

## Report about FS Inspection Trip to China from 08.11.2023 to 19.11.2023

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The Fair Stone inspection trip took place from 08.11.2023 to 19.11.2023. This was the first trip to China after the Covid-Hiatus since 2019. Strict Quarantine and Visa regulations made earlier trips impossible. Fair Stone Director James Herrmann visited 9 Factories and 1 Quarry in the Provinces Fujian and HuBei. 3 Factory visits were conducted as witness audits. One Factory in Fujian was FS Monument only with reduced criteria. Visits and audits were conducted together with Mr. David Chen of Auditing Company Paradigm Shift Ltd. Furthermore, a meeting with the Sustainability/ESG Lead of a Hongkong trading company that works together with a large FS Partner was conducted.

The focus of the inspection trip this year was on factories that had already been externally audited through the FS BASIC 3<sup>rd</sup> Party Scheme implemented since 2020. Factories were in different phases of implementing the Fair Stone criteria (Year 1, Year 2 or Year 3).

In general, most factories were very well prepared for the announced visits. WiN=WiN Fair Stone is known to most exporting companies and factory managers and the criteria are well understood in the factories. Most workers receive training at least once a year and usage of personal protective equipment was appropriate for the respective work area. Overall documentation like Contracts, insurance, accident and attendance records are in place. Quality and availability of documentation has improved over the last years. In the past hospital masks were often worn instead of the correct FFP2/N95 masks. With Covid this has shifted to the correct masks. Records of compensation for sick leave caused by illness or minor accidents of workers are also a regular thing now.

Overall, we also found stronger governance and policies of the regional governments to address topics of environmental pollution (noise, dust, water) and specialized worker training and accreditation (forklift, machine operators, first-aid personnel etc.).

On a more general note, economic growth has slowed down significantly. During our trips we noted less traffic on roads and streets than in 2019. Also, less western visitors and ex-pats in hotels and restaurants. These observations were confirmed by most stakeholders.



Dialogue with Export Companies & Factory Management.

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### Situation in Fujian

Xiamen and the surrounding districts like ZhangPu, ChangTai, JinJiang, Shijing or Quanzhoi are still the main export areas for several different granite materials. Raw blocks from other provinces like Dalian or GuangDong are being processed there in factories. The additional transport costs are compensated by lower and direct sea freight routes to Europe.

In the several dialogues with export companies and factory managers, the economic perspective was described as bad. For some the year 2023 is the worst year for export trade to Europe since many years. Even

worse than at the height of the sea freight explosion, when exports of natural stone were not competitive in regard to price and a lack of containers further exacerbated the situation.

As a result, order situation was described as poor and factories only operate at 60-70% capacity. However, this allows them to take advantage of lower energy costs in the night. This means big saws are only operated during the night in most factories, when energy costs are 40-50% lower.



Joint Factory control visit with Auditor to verify actual processing for FS Partner.



Joint Factory control visit with Auditor and other stakeholders.

### Situation in HuBei/Macheng

A focus was put also on HuBei Province, as this province was never visited by FS Management in the past. All other relevant provinces Fujian, ShanDong and LiaoNing were covered in past trips.

A large stone extraction and processing cluster exists in the City of Macheng, around 1.5 hours from Wuhan. In Macheng, three witness audits were conducted (2x Factory, 1x Quarry). Dimensions of the factories and particularly the large G602-2/G603-2 were impressive. Overall, a total of 100.000 jobs are related to natural stone there (including related services & logistics). More than 2000 factories mostly process the above regional material and G633-2 from another nearby quarry. The biggest factory employs around 1000 workers, while factories registered for FS Partners are smaller and between 70 to 160 workers. Legal minimum wage is around 1520 RMB, while actual wage range for factory workers is between 3000 to 5000 RMB and for quarry workers between 5000 to 10000RMB. However, some of the wages are based on piece rate compensation.

The importance of the natural stone industry in the area is apparent with regular traffic jams caused by trucks transporting raw blocks or finished products. Infrastructure in the city has also been geared towards this, with many sprinklers to bind the dust and dirt as well as heavy duty roads to support the 40-60 tons of the vehicles.

However, the order situation was also described as poor. Factories operate only at 60-70% capacity.



G602-2/G603-2 Quarry in Macheng, ~10x Leases and 20x subcontractors.



Factory in Fujian during witness audit.



Review of documents during audit.



Interviews of workers during witness audit.

### Further Observations

Since we visited only registered supply chains, it was no surprise that WiN=WiN Fair Stone was highlighted as the certification scheme with most presence in the area. Other audits were conducted in the same factories by SGS or TÜV, but factories complained about lack of transparency. They were not informed by their clients about the scope and purpose of the audits.

General knowledge about upcoming Due-Diligence laws in Germany or Europa was very low. The same applies to the topic of CO2-neutral production or compensation of CO2-Emissions. However, many factory managers confirmed that they had discussions in the past with public authorities or private companies to install solar panels on their roof. Most refused any investments at this stage due to lack of roof area and high investment costs.



Some Granite and Basalt Materials in Fujian are also extracted as boulders.



Workshops are conducted regularly during audits to raise awareness of workers for OSH Hazards and PPE Usage.