electronics watch

Improving working conditions in the global electronics industry

The ICT sector in the spotlight

Leverage of public procurement decisions on working conditions in the supply chain

Executive Summary

This document provides an executive summary of the report 'The ICT sector in the spotlight. Leverage of public procurement decisions on working conditions in the supply chain' (october 2014) by Electronics Watch Consortium c/o WEED e.V. References are made throughout this summary to the different chapters of the report.

Read the full report in this link. For more information, see www.electronicswatch.org or send and e-mail to info@electronicswatch.org

Executive Summary

Information and communications technology (ICT) hardware manufacturing has developed from integrated forms of production to outsourcing and specialisation in complex networks of brands that maintain few of their own production facilities. Instead, the brands source out production to contract manufacturers and a variety of small-and medium sized component suppliers in low-cost countries.

Parallel to the growth of the ICT sector and the increasing outsourcing of production to low-wage countries, unions and non-governmental organizations (NGOs) have been monitoring the human and labour rights situation in the sector. Their numerous research reports have drawn the world's attention to gross labour violations in the ICT sector, including:

- **Health and safety problems:** There have been many cases amongst workers of serious occupational diseases such as cancer, leukemia, liver and kidney failure and miscarriages as a result of prolonged exposure to dangerous toxic substances, not having the correct protective gear, and having to stand for long periods during their shift.
- **No living wage:** Workers earn only the legal minimum wage for full-time work, but these wages 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 a position to refuse overtime.
- **Punitive fines:** Excessive wage deductions in the form of punitive fines for mistakes made.
- **No redress:** As corporate grievance mechanisms are few and ineffective, workers cannot get redress for afflicted wrongs.
- **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. They have no paid sick leave, no vacation days, and no job security.
- **Abuse of vulnerable worker groups:** Employers increasingly use migrant workers and student interns as fulltime workers, but give them less rights and less pay.
- **Disrespect of union rights:** Unions are not allowed in most electronics factories and attempts at organising can be dangerous, making it impossible for workers to improve their conditions. Workers are not in a position to engage with factory management, let alone collectively negotiate wages or working conditions.

This report illustrates how the complex production network works, who the key actors are, and how consumers, especially public procurers, can address labour violations in the ICT supply chain. For this purpose the report spotlights both the ICT industry and the leverage of public procurement to improve conditions in the industry. The report examines how much money public procurers spend on ICT, and which products they buy the most. What leverage possibilities follow both from these figures and from statements in companies' financial reports?

Furthermore the report contains a **company-based mapping** and asks: Which ICT companies are the leading **companies** – both among brands and among the increasingly influential contract manufacturers? This is followed by a **country-based mapping** of the ICT sector: In which countries do the major brand companies and their suppliers operate? And more important: What are the main **labour issues** in these countries? The report concludes with a roundup, what **leverage** consumers, amongst them public procurers in Europe, have to change the exploitations in this industry and which structural features need to be changed.

The report includes the following key findings:

- ICT supply chains are characterized by interlocking business connections. All brand companies work with several contract manufacturers. And contract manufacturers try to diversify their business relations by maintaining relations with different brand companies.
- In terms of revenue by brand companies, there are several big players in the ICT sector. While the report shows a wide geographical distribution of the major brand companies producing ICT hardware, it also highlights the concentration of major brands in Japan (9) and the US (7), followed by South Korea (4), China (3) and Taiwan (2) and single companies headquartered in Western European countries (1 each in the Netherlands, Sweden, Finland and Germany).

- The top contract manufacturers (by revenue, 2012) are based in Taiwan (10) and USA (4), followed by China (2), Canada (1) and Singapore (1). The main locations for their manufacturing sites are China (94), the US (47), Mexico (25), Brazil (16), Malaysia (15) and Singapore (13).
- The top electronics export country is China by a substantial margin. China is followed by Singapore, Japan, Taiwan, Malaysia, South Korea and Mexico. Less, but still with millions of US-Dollars in electronics export, are to be found in Thailand, Vietnam, Philippines, Indonesia, and India, followed by Brazil and Sri Lanka, finishing up with Sri Lanka.
- China has a central position as a major production location for the electronics industry, but rising wages in coastal regions of China have resulted in several shifts in the market towards new low-wage countries. The minimum wage in is much lower in the interior regions of China, like Chongqing, than on the coast. This discrepancy has led to an increased settling of production facilities in interior China. Furthermore, there is an increasing trend to move away completely from China due to rising labour costs, for example to Vietnam, near the border of Southern China, close to the cluster in Guangdong. Due to the importance of specialized suppliers and networks of clusters, the clusters in China, Indonesia and Malaysia will presumably not be relocated to other countries in the near future.
- Contract manufacturers have become key actors in the electronics market. Although contract manufacturing plays a significant role in the production process, the profit margins for contract manufacturers are low, while the large brand companies maintain larger profit margins.
- The lack of knowledge about further tiers in the supply chain is a key challenge for labour rights advocates in the electronics industry. Brands or external audit companies usually only monitor the companies in the 1st tier of the supply chain, i.e. the assembly factories. The logic of the Electronic Industry Citizenship Coalition (EICC) is that not brands, but 1st tier suppliers are responsible for implementing the EICC code with their suppliers.

- Public procurers with large tender volumes and long-term frame contracts do have the purchasing power to make a concrete change by asking for socially responsible manufactured products. Public procurers are recognised as an important target group of brand companies. But satisfying social criteria is not yet enough of a competitive advantage. To apply the pressure and the leverage they have to improve conditions in the electronics industry, public procurers with an interest in socially responsible manufactured ICT products need to tread a common path.
- The leverage of the public sector does not only derive from their large annual spending. The fact that public procurers often purchase ICT products in long-term framework contracts increases the economic weight of their tenders. Increasingly public procurers realise that they strengthen their market power and their bargaining position when they join forces and collectively ask for improved working conditions.

The report concludes that brand companies cannot absolve themselves from their responsibility by stating that they do not have direct contracts with their sub-contractors. Short product life cycles, the competition for low prices and the need for flexibility are directly linked to low wages, overtime and temporary employment via labour agencies. Consumers and foremost public procurers can play a catalysing and leveraging role by calling for a more transparent supply chain and the brand companies' acknowledgement of their responsibility

The new global initiative Electronics Watch (www.electronicswatch.org) is currently developing a monitoring programme for global ICT hardware production. Public procurers' affiliation with Electronics Watch will enable them to join forces in requiring ICT companies to comply with international labour standards. Electronics Watch will assist affiliated public procurers with tailor-made improvement programmes to remediate violations. Working with public procurers in Europe and elsewhere and with labour organisations in the producing countries, Electronics Watch will not only monitor the production of ICT products, but also help reform the industry to create sustainable improvements of working conditions.

www.electronicswatch.org
@electrowatch

The Electronics Watch Consortium is driven by:

This document has been produced by the Electronics Watch Consortium on the basis of research by WEED e.V. and with the financial assistance of the European Union and Stiftung Umwelt und Entwicklung Nordrhein-Westfalen. The contents of this document are the sole responsibility of WEED e.V. and can under no circumstances be regarded as reflecting the position of the funders.