

# Dell

## CSR Company Profile

**Michiel van Dijk & Irene Schipper**

**Amsterdam, May 2007**

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**Dell**  
**CSR Company Profile**

**By:**  
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May 2007

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Centre for Research on Multinational Corporations



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# 1 Introduction

This corporate social responsibility (CSR) company profile on Dell is part of a research project on the ICT hardware sector by SOMO, co-financed by the Ministry of Foreign Affairs in the Netherlands. Other financiers are member organisations of International Consumer Research and Testing (ICRT) and two development organisations, namely Bread for All and the Swiss Catholic Lenten Fund.<sup>1</sup> In addition to this profile, profiles are made on Hewlett Packard (HP), Acer, Fujitsu Siemens Computers, Apple, Toshiba, Sony and Packard Bell.

The methodology used for the survey consists of:

- ❑ Website analyses;
- ❑ Analyses of annual- and CSR reports;
- ❑ Questionnaires to major computer brands sent by ICRT;
- ❑ Workers interviews in China, The Philippines, and Thailand;
- ❑ Interviews with the management of production sites.

The research is conducted by SOMO in collaboration with research and labour organisations in China, The Philippines and Thailand: SACOM in China (Students and Scholars Against Corporate Misbehavior); the Workers' Assistance Center, Inc (WAC) in The Philippines; the Centre for Labour Information Service and Training (CLIST) and Asia Pacific Workers Solidarity Links (APWSL) in Thailand. The definition of CSR used by SOMO is based on the "CSR Frame of Reference" published by the Dutch CSR Platform: a Coalition of 30 Dutch Civil Society Organisations and Trade Unions actively promoting CSR.<sup>2</sup>

The first part of the profile provides a short general company overview and then focuses on the companies' CSR policies and operational standards like supply chain responsibility, stakeholder involvement, independent verification and transparency and reporting.

The second part of the profile provides research findings of the field studies on social issues including workers interviews. Where relevant, the non-compliance cases with the EICC code reported by the Center for Labor Reflection and Action (CEREAL) in its 2006 report are also included.<sup>3</sup> For the analyses of the environmental policies and practices SOMO relies on the research reports of Greenpeace.<sup>4</sup>

The research by SOMO and its partners covers in total 33 supplier companies: 9 suppliers of The Philippines, 6 suppliers in China, 12 suppliers in Thailand. In addition information on 6 Mexican suppliers is available from the CEREAL report. Ten of these suppliers are identified as being a

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<sup>1</sup> Participating ICRT members include consumer organisations of Austria, Belgium, Finland, Portugal, Spain and the Netherlands. The results of the study will be used for publications in the consumer magazines of the ICRT members aimed to inform their members about both the price quality proportion of PC products and the CSR policies and practices of the brand companies.

<sup>2</sup> [www.mvo-platform.nl](http://www.mvo-platform.nl)

<http://mvo-platform.tuic.nl/files/Publicaties/MVO%20Normen/CSR%20frame%20of%20reference.pdf>

<sup>3</sup> CEREAL, "New Technology Workers", June 2006, <http://www.cafod.org.uk/var/storage/original/application/0788568b70a3b716f223722ad2729a0c.pdf> (29 Nov 2006).

<sup>4</sup> Greenpeace, "Your Guide to Greener Electronics", 18 September 2006, <http://www.greenpeace.org/raw/content/international/press/reports/greener-electronics-guide.pdf> (29 Nov 2006)  
Greenpeace, "Toxic Chemicals in Computers" 18 September 2006, <http://www.greenpeace.nl/raw/content/reports/toxic-chemicals-in-computers-e.pdf> (29 Nov 2006).

supplier of Dell and can be found in this draft report. Most of these suppliers are shared by the other brand companies.

Finally, this report also includes information on working conditions in the Hard Disk Drive (HDD) supply chain of Dell. The HDD market is dominated by six HDD manufacturers (Fujitsu, Hitachi, Toshiba, Seagate/Maxtor, Samsung and Western Digital), which together produce 98,4 percent of HDDs percent of total factory unit shipments of HDDs in the world<sup>5</sup>. A survey among computer repair shops and technical research department of the Dutch consumer organisation indicates that, similar to other PC brands, Dell uses HDDs of all 6 large manufacturers. This means that the suppliers of these 6 HDD manufacturers are also part Dell's supply chain and therefore Dell can be held accountable for possible social and environmental problems at these second-tier suppliers.

To prevent the publishing of any inaccurate information about the company subject in this profile SOMO has implemented a review process in which the companies are requested to review the draft profile and inform SOMO about factual misunderstandings.

The comments of Dell on the draft version of this report are incorporated<sup>6</sup>. Their comments are focused on the first part of this profile: the description of the CSR policies. Although Dell has responded that they in collaboration with their 1'st tier suppliers have launched an immediate investigation to gather further information on all issues cited in the report. Investigation is in progress as of 12/22/06 but SOMO did not receive more information yet (21 February 2007).

As this profile is written to serve as a basis for other publications, as one of eight profiles, it offers the information in a way it is comparable with the other 7 profiles, with analyses but without conclusions. The ICRT member organisations together with the participating development organisations are responsible for the task to rate the included companies on CSR policies and practices and will publish their own publications based on this research.

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<sup>5</sup> Source: iSuppli Corp. April 2006. <http://www.emsnow.com/newsarchives/archivedetails.cfm?ID=12618> Table: Worldwide Top-Seven HDD Supplier Ranking for 2005 (Ranking by Percentage of Total Factory Unit Shipments)

<sup>6</sup> Comments received on the draft report on December 22, 2006 by Lena Pripp-Kovac, EMEA Corporate Responsibility & Sustainability of Dell.

## 2 Company Overview

<b>Name:</b>	<b>Dell Inc.</b>
Business Address:	Round Rock 1, 401 Dell Way, Round Rock, Texas 78682, USA
Telephone:	512-338-4400
Fax:	512-283-6161
Internet:	<a href="http://www.dell.com">www.dell.com</a>
Logo:	

Dell Inc. is an American computer hardware company based in Round Rock, Texas. During 2005 Dell was the number one supplier of personal computer systems (PCs) worldwide as well as in the United States. Dell's founder, Michael Dell, pioneered the direct-to-consumer sales model for computers. Dell has completely abandoned retail stores and sells all its custom-assembled PCs directly to consumers by mail order, allowing for higher flexibility, lower inventories, lower costs, and higher profit margins. A second feature of Dell is the Wintel platform (Microsoft Windows operating system and Intel microprocessor), which characterises its PCs. Although Dell has exclusively used Intel chips in its computer systems in 2006 the company announced plans to use chips from AMD in some of its high-end servers.

To supplant sales in the saturated PC market, Dell is increasingly entering new markets. Although desktop and notebook PCs still make up the largest share of total sales, the company also offers a broad range of other computer-related products, including software, network servers, workstations, storage systems, printers, handheld computers, digital music players, LCD and plasma televisions, projectors, and Ethernet switches. The company also markets third-party software and peripherals and it services department provides systems integration, support, and training. With total sales of more than US\$ 36 billion (65%), the Americas are Dell's most important market of which the largest share is generated in the business market (51%). Europe and Asia/Pacific count for 23% and 12% of total sales, respectively.

Dell's brand names for PCs are: OptiPlex for office desktop computer systems, Dimension for consumer Desktop computer systems, Latitude for commercially-focused laptops and Inspiron for consumer laptops.

**Table 1: Sales by Segment, 2005**

Segment	Sales (%)
Desktop PCs	38
Mobile PCs, handhelds & music players	25
Software and peripherals	15
Servers & networking	10
Enhanced services	9
Storage	3
Total	100

Source: Hoover's Company Information

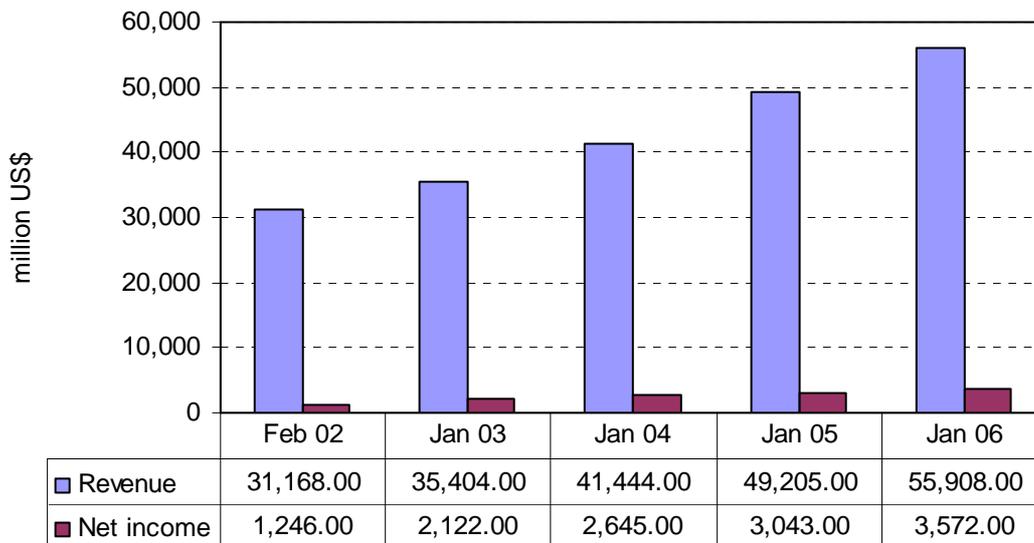
**Table 2: Sales by Region, 2005**

Region	Sales (million US\$)	Sales (%)
Americas		
Business	28,481	51
US Consumer	7,930	14
Europe, Middle East & Africa	12,873	23
Asia/Pacific	6,624	12
<b>Total</b>	<b>55,908</b>	<b>100</b>

Source: Hoover's Company Information

Consolidated net revenue increased from more than \$30 billion in 2002 to about \$56 billion in 2006. In the same period gross profit increased from \$5,5 billion to more than \$10 billion. As of February 2006 Dell has approximately 65,200 employees of which 25,300 were located in the USA and 39,900 in other countries. President and CEO of Dell are Michael S. Dell and Kevin B. Rollins, respectively.

**Figure 1: Key Financial Information, 2002-2006**

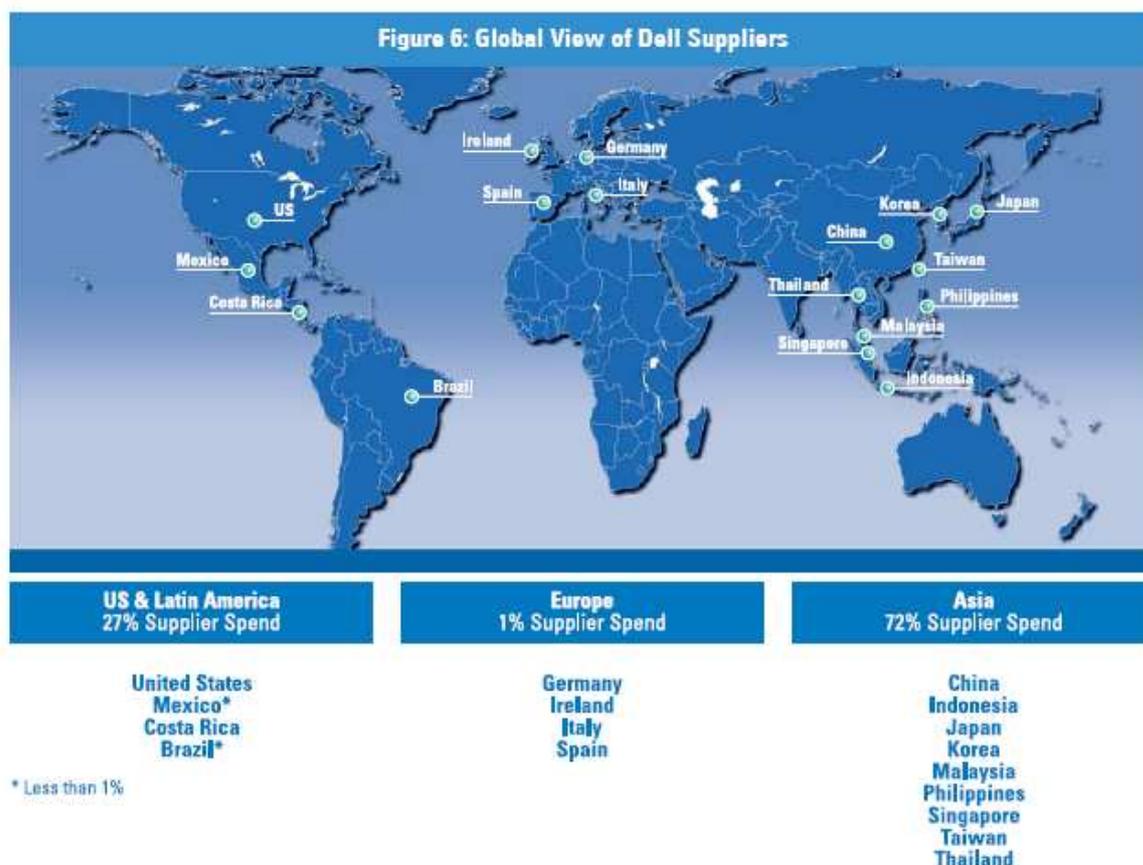


Source: Dell Inc, Dell Fiscal 2006 in Review.

### 3 Supply Chain

Dell purchases its intermediates from a wide number of suppliers in a variety of regions: US and Latin America (27 %): US, Mexico, Costa Rica; Europe (1 %): Germany, Ireland, Italy, Spain; Asia (72 %): China, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand (see Figure 2)

**Figure 2: Global View of Dell Suppliers**



Source: Dell, Sustainability Report 2006, 2006, p. 27.

Dell's suppliers in Taiwan include Hon Hai Precision Industry, Quanta Computer, Compal Electronics and Wistron.<sup>7</sup> Quanta recently won 60 percent (10 million units) of Dell's 2007 notebook orders, becoming the company's biggest laptop supplier.<sup>8</sup>

An industry observer notes that Dell is very keen in pressuring its suppliers to higher efficiency and performance. "It rates all of its vendors on their ability to compete on cost, technology, supply predictability, and service, and posts their scores daily on a password-protected Web site. [...] Based on that comparison, they are awarded a percentage of Dell's purchases for the upcoming

<sup>7</sup> CENS, Dell to outsource more from Taiwan in 2006, 9 May 2006, <<http://www.emsnow.com/npps/story.cfm?ID=19077>> (27 June 2006).

<sup>8</sup> Bloomberg, Quanta and Compal shares fall after Dell misses quarterly profit forecast, Taipei Times, 10 May 2006, <<http://www.taipeitimes.com/News/biz/archives/2006/05/10/2003307204>> (27 June 2006).

quarter".<sup>9</sup> It is not clear if Dell also takes into account labour and environmental conditions when rating its suppliers. I

In their response to the company profile Dells provides more details about the monitoring process. *Comment Dell: Every year, Dell's World Wide Procurement organization conducts Quarterly Business Reviews (QBR) with our suppliers to monitor and drive improvement of key performance indicators. Global Citizenship is one of these key indicators. In 2006, over 150 supplier sites with focus on China, Malaysia, Taiwan, and Thailand were monitored and rated during these reviews. Results from QBRs are used for sourcing decisions.*

*Our Suppliers are requested to provide documented evidence of their commitment to implementation of effective management systems that drives compliance of the EICC code via Dell's Self Assessment tool which utilizes the criteria listed on our external website at [http://www.dell.com/content/topics/global.aspx/corp/sup\\_prince/en/commit?c=us&l=en&s=corp](http://www.dell.com/content/topics/global.aspx/corp/sup_prince/en/commit?c=us&l=en&s=corp)*

*Goal in 2007 is to utilize EICC Self Assessment tool.*

In contrast to many of its competitors, Dell still owns several production facilities in the USA. Its factories in north Austin and Nashville are the only major computer-assembly plant still located in the United States. Apart from the US plants Dell also operates assembly plants in several other countries. In May 2006, Dell opened a second production facility in Xiamin, which produces PCs, servers and storage products for its customers in Japan, South Korea and Hong Kong. Its other facility in Xiamin produces computers for China's domestic market.<sup>10</sup> In addition, Dell owns production facilities in Ireland (Limerick), Malaysia (Penang) and Brazil (Eldorado do Sul). New assembly plants are planned in Poland and India for the year 2007.<sup>11</sup>

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<sup>9</sup> Bill Green, Living Dell in Time, Fast Company, November 2004, 88, p. 86.

