

KPN

Overview of controversial business practices in 2009



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Introduction

This brief company profile is a joint initiative of SOMO (Centre for Research on Multinational Corporations) and the VBDO (Vereniging van Beleggers voor Duurzame Ontwikkeling). It provides an overview of business practices that may be considered unsustainable, irresponsible, or controversial and that took place or were addressed in 2009. In the context of the upcoming annual general meetings (AGMs) of shareholders of Dutch corporations, the overview aims to provide additional information to KPN's shareholders and other stakeholders on potentially controversial issues that may or may not be detected or reported by the company itself. By highlighting such issues, the overview can be used to identify areas of the company's corporate responsibility policies and practices that need improvement and to formulate a more informed assessment of a company's corporate responsibility performance.

The range of sustainability and corporate responsibility issues eligible for inclusion in this overview is broadly based on the issues and principles identified in the OECD Guidelines for Multinational Enterprises, which is one of the leading global normative standards for responsible business behaviour and which is applicable to all Netherlands-based companies by virtue of the Dutch government's membership in the OECD. Rather than an exhaustive analysis of KPN's corporate responsibility policies, operational aspects of corporate responsibility management, implementation systems, reporting and transparency, or total performance on any issue, the overview provides a descriptive depiction of a limited number of corporate responsibility-related issues and cases that might merit further attention or reflection. KPN's positive sustainability achievements in 2009 are not addressed here.

The research methodology for this overview involved primarily desk research methods, relying on information from SOMO's global network of civil society organisations, the company's own website and publications, media reports, and company information databases. All sources are cited in footnotes in the text. As per SOMO's standard research methodology, KPN was informed about the research in advance and was given two weeks to review a draft report and provide comments and corrections of any factual errors in the draft version prior to publication.

The overview has been researched and drafted by SOMO. SOMO is an independent research organisation that was founded in 1973 to provide civil society organizations with knowledge on the structure and organisation of multinationals.

Controversial Business Practices in 2009

1. KPN's marketing practices: Encouraging irresponsible consumption?

Summary

The accumulation of used and obsolete consumer electronic products (e-waste) has been identified as “the largest toxic waste problem of the twenty-first century”.¹ Because of their high replacement rates, mobile phones are a major contributor to the e-waste problem. At the other end of the product chain, the mining of metals for use in mobile phones is rapidly increasing because of the rising demand for new phones. Such mining takes place primarily in Africa, where the mining industry is responsible for widespread human rights abuses and environmental degradation. KPN is a mobile network operator that attracts new customers and maintains existing customers by offering “free” new phones with the purchase of a subscription with KPN, thus encouraging customers to replace their still-functioning old phone with a brand new one. Such marketing practices encourage unsustainable consumption and exacerbate the e-waste and metal mining-related problems. Although KPN did initiate a new recycling programme in 2009, recycling does not counterbalance the negative impacts of the unsustainable consumption of mobile phones encouraged by KPN, putting into question the company's contribution and commitment to sustainable development and social and environmental progress.

Context

E-waste

The accumulation of used and obsolete consumer electronic products (e-waste) has been identified as “the largest toxic waste problem of the twenty-first century”.² According to a 2009 UNEP study, global e-waste generation is growing by about 40 million tonnes a year.³ Although the average lifetime of a mobile phone is four years, a quarter of European mobile phone users replace their mobile phone every year and sixty percent replaces their mobile phone after two years.⁴ Because of their high replacement rates, mobile phones are a major contributor to the e-waste problem.

E-waste is routinely exported by developed countries to developing countries where laws to protect workers and the environment are inadequate, or not enforced. These trade practices are often in flagrant violation of international law, but they continue to occur nonetheless.⁵ Mobile phones contain countless hazardous chemicals and materials meaning that the improper or unregulated recycling and disposal of mobile phone e-waste (as is the case in many developing country e-waste “importers”) poses a threat to the environment and to human health.

