



About this electronics sector sheet

In a series of three electronics sector sheets, three high-risk phases in the electronics supply chain are discussed: metal mining, the manual production in low-wage countries, and the disposal of electronic products ('e-waste'). This sheet is devoted to production in low-wage countries.

The electronics sector as a whole is characterised by long and global supply chains with high levels of outsourcing. These sector sheets aim to provide information to socially responsible investors about the environmental and social risks present in these supply chains. The series is an additional tool to support their engagement with electronics companies.

The electronics sector sheets are produced by SOMO, the Netherlands-based Centre for Research on Multinational Corporations. SOMO aims to improve social and environmental conditions in the electronics sector. Among other activities, SOMO is involved in the makeIT-fair and Procure IT Fair projects, and hosts the worldwide GoodElectronics network.



Supply chain responsibility

Brand name companies, also known as Original Equipment Manufacturers (OEMs), influence their supply chains to a great extent, as they control the design of their products and decide what materials and which suppliers to use. Supply chain responsibility is the idea that a company's Corporate Social Responsibility (CSR) extends beyond its own business activities. Key elements of supply chain responsibility are: identification of social and environmental problems throughout the entire supply chain; the use of influence to control and mitigate these risks; transparency towards stakeholders (including socially responsible investors), allowing them to evaluate the CSR efforts of the company.

With regards to the production phase, OEMs outsource the majority of their production to low-wage countries. It is common practice to hire Contract Manufacturers (CMs) for this. OEMs however remain responsible for the labour conditions under which their products are made.

Concentration among CMs has led to a small top group of about ten companies. These companies employ far more people than the OEMs and make billion-dollar revenues. As CMs are unknown to the public, and therefore do not feel the risks of public exposure due to bad labour conditions, they are more lax in implementing CSR policies. The top CMs are Foxconn, Flextronics, Jabil, Sanmina-SCI, Celestica, Elcoteq, Cal-Comp, Venture, Benchmark and Plexus. Socially responsible investors have the opportunity to engage with OEMs and CMs, as both are listed at stock exchanges.

OEMs often use the same CMs. Therefore, exposure to labour rights violations in an electronics factory will damage the reputation of more than one brand. The prevailing secrecy about supplier bases in this sector (for competitive reasons) prevents brand companies from acknowledging factories as their supplier. The brand company that is able to easily identify its suppliers, that is transparent, and that is communicating the steps it is taking to work on improvements, will limit the reputational damage and diminish the social risks.

Issues

Over the last years, numerous research reports by civil society organisations have revealed the following labour violations in the electronics supply chain:

- ❑ Disrespect of union rights: unions are not allowed in most electronics companies, attempts at organising can even be dangerous, making it impossible for workers to improve their conditions.
- ❑ Contract labour: there is a growing trend to use labour agencies to supply workers in the electronics industry. These workers earn less than regular workers and have fewer rights, such as no paid sick leave, no vacation days, and no job security. The latter makes it impossible to defend labour rights.
- ❑ Health and safety problems: factories require workers to stand throughout their long shifts. Workers are not always provided with sufficient protective gear while handling chemicals or tight work schedules prevent the proper use of protective gear.
- ❑ No living wage: workers earn only the minimum wage for full-time work at the factory even while minimum wage levels are far too low to live on.
- ❑ Excessive working hours: during peak periods it is not unusual for workers to work 12 hours per day, six to seven days per week.
- ❑ Forced overtime: workers are not in the position to refuse overtime.
- ❑ Punitive fines: excessive wage deductions in the form of punitive fines for mistakes made.

Norms and rules

The workplace norms that most NGOs and trade unions focus on are the ILO conventions and recommendations covering freedom of association & right to collective bargaining, no discrimination of any kind, no forced or slave labour, a minimum employment age, health and safety measures, a maximum working week of 48 hours and voluntary overtime of 12 hours maximum, a right to a living wage, no abuse and the establishment of an employment relationship.

Industry efforts

Initiatives are undertaken both on an individual level and by collaborative initiatives of companies within the Electronic Industry Citizen Coalition (EICC) and/or the Global e-Sustainability Initiative (GeSI). The EICC is an industry initiative with 45 member companies promoting the EICC code of conduct for global electronics supply chains to improve working and environmental conditions. This code however does not cover crucial ILO conventions and recommendations like full references to the right to organise and bargain collectively and the right to a living wage. Neither does the code set a clear maximum on normal working hours and overtime hours. The achievement of the collaborative initiatives is that they are sector wide initiatives which include contract

and component manufacturers as well as brand companies. They have developed common tools to improve standards including a shared auditing program and have set up joint working groups like the Working Hours Workgroup.

Good initiatives at an individual company level are: the development of policies regarding the recruitment and treatment of migrant workers; the development of an alternative workers' representation policy after studying the situation in China where independent unions are not allowed and the facilitating of an independent worker's training course in China. These examples indicate solid analyses of risks at a regional level and mitigation of those risks by developing appropriate policies.

Questions for socially responsible investors

The global economic downturn has accelerated the current trend of replacing regular contracts with temporary employment, which has a further degrading effect on the labour conditions of electronics workers. Freedom of association and collective bargaining are enabling rights for the workers to improve their working conditions; however currently these rights are denied. Companies engaging with local workers organisations and trade unions to work towards code compliance is considered best practice by NGOs.

When engaging with electronics companies regarding the production phase, the following questions may be raised by socially responsible investors:

- ❑ Does your company investigate the position of temporary employees in supplier audits?
- ❑ Does your company include freedom of association and collective bargaining in its Code of Conduct?
- ❑ Is your company involved in some kind of cooperation with local NGOs and trade unions to improve working conditions?
- ❑ Is your company making analyses of social risks at a regional level to mitigate these risks?

Links

- www.somo.nl
- www.makeitfair.org
- www.procureitfair.org
- www.goodelectronics.org
- www.eicc.info
- www.gesi.org



Centre for Research on Multinational Corporations

Sarphatistraat 30, 1018 GL Amsterdam, The Netherlands

T: +31 (0)20 639 12 91

For questions: Irene Schipper, i.schipper@somo.nl

