

PLAYING WITH LABOUR RIGHTS

Music player and game console manufacturing in China

FinnWatch, SACOM and SOMO
March 2009



TITLE: Playing with Labour Rights: Music player and game console manufacturing in China
AUTHORS: Chun Kit Ho, Päivi Pöyhönen and Eeva Simola (ex. Chs. 4.2, 4.3, 4.4 shared with SOMO, SwedWatch)
PUBLISHED BY: FinnWatch, SACOM and SOMO
COVER ILLUSTRATION: JUSTAR.nl
LAYOUT: JUSTAR.nl and Petri Clusius/Amfibi Ky

This report is published as part of the makeITfair campaign, a Europe-wide project on consumer electronics. MakeITfair aims to inform young consumers about human rights, as well as social and environmental issues along the supply chain. It also addresses consumer electronics companies that can contribute to change.



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FUNDING:



This document has been produced with the financial assistance of the European Union. The contents of this document are the sole responsibility of SOMO and can under no circumstances be regarded as reflecting the position of the European Union.

CONTACT DETAILS:

FinnWatch
Research partner of makeITfair
Tel: +358 (0)9 2280 8349
info2@finnwatch.org
www.finnwatch.org



MakeITfair is a Europe-wide project on consumer electronics, aiming to inform young consumers about human rights, as well as social and environmental issues along the supply chain. The project is co-ordinated by the Dutch organisation SOMO. Project partners are IRENE in the Netherlands, SwedWatch, Fair Trade Center, Church of Sweden from Sweden, FinnWatch and Finnish Association for Nature Conservation from Finland; Germanwatch and Verbraucher Initiative from Germany, KARAT from CEE; ACIDH from the DR Congo, CIVIDEP from India and SACOM from China. Website: www.makeitfair.org.



FINNWATCH

FinnWatch observes and researches Finnish companies operating in developing countries, focussing on human and labour rights, the environment and social development. The FinnWatch network consists of eight organisations: Service Centre for Development Cooperation (Kepa), Trade Union Solidarity Centre of Finland, Central Organisation of Finnish Trade Unions, The Consumers, Friends of the Earth Finland, The Finnish Confederation of Salaried Employees, Finnish Association for Nature Conservation (FANC) and FinnChurchAid. Website: www.finnwatch.org.



The Finnish Association for Nature Conservation (FANC) is the largest non-governmental organization for environmental protection and nature conservation in Finland. Its objectives include the promotion of sustainable production and consumption patterns and the protection of biodiversity. FANC is the formal representative of FinnWatch, and supports coverage of environmental themes in its work. Website: www.sll.fi.



The Centre for Research on Multinational Corporations (SOMO) is a non-profit Dutch research and advisory bureau. SOMO investigates the policies of multinational enterprises and the internationalisation of business worldwide. Focus is placed on research into labour conditions in the global South and cooperation with local organisations and trade unions. Website: www.somo.nl.



SACOM is a Hong Kong-based non-profit organization founded in June 2005, which aims to bring concerned students, scholars, labour activists and consumers together to monitor corporate behaviour and to advocate for workers' rights. SACOM originated from a student movement devoted to improving the working conditions of cleaners and security officers under various universities' outsourcing policies. The movement created an opportunity for students to engage in activism surrounding local and international labour issues. Website: www.sacom.hk.

FOREWORD

This report is one of the first studies of working conditions related to the manufacturing of portable music players and video game consoles. It is published as part of the makeITfair project to raise awareness about development issues in the production chain of the consumer electronics industry, with a special focus on products for young consumers, such as mobile phones, MP3 players, game consoles and laptops.

The focus of the project is on the consumer electronics industry, as this industry is growing rapidly and facing many social and environmental problems throughout the world. Only recently has this branch of industry been the focus of public campaigns, and there is still limited awareness among the wider public. As the production chain of consumer electronic products is a truly global one, the sector is a particularly good example for discussing various issues of globalization with young consumers.

The three-year programme of makeITfair concentrates on young consumers because they can play a decisive role in moving the industry towards more equitable and sustainable production methods. At the same time, dialogues will be initiated with electronic brand companies to encourage them to take responsibility for issues throughout their entire supply chain.

In the first year, the research reports pictured the conditions under which the raw materials for the manufacture of electronics are extracted. In the second project year, the research dealt with the production of electronics in Asia. Retailing, and eventually the discarding of products in the last phase of the product life cycle will be researched in the third year of the project. Furthermore, the research investigates the situation in Europe itself: the first year the focus was on production in Poland, in the second and third years, the consumer electronics industry in the Czech Republic and Hungary are addressed.

The dissemination of the research results entails the development of Consumer Guides, educational material, toolkits for campaigning organisations and web-based tools. Other activities in this project include capacity building sessions in Eastern Europe and the organising of an annual international round table to bring together electronics companies, NGOs and trade unions to discuss environmental, human rights and labour conditions down the supply chain of consumer electronics.

This EU-funded programme is led by a consortium of NGOs from Europe including Germanwatch, Verbraucher Initiative, SwedWatch, Church of Sweden, Fair Trade Center, FinnWatch/Finnish Association for Nature Conservation, Karat, SOMO and IRENE, as well as NGOs in developing countries in Asia and Africa, namely SACOM in China, CIVIDEP in India and ACIDH in the Democratic Republic of Congo.

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EXECUTIVE SUMMARY

This report is one of the first studies on working conditions related to the manufacturing of portable music players and video game consoles.

Use of audio only players (known as MP3s), portable media players (PMPs) and video game consoles has increased rapidly over the past few years. The tiny size and light weight of music players coupled with an ever expanding memory enabling more and more music to be downloaded have boosted the popularity of these products globally. Look around a bus or train and everyone under thirty seems to be using such devices. Today many mobile phones have sophisticated features for downloading and playing music. This new generation of phones has become the most popular device for playing music on the move in many countries.

For many children, video games may be the first introduction to the digital world. According to market research carried out in the United States, 85 percent of children aged 2–14 use game consoles. Three in five use digital music players.¹ Game consoles used to be associated with an image of a lonely boy in front of the screen. However, the reality is that such games are often played in the same room or together with friends or family. Video game consoles have become common in homes across the developed world. Worldwide² and in Europe, the average age of gamers is 29. In Europe, the gamers are affluent males with high disposable income.³ The average American male gamer is even older at 35.⁴ Worldwide, two in five game players are female.⁵ In the US, women constitute a half of all gamers, playing more games on their mobiles.⁶

With such growing demand among mainly teenagers and young adults, manufacturing these devices has increased rapidly over the past few years. A large and increasing part of the manufacturing process is taking place in developing and transition countries. Currently more than half of the world's MP3 players, 30–40 percent of PMP players, and most game consoles are being produced in China. Most of the workers at the production lines are young women who often carry a heavy burden as the main family breadwinner. Many workers in China's electronics sector are denied many of their basic rights.

VIOLATIONS OF NATIONAL LAWS, ILO CONVENTIONS AND COMPANY CODES OF CONDUCT

The supply chain of the electronics industry has become more and more complex over the last few decades, with a high incidence of outsourcing, particularly to Asian countries. Over the years, production centres have moved from one country to another in search of lower costs and proximity to booming local markets. Between 1995 and 2006 the Asia Pacific area's share of global electronics production increased from 20 percent to 42 percent, while production in Western Europe, the US and Japan continues to decrease.

1 'For kids, gaming over music', NetFamilyNews.org, article by Anne Collier. 15 January 2009

2 'Games and social virtual worlds', Lamp-wiki (<http://lamp.edu.au/wiki/>). 23 April 2008

3 'On Advertising: Getting in the game', International Herald Tribune, article by Eric Pfanner. 6 March 2006

4 http://en.wikipedia.org/wiki/Video_game

5 see 2

6 Executive Summary of 'Understanding The US Video Game Player' -report, Forrester Research (<http://www.forrester.com>). 25 January 2008

This report examines four factories operating in the Guangdong Province in China, namely Celestica Technology, Flextronics International, Vista Point Technologies belonging to Flextronics, and Hong Fu Jin Precision of Foxconn. Depending on who they supply, they are all first tier or second tier suppliers. They manufacture or deliver components to music player, multimedia phone and game console companies, namely Apple, Microsoft, Motorola, Philips and Sony. Based on the research, the most common problems at the factories are:

Discrimination in recruitment. All four factories required job applicants to undergo a medical checkup, including blood tests for highly contagious diseases. Job applicants have to cover the costs of the medical checkup by themselves, except those under 18, whether employed or not. Diagnosed hepatitis B leads to a rejection of applicants at least by three out of four factories. This practice is considered discrimination against hepatitis B carriers, and is still common in many multinationals and employers in China. The Chinese Ministry of Labor and Social Security issued a notice in 2008 warning employers not to discriminate against job seekers on the ground of hepatitis B.

High percentage of student interns and contract labour. All the four factories hired 16–18 years old student interns from a few months to one year. They were required to perform night shifts and to do overtime like regular workers. Since student interns are not entitled to standard social insurance (except occupational accident insurance) in China, employers save money through hiring them. Another trend is hiring so called contract or dispatch labour through labour agencies. Temporary dispatch labour and students made up 50 and 20 percent of the workforce in two factories producing for Microsoft. Some of the workers interviewed reported wage deductions made by labour agencies. Contract labour is not very likely to be told or know about labour rights and unions.

Low wages. In China workers often earn the minimum wage for full-time work at the factory, even though these wage levels are very difficult to live on. Although Chinese minimum wages were raised in 2008, workers still have problems covering their basic needs and often cannot afford to start a family. Most of the workers are migrants workers from poor rural regions wanting to send money back home. In order to accomplish this goal they keep their own living costs at the lowest possible level by staying in dormitories with several other workers and by eating in the factory canteen. All four factories offered new workers a basic wage equal to the legal minimum wage or slightly above, 770–935 yuans, or 72–87 euros, per month for full-time work.

Excessive working hours. In China workers often take on extra hours to try to raise their wages. Some workers state that they cannot refuse to work overtime. In three factories, workers were employed for 80–90 hours overtime per month during the peak season. In one factory producing for Apple, up to 120 hours overtime was worked; a gross violation of Chinese labour law that limits overtime to 36 hours per month. However, the factories had obtained approval for flexibility in hours from local labour bureaus. It seems that decreased orders have recently reduced overtime – in one factory producing for Microsoft, overtime was 100–180 hours per month until June 2008. After that, the factory limited the overtime “to ensure that overtime does not cross the stipulated 86 hours as mandated by Electronic Industry Code of Conduct (EICC) guideline”. It must be kept in mind that the industry code overtime maximum is more than twice the legal maximum in China.

Negative effects on health. All four factories required workers to work day and night shifts lasting

usually one month. Workers found it difficult to adapt to month-long night shifts often lasting 11 hours. Also, two factories out of four required assembly line workers to stand through entire shifts, which causes muscle ache. One factory had changed in 2008 to allow staff to sit whilst working. If needed to go to toilet, workers had to ask for permission and a so-called 'off-duty card'. One card was shared among 20–40 workers (a factory producing for Microsoft had just decreased the number from 100 to 40) making it everyday practice to queue for long periods. Some workers also reported inhaling toxic fumes and feeling nauseous in soldering sections.

Punitive fines. Wage (or bonus) deductions, due to punitive fines are evident in three out of four factories researched in China. Even though these fines are not always illegal, they are often based on subjective and unjust grounds. For example, workers are fined for mistakes or conduct related to the unhealthy working conditions offered by the employer, such as falling asleep at work or making mistakes because of the rapid pace of the assembly line. At a factory that produces for Sony, Microsoft, Motorola and Philips workers toiled for 11 hours per day 6 days per week, but they were fined if they fell asleep at work. They had to obey a 44-point disciplinary code. (See Annex I).

Disrespect of union rights. In China, workers' rights are gradually improving, particularly due to the new Labour Contract Law that came into force in January 2008. All workers should have labour contracts and employers not supplying them should, in theory, be punished. However, the All China Federation of Trade Unions (ACFTU) continues to hold a monopolistic position, as prescribed in the Trade Union Law. The ACFTU is controlled by the Communist Party, its chair is the vice chair of the Chinese National People's Congress. The ACFTU is often loyal to the employer and the government instead of representing workers. Its aim is that all private factories in China should be unionized by 2010. In all four factories, the workers interviewed either did not know whether there was a union in place or regarded it as favoring management's interest. Three factories out of four claimed to have established labour unions in 2007–2008.