<sup>10</sup> Kevin Allison, Dell opens new factory in Xiamin, Financial Times, 1 May 2006.

<sup>11</sup> CSR questionnaire, Dell, November 2006.

## 4 CSR Policies

Dell's website contains clear statements on its CRS policy: "As a company with an extensive global supply chain, we recognize that we have a responsibility to work with our suppliers to promote sustainable environmental practices, the health and safety of people and fundamental human rights and dignity."<sup>12</sup> Accordingly, Dell has defined a set of standards which describes its policy towards CRS drawn from a review of global best practices, management systems and acknowledged standards, such as: United Nations Declaration of Human Rights, the U.N. Convention on the Rights of the Child, fundamental conventions of the International Labor Organization (ILO), [Electronic Industry code of conduct](#) International Organization for Standardization (ISO14001), Occupational Health and Safety Assessment Series (OHSAS 18001),<sup>13</sup>

Dell's supplier principles, first launched in 2004, reflect the company's CRS policy towards its suppliers. It is structured around four areas:

- ❑ The corporate philosophy referred to as the "soul of Dell"
- ❑ The Dell Company Code of Conduct
- ❑ Supplier commitment
- ❑ Supply chain management system

At the same time when Dell was developing its supplier principles, it started to cooperate with other electronic manufacturers to draft a joint industry code, which resulted in the Electronic Code of Conduct (EICC). At present, Dell is a member of the board and steering committee of the EICC.

### 4.1 Human and Labour Policies

Dell's suppliers are required to comply with all applicable laws and regulations consistent with local law. The company states that: "The key components of our approach are: Environment, Health and Safety, and Labour Rights. These standards also include adherence to Dell's supplier principles and the industry's principles as outlined in the Electronic Industry Code of Conduct (EICC)."<sup>14</sup>

It is not clear, however, to which standards Dell's suppliers have to adhere. The statement above suggests that Dell's supplier principles are identical to the EICC but this is not true. According to the information on the company's website, Dell's supplier principles include the following standards:<sup>15</sup>

- ❑ Every employee must be a voluntary employee and that there be no use of indentured, slave, convict or bonded labour.
- ❑ Every employee must be of working age. Employees must meet appropriate legal age requirements or be at least 15 years of age, whichever is greater.

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<sup>12</sup> Dell website, < [http://www.dell.com/content/topics/global.aspx/corp/sup\\_prince/en/index?c=us&l=en&s=corp&-ck=mn](http://www.dell.com/content/topics/global.aspx/corp/sup_prince/en/index?c=us&l=en&s=corp&-ck=mn) (15-12-06).

<sup>13</sup> Dell's manufacturing and Dell's tier 1 suppliers are required to have ISO 14001 certification (as well as OHSAS 180001 for EH&S). Edited text based on updated information available at Dell external website.

<sup>14</sup> Dell, 2006, *Dell Sustainability Report*, <[http://www.dell.com/downloads/global/corporate/enviro/2006\\_sustainability\\_report.pdf](http://www.dell.com/downloads/global/corporate/enviro/2006_sustainability_report.pdf)> (27-06-06), p. 18.

<sup>15</sup> [http://www.dell.com/content/topics/global.aspx/corp/sup\\_prince/en/index?c=us&l=en&s=corp&-ck=mn](http://www.dell.com/content/topics/global.aspx/corp/sup_prince/en/index?c=us&l=en&s=corp&-ck=mn) (15-12-06).

- ❑ Every employee must be hired, promoted and rewarded based on ability and performance, not personal characteristics or beliefs. Discrimination based on race, color, age, gender, sexual orientation, ethnicity, religion, disability or maternity or marital status is not acceptable.
- ❑ Every employee must be treated with dignity and be free from sexual harassment, corporal punishment, mental or physical coercion, verbal abuse and be able to associate freely.
- ❑ Every employee must be entitled to working hours that adhere to local laws and industry standards, and are provided with reasonable time off and overtime compensation.
- ❑ Every employee must be paid fairly for their work with wages paid for a standard work week that meet legal and industry standards. Dell discourages the practice of deducting from wages for disciplinary purposes and in no cases should such deductions reduce pay below legal minimums.
- ❑ Every employee must be allowed to work in a safe and healthy work environment and, where company housing is provided, have clean, safe living facilities. Suppliers are expected to comply with all appropriate laws regarding working conditions, provide protection from fire, ensure regular access to bathrooms and potable water, and take steps to prevent injuries and exposure to health risks. Dell also expects suppliers to ensure appropriate health and safety training for employees, consistent with the requirements of achieving OHSAS 18001 certification.

One can conclude that Dell's supplier principles are much weaker than the EICC, which, for example, includes specific references to the maximum number of working hours per week (48 + 12) and freedom of association. When Dell was asked to comment on its supplier code of conduct in a questionnaire it mentions the EICC.<sup>16</sup> This suggests that Dell in fact is implementing the EICC and not its own supplier principles to which it consistently refers in the sustainability report and on its website.<sup>17</sup>

During the review process Dell explains the relation between the EICC code and their own code. Comment Dell: In 2004, Dell as well as the other founders of the EICC brought forward the strongest points in their individual codes to collaboratively create the EICC Code which Dell has formally endorsed since. We have been driving awareness and implementation of the EICC code with our suppliers since early 2006. Dell has discontinued the reference to Dell Supplier Principles to avoid confusion and our external website has been recently updated to reflect our alignment with the EICC Code and it is available at [http://www.dell.com/content/topics/global.aspx/corp/sup\\_prince/en/index?c=us&l=en&s=corp&~ck=mn](http://www.dell.com/content/topics/global.aspx/corp/sup_prince/en/index?c=us&l=en&s=corp&~ck=mn)

Finally, as has been described in the previous section, Dell owns several production facilities in various countries, including China, Malaysia and Brazil. As these sites are part of Dell Inc and are not independent supplier companies, it is a question whether the supplier principles (or the EICC) also apply to them. It could be argued that, instead, the Dell Company Code of Conduct is relevant for Dell's own production sites. However, this code is much less strict than the supplier code in terms of labour conditions. Hence, more information is needed to know which standards are actually implemented by Dell in its own production sites. This is particularly relevant for the facilities located in developing countries like China where labour conditions are generally worse than in rich countries such as the USA and Ireland.

<sup>16</sup> CSR Questionnaire Dell, November 2006.

<sup>17</sup> The which presents Dell's supplier principles contains a link to the EICC but does not refer to it in the text. ([http://www.dell.com/content/topics/global.aspx/corp/sup\\_prince/en/commit?c=us&l=en&s=corp](http://www.dell.com/content/topics/global.aspx/corp/sup_prince/en/commit?c=us&l=en&s=corp))

In their response to the draft company profile Dell states that Dell is committed to operating in a responsible and sustainable manner in all their facilities around the globe including their factory in Xiamen, China. Furthermore, they believe that the same high standards they utilize for workplace and labor conditions must be extended to their global supply chain.

## 4.2 Environmental Policies

Dell's environmental policy consists of the following objectives:

- ❑ Design products with the environment in mind: reducing energy consumption and avoiding environmentally sensitive materials
- ❑ Prevent waste and pollution: waste minimization, recycling and pollution prevention
- ❑ Continually improve performance: implementation of environmental management system
- ❑ Demonstrate responsibility to stakeholders: communication and engagement of stakeholders
- ❑ Comply with the law: comply with environmental laws and meet commitments with voluntary environmental programs.

Dell requires that its suppliers are compliant with ISO 14001 certification or submit a schedule for achieving certification. According to information in the sustainability report 98 percent of the target suppliers (i.e. top 80 percent spend with focus in China) achieved or maintained the ISO 14001 certification in the fiscal year 2006.<sup>18</sup>

Dell's goal is to comply with the EU directive on the Restriction on Hazardous Substances (RoHS) prior to its implementation on July 1. Through its integrated Restricted Materials Program, Dell already restricted the use of more than 50 environmentally sensitive materials, completely prohibiting the use of cadmium, hexavalent chromium, mercury, PBBs and PBDEs.

Dell requires suppliers to sign a Suppliers Declaration of Conformity (SDoC, modeled after ISO/IEC 17050-1) to ensure that all materials used comply with Dell's environmental policy. This documentation is required in order to release a part to production revision. In addition, Dell uses a quarterly audit in which parts are selected at random and tested for restrictive materials by a third party as well as in depth supplier surveys to verify if suppliers comply with the SDoC.<sup>19</sup>

Dell has actively participated in the Environmental Protection Agency (EPA) Energy Star program for more than a decade. It states that many of its desktops and notebooks now exceed the current levels set by the EPA for energy efficiency.

Finally, Dell actively participates in a number of environmental standards.<sup>20</sup>

### **The environmental performances of Dell according to Greenpeace**

In the Greenpeace report<sup>21</sup>, Dell scores the number one position due to its strong definition of the precautionary principle, reasonable timelines for substituting toxic polyvinyl chloride (PVC) and brominated flame retardants (BFRs) and explicit support for Individual Producer Responsibility. Dell only falls down for not having models free of PVC and BFRs on the market.

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<sup>18</sup> Ibid.

<sup>19</sup> Cts on the draft profile received by email of December 22, 2006, by Lena Pripp-Kovac.

<sup>20</sup> See Dell, 2006, Sustainability Report, p. 42-43 for a list of standards.

<sup>21</sup> <http://www.greenpeace.org/raw/content/international/press/reports/greener-electronics-guide.pdf>

## 4.3 Compliance with CSR Standards

### 4.3.1 Responsibility

Dell is also clear which companies in the supply chain have to comply with its supplier policy: "While our principles do not vary regardless of the level of supplier, our focus on communicating and reviewing performance against those standards is at our first-tier supplier level. Despite this focus, violation of Dell's Supplier Global Citizenship expectations at any level of our supply chain is unacceptable."<sup>22</sup> As part of every new supplier contracting process, Dell requires suppliers to sign an agreement acknowledging they are aware of and will abide by Dell requirements and principles. To ensure that suppliers live up to Dell's expectations the company provides training in a variety of relevant areas such as environmental practices. In addition Dell closely monitors the behaviour of its suppliers using combinations of: business reviews, self audits, executive oversight and review, board of director's oversight and engagement with third parties and non-governmental organizations (NGOs). When suppliers fail to meet the Dell expectations, Dell and the supplier will initiate a root analysis and create an action plan to ensure future compliance. Dell works collaboratively with suppliers to find solutions to address non conformances, however if suppliers fail to comply critical requirements it might result in termination of their contract.

### 4.3.2 Stake holder involvement

Dell engages with third parties and NGOs as it deems necessary in order to ensure the effective implementation and oversight of its supplier principles. Dell conducted several focused interactions with stakeholders in fiscal year 2006, including CAFOD, Computer take back campaign, Forest Ethics, Greenpeace, Green Blue Institute. An example of its stakeholder involvement is its formalization of a chemicals management process in 2002 in which it consulted, NGOs, customers and regulators to develop a list of environmentally sensitive materials. Dell also participates in a wide number of CRS indices.

### 4.3.3 Verification

Dell is working on multiple levels to monitor its suppliers and improve labour and environmental conditions, including:

1. Signed Executive Commitment letter - to ensure that the management team is fully aware of the requirements
2. Quarterly business reviews with first-tier suppliers to review implementation plans of the EICC and Dell's standards which includes a rating system
3. External audits of high risk areas. During 2004 and 2005, Dell cooperated with Impactt Limited, a third-party auditor, to perform on-site audits in China to assess working conditions and develop corrective action plans.
4. BPI (business improvement projects) with selected suppliers: working with corrective action plan and have on site local advisors, which specifically focus on working hours, Health and Safety, and EICC awareness.
5. Joint audits with the EICC, planned for 2007.<sup>23</sup>

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<sup>22</sup> Dell, website.

<sup>23</sup> CSR questionnaire, Dell, November 2006

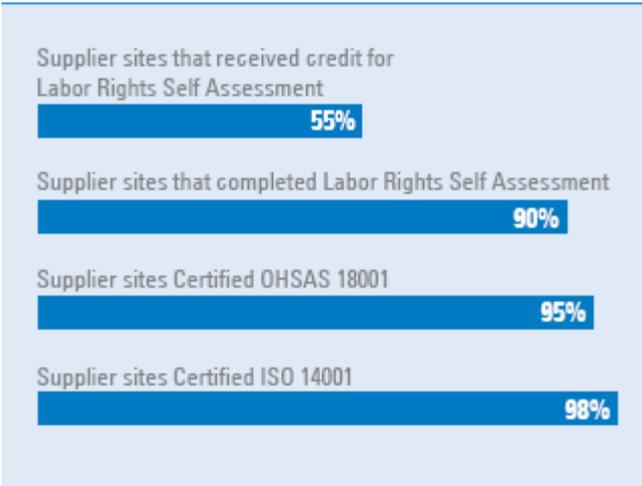
A pilot project with common auditing with EICC and Gesi members will start in November 2006, 20 Chinese suppliers will receive a common audit and another 80 common audits are planned in the first months of 2007.<sup>24</sup>

During the Quarterly Business Reviews the suppliers are requested to provide documented evidence of their commitment to the implementation of Dell’s supplier principles by means of a self assessment tool, which includes indicators for labour and social conditions. In 2005, Dell monitored more than 150 supplier sites with focus on China, Malaysia, Taiwan, and Thailand. Figure 3 illustrates the results from the reviews. It is not completely clear what the figure means, in particular the fact that only 55% of the suppliers receives credit for their labour-rights self assessment. Does this imply that only 55 % of the suppliers comply with the Dell supplier principles?

In their response to the draft company profile Dell clarifies that this percentage reflects at a high level supplier’s performance towards commitment to development and implementation of an effective management system to monitor and improve social and environmental items in alignment with the EICC Code.

In 2007, Dell will utilize the EICC self assessment questionnaire which goes one level deeper into evaluating current supplier performance in the key 5 areas outlined by the EICC Code.

**Figure 3: Quarterly Business Reviews Results**



Source: Dell, Sustainability Report, 2006, p. 28.

**Dell’s major achievement related to fair labour conditions in the production and supply chain**

The main achievement for Dell has been and is to set up programs that focus on analysing root causes and plan corrective measures, rather than focus all efforts on fostering "inspection relationships". Realizing that real efforts will take long term commitment and is not something that will be solved only by "shipping over western training programs". Dell has set up a Business Process Improvement (BPI) project with selected suppliers and evaluates monthly the number of working hours, the reasons for overtime, the possibilities for improvements. A local Dell BPI advisor works on site with the supplier and will do so for a year. The projects also focus on EH&S and EICC awareness training.

Source: CSR questionnaire, Dell, November 2006.

<sup>24</sup> Minutes EICC implementation workgroup meeting held at BSR conference, November 2006.

#### 4.3.4 Transparency and Reporting

Since 1998 Dell publishes an environmental report on its website. In 2003, the company for the first time included social information in its environmental report using (elements of) the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. Corresponding with the trend of increasingly presenting information on CRS issues, the report's name was changed from environmental in sustainability report in 2004.

