

Congressional Executive Commission on China

Opening Statement by the ICTI CARE Foundation, Inc.

Washington DC, December 11, 2014

Good morning Commissioners, staff, ladies and gentlemen. My name is William Reese and I have been a member of the Governance Board of the ICTI CARE Foundation (ICF) since 2007. On behalf of our board, I would like to thank you for the opportunity to discuss the ICTI CARE Process.

As you may know, the ICTI CARE Foundation does not currently have a CEO, although a new CEO has been appointed and will start in February. Given the timing, we felt it was appropriate for a board member to testify. As a board member I have strong knowledge of our mission, policies and programs, but to the extent that you have detailed questions about operating procedures or specific ICTI CARE Process operations as they relate to individual factories, I may have to defer response to such questions.

Turning to the ICTI CARE Foundation: Because we work to ensure ethical treatment of workers in factories which produce products for children, we believe our programs have to meet high standards in ethical manufacturing. We are one of the very few industry-specific, integrated social compliance organizations in the world. We created a Code of Business Practice in 1991 to define ethical treatment of workers, consistent with national labor laws. We then developed the audit protocols and guidance documents that specify performance standards and audit procedures; we vetted and trained internationally-recognized audit firms that are chosen randomly to conduct our audits; and finally we certify the results of the audits, by either awarding or withholding a Seal of Compliance.

We do this transparently. Our Code of Business Practice, performance standards, audit procedures, Seals of Compliance and our responses to NGOs' reports, such as those from China Labor Watch, are all publicly available on our website.

My presentation focuses on three main areas: who we are, what we do and how we operate when we receive complaints about factories registered in our programs.

Who we are: The ICTI CARE Foundation was incorporated in the state of New York as a non-profit industry association in 2004. The Governance Board was established by the International Council of Toy Industries (a coalition of national toy industry associations) in 2005 and we are just completing our 10th year of operation. Our board is a mixed one of current and former toy industry leaders, civil society and NGOs; and we operate independently of the industry.

The program was established because ICTI's members – national toy associations, along with their retailer and toy brand members, were committed to having a comprehensive and unified approach to understanding the conditions under which toys were made, desirous of supporting a process to help raise standards, and eager to have a way of knowing and rewarding manufacturers for demonstrated performance.

Accordingly, we developed the ICTI CARE Process, the worldwide toy industry's ethical manufacturing program, and have been responsible both for its initial funding and for oversight and guidance as it has grown and evolved.

The ICTI CARE (Caring, Aware, Responsible, Ethical) Process is a global social compliance program, dedicated to promoting fair labor treatment, as well as employee health and safety, in the worldwide supply chain of the toy and juvenile products industries. It provides a single, fair, thorough, transparent and consistent program to monitor factory compliance with ICTI's

Code of Business Practices. The Code was promulgated in May 1991 and it has been strengthened and updated periodically, most recently in 2010.

The operations arm of the ICTI CARE Process is the ICTI CARE Foundation Asia, Ltd., located in Hong Kong.

What we do: The main components of the ICTI CARE Process include:

- A program under which toy and children's product marketers, retailers and licensors commit to requiring and/or accepting ICTI CARE Process Certification of their suppliers as meeting the high standards required by the ICTI Code of Business Practice.
- The qualification, appointment and training of highly qualified audit companies to carry out the audit process. The ICTI CARE Foundation currently uses seven qualified audit firms that have undergone a rigorous technical review and approval process. They perform audits in accordance with ICP protocols primarily in China, with some occasional auditing in Macau, Hong Kong, Taiwan, Thailand, Vietnam, Indonesia and India. These audit firms have collectively performed hundreds of thousands of social compliance audits for ICTI CARE and their other clients across a broad range of multi-stakeholder, industry and brand ethical sourcing programs.
- Toy-producing factories register in the ICTI CARE Process to begin their progress toward certification that will qualify them to supply manufactured goods to brands, retailers and licensors that have committed their companies to source their products from ethical suppliers.
- To begin, they complete an application package. Once a factory's application has been accepted, Operations randomly assigns an audit firm from the list of seven qualified firms to conduct an unannounced audit.
- Once the audit firm issues a favorable report, the factory will receive a certification seal, valid for one year, after which it will be subject to another, unannounced audit. .
- If the audit firm issues a report that identifies any faults, the factory will be required to adopt a Corrective Action Plan to address them. Thereafter, a scheduled re-audit is done to ensure that the Corrective Action Plan has been implemented. Factories may be put on probation pending correction of identified faults.
- If the audit firm issues a report that identifies significant, critical faults, such as employment of underage or forced labor, or if a factory fails to demonstrate a commitment to correcting identified non-critical faults through adoption and implementation of a corrective action plan, factories may be terminated.
- The ICTI CARE Process has an extensive training program focused on helping workers to understand their rights and helping management to operate more effectively, using the Code of Business Practices as a guide to how to improve margins by improving the productivity of their workers through motivation and fair treatment.

Complaint Procedures:

Complaints about factory operations, policies or treatment of workers come to us in a variety of ways.