Life in dormitories. Many workers lived in dormitories inside factory campuses, because most of them had no other option due to low salaries and high rental costs outside factories. Three factories charged workers for basic lodgings 10–80 yuans (1–7.5 euros) per month, one factory provided free accommodation. One room is shared among 8–10 workers, with a living space of 2.5–4.5 square metres for each worker, and very little privacy. On each floor of the dormitory, there were 100–250 persons, who even share the same washroom in some cases. Workers are often responsible for cleaning their own dormitories, while third party cleaners operated only in public areas, causing hygiene problems.

Most of the electronics brand companies have adopted codes of conducts stating that the human and labour rights of workers will be guaranteed. However, the situation at the factories covered in this report shows that this is not the case. The industry says it is trying to monitor the suppliers closest to them, the so-called first tier suppliers. The factories covered herein are these first tier suppliers, and yet numerous unacceptable violations of labour law and company codes of conduct came to light.

MakeITfair asked for comments from the factories researched, as well as the relevant brand companies. Only Apple did not answer. Microsoft said some findings in the report were contradictory to the audits of its suppliers carried out by instances it has chosen and trained

for the purpose. Yet it promised all claims made by makeITfair would be taken seriously. Sony acknowledged the fact that social and environmental issues associated with the multi-tiered supply chain are challenging. However, it expects its suppliers to make mere self-assessments. In addition to Microsoft, Apple and Motorola conduct audits of their own at some of their first-tier suppliers. Sony and Philips have only participated in EICC joint audits. In the light of the results herein, audit systems might contain loopholes, if some of the problems coming to light by careful confidential interviews by SACOM have not surfaced in the audits. All the supplier companies sent detailed comments, some of which proved very useful. The information provided by SACOM turned out generally to be correct. As to the suppliers, only Celestica admitted there was room for improvement as pointed out by makeITfair. Foxconn accused SACOM of faked interviews and pursuing a "hidden agenda".

This study also shows that different problems in the industry are often connected. In China, low minimum wages mean workers are virtually forced to do a lot of overtime to survive. The excessive working hours and long night shifts affect their health. Any possibility of improving the situation is largely hampered by the fact that anti-union activity is common within the entire sector. It is therefore of utmost importance that electronics companies analyse how they can challenge these attitudes and support workers' efforts to organise freely. Independent third party auditing and demands from buyers will no doubt lead to improvements in some areas. However, more profound changes and overall improvements will not take place until workers become informed and aware of their rights and are given full and unrestricted rights to organize and express themselves.

Suppliers often complain that they are expected to raise labour and environmental standards at the same time as their customers require them to lower production costs. For improvements to happen, companies need to bring in true incentives for corporate social responsibility (CSR) investments and not use obstructive purchasing practices. They also need to offer guidance to suppliers, and monitor and take responsibility for the effects further down the supply chain.

1. INTRODUCTION

In recent years the growth of both the market for and production of portable music players and video game consoles has been dramatic. Multimedia phones with music players and game consoles are becoming commonplace among teenagers and young adults in wealthy societies.

In the shadow of the success stories of brand companies, such as Apple (iPod and iPhone) and Microsoft (Xbox 360), the reality is harsh for many electronics workers. This report focuses on music players, including multimedia phones, and video game consoles, their production and working conditions at four manufacturing plants in China.

In September 2008, makeITfair organisations SOMO and SwedWatch released a report about the working conditions in six mobile phone factories in China and the Philippines.⁷ The report revealed severe violations of labour laws and rights in factories producing items such as chargers and Bluetooth headsets for the big mobile phone brands.

The Information and Communication Technology (ICT) sector is generally perceived as a clean industry employing highly skilled people who earn decent wages working on advanced engineering, programming and different service jobs. This is, however, only part of the reality behind the millions of electronic gadgets that are sold and used around the world. What remains hidden is the labour force engaged in the manufacturing processes in developing countries – mostly young women working at assembly lines for excessive working hours for low pay and often deprived of their rights. This study aims to describe their realities and present their views. The problems appear to be very similar to those described in the report concerning mobile phone manufacturing facilities by SOMO and SwedWatch.

⁷ Silenced to Deliver – Mobile phone manufacturing in China and the Philippines, Somo and SwedWatch, www.makeitfair.org. September 2008

2. METHODOLOGY

The research for this report was conducted using both desk study and field research. Desk study included literature and online research in late 2008 and early 2009. In China the field research and interviews of workers were carried out by Students and Scholars Against Corporate Misbehaviour (SACOM) during April-August 2008. In total, 110 workers were interviewed at the four factories covered in this report. They were interviewed individually or in small groups at secure locations outside the factory independent of their supervisors and employers.

Both the supplier factories and the music player (incl. multimedia phone) and video game console brand companies that buy their products and components have been given the opportunity to comment on the factory findings and notify FinnWatch of any factual errors. Their responses have been included in Chapter 6 of this report.

Due to the limited scope of this study, environmental issues have not been included in the research. Please refer to other sources for information about environmental concerns related to the manufacture of electronics.⁸

⁸ In 2007, Greenpeace International published a report about the environmental effects of electronics manufacturing in China, Thailand, the Philippines and Mexico. The study includes analyses of samples at various production sites, where high levels of polluting metals and chemicals were found. See Greenpeace International, Cutting Edge Contamination: A Study of Environmental Pollution during the Manufacture of Electronic Products, Feb 2007.

3. THE GLOBAL MUSIC PLAYER AND GAME CONSOLE MARKET: GROWTH, MARKET SHARES AND TRENDS

3.1 PORTABLE MUSIC PLAYER MARKET TO SLOW DOWN

Hand held audio only MP3 players can store and play thousands of songs. The same functions can also be built into mobile phones, called smart or multimedia phones. Nokia says it is one of the world's biggest MP3 player producers, due to its huge sales of multimedia phones.⁹ It is likely that the term MP3 player becomes obsolete soon, since more players begin to support video and perform as portable media players (PMPs). It has been forecast that portable media players will outsell audio only players by 2009.¹⁰

In 2007, altogether 210 million portable music players worth 19.5 billion US dollars were sold, a rise in sales of 19 percent from 2006.¹¹ In terms of units, sales are expected to rise to 245 million in 2012. The growth rate of the once rapidly expanding market will slow down considerably due to market maturity, global recession, and competition from other multimedia hand held devices, primarily mobile phones. Market revenue for the players peaked in 2008 (at US\$ 21.6 billion) and will decline annually through 2012.¹²

Apple's iPod clearly leads the market – one out of four music players sold worldwide is an iPod. As of February 2009, Apple had sold nearly 200 million iPods, making it the biggest selling music player of all time.¹³ The other big portable player brands are Creative (Zen, MuVo), SanDisk (Sansa), Samsung (YP) and Microsoft (Zune). Archos, iRiver, Philips, Sony and Toshiba also produce players. Sony sold nearly 6 million portable music players during the year ending March 2008.¹⁴

In Finland, Creative was the most popular music player in early 2008.¹⁵ In the US market, Apple's iPod accounts for 70 percent of sales, but PMP/MP3 player buying patterns vary in Europe. While consumers in the UK have favoured the iPod, buyers in France, Germany, Italy and Spain have generally favoured other, cheaper, players.¹⁶ It is not easy to ascertain the market share of various brands in Europe. Analysts refrain from giving percentages, fearing negative feedback from companies.

In 2007, mobile phones that play music outsold MP3 players by nearly three to one. Now 90 percent of modern phones feature some kind of MP3 playing ability.¹⁷ Apple sold nearly 14 million iPhones in 2008, being the number 3 supplier of smart phones.¹⁸ The worldwide market for multimedia phones is estimated to be about 225 million in 2009, equal to 17 percent of the total 1.35 billion

9 'Vanjoki: Nokiasta maailman suurin gps-valmistaja'. Tekniikka&Talous, article by Mikko Piironen. 15 November 2007

10 'Video-Enabled Portable Media Players Will Outsell Audio-Only Models By 2009'. In-Stat research (<http://www.in-stat.com>). 27 August 2007

11 'Can't find the Zune? Here's why'. InformationWeek (<http://www.eetimes.com>). 12 December 2007

12 'Scottsdale: PMP/MP3 Player Market Growth Skids Due to Weak Economy and Maturation'. Article at <http://www.CommunicationsDirectNews.com>. 18 February 2009

13 'Micro Economics'. The Big Money, article by Gabriel Sherman. (<http://www.thebigmoney.com>). 9 February 2009

14 E-mail from Sony CSR-department, Asako Nagai, 8 January 2009

15 Phone interview with Ludvig Enholm, GfK Sverige, 28 March 2008

16 Digital Music: next generation services, presentation by Dan Cryan, Screen Digest

17 'CE growth to see 'significant slowdown'. EE Times, article by Mike Clendenin. 24 April 2007

18 'Record revenue and earnings for Apple on huge iPod sales – but iPhone sales miss expectations'. VentureBeat, article by Mg Siegler (<http://venturebeat.com/>). 21 January 2009

global mobile handset market.¹⁹ Mobile phones are favourite music devices in many countries. For example, in 2008, 75 percent of MP3 playing devices bought by UK consumers were mobile phones.²⁰

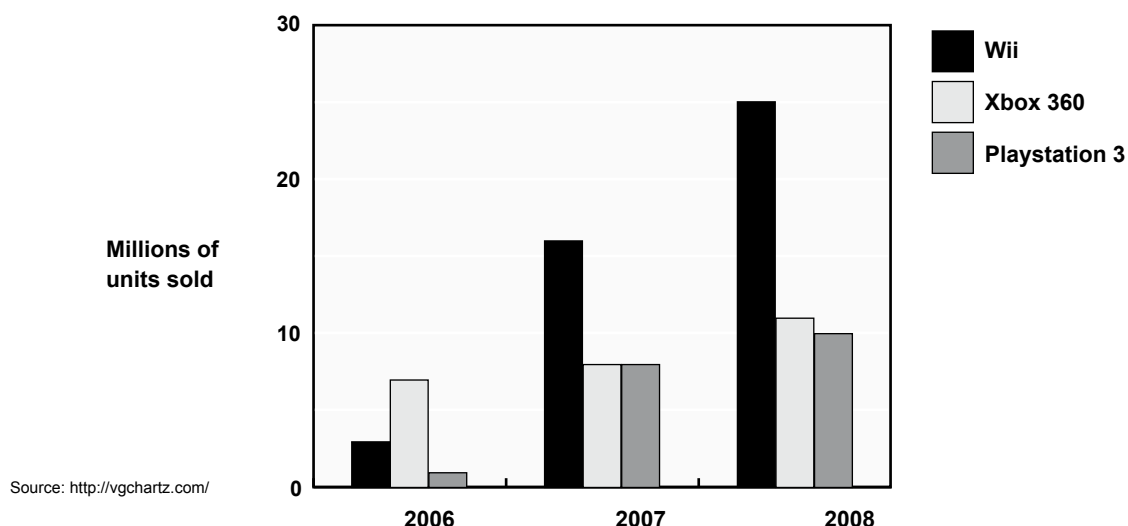
3.2 "BIG THREE" DRIVE THE GAME CONSOLE INDUSTRY

Console games are also referred to as 'video games'. These games are played on a device called a video game console connected to a television set. The new consoles are no longer just gaming machines; they are designed to be home entertainment systems, containing CD and DVD playback and a large memory. Computer games and hand held consoles are competitors of video games.²¹

The game console market is dominated by the "Big Three" giants, namely Nintendo selling Wii, Microsoft and its Xbox, and Sony selling PlayStation. PlayStation made its debut in 1994, and Sony introduced PlayStation2 in the year 2000. Microsoft launched the Xbox in 2001 and got a head start in the current video game generation with the launch of the Xbox 360 in 2005, a year before Sony and Nintendo launched their latest consoles. Nintendo outsold its competitors in 2006 and has remained the market leader until now.²²

The Wii sold 25 million units globally during 2008, and both the PlayStation3 and the Xbox 360 sold 11 million units. As for life time sales, Nintendo Wii had sold 45 million consoles worldwide, compared with 28 million Xbox 360 units and 21 million PlayStation3 units sold by 2009.²³ By 2011, however, the Wii is expected to equal the PlayStation3 annual sales with a 35 percent market share, because the PlayStation3's trajectory is entirely upward. The Xbox 360 will be in third place with a 30 percent share.²⁴

Picture: Global sales of Wii, Xbox 360 and PlayStation3 from 2006 to 2008



19 'The great iPod migration'. Fortune, blog by Phillip Elmer-De-Witt (<http://apple20.blogs.fortune.cnn.com>). 4 February 2009

20 'Three quarters of MP3 players sold in UK are mobiles'. about-electronics.eu – European Electronic News (<http://www.about-electronics.eu/category/portable-music-players>). 25 November 2008

21 http://wiki.media-culture.org.au/index.php/Computer_Games_-_Consoles (ref. in December 2008)

22 http://en.wikipedia.org/wiki/History_of_video_games (ref. in December 2008)