To ensure Dell's compliance with all applicable laws, the code of conduct and other Dell policies, Dell has appointed a Chief Ethics Officer and a Global Ethics Council, and established a global ethics program. In addition to the Global Ethics Council, each region has a Regional Ethics Committee and Ethics office, which are responsible for that region's ethics and compliance activities. Finally, Dell provides an ethics helpline - an independent (i.e. third party) toll-free telephone service which is available 24 hours a day, seven days a week – which may be used to report any violations of Dell code of conduct or any law.

Main documents:

- Company Code of Conduct
- Principles of Globalization and Global Citizenship: includes Supplier Principles
- Sustainability Report
- EICC
- Website
- Analyses of CRS policy

#### 4.3.5 Analysis of CSR Policy.

<b>General international Guidelines and Standards (not sector specific)</b>	<b>Part of Company Policy?</b>	<b>Comments</b>
UN Norms on Business and Human Rights	No	Comment SOMO: at the moment there are almost no companies signatories of these UN Norms.
ILO core labour standards and Conventions are included in company policy	No	Comment from the EICC: The code refers to recognized standards – including the ILO. The EICC is built on internationally recognized standards and conventions such as the ILO conventions, ISO standards, and the United Nations Declarations on Human Rights. We believe that the EICC contains the general wording of the ILO standards. Comment from SOMO: Trade unions and NGO's specifically ask for standards in accordance of ILO standards instead of 'referring to' or 'based on' or 'built on' to avoid loopholes.
Commitment UN Global Compact	No	
Commitment to Universal Declaration of Human Rights	No	See above comment under ILO conventions
Commitment OECD Guidelines	No	See above comment under ILO conventions
<b>Development of Company Codes of Conduct</b>		
Development of Code of Conduct by the	Y	But has only limited information on social issues.

company on social issues?			
Development supplier Code of Conduct on social issues?	Y		In principle EICC, but Dell has also its own Supplier Principles which are weaker than the EICC. It is still not clear which code is used in daily practice.
<b>Guidelines and standards for the electronics sector</b>			
The Electronics Industry Code of Conduct (EICC)	Y		
The Global e-Sustainability Initiative (GeSI)	No		
<b>Guidelines and standards on Occupational Health &amp; Safety</b>			
ILO Guidelines on Occupational Safety & Health management Systems ILO-OSH 2001	No		Not explicitly but UN and ILO norms are referred to in the EICC
OHSAS 18001: Occupational Health and Safety Management System specification.	Y		Dell expects that suppliers are OHSAS 18001 compliant. Also the EICC refers to OHSAS 18001
<b>ILO core labour standards covered</b>			
<b>Core Labour Standards</b>	<b>ILO Convention</b>		
Freedom of association and the right to Collective bargaining	87 and 98, complemented by 135	Y/N	FoA yes, but the EICC does not include collective bargaining. The EICC is advised by NGO's and trade unions to remove "in accordance with local laws" and insert in accordance with ILO conventions 87 and 98 (facilitation by a parallel means). Because local laws can effectively suppress FoA as it does in China and Mexico for example. Referring to local laws is creating a loophole.
No use of forced, debt bonded or involuntary prison labour	29 and 105	Y	The EICC covers this sufficiently.
No Child labour	ILO Convention 138 and 182	Y	The EICC covers this sufficiently.
No discrimination in employment	100 and 111	Y	The EICC covers this sufficiently.
<b>ILO Conventions</b>	<b>No. of declaration</b>	<b>Subscribe by the company?</b>	<b>Comments</b>
Right to security of employment	Tripartite Declaration. art. 24-28	N	Not included in EICC
Living wages are paid	26 en 131	N	EICC refers to legal minimum wage.
Safe and sound working conditions	155	Y	The EICC covers this sufficiently.
Maximum number of working hours (48 + 12)	1	Y/N	Comment EICC: all work will be voluntary and overtime is to be an intermittent solution and is not to be used as a routine means for business operations. <u>The code reflects a 60 hour cap of working hours except in emergency or unusual</u>

			<p>circumstances.</p> <p>Comment SOMO: by not describing emergency and unusual circumstances there is a loophole created.</p> <p>Comment SOMO: the EICC does not break work week down into 48 plus 12 hours so that it is clear when workers are required to work overtime.</p> <p>Comment SOMO: it would be better to require that overtime is voluntary.</p> <p>Dell's Suppliers principles only refer to local laws relating to maximum working hours.</p>
Compensation for overtime work		Y	The EICC covers this sufficiently.
<b>Operational aspects</b>			
Does the company policy on social issues include external manufacturers and suppliers?	Yes		
Is there a monitoring system in place to check compliance with the mentioned standards/codes/policy?		<b>Own sites</b>	<b>Supplier sites</b>
	<b>Internal Monitoring</b>	Yes -ongoing	Yes-quarterly business reviews - tier 1 - 100%
	<b>External monitoring (third party organisations involved)</b>	Yes vary during the year.	Yes -high risk areas - vary during the year
What is the percentage of supplier monitored each year?	Currently monitoring 100+ sites with concentration in Asia that accounts for 90% of Dell spend. *		
Are (local) stakeholders involved at the design level/at implementation (production) level/ at monitoring level and at relevant decision-making level?	Only feedback on policy is requested	Yes.	
	Real involvement as in multistakeholder initiatives	no	

### The Environmental policies of the computer companies:

<b>General Environmental Policies</b>	Company policy?	Comments
ISO certification 14001	Y	Dell's manufacturing and Dell's tier 1 suppliers are required to have ISO 14001 certification (as well as OHSAS 180001 for EH&S)
ISO certification 9001/9002		No info
Other Eco-Labels that are used by the company, like Blue Angel, ENERGY STAR, Green Mark etc.	Y	Energy star.
<b>Environmental guidelines and standards for the electronics sector</b>	Score methodology of Greenpeace	Environmental guidelines and standards for the electronics sector based on Greenpeace report (Bad=0, Partially bad=1, Partially good=2, Good=3)
A chemicals policy based on the precautionary principle (includes materials innovation, design	Greenpeace:	3

for less environmental impact, not using hazardous materials that could impact recycling)			
Chemicals management: Supply chain management via banned/restricted substance lists, policy to identify problematic substances of future eliminations/substitution	Greenpeace:	3	
Timeline for phasing out all PVC	Greenpeace:	3	
Timeline for phasing out all BFRs (not just the 2 banned by RoHS)	Greenpeace:	3	
PVC free and/or BFR free models available?	Greenpeace:	0	
Commitment Individual Producer Responsibility (IPR) (producers finance the end-of-life management of their products, by taking back/recycle/reuse their own brand discarded products	Greenpeace:	3	
Voluntary take back in every country where it sell products	Greenpeace:	2	
Provides information to individual customers on take back and recycling services	Greenpeace:	2	
Reports on amount of waste electrical and electronics equipment (WEEE) collected and recycled.	Greenpeace:	2	
<b>Operational aspects environmental policy</b>			
Does the company policy on environmental issues include external manufacturers and suppliers?	Yes		
Is there a monitoring system in place to check compliance with the mentioned standards/codes/policy?		Own sites	Suppliers sites
	Internal Monitoring	Yes-ongoing	Yes -Quarterly business reviews of the ISO 14001 certification
	External monitoring	Yes - in line with the ISO 14001 certification process	Referring to their ISO 14001 certificate which requires external certification.

## Transparency and Cooperation

<b>Transparency/Reporting</b>	<b>Comments</b>	
Separate website section on CSR?	Y	
Reporting on CSR performances?	Y	
Are GRI indicators used?	Y	
Special Office for complaints CSR issues	Y	
<b>Cooperation with the Reseach</b>	<b>Comments</b>	
Response to the questionnaire	Y	
Disclosure of production and supply chains	Disclosure of production countries?	Y
	Disclosure of production locations?	N
Assistance with organising interviews with local management of suppliers?	Not applicable - Unfortunately too late at this time since the research has already been completed. (Dell did not receive the questionnaire on time). They look forward to discuss applicable future projects.	
Feedback to draft company profile	Yes but no feedback on the field research yet, but is expected.	

## 5 Field Research

This section identifies and describes CSR issues specific to the Suppliers of Dell. The findings are based on the analysis of labour conditions of eight Dell suppliers, located in China (3), Mexico (1), Philippines (1) and Thailand (4). In addition it summarizes CSR issues related to the Hard Disk Drive supply chain of Dell in Thailand and the Philippines.

Most research into working conditions in the ICT sector concentrates on the ILO's eight primary labour rights, which are specified in most model codes of conducts such as the International Confederation of Free Trade Unions (ICFTU) base code and the CSR Frame of Reference SOMO works with.

Much of the overall manufacturing process of ICT hardware is low-tech and labour intensive and thus faces similar working condition issues as in the garment and footwear industries. This research reveals violations including dangerous working conditions, degrading and abusive working conditions, excessive working hours and forced overtime, illegally low wages and unpaid overtime, denial of the right to strike, discrimination in employment, use of contract labour and "trainees", workers without a contract, and lack of freedom of association and unionisation.

SOMO in cooperation with local labour organisations have gathered information about the working conditions in the factories producing (parts of) computers for one or more of the targeted companies. This information is obtained through interviews with the workers and trade unions, field organizers and factory management in some cases. The interviews are conducted outside the factory in an informal setting, in a situation where the workers feel safe to speak openly, i.e. not in the presence of the management. A reasonable amount of workers per factory is interviewed. The workers are selected (as far as possible) on the basis of sex, age and type of job so as to represent the workforce in the factory. The worker interviews are undertaken through individual interviews with each worker, or through group discussions.

Dell has responded that they in collaboration with their 1'st tier suppliers have launched an immediate investigation to gather further information on all issues cited in the report. This exhaustive investigation includes verification into sub-tier (3rd-4th level) supplier activities. Investigation is in progress but as of 12/22/06 we did not get more information yet.

### 5.1.1 China

#### ***Ltd. Tyco (Dongguan) Electronics Ltd.***

Ltd. Tyco (Dongguan) Electronics Ltd. (hereafter Tyco Electronics) is one of the 16 manufacturing facilities in China of US-based Tyco International Inc. The company was founded in 1990 in Jinmei Village in Changping Town, eastern Dongguan City. Over the past 15 years, its manufacturing plant and dormitories have expanded to a floor size of more than 50,000 square meters. It has a very large workforce of some 5,000 persons and the majority is young female workers. Its major electronic outputs include wire and cable, data connectors, printed circuit boards, magnetics, resistors, and circuit protection devices, which are used in IBM, HP, and Dell's notebook and desktop computers, servers, disk drives, engineering workstations, mass storage systems, and touch screen business equipment (for example, LCD touch monitors).

### **Dongguan Primax Electronic Products Ltd.**

Dongguan Primax Electronic Products Ltd. (hereafter Primax Electronics), was established in 1989 as the first offshore manufacturing site of the Taiwanese company Primax Electronics Ltd. Its plants (headquarters and branches) and workers' dormitories are located in industrializing Shijie Town, northeast Dongguan City. Primax Electronics' main factory has a workforce of over 3,000 persons. The factory supplies imaging products (such as scanners and printers) and computer peripherals (such as wired or optical wireless "PC mouse") for IBM, Dell, HP, and Philips. They also provide their customers with other office equipment (for example, shredders) and communication devices (for example, MP3 players).

### **Volex Cable Assembly (Zhongshan) Co. Ltd.**

Volex Cable Assembly (Zhongshan) Co. Ltd. (hereafter Volex Cable) was founded in October 2000 at the Torch Hi-Tech Industry Development Zone in Zhongshan City, Guangdong Province. It is a subsidiary of Volex Asia, part of the Volex Group a global producer of electrical and optical cable assemblies and power cords (plugs, cables and connectors). Volex Cable's factory occupies 80,700 square meters and has a workforce of about 1,500 to 2,000 persons, with variations between low and peak seasons. It produces 3-wire angled plugs and straight plugs which are widely applied to desktop PCs, notebook PCs, printers, and other home appliances as well as office equipment. The company supplies to HP for its Compaq brand and Apple, Dell, Epson, Canon, Nortel and Ericsson.

### **Shenzhen Yonghong**

Shenzhen Yonghong (hereafter Yonghong) is owned by Shenzhen Zhonghan Science & Tech Co., which, in turn, is a subsidiary of the FSP Group. The FSP Group, a Taiwanese owned company is the 10<sup>th</sup> largest power supply vendor worldwide.<sup>25</sup> Its main products are PC / Industrial Power Supplies, ODM or OEM Power Supply, Open Frame, LCD TV Power and Adapters. Yonghong is a supplier of Lenovo, Huawei, Founder, Tsinghua Tongfang, Greatwall, TCL, Ruijie (formerly Start), Evoc and Datang, Dell, NEC, Siemens, Motorola, Acer, Samsung and Fujitsu.

## **5.1.2 Mexico**

### **Solectron (Chihuahua)**

Solectron Corporation (US) provides a full range of global electronics manufacturing and supply-chain management services to the world's leading technology companies, the company has approximately 50 sites worldwide. It primarily manufactures computing and storage equipment, which include servers, storage systems, workstations, notebooks, and peripherals; communications equipment, including wireless and wire line infrastructure products; networking equipment, such as routers and switches that move traffic across the Internet; and consumer products, such as cellular telephones, set-top boxes, and personal/handheld communications devices.

## **5.1.3 Philippines**

### **Hitachi Global Storage Technologies Philippines Corporation**

Hitachi GST was formed as a result of the strategic combination of IBMs and Hitachi's storage technology businesses. Hitachi Global Storage Technologies Philippines investments are focused on the manufacture of Hard disk drive (HDD) and HDD component parts such as head gimbal assembly or magnetic heads, slider and headstack assembly for, among others, IBM, Apple and Dell. Subcontractors of Hitachi GST are the San Technology, Micro Device Technology (MD Tech) and Luzon Magnetics. The company was established on May 11, 1994, is located in Laguna

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<sup>25</sup> [http://www.fsp-group.com/english/4\\_about/1\\_brand.asp?id=4](http://www.fsp-group.com/english/4_about/1_brand.asp?id=4)

Technopark Inc. and employs about 7000 employees. As Hitachi GST is a HDD manufacturer, see for the research results at paragraph 5.5, Dell Hard Disk Drive Supply Chain in the Philippines

#### **5.1.4 Thailand**

##### **Fujitsu (Thailand) Co., Ltd.**

Fujitsu (Thailand) Co., Ltd (hereafter Fujitsu) established in 1988, is located in the Navanakorn Industrial Estate and employs total about 4000 people. It mainly produces hard disk drives (HDDs) for a variety of customers, including besides Dell, Sony, HP, Matsushita, Hitachi, Toshiba, IBM, Sony and National (Panasonic). As Fujitsu Thailand is a HDD manufacturer, see for the research results at paragraph 5.3 - Dell Hard Disk Drive Supply Chain in Thailand.

