Labour), national legislations protect free employment. Article 3 of the PRC Labour Law stipulates that employees have the right to be employed on an equal basis, choose their occupation, take rest and have holidays and leave. Article 9 of the PRC Labour Contract Law forbids the employer from retaining any worker's official documents or collecting personal property when hiring. Article 31 regulates that employers may not oblige employees to work overtime, while Article 37 guarantees employees have the freedom to terminate the employment relationship with 30 days' notice.

According to FWF's (Fair Wear Foundation) country study of 2015, there have been reports of clothing made by prisoners, including production for western brands, despite the recent closing of the Re-education through Labour System work programme.

During our visits to suppliers we did not find signs of forced labour by walking around the factories. Suppliers also confirmed this was not happening at their production locations.

The theme of forced labour, we do not see as a priority for our action plan. We do find it important to know all production locations our suppliers work with even before the start of production of specific orders in order to avoid unwanted situations such as prison work. All these production locations will be part of our assessment process. During production, random checks will be executed by our Chinese local partner in order to see if the actual production location is the same one as the assessed production location. Our assessment process includes questions around legal contract, timely payment, a fair disciplinary approach and freedom of choice to work overtime.

THEME 4: FREEDOM OF ASSOCIATION

According to FWF's (Fair Wear Foundation) country study of 2015, China has yet to ratify ILO Conventions 87 and 98, which seek to add the rights of freedom of association and the right to organise and engage in collective bargaining.

However, Chinese national law has its own standard, a written provision regarding freedom of association. Although provisions seem to be given within the articles of the law, in practice these laws do not protect the right to freedom of association. As the only legally recognised union in China, ACFTU acts more towards maintaining harmony and social stability, rather than as a representative of workers' rights and interests. To ACFTU leaders, harmony and stability means no strikes or protests.

In some factories workers are aware of the need to elect worker representatives for collective bargaining. However, most production workers are not very aware of the importance and benefits of collective bargaining, how to conduct negotiations and what their rights are. Moreover, becoming a worker representative requires a good understanding of labour law and contract law, as well as soft skills that many factory workers have not been able to acquire. Most employers do not show an interest in collective bargaining, often avoiding negotiations with employees.

All suppliers mention that workers can come to management for problems and can lodge complaints with the governmental labour organization. Only at one supplier it was mentioned that there is a workers participation committee, but specific details have not been given. Suppliers mention that it is not easy to find and keep skilled workers in the garment industry, so if problems occur there is always the intention to solve issues from supplier's side.

To LC Kidswear it is not easy to interfere in freedom of association and the right to organise and engage in collective bargaining at production locations, because of the distance we have to these locations and the inability to understand local situations well. We do want to play a role in developing an open communication with suppliers and their production locations on topics such as payment of minimum wage, legal labour contracts and real and accurate wage records. We have included these topics in our MRQ assessment forms.

THEME 5: LIVING WAGE

FWF's (Fair Wear Foundation) country study of 2015 summarizes legislation on minimum wages in China. Minimum wages are defined as follows: "wages and benefits paid for a standard working week shall meet at least legal or industry minimum standards and always be sufficient to meet basic needs of workers and their families and to provide some discretionary income" (ILO Conventions 26 and 131, the Universal Declaration of Human Rights, art 23(3) and art 25(1)). The Chinese government recognises the Universal Declaration of Human Rights, and ratified ILO Convention 26 on minimum wage fixing in 1928. However, it has not ratified the more recent ILO Convention 131 on minimum wage fixing, which dates from 1970. The most important law regarding wages is the Labour Law of the PRC, which includes a minimum wage system.

Chinese legislation does not define a living wage, but guarantees employees, regardless of their status as apprentice, probation or dispatched workers, a minimum wage per month. The minimum wage varies in different areas, determined by governments of provinces, autonomous regions or municipalities directly under the Central Government.

According to the I-CSR Risk Checker there are strong signals that wages in the textile industry in China are low, due to which workers often need to work extra hours to ensure acceptable wage levels.

During our visit to suppliers and production locations, we learned that the minimum wages vary a bit per region and are between RMB 1500 and RMB 2500. The salaries paid by suppliers to workers vary, depending on the job, between RMB 1700 for a cleaner to RMB 5000 for cutting, sewing and office workers. Working hours are generally 6 days a week and 8 hours a day with overtime regulations and sometimes a maximum number of hours overtime per month of 56 hours. We have not seen legal labour contracts and learned that this might be a risk area with suppliers.

Because of the direct contribution of workers to our products, it is important to LC Kidswear that garment workers earn the official minimum wage, have a legal labour contract, can count on real and accurate wages and working hour records and are covered by work related accident insurance which should be paid by their employer. We have included questions about this topic in our MRQ assessment form.