23 'PlayStation 3 and Xbox 360 worldwide sales equal in 2008'. GameZine.co.uk. 29 January 2009; <http://en.wikipedia.org/wiki/Wii>; <http://www.vgchartz.com/>

24 'PS3 won't beat Wii until 2011, forecasts analyst'. Reghardware.co.uk, article by James Sherwood, 15 February 2008

The introduction of the new generation game consoles created growth of 20 percent in the game console industry in 2007, with around 35 million units sold in that year.²⁵ In the US two-thirds of all men aged 18–34 in households with a television have access to a video game console in their homes. A "typical gamer" played nearly 3 hours of console games daily, according to 2007 research.²⁶

3.3 A COMPLEX WEB OF SUPPLIERS

Many consumers believe that it is the brand name company that has manufactured the gadget they possess. This is, however, not always true. For example in 2007, thirty percent of all mobile phones were designed or manufactured by contract manufacturers, unknown to most consumers, such as Flextronics, Foxconn, BenQ and Compal.²⁷ In 2005, it was already estimated that mobile phone companies would outsource 44 percent of their production by 2009.²⁸

The network of contract manufacturers used to be a fragmented industry in the 1980's and early 1990's, but it has consolidated into a mature industry with a few companies dominating the market. Some companies have withdrawn, while the biggest have gained strength through acquisitions and mergers and are able to deliver at low cost.²⁹

Further down the supply chain from these firms lie a wide range of other component manufacturers that produce parts for the final products, such as chips, microphones and batteries. Most of this contract manufacturing happens in Asia. It has been estimated that North and Southeast Asia together received half the total revenue from manufacturing consumer electronics in 2008.³⁰ Contract manufacturing worldwide grew by a fifth in 2006 and again in 2007, but due to the current economic crisis, growth is expected to be around 10 percent in 2009.³¹

Outsourcing music player and game console manufacturing is very common. For example, the manufacture of parts and the assembly of all Nintendo Wii game console hardware is outsourced to production partners.³² This is also likely to be the case with consoles from Microsoft and Sony.

25 The Digital Economy Fact Book, ninth edition (2007) (http://www.independentanalysis.biz/downloads/DEFB_2007.pdf)

26 'In-Game Ads Put Brands in Play'. AdWeek (<http://www.adweek.com>), article by Grant Jenman and Stephanie Becker. 30 June 2008

27 iSuppli Corp, Outsourcing Strategies Separate Winners From Losers in the Mobile-Handset Market, 27 February 2008.

28 Emsnow.com, iSuppli Predicts Limited Outsourcing for Mobile Phone OEMs, 11 November 2005

29 Emsnow.com, Big Contract Manufacturers Get Bigger in 2006, 4 April 2007 and Carpenter R, The EMS Industry – A Consolidated Story, 12 February 2008

30 <http://www.investors.com/editorial/IBDArticles.asp?artsec=16&issue=20081201> (12 January 2008)

31 Synopsis of 'The Worldwide Electronics Manufacturing Services Market', fifth edition. Electronic Trend Publications (<http://www.electronicrendpubs.com>). July 2008

32 Nintendo's response to the marketfair-questionnaire, 23 January 2009

4. CHINA



Picture: Map of Guangdong Province.

Guangdong has become the centre of electronics production in China. The factories discussed in this report are located in Shenzhen, Dongguan and Zhuhai.

4.1 THE ROLE OF THE ELECTRONICS INDUSTRY IN CHINA

China is world's largest manufacturer of portable music players and game consoles, as well as other consumer electronics. Over half of world supply of MP3 players came from China in October 2006.³³ Regarding PMP players, 30 to 40 percent were produced in China in 2008.³⁴ The market growth for music players and portable game consoles was greater than for other portable electronic devices.³⁵ However, by late 2008 it had become obvious that the Chinese consumer electronics industry was being affected by the economic downturn gripping Europe and the US.³⁶

33 China Sourcing Reports: MP3 players. October 2006

34 China Sourcing Reports: Portable Media Players. July 2008

35 Global Portable Electronics Market. RNCOS report (www.rncos.com/Report/IM111.htm). June 2008

36 'Chinese Government Stimulating its Consumer Electronics Industry'. 24-7Press Release (<http://www.24-7pressrelease.com>), New Delhi. 31 December 2008

Between 1995 and 2006, China's share of global electronics production increased from only 3 percent to 20.5, an expansion that very much transformed the global electronics industry.³⁷ More than half of the world's mobile phone production and three out of four laptop computers were also produced there.³⁸ The electronics industry has been functioning as one of the country's major economic drivers. In 2006, the ICT sector exported goods valued at US\$ 232 billion and employed more than 7.7 million people.³⁹ The work is largely labour-intensive product assembly work, but in the past few years, China has succeeded in capturing even more added value by the manufacturing of highly specialized chips and other electronic components.

The world's biggest electronics contract manufacturers have established a firm base in China, with several factories. This report takes a look at four of them, namely Canadian Celestica, Singapore-based Flextronics International, Vista Point Technologies of Flextronics and Taiwan-based Hong Fu Jin Precision Industry, under the trade name Foxconn.⁴⁰ Foxconn and Flextronics are the world's biggest contract manufacturers of electronics. In 2007, Foxconn was also China's biggest exporter.⁴¹ Foxconn has in all 550,000 employees and an income of US\$ 51.8 billion. Flextronics employs 162,000 employees and has an income of US\$ 27.6 billion.⁴² It is difficult to say whether seasonal and contract workers have been included in these figures.



Assembly line workers in electronics factories are often women, favoured for their obedience and quick fingers. Picture is from China. Photo: SACOM

37 Emsnow.com, US, Japan and Western Europe Continue to Lose Share of Global Electronics Production. 6 June 2008

38 Beijing RIC Information Consulting Co. Ltd, China Mobile Phone Industry Report, 2007–2008. Feb 2008; Manhart A, Key Social Impacts of Electronics Production and WEEE-Recycling in China. June 2007. p 1.

39 FIAS and BSR, Social Responsibility in China's Information and Telecommunication Technology (ICT) Sector. July 2007. p.13.

40 'PS3 manufacturer wins Xbox 360 contract'. MCV (<http://www.mcvuk.com>), article by Ben Parfitt. 18 March 2008; 'Global Wii supply to increase?'. MCV (<http://www.mcvuk.com>), article by Tim Ingham. 17 July 2007

41 'The Forbidden City of Terry Gou'. Wall Street Journal, article by Jason Dean. 12 August 2007

42 <http://money.cnn.com/magazines/fortune/global500/2008/>

Foxconn's Shenzhen factory in Longhua is its largest plant, with a workforce of some 270,000. Foxconn owner, self-made billionaire Terry Gou has made his fortune by putting together mobile phones and MP3 players, among other things. In 2006, a British newspaper reported on alleged poor treatment of Longhua's workers, specifically those who make Apple's iPods there. The British article attracted worldwide attention as well as criticism in the Chinese press. Apple sent a team to investigate and found a handful of violations, including excessive working hours.⁴³

Electronics manufacturing in China appears to have the same problems that generally recur from study to study. It may prove useful to look at them before going into the detailed findings.

4.2 FEMALE MIGRANT WORKERS DENIED OF BASIC RIGHTS

For a long time, the vast Guangdong Province, in South-East China, has been the symbol of China's economic strength, and most electronics factories are located there. The proximity to Hong Kong helped turn Guangdong into a key export and production centre after economic reforms were introduced in China in the late 1970s. The province has China's largest GDP and it is well known for its labour-intensive manufacturing of electronics, along with toys and garments. Migrant workers – the so-called floating population of China – make up more than 65 percent of the workforce.⁴⁴ Most of the migrant workers are women, believed by employers to be less prone to standing up for their rights. They migrate from poor rural areas to the special economic zones of Guangdong cities, especially Shenzhen and Dongguan, in the Pearl River Delta, with hopes for a better life and send back money to their families or save for the future.

Long hours and low pay: Remittances sent back to families in rural areas have contributed to children's education and financing living expenses in poor areas.⁴⁵ Over the years, labour migration has clearly been part of government strategy both at national and local levels to create growth and reduce poverty. However, the young female workers responsible for this growth are paying a very high price. As internal migrants, they often find themselves at the bottom of the social ladder. Low wages, excessive and involuntary overtime, health and safety issues, and lack of union rights are some of the major problems they face. The overall situation falls far short of the "decent work for all" ILO goal, that stresses such values as human dignity, security and freedom of expression.⁴⁶

The main problems are sometimes interconnected. As minimum wages have become standard, workers have to work excessive overtime to make a living. In some factories, overtime earnings make up from one- to two-thirds of total wages.⁴⁷ Working 10 to 12 hour shifts standing up six or seven days a week negatively affects the health of many workers. Wage reductions for falling asleep or making minor mistakes on the assembly lines are common, even though most are obvious consequences of the working conditions offered by the employers. These punishments reduce the salary levels even further.

43 see 41

44 China Business Review: China's Powerhouse Shows Its Soft Underbelly. March 2007

45 Ping H et al, Internal Migration in China – Linking it to Development. March 2005

46 For more information on the Decent Work Agenda, please refer to the ILO website, <http://www.ilo.org/public/english/decent.htm>

47 China Labour Bulletin: Falling through the Floor, Migrant Women Workers' Quest for Decent Work in Dongguan, China. September 2006. p 15.

MINIMUM WAGES INSUFFICIENT IN SHENZHEN

In July 2008, Shenzhen's monthly minimum wages were increased from 750–850 yuan (80–85 euros) to 900–1000 yuan (95–105 euros), depending on the location of the factory. Living costs increased also: Shenzhen's consumer price index (CPI) for six months in 2008 increased by 7.3 percent, compared with the same period the year before. Prices of meat and vegetable oil had increased by 38.2 and 39.1 percent respectively. Consequently, a significant portion of the pay rise was consumed by rising living costs.*

*Shenzhen Daily, Shenzhen Economy Growing despite Threats, published by Chinaview.cn, 24 July 2008.

Health and safety: Figures released by China's Ministry of Health suggest that occupational disease is one of the country's most serious public health problems. The legislation on health and safety⁴⁸ is relatively demanding, but in the last decades the government and the local authorities have put more effort into creating a favourable investment climate than protecting the health of workers, and inspections are too few.⁴⁹

Workers in the global electronics industry risk being exposed to hazardous or toxic substances and fumes. The production process is highly chemical intensive. Good ventilation systems and sufficient protective equipment are vital. The European Union RoHS- directive⁵⁰ and its Chinese counterpart, which ban cadmium, lead, mercury, hexavalent chromium and some flame retardants, are positive efforts to protect the health of workers. Other health and safety problems related to the industry are eye strain and backache, caused by long hours of monotonous, repetitive work in the factories.

4.3 WORKERS "VOTING WITH THEIR FEET"

Since 2003, the Pearl River Delta has been experiencing a labour shortage,⁵¹ especially with regard to unskilled migrant workers. According to the Hong Kong-based organisation China Labor Bulletin, this has led to workers starting to "vote with their feet" and move from one factory to another in a hunt for better conditions and higher wages. Since no true union rights exist and local authorities often fail to protect migrant workers changing jobs is sometimes one of the few means available to improve their situation.

In 2006, there were signs that some employers had started paying higher wages and also better wages during the off season, as a direct consequence of the labour shortage. However, China Labour Bulletin sees no sign of overall improvements from the employers' side. Moreover, it is common for the employer to try to stop workers from quitting by withholding payments or blocking resignations in other ways. Another negative effect of the labour shortage has been the risk that factory managers force those staying to work even more overtime to compensate for the lack of staff.⁵²

48 The Law on Prevention and Control of Occupational Diseases. Downloadable at http://english.gov.cn/laws/2005-10/10/content_75718.htm

49 Liu C, Occupational Disease in China: The Hidden Blight, published in CSR Asia Weekly, Vol 1, week 20.

50 The RoHS Directive stands for "the restriction of the use of certain hazardous substances in electrical and electronic equipment". The directive bans the placing on the EU market of new electrical and electronic equipment containing more than agreed levels of lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE) flame retardants. It came into force on 1 July 2006.

51 There are several reasons for the continuing labour shortages. Ping et al (2005) point out poor working conditions. Other explanations mentioned are competition from special economic zones in other parts of China and the government's pro-agriculture policies that make migration less attractive.

52 China Labour Bulletin: Falling Through the Floor – Migrant Women Workers' Quest for Decent Work in Dongguan, China. September 2006.

