



## Executive summary

Silenced to Deliver: Mobile phone manufacturing in China and the Philippines

September 2008

## **EXECUTIVE SUMMARY**

36 mobile phones were manufactured each second during 2007. In 2006 a magic milestone was reached when one billion phones were produced in just one year. A large and increasing part of the manufacturing is taking place in developing and transition countries. Currently half of the world's mobile phones are produced in China and 10% of global semi-conductor production takes place in the Philippines. Most of the workers at the production lines are young women who often carry a heavy burden as the main breadwinners of their families. As workers in the electronics sector of China and the Philippines they are denied many of their basic rights.

### **Violations of national laws, ILO conventions and company codes of conduct**

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

Six factories in China and the Philippines have been examined for this report. They are delivering components to the world's five biggest mobile phone companies: Nokia, Samsung, Motorola, LG and Sony Ericsson. These "big five" currently hold more than 80% of the mobile phone market. The most common problems at the factories are listed below:

**Low wages** – In both China and the Philippines workers often earn the minimum wage for full-time work at the factory, even though these wage levels are very difficult to live on. The minimum wage in the Philippines is far below the level needed to cover the basic costs of an average Philippine family. The minimum wage in one of the big export processing zones was about 120 euros per month in May 2008, while the basic living costs for an average family were 320 euros.

The Chinese minimum wage was raised in 2008, as a response to growing labor protest and growing inflation, but workers still have problems covering their basic needs and cannot afford to form a family or acquire a place to stay of their own. Most of the workers are migrant workers coming from poor rural regions whose objective is to be able to send money back home. In order to accomplish this goal they keep their own living costs at the lowest possible levels by staying in dormitories with several other workers and by eating in the factory canteen.

In one factory in the Philippines, which produces power supplies for Motorola and LG, a large number of apprentices are hired to keep costs down. They are only paid 75% of the minimum wages and do not get the extra bonuses and allowances which are paid to regular workers. In both countries workers complain about the rising food prices that eat up much of any eventual pay increases. Moreover, food quality is low, and water and electricity supplies are unstable in some factory dormitories and canteens.

**Excessive working hours** – In both countries employees work extra hours to try to raise their salaries. Some workers state that they cannot refuse to work overtime. At one factory in the Philippines, which produces printed circuit boards for mobile phones, workers state that they need

to have a very good reason to be allowed to go home after regular working hours. During peak periods they do not even get one day of rest per week, which is a violation of the principle rule of the Weekly Rest Convention of the International Labour Organisation (ILO).

In some cases workers are not allowed to go home until they have fulfilled the high set production quotas. At the end of 2007 workers that did not meet the targets within regular hours at a factory in Shenzhen, producing chargers for Nokia, Samsung, Motorola and LG, had to work “voluntary” overtime without overtime premiums.

In both countries the working hours at the plants are in violation of the ILO’s Hours of Work Convention and/or national laws. In China all factories exceeded the maximum 36-hour overtime limit stipulated in the Chinese Labour Law. In the factory that supplies Nokia, Samsung, Motorola and LG with chargers workers worked 80 hours per week during peak season, a gross violation of the Chinese Labor Law. In one factory in the Philippines, which produces for Motorola and LG, one apprentice worked 64 to 67 hours per week almost continuously - 25 days of day shift followed by 25 days of night shift. On the other hand workers at another factory in the same area had great difficulties covering their living costs when orders were few and there were no overtime earnings. During peak periods they often worked twelve hours per day six to seven days a week.

**Punitive fines** – Wage deductions, due to punitive fines, have been noted at all four factories researched in China. Even though these fines are not always illegal, they are based on subjective and unjust grounds, especially when workers are fined for mistakes or conduct related to the unhealthy working conditions offered by the employer, such as falling asleep at work or making mistakes because of the rapid manufacturing pace. At a factory that produces printed circuit boards for Nokia, Motorola, Samsung and LG, workers worked 12 to 13 hours per day 6 days per week during peak periods, but they were fined if they made mistakes or fell asleep at work.

