FAIR LABOR ASSOCIATION™

Protecting Workers' Rights Worldwide

Independent Investigation of Apple Supplier, Foxconn

Report Highlights

MARCH 2012

I. Introduction

This report is the result of a Fair Labor Association (FLA) independent investigation into Apple's supplier Foxconn, China's largest private employer. FLA is a unique collaboration among companies, universities, and labor and human rights civil society organizations that goes beyond identifying labor problems by uncovering the sources of these problems, and how best to resolve them.

Working directly with corporations allows for more success in developing meaningful solutions that remain after public scrutiny and media attention have faded.

After growing criticism during 2011 about the working conditions at Foxconn, including those conditions that led to deadly accidents, Apple agreed to allow FLA to conduct a thorough investigation of those suppliers, beginning with three factories at Guanlan, Longhua, and Chengdu in China. Much more than an audit for compliance, this investigation is best described as an in-depth, top-down and bottom-up examination of the entire operation.

The findings of FLA's nearly month-long investigation revealed serious and pressing noncompliances with FLA's Workplace Code of Conduct,[1] as well as Chinese labor law. In addition to the findings summarized below, this report contains a detailed set of necessary remedial measures to protect the health and safety of workers, reduce worker hours to legal limits while protecting worker pay, and establish genuine avenues for workers to provide input on company decisions that affect their lives and livelihoods.

The measures address the root causes of issues at Foxconn facilities. They aim to prevent future noncompliance with Chinese legal requirements and the FLA's Workplace Code, while bettering many aspects in workers' lives. Both Apple and Foxconn have agreed to ongoing assessments by FLA in order to ensure that labor practices meet FLA standards and remain in compliance for the long term.

II. Methodology

The assessors methodically and carefully conducted an assessment using FLA's Sustainable Compliance methodology (SCI) as well as an anonymous, representative worker perception survey of more than 35,000 randomly selected Foxconn workers, referred to in this report as the SCOPE workers' survey on workforce perception and satisfaction.

These surveys asked workers about their perceptions of working hours, wages and benefits, health and safety, working environment, and the atmosphere within the factory. The SCI method examines compliance issues, while offering a more thorough assessment of the employment relationship from start to finish in order to provide a solid foundation for the achievement and maintenance of legal and code compliance. The assessors answered more than 2,200 questions over the course of their investigation, conducted hundreds of on- and off-site interviews, and logged nearly 3,000 staff hours inside the factories. This multi-pronged approach produced a range of both quantitative and qualitative data, allowing FLA to develop an in-depth understanding of working conditions, particularly during peak production periods.

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III. Findings and Remedial Measures

In its investigation of Foxconn, FLA observed at least 50 issues related to the FLA Code and Chinese labor law, including in the following areas: health and safety, worker integration and communication, and wages and working hours. The most pressing problems are laid out below with the sustainable remedial measures that Apple and Foxconn have agreed to implement, in keeping with requirements of the FLA program.

A) Working Hours

During peak production, the average number of hours worked per week at Foxconn factories exceeded both the FLA Code standard and Chinese legal limits. This was true in all three factories. Further, there were periods during which some employees worked more than seven days in a row without the required minimum 24-hour break. The root causes include high labor turnover, which undermines efficiency, and gaps in production and capacity planning.

Remedial Action: Foxconn has agreed to achieve full legal compliance regarding work hours by July 1, 2013, while protecting workers' pay. While reducing hours and stabilizing pay, Foxconn will need to increase employment to maintain current levels of output, productivity and quality. In the next year, tens of thousands of extra workers will need to be recruited, trained and accommodated at the same time as hours worked are progressively reduced per worker.

B) Health and Safety

Our assessors identified numerous issues related to inconsistent policies, procedures and practices. The investigation revealed that a considerable number of workers felt generally insecure regarding their health and safety. The issue of aluminum dust was of particular concern, as this was the cause of an explosion at the Chengdu facility last year. FLA found that, one year after the Chengdu explosion, Foxconn had improved operating procedures, measurement, and documentation to reduce risk related to aluminum dust where Apple products are made.

Remedial Action: Workers are the first line of defense in health and safety, and increased worker involvement in formulating and implementing health and safety

policy will help to ensure future compliance. Many of Foxconn's health and safety violations, including blocked exits, lack of or faulty personal protective equipment, and missing permits have already been remedied. Additionally, Foxconn has agreed to change the system by which accidents are recorded. In the past, only those accidents that caused work stoppage were recorded as accidents. Moving forward, all accidents that result in an injury will be recorded and addressed.

C) Industrial Relations and Worker Integration

Investigators found that workers were largely alienated, in fact or in perception, from factories' safety and health committees and had little confidence in the management of health and safety issues. The assessment also suggests that if workers had more involvement with developing and monitoring health and safety procedures, many of the problems with implementation could be avoided.