¹ H. Nixon *et al.*, Consumer Willingness to Recycle Electronic Waste in California, University of California Irvine, no date, <http://trs-new.jpl.nasa.gov/dspace/bitstream/2014/39117/1/04-3599.pdf> (12 March 2009).

² Ibid.

³ M. Schlupe, *et al.* Recycling - from E-waste to Resources, UNEP, July 2009 <http://www.unep.org/PDF/PressReleases/E-Waste_publication_screen_FINALVERSION-sml.pdf> (11 March 2010).

⁴ Cellular News, Quarter of Europeans Replace Their Phone Each Year, 9 May 2006, <<http://www.cellular-news.com/story/17297.php>> (5 March 2010).

⁵ P. Overeem, Reset: Corporate social responsibility in the global electronics supply chain, MVO Platform and GoodElectronics, October 2009, <http://mvoplatform.nl/publications-en/Publication_3248/> (2 March 2010).

Mining of metals and minerals in developing countries

At the other end of the supply chain, a mobile phone requires up to 30 metals and minerals to function. These materials come primarily from mines in developing countries in Africa and Asia where they are frequently mined in breach of international conventions on human rights and the environment. Many miners work in poor and dangerous conditions, and the environment suffers, with subsequent harm to the health and living conditions of the communities around the mines. In some cases, the mining of minerals for mobile phones has contributed to the ongoing conflict in the Democratic Republic of Congo, where militias sold the minerals destined for mobile phones and used the revenues to buy arms.⁶

Mobile service operators in the mobile phone product chain

Mobile network operators have a significant influence on the mobile telephone market because they provide the telecommunications service that allows people to communicate using mobile phones and because they are increasingly responsible for sales of mobile phones (along with a subscription) directly to consumers. As retailers of mobile phones with direct contact to customers, mobile service operators like KPN are thus key players in the mobile phone product chain. With this influence comes the responsibility to ensure that social and environmental standards are respected throughout the mobile phone product chain.

Indeed, operators are uniquely placed to release pressure on the mobile phone supply chain and reduce the negative impacts of e-waste and mining by encouraging customers to consume responsibly by keeping their current phone as long as possible, rather than constantly acquiring a new one. Since their core business is the sale of network services, a decrease in mobile phone sales and production would not necessarily impact mobile network operators' revenues (as long as calling minutes are not reduced), but would reduce mining, e-waste, and other negative impacts associated with rampant overconsumption of mobile phones.

Role of KPN

KPN Mobile, through its mobile network operating brands KPN, Hi, Telfort and Debitel, offers its customers a "free" new mobile phone when they sign up for a new subscription or when they renew their contract. This is part of the company's marketing and advertising strategy to attract new and maintain existing customers. These practices have raised KPN's sales of new mobile phones to "several million" handsets annually⁷ and have encouraged countless customers to discard their still-functioning phone for a new one, thus unnecessarily contributing to the mounting volumes of e-waste and increasing the demand for metals and minerals mined in developing countries. Such marketing practices are anathema to the goal of sustainable development and are thus not in accordance with OECD Guidelines Chapter II, paragraph 1, which states that "[e]nterprises should contribute to social and environmental progress with a view to achieving sustainable development".

KPN has recognised that it carries part of the responsibility for ensuring sustainability in the mobile phone supply chain⁸ and has engaged with civil society on this issue, responding to a questionnaire during research conducted by SOMO and MakeITfair in 2009.⁹ KPN has indicated that a new recycling

⁶ M. van Huijstee and E. de Haan, Fair phones: It's your call - How European mobile network operators can improve responsibility for their supply chain, MakeITfair, September 2009 < <http://makeitfair.org/the-facts/reports> > (5 March 2010).

