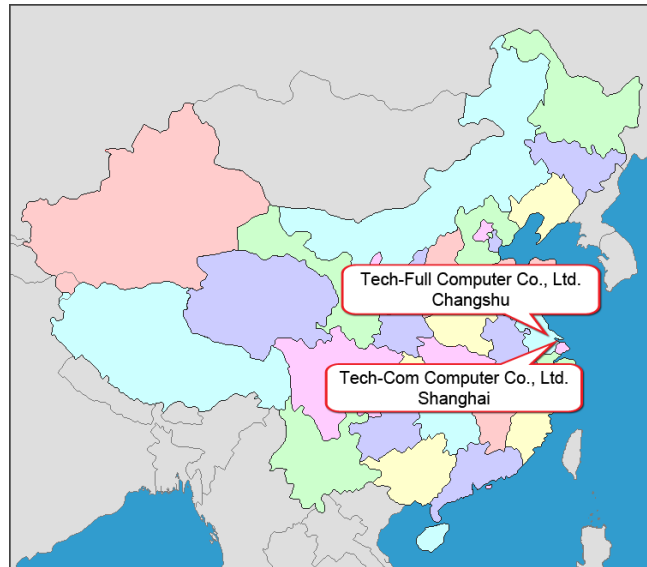


ASSESSMENTS OF APPLE SUPPLIER FACTORIES OPERATED BY QUANTA IN SHANGHAI AND CHANGSHU

EXECUTIVE SUMMARY

In 2013, the Fair Labor Association (FLA) conducted independent external assessments at two facilities operated by Quanta, a supplier to Apple, a Participating Company with the FLA. The assessments of these two facilities (Tech-Com Computer Co., Ltd., in Shanghai; and the Tech-Full Computer Co., Ltd., in Changshu) were conducted by Openview Service Ltd., a local, independent labor monitoring organization, accredited by the FLA, along with two members of the FLA staff, and were limited to portions of the factory serving Apple's production lines.



In both cases, assessors followed the FLA's [Sustainable Compliance Initiative \(SCI\) methodology](#), identifying instances of non-compliance with the FLA Workplace Code of Conduct and their root causes, to enable Apple to develop and implement sustainable remediation plans. Overall, assessors spent five and four days in each facility respectively, assessing the Shanghai facility from August 5 to 9, and the Changshu facility from August 12 to 15.¹ At the time of the assessments, the Quanta facilities employed 31,706 workers on Apple production lines in Shanghai, and 4,711 workers on Apple production lines in Changshu. Assessors conducted 389 worker interviews in Shanghai (with 107 of them conducted off-site), and 132 in Changshu (with 49 conducted off-site).

FINDINGS

The full SCI reports, located on the [FLA website](#) explain each violation found by the assessment team in August 2013, followed by the FLA's root cause analysis and specific recommendations for immediate action and sustainable improvements. The full reports also list the categories in which no code violations were found; for example, assessors found code compliance related to worker training on wages and benefits, workplace discipline, and environmental protection, at both factories.

The following categories are among those that contained one or more findings of code violations common to both factories:

¹ Due to the confidentiality of Apple's new and ongoing product development, Apple restricted the FLA assessment team's access to certain areas of both facilities, representing six percent of the Shanghai factory's total production area and 20 percent of the

- 1) **Recruitment Policies (Dispatch Workers²)** – Eighty percent of workers interviewed at the Shanghai facility and three percent of the workers interviewed at the Changshu facility reported being charged a hiring fee by a broker or labor dispatch agent. The FLA Code does not allow for such fees, and at the time of the assessment, the factory lacked any system for monitoring whether workers had been charged hiring fees. Additionally, although China Labor Contract Law stipulates that labor dispatch workers may be hired only for temporary, auxiliary, or substitute positions, approximately two-thirds of the Shanghai workers and two-fifths of the Changshu workers were found to be dispatch workers, with no distinction between their duties and those of regular, permanent workers.
- 2) **Personnel Policies (Student Interns and Young Workers)** – In Changshu, assessors found that 101 young workers (16 and 17 years of age) had been working overtime, in violation of local law, but that these workers had been transferred off of Apple’s production lines by the end of July 2013, prior to the FLA assessment. In Shanghai, some dispatch workers reported in interviews that they were vocational students, but assessors found no system in the factory to identify these students and regulate their working hours and conditions with respect to legal requirements.
- 3) **Hours of Work** – By reviewing time records for the 12 months prior to the assessment, assessors found the factories to be largely compliant during non-peak seasons with the FLA Workplace Code of Conduct. However, both facilities exceeded both the legal and FLA Code limits on hours of work during the busiest periods of the year.³ Similarly, both factories inconsistently provided workers with the 24 consecutive hours of rest per seven-day period required by the FLA Code. For example, in Changshu, in the fourth quarter of 2012, 62 percent of the total workforce at least once did not receive this rest day, with the longest consecutive working period stretching to 16 days in a row. Assessors identified short-term shifts in production volumes, in which buyers play a critical role, and high worker turnover rate among the root causes.
- 4) **Compensation** – In both factories, entry-level production workers earn at least the minimum wage, and are legally entitled to receive 80 percent of this wage for their sick leave. However, through management interviews and a review of payroll records and sick-leave policy, FLA assessors found that workers that had been with the factory for less than two years were paid only 60 percent of their wages for sick leave, rather than the 80 percent to which they were entitled. Additionally, in both factories, assessors reported that workers clocked in and out before and after their shifts, by 30 minutes to one hour. Because the factories lack a system for monitoring how this extra time is spent, there is a risk that workers are

² Under the labor dispatch system, the dispatch agency – not the factory – is the worker’s legal employer. As of March 1, 2014, labor law in China requires that within two years dispatch workers comprise no more than 10 percent of a factory’s total workforce.