Disrespect of union rights – The electronics industry has a history of widespread anti-union tactics. In both China and the Philippines, much of the electronics production is taking place in so called export processing zones or special economic zones. In the Philippines, these zones are also known as “no-union – no-strike zones”. Harassments of workers, dismissals and killings have been reported and less than 10% of the country’s electronics firms are thought to have unions. In a factory producing printed circuit boards for mobile phones, workers state that the management asked questions about union affiliations during the recruitment process and explicitly told them that unions were not allowed at the factory. The factory management denies this and states that the relationship with workers is good.

In China workers’ rights are gradually improving, particularly due to a new contract law that came into force in January 2008. However, the All-China Federation of Trade Unions (ACFTU) continues to hold a monopolistic position. The ACFTU is controlled by the Communist Party and often loyal to the employer and the government instead of to the workers. Its aim is that all private factories in China should be unionized by 2010.

Collective labor disputes, open protests, sit-ins and strikes have lately become more common in China. In 2007, thousands of workers were brutally dispersed by the police while protesting on the streets against poor working conditions at a factory producing chargers for Nokia, Samsung, Motorola and LG. Workers are increasingly ‘voting with their feet’, by changing jobs or returning to the countryside because of unacceptable working conditions. This has contributed to labor

shortages in the Guangdong province of southern China – the heartland for electronics production.

**Health and safety problems** - Figures released by China's Ministry of Health suggest that occupational disease is one of the country's most serious public health problems at present. The legislation is relatively thorough, but during the last decades the government and the local authorities have put more efforts into creating a favourable investment climate than into protecting the health of workers, and inspections are too few. This is also the case in the Philippines, where the state has largely replaced inspections of large firms with a type of self-assessment system.

Workers interviewed for this report complain about muscle strains, eye problems, allergies, dizziness, exhaustion, burn injuries, cuttings, chest pains and weight loss. At one factory in Shenzhen, which produces printed circuit boards for Nokia, Motorola, Samsung and LG, workers state that they are not provided with sufficient protective gear while handling chemicals. In one department workers handling sulphuric acid do not find it possible to put on safety masks due to the tight work schedule. The management, however, claims that the workers are properly protected, and that any problems are due to the fact that the operators do not follow the company rules and regulations. The production process of electronics is highly chemical intensive and risks causing severe health problems, such as cancer and spontaneous abortions, if workers are not properly protected.

In some of the factories workers complain that the fast work needed to meet the quotas, as well as hot and badly ventilated factories, sometimes means that workers do not use the protective gear that they have been provided with. High speed work is therefore endangering the health of workers both directly – through exhaustion, muscle strains, cuttings, etcetera – and indirectly, when workers do not have time to put on the equipment needed.

At a factory producing components for Apple's iPhone, as well as Nokia, Motorola and Sony Ericsson, some of the workers interviewed had not been provided with medical insurance, industrial injury insurance or retirement pensions by March 2008, even though the law requires this. Workers at the factory expressed concern about the heavy workload and related health problems like back pain, sore eyes, muscle strain and work stress. In areas such as the mouse testing workshop some workers complained about deteriorated vision as a result of long hours of looking at computer screens. The company denies the problems and claims that the workers are now insured.

**Gendered hiring practices to avoid protests** – Most of the workers at the production lines are young women. In China they have migrated from the countryside to help support their families, earn money for another family member's education or a wedding. Remittances sent back to families in rural areas have contributed to children's education and to reducing poverty, but the young women and teenagers behind this process often pay a very high cost. The overall situation in the electronics sector of Guangdong falls short of the ILO's goal on "decent work for all" that stresses values such as human dignity, security and freedom of expression.