##### **Delta Electronics (Thailand) Public Company Limited.**

Delta Electronics (Thailand) Public Company Limited is a public traded company. The Group's principal activities are the manufacture and export of electronic components. It operates in Thailand and the USA. Delta Electronics is established in the Bangpoo Industrial Estate, an economic processing zone EPZ) near Bangkok. The facility consists of three production sites: Delta 1 (monitors and televisions), Delta 3-4 (components and small products for adapters), and Delta 5 (power supplies and adapters). Another production facility, Delta 6, is located in Welgrow, and produces cooling fans for computers. The company has a workforce of 12,000 employees of which 10,000 are regular and 2,000 are subcontracted workers. Delta Electronics Thailand is part of the Delta Group, the world's largest provider of switching power supplies, headquartered in Taiwan. The company is a supplier of almost all large PC manufacturers, including Acer, Apple, Dell, Fujitsu Siemens, Sony, NEC, HP, Toshiba and IBM. The Company was certified ISO 14001 for environmental safety standard in 1999 and OHSAS (Occupational Health and Safety Assessment) by BVQI.<sup>26</sup>

##### **CKL Electronics Co. Ltd.**

CKL Electronics Co. Ltd., hereafter CKL, is located in the Bangpa-in Industrial Estate. It exists for 16 years, and was acquired some years ago by APCB, a Japanese company. This is the only facility they have in Thailand. They have two other facilities in China (Shenzhen and Guan Shan). The company produces PCBs (printed circuits boards) of which 40-50% for automotive industry (Amron, TIW and Solectron), 20% is computer related and 20% for home appliances (Panasonic and Sony, Sony via Panasonic). The computer related products concern PCBs for power supplies, fans, fan controls and ear phones. All the computer related products are supplied to Delta Electronics, and Delta Electronics in turn supplies all computer brands including Acer, Apple, Dell, Fujitsu Siemens, Sony, NEC, Toshiba and IBM. CKL Electronics is therefore a second tier supplier of all PC brands in this research including Apple. The company employs 850 workers. A new factory of 100.000 square feet will produce LCD TVs, control boards, and car audio boards. CKL has adopted ISO/TS 16949 and ISO 14001.

##### **Western Digital Thailand**

Western Digital (US company) is the second largest Hard Disk Drive manufacturer worldwide (after Seagate which recently acquired Maxtor) Like Fujitsu (Thailand), Western Digital Thailand (hereafter Western Digital) is located in the Navanakorn Industrial Estate. The facility consists of former Fujitsu and Read Rite factories, which were acquired in 2001 and 2003, respectively. Since July 2006 the facility is named Western Digital. Its main customers are HP, Lenovo/IBM, Sony, Panasonic, HP and Dell. Western Digital employs about 22,000 workers in Thailand of which about 8000 work at the facility in Navanakorn. Western-Digital is investing this year to expand capacity at

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<sup>26</sup> [http://www.deltathailand.com/about\\_corporate.html](http://www.deltathailand.com/about_corporate.html)

its two plants in Thailand. As Western Digital Thailand is a HDD manufacturer, see for the research results at paragraph 5.3 - Dell Hard Disk Drive Supply Chain in Thailand.

## **5.2 Working Conditions in Supplier Companies**

### **5.2.1 Employment is Freely Chosen**

No evidence was found of forced, bonded or involuntary labour.

### **5.2.2 Discrimination and Unequal Treatment of Contract Workers**

A number of discrimination cases were found, mainly relating to discrimination of contract workers. At *Delta Electronics* contract workers received less wage.

At *Solectron* temporary workers are hired through an agency named Kelly, which asks whether workers are involved in trade unions, used drugs and have tattoos. The agency also demanded a pregnancy test of the female candidates. *Solectron* has acknowledged that these practices indeed have taken place and stated it will instruct the agency to change its hiring procedures. *Solectron* also indicated it will undertake regularly audit the agency to ensure compliance.

### **5.2.3 Child Labour**

One case of child labour was encountered. *Yonghong* was found to be hiring more than 200 child workers under the age of 16, mainly students from rural villages seeking for summer jobs. Out of the 25 workers interviewed, 7 of them are child workers. Many child workers were students from Henan and Shaanxi provinces. They were led by teachers to come to work in Shenzhen-based *Yonghong* partly to pay off the school fees owed. Since they were considered 'unskilled', the factory required them to work an extra 1.5 hours daily without pay to compensate for the 'lower than normal productivity.' Normally, they worked 13 hours per day or 390 hours (for 30 days) per month. During peak seasons, they worked more than 400 hours and 60 of those hours were without pay.

One investigator pretended to be a teacher and inquired about job opportunities from a human resources manager of *Yonghong*, who said underage students would be hired as long as they looked 'not so young.' X was aged 15, she just finished second grade in secondary school and was hired by *Yonghong*. She said she tried to resign in early September when the new term began. However, her resignation was not approved by the factory and the teacher who sent her there. As found out later, many teachers lived near the factory to 'monitor' the students. They required the students to report to them every night when the shift was finished.

### **5.2.4 Freedom of Association and the Right to Collective Bargaining**

In several factories, severe violations of the freedom of association and the right to collective bargaining were reported, particularly in the Mexican factories. According to the CEREAL report, 90% of the workers in the electronics factories investigated by CEREAL are members of a union without knowing it.<sup>27</sup> This is because the companies sign a collective employment contract with an unrepresentative union, which agrees to sign the agreement in secret in exchange for a monthly fee, the so-called 'bite'. These contracts force all workers in the company to enrol in the trade union and only the trade union can negotiate on labour conditions with the management. Consequently,

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<sup>27</sup> CEREAL, *ibid*, p. 41.

workers are prevented from organising themselves and create their own trade union. CEREAL indicates that it has copies of collective employment contracts between unrepresentative unions and *Solectron*.

But some of the investigated companies in Thailand do have unions.

At *Delta Electronics* there is a strong union with about 5,000 members. According to the management the union only has small complaints like the food quality, the transport ventilators and wages. However, currently there is a labour dispute in preparation by the union because they want wage increases. Some of the workers explained that because of the low wages their debts are increasing each month. The basic wage is not living wage. They are really angry with the company because their financial situation is getting worse every month while they can read on the Stock Exchange Information that Delta's profits are getting larger.

At *CKL* there is a union and 540 out of the 751 workers are union members. The efforts of the union are geared towards increasing the minimum wage and bonuses of the workers. There is a collective agreement (set every two years) between the union and the management but the union is not positive about its results. There is a monthly meeting between the union and the management but according to the union this is mainly focussed on profits and the need to improve the production level instead of discussing labour conditions. The relationship between the union and the management is described as 'tense'. Contract workers normally do not join the union because they can be dismissed easily and are afraid to lose their job being associated with a union.

### **5.2.5 Wages and Overtime Payment**

At *CKL* and *Delta Electronics* workers stated that their wage is not a living wage because it is simply not enough to cover their living expenditures. At *Tyco Electronics*, they find their salary too low and therefore try to cut costs on food in the canteen. At *Primax Electronics* and, they indicated that the wage was just sufficient to live on but no money was left for leisure. At the Chinese supplier *Volex Cable*, the wage for the first month is withheld until the end of next month, seemingly to prevent workers from quitting. This is in clear violation of Chinese labour law.

*Primax Electronics* hires contract labour during peak season who receive a fixed overtime wage of RMB 700-800 a month, depending on their position in the factory. These workers have to complete a standardized 11 hour work shift, five to seven days a week. If it is assumed that such a worker needs to do overtime 22 days with 3 hours per shift overtime and receives wage according to the national labour law (i.e. RMB 3.42 minimum wage per day and 1.5 times this wage during overtime) s/he should earn (1) a basic minimum wage of RMB 574 per month plus (2) overtime wage of RMB  $5.12 \times 3 \text{ hours} \times 22 \text{ days} = \text{RMB } 337.92$ . This adds up to RMB 911.92 per month. Even if the worker at *Primax Electronics* could receive the highest possible monthly payment of RMB 800, it still falls short of RMB 111.92 to receive the legal minimum wage.

At *Volex Cable* workers state they receive RMB 900-800 including overtime and therefore also seem underpaid.

In a number of factories, workers also reported a number of excessive wage deductions. *Primax* maintains a strict dress code and mistakes result in fines and wage deductions. There is also a fine of RMB 100 for losing the staff card. In both *Delta Electronics* and *Western Digital* the bonus is reduced in case of sickness. In the latter factory, the bonus for not being sick adds up every year. However when a worker is one day sick the complete bonus is lost and has to be built up years again. As a consequence workers take up holiday when they are sick not to lose the bonus.

The legal minimum for overtime pay is 6 and 8 yuan per hour respectively for normal days and holidays in Shenzhen City. *Yonghong* currently was found to be paying 4.5 and 5.8 yuan respectively. Workers worked 150 overtime hours every month and the hours beyond 150 were not paid. China labour laws require employers to buy social insurance policies for workers, including industrial accident insurance, medical insurance and old age pension. *Yonghong* did not provide any of the legally required social insurance for workers.

At *CKL* workers are warned when they miss the, often unreasonably high, target. The number of warnings has a negative effect on their wage increase and effects the bonus at the end of the year.

Finally at *Volex*, where workers already receive a very low wage (see above), workers even have to pay for food and housing. These cannot be refused although they make up about 25 percent of the worker's wage.

### **5.2.6 Excessive Working Hours and Intensive Production Rhythms**

Table 3 presents the regular working hours and overtime per factory for which information was acquired. In all the factories, a few hours overtime per day is standard practice and in most cases the number of hours by far exceeds the ILO (48+12) maximum number of working hours. Moreover, in many factories overtime is compulsory, meaning that workers are forced to do overtime and production rhythms are inhumane.

At some of the Chinese factories, working hours do not only violate ILO standards but also are not in compliance with local labour law which states that maximum overtime per month is 3 hours per day, 36 hours a month. For example, at *Primax Electronics* in addition to the regular 168 hours a month (8 hours a day for 21 days) workers are required to do overtime for about 80-100 hours per month. Further, during peak season, extra short-term labourers have to complete a 11-hour shift, 5-7 days week. Working at *Primax Electronics* is described as tough and hard and workers say they feel they are treated as machines. The working rhythm is very intensive because the company is placed under pressure to meet short lead times. Workers indicate the 10-12 hour day is excessively long, work routines should not be stopped under any circumstance and they do not even have time to go to the restrooms. Assembly workers were given 10 minutes break for every two hours of work. Workers also say that if unrealistically high targets are not met overtime is compulsory but will not be paid.

At *Tyco Electronics* workers are forced to do overtime per day in between 2-3 hours a day, 5-6 times per week.

At *Volex Cable* workers are forced to do overtime per day in between 2-4 hours a day and often in the weekends. *Volex Cable* offers its workers a 2 time 45 minutes break, which implies that the working time is 'only' 10.5 hours a day and therefore does not exceed the maximum of 3 hours overtime per day, specified in Chinese Labour Law. Nonetheless, a shift of 12 hours seems excessively long.

At *Yonghong*, a female worker complained that she had to work 7 days a week and have overtime every day except on Fridays. She was forced to sign an agreement which said she "willingly agreed to work overtime according to the factory schedule." *Yonghong* had workers working 296 hours per month during low season and 374 hours during peak season, which were both way beyond the

legal maximum of 210 hours (174 basic work month in Shenzhen City plus 36 hours overtime work) per month.

At *CKL* 2-4 hours overtime plus overtime during the weekends is regular practice. However, at *Delta Electronics* the workweek is 5 days per week and therefore total working hours including overtime does not exceed the 60 hour standard set by the ILO.

Workers at *CKL* pointed out that overtime is compulsory during peak production from January till June. In principle overtime during Saturday and Sunday (or any other sixth and seventh day of the workweek) can be refused but as a repercussion workers are excluded from future (voluntary) overtime work. Workers also mentioned that sometimes during peak production they have to work two shifts in a row (i.e. 24 hours in total).

**Table 3: Regular working hours and overtime per factory**

Factory	Regular working hours	Regular Overtime	Comment
Primax Electronics	8 hours, 5-6 days per week	80-100 hours per month	Compulsory on Saturday. During peak hours contract workers have an 11-hour shift, 5-7 days per week
Tyco Electronics	8 hours, 5-6 days per week	2-3 hours, 5-6 days per week	Compulsory overtime
Volex Cable	8 hours, 5 days per week	In the weekends and 2.5 hours per day, 6-7 days per week	Compulsory overtime. 12 hour shifts but including 2 times 45 min. breaks.
Yonghong	-	296 hours per month during low season and 374 during peak season	Compulsory overtime
Delta Electronics	8 hours, 5 days per week	2 hours during day shift, 3.5 hours during night shift	
CKL	9.5 hours, 5 days per week	2,5 hours per day and on Saturday and Sunday	Compulsory during peak production

Note: With regular overtime is meant overwork performed on a day-to-day basis.

### 5.2.7 Health and Safety Conditions

The safety and health conditions vary significantly across factories. General complaints include: (1) bad working conditions in terms of temperature, smell or dust, the quality of the food in the canteen is poor (*Tyco Electronics*), low quality infirmary (*Delta Electronics*).

*Yonghong* did not provide gloves, masks and proper ergonomics in the workplace, leading to injury on hands, eyes and other bodily injuries.

Workers at *Solectron* complained that she is using chemical substances like isopropyl alcohol, flux and lead soldering wire. They are only given an apron and some goggles as protection and therefore are breathing in soldering smoke. Moreover, workers are not given instructions on the dangers of working with chemicals.

At *Delta Electronics* workers complain about a terrible smell in the cooler fan department that sticks in their cloths for days. The management has not responded to their complaints. Finally, workers reported an accident in 2001 in which six people died after the collapse of a building.

At *CKL* workers have to work with hazardous chemicals and there is not enough safety equipment provided by the company. There is one department where chemicals are mixed just outside the

factory. As was expected by the interviewed workers, this site was not shown by the management to SOMO researchers during their factory visit. Workers complain about coughing and irritated skin and at least two cases have been found of workers having poisonous chemicals in their blood. After complaints by the union the management only installed a fan but the problem remains. Another problem reported by workers at *CKL* is the mixing of ink. They indicate that the provided mouth caps are too thin and of low quality resulting in the inhaling of poisonous fumes. Although the yearly company medical check did not find any medical problem one sick worker went to a hospital where it was found that his lungs were affected by toxics. After notification, the worker was transferred to another department. Finally, workers pointed out that at *CKL* sometimes chemicals react, for example because different machines are cleaned with the same cloth, and cause fire. Around June-July there were three of such fires. This is dangerous, also because workers report that the fire equipment is of low quality and some of the fire extinguishers are empty.

Finally, also for some factories it was found that working conditions were in general very good. In particular workers indicated that the health and safety conditions in the *Hitachi Global Storage Volex Cable* and *Fujitsu* factories is up to standard except for some of the relative minor points mentioned above. In particular workers praised the strong environmental commitment of *Hitachi Global Storage*, which aims to reduce the usage of harmful chemical substances.

### **5.2.8 Housing**

In the four Chinese factories, workers generally reside in dormitories, on or close to the factory site. Not all conditions are up to standards. At *Primax Electronics* workers stay in dormitories with rooms for 15 to 20 persons, which are in general hygienic but there is some sound disturbance. Workers pay RMB 60 per month for housing. At *Tyco Electronics* workers are housed in 9 collective dormitories, which fit 10-12 persons. Conditions are described as noisy and overcrowded. Cooking is prohibited and therefore workers have to pay three meals a day in the canteen. *Volex Cable* offers convenient dormitories in the proximity of the factory but with a rent of RMB 70 per month they are considered to be expensive.

### **5.2.9 Awareness of Code of Conduct and Audits**

In none of the factories workers were aware of the code of conduct of Dell or any of the other suppliers.

The management of *Delta Electronics* said that companies like HP, Sony and Dell stimulate the company to treat its workers well and deal correctly with environmental issues and that some of these companies do come with codes of conduct and perform audits. Some buyers are very specific, like not using child labour and ensuring that the maximum working week does not exceed 60 hours. Some of them also ask about the suppliers of *Delta Electronics* and even check them. The management mentioned the EICC code and said that *Delta Electronics* complies with this standard.

Currently the Green Partnership approval from SONY/Panasonic for *CKL* is pending. *CKL* is recently audited (October 2006). Panasonic is one of their partners, they buy the PCBs for Sony. Sony had expressed their concerns about reliabilities; a few items need to be improved for Sony. The management of *CKL* explained that the Japanese standards are high, like using all halogen free materials; standards are higher than in Europe.<sup>28</sup> On October the 12<sup>th</sup> *CKL* expected an audit from *Delta Electronics*, their main client, and Fujitsu had also announced their visit. The

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<sup>28</sup> Source SOMO interview with the management of CKL Electronics, 11 October 2006.

management of *CKL* made clear that none of the customers asks for social standards. The manager interviewed (Sales Assistant manager) has no knowledge of company codes supplied by customers.

