

# **Executive Summary of the Clas Ohlson report**

**By Kristina Bjurling, SwedWatch, April 2005.**

Clas Ohlson is a Swedish retail company, focused on the sale of products for domestic use. During the last years, Clas Ohlson has expanded dramatically and an increasing part of their goods are manufactured in China. The move of the production of merchandise to China may, however, create negative social and environmental consequences. So far, however, Clas Ohlson has not addressed these risks.

In contrast to other Swedish retail companies, such as Hennes & Mauritz and Ikea, Clas Ohlson has hitherto not developed an ethical strategy of purchase. In March 2004 the board of the company decided to develop an ethical code of conduct, but the construction of a code of conduct has been postponed, and the company now states that a draft is supposed to be available in the autumn of 2005. The Purchasing Manager of Clas Ohlson, Mats Bortas, estimates that the company can only identify approximately half of the plants where its products are manufactured.

In May 2004 SwedWatch conducted a large investigation of the labour conditions of toy factories in Southern China. Most of Clas Ohlson's suppliers are also located in this region. The investigation discovered several cases where the rights of the workers were violated. These violations included work days that were too long, unhealthy working environments, lack of communication channels between workers and management, incorrect pay rates, a lack of minimum wage guarantees, etcetera. Most of the work-force in Southern China consists of young women that have migrated from the Northern Provinces in order to find employment. These workers are exposed to the goodwill of their employers, since they do not enjoy the same legal rights as the local people. They often have a low education level and a subordinate and weak position towards their employer. A majority of these workers live in dormitories, located in connection to the factories. The most common problems for young migrant workers in the export industry are extensive working hours, health and safety issues and wages below minimum levels. Furthermore, the organizing of free trade unions is restricted by law in China. There is reason to believe that the workers who produce the merchandise of Clas Ohlson are exposed to the same problems as other migrant workers in Southern China.

Fair Trade Center, which is one of SwedWatch's member organizations, makes the following demands on Clas Ohlson:

- Clas Ohlson ought to identify the production sites and present an action plan, which should include a code of conduct.
- The monitoring of the code of conduct should include the workers' participation and the code of conduct also ought to specify that costs for modifications of the production should be shared between Clas Ohlson and its suppliers.

The method which is used in this research is mostly based on interviews with company representatives, both in Sweden and in Hong Kong. Clas Ohlson refused to offer any information on the company's suppliers. SwedWatch, however, was able to discover two of Clas Ohlson's trading houses in Hong Kong.

In 2004 the entire retail sector of Sweden had a turnover of 415 billion Swedish crowns. One of the fastest expanding areas of the retail sector is the market of appliances for domestic use and Clas Ohlson is its leading company. Clas Ohlson markets appliances, such as tools, electronics, toys, kitchen items and so forth.

Clas Ohlson has no production of its own; instead it purchases merchandise from approximately 800 suppliers in 30 countries. The company estimates that around half of its merchandise is produced in Europe and half in Asia. The overwhelming majority of Clas Ohlson's direct import from Asia comes from China. The import from China is steadily increasing, year after year. Ten trading houses in Hong Kong function as intermediate channels of import of Clas Ohlson. These trading houses, in their turn, are supplied by hundreds of factories, located in mainland China.

One part of the environmental policy of Clas Ohlson concerns the amount of environmental hazardous substances in the products. This policy, however, is rarely utilized in the case of the import from China. Hitherto, Clas Ohlson has only made one ethical demand on its trading partners in China: a ban on child labour in the production. Clas Ohlson has, however, only communicated this demand verbally, using the trading houses as intermediaries. Clas Ohlson states that it has never discovered any child labour among its suppliers in China. But the Purchasing Manager of Clas Ohlson, Mats Bortas, admits that the company lacks information on how this particular demand is followed by its suppliers. At present Clas Ohlson does not carry out any systematic monitoring.

Though the board of Clas Ohlson decided to assume an ethical code of conduct in March 2004, one year later the company still lacks a code of conduct. Presently, Clas Ohlson has decided to hire a consultant to elaborate a code and a proposal for how to apply the code in daily activities until the autumn of 2005. Mats Bortas believes that the participation of the workers and a sharing of costs between Clas Ohlson and the suppliers should constitute important parts of this proposal. The competitors of Clas Ohlson in Sweden, Biltema and Jula Postorder AB, also lack ethical demands on their suppliers, except prohibition of child labour.

In order to be able to efficiently control the labour conditions at the factories, Clas Ohlson needs to know where the manufacturing is taking place. Mats Bortas, however, is hesitant as to demand information on where the factories are located. His hesitation is due to reluctance of the trading houses to offer this information, since they believe that Clas Ohlson might start making business directly with the suppliers, and stop using themselves as intermediaries.

One of Clas Ohlson's smaller trading houses in Hong Kong is Ko Tang Trading. The owner, Ko Tang, told SwedWatch that his only customer is Clas Ohlson. He purchases products from 30 to 40 suppliers in mainland China, but admits that he actually has not visited any of these factories. He states that he does not care about the working conditions of the suppliers, and adds that Clas Ohlson has also not demonstrated any interest in these conditions. Ko Tang simply expressed hope that the working conditions are in accordance with Chinese labour legislation. SwedWatch was not allowed to visit any of Ko Tang's suppliers.

SwedWatch's report indicates the deficiencies of Clas Ohlson's environmental and ethical control; especially concerning the working condition at the factories of their suppliers in China. The company, however, appears to show an increasing interest in finding solutions to the present problems, demonstrated by its decision to adopt an ethical code of conduct.