³ Due to Apple’s confidentiality restrictions (including prohibitions on photography and the collection of records), FLA assessors reported challenges in reporting exact figures for hours of work, reporting these figures instead as ranges of non-compliance during peak periods. In Shanghai, 18 to 58 percent of the workforce worked between 60 and 84 hours per week in the five busiest months under review. In Changshu, 66 percent of the workforce worked between 60 and 80 hours per week during the two busiest months under review.

performing uncompensated production activities at these times⁴. In Shanghai, assessors reported the recent practice of holding uncompensated meetings outside of shift times.⁵ Also in Shanghai, a review of payroll records found three instances when production shut-downs ended a shift after only a half-hour, and the time worked at the beginning of the shift was not compensated. The FLA recommends back-pay at the overtime rate for the three unpaid half-hours of work.

- 5) **Freedom of Association** – Both factories include a trade union for workers as part of the sole official Chinese trade union, the All China Federation of Trade Unions (ACFTU). Instead of being directly elected by workers, all union representatives in both factories had been nominated by supervisory or managerial staff. Factory management was automatically enrolling all workers in the trade union without their explicit consent; around 80 percent of workers in both factories were unaware whether they were union members. Because Chinese law does not recognize certain principles fundamental to freedom of association as contained in the International Labour Organization (ILO) Conventions, all factories in China fall short of the FLA Workplace Code of Conduct on this element.

- 6) **Grievance Systems** – FLA assessors found multiple channels for workers to address grievances in both factories, but found that official grievance-procedure documentation listed only one channel – via the Human Resources department. This grievance procedure requires workers to provide their names, and does not offer a possibility of raising grievances anonymously. Together, these findings indicate a risk that current grievance procedures may not be functioning effectively.

- 7) **Health and Safety** – Assessors found that both factories had established written policies and procedures for workplace health and safety, but that neither factory demonstrated complete and effective implementation of those policies. Among other findings related to fire safety, provision of personal protective equipment, and first-aid kits, assessors reported the following health-and-safety findings:
 - a. In Shanghai, 50 percent of the Material Safety Data Sheets (MSDSs) for chemical substances in use in the factory were incomplete, or contained unreliable information. In Changshu, 80 percent of the MSDSs were incomplete or unreliable.
 - b. Both factories fell short of the local authority’s requirements for indoor air quality testing.
 - c. Neither factory had located its emergency shower and eyewash stations for easy access in case of emergency.
 - d. In Shanghai, flammable and toxic substances were stored improperly.

⁴ Assessors learned in interviews that the factory’s social and rest areas are located within the production areas. The FLA recommends that the factories implement a system to ensure that all working hours are controlled and compensated fully. At the time of the assessment, neither factory based its pay system on the clock-times recorded by workers when they punch in or out.

⁵ Assessors found that a factory audit by Apple one week prior to the FLA assessment found the same instance of non-compliance, at which point the practice was discontinued.

- e. In Changshu, several chemicals identified as occupational hazards (such as organic tin and methanol) were not being properly monitored.
- f. There is no active worker representation or participation on the Employee Health and Safety Committee in either factory.

Additionally, in Shanghai, 30 percent of workers reported abusive behavior on the part of supervisors, such as shouting and verbal attacks related to minor mistakes. In interviews, supervisors reported ongoing stress related to production goals as the reason behind adverse interactions with workers. In its recommendations for sustainable improvement, the FLA outlines a training program for supervisors to remediate this problem.

Finally, although assessors found both factories paying at least the legally mandated minimum wage, workers in both factories reported that their wages are insufficient to cover their basic needs and provide a discretionary income. Because these findings have not been verified through other data sources, the FLA characterizes them as “uncorroborated risks of non-compliance” with the compensation element in the FLA Workplace Code of Conduct. FLA assessors noted that one root cause of this finding is that the Chinese electronics industry as a whole currently does not provide wages that tend to fulfill a worker’s basic needs while providing discretionary income.

As a result of these assessments, Apple is using the FLA recommendations for improvement contained in this report to work with Quanta to develop remediation plans for each code violation. For example, at the time of publication, Apple had completed an action plan for updating MSDSs in both factories, and for relocating eyewashes and emergency showers. Apple had established a pending action plan for meeting future legal restrictions on dispatch workers, after seeking clarification from the local governing body on the types of work allowed for temporary, auxiliary, or substitute positions. These and all other completed or pending actions plans are publicly disclosed on the [FLA website](#).