- First, one of the best sources is our confidential, worker Helpline – a free telephone and e-mail service that allows workers to ask questions of any kind. Very often they want to better understand their labor rights; but the service also serves as an avenue

for complaints about the way they are being treated or the way the factory is run. The Helpline is manned by the Little Bird organization, a Chinese NGO specializing in labor issues. They answer routine questions directly and refer any serious matters (about 10% of the total) to our Operations team, which can intervene with factory management to seek resolution.

- Second, we receive direct communications to Operations, by e-mail or telephone, which we also investigate.
- Third, we are contacted by worker-focused NGOs. There are several with whom we have working relationships.
- Finally, some complaints also come during private interviews with workers that are a normal part of audits. Those complaints are incorporated in the audit report.

We take allegations seriously. Once we have received a complaint, we begin engaging directly with the parties involved.

- First, we compare the allegations received with how the factory fared in its most recent audit, including any Corrective Action Plan that the factory may have adopted.
- Second, our own staff auditors conduct an unannounced investigative audit. If necessary we can also use one of the seven qualified audit firms, but, as a matter of policy, we do not use the same firm that conducted the most recent audit.
- Based on the results, a report is prepared, comparing the allegations made by the complainant with what we found.
- Depending on the nature of the results, we may require a corrective action plan, place the factory on probation or terminate it.
- We will then publish our own report addressing the issues outlined by the complainant's report.

This process works best when we can work with the NGO from the beginning. This is often the case, including with earlier complaints lodged by China Labor Watch. We have even engaged CLW to verify issues found through our factory audits. They have done this by interviewing workers outside the factory. Then we compared their findings with ours, in what proved to be a very useful collaboration.

Working privately prior to publication of a report is almost always more productive than trying to correct issues after one is released. When a report becomes public, factory owners and managers may become more inclined to obscure actual conditions in order to present a better picture than what exists. But in a less pressured situation, factory owners may be more open to revealing actual problems, root causes and sustainable fixes. Given that the goal is to help workers, then all of the stakeholders should be brought together in a constructive manner to identify issues and solutions. Publishing a report is effective at gaining attention for the report issuer but is not always the most effective way to promote improvement in working conditions.

The ICP provides other services beyond auditing. we don't just investigate and require correction; we also help workers and factories to reach agreement on issues that arise between them.

An example of this, one that is in process right now, involves a factory that is closing down and moving to another location. Management planned to fire all the workers at the current site, but allegedly did not follow government-mandated procedures. So the workers went on strike. We were alerted to the situation almost simultaneously by Helpline calls and by a Hong Kong

based NGO with which we have worked in the past: Working with them, factory management, worker leadership, government authorities and the toy brands involved, we have begun a mediation which we expect will be concluded successfully by next week.

The ICTI CARE Process was developed as an industry-wide approach to promote ethical manufacturing of toys and other children's products. With the support of a multi-stakeholder Board, a committed Operations team, experienced social compliance auditors, responsible brands and retailers supporting the process, toy manufacturers voluntarily choosing to undergo our process, and with the engagement of workers themselves, we have helped to improve the awareness and realization of better working conditions in toy factories in China and elsewhere. We have learned a lot in the past 10 years and we use what we have learned to constantly improve our processes. But, we recognize that our work is continuous and we have much work ahead of us.

Thank you for allowing us this opportunity to testify before the Commission today.

Att: William Reese Bio and International Youth Foundation Description

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William S. Reese

Bill Reese was appointed President and Chief Executive Officer of the International Youth Foundation in 2005, having joined IYF in May 1998 as its Chief Operating Officer. He was President and CEO of Partners of the Americas for twelve years. Previously, he served with the Peace Corps for ten years, first as a volunteer in Salvador, Brazil, then as director of Brazil operations, and in Washington as deputy director of the Latin American and Caribbean region.

He currently sits on the board of The Prince's Youth Business International in the UK as well as InterAction, where he served previously as Chair. Mr. Reese has also joined the Alcatel-Lucent Foundation Board and serves as a board member of two organizations committed to certifying best practices in global supply chains in the apparel and toy industries: W.R.A.P. and ICTI Care Foundation.

Reflecting his interest in promoting international volunteerism, he has joined the boards of Encore International Service Corps and Global Citizen Year. Mr. Reese received his BA in Political Science from Stanford University and is a 1995 graduate of the Business School's Executive Program.

The International Youth Foundation

<http://www.iyfnet.org/>

The International Youth Foundation (IYF) prepares young people to be healthy, productive, and engaged citizens.

For over twenty years, IYF has sought to tell a new story about the role of young people in our world. Rather than view youth as 'problems to be solved,' we recognize and support their role as creative problem solvers. We engage young people as partners in development, equipping them with the know-how and tools to contribute to their communities.

At the core of our work is creating new possibilities for young people.

We are passionate in our belief that educated, employed, and engaged young people possess the power to solve the world's toughest problems. Every young person therefore deserves the opportunity to realize his or her full potential. Our programs are catalysts for change that help youth learn, work, and lead.

Recognizing that no one sector of society alone has the resources or expertise to effectively address the myriad challenges facing today's youth, IYF is mobilizing a global community of businesses, governments, and civil society organizations — each committed to developing the power and promise of young people. Since 1990, IYF has mobilized over US\$200 million in resources to expand the opportunities for the world's youth by helping to fund programs and partnerships with 472 youth-serving organizations worldwide. In 2013, our global network included 224 partners in 70 countries.