At *Volex Cable* workers pointed out that they are afraid of reporting bad working conditions to the auditors because of the risk of losing their job. Visits are known in advance and management instructs the workers what to respond and how to behave when the auditors are in the factory. Allegedly, management has falsified labour contracts to mislead the inspectors and locked up workers in the dormitory to prevent them speaking to the visitors.

**Table 4: EICC Violations of Dell Suppliers**

	<i>Hitachi Global Storage</i>	<i>Primax Electronics</i>	<i>Tyco Electronics</i>	<i>Voilex Cable</i>	<i>Yonghong</i>	<i>Solectron (Chihuahua)</i>	<i>Fujitsu</i>	<i>CKL</i>	<i>Delta Electronics</i>	<i>Westerm Digital</i>
Supplier Country	Philippines	China	China	China	China	Mexico	Thailand	Thailand	Thailand	Thailand
<b>Labour</b>										
Freely chosen labour										
Child labour avoidance					X					
Working hours more than 60 hours		X	X		X		X	X		X
Working hours: forced overtime		X	X	X	X		X	X		X
no minimum wage paid/overtime not paid/unreasonable wage deductions		X		X	X	X		X	X	X
Workers indicate it is not a living wage		X	X				X	X	X	X
(in)Humane treatment		X								
Non discrimination							X			X
Freedom of association		see note 1	see note 1	see note 1	see note 1	see note 2	X			see note 3.
<b>Health and safety</b>										
Occupational safety										X
Emergency preparedness										
Occupational injury and illness										
Industrial hygiene					X	X	X	X	X	X
Physically demanding work										
Machine safeguarding										
Dormitory and canteen		X	X	X						

Note 1: Under Chinese law, the All China Federation of Trade Unions (ACFTU) is the only trade union recognized in China. It exercises a legal and heavily protected monopoly over all subsidiary union organizations and trade union activities. It remains under the control of the Communist Party, which appoints its officials. This means that by law there is no possibility of truly independent unions forming in China, which compromises workers' freedom of association.

Note 2 A major problem in Mexico is the lack of independent unions that can negotiate strong and fair collective bargaining agreements. According to some estimates, roughly 90 percent of all Mexico's collective bargaining agreements are negotiated by non-independent, pro-government, pro-company unions. These "protection contracts" are generally negotiated without the consent, or even the knowledge, of the majority of workers. The Mexican law prevents the forming of a new (democratic) union when there is already signed a contract with an union.

note 3 in a few cases a welfare committee or workers committee are set up instead of (or to prevent) a union. But these committees do not represent the workers rights as unions can do. In some cases the main tasks of these committees are birthday parties, library services, and organising karaoke etc.

### 5.3 Dell's Hard Disk Drive Supply Chain in Thailand

Figure 4 depicts a part of the Hard Disk Drive (HDD) supply chain in Thailand. The working conditions in six suppliers (including one second-tier supplier) of HDD manufacturers have been analysed. The figure shows that almost all suppliers produce equipment for more than one HDD manufacturer (indicated by the arrows). Below, first a brief description of the HDD suppliers is presented, followed by a summary of the findings on working conditions in the next section.

SOMO received corrections and supplementing information by Seagate (one of the HDD manufacturers operating in Thailand) related to their suppliers subject in this field study.<sup>29</sup> Seagate took the initiative to send the draft report to its (former) suppliers for verification.

#### **LTEC Ltd.**

LTEC Ltd. (hereafter LTEC) is a joined Thai-Japanese company. The company produces components for Nokia mobile phones, microwaves, digital cameras, airbag switches, National electric thermoses, Sony cameras, Acer computer notebooks, Fujitsu microchips, IBM SIMs, Toshiba calculators, control screens for Sharp microwaves and HDDs for Seagate/Maxtor. LTEC employs 6,400 persons and plans to expand to 10,000 employees. Female employees account for 82% of all employees. Five years ago, LTEC upgraded its factories and installed automatic machines, now the factories have regular, semi-automatic, and fully automatic packaging machines. Previously, three workers were needed for each machine, now only one person per machine is needed.

#### **MMI Precision (Thailand) Co. Ltd**

MMI Precision a Singaporean owned company. The company operates in four countries – Singapore (Headquarter), China, Malaysia and Thailand – and in Thailand there are four branches of MMI precision. The information in this report refers to 2 production sites situated in Nawa Nakhorn Industrial Estate 1 (project 1 and 3) and is hereafter referred to as MMI. Its main client is Seagate/Maxtor but the company also supplies NEC, Minibear, Fujitsu and Fujikura. The interviewed workers are producing the metal covers for HDDs.

*Info provided by MMI<sup>30</sup>:* Overall the company has 211 regular workers and 517 contract workers. Overall workers composition: Female=46.5%, Male= 53.5% in both Zone 1 & Zone 3. MMIT took over TPW and continued the Maxtor (now Seagate) business until 2004. Zone 1: Motor Brackets for spindle motor [HDD] & also other non-HDD businesses, e.g. automotive, telco, medical businesses. Zone 3: All non-HDD business [machining]. Current main clients: SC Wado/JVC, Fujikura, Shindengen, Fabrinet-Avanex. Since the cessation of Maxtor's business in 2004, MMIT has shifted the business focus to non-HDD businesses.

The activities and main clients mentioned by the workers do not correspond with the information provided by the management of MMI.

#### **Innovex**

Innovex is owned by Hana Company and was previously named Adflex. Its parent company which supplies raw materials is located in America. Starting in 1999-2000 the company transitioned from

<sup>29</sup> SOMO received the comments of Seagate on February the 16<sup>th</sup> 2007 relating to the following suppliers: Innovex, MMI, Ltec, Mektec and Paragaon. According to Seagate MMI is not one of their suppliers anymore since December 2004.

<sup>30</sup> Info supplied by MMI through Seagate.

the lead wire business to flexible circuit interconnects. Over 95% of the company revenue is from the flexible circuit business. There are two branches of Innovex in Thailand: one is in Korat and the other is in Lamphun province. The information below pertains to the latter production site. It mainly produces electronic components for various brands, including: Nokia (mobile phone circuit board chips), IBM (hard disk processors), Philips (TV and computer circuit boards), Hitachi (electric circuit boards), Samsung (televisions and digital cameras), Seagate/Maxtor (hard disk drives). IBM (Now Hitachi) and other customers order erratically. There are about 3000 employees at Innovex. *Comment Innovex: although most of their production is intercompany; 3M is the largest flexible circuit manufacturer in North America.*

### **Mektec**

Mektec's main business is flip-chip "assembly" for disk drives. It attaches semiconductor dies using the flip-chip method to FPC for the disk drive industry for which as noted earlier Thailand is the number 2 spot in the world. Mektec's main customers are Seagate/Maxtor, Western Digital, Hitachi, TI and Fujitsu. The company states that: "We are the world's largest flex and flip chip assembler, and supply to computer, automotive and communication manufacturers worldwide. Our plants are located in Bangpa-in Industrial Estate and Hi-Tech Industrial Estate, Ayutthaya." Mektec has 3,600 employees as of Jan. 2007.<sup>31</sup>

### **Paragon**

Paragon has 350 employees. Paragon is a supplier of Mektec according to the interviewed workers. Paragon is Mektec's Subcontractor (outsourcing) .The interviewed workers (female) work on the production department checking the APC for computers and digital camera's. It concerns flip chip assembly.

### **Fujitsu (Thailand) Co., Ltd.**

Fujitsu (Thailand) Co., Ltd (hereafter Fujitsu) established in 1988, is located in the Navanakorn Industrial Estate and employs total about 4000 people. It mainly produces hard disk drives (HDDs) for a variety of customers, including besides HP, Sony, Dell, Matsushita, Hitachi, Toshiba, IBM, Sony and National (Panasonic).

### **Western Digital Thailand**

Western Digital (US company) is the second largest Hard Disk Drive manufacturer worldwide (after Seagate which recently acquired Maxtor). Like Fujitsu, Western Digital Thailand (hereafter Western Digital) is located in the Navanakorn Industrial Estate. The facility consists of former Fujitsu and Read Rite factories, which were acquired in 2001 and 2003, respectively. Since July 2006 the facility is named Western Digital. Its main customers are HP, Lenovo/IBM, Sony, Panasonic, and Dell. Western Digital employs about 22,000 workers in Thailand of which about 8000 work at the facility in Navanakorn. Western-Digital is investing this year to expand capacity at its two plants in Thailand

### **Murata Company**

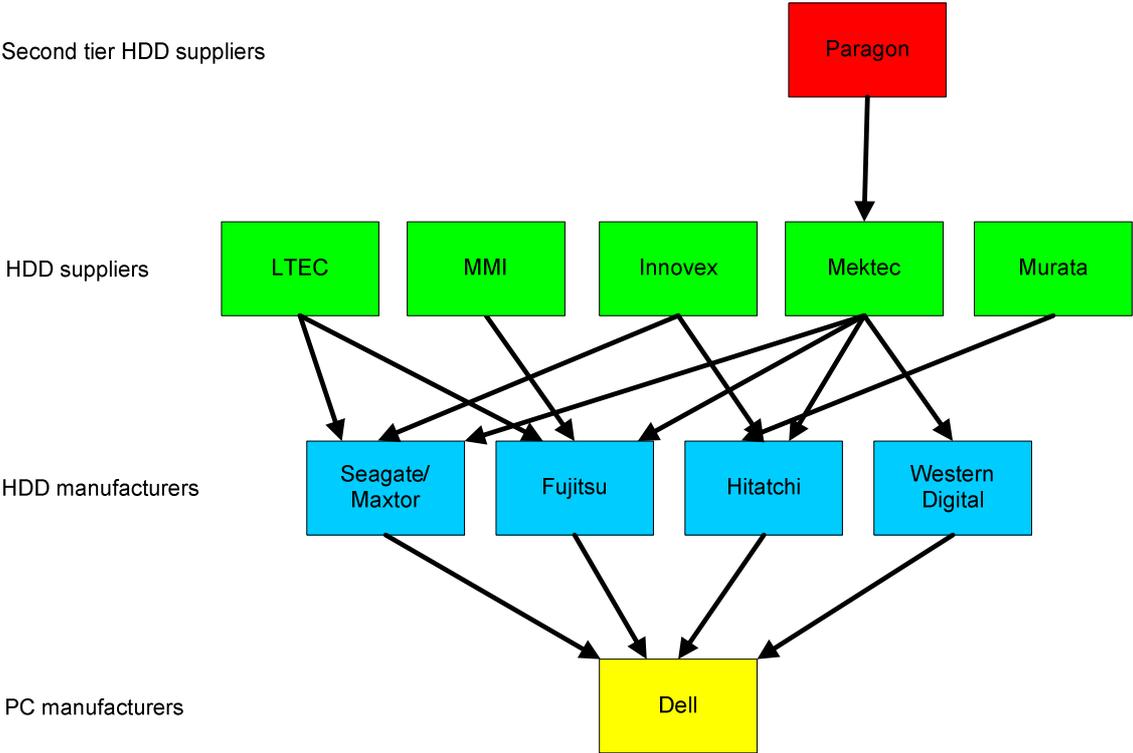
Murata Company (hereafter Murata) is Japanese-owned producer of Panasonic, Hitachi, Cannon, and Toshiba products, the majority of which are Toshiba televisions and copiers. After five years, Murata has repaired and refurbished its factories and added one more to bring the total number of factories to eight. It has increased the number of employees continuously and is currently hiring. Murata Company employs over three thousand workers, of which about 1,000 workers are male, and it does not have any policy to discontinue hiring. Usually when there is little work, the

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<sup>31</sup> SOMO received comments from Seagate by email on February the 16<sup>th</sup> 2007 relating to the following suppliers: Innovex, MMI, Ltec, Mektec and Paragon. Mektec provided feedback on the draft report.

company will rotate workers and responsibilities to other busy areas. Many workers have left Murata in the past because of job monotony and boredom, to look for a better workplace, problems with co-workers, or long-term health problems. Full time employment is offered to workers who pass a probationary period, after which they are paid on a daily rate.

**Figure 4: Dell HDD Supply Chain in Thailand**



**5.4 Working Conditions in the Thai HDD Supply Chain**

**5.4.1 Employment is Freely Chosen**

No evidence was found of forced, bonded or involuntary labour.

**5.4.2 Discrimination and Unequal Treatment of Contract Workers**

Some cases of discrimination were reported. At LTEC it was reported that workers who have hepatitis B only get a year-to-year contract. Further, workers pointed out that obtaining sick leave and the size of the end-of-year bonus and promotions strongly depend on personal contacts with the supervisor.

*Comment LTEC: LTEC does not discriminate against employees on the grounds of infection with Hepatitis B virus. Supervisors cannot decide rankings or promotions of their subordinate by only their preferences.*

A number of discrimination cases were found relating to discrimination of contract workers. The workforce of several companies in this research mainly consists of this type of workers. For example, in *Western Digital* 60 percent are agency hired. At *Western Digital* and *Fujitsu* contract workers received a lower wage. At *Fujitsu* contract workers were denied certain bonuses and insurances, and when female workers apply for a job they have to take a urine/pregnancy test, contract workers getting pregnant will be fired.

At *Western Digital* most males are regular workers but the majority of female workers, mainly in the assembly line, are hired through an agency. The agency requires the female candidates to take a urine test, which is very likely used to determine pregnancy. This is confirmed by the fact that one of the workers was dismissed after she got pregnant. Only after a lawsuit, filled by CLIST, the worker could return to the factory as a subcontracted worker.<sup>32</sup>

Only 30% of the workforce in *MMI* is employed on a regular basis, the rest have their employment outsourced through agencies. The outsourced workers don't have any job security. Their length of employment contract is completely dependent on the amount of orders the company receives. Resulting from this uncertainty was a high turnover rate of around 50% for a given day. The wages of the workers at *MMI* are different between the regular workers and the contract workers. The regular workers earn at least 8,000 Baht per month (the highest amount we learned was 15,240), and benefits like an annual bonus equal to one month wages and monthly diligence bonus of 450-500 per month, and transport allowance and rice, social security and their uniform is provided for free. The contract workers earn 184 baht per day, making 4,784 per month (26 x 184), they get no annual bonus and their monthly diligence bonus amounts 150-200 baht per month, they have to pay 160 baht for a shirt, 99 baht for the trousers, 350 baht for safety shoes. Subcontracted workers also have to buy their safety mask and safety glasses themselves (!), these costs were deducted from their salary. Moreover, contract workers have less air-conditioning, and no medical check-ups for the contract workers.

*Comment MMI: Contract workers pay 170 baht for their shirts and they are allowed to wear their own pants. Personnel protective equipment [PPE] are provided free-of-charge to all staff, contract workers included, if the jobs condition requires them, as per safety regulations. Contract workers are provided free annual health checks. The regular workers had been with the company and previous company (TPW) for more than 10 years and hence, the higher salary as compared to the new recruits.*

Also at *LTEC* the benefit is different between temporary workers and permanent workers.

At *Murata*, if the company finds out that some of the subcontracted workers are union members then these workers will be fired immediately. One interviewed female worker (contract worker) of *Murata* said the medical test for the labour agency includes a pregnancy test. The workers have to pay themselves for the medical test. Also at *Murata*, women who become pregnant during the probation period will not obtain fixed employment. Also when women are found to be pregnant during the application the company will not offer her employment.

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<sup>32</sup> CLIST is a Thai non governmental Thai workers' rights organization.

### **5.4.3 Child Labour**

No evidence of child labour was encountered in any of the factories investigated.