THEME 6: SAFETY AND HEALTH IN THE WORKPLACE

The FWF’s (Fair Wear Foundation) country study of 2015 mentions that China has not ratified ILO Convention 155 on occupational safety and health. However, China has laws and regulations on building safety, fire safety, electric safety, chemical safety, machinery safety, food safety and environmental protection in the workplace. According to FWF’s stakeholders, building safety is not a major concern in China. However, most garment factories present some minor fire safety issues. In general, fire safety and building safety conditions are worse in small mills and in less developed areas. Noise, dust and chemicals are higher on the list of concerns of occupational health and safety in the garment industry. Oftentimes, the factories have no proper ventilation in the area where the dust of cotton or yarn is produced. However, few workers wear personal protective equipment. In the summer, working in hot temperatures is another concern relating to workers’ health.

During our visit to suppliers we checked emergency exits, protective equipment, fire extinguishers, etc. All of these were in place, however we have not checked if they were up to date and functioning. In some locations protective gloves were not used by cutters, even though they were available. All production locations confirmed to have a needle policy, which could be explained. During our conversation about chemicals, suppliers mentioned that in their factories hardly any chemicals are used except for washing detergents. For chemical issues 2nd and 3rd tier suppliers should be looked into in more depth. During the past years, we have visited a dyeing house, a cotton mill and a finishing mill of rain jackets. The locations seemed to have taken protective measures, however, knowledge to really assess the situation was not available. In the coming years we will need to look into this topic in more detail.

Safety and health in the workplace is important to LC Kidswear. We want garment workers to be able to work in a building in which health and safety of all workers is taken care of. Especially we see the importance of fire safety measures, safety of electrical and heavy machinery and chemicals being stored and treated in a safe way. We have included questions about this topic in our MRQ assessment form.

THEME 7: RAW MATERIALS

The most important raw materials used by LC Kidswear are cotton and polyester, counting for 90% of the fabrics used in our products. These materials as well as trims, zippers and accessories are being purchased by our direct suppliers or by their suppliers, which means that it is quite difficult to have a good picture of where the materials come from. Sometimes stock fabrics are used, the origin of which cannot be detected.

Below is an overview of materials used during the last two seasons, Winter 2018 and Summer 2019. These amounts can fluctuate a bit over the seasons, but not significantly.

Collections W18/S19	Total weight in metric tons	%
Conventional cotton	13,646	40,1%
Organic cotton	1,577	4,6%
Polyester	15,360	45,1%
Recycled polyester	0,060	0,2%
Polyamide (Nylon)	1,063	3,1%

Collections W18/S19	Total weight in metric tons	%
Acryl / Polyacryl	0,228	0,7%
Elastane (spandex)	0,935	2,7%
Viscose / Rayon	0,793	2,3%
Lurex	0,110	0,3%
Lyocell, Tencel	0,261	0,8%
	34,032	100,0%

Both cotton and polyester play an important role in the adverse environmental impact in the textile chain. Cotton often grows in a mono-crop system, which exhausts the land and requires high amounts of synthetic fertilizers with toxic effects on people and the environment. The contribution of cotton to climate change is mainly to be attributed to the use of synthetic fertilizers and the use of oil based equipment such as tractors. Other problems are the big amounts of water used in cotton fields and genetic modification. In some parts of the world forced child labour is used to harvest cotton from the fields (such as Uzbekistan). Polyester is a non-renewable crude oil based raw material, which contributes to the depletion of natural resources and the earth. Production and dyeing processes involve use of energy and hazardous chemicals and include health risks for workers and consumers.

Another environmental issue related to raw materials is the western throw away culture in countries where most of our products are sold. Most of the garments end up in landfills or incinerators after being worn, which means a waste of raw materials and pollution of the environment.

For LC Kidswear, the use of more sustainable materials is one of the key topics to work on. Specifically the use of organic cotton and recycled polyester is a way forward to contribute to the future of next generations. Our action plan focuses on the use of these materials and on the way to involve our customers (retailers) and end consumers to get the right level of knowledge to make a positive choice too.

THEME 8: WATER POLLUTION AND USE OF CHEMICALS, WATER AND ENERGY

According to the I-CSR Risk Checker, about 70% of the rivers and lakes in China are polluted. Also air pollution is a big problem in China. The textile industry is one of the industries contributing to this problem, mostly through second or third tier suppliers like spinners, weavers of dyeing houses. Next to the huge amount of water use and the pollution of water, the use of chemicals can create hazardous situations for workers and communities. The high energy intensity of some of the processes require attention in view of the emission of greenhouse gasses and the related problem of climate change.

During our conversations with suppliers, we learned that the Chinese Government is taking serious measures to diminish pollution of rivers, air, etc. We have seen waste water treatment systems at a dyeing house, whereby waste water after a few treatment steps at the dyeing house is transported to a municipal plant where final purification takes place. It looked like a good arrangement, but unfortunately there was no way of actually checking whether the water we saw ended up in this municipal water treatment facility.

In November 2017 Jolo Fashion Group published its restricted substances list to inform all suppliers on chemicals that are banned or restricted in the Jolo Fashion Group production processes and finished products.