In some factories, improvements are made as a consequence of the recent changes in the Chinese Labor Law and the CSR demands from buyers, the big brand name companies. Generally speaking, first tier suppliers seem to offer better working conditions than suppliers found further down the supply chain. Interviews conducted by Business for Social Responsibility (BSR) and the World Bank-connected Foreign Investment Advisory Service (FIAS)⁵³ in 2007 showed that most first tier suppliers were aware of the customers' CSR requirements, but most companies further down the supply chain, particularly smaller firms, had not yet been exposed to CSR topics.⁵⁴ Moreover, several case studies show that workers are seldom aware of the content of customers' codes of conduct, although these codes are aimed at protecting and promoting workers' rights.

4.4 AN OPENING FOR TRUE WORKERS' REPRESENTATION?

The Chinese Labor Contract Law, in place since January 2008, states that it is the employer's responsibility to sign a collective labour contract with the workers' representatives within a company. At the same time, the law also says that the union should represent the workers during negotiations. However, in China, the only legal union is the non-democratic ACFTU. The existing union affiliations of ACFTU, in particular the workplace-based unions⁵⁵, are often controlled by the management. The union committees tend to be loyal to the employer and to local government – not to the workers.

However, the new law also states that workers can elect their own representatives if there is no union present within an enterprise. This is viewed by some analysts as an opening for authentic workers' representation. *"The government has studied European democracies very closely. They recently held two international conferences on collective bargaining. This development could not have been foreseen only a couple of years ago,"* says Robin Munro, Research Director of Hong Kong-based China Labour Bulletin that works to defend and promote workers' rights in China.

China has continued to show contradictory trends. Workers' groups within some companies have been deemed illegal. Meanwhile companies are being pressurised to sign up with the ACFTU, which aimed to represent workers at 80 percent of the largest foreign firms by the end of September 2008.⁵⁶

Moreover, management uses different means to control workers on the factory floor, including strategies based on gender and separation of workers migrating from the same areas. As mentioned above, female workers are preferred since they are believed to be easier to control. In some cases male workers from certain provinces are avoided since they are labelled troublemakers. Other factory managers try to split up social networks and avoid solidarity by making sure that workers who are on the same assembly line or live in the same dormitory do not come from the same province. One case study describes a system where migrant women at one factory were collectively punished if a male worker coming from the same area violated company rules.⁵⁷

53 FIAS is an investment advisory service of the World Bank. It advises governments of developing and transition countries on how to improve their investment climates for domestic and foreign investors.

54 FIAS and BSR: Social Responsibility in China's Information and Communication Technology (ICT) Sector, July 2007, p 20–21.

55 The All-China Federation of Trade Unions is structured at the local-municipal-provincial-national levels. The setting up of a workplace union must be approved by the union at a higher level, according to the Trade Union Law. In this way, the ACFTU is organized in a hierarchical, state-controlled structure.

56 The Economist, Membership Required. 31 July 2008

57 Xue H: Local Strategies of Labor Control: A Case Study of Three Electronics Factories in China. Spring 2008

ACFTU

China has not ratified the ILO conventions on the right to organise and collective bargaining (no 87 and 98). No independent unions are allowed; instead the All-China Federation of Trade Unions (ACFTU) has a monopoly. The law allows affiliates to the ACFTU in companies with 25 employees or more.

The ACFTU is subordinate to the Chinese Communist Party and representatives are not democratically elected. The right to strike was removed from the Constitution in 1982 on the assumption that the Communist Party had "eradicated problems between the proletariat and enterprise owners".

The national government is currently trying to reduce the increasing number of strikes and protests, which they view as a threat to the country. One of the strategies is to expand the number of ACFTU affiliates. The government's goal is that all private factories in China should be unionized within 1.5 years; today the figure is only about 50 percent. A total of almost five million factories would have to be unionised in order to reach that goal, which will be an impossible task for the undemocratic ACFTU to accomplish. In most cases they will end up with union branches that exist on paper and in name alone.*

The level of unionization in privately-owned electronics factories is still very low. In 2006, after much resistance, Taiwanese-owned Foxconn in Shenzhen that manufactures iPods for Apple acknowledged an affiliate.** Since then others have followed suit, but no industry statistics exist.

Source: ITUC, Annual Survey of Trade Union Rights 2007 and others.

* Interview with Robin Munro, Research Director at China Labour Bulletin.

**China Post, Union Set Up in Foxconn Plant in Southern China, 3 Jan 2007.

4.5 DISPATCH LABOUR – INCREASING TREND

According to the International Trade Union Confederation (ITUC) it appears that companies in China are reacting to the new Labor Contract Law in a variety of ways, including increased use of subcontracting and labour dispatch companies. There are clear signs that many companies are continuing to take steps to keep labour costs to an absolute minimum in spite of the new law.⁵⁸

In China, the number of interim workers, dispatched by staffing firms to various companies, increased by seven million to 27 million people in 2008. These workers usually experienced fewer social security benefits and lower wages. Setting aside around 100 yuan from a worker's monthly wage to pay the staffing firm as a management fee is reportedly practiced, leading to even less earnings.⁵⁹

⁵⁸ Internationally Recognised Core Labour Standards in the People's Republic of China. ITUC publication. 21 May 2008

⁵⁹ 'Proposal to Review Labor Dispatch Regulations', EEO.com.cn, article By Weng Shiyou. 26 December 2008

HEPATITIS B AND DISCRIMINATION

Hepatitis B is recognized as endemic in China by the WHO. More than 120 million Chinese, about 10 percent of the population, carry the hepatitis B virus. The vast majority of carriers become infected at birth. Every year, 300,000 people die from hepatitis B-related diseases in China.¹

Hepatitis B sufferers in China face frequent discrimination in all aspects of life and work. For example, many Chinese employers and universities refuse to accept anyone who tests positive. The hepatitis problem is a reflection of the vast developmental gap between China's rural and urban areas.²

Employers in China erroneously fear that hiring a hepatitis B carrier will lead to the rapid spread of the disease throughout the workforce, whereas in reality it can only be spread through direct exchange of bodily fluids. It is common practice for employers to demand a blood test before hiring new workers and to dismiss existing labour after positive test results for the virus. A survey by the China Hepatitis Prevention Fund in June 2007 revealed that 77 percent of multinationals in China will reject job applicants carrying the hepatitis B virus.³

The Ministry of Labour and Social Security issued a notice in June 2008 warning employers they should not discriminate against job seekers on the grounds of hepatitis, unless the nature of the job might help spread the virus.⁴ It remains to be seen if this directive will be heeded and have any impact on the problem, because it leaves employers a lot of scope for interpretation.

1 WHO Media Centre Fact Sheets (<http://www.who.int/mediacentre/factsheets/fs204/en/>); http://en.wikipedia.org/wiki/Hepatitis_B_in_China

2 Ibid.

3 'Responding to Hepatitis B discrimination in the workplace'. China Labour Bulletin article. 20 June 2008

4 Ibid.

According to the International Metalworkers Federation (IMF), the labour union membership rate amongst dispatch workers in China in surveyed foreign-invested factories (many of them being electronics manufacturers) was low, because they are not considered to have any direct employment relationship.⁶⁰ The trend of informalisation of labour through the use of dispatch labour is particularly remarkable in the electronics industry. Though a booming industry, production line jobs in the electronics companies are becoming precarious.⁶¹

60 Report on Industrial Relations and Working Conditions in IMF-related TNCs in China. Asia Monitor Resource Centre & International Metalworkers Federation. 2007 http://www.imfmetal.org/main/files/07050810105979/IMF_china_report_EN.pdf

61 Report on the ATNC Network Workshop on Electronics Industry and Workers. Asian Transnational Corporation Monitoring Network (<http://atnc.org>). March 2005

5. MANUFACTURING MUSIC PLAYERS, MULTIMEDIA PHONES AND GAME CONSOLES: FOUR FACTORIES IN CHINA

Four factories in China were studied to find out about working conditions there. Two of them produced video game consoles, one parts for MP3 players and one smart phones with MP3 playing ability. The four factories are owned by the world's biggest electronics manufacturing service providers and suppliers. They are all members of the Electronic Industry Code of Conduct (EICC).⁶² The four factories produce for Apple, Microsoft, Motorola, Philips and Sony among others. In total, 110 workers were interviewed in mid-2008 by SACOM.

The four factories in question are:

- Celestica Technology – produces Xbox 360 video game consoles for Microsoft.
- Flextronics – produces Xbox 360 video game consoles for Microsoft.
- Vista Point Technologies/Flextronics – produces LCDs for Sony MP3 players and other products of Motorola, Microsoft, Philips etc.
- Hong Fu Jin Precision Industry (Shenzhen) Ltd./Foxconn Technology Group – produces iPhones for Apple and other products.

Apple, Microsoft, Motorola, Philips and Sony acknowledge that they have a responsibility for labour conditions in their supply chains. The companies' codes of conduct stipulate the rights of the workers. The codes refer to abiding to national and international laws and contain provisions on health and safety standards, discrimination, forced labour, child labour, wages, working hours and freedom of association. Apple, Motorola and Philips restrict the working week to 60 hours. At Foxconn, the working week exceeded 60 hours. It was the same at Celestica until June 2008 (see 5.1).

ELECTRONIC INDUSTRY CODE OF CONDUCT

The Electronic Industry Code of Conduct (EICC) is a code adopted and implemented by some of the world's major electronics brands and their suppliers. The goal is to improve conditions in the electronics supply chain. Many electronics brand companies have developed own code of conducts based on the EICC, setting further requirements. The EICC is however often used and referred to by many of them as well as their suppliers. The EICC group (some thirty companies) organize so-called joint audits. By late 2007, 17 had been conducted. The EICC includes provisions on freely chosen employment, child labour, working hours (restricts a workweek to 60 hours per week), wages, human treatment, non-discrimination, freedom of association (but not on collective bargaining), health and safety, the environment and pollution prevention, management systems and ethics.

Source: www.eicc.info

⁶² <http://www.eicc.info/membership.html>

In addition, Microsoft, Sony, Apple and Motorola mention in their codes that deductions from wages as a disciplinary measure shall not be permitted. They also mention that workers under 18 may not perform night work. Microsoft says it does not do business with those who abuse apprenticeship programs. Apple, Philips and Sony forbid medical and pregnancy tests that could be used in a discriminatory way. Motorola requires the supplier to pay agency recruitment fees on behalf of contract workers. All four factories violated one or more of these provisions in the code, as will be seen in the following chapters.

The brand companies' requirements are generally only applicable to their first tier suppliers and second tier suppliers and below are generally not included in assessment programs. Sony requires self-assessment from all of its 3,500 first and second tier suppliers. However, in general, the codes lack effective implementation measures since companies primarily rely on self-assessment by suppliers. Some companies have started to realize this. Motorola, for example, states in its 2007 annual report that it acknowledges the limitations of auditing and will henceforth put more effort into training and guidance.

Microsoft audited 142 facilities and Apple 83 facilities in 2008. Motorola audited 75 facilities in 2007. Philips and Sony participated only in the EICC joint audits. Apple's findings⁶³ revealed that at half of the facilities, working hour limits were exceeded more than 50 percent of the time. Many of the plants paid workers less than minimum wage for regular working hours. Another common violation was wage deductions used to discipline workers. It was also noted that the practice of screening job candidates for hepatitis B was widespread – occurring in 60 percent of the facilities. Excessive working hours was also Motorola's most common finding⁶⁴. These findings are pretty much in line with the findings covered by this report, supporting and confirming information received from the workers interviewed.

5.1 CELESTICA TECHNOLOGY – PRODUCING XBOX 360 GAME CONSOLES FOR MICROSOFT

Celestica, headquartered in Canada, is a major manufacturer of Microsoft's Xbox 360 game consoles. Celestica operates in Asia, Europe and the Americas, providing services to leading brand companies.⁶⁵ MakeITfair has examined the working conditions at the company's Dongguan-based production facility at Songshan Lake, which began operating in 2005 and produces game consoles, printers and computers.⁶⁶

Research

MakeITfair's Hong Kong-based partner Students and Scholars Against Corporate Misbehavior (SACOM) interviewed 22 workers at the factory in mid-2008. The age of the interviewed workers varied between 16 and 26.

63 Driving Change, Apple's 2009 Supplier Responsibility Progress Report

64 2007 Supplier Monitoring: Findings and Response (<http://www.motorola.com/content.jsp?globalObjectId=8497>)

65 <http://en.wikipedia.org/wiki/Celestica>

66 <http://www.ssl.gov.cn/publicfiles/business/htmlfiles/endgssl/phighlights/index.htm>

Working conditions

Workforce

The factory hires both males and females, aged between 16 and 45. They are mainly migrant workers coming from different provinces of China. Half of the workers are so called non-permanent contract labour hired by two labour agencies. In addition, the factory employs student interns through vocational schools, permitted under the Chinese Labour Law. In 2008 the number of workers ranged from 2,000 in low season to about 4,000 in peak season.