### **5.4.4 Wages and overtime payment**

At 6 production sites, *MMI*, *LTEC*, *Innovex*, *Fujitsu*, *Western Digital* and *Murata*, workers state their wage is not enough to cover the cost of living, let alone save money, although it meets Thai labour Law. They also point out they feel forced to work overtime in order to earn additional income to cover basic expenditures.

*Comment LTEC : The legal minimum wage rate is periodically reviewed and adjusted by the Wage Committee to suit the economy and standard costs of living. The basic minimum wage rate is generally considered as appropriate and acceptable by the government, employers, and employees.*

Workers at *Paragon* also mention a case of unjust wage deductions because that their annual bonus will be cut if they do not meet their production targets. They may lose up to 4/5 of their bonus.

At *Western Digital* the bonus is reduced in case of sickness

### **5.4.5 Freedom of Association and the Right to Collective Bargaining**

The findings with respect workers' freedom of association and the right to collective bargaining vary across production sites.

There is no union at *LTEC*. This can be explained by saying that the Northern region of Thailand is known for being really tough to unionise and as a subsequence the workers in this region are not familiar with unions. Companies are reallocating their factories from other parts of Thailand to the Northern region because wages are lower, government incentives are higher and there are no unions there.<sup>33</sup>

At present there is no labour union at the *Fujitsu* Thailand factory. The main reason for this is that in 1998 after a major strike the company shut down and fired all the union leaders. It also started to hire more contract instead of regular workers, which makes it more difficult to set up a union. Workers indicate that in the past the company actively discouraged the formation of a trade union but this is less the case now. Nonetheless, workers feel that setting up a union is not possible.

There is no union at *Western Digital*, but only a welfare committee. It is not known what they do and whether they function on behalf of the workers. Workers feel it is very difficult to organise because they are all covered up with protective clothing, do not have time to talk and the breaks are very short. Workers are afraid they will lose their jobs when they start forming a union.

According to the workers at *MMI* are now 235 regular workers and 600 subcontracted workers. 80% of the regular workers are member of a union. Three years ago this location had 1600 workers of which 1400 union members. After a major labour dispute three years ago, all union members were laid off (1400!). This weakened the union to great extent; this is also called 'union bashing'. The current union members have a better relationship with the management since the management is replaced. The subcontracted workers do not join the union because they are afraid

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<sup>33</sup> Interview SOMO with fieldworkers, October 2006, Bangkok.

to be dismissed because of this. According to them, the union only supports the regular workers. The use of contract workers has reduced the unions bargaining power.

*Comment MMI; Staff were laid off based on business exigencies and severance compensation as per labor law were provided. Not all union members were laid off. The past union chair is still employed by MMIT and he continues as the union lead in MMIT.*

Moreover, in 2004 MMI successfully dismantled the trade unions at two of its other factories by spinning of these factories and making them subcontracted factories, with new workers via labour agencies and no trade unions anymore. The workers expect the same will happen at one of the two factories in Nawa Nakorn, at the moment workers of this factory experience quite some sabotage from the management.

*Comment MMI: MPMT and MMI's Korat project [MPA] were expansions of MMI Group's business and have nothing to do with MMIT's operations. Management adhered to the CBA closely.*

At *Innovex* there is no union. It seems as if workers are not aware of their right to form unions. They mention that there exists some kind of labour rights training but only supervisors attend. The workers indicate they are not informed nor invited about them. Allegedly, the trainings are not about labour rights but deal with issues like working hours and wages.

*Comment Innovex: At every quarterly communication meeting, every employee is given the opportunity to submit questions or complaints and every submission is answered. There have also been regular, random skip level meetings with the workers by senior management. The safety committee, which has 4 daily production workers out of the 15 members, meets monthly. The Safety Officer performs daily facility walks to monitor compliance and look for potential problems.*

Also at *Mektec* there is no trade union. The company does not seem to discourage the trade union actively but it rather provides alternatives to avoid trade union. The factory has set up an association for the workers, with activities as library services, renting CD and karaoke for the break time etc. Workers rights are not an item.

*Comment Mektec : Mektec always encourages its employees to express their opinions regarding to their work. The company also set up systems for their employees to express their concerns or complaints through several activities. Furthermore, Mektec allows its employees to express their abilities through activities such as Quality Circles Committees (QCC) and several other improvement projecst.*

At *Paragon* the management discourages the formation of a union by prohibiting people to talk with more than 5 persons together and states workers have to talk to the management when there are problems. The workers strongly feel that the management does not want a union in the factory. Hence, not surprisingly, so far no union has been formed at *Paragon*.

There is no union at *Murata*. Similar to *Innovex*, it seems that workers are not aware of the freedom of association and the right to collective bargaining. There are trainings which deal with working hours, pay rates ad the like in which only staff participates. When workers have complaints they can put them in a suggestion box but it seems that nothing is done with them.

**5.4.6 Excessive Working Hours and Intensive Production Rhythms**

Table 5 presents an overview of regular and overtime working hours per production site.

During the time of the investigation there was due to limited orders not much work at *Innovex*. Workers indicate they want to work more but there is simply no work. This raises also problems. It is the company's policy to compensate workers during regular workdays. As a consequence, it forces workers to take up holiday when there is no work in order to avoid paying them salary. It regularly happens that workers show up at the factory but sent home again and told they have to use one of their rest days. Finally, workers also mention that when workers are ill they are only allowed to rest for two hours. If they need longer they have to take a sick day and lose their daily pay benefits.

At *LTEC*, workers mention that their regular workweek is 8 hours per day during 6 days a week. Moreover, they indicate they are forced to work overtime for an additional 4 hours per day and on Sundays. This means that working hours at *LTEC* exceed the ILO standard.  
*Comment LTEC : LTEC working hour is 8hours/day + overtime 2.5 hours/day (Max 10.5hours/day). LTEC adjusts the worker's working schedule to avoid 7 days working in a row. LTEC has not forced the workers overtime working and had got the consent of overtime working from the workers. LTEC ensures that the number of hours for working overtime and working on holidays should not exceed the 36hours / week. Thai law)*  
But even when *LTEC* workers work 10.5 hours per day instead of the 12 hours as claimed by the workers, *LTEC* still exceeds the ILO standard and the EICC.

At *Murata* workers state they work 12 hours per day, including overtime for five or six days per week, depending on the company's schedule. There is regular overtime work, depending on orders. If there is a large order workers overtime is compulsory also during holidays. If there aren't many orders, workers can take some holidays. Overtime and holiday pay is paid in accordance with company regulations.

At *Innovex* workdays are eight hours long, and the workweek is six days long, with Sundays off. During peak production workers overtime is compulsory. Currently there is not enough work so there is no overtime at all, moreover, workers are forced to take holidays even if they have showed up at the factory dressed and ready for work, only to be told that they must use one of their rest days, and the worker has no choice but to follow the orders  
*Comment Innovex : This is not Innovex practice. Over the past two and a half years, we have had two shutdowns (one in August 2006 and one in December 2006). Both of these shutdowns were announced well in advance, employees were paid half their daily wages and given the option of supplementing that pay by taking annual leave for the other half of the day.*

At *MMI* the workers must work 12 hours per day. Overtime is automatically required. For the outsourced workers it is written into their hiring contracts that they must work 12 hours per day. A temporary worker was intimidated by the agency that he cannot refuse overtime and will get dismissed immediately in case overtime is refused. One interviewed worker said that if they refuse overtime on Sunday, their salary will be cut with 1 day salary. Her working schedule over 2006 showed that she worked 2 Sundays per month in the low season. The peak season was 4 months this year, in that period she worked every Sunday (thus 7 days per week, 12 hours per day).

Based on other interviews *MMI*: The employer requires the workers to work 36 hours of overtime per week. Often the workers have no opportunity to take any day off in a month. The only time off is when the shift is changed (one per month), where workers will have almost a whole day before they will have to go to work again. The workers will have to work 324 hours per month. The

employer will inform on Saturday whether the workers will have to work the following Sunday. As for Monday through Saturday the workers must work 12 hours per day. If the workers don't want to work overtime they must provide the line leader with a reason. The line leader will at these occasions ask/plead/threaten the workers to stay as there is so much work to do.

*Comment MMI: Overtime is performed only with the consent of our staff. We do not force our staff to work overtime if they do not agree to do so for whatever reasons that they may have.*

At *Mektec* overtime is also forced by the management. Workers point out that in practice they cannot refuse overtime because only with a 'very good' reason they are allowed not to work. A normal working day is 10,5 hours for 6 days per week. During peak season they also work on Sundays which is about three months per year.

*Comment Mektec : Regular working hour is 7 hours per day. Should there be any overtime in each day; Mektec would allow its employees to volunteer to work overtime. Mektec also makes sure that within one week, including their day off or any holidays, overtime would not exceed 36 hours per week. This is enforced by Thai Labor Law.*

It would be better if Mektec refers to the EICC instead of referring to Thai labour Law which is legalising work weeks up 84 hours.

At *Paragon* overtime is not compulsory as is the case at *Mektec*. However, as wages are very low workers generally want to work more than the regular workday of 8 hours. The overtime is usually 3,5 hours. The company knows this and therefore has made overtime conditional on reaching the daily production target. In other words, workers are denied overtime if they do not reach the set production target, which is hard to meet.

Excessive working hours were also reported by some of the workers of *Fujitsu*, and *Western Digital*; 2-4 hours overtime plus overtime during the weekends is regular practice. This overtime is perceived as compulsory. At *Fujitsu* labourers stated that if they refused to work overtime without a very good reason they are put on a black list and receive warnings. After three warnings there is a chance you will be dismissed. In addition, it was reported that in case overtime is refused, the annual bonus is deducted, salary is cut or wage increases are not followed up. Further, workers said there are mandatory exercises of 15 minutes with music and trainer to prevent workers from falling asleep because they are so tired of the work.

At *Western Digital* workers indicate that supervisors threaten them with dismissal if they do not accept the overtime work. With 12-hour shifts, 7 days a week during peak season (which lasts 10 months a year according to workers) working hours in this factory are particularly excessive and unreasonable.

Finally, at *Mektec* and *Paragon*, workers are subject to degrading treatment and intensive production rhythms. Every month the manager is speaking to the workers just to yell and shout at them to make them work harder. Moreover, workers feel that targets are set which are impossible to complete. At *Paragon* there is also a weekly meeting with the supervisors to make them work harder and the management threatens to close the factory in case they do not increase their efforts.

*Comment Mektec : Yelling is not practiced within Mektec. Mektec has many other ways to encourage workers to work harder such Quality Circle Committee activities. Mektec set targets with careful consideration and we have exceeded our targets every year. Mektec to have records and evidence to support this. At Paragon there is a weekly meeting with supervisor to enhance workers attitude and guide them to work happily and effectively.*



**Table 5: Regular working hours and overtime per factory**

Factory	Regular working hours	Regular Overtime	Comment
LTEC	8 hours, 6 days per week	2.5 according to LTEC, 4 hours per day according to the workers and every Sunday.	Compulsory overtime. 10.5 or 12 hours in each day, 63-84 hours per week.
MMI	8 hours, 6 days per week	4 hours per day and 2 out of 4 Sundays.	12 hours in total each day, 72-84 hours p.w.
Innovex	8 hours, 6 days per week	No overtime	48 hours p.w.
Mektec	8 hours, 6 days per week	2.5 hours per day. During peak production (about 3 months per year) also on Sunday	Compulsory overtime. 10.5 hours in total each day, 63-73.5 hours p.w.
Paragon	8 hours, 5-6 days per week	3.5 hours per day. During peak production (June-January) every day including Saturday and Sunday	11.5 hours in total each day, 57.5-80.5 hours per week.
Murata	8 hours, 5-6 days per week	4 hours, per day	12 hours in total each day, 60-72 hours per week.
Fujitsu	8 hours, 6 days per week	4 hours per day and 2 Sundays per month	Compulsory overtime
Western Digital	8 hours, 5 days per week	4 hours overtime per day. During peak season (10 months per year) a 12 hour shift, 7 days per week.	Compulsory overtime

Note: With regular overtime is meant overwork performed on a day-to-day basis.

#### **5.4.7 Health and Safety Conditions**

At *LTEC* workers have mixed feelings about the working conditions. On the one hand, they point out that there is a nurse and on some days a doctor, sufficient protective gear and drinking water, trainings on hazardous chemicals and a clean canteen. On the other hand, they report there have been some minor and two major accidents in the factory, that several workers feel sick although they passed the annual health check, there are not enough toilets and protective clothing is not comfortable and is often not used because workers feel it prevents them from meeting production targets. Nonetheless, all and all it seems that *LTEC* takes working conditions serious. This is illustrated by the companies willingness to investigate the before mentioned accidents.

*Comment LTEC : LTEC conducts health & safety education when they join the company. Protective equipments such as eye glasses, gloves, mask, helmet, and boots which is necessarily for their safety are provided and workers are required to wear protective clothing. LTEC displays sign boards to inform employees of hazards in the work place. The company does not set unrealistic production targets which can not be met with protective clothing.*

Workers at *MMI* have a number of complaints concerning their working environment and are very concerned about their health and safety. First, the work *MMI* entails very heavy lifting. Second, the factory is very hot due to the casting oven with hot aluminium. The workers have heat rashes, sore and dry throats before they have completed their first year. Third, in the factory with the casting oven, workers have to take out hot pieces with only simple cloth gloves. Further, as they are pressured to speed up – it is said that some workers even take amphetamine to work faster - there is not sufficient time to let the products cool off. Hence, sometimes the aluminium is splashing around, occasionally leaving skin burns in case it hits the workers. Fourth, workers complain about aluminium dust in the factory. When it rains, the water leaks which sometimes results in electrical sparks because the electrical plugs are all covered in aluminium dust, which serves as the leader of electrical current to the outside. The aluminium dust when wet turns into acidic waste with a foul smell. The workers complained about this pool of acid to the management but it has not been

cleaned up. The factory building is old and workers are afraid it will collapse some day. Besides aluminium dust and lead dust there dust from the sand paper used for polishing the pieces. Some workers have to go regularly to the doctor to scrape out lead dust form the throat. When workers cannot take it any longer they will be replaced to another department but the problem remains. Fifth, the noise impacts the workers hearing. They are using headphones and mouth caps but they do not offer sufficient protection.

One female worker even fell sick and appeared to have aluminium dust in her longs. She only partly recovered and no improvements have been made since. Finally, the drinking water is not clean in both factories. To the astonishment of the workers a public health and safety inspection did not confirm their complaints.

*Comment MMI: Workers' performance based on targets was developed by Industrial Engineers and is within stipulated standards. PPE is provided as appropriate, e.g. thick gloves for handling hot work. There were no cases of amphetamine consumption that MMIT is aware of and MMIT's clinic do not possess or prescribe such drugs. MMIT does not engage in the use of lead or its derivatives. PPE are provided as appropriate. There are also no records or medical reports of these mentioned OHS related, or cancerous cases. MMIT has an in-house Safety Committee with a certified Safety Officer. The Union Chair is a committee member of the Safety Committee. There was no complaint receive from the workers nor the union regarding insufficient toilets and unhygienic canteen conditions. A Canteen Committee, which is also comprised of mainly union committee members, oversees the proper operation of the canteen and the selection of the caterer. UV and filters are installed for the drinking water.*

At *Innovex* workers point out that health problems include: Fatigued eyes, backaches, sore legs for workers who are forced to stand. For workers using magnifying lenses all day long, some suffer from fatigued eyes and migraine headaches; some have soreness in the eyes leading to headache. One worker said that workers "have swollen red eyes that look like they have stung by wasps and the have to stop working for a week to recover." There is sufficient fire equipment at the factory but to conserve electricity the lights close to the fire exit are largely dimmed. There are not sufficient toilets and workers must wait in line, and workers complain about the canteen. Some workers suffer from bladder diseases because they are forced to hold their urine. Some workers suffer from abdominal pains or swollen legs and don't know what is causing the pains. Apart from these concerns, workers are also worried about inhaling toxic fumes, because they don't know what chemicals they are inhaling and what the effects will be. During yearly health check-ups, they have told that their health is normal. Finally, workers report they are exposed to certain chemicals (including Borik Acid) because of limited or protective gear. Due to the bad working conditions work injuries happen regularly. Safety officers do come to inspect them but do not seem to write reports or undertake any action.