It should be noted that committees may not be truly representative of the workers, because management nominates candidates for election. The result is committees composed not by those who need representation, but instead are dominated by management representatives. Moreover, committees are largely reactive, failing to monitor conditions in a robust manner. As a result, workers remain generally unaware of committees' existence or role, while factories' communications are almost entirely top-down.

Remedial Action: Foxconn has agreed to enhance workers' participation in committees and other union structures. In keeping with local laws, Foxconn has agreed to ensure elections of worker representatives without management inteference. All workers will receive a copy of the Collective Bargaining Agreement and new employees will receive information about union activities during their orientation process.

D) Compensation and Social Security Insurance

While Foxconn wages are above the Chinese average and the legal minimum, the assessment found that 14 percent of the workers may not receive fair compensation for unscheduled overtime. The assessors discovered that unscheduled overtime was only paid in 30-minute increments. This means, for example, that 29 minutes of overtime work results in no pay and 58 minutes results in only one unit of overtime pay. Across China, all workers must have health, accident, social security, unemployment, and maternity coverage, but the system is set up on a provincial and city basis. This means that workers who migrate from other cities or provinces can't collect their insurance when they return home. Workers are further unmotivated to enroll because of a required co-pay into insurance programs from which they do not benefit.

Remedial Action: Foxconn has agreed that the policy and practice relating to such situations warrants improvement; workers will be paid fairly for all overtime and work-related meetings that occur outside regular working hours. After extensive discussions, Foxconn will offer a two-track remedial strategy: to investigate alternative private options to provide unemployment insurance to migrant workers, and work with government agencies to expedite the transportability of benefits. FLA will conduct a cost of living study in Shenzhen and Chengdu to assist Foxconn in determining whether worker salaries meet FLA requirements for basic needs, as well as discretionary income.

IV. Conclusion

As an affiliate of the Fair Labor Association, Apple has committed to ensuring that the FLA code standards are upheld in its supply chain. This investigation was the first of an ongoing series of FLA investigations and assessments into Apple's supply chain. FLA will report periodically on the progress of Foxconn and Apple in taking steps to meet FLA's remedial recommendations.

Foxconn Investigation Report

The FLA Board approved the affiliation of Apple, Inc. as a Participating Company on January 13, 2012. Companies that join the FLA commit to 10 Principles of Fair Labor and Responsible Sourcing and agree to uphold the FLA Workplace Code of Conduct and Compliance Benchmarks throughout their entire supply chain. Under the terms of its affiliation, Apple has two years in which to meet the FLA obligations.

In early February 2012, Apple, Inc. requested that the Fair Labor Association (FLA) conduct a special investigation of worker rights and working conditions at three of its final assembly suppliers. This assessment is separate and apart from the normal due diligence that the FLA conducts on its affiliated companies and to which Apple and its suppliers will be subjected in 2012 and in subsequent years. Given that this assessment took place immediately after Apple affiliated with the FLA, it was not intended to evaluate the extent to which Apple had implemented the FLA Code in its supply chain.

Hon Hai Precision Industry Co., Ltd operates the three factories identified by Apple for the special assessment. Please note that Hon Hai Precision Industry Co., Ltd trades under the name Foxconn Technology Group and will be referred to as Foxconn throughout the report. The factories are located in Guanlan and Longhua in Shenzhen, and in Chengdu.

The FLA accepted the request to conduct the assessment in accordance with its usual protocols for such assessments, namely: (1) that the FLA determine the methodology of the assessment and the assessment team selected to conduct it; (2) that the assessment team receive unfettered access to all facilities, records and workers; (3) that Apple, as the FLA-affiliated company concerned, undertake to develop, with the factories, a remediation plan to address any compliance issues identified; and (4) that the results of the assessment and remediation plan be published.

Process

The FLA assessment consisted of two complementary investigations.

1) Sustainable Compliance Assessments of the employment relationship in a business group within each of the three factories. These assessments were conducted by two teams of local independent monitoring organizations accredited and trained by the FLA and led by an experienced FLA staff member.

2) A worker satisfaction survey of a representative sample of workers at two business groups within each of the three factories conducted by an independent service provider accredited by the FLA and using the FLA SCOPE methodology.