In April 2019 Jolo Fashion Group opened a new company in Vietnam under the name of Clean Dye, a facility where polyester fabrics are dyed without the use of water and with limited use of chemicals in a closed system. For LC Kidswear it is not possible yet to purchase fabrics from this facility, because of the high minimum numbers required to operate the machines. It will be a point for discussion to see if standardized fabrics can be developed for use by more brands in order to enable purchasing of smaller quantities. Within our small scope, we feel this is the best future opportunity to embrace. During the next years we will keep close contact with Clean Dye and request for the possibilities as described.

THEME 9: ANIMAL WELFARE

Animal welfare is a risk factor in the textile and garment industry as materials such as wool, down, angora and shells come from animals. Recent research and campaigns by organizations such as PETA show that live plucking, mulesing and other harsh treatments of animals are being practiced. Also the use of leather can form a risk as next to the way the animals are treated also the leather tanning can be an environmentally unsafe practice.

Because of the fact that in children's wear hardly any animal based materials are used, we do not see this as a major risk. The fabrics used in the previous period did not contain animal based fibres. A minor risk could be the use of down, however, this material is seldom used by LC Kidswear. Another minor risk could be the use of shell for small buttons. The clear standpoint of Jolo Fashion Group as a whole, which was published in the supplier manual of November 2017, is that the following materials are not allowed in the production of all Jolo Fashion brands: fur, down from live-plucked and/or force-fed geese and ducks, angora, wool from mulesed sheep and shells. LC Kidswear has included the same stipulation in its CSR Policy. In case we have doubts about the materials used by our suppliers, there is the possibility to request a laboratory test.

SUMMARY AND CONCLUSION

Based on this risk analysis and the conclusions after each chapter, we will address the risks assessed as follows:

Risk assessment	Priority	Action to be taken
<p>Theme 1: discrimination and gender</p> <p>Even though there is a fair risk of issues in China, we feel we have limited possibilities to make changes. We can help our local partner and suppliers by making information accessible in relation to sustainability which they cannot access themselves because of internet blocks.</p>	Low	Open communication of issues during Supplier Summit and training of local staff.
<p>Theme 2: child labour</p> <p>Child labour is a topic with relatively limited risk in China. We do however want to ensure that production locations have a documented management system to prevent child labour from happening. Also it is important to ensure special protection to young workers by means of an effective and documented management system.</p>	Low	Relevant questions in MRQ assessment form and process
<p>Theme 3: forced labour</p> <p>We have not found this to be a priority based on our desk research and visiting of production locations, but do want to ensure that we know all production locations and that our orders are manufactured in the production locations we have assessed to avoid unknown third party manufacturing under unwanted conditions.</p>	Low	MRQ process: <ul style="list-style-type: none"> - Transparency of production locations - Random checks of actual production locations used - Questions in MRQ assessment form
<p>Theme 4: freedom of association</p> <p>We do not have adequate resources to interfere in freedom of association and the right to organise and engage in collective bargaining in China. Related topics such as payment of minimum wage, legal labour contracts and real and accurate wage records can be addressed.</p>	Low	Relevant questions in MRQ assessment form and process
<p>Theme 5: living wage</p> <p>It is difficult to assess what a living wage in China is, so we talk about minimum wage. Because of the direct contribution of workers to our products, it is important to LC Kidswear that garment workers earn the official minimum wage, have a legal labour contract, can count on real and accurate wages and working hour records and are covered by work related accident insurance which should be paid by their employer.</p>	High	Relevant questions in MRQ assessment form and process

Risk assessment	Priority	Action to be taken
<p>Theme 6: safety and health in the workplace is important to LC Kidswear. We want garment workers to be able to work in a building in which health and safety of all workers is taken care of. Especially we see the importance of fire safety measures, safety of electrical and heavy machinery and chemicals being stored and treated in a safe way.</p>	High	Relevant questions in MRQ assessment form and process
<p>Theme 7: raw materials For LC Kidswear, the use of more sustainable materials is one of the key topics to work on. Specifically the use of organic cotton and recycled polyester is a way forward to contribute to the future of next generations.</p>	High	Action Plan: focus on the use of more sustainable materials.
<p>Theme 8: water pollution and use of chemicals, water and energy Pollution of water and air is a serious problem in China. LC Kidswear has limited possibilities to deal with this and have taken measures to inform suppliers of restrictions. Because of the sister company Clean Dye with its waterless dyeing process, we feel to keep this on the agenda.</p>	Medium	RSL list published Continuous conversation with Clean Dye to create opportunity to source polyester fabrics that are being coloured with waterless dyeing methods.
<p>Theme 9: animal welfare The fabrics used in the previous period did not contain animal based fibres. A minor risk could be the use of down, however, this material is seldom used by LC Kidswear. Another minor risk could be the use of shell for small buttons.</p>	Low	CSR policy statement that the following materials are not allowed in the production: fur, down from live-plucked and/or force-fed geese and ducks, angora, wool from mulesed sheep and shells. In case of doubt, request of laboratory test.

The action plan, which is a separate document, will give more details about concrete actions that LC Kidswear takes during the upcoming year of the Agreement.