*Comment Innovex: Low concentrations of Boric acid are used in the gold plate process and all industry standard safety standards are adhered to. Innovex provides personal protective equipment for every employees working with chemicals. We conduct regular internal audits and, as noted, were recently audited by BVQI (ISO certification agency) and certified for OHSAS 18001.*

*Employee health conditions are monitored regularly. Innovex recognizes the potential hazards associated with microscope work and has complied with or exceeded all safety standards. Innovex has 109 toilets which are more than required by Ministry of Labor. All areas that have chemicals or possible fumes have the accepted standard safety monitors and controls.*

The testimonies of the workers about the H&S situation at *Innovex* are in contrast with the comments of *Innovex* management.

At *Mekttec* health and safety conditions seem up to standard. There is a problem with aluminium dust but good protection equipment is provided for free. Every year there is an extensive medical

check up: including blood test, urine tests, x-rays of the lungs. The more dangerous the work the more medical check ups. Nonetheless, workers report an accident with a machine. A worker warned the management that the machine was defect but she still had to work with this machine and hurt herself badly. The management paid the medical costs and her sick leave. The worker returned to work although her hand never healed completely.

At *Paragon* there are problems with dust. Before workers used protection masks but recently the company abolished them because it wants to save money (!) In addition, similar to *Innovex*, workers who use magnifying glasses extensively, experience trouble with their eyesight.

Also at *Murata* working conditions are up to standard. There is a health centre for which workers do not have to pay. There are also few accidents and if any they are taken seriously. Further, workers point out that there is sufficient protection for working with chemical products, a clean canteen and sufficient toilets. In general workers are satisfied with the working conditions. Nevertheless, some still report problems with their eyesight and backaches because of heavy lifting.

At *Western Digital* the main health and safety problems mentioned are aluminium dust and noise. The aluminium dust is in the “kitting out” room where electronics parts are being put together before going to the clean room. Some electronics parts first have to go to the washing room, before going to the “kitting out” and the clean room. The noise problem is in the washing room, where the work is very hard (male workers).The workers do wear big ear covers. In the clean room the main problem is the low temperature (17celsius) in the factory necessary for the production process and the chemicals they have to work with. Most clean room workers have problems with their skin (itching). It is likely that this occurs because they have to mix chemicals at the end of their shift before going home. All production workers of the clean room have to mix these chemicals, and one shift in the clean room contains about 1000 workers. When mixing the chemicals they still wear all their protective clothing. After the mixing the factory takes their protective clothes and washes them. The interviewed worker does not know what kind of chemicals they have to mix. But she thinks it's not healthy, because a lot of workers have problems with their facial skins.

#### **5.4.8 Awareness of Code of Conduct and Audits**

None of the interviewed workers had any knowledge about codes of conduct and never seen any.

Only few of the factories have been inspected by auditors of the suppliers or even local labour officers. Only for *Fujitsu* and *Western Digital*, it was found that Dell employees visited the factory. However, workers of *Fujitsu* indicate that the Dell people never spoke to them.

Several production sites (*LTEC*, *MMI*, *Innovex*, *Western Digital*, *Fujitsu* and *Murata*) have been visited by representatives of buyer companies but none of them has spoken with workers. It is also not clear what was the purpose of the visit: labour inspections or business. Some buyers have audited *Western Digital*. According to the management social standards are not a requirement of the buyers. They only require occupational health and safety. Furthermore, *Western Digital* only asks its suppliers for ISO certificates, whether they are lead free or not and they do random checks on what kind of metals are used. The company does not check its suppliers on social standards.

*Comment LTEC : LTEC distributed the Code of Conduct booklet to all employees. Employees had a meeting to learn about the Code of Conduct. LTEC undergoes several factory inspections per year by many customers for trouble shooting, periodically quality audits and environmental audits.*

*Comment Seagate: Seagate has sent the Electronics Industry Code of Conduct (EICC) to their suppliers.*

*Comment MMI: Workers are briefed on Company Policy and Work Rules during orientation and via monthly communication meetings. MMIT policy and work rules are based on current Thai Labour Law B.E. 2541. MMIT is TS16949/ISO 9002 certified.*

*Comment Innovex: Innovex has a written policy and a reminder was sent by email to all employees from the COO reminding them of the policy as recently as November 2006. Several customers require information regarding workers conditions. Typically, customers cannot speak with the workers because very few of the production workers speak English.*

#### 5.4.9 Summary of Violations

**Table 6: Summary of EICC Violations in the Thai HDD Supply Chain**

	LTEC	MMI	Innovex	Mektec	Paragon	Murata	Western Digital	Fujitsu
<b>Labour</b>								
Freely chosen labour								
Child labour avoidance								
Working hours more than 60 hours	X	X		X	X	X	X	X
Working hours: forced overtime	X	X		X	X	X	X	X
No minimum wage paid/ overtime not paid/ unreasonable wage deductions					X		X	
Workers indicate it is not a living wage	X		X			X	X	X
(in)Humane treatment				X	X			
Non discrimination	X	X				X	X	X
Freedom of association	see note 1	X	see note 1	see note 2	X	see note 2	see note 3.	X
<b>Health and safety</b>								
Occupational safety		X	X		X		X	
Emergency preparedness								
Occupational injury and illness								
Industrial hygiene							X	X
Physically demanding work		X	X					
Machine safeguarding								
Dormitory and canteen	X	X	X					

Note 1 The Northern region of Thailand is really tough to unionise. Companies are reallocating their factories from other parts of Thailand to the Northern region because wages are lower, government incentives are higher and there are no unions there. According to interviewed labour groups the local police man play the role of hit man. They told the story of an organizer, trying to organise workers, who was shot for doing this but fortunately not killed. This happened between 1 and 2 years ago. More recently a researcher on workers rights was threatened and decided to go back to Bangkok. The workers in this region are not familiar with unions.

Note 2: in a few cases a welfare committee or workers committee are set up instead of (or to prevent) a union. But these committees do not represent the workers rights as unions can do. In some cases the main tasks of these committees are birthday parties, library services, and organising karaoke etc.

## 5.5 Dell Hard Disk Drive Supply Chain in the Philippines

Figure 5 depicts Dell's Hard Disk Drive (HDD) supply chain in the Philippines. Below, information on working conditions for six suppliers (including two second-tier supplier) of HDD manufacturers is reported.<sup>34</sup> Similar to the Thai HDD supply chain most suppliers produce equipment for more than one HDD manufacturer (indicated by the arrows).

### **Astec Power Phil. Inc.**

Astec Power Phil. Inc. (hereafter Astec Power), in Cavite Philippines, established its manufacturing in 1994. It is 99.99% British, 0.003% Filipino and 0.001% American owned company. The parent company of Astec Power is a wholly owned subsidiary of Emerson which is headquartered in Carlsbad, California, USA and listed on the New York Stock Exchange. On April 28, 2006, Emerson acquired Artesyn Technologies and merged it with Astec Power (the parent company), creating the single largest power conversion supply manufacturer in the world. With over 25,000 employees, Astec/Artesyn is now the undisputed industry Leader. Astec Power has a total workforce of 4,000 employees in 275k sq ft. Its mission is for ACDC modules, servers, medium or high power custom and standard products. The company manufactures printed circuit boards of computer motherboards, magnetic coils for HDD, wiring coils, power supply for computers and machines, and DVD-EI. Customers of Astec are Sony, HP, Nokia, Fujitsu, IBM, LG, Compact and Certek Laguna. Products are exported to Japan, China, Europe and Panasonic. Local sub-contracting companies of the company are APC, MEC, Maxxon, Petronics, DKP, Ultimate, P. Imes, Radix Philippines and Dae duck.

### **San Technology Inc.**

San Technology Inc., (hereafter San Technology), a Japanese owned company, was established in Cavite, Philippines in November 8, 1988, to expand production of magnetic head cores for computers for its parent company Sumitomo Special Metals Corporation. In May 2003, the parent company decided to join the Hitachi Group: Hitachi Metals Special Metals decide to form a strategic business alliance; Hitachi metals acquired 32.9 % of the voting rights of Sumitomo special Metals from Sumitomo Metals Industries. In 2004, with effect from April 1, Sumitomo special metals Co, Ltd. And Hitachi Metals, LTD. merged their permanent magnet operations, with the view to expanding them under the new company name of NEOMAX CO. Therefore, since April 2004, San Technology is a subsidiary of Neomax Co.

The company has about 2000 employees; most of them were female workers. The youngest workers in the factory are 20 years old and there is no temporal employment because of the no-hiring policy implemented by Hitachi since the merger in 2003. Products manufactured are chips inductors, printed circuit boards for computers and magnets for Hard disk drives. Apart from Toshiba, San Technology produces for Hitachi (Laguna), Samsung, Hanstar, Fujitsu, IBM, Main Aike and P.IMES & Hayakawa (CEPZ)<sup>35</sup>. Products are exported to Japan, Singapore, Korea, Malaysia, Taiwan, China and Indonesia.

### **Mechanical Keyparts Philippines Incorporation**

Mechanical Keyparts Philippines (MKP) Incorporation (hereafter MKP) is a 99.99% Japanese and 0.01% Filipino owned company that was established on September 26, 2000 at Cavite Economic

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<sup>34</sup> Working conditions at Hitachi Global Storage are already discussed above and are therefore not addressed in this section.

<sup>35</sup> Seagate/Maxtor indicated that San Technology is not one of their suppliers.

Zone. The company was designed for the assembly of carriage spacers for the hard disk drives. It has a labour force of about 1500 of which 25% are regular or fixed employees and 75% are agency hired or Labor-Only Contracting (LOC) workers, also known as Sunpiro. Apart from for Toshiba, MKP makes products for Nidec Subic, Nidec Laguna, Nissin Precision (Laguna), TRC and Kapco manufacturing and exports to Singapore, Japan, Malaysia and Thailand.

### **Micro-device Technology**

Micro-device Technology (hereafter MD-Tech), separated from San Technology Inc. and established its own manufacturing production on January 1, 2005. It is fully owned by Sumitomo Metal Micro-Devices, Inc. In 2004 the company had a labour force of about 1,000 employees of which 70% were fixed and 30% were probationary employees. On 2006, after the company separated from San Tech, employment was lowered to 900, all fixed workers; 90-95% are females and 5%-10% are males. Its main products are printed circuit boards, flat screen TVs, hard disks, TV slides, DW rewind for computers, plasma displays which are produced for TMD, Samsung, Nanox, PIT, Toshiba, Nokia, SMDR, Panasonic, Hayakawa, and P. Imes.

### **Tsukuba Die-casting Corporation**

Tsukuba Die-casting Corporation (hereafter Tsukuba), a 100% Japanese-owned company was established in the Cavite economic Zone (CEPZ) on April 9, 1996. The company has a total workforce of 1,000 of which 30% are regular and 70% are temporal workers. Among the latter, 30% are agency hired. Workers identified Toshiba as one of the clients of Tsukuba. Local sub-contractors of the company are Kapco, P-ton and CAM Laguna. The company is a supplier of aluminium base for HDDs. It has a unique position of having two other small Japanese firms located with it in the same compound: KAPCO for coating of aluminium die-cast and P-TON for plastic injection. Thus, advantage of reducing production time, providing close communication, and interaction among the three firms, and reducing cost for the customer who has deal with only one firm with regard to product specifications. On the other hand, while having received instructions for specifications directly from Toshiba for the base and cover supplies, it must closely interact with Kapco for surface treatment and with P-Ton for plastic injection parts. Such agglomeration economies originating from co-location of suppliers is exemplified by the fact that lower-tier suppliers Kapco and P-ton are located in the same compound as higher-tier supplier Tsukuba Die-casting.

### **Kent Adhesive Products Co.**

Kent Adhesive Products Co. (hereafter Kapco), a 99.99% Japanese and .0025% Filipino was established on May 9, 1996 in Cavite Philippines. It is a manufacturer of surface coated hard disc frames and other coated products and electronic parts if similar feature. The identified products produced by the workers in the production were HDD 2.5-1.8, HDD base, SH cover, top cover and HDD plating for Fujitsu, MKP, EMECEM-Subic, PTON, Tsukuba and Bridgestone and exported to Japan and China. Around 500 workers are employed at Kapco. Most of the workers are agency hired by Sunpiro manpower agency. Kapco uses the following sub-contracting companies: MKP, Tsukuba, Dayap and Emecem.

### **Hitachi Global Storage Technologies Philippines Corporation**

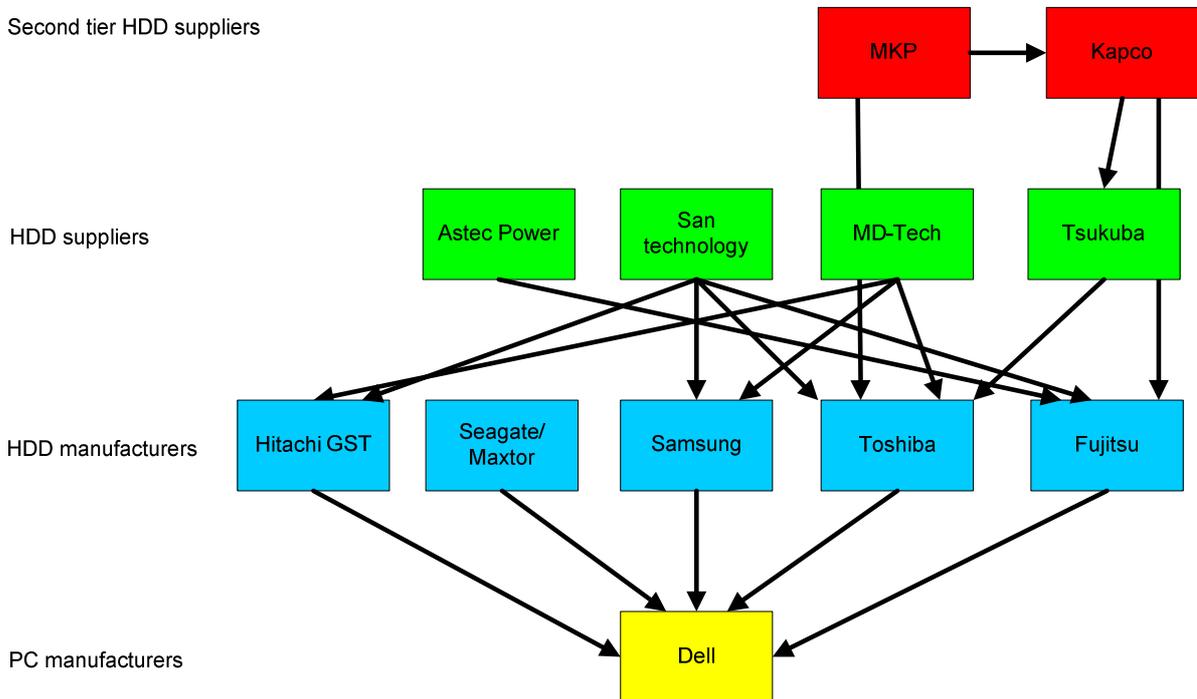
Hitachi GST was formed as a result of the strategic combination of IBMs and Hitachi's storage technology businesses. Hitachi Global Storage Technologies Philippines investments are focused on the manufacture of Hard disk drive (HDD) and HDD component parts such as head gimbal assembly or magnetic heads, slider and headstack assembly for, among others, IBM, Apple and Dell.. Subcontractors of Hitachi GST are the San Technology, Micro Device Technology (MD Tech)

and Luzon Magnetics. The company was established on May 11, 1994, is located in Laguna Technopark Inc. and employs about 7000 employees.