Migrants often find themselves at the bottom of the social ladder in Guangdong. Moreover, different means are used by management to control the staff on the factory floor, including strategies based on gender and separation of workers who have migrated from the same areas. Female workers are preferred, since they are seen as less prone to stand up for their rights, and better suited for detail-oriented work. In some cases male workers from specific Chinese provinces

are avoided, since they are labelled troublemakers. Some factory managers try to split social networks and avoid worker solidarity by making sure that workers who are on the same assembly line or live in the same dormitory do not come from the same province.

In the Philippines, women working for multinational electronics firms often earn more than workers in local factories or in the informal sector. Some multinationals also offer welfare benefits that the state is failing to provide. Women workers often state that they gained more control of their lives and an increased status within the family when they entered the high-tech industry. However, poor working conditions, sexual harassments and other violations of women's rights are common in the export processing zones where the factories are located. Single women are sometimes preferred over married ones, so as to avoid having to pay maternity benefits.

While some researchers argue that the women's situation in the Philippine export processing zones will change for the better as the industry upgrades to more advanced tasks, this is not evidently the case. In some factories, when the tasks become more advanced, male engineers and technicians are sometimes hired instead of women. Research also suggests that women are more often subject to lay-offs as more work becomes automated.

### **Much of the supply chain left uncontrolled**

The five biggest mobile phone companies have all adopted codes of conducts which state that human rights and the labor rights of workers will be guaranteed. However, the situation at the factories covered in this report shows that this is not the case. The industry is trying to monitor random samples of the suppliers that lie closest to them (so called first and second tiers suppliers), but much of the supply chain remains uncontrolled - despite the high environmental and human rights risks that are related to electronics manufacturing. The worst labor conditions are often found further down the supply chain. The factories covered in this report are first and second tier suppliers and yet unacceptable violations of labor laws, international conventions and company codes of conduct were revealed.

This study also shows that the different problems are often connected. In both China and the Philippines low minimum wages makes it crucial for workers to work a lot of overtime. The excessive working hours affect their health negatively and most likely are an explanation of some of the mistakes that workers make. In China the mistakes made by the workers reduce the salary they receive. The high set quotas, combined with penalties for mistakes, make some workers skip the use of protective equipment that is provided in the factories. This exposes them to severe health risks due to the use of chemicals. Health and safety is not only about having the right equipment – but also about giving workers the opportunity to use it.

The possibility to improve the situation is largely dashed by the fact that anti-union tactics are common within the entire sector. It is therefore of utmost importance that electronics companies analyze how they can challenge these attitudes and support efforts to organize. Auditing and demands from buyers will without doubt lead to improvements in some areas. However, more profound changes and overall improvements will not take place until workers are given the full and unrestricted right to organize and state their opinions.

## CSR – a cost or an investment for the future?

Suppliers often state that they are expected to raise labor and environmental standards at the same time as lowering production costs; an equation that bigger firms could handle if they want to but not always the smaller ones that often are found further down the supply chain. One manager, for example, says that the buyers calculate labor costs at a far too low level, while CSR managers demand better working conditions. Other studies also point out the inconsistencies of the buying companies' actions and conclude that most suppliers regard CSR as a cost, instead of an investment that will result in more customers and orders. If improvements are to be made, the mobile phone companies need to bring in true incentives to CSR investments in Asia and not use obstructive purchasing practices. They also need to offer guidance to suppliers, and monitor and take responsibility for the effects further down the supply chain that is currently left uncontrolled.

MakeITfair is a three-year project that aims to raise awareness about labour and human rights abuses in the production chain of consumer electronics goods, including mobile phones, MP3 players, game consoles and laptops. It is funded by the EU and participating organisations are: SOMO, Germanwatch, Verbraucher Initiative, FinnWatch/ Finnish Association for Nature Conservation, Karat, IRENE, SwedWatch, Church of Sweden, Fair Trade Center, SACOM (China), ACIDH (Congo) and Cividep (India).

Read more at [www.makeitfair.org](http://www.makeitfair.org).



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