Discrimination in hiring

This factory requires job applicants to undergo medical screening such as blood testing. If they are diagnosed to suffer from highly contagious diseases (e.g. tuberculosis) their application is rejected. According to the interviewees, diagnosed hepatitis B or sometimes even heart disease has led to rejection. Job applicants, except those between the ages of 16 to 18, must pay the cost of medical checkups (58 yuan/5 euro)⁶⁷ by themselves.

Microsoft's code forbids discrimination in hiring.

Complicated resignation

Although according to Celestica supervisors do not have the authority to reject resignations, the interviewed workers said that this had happened during peak season. If workers leave without a completed procedure, they lose their final pay. Also, the workers said that the factory pays monthly wages in the middle of the following month (contract workers received their wages even later). This can more easily lead to unpaid wages going astray after a worker has decided to leave.

Microsoft's code stipulates that workers should be free to resign without unlawful penalty.

Low wages and deductions

The basic monthly wage of assembly workers is 770 yuan (72 euros), the same as the local legal minimum standard.⁶⁸ This factory adjusted the basic wage from 690 yuan to 750 yuan in February 2008 after strong protest from workers and from 750 yuan to 770 yuan in April 2008, in accordance with a rise in the minimum wage by the local labour bureau. During low season workers found it very hard to live on the offered wage of 600–700 yuan per month (before February 2008) and many had no other option than to leave and find another job in order to survive.

Microsoft's code requires paying living wages under humane conditions.

Celestica uses two labour agencies, namely Shenzhen Talent Enterprises and Seebon. Although according to Celestica the agencies deduct workers' wages only for contributions to social insurance and income tax, SACOM received different information. Some interviewed workers said clearly that the agencies deduct a monthly amount of 50–80 yuan (5–7.5 euros) as a "management fee" and that the reason for this is unclear. *"Our salaries are often deducted. When we ask why, a Seebon representative says that Celestica is in charge of deductions and a Celestica representative says that*

⁶⁷ European Central Bank average exchange rate for April-August 2008 (1 € = 10,73 yuan).

⁶⁸ All figures mentioned in this factory profile are from April 2008.

deductions are made by Seebon,” a worker employed through Seebon said. In addition, workers reported that the agencies had also deducted 600 yuan (56 euros) as a recruitment fee.

According to Celestica, its factory has paid loyalty bonuses to contract workers via its labour agencies (June-December 2008 the average bonus was 500 yuan per worker). However, the interviewed workers reported to SACOM that they did not receive the year end bonus in 2007, unlike regular workers. As a result, 40 of them approached Celestica management, who claimed they had transferred the bonus to the labour agencies. The agencies, however, in turn said they had not received any money from Celestica.

Long working hours

Celestica's factory uses a double shift work system. Both shifts often lasted 11 hours, for 6–7 days a week, including 3–3.5 hours overtime per day. This exceeds the legal limit of a maximum 36 hours overtime per month, as stipulated by the Chinese Labour Law. According to Celestica the factory had obtained approval for an "Integrated Hours Policy" from the local labour bureau which allows flexibility to increase or decrease monthly overtime, based on production needs.

Since June 2008 Celestica's factory has reduced overtime and has had plans in place to meet the legal and EICC⁶⁹ suggested limits on overtime. In April 2008 the factory raised the normal monthly working hours from 164 to 174 in accordance with a statutory change to Chinese labour regulations. Monthly overtime of EICC approved 86 hours on top of the 174 hours, this still makes 10 hours a day 6 days a week on average.

Microsoft's code forbids asking workers to do more than the maximum hours set by local and national laws or regulations.

Involuntary shifts and overtime

Workers used to change from day shifts to night shifts and vice versa every two months. At the request of employees, Celestica increased shift rotation to once every month in June 2008. Workers get a supplement of 4 yuan (40 cents) per day for working at night. Many workers find it difficult to adapt themselves to night shifts.

Overtime duration and dates are determined without consultation with workers by the factory and posted daily on the notice board. According to some interviewed workers overtime was mandatory and they could be punished if they refused. Celestica says that workers can choose not to perform overtime by informing their supervisors, but this, according to the workers, often infuriated supervisors.

Microsoft's code says that workers under the age of 18 may be restricted from night work and requires that overtime is voluntary.

Underpaid overtime premiums

Production workers on average earn between 1,500 and 2,000 yuan (140 to 187 euros) a month during peak season, including basic wages, overtime premiums and subsidies. According to some

69 The Electronic Industry Code of Conduct limits overtime to 86 hours per month.

interviewed workers, overtime was underpaid: they got the same rate for weekdays and weekends, while the Chinese Labour Law stipulates that the overtime rate for weekdays is 1.5 and for weekends double. Contrary to workers, Celestica, however, says that the factory pays overtime hours in accordance with the Chinese Labor Law.

Saturdays and Sundays are regarded as normal working days if workers have a day off during the week. This means that if workers are ordered to have a day off from Monday to Friday, they do not receive overtime premiums for working on Saturdays or Sundays. This is not against the law, but gives an employer the possibility to reduce salary costs.

Microsoft's code says that overtime has to be paid in accordance with local and national laws and regulations.

Disciplinary measures

Managers implement strict rules to control the shop floor. For example, workers said they might be fined 15 yuan (1.4 euros) for every minute late back to work from lunch. This often creates stress and makes workers eat as fast as possible. According to Celestica, the factory has a 20-minute tolerance for late-in/early-out for all workers every month (i.e. less than a minute every day) and it does not permit the fining of workers. Celestica's factory has also recently added serving counters in its canteen to reduce the queueing time. However, it remains unclear what disciplinary measures are taken by the factory, when workers fail to keep to the tolerance limit. In addition, some interviewed workers complained about verbal punishment. Celestica denies this and says that all supervisors must certify their compliance with ethical principles on an annual basis.

Microsoft's code prohibits verbal abuse or other forms of intimidation as well as deductions from wages as a disciplinary measure.

No union

The interviewed workers did not know whether there was a labour union in place or not. According to Celestica, all departments have an employee representative for company communications, canteen and environment, safety & health. Yet this does not amount to genuine trade union activity or representation. The factory provides workers among others with feedback and comment boxes, but they were not seen as an efficient mechanism to raise complaints. Celestica emphasises its "ethics hotline" – a phone number to provide anonymous feedback to management. However, the workers did not mention it.

Unhealthy working conditions

Assembly line workers expressed concern about the heavy workload and related health problems. Many of them have to stand up through the entire shifts and tend to suffer from muscle ache and numbness in hands and arms. Celestica told that a third party EICC audit revealed positive ratings for Celestica. It got this by implementing a proper program for workers to avoid the hazards of physically demanding work, but did not comment on workers having to stand throughout a long shift.

Workers are required to produce 280 game consoles per hour or 5 consoles per minute. Because of

the high production quotas, going to the toilet is restricted to the use of so-called "off-duty cards" permitting an operative to leave a work station for 15 minutes. One card is shared among 20 workers, meaning they often have to wait to use the WC. According to Celestica a 15 minutes off-duty break is generous and ensures the well being of workers. The company will however review the concern raised and will issue more cards if needed.

Some interviewed workers said that when working on the soldering section they sometimes inhale toxic fumes and feel dizzy, although wearing masks, and that almost every month some workers seek hospital treatment as a result. They reported also very high indoor temperatures from time to time in the factory. According to Celestica, workers have been provided with mandatory carbon-filter masks, the ventilation system is adequate and production floors are air conditioned with a temperature averaging 24–28 centigrades.

Microsoft's code requires the provision of a safe and healthy work environment and to minimize hazards inherent in the working environment.

Question marks around insurance

Celestica says it pays the total cost of all contract workers' insurance and pensions, together with their wages, to the labour agencies. SACOM was told that sometimes, in order to save money, labour agencies employ under 18-year-olds with fake identity cards providing them only with occupational injury insurance, not social insurance. It is not known if Celestica is aware of these cases.



Facade of a crowded dormitory and litter discarded on a balcony where workers wash basins are also located. Photo: SACOM



Canteen and dormitory

The factory supports workers with an additional 195 yuan (18 euros) a month as a meal allowance. Some interviewees raised complaints about the quality and quantity of the food served.

The factory has recently made improvements and workers are allowed as many helpings as they want, says Celestica.

There are four dormitory buildings at Celestica's factory. A total of 80 yuan (7.5 euros) monthly rent is deducted from wages if a worker decides to reside in the dormitory. Each room houses 8 workers in a living space of around 25 square metres. There is one washroom with 14 toilets located on each floor and it is shared between 120 workers. Workers are responsible for cleaning their own dormitory, third party cleaners clean only public areas. The workers complained about management's inability to maintain hygiene and about foul smelling rubbish scattered around dormitory balconies.

5.2 FLEXTRONICS – PRODUCING XBOX 360 GAME CONSOLES FOR MICROSOFT

Flextronics is another major manufacturer of Microsoft's Xbox 360 game consoles. MakeITfair has examined working conditions at the company's Zhuhai industrial park, Doumen campus-based production facility.

Research

MakeITfair's local partner SACOM interviewed 41 workers at the building B17 producing the Xbox 360 in mid-2008. The age of the interviewed workers varied between 18 and 40.

Working conditions

Workforce

According to the information SACOM received, many workers in the building B17 (from now on referred to as the factory) are temporary student interns from different provinces of China. Their internship period varies from several months to one year. According to Flextronics, more than 80 percent of workers in any building in its Zhuhai industrial park are permanent workers. During peak season (April-December) there are about 8,000 workers in the building and during low season (December-April) about 4,000 workers. The ratio of men to women is almost 1:1.

Discrimination in hiring

Workers at the factory are employed through a labour agency and have to pay 400 yuan (37 euros) to the agency to cover administrative costs for registration, transportation, meals, training etc. Flextronics says it regularly monitors the labour agencies' practice to ensure that the amount taken from workers is fair and does not exceed the legally allowed 400 yuan. Either abuse has occurred or Flextronics does not trust the agencies, as they need to be monitored.

According to the interviewed workers, job applicants are required to undergo medical checkups such as blood tests. If they are diagnosed with hepatitis B or other conditions, their application is rejected. Job applicants (except "young labourers" aged 16 and 17) must pay for the medical checkup 40 yuan (4 euros) by themselves. After recruitment, workers undergo disciplinary training in which they are required to march military-like in lines and rows. According to Flextronics the training programs follow the FEXpledge guidance for respect & dignity for all their employees.

Microsoft's code forbids discrimination in hiring.



New recruits undergoing disciplinary training. Photo: SACOM

Low wages

The factory offers 935 yuan (87 euros) as the monthly basic wage for new workers for full time work plus night shift allowance and some other benefits. The legal minimum wage in Zhuhai is 770 yuan⁷⁰. After deducting social insurance (110 yuan) and accommodation costs (10 yuan), the net sum is 815 yuan (76 euros). The interviewed workers were dissatisfied with their wage level and found it difficult to live on their basic wage, especially during the low season, with increased inflation and food prices.

"It costs 200 yuan to rent a flat, 400 yuan to eat, 100 yuan to use a mobile phone, 100 yuan to smoke and 200 yuan to do leisure activities per month in Doumen. This makes a total of 1000 yuan. It is almost impossible to save money now when inflation is high," said one worker.

During peak season, workers can make 1,000–1,500 yuan (93–140 euros) per month including overtime premiums. According to Flextronics the income with overtime averages about 1,800 yuan (168 euros) per month. The company added that it performs regular market surveys and has found that their employees are reasonably well paid compared to those in many other companies. Flextronics adds that if workers stay in the dormitory, the living cost is far lower and that this allows workers a "decent standard" of living.

Microsoft's code requires the payment of a living wage under humane conditions.

100–180 hours overtime per month

Before June 2008, during the low season workers were on shift 11 hours per day, 6 days per week. During peak season they worked 11–13 hours per day, 6–7 days per week. This adds up to overtime

⁷⁰ The minimum wage since April 2008.

of 100 hours per month during low season and 150–180 hours per month during peak season, far exceeding the legal limit of a maximum 36 hours of overtime per month, as stipulated by the Chinese Labour Law. Since June 2008 the factory has reduced monthly overtime to about 80 hours, due to decreased orders. According to Flextronics the company now ensures that workers have one rest day per week and that monthly overtime does not exceed 86 hours, as stipulated in the EICC. Flextronics adds that overtime management in China is a complex and challenging topic.

Microsoft's code prevents asking workers to work more than the maximum hours set by local and national laws or regulations.

Involuntary shifts

Flextronics' factory uses a double shift working system. The day shift usually begins around at 08:00 and the night shift at 20:00, both including 3 hours overtime work. Workers are required to change shifts once a month. This is exhausting for workers and affects their health. Also, student interns are required to work night shifts.