⁷ Ibid, p. 49

⁸ KPN, Duurzaam leven en duurzaam werken - Duurzaamheidsverslag 2009, p. 48

⁹ M. van Huijstee and E. de Haan, Fair phones in the Netherlands, MakeITfair September 2009 < <http://makeitfair.org/the-facts/reports> > (5 March 2010).

programme was set in place in the second half of 2009. The company admitted that its recycling rates are currently very low but indicated its intention to increase these rates. In its 2009 sustainability report KPN claims to have recycled 21,382 mobile phones in 2009 and to have set its goal at 25,000 phones in 2010.¹⁰ Although KPN is commendably putting more effort into its recycling programme, compared to the several million phones sold each year its recycling ambition remains dramatically low. Furthermore, recycling alone cannot fully compensate for the negative social and environmental impacts of the rapidly increasing demand for mobile phones. Recycling programmes must be combined with efforts to reduce unnecessary consumption.

For example, the 2009 SOMO-makeITfair report made the following recommendations for KPN to enable it to better encourage responsible consumption of mobile phones.¹¹ KPN could make SIM-only contracts more attractive to consumers than subscription renewal in combination with a mobile phone. KPN could do several things to promote the SIM-only option. The SIM-only subscription could be made more visible by marketing it more actively than the new phone option, or the option for receiving a new phone with a renewal could be skipped altogether. Each of these options could be accompanied with a message to consumers that highlights the environmental and social benefits of the SIM-only alternative.

2. Labour issues in the mobile phone supply chain

Summary

The supply chain for mobile phones remains rife with poor labour conditions and human rights abuses. The greatest risk of violations is found at Asian and Latin American electronics component manufacturing centres that lie deep in the mobile phone supply chain, where monitoring and responsibility-taking by mobile phone retailers remain grossly insufficient. In 2009, reports surfaced about labour rights violations at the Chinese and Taiwanese factories of Wintek, a supplier of major mobile phone brands like Nokia, Samsung and HTC, who in turn supply KPN with mobile handsets. A persistent lack of transparency by companies at all stages of the supply chain hinders and frustrates efforts to improve working conditions. KPN did take positive steps with regard to its supply chain policy in 2009, but the Wintek cases again show that there is still much room for improvement; KPN must become more transparent about its supply chain and do more to engage with its suppliers, both direct and sub-tier, to improve labour and environmental conditions in its supply chain.

Context

Wintek

Wintek is a Taiwan-based manufacturer of touch panel screens for mobile phones. Although Wintek itself refuses to disclose any information about its customers, in 2009 workers at the company's factories in China and Taiwan indicated that they were producing mobile phone touch panels for a number of large brand name companies including Nokia, Samsung and HTC.¹² Only Nokia has confirmed that Wintek is a supplier, with the other brand name companies refusing to comment at all.

¹⁰ KPN, 'Duurzaam leven en duurzaam werken - Duurzaamheidsverslag 2009', p.11

¹¹ M. van Huijstee and E. de Haan, Fair phones in the Netherlands, MakeITfair September 2009 < <http://makeitfair.org/the-facts/reports> > (5 March 2010).

¹² SACOM, "Wintek exploits its workers in Taiwan and China", no date, <http://sacom.hk/archives/515> (10 March 2010).

Wintek factory in China

On 8 June 2009 Hong Kong-based research group SACOM published a report¹³ alleging the following labour rights violations at Wintek's Masstop factory in Dongguan, China (found through direct interviews with Wintek factory workers):

- ❑ **Forced overtime:** Wintek's Dongguan Masstop allegedly required workers to meet excessive production quotas that extend the working day to 13 hours, forcing workers to work up to 5 hours of overtime each day. This is in obvious violation of both the Chinese Labor Law, which restricts the work week to 8 hours a day, 40 hours a week (Article 36, Labor Law) with a maximum of 3 hours overtime per day (Article 41, Labor Law), and the EICC code, which stipulates that a workweek should not be more than 60 hours per week, including overtime. Furthermore, Wintek allegedly does not pay its workers the lawfully-stipulated overtime premiums of at least 150% for overtime during the workweek, 200% on the weekends, and 300% on national holidays.
- ❑ **Fines for refusing overtime and non-payment of overtime:** Wintek allegedly fines workers who refuse to work overtime. If workers refuse to work overtime multiple times, they run the risk of being fired. On 15-17 April 2009, over 1,000 Wintek employees staged a strike protesting the non-payment of overtime as well as the poor labour conditions at the Wintek Dongguan Masstop factory. Wintek management responded by sacking 19 striking workers.