**Fujitsu Computer Products Corporation of the Philippines**

Fujitsu Computer Products Corporation of the Philippines is 100% Japanese and fully owned subsidiary of Fujitsu Limited in Japan. It was established in February 1, 1995 at Carmelry Industrial Park I-SEZ Canlubang, Laguna Philippines. Its line of business is for the manufacture of Magneto Optical Disk (MOD) Drives, Magnetic Hard Disk drives (HDD's), semi-finished computers, components parts and accessories. It was considered by PEZA as a Pioneering activity, FCPP expanded rapidly in its first 5 years of operation exporting its products to the United States, Europe, Japan and Southeast Asian countries. The HDD production started on April 1996. The company has a 6,158 total number of employee as April30, 2006 wherein; 5,443 (88%) are the operators which composed by 96% female and 4% male with 715 (11%) engineers, staff and technicians in which 65% are male and 35% are female. The products of the company are mainly supplied to its mother company which is the Fujitsu limited in Japan and also provided to Sun Micro/SAE and the products are exported to USA and China.

**Figure 5: Dell HDD Supply Chain in the Philippines**



## 5.6 Working Conditions in the Philippine HDD Supply Chain

### 5.6.1 Employment is Freely Chosen

No evidence was found on forced or bonded labour.

### 5.6.2 Discrimination

Most of the workers in the electronics factories were direct hired (not agency hired) Labor-Only contracting or the manpower agencies already existed in the zone in which there are factories that are supplied with workers by the agencies like in the case of *MKP, Kapco and Tsukuba*. It is beneficial for the companies hiring employees from LOC's since there will be no regularization of employment and no benefits / incentives will be spend on the workers.

*Astec* is practicing the hiring of apprentice employees where they will only give 75% of the minimum wage for the apprentices as legal regulations.

A number of unequal treatment or discrimination cases were found, mainly relating to discrimination of contract workers. In some factories contract workers were denied holiday (*Astec Power, Kapco*) and paid sick leave (*Kapco*). In the latter company the majority of workers work on a contract basis. Workers pointed out that the management of *Kapco* also discriminates on sexual orientation as it does not want to hire gay or lesbian workers.

At *Astec* the salaries of regular employees are paid on a monthly basis. The highest paid workers are those who have stayed in the factory for more than five years. They receive an average of PhP350 to PhP400 daily including benefits and incentives based on their monthly wage rate. On the other hand, contract workers receive only PhP254.00 on daily rate while apprentices receive 75% of the minimum wage computed at a daily rate.

At Fujitsu opportunity on training and promotion is not equal according to the interviewees, the one who were promoted and sent for training to other countries are those who were closely related or favorites of higher-positioned employees.

### 5.6.3 Child Labour

At Fujitsu the youngest workers in the factory are aging 15 to 18 years old which are recommended or had been supplied by a identified community orphanage known for offering under aged workers. The company required parent consent signed by parents or guardians of the applicants.<sup>36</sup>

### 5.6.4 Freedom of Association and the Right to Collective Bargaining

In several factories violations of the freedom of association and the right to collective bargaining were reported. Company management is strictly prohibiting the workers on the memberships on

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<sup>36</sup> Explanation: Previous documentation and research by WAC revealed that the Sisters of Mary is an institution that gather teenagers from the rural and depressed areas, house them in a convent and provide their high school education under a scholarship program which is financed by philanthropic entities including Korean and Japanese investors. After graduation, the teenagers are assisted by the Sisters of Mary in seeking and applying for a job and provide their boarding houses until such time that they have gained a relatively stable job. In some cases, the Sisters of Mary are either sought out or have an agreement with certain companies where the teenagers would be brought after graduation. While in school, the students are trained with technical and homeroom skills and with obedient attitudes inside the convent where they stayed. Basically, the institution supply young, cheap and meek or docile labor to companies. Since teenagers graduate from high school usually at the age of 16 and are thus underaged or minors under Philippine labor laws, the company requires a parental or guardian consent to avoid prosecution with a violation of the Philippine Labor laws.

unions and threatened them that the company will be closed or relocated whenever there were unions to be organized.

Workers at *MKP*, *Kapco* and *MD-Tech* pointed out that at these factories unions are strictly prohibited by the management.

At *San Technology*, it was mentioned that the workers had planned to organize a union back in 2003 but this was detected early on by the management. To bust the union, the company management immediately transferred some of the workers involved to different departments in order to make it difficult for them to meet and discuss their organizing plans. While some have been promoted to higher positions, specifically to sub-leader or to line leaders, none of the workers obtained higher supervisory or managerial positions. The explanation behind the promotions is that under Philippine labour law workers or employees who have supervisory or managerial functions cannot become members of a union of workers. If the union accepts members who have supervisory functions, their union registration will be revoked by the Department of Labour and Employment.

At *Tsukuba* there is no union in the company but there was a report that there was a plan to organize one last January 2006. However, when the management found out, they ordered the transfer of 10 workers into separate areas to prevent union formation.

### **5.6.5 Wages and Overtime Payment**

Workers at *Astec Power* and *Fujitsu* said their wage is not sufficient to cover living expenditures. At *Astec Power* they complained that they even have to pay for drinking water. At *Fujitsu* the wage rate is based on the hours of work of the workers with a daily target quota. Workers at *San Technology* and *MD-Tech* indicated they are satisfied with their wage. Workers at *MKP* and *Tsukuba* pointed out that the wage is sufficient for single workers but not enough to support a family of multiple persons.

At the time of the research the minimum wage was PhP254.00. The new wage order for a new minimum wage is PhP272.00 in the region where the companies are located. Apprentice workers receive 75% of that as provided for by the Philippine labour laws.

### **5.6.6 Excessive Working Hours and Intensive Production Rhythms**

Table 3 presents the regular working hours and overtime per factory for which information was found. In all the factories except *MD-Tech*, a few hours overtime per day is standard practice and in most cases the number of hours by far exceeds the ILO (48+12) maximum number of working hours. Moreover, in many factories overtime is compulsory, meaning that workers are forced to do overtime, and production rhythms are inhumane.

At *Astec Power*, *San Technology*, *MKP* and *Tsukuba* four hours per day overtime is normal and compulsory. Except for *Astec Power*, overtime on Sunday is mostly voluntary (although 'voluntary' at *MKP* means that workers need to have a good reason to refuse) but obligatory during peak production.

At *Fujitsu* working days of the workers depends on the production in which when the production is low, they are required to work for 8 hours a day, 6 days a week with 3 hours overtime while when the production is high, they should work for 4 hours daily, 8 hours Sunday overtime and the engineers for 5 hours overtime a day.

At *Hitachi Global Storage* regular working hours are 8 hours, six days per week for the first two weeks and 8 hours, 5 days a week for the last two weeks of the month. The workers render 8 hours regular work plus 3 hours of mandatory overtime daily. Sunday 8-hour overtime is not normal and happens only when the demand for production is high. There is no evidence that overtime is compulsory. Like in other factories, peak production has no regularity and depends on the volume of order of the customer.

In the Philippines, as may be deduced from the information gathered from the different factories it is normal and standard for a worker to render 12 hours (8 hours regular and 4 hours mandatory overtime) of work daily for 6 days with mandatory Sunday or rest day overtime when production is high.

**Table 7: Regular working hours and overtime per factory**

Factory	Regular working hours	Regular Overtime	Comment
Astec Power	8 hours, 6 days per week	4 hours per day and on Sunday during peak production	Compulsory on Sunday. 72-84 hours per week
San Technology	8 hours, 6 days per week	4 hours per day and on Sunday during peak production	Compulsory overtime. 72-84 hours per week.
MKP	8 hours, 6 days per week	4 hours per day and on Sunday	Overtime on Sunday is voluntary but workers need to ask permission not to work. During peak production overtime on Sunday is compulsory. 72-84 hours per week.
MD-tech	8 hours, 6 days per week	No regular overtime except during peak production.	Compulsory on Sunday during peak production. 48 hours per week.
Tsukuba	8 hours, 6 days per week	4 hours per day and on Sunday	Compulsory overtime. 72-84 hours per week.
Kapco	8 hours, 6 days per week	4 hours per day	Compulsory overtime. 72 hours per week.
Fujitsu	8 hours, 6 days per week	3 hours per in low season, 4 hours peak season and engineers 5 hours per day and on Sunday in peak season.	Compulsory overtime.66-91 per week.
Hitachi GST	8 hours, 6 days per week	3 hours per day. On Sunday during peak season	About 66 hours per week.

Note: With regular overtime is meant overwork performed on a day-to-day basis.

### **5.6.7 Health and Safety Conditions**

The safety and health conditions vary significantly across factories. General complaints include: (1) bad working conditions in terms of temperature (*Fujitsu*), smell or dust (*Astec Power* and, *Tsukuba*), frequent small accidents such as cuts (*Astec Power*).

At *Kapco* workers pointed out that the production area is not fully ventilated. There are various reports of diseases (bronchitis, dizziness, sinusitis) and cough because of bad chemical odour and the lack of sufficient protective clothing. Workers also said there have not been improvements in working conditions since they started complaining.

Mentioned chemicals workers of *San Technology* work with are: Isopropyl alcohol, adhesives, UV-transparent, acetone, flux, lead, ammonia, silicon, nitric acid, and sodium hydroxide.

At *P.IMES* the chemicals or substances they were usually using were alcohol, acetone, soldering materials and paints.

At *Astec* chemicals or substances used in the production were IPA, flux, soldering materials, solvent, lead, araldite, residue, thinner, sunning bar, adhesives and thermal.

At *Kapco* chemicals that present in the production area were nitric acid, chromium, nickel and IPA.

At *Tsukuba-die casting* chemicals or substances used in the production were molding materials, metal or iron, and cleaning chemicals.

In all factories protection materials are supplied.

Finally, for *Hitachi Global Storage* workers indicated that working conditions were in general very good. In particular workers praised the strong environmental commitment of *Hitachi Global Storage*, which aims to reduce the usage of harmful chemical substances.

**5.6.8 Awareness of Code of Conduct and Audits**

Most of the interviewed workers did not know what a code of conducts is and for whom they are made. Some clients of a particular company visited the factory not to look at the condition of the workers but to inspect the production process because many of the products delivered to them were rejected. When speaking about the Corporate Social Responsibility (CSR) policy, workers told about the company policies, rules and regulations in the production for the customers' satisfaction and also for the environment management. Labour issues were not given too much attention by the company to be part of their CSR policy.

**5.6.9 Summary of Violations**

**Table 8: Summary of EICC Violations in the Philippine HDD Supply Chain**

	<i>Astec Power</i>	<i>Hitachi Global Storage</i>	<i>Fujitsu</i>	<i>San Technology</i>	<i>MKP</i>	<i>MD-Tech</i>	<i>Tsukuba</i>	<i>Kapco</i>
<b>Labour</b>								
Freely chosen labour								
Child labour avoidance			X					
Working hours more than 60 hours	X	X	X	X	X		X	X
Working hours: forced overtime	X		X	X	X	X	X	X
no minimum wage paid/overtime not paid/unreasonable wage deductions	X							
Workers indicate it is not a living wage	X		X		X		X	
(in)Humane treatment								
Non discrimination	X							X
Freedom of association				X	X	X	X	X
<b>Health and safety</b>								
Occupational safety	X						X	X
Emergency preparedness								
Occupational injury and illness								
Industrial hygiene								
Physically demanding								

work								
Machine safeguarding								
Dormitory and canteen	X							

## **Annex: Dell response to the report, dated March 21, 2007.**



Thank you for the opportunity for Dell to provide information on the important issues discussed in the SACOM report. We have been investigating the specific issues raised in this report through collaboration with our tier-one suppliers. Dell joined an NGO meeting in Geneva in March to discuss these important issues and looks forward to further collaboration.

Dell expects our suppliers to employ the same high standards for workplace policies and safety that we do in our own facilities. As a company with an extensive global supply chain, Dell recognizes its responsibility to work with suppliers promoting sustainable environmental practices, the health and safety of people, and fundamental human rights and dignity.

Dell's approach is drawn from a review of global best practices, management systems, and acknowledged standards. Included among these are the United Nations Declaration of Human Rights, the U.N. Convention on the Rights of the Child, fundamental conventions of the International Labor Organization (ILO), Electronic Industry Code of Conduct (EICC), International Organization for Standardization (ISO14001), Occupational Health and Safety Assessment Series (OHSAS 18001), The Soul of Dell, The Dell Code of Conduct, as well as the benchmark of other corporations and industries around the globe.

The Dell response to this report is outlined below:

### **How does Dell implement EICC standards across your supply chain?**

Dell partners with our tier-one suppliers to communicate these expectations and to implement the EICC labor standards and working practices through our extended global supply chain. A specialist team in Dell's Worldwide Procurement organization drives Dell's policies and programs on supplier labor standards. The team has a number of tools to drive its supplier-labor standards, including the Electronic Industry Code of Conduct (EICC), quarterly business reviews and self assessments. Dell further partners with tier-one suppliers to work on business process improvement projects.

Dell believes it can best address full implementation of EICC labor standards by being a supportive partner to its tier-one suppliers. Dell works with its partners to identify issues and drive improvements where needed. These changes may be driven through business process improvement (BPI) projects, management reviews or a number of other tools. Today, Dell's suppliers are using a self-assessment tool to identify gaps to EICC requirements. Dell is also part of EICC joint third-party audits.

### **What action has Dell taken as a result of this report?**

Dell's does not publicly disclose its extended global supply chain, as this information could create a competitive disadvantage. However, when severe violations of the EICC are reported, as in the SACOM report, Dell will investigate the issue. In addition, Dell will take action to follow-up with the supplier to implement corrective actions.

One of the companies named in the report is a third-tier supplier to Dell. After being made aware of the findings in December, Dell joined our tier-one supplier in a visit to this company to investigate the allegations. The finding of that visit was that sufficient business processes did not exist to ensure that underage workers were not being hired.

Dell then asked its tier-one supplier to employ the services of a third-party auditor to investigate further. The results of a pre-audit visit by a third-party audit firm in mid-February did not find evidence of underage labor at the third-tier supplier, but the issues of insufficient business processes were of great concern. Therefore, Dell has requested that its tier-one supplier replace this third-tier supplier with another qualified supplier until such time as the offending supplier can improve its practices for working age controls.

#### **What are Dell's plans to drive compliance with EICC?**

Dell has the following focus areas for the coming year:

- Continue to drive tier-one suppliers to adopt and cascade EICC compliance
- Drive selected tier-one suppliers to implement business process improvement projects (BPI) to address working hours "controls issues" as well as EICC training of managers and employees.
- Dell has upgraded its FY08 Quarterly Business Review scorecard whereby suppliers will receive credit for providing EICC training to their employees.
- Identify a complete list of best practices for EICC implementation and share across the supply base. Some best practices identified to date include:
  - Management review system for labor rights;
  - EICC Web site with supplier tools;
  - EICC compliance metrics;
  - Audits of companies in Dell's extended global supply chain;
  - Human Resource Policy statement for Corporate Social Responsibility.

Given the size and breadth of the global supply chain, full implementation of these important standards is a long-term effort to which Dell is fully committed. We believe this overview effectively communicates Dell's commitment level and the work in which the company is currently engaged regarding international worker conditions and labor standards. We look forward to continuing to work with our industry colleagues and the NGO community in ensuring these proper standards for workplace conditions and practices are implemented.

Sincerely,

John Naughton  
Vice President, Global Supplier Engineering and Quality, Dell Inc.