Microsoft's code says that workers under the age of 18 may be restricted from night work and requires that overtime is voluntary.

Strict control

According to those interviewed, they are allowed to talk only about work related subjects during work. If three or more workers gather to talk, they are fined. According to Flextronics, there is no such factory rule in their employee handbook. Despite this, such cases still occur. Some workers complained that even when the production was not urgent, they were not allowed to relax. In its reply, Flextronics says that the factory provides proper areas for breaks and that short breaks are regularly scheduled with music playing in the background, to help workers unwind and relax.

Workers are not allowed to wear clothes with metal parts such as buttons or buckles on the shopfloor. A metal detecting wand is run across a worker if he/she sets off the metal detector at the checkpoint. According to the news (6 June 2008)⁷¹ workers found this embarrassing.

If a worker get more than two warnings he or she is fired. Also, if a worker wants to go to toilet, he or she is required to carry an "off-duty card". One card was shared among 100 workers on one production line. This made it an everyday practice for workers to wait for long periods when they needed the toilet. Flextronics responded to this by saying it had recently introduced off-duty cards for every 40 workers on the basis of feedback received about its earlier practice.

Microsoft's code prohibits physical discipline, verbal abuse or other forms of intimidation and deductions from wages as a disciplinary measure.

Trade union unawareness

The interviewed workers were unaware of any labour union at the factory. According to Flextronics, the Zhuhai trade union was established at the end of 2007 and it is very active, holding regular

⁷¹ http://epaper.nddaily.com/B/html/2008-06/06/content_486251.htm

activities such as safety awareness training, psychological counseling, company policy and regulation reviews etc. In general, it must be remembered that Chinese labour unions are not necessarily supportive of workers' rights.

Unhealthy working conditions

Around 600 assembly workers are required to stand for the whole work shift of 11 hours. Workers complained about muscle ache. According to Flextronics standing whilst working is a standard practice in the electronics industry. The company says it has timed breaks for workers to rest and has designed work places taking into account ergonomics, so that "any healthy individual may not be induced to such health issues". However, many workers understandably found it tiring to be standing up and working for many hours.

High production quotas also caused stress. In a day, junior workers must produce 2,640 Xbox 360 game consoles and more skilled workers are required to produce 2,860 consoles. If they could not complete the task during the allotted hours, they were ordered to continue working without extra payment. According to Flextronics, all overtime is voluntary and a worker has to apply for overtime before being "granted OT permission". Perhaps the company is unaware of these incidents.

Some workers reported that they had been exposed to toxic fumes and chemicals in the welding, soldering and paint spraying departments of the factory. They also told about poor ventilation and that some 200 workers working with 100 machines in the injection moulding department are often sweating due to the heat. They find meeting high quotas easier without protective gloves that can restrict the dexterity needed to work quickly and accurately. According to Flextronics, various measures have been implemented to ensure workers' health, such as a requirement to wear masks and gloves, ventilation, and air quality checks near soldering stations. Flextronics stated that ventilation systems in the plant meet industrial hygiene standards.

Microsoft's code requires providing a safe and healthy work environment and to minimize hazards inherent in the working environment.

No social insurance for students

According to Chinese regulations, student interns need not be provided with social insurance, but only with an accident insurance. As a consequence, Flextronics saves money by hiring student interns.

Canteen and dormitory

The interviewed workers raised complaints about the long distance between the shopfloors and two factory canteens. Therefore many of them preferred to have lunch and dinner outside the factory. They also described the food offered in the canteens as expensive and of poor quality.

According to Flextronics, the factory schedules enough time for meals and, based on employee feedback, no longer had the canteen run by vendors (as of September 2008) and started managing it internally. "The long queue which was not seen earlier is a testimony to extremely positive feedback," says Flextronics.

A total of 10 yuan (1 euro) is deducted from a worker's monthly wages for basic lodgings. Each dormitory houses 8 workers. According to Flextronics, the average living space at Flextronics Zhuhai is 4.5–5 square meters per person, somewhat larger than the 2.5 square meters required by law.

5.3 VISTA POINT TECHNOLOGIES/FLEXTRONICS – PRODUCING LCDS FOR SONY MP3 PLAYERS AND FOR MOTOROLA, MICROSOFT, PHILIPS ETC.

Headquartered in California, Vista Point Technologies (VPT) has been part of Flextronics International since 2006. It produces small liquid crystal displays (LCDs) and LCD components for MP3 players and mobile phones, camera modules for mobile applications, and modules for mobile phones.⁷² MakeITfair has examined the working conditions at the company's Shenzhen production facility in Henggang town, Longgang district. This factory specializes in LCDs. It works among others for Sony, Microsoft, Motorola and Philips. Part of the output goes into Sony MP3 players. The factory employs some 3,000 workers.

Research in 2008

Research at this factory was carried out in mid-2008 by SACOM. In all, 16 workers aged 18 to 23 were interviewed. An employee manual was a useful source of information as well as other documents received.

Working conditions

Recruitment and workforce

SACOM learned that VPT used to discriminate against pregnant women which was even stated in its employee manual. This practice has since been abolished. Recruits may not carry highly contagious diseases. Migrant job applicants are requested to submit a family planning certificate as government policy requires. Workers told SACOM that the factory hires student interns for 2–3 months. Students are also required to do overtime. According to Flextronics, VPT's factory does not employ temporary workers and students are hired as permanent workers. The male to female ratio is 1:3.

Sony's code forbids companies to subject potential workers to medical/pregnancy tests that could be used in a discriminatory way. Motorola's and Philips' codes forbid night work for workers under 18 if it interferes with their educational needs.

Resignation not always easy

According to information received by SACOM, workers were not always allowed to resign when it proved difficult to recruit new employees. Company statistics from October 2007 list the main reasons for resignation: almost half of the 70 who resigned mentioned low pay, poor lodgings, poor food, long working hours, high work pressure or having to work whilst standing.

Philips' and Sony's codes stipulate that workers should be free to leave upon reasonable notice. Motorola's code says that suppliers will not adopt practices which restrict workers' ability to terminate employment.

⁷² www.vptech.com/company.asp

Low wages and late payment

The monthly basic wage for new hires is 902 yuan (84 euros) and for first-year workers 980 yuan (91 euros). The Shenzhen minimum wage is 900 yuan. After deducting social insurance, meal costs of 150 yuan (2 meals x 2.50 yuan x 30 days) and a dormitory fee of 60 yuan, the wage may sink to 690 yuan (64 euros) per month during the low season. Flextronics has noted that alternatively, it would cost a minimum of 400 yuan to rent a house that can accommodate 3 people and meals generally cost 5 yuan outside Flextronics, and claims that dormitory accommodation allows workers a decent standard of living.

As the rate of inflation is increasing, VPT workers find it difficult to cover their living costs without working overtime. Therefore workers expressed a preference for working overtime to be able to save money. However, even 50 hours of monthly overtime seemed not always to bring enough to cover daily expenditures including residence and meal fees, internet and mobile phone costs etc.

Workers get paid 10 days after one month's work. This conforms with the Shenzhen salary payment regulations. According to Flextronics the factory will shorten the time to 7 days in spring 2009. If a worker wants to take unpaid leave for 7–20 days, he or she has to sign an agreement consenting to an even longer delay before wages are paid. According to Flextronics, this 'voluntary' measure was put in place to ensure a smooth transition if staff resign.

All Motorola's, Philips' and Sony's codes require compensation paid to workers to comply with all applicable laws. In addition, Motorola's code demands wages and benefits to be enough to meet basic needs.

Long working hours

Workers are required to commit to both day and night shifts, changing every two weeks. The normal working time is 8 hours per day. During the peak season overtime of 3 hours per day is common. That is against Article 36 of the Chinese Labour Law. According to Flextronics the factory ensures that all workers have minimum one rest day per week and that overtime does not exceed 86 hours per month as laid out in the EICC guidelines.

The interviewed workers mentioned compulsory overtime. Flextronics however says that workers have the right to refuse overtime arranged by supervisors, and likewise, a worker's overtime application may not be approved by supervisors. According to the employee manual received by SACOM, workers have to conform to arranged overtime work, and when they cannot do that, they are required to give an explanation to their supervisors, otherwise they violate the rules. It seems that the manual discourages workers from refusing overtime by emphasising the need to conform to management directives and demanding explanations if not doing so.

All Motorola's, Philips' and Sony's codes require at least one day off per seven day week, and working hours not to exceed the legal limit. They also require all work to be voluntary. Motorola and Philips set the maximum working hours at 60 per week, including overtime.

No premiums for weekend work

Where weekend rest days are swapped with weekdays – a common shift work scheduling practice – no weekend overtime premiums are paid on the Saturday and Sunday worked, on the basis that the worker rested on two week days. This is not against the law, but gives an employer the possibility to decrease salary costs.

Unionisation

The factory has a labour union, but according to the interviewed workers, it often favours the management's interest. For example, in February 2008 when salaries were delayed for 10 days due to payroll system problems, a union representative only informed workers about this and asked them to dismiss after that. Unions are part of the ACFTU monopolistic system.

According to Flextronics, union representatives are elected by workers to represent them and from October 2007 on the union has channelled 76 employees' complaints and suggestions to the management. In addition, the Human Resources Department arranges monthly tea talks and quarterly town hall meetings with workers as well as providing suggestion boxes for staff.

Motorola's, Philips' and Sony's codes say workers have the right to associate freely and communicate openly; Motorola and Philips mention also the right to collective bargaining.

Work related stress and accidents

At the time of the field research, workers found it physically tiring to stand up for an entire 11 hour shift. According to Flextronics, workers at VPT's factory have changed to working in a sitting position in 2008. During high production quotas, workers felt they did not get enough time for short rests. Some resigned from the job due to the pressure. In order to go to the toilet, workers needed an "off-duty card" allowing them to stay away for 10 minutes. One card was allocated to 30 workers, leading to queues.

Contact with liquid crystal caused skin irritation to some workers. The interviewed workers also complained about a noxious smell in the factory, which was evident even outside the premises. In addition, many occupational accidents were recorded in 2006: cuts, bruises and fractures caused by machines, trucks, broken glass or even chemicals. According to Flextronics, the factory has been certified by the Longgang Center for Disease Control and Prevention and achieved a 50 percent reduction in the number of industrial accidents in 2007.

Motorola's, Philips' and Sony's codes have provisions on a safe and healthy work environment. Philips and Sony require workers exposure to physically demanding work, such as prolonged standing, to be controlled.

Disciplinary methods

There are 44 worker regulations relating to disciplinary measures such as fining (see Annex 1). For example, dozing off or falling asleep on duty and disobeying a supervisor are prohibited. Once workers leave the shopfloor, they are checked and machine scanned. Failure to observe the regulations leads to different fines: a minor infringement costs 10 yuan (1 euro) off the quarterly bonus, a dismerit 50 yuan (5 euros) and a major dismerit 100 yuan (9 euros). Committing three

dismersits costs 200 yuan. The bonus is often reduced from 300 to 250 yuan, as workers are required to share responsibility for product failures etc. The following infringements lead to dismissal: a third time caught dozing off/falling asleep, a third time disobeying supervisors, a second time discussing wages if this creates serious problems, the first time making serious complaints and scorning others, smoking in non-smoking area, gambling in the dormitory, along with other serious offences.

Sony's code says that any disciplinary wage deductions are to conform with local law. Motorola's and Philips' codes go further: suppliers will not permit deductions from wages as a disciplinary measures.

Canteen and dormitory

The factory canteen provided free lunches till August 2008, but was closed due to road works surrounding the factory. Workers considered the quality of the canteen food poor. Now workers are eating in their dormitory canteens. A full month's meals and a dormitory fee cost 210 yuan (20 euros). The average living space at Flextronics dormitories is 3.2 sq meters per person. The legal minimum per person is 2.5 square metres.

5.4 HONG FU JIN PRECISION INDUSTRY/FOXCONN TECHNOLOGY GROUP – PRODUCING IPHONES FOR APPLE

Foxconn is the trade name of Taiwan-based Hon Hai Precision Industry Co. (Ltd). It is one of the world's largest contract manufacturers, producing mainly for brand companies. MakeITfair has examined the working conditions at its Shenzhen-based production facility comprising more than 30 buildings. It is located in Hungguan industrial area, Dashuihang village, Guanlan town, Baoan district. It produces phones, MP3s, computers and other electronic products.

This study concentrates on buildings C03 and C04 (from now on referred to as the factory) responsible for assembling Apple's iPhone models 8G and 16G, white and black in colour. The number of assembly lines was increased from 25 to 40 in 2008. Each assembly line has 70 workers. The ratio of male to female workers is 1:1.