Box 1: SCI Assessment Logistics

Foxconn Facility	Guanlan (Feb 14–17)	Longhua (Mar 5–8)	Chengdu (Mar 6–9)
	# OF ASSESSORS	# OF ASSESSORS	# OF ASSESSORS
Lead Assessor	1	1	1
Co-Auditor	3	3	2
Worker Interviewer	3	1	2
TOTAL	7	5	5
Worker Count	73,004	66,680	38,393
Workers Interviewed Onsite	230	353	558
Workers Interviewed Offsite	21	66	96
Management Interviews	20	30	58
Assessment Duration	3.5 Days (308 hrs)	4 Days (220 hrs)	4 Days (212 hrs)
FLA Staff Participation	2	2	2
FLA Accredited Monitoring Org.	Openview	Openview	SCSA
Payroll and Time Records Review	12 Months	12 Months	12 Months

Sustainable Compliance Assessments

The Sustainable Compliance Assessments were conducted using the Sustainable Compliance (SCI) methodology developed by the FLA. Much more than a compliance audit, SCI evaluates the functioning of the employment relationship through the entire worker life cycle – from hiring to termination.

The life cycle is divided into nine employment functions (EFs), such as hiring and compensation. The workings of each EF are assessed by examining the policy, the procedure for implementing the policy, the training of the relevant staff responsible for that policy/procedure, whether it has been communicated to everyone concerned, and whether workers have been consulted or included in the process. The objective of assessing these employment functions (EFs) is to be able to identify gaps or dysfunctions that may lead (or have already led) to labor standards issues.

Wherever a gap emerged, we conducted a root cause analysis to identify all the factors that contributed to that issue in the supply chain or at the enterprise level. The SCI methodology encompasses compliance issues but offers a more detailed assessment of the entire employment relationship, to provide a solid foundation for the achievement and maintenance of legal and code compliance. The assessors answered more than 2,200 questions in the course of their reporting on each facility.

The Sustainable Compliance Assessments were carried out at the IDPBG Business Group of the Guanlan factory (assembly of iPhone and iPod) from February 14 to February 17, 2012, at the IDSBG Business Unit of the Longhua factory (assembly of iPad and Mac) from March 5 to March 8, 2012, and at the SHZBG Business Unit of the Chengdu factory (manufacture of components and assembly of iPad) from March 6 to March 9, 2012. Openview and SCSA, two local FLA-accredited independent monitoring organizations accredited by the FLA in China, whose personnel had been trained to use the SCI methodology, conducted the assessments while an experienced FLA staff member led the assessment teams.

The assessments analyze information from several sources, including document review, physical observation, management interviews, and on- and offsite interviews with workers. A summary of the level of effort associated with the SCI assessments is provided in Box 1. At the time of the SCI assessments, the number of workers at the three business groups was as follows:

- Guanlan: 73,004 workers
- Longhua: 66,680workers
- Chengdu: 38,393 workers

More detailed information on the demographics of the workforce of each of business group subject to SCI assessment is given in Table 1.

TABLE 1 Characteristics of the Workforce at Three Foxconn Facilities, March 2012

	GUANLAN iDPBG[1]	LONGHUA iDSBG[1]	CHENGDU SHZBG[2]
Total number of workers	73,237	66,680	38,393
Gender			
% male	67%	63.11%	64.01%
% female	33%	36.89%	35.99%
Average age (years)	23.1	23.1	23.4
Employment by occupation			
Operators (%)	90.7%	91.12%	82.31%
Managers (%)	0.1%	0.07%	0.08%
Line/floor supervisors (%)	6.4%	4.91%	6.63%
Engineers/engineers (%)	2.8%	3.9%	10.98%
Employment by status			
Permanent/regular (%)	96.9%	99.81%	100%
Interns (%)	0.1%	0.19%	
Other (%)	3%		
Young workers (16 to <18 years) (%)	3.6%	4.91%	5.51%
Migrant workers[3] (%)	99%	99.17%	14.22%
Living in the dormitories (%)	29.3%	37.52%	69.61%

Note: Information as of March 5, 2012. At the time of the FLA SCI assessment at Guanlan (mid-February 2012), employment was 73,004.

[1] Assembly

[2] Components & Assembly

[3] A migrant worker is defined in FLA's Workplace Code of Conduct as a person who migrates or who has migrated from one country to another or in some cases between regions or provinces of a country with a specific purpose of exercising an economic activity from which they will receive a wage. The above reference is to internal migrants.

SOURCE: STATISTICS PROVIDED BY FOXCONN.

Worker Satisfaction Survey

The FLA's SCOPE Workers' Surveys are standardized, quantitative questionnaires that are completed anonymously by a randomly selected, representative sample of workers. The SCOPE Job Satisfaction Survey gathers workers' opinions on factors influencing job satisfaction, such as working hours, wages and benefits, health and safety, working environment, and the atmosphere within the factory, supervisors' and management's attitude and communication, professional development and advancement opportunities, perception of work performance, and physical impact of working at the factory. In addition to the Workers' Surveys, focus group discussions with workers and in-depth interviews with workers and supervisors obtained qualitative data to complement the quantitative results.

An FLA-accredited independent service provider, INFACT, administered the SCOPE Job Satisfaction Survey to a representative sample of workers at the three factories. Workers at six business units, two at each of the locations, were surveyed. The total number of