Wintek factory in Taiwan

According to a 27 November 2009 press release by Taiwanese and Chinese labour rights organisations, on 17 December 2008 more than 600 workers at Wintek's Taiwan facility were fired without any prior notice.¹⁴ Wintek claimed this was due to a decrease in orders, but at the same time the company allegedly started recruiting new staff. Some of the dismissed workers were later re-employed on temporary contracts, but many remained unemployed without compensation throughout 2009. Instead of engaging with the workers, unions, and labour support groups to address the workers' demands for reinstatement or compensation, Wintek has filed lawsuits for defamation against union leaders. The labour groups fear that this is an attempt to silence unions and workers whose rights have been violated.

Companies' response to the reports¹⁵

SACOM, with support of the GoodElectronics network, initiated contact with Wintek management as well as its brand name customers with regard to the factory workers' claims. As mentioned above, Wintek refused to provide more information or transparency on its customers and has filed defamation lawsuits against the Taiwanese labour groups. Of the brand name companies that were addressed, only Nokia responded, with Samsung and HTC refusing to provide any additional information. In 2009, Nokia made contact with Wintek management to discuss the alleged labour rights violations. An audit of the Masstop factory was undertaken, which, according to Nokia, confirmed some of SACOM's allegations, and a corrective action plan was drawn up. Unfortunately, none of the local organisations that had brought the issues to the fore was involved in the audit or the corrective action plan, and

¹³ SACOM, "Wintek keeps costs down by suppressing strike in mainland China", 8 June 2009, <http://goodelectronics.org/member-files/sacom-report-on-masstop-dongguan-june2009-english-version> (10 March 2010).

¹⁴ GoodElectronics website, 'Our bosses are deaf and blind', says Wintek worker', 27 November 2009, <http://goodelectronics.org/news-en/our-bosses-are-deaf-and-blind-update-on-labour-issues-at-wintek-plants-in-china-and-taiwan/?searchterm=wintek>, (1 March 2010).

¹⁵ This section based on P. Overeem, Coordinator GoodElectronics Network, Amsterdam, 15 March 2010, interview with author.

neither Wintek nor Nokia are offering any transparency on this point. In follow up research, SACOM has reported some improvements in working conditions at the Masstop factory, but the lack of transparency has prevented further verification. Nokia and SACOM are now considering setting up a pilot project to train Masstop workers regarding their rights.

Mobile service operators in the mobile phone product chain

As mentioned above, mobile network operators have significant influence on the mobile telephone market because they provide the telecommunications service that allows people to communicate using mobile phones and because they are increasingly responsible for sales of mobile phones (along with a subscription) directly to consumers. As retailers of mobile phones with direct contact to customers, mobile service operators like KPN are themselves immensely important customers for brand name handset manufacturers like Nokia and Samsung, from whom the operators purchase the phones for resale on the retail market. One representative of a major mobile phone manufacturer observed, "In the end we realize that it is the service providers that own the customers".

With their status as key players in the mobile phone product chain comes the responsibility to ensure that labour and human rights standards are respected throughout the mobile phone product chain, including at sub-tier component manufacturers. Mobile service operators must engage and monitor their direct suppliers to ensure that they are doing the utmost to ensure that standards are being met. But their responsibility also extends deeper into the supply chains to systematically improve conditions beyond the first-tier suppliers by conducting audits and collaborating with local stakeholder groups. In addition, transparency is a key issue for mobile service operators working to better address and improve conditions deep in the supply chain; these companies should themselves be transparent about their suppliers and, in turn, encourage their suppliers to be more transparent about their own suppliers.

Role of KPN

KPN does not disclose any figures on mobile phones sales nor does it provide information on even its direct suppliers, much less those that lie deeper in the supply chain. However, a quick look at the mobile phone models offered by KPN and its subsidiaries Hi, Telfort and Debitel indicates that Nokia and Samsung are important suppliers.¹⁶ Since none of the companies (neither Wintek, nor Nokia/Samsung/HTC, nor KPN) provides clear and transparent information on their supply chain, it is unclear whether the handsets supplied to KPN by Nokia, Samsung and HTC actually include components manufactured by Wintek.