Research in 2008

SACOM talked with over 30 workers, some of whom provided more detailed information, during June-August 2008.

Working conditions

Workforce

It is estimated that the total number of workers at the campus is 25,000–30,000. The company hires both temporary and permanent workers, the latter having passed tests after one year in the factory. Foxconn has set a minimum working age for its China operations at 16.5, above the minimum legal age of 16. According to the interviewed workers, the factory employs many young workers such as student interns and contract labour. Foxconn has openly endorsed the labour dispatch practice. According to the chairman of Foxconn,⁷³ labour dispatching is necessary to cope with the flexible

73 'Kwok Tai Ming Strongly Express: Labour Dispatching is Popular in the World'. Article at IFeng-Finance. 7 August 2008. http://finance.ifeng.com/news/hgjj/200808/0807_2201_702640.shtml

global demand for its products. However, they say over 90 percent of staff are permanent workers in this factory.

Regulated recruitment

Recruitment happens in strict order in public and on campus: recruits are required to stand up, line up, not to speak to each other, turn right, turn left and walk in a line properly. If security guards are dissatisfied with someone, they are ordered to line up again. According to Foxconn, adequate measures are taken by security guards to maintain order. This is done in order to keep the recruitment process fair and safe, the company says. Measures include preventing job seekers from sitting on pavements or asking them to line up. During the factory's peak season, recruiting offices are deluged by huge crowds ranging from hundreds to thousands of job seekers.

A photo costing 10 yuan (1 euro) is required for the social security card. Foxconn says it has negotiated with some photo shops to provide this service on campus at a discounted rate, the standard rate being 35 yuan. In addition, all job applicants, except those under 18, are required to pay 50 yuan (5 euros) themselves for health check in a government-approved medical institution. According to Foxconn, a typical health certificate costs at least 79 yuan, but the company has succeeded in providing this service on campus at the "huge discount rate" of 50 yuan.

The factory employs student interns to work for 4–6 months. Interns are overseen by school teachers on site. Foxconn says the vast majority of its employees are permanent workers and that students at vocational schools throughout China are required to participate in internship programs. Foxconn says the factory offers scholarships to promising pupils.

Apple's code prohibits potential workers from undergoing medical tests that could be used in a discriminatory way, but does not prohibit participation in legitimate apprenticeship programs.

Complicated resignation

The resignation procedure is complicated. After submitting a formal letter of resignation, a completed resignation form must be handed to supervisors for approval. Only when a team supervisor signs the form can a worker quit the job. This signed form must be then exchanged for another slip, allowing workers to return their factory clothing and other items. After this, workers receive a check out slip to be filled in with an eye witness with records of private belongings. According to Foxconn, in general, staff have 24 hours to check out of the dormitory after resignation. According to the information SACOM received, the check out time is only 30 minutes. Luggage will be checked at the security point for anything not recorded in the check-out slips. Any extra items will be confiscated. Some supervisors have reportedly discouraged workers from resignation during the peak season.

Apple's code says workers shall be free to leave work or terminate their employment with reasonable notice.

Low wages

As from July 2008, the legal minimum wage has been 900 yuan (84 euros) per month. According to the interviewed workers, the factory pays new recruits a basic wage of 900 yuan and an allowance of 80 yuan, complying with the legal minimum. This does not include any overtime premiums.

Overtime up to 120 hours

The interviewed workers regarded overtime as compulsory and excessive, and said that supervisors often demanded staff work overtime. Workers are often required to work 3 hours overtime every weekday, and when overtime on Saturdays and Sundays is included, this adds up as 120 hours per month, meaning a working week of almost 70 hours. The maximum overtime stipulated in the China Labour Law is 36 hours per month. Some interviewed workers complained about unpaid work on Saturdays and Sundays during the period of job training. They were dissatisfied, but did not raise complaints, because they believed that the complaint hotlines could not have helped them.

Foxconn says that the company runs a 40-hour working week system and that all overtime is voluntary and paid in accordance with local regulations. Foxconn has set up machines on campus to track working hours and pays the overtime wage according to the confirmation slip signed by a worker. According to Foxconn, workers do overtime only if they apply for it, and it is approved by management. However, as previously noted, it can be difficult for workers who do not apply for overtime or refuse to do it due to financial reasons, the rules on 'confirmation' in the first place, or because of pressure from supervisors.

Apple's code requires overtime to be voluntary and a work week to be restricted to 60 hours, including overtime.

Involuntary shifts and short rests

The longest day shift is 07:30–19:30, the night shift 19:30–07:30. Shifts alternate every month, confusing the body clocks of workers. Although working hours are long rest breaks are short. For example, some of the interviewed workers reported that sometimes they had only one day off in two weeks, despite long working hours. Legally there should be at least one day off per week. One worker said: *"In August 2008 we worked 10 hours per day for 14 days before having a day off. After that we worked 11 hours per day, also on Saturday."*

Apple's code requires workers to be allowed at least one day off every seven days.

Workers taking a rest during a meal break. As there is a time consuming security check at the toilets, they often need to choose between using the WC or eating in the canteen. Photo: SACOM



Social security

Student interns have no legal status to apply for standard social security in China and are therefore cheap labour. Foxconn provides them with medical refunding and covers their expenses for occupational injury/illness. In case of other workers, Foxconn pays 80 percent of the minimum wage or more to workers on sick leave, in accordance with Chinese regulations.

Union unawareness

Although according to Foxconn a labour union became established in March 2007, the interviewed workers were not aware of it. Complaint channels through hotlines and management complaint hotmail have been installed. Foxconn says their hotline centers resolve hundreds of calls/letters per month.

Disciplinary methods⁷⁴

Efficiency is seen to be increased by strict discipline. No personal mobile phones, watches or other such belongings are allowed on the shop floor. According to the interviewed workers, entering the shop floor includes stepping across the boundary into the work area (the "zebra line"), reading guidelines for a minute, aligning the work chair with the line, standing to the left of the chair, fastening electrostatic ring, sitting down to work etc. When supervisors ask, how the factory workers are, they are to shout: "Fine! Very fine! Very, very fine!"

According to Foxconn, it is unclear what is meant by this latter allegation: "Perhaps the statement was based on Foxconn's international training programs like the famed Carnegie motivational courses, that advocate encouragement and motivational activities in some factories to jointly raise the morale of a team when they assemble."

The interviewed workers said they are not allowed to talk, giggle, sleep or cross legs, and that talking on the assembly line is sometimes punished by floor cleaning. According to Foxconn the factory does not have a written rule preventing talking and the floor has to be cleaned many times per day by everyone on a rotating basis. However, Foxconn does not ensure that supervision follows the rules 100 percent.

Visits to toilet must be requested by raising a hand. There is a security check in front of the toilets, often limiting the lunch time of workers. Before leaving their job posts at the end of the shift, workers are required to line up and silently leave the production line. Discussing wages in the work place is discouraged. According to the interviewed workers, there is also a system of punitive fining in place: a minor dismerit costs 50 yuan (5 euros) and a major one 100 yuan (9 euros).

Apple's code forbids all harassment of workers and deductions from wages as a disciplinary measure.

Canteen and dormitory

Foxconn provides a food allowance as an additional benefit either in the form of credit or cash. It was regarded as insufficient by the interviewed workers, because meal fees on Saturday and Sunday

74 In former FinnWatch study, it came clear workers wanted to leave as they could not bear the discipline and control. See: 'Day and Night at the Factory – Working conditions of temporary workers in the factories of Nokia and its suppliers in southern China' (http://www.vientiluotto.net/en_kiina-raportti.pdf). March 2005

were not covered, no matter if workers have to work or not. Foxconn says however that their food allowance is better than in most of the companies in the Shenzhen area.

The on campus dormitory has 4–5 floors with 25 rooms on each floor. Every room sleeps 8–10 workers. The number of persons per floor is between 136 and 250 people. Foxconn says that a bathroom is shared by 12 people and that each floor has two places for employees to take drinking water. According to the interviewed workers, there are also leased dormitories outside the campus, where one bathroom is shared by a crowd of workers.

A dormitory place is provided without charge, but does require each worker to do "voluntary work" including cleaning the dormitory twice a month. There is a list of rules posted on the dorm doors saying that a person who fails to do "voluntary work" four times may get expelled from the dormitory. According to Foxconn, workers are only reminded to improve personal hygiene and they are not expelled if their room fails to meet hygiene norms. Therefore the list of rules is perhaps used for discipline only.

Apple's code requires dormitories to be clean and safe and provide adequate personal space.



Each dormitory room sleeps 8–10 workers with very little space and privacy. Photo: SACOM

6. THE REACTIONS OF THE COMPANIES

6.1 THE REACTIONS OF THE BRAND COMPANIES

MakeITfair has given the companies cited an opportunity to comment on the factory findings in this report. Of the companies, Microsoft, Sony, Motorola and Philips sent comments, while Apple refrained. According to some information, the studied factories of VPT and Foxconn produced also for Nokia, but Nokia replied that those plants are not its suppliers. Nokia, however, added that other Flextronics and Foxconn factories are supplying it with components and has contacted them on this issue.

The factory findings were also sent to the four supplier companies in question. All of them responded, commenting on the findings in detail (see chapter 6.2). MakeITfair reviewed the findings and included the company comments above, where gaps in information occurred.

6.1.1 MICROSOFT

Celestica, Flextronics, VPT/Flextronics: Microsoft says that the company shares makeITfair's interest in ensuring the fair treatment of workers at manufacturers contracted to Microsoft. Microsoft extends the supply chain responsibility to its suppliers (first tier suppliers, 142 facilities) and has trained 50 third party auditors. According to Microsoft all three factories in question have been audited in 2008 and a corrective action plan was required for each manufacturer. Microsoft, however, does not give any information on the issues identified in these audits. It is therefore impossible to compare their findings with makeITfair's findings.

Microsoft regards some of the findings as inaccurate when compared to their audit reports. However, Microsoft did not specify to makeITfair which findings they mean, but refers only to the replies from the supplier factories. Microsoft suspects this is because SACOM did not have access to the factories and interviewed only a limited sample of workers. However, makeITfair believes that visiting the factories without the possibility of talking confidentially with workers does not necessarily give relevant information. In addition, SACOM interviewed 16 to 41 workers per supplier factory, enough to get a picture of working conditions. Auditing systems have to be looked at carefully, since it seems that Microsoft has not found as many issues as the workers interviewed by SACOM brought up during discussions.

Microsoft joined the EICC in 2004. In addition, Microsoft has developed its own code of conduct including labour rights provisions (days off, overtime, wages, wage deductions, canteen and dormitory conditions, safety related requirements, among others) and requires its suppliers to read and sign it. Microsoft says that suppliers who fail to commit to making the needed changes will be phased out. The company said that it takes these claims by workers and their conditions very seriously and will implement a plan to correct them if needed. This is interesting, given that they say they trust audits and the corrective measures taken.

6.1.2 SONY

VPT/Flextronics: Regarding the makeITfair factory findings, Sony acknowledges the challenging social and environmental issues associated with its supply chain due to the tiers of suppliers involved. According to Sony, the company does not have direct business relations with this factory, which limits its influence on the facility. Sony said that it takes this issue seriously and has brought the situation to its direct suppliers' attention and requested that fact finding takes place.

Sony has participated in the EICC and based on that has established its own code of conduct to assess its suppliers. Sony says that the code covers approximately 200 first tier suppliers and 3,300 second tier suppliers. Sony emphasises that its supply chain management program includes many more suppliers than most brand companies cover in their programs in general. However, until now Sony has required only self-assessment from these suppliers to assess them and conducted joint audits with the EICC group. Sony has a policy not to disclose the names of its suppliers.

6.1.3 MOTOROLA

VPT/Flextronics: Motorola says that while the company has audited other Vista Point Technologies facilities in the Asia-Pacific region, it has not yet done so at this facility. No reason was given for not auditing it. Motorola promises to continue a close dialogue with the parent company, Flextronics, and is considering a course of action in response to this latest makeITfair report.

Motorola has requested Vista Point Technologies to complete the self-assessment questionnaire in E-TASC, EICC and GeSI's common industry web-based tool for assessing suppliers. Motorola says that once it has reviewed the self-assessment results and Flextronics's response to this issue, Motorola will determine whether an onsite audit by Flextronics, Motorola and/or as part of the EICC is needed. If any findings are corroborated with evidence collected during the onsite audits, Motorola will require corrective action plans and confirm implementation.

6.1.4 PHILIPS

VPT/Flextronics: Philips admitted that this factory is their supplier. According to Philips, regarding the allegations, for the moment Flextronics shows all signs of taking responsibility, and that is what Philips expects. Philips is aware of the detailed comments sent in by Flextronics and therefore does not see a need to facilitate or engage more in the process.