KPN indicates that it tries to stimulate sustainability and acceptable working conditions in its supply chain by sourcing from suppliers that uphold the company's social and environmental standards.¹⁷ In 2009, KPN revised its policy on supply chain responsibility and responsible procurement based on engagement with stakeholders; the company's Supplier Code of Conduct states that "suppliers will support and respect internationally proclaimed labour rights and will operate in the spirit of the Core Conventions of the International Labor Organization (ILO)" and that suppliers will "compensate workers in accordance with all applicable wage laws" and "limit the working hours to the maximum as

¹⁶ For instance, the KPN web shop offers 16 Nokia models, 16 Samsung models, 5 LG models, 5 HTC models, 5 Blackberry models, 4 Sony Ericsson and 1 Fysic model.

¹⁷ KPN, *Duurzaam leven en duurzaam werken - Duurzaamheidsverslag 2009*, p.48, <http://www.kpn.com/corporate/nl/duurzaam/MVOverlagen.htm> (12 March 2010)

set by applicable laws".¹⁸ In order to implement these policies, KPN claims that 82 of its suppliers have signed the KPN Suppliers Code of Conduct¹⁹ (it should be noted, however, that since KPN does not provide information on its total number of suppliers, it is impossible to assess what percentage of KPN suppliers is actually bound by the Code). In addition, in 2009 KPN started auditing suppliers, conducting two audits of suppliers in China over the course of the year. One of the audits resulted in KPN terminating the relationship due to persistent violations of social norms.²⁰ KPN aims to conduct 12 external audits of suppliers in 2010, focussing on suppliers in "high risk" countries. Although these efforts are a laudable step in the right direction, a mere 12 audits among the likely hundreds of suppliers leaves a wide gap in the violation-prone mobile phone supply chain.

In addition, KPN should also be doing more to go beyond its direct first-tier suppliers to address poor working conditions in its supply chain. Indeed, the company has indicated its willingness to "deepen" its supply chain management to include sub-tiers of its supply chain, but at the moment this effort goes barely beyond asking the 82 suppliers that have signed the KPN Suppliers Code of Conduct to in turn make sure their suppliers also live up to the Code.²¹ Experience shows that simply relying on first-tier suppliers to encourage compliance down the supply chain is insufficient to ensure that minimum standards are met.

The labour conditions at the Wintek factories described above are clearly in violation of KPN's Supplier Code of Conduct with regard to freedom of association (a core ILO convention), wages and working hours. Since Wintek supplies Nokia, Samsung and HTC, who in turn directly supply KPN, KPN should already be engaging these direct business partners to address the problems and violations of its policies. There is no information to indicate that KPN has done so. Samsung and HTC's refusal to respond to calls by labour groups and civil society organisations on these issues is also not in accordance with KPN's Suppliers Code of Conduct. KPN could encourage these suppliers to take a more constructive and transparent approach to stakeholder engagement. Furthermore, KPN's refusal to provide clear and transparent information on its supply chain frustrates efforts to identify relationships and encourage responsibility taking that could improve the labour conditions for mobile phone factory workers.

KPN is taking positive steps with its supply chain policy, but the Wintek cases again show that it is important for KPN to be more transparent about its supply chain and to do more to engage with its suppliers, both direct and sub-tier, to improve labour and environmental conditions in its supply chain.

¹⁸ KPN, Supplier Code of Conduct, < <http://www.kpn.com/corporate/nl/duurzaam/Maatschappelijke-themas/Leverancierscode.htm> > (March 2010).

¹⁹ KPN, Duurzaam leven en duurzaam werken - Duurzaamheidsverslag 2009, p.48, <http://www.kpn.com/corporate/nl/duurzaam/MVOverslagen.htm> (12 March 2010).

²⁰ Ibid.

²¹ Ibid.