Philips asks makeITfair to take into account the Flextronics comments or refute them on a facts basis. Philips feels worried because makeITfair did not accept an invitation to visit Flextronics site, and says that this kind of visit should belong to responsibilities of NGOs. Philips conducts onsite audits with the EICC, but does not mention on its website on how many supplier facilities have been audited.

6.2. THE REACTIONS OF THE SUPPLIER COMPANIES

All three supplier companies, Celestica, Flextronics and Foxconn, are members of the EICC. Celestica says it has audited most of its larger sites and trained suppliers on the code. Flextronics mentioned also the supply chain responsibility. Foxconn gives less information in this regard, but mentions the EICC also. Out of the three supplier companies, only Celestica admitted that the

makeITfair factory findings have shown "areas for improvement". Flextronics and Foxconn aimed mainly at pointing out where the gaps in the information exist and did not promise to take any corrective actions on the basis of the SACOM findings.

6.2.1 CELESTICA TECHNOLOGY

According to Celestica, the SACOM factory findings included some inaccuracies, some areas for improvement and some issues that have already been improved upon. Celestica seems to be the most favourable of the suppliers towards the work of makeITfair: the company says that this kind of feedback from third parties is greatly appreciated, as it provides Celestica with an opportunity to build upon what has already been done.

Celestica mentioned that the company is a founding signatory company of the EICC. Celestica has audited most of its larger sites in accordance with the EICC and plans to audit the rest of the sites in two years. The company does not, however, say what kind of issues have been identified during the audits and how they match the makeITfair findings. Celestica said that the company has hosted several supplier meetings in Asia to make sure that their suppliers understand the EICC requirements.

Celestica has developed its own code of conduct/policy which ensures that "strong ethics are upheld in all aspects of our business". This policy must be read and signed by all new recruits. The policy includes provisions on a safe and healthy work environment, discrimination and harrasment. However, most of them deal with disclosure of information, such as "employees must never make a misinterpretation to anyone" or "employees should not attempt to answer questions from outsiders relating to Celestica unless authorized to do so".

6.2.2 FLEXTRONICS (INCL. VISTA POINT TECHNOLOGIES)

According to Flextronics, the company shares the goal of improving working and living conditions for all of their employees. However, Flextronics is quite critical about the makeITfair findings, although many of them seemed to be factual. MakeITfair has made the required changes and has taken into account the comments from Flextronics. Flextronics was quite clear that it knew where its gaps are, partly due to customer audits, and did not intend to take corrective action based on the findings of this report.

According to Flextronics the company is a founding member of the EICC and uses both the EICC code and its own code as a foundation for its ethical programs. Flextronics added that its suppliers have to demonstrate their commitment to the EICC, but does not mention how many if any of them have been audited by Flextronics or a third party. Suppliers that do not meet these criteria will have "developmental actions" in place, Flextronics said.

Flextronics's own labour rights policy includes provisions on freely chosen employment, wages, working hours, discrimination, harrasment and freedom of association. However, these provisions are not always adhered to, as the factory findings show. In addition to this, Flextronics's ethical code includes many more provisions on disclosure of information etc. The code includes provisions such as

”you may not engage in any conduct that poses a conflict of interest with the company’s business” or ”do not discredit the name or reputation of the company”.

6.2.3 HONG FU JIN PRECISION INDUSTRY (SHENZHEN)/FOXCONN TECHNOLOGY GROUP

Foxconn expressed dissatisfaction with the makeITfair findings, accused SACOM of having a hidden agenda and disputed the fact that interviews had been conducted with some thirty people. However, many of the findings were in line with the information received from Foxconn, for example, all the amounts related to money were exact, confirming that SACOM had really interviewed the workers. Foxconn said, for example that SACOM should note in the report that China’s minimum age regulation for work is 16 and that Foxconn has set an even a more stringent age limit (by 6 months).

According to Foxconn, the company is a member of the EICC and has been recognized for corporate social responsibility accomplishments by many Chinese government agencies. Foxconn said also that the company had been ranked by poll as one of the best employers in China. Foxconn, however, does not tell more about its ethical programs, audit systems or mention the supply chain responsibility. Its website does not disclose much more; the latest CSR update found is dated 2006.

Foxconn recommends that makeITfair delays the publication of this report until studies on more factories on the outskirts of Shenzhen have been carried out. However, makeITfair’s goal is not to present the whole picture, but representative examples. Foxconn, however, said it welcomes and seriously considers all objective analyses and criticisms.

7. CONCLUSIONS AND RECOMMENDATIONS

China is the world's leading electronics supplier, music players and game consoles are produced under the same conditions as mobile phone manufacturing. Part of the labour force has found itself in a vicious circle, exacerbated by both structural problems related to the lack of law enforcement and the open exploitation of workers by companies, directly or indirectly. These companies often drive down the price they pay their suppliers, which then makes the suppliers less or no longer profitable. To get back in the game, suppliers reduce costs, often at the cost of workers, violating labour laws in the process.

A recent article in a Finnish business magazine showed how Nokia is cutting costs by demanding suppliers give it a 15 percent reduction.¹ This seems somewhat odd since last year, Nokia's overall pre-tax profit was 6.7 billion euros. This may be very indicative of what is forthcoming from other companies. Economic recession is tightening its global grip, giving real cause for concern that the most vulnerable workers, especially young women and casual workers, will again be hardest hit.. This era of economic uncertainty challenges multinational companies: time will show whether social responsibility will be a reality during times when profits and thus dividends are down.

International human rights law guarantees workers the right to freedom of association and collective bargaining and the right to organize independent unions to protect their interests. China is a party to the UN Covenant on Civil and Political Rights. Although Chinese workers have the right to join and organize unions, often these are not independent as currently such unions must be part of the government-controlled ACFTU. Furthermore, according to the constitution, Chinese workers do not have the legal right to strike.²

The big companies only audit the top of their supply chains, mostly their so-called first tier suppliers. The factories that makeITfair has studied for this report are first tier and second tier suppliers. Even at that level, the largest electronics contract manufacturers and world famous brand names, violate national laws and the international conventions of the ILO, as has been shown in this study. These results are no exception.

CONCLUSIONS

- The minimum wage is being used as a norm, though it is not a living wage.
- Excessive, badly compensated for and involuntary overtime for up to 180 hours per month is common.
- Discrimination against job applicants with hepatitis B.
- Contract labour and student interns are used extensively.
- Contract labourers have fewer rights and are even less aware of them than other workers.
- Brand and supplier codes of conduct are hardly known to shopfloor contract workers. Workers otherwise are largely unaware of their rights.
- The makeITfair findings do not support the notion that well-known brand companies are taking responsibility for even their first tier suppliers..

RECOMMENDATIONS

- The minimum wage in China is not a living wage. Workers should be paid more.
- Overtime should be limited to legal norms, be strictly voluntary and lawfully compensated for. Excessive overtime is one of the most serious and widespread violations. As long as the minimum wage is being used as a norm, many workers are compelled to undertake exhausting amounts of overtime and live in dormitories.
- Discrimination towards workers with hepatitis B (10 percent of the Chinese population) should be stopped.
- Companies should employ workers directly and not through contract labour agencies.
- Brand companies must assume genuine responsibility for the whole supply chain, and not just first tier suppliers .
- Workers should be trained by independent non-profit third parties to make them aware of their labour rights and if necessary capable of making claims against exploitative or bad employers.
- Labour unions affiliated to the ruling party union are often not fully supportive of workers' rights. In discussions with the government, international companies should take up the fact that international human rights law guarantees workers the right to freedom of association and collective bargaining and the right to organize independent unions to protect their interests.
- Purchasing practices should take into account workers' wages and hours of work as well as overall labour conditions and not hamper the implementation of good labour practices.
- Supplier companies should stop the practice of asking for special permission from local authorities to exceed legal maximum overtime hours during peak season, as this abuses workers.
- Bullying of workers by factory hall, shopfloor and mid-management should be abolished by training of supervisors at these levels.
- Audits as the only form of checking are insufficient as a means of verifying working conditions, especially when audits are internal.
- Brand companies should not drive down prices in pursuit of profit: a small price change by brands means a lot at worker level.
- Companies should adopt independent third party audits and spot checks by specialist non-profit NGOs and other such organizations.

The chance to improve the situation is largely dashed by the fact that anti-union practices are common within the sector as a whole. Different actors within the supply chain stress the need for workers' involvement and better communication mechanisms between workers and management, to be able to address the violations and the humiliating treatment of workers. In China some analysts discern an opening for collective bargaining and improvements of workers' rights. It is of utmost importance that electronics companies show clearly how they can be part of these changes and contribute to real improvements on the factory floor.

Also, suppliers find themselves caught between conflicting demands. Buyers and consumers want

cheaper prices. Most suppliers see social responsibility as a cost instead of an investment that would result in more customers and orders. Big brand companies should be more supportive of their suppliers and offer financial incentives for responsible suppliers. These suppliers should direct the money to increasing workers' wages towards a living wage.

ANNEX 1: VISTA POINT TECHNOLOGIES (FLEXTRONICS) COMPANY REGULATIONS

VPT/Flextronics has a list of 44 company regulations that workers are expected to observe. Breaking the rules means punishment.

	Unacceptable behavior:	Fine (in yuan¹) and other disciplinary measures. (*10 yuan = 1 euro)
1	To use nepotism in recruitment.	100 Dismissal (if caught second time)
2	To not punch a time clock two times to record arrivals and departures.	50
3	To punch a time clock two times at once.	50
4	To arrive on the shopfloor late or not to clock out when departing earlier than scheduled.	10
5	To not renew a clock card in time.	10
6	To use a temporary clock card twice a month or not to return cards when required.	10
7	To not follow time rules for attendance.	10
8	To not fill in a form about resigned workers.	10
9	To not join in a training course.	10
10	To threaten others or to issue a complaint without reason.	100 Dismissal (if serious)
11	To not carry a staff card in the factory or dormitory area.	10
12	To not apply for a staff card in time.	10
13	To stick false photos on a staff card.	50
14	To enter a manager's offices without permission.	50 Dismissal (if serious)
15	To enter a prohibited area or fire exit without permission.	50 Dismissal (if causes problem)
16	To smoke in non-smoking area or to use fire without permission.	50 Dismissal and compensation (if serious and causes problem)
17	To discuss and/or spread rumours about own or others' wages if this creates serious problems.	100 Dismissal (if second time)
18	To take photos on the shopfloor.	50 Dismissal (if serious)
19	To gamble in a dormitory.	50 Dismissal (if serious)
20	To use physical force or fight on the shopfloor or dormitory.	100 Dismissal and compensation (if serious or second time and causes injury)
21	To scold, insult or humiliate others.	50 Dismissal (if serious)
22	To operate machines in violation of regulations.	50 100 (if second time) Dismissal (if serious or third time)
23	To take a freight carrier lift without authorization.	10

24	To refuse to be checked by a security guard or enter a facility without permission.	50 Dismissal (if serious)
25	To disclose wrong information during company investigations.	50 Dismissal (if serious)
26	To disobey or to argue against supervisor.	50 (if first time) 100 (if second time) Dismissal (if third time)
27	To leave or enter the workplace without permission.	10 (if causes no problem) 100 (if causes problem) Dismissal (if causes serious problem)
28	To doze off or sleep during work.	50 (if first time) 100 (if second time) Dismissal (if third time)
29	To practise stock trade during work.	50 (if first time) 100 (if second time) Dismissal (if third time)
30	To do something unrelated to work during work.	10 (if not serious) 50 (if serious)
31	To not work hard enough and fail to meet production quotas, creating a big loss.	50 (if first time) 100 (if second time) Dismissal (if third time or causes serious problem)
32	To take advantage of one's position for personal gain.	50 (if not serious) Dismissal (if serious)
33	To not report in advance on meetings with contractors and suppliers.	50 (if not serious) Dismissal (if serious)
34	To sign official documents when not authorized.	50 (if not serious) Dismissal (if serious)
35	To not queue to punch a time clock.	10
36	To enter the shopfloor without wearing factory clothes and shoes.	10
37	To enter the shopfloor without wearing special shoes and to leave the shopfloor without them, when needed.	10
38	To litter or to spit in factory area.	10
39	To not flush the WC after use.	10
40	To post a notice or to damage a notice without permission.	50 (if not serious) 100 (if serious)
41	To bring food on to shopfloor or to eat prohibited food at office.	10
42	To lose, damage or destroy company property or areas (e.g. garden).	50 (if not serious) Dismissal and compensation (if serious)
43	To not report a pregnancy to the personnel department within four months.	50
44	If pregnant, to not timely submit the family planning certificate to personnel department.	50 (if not serious) Department follows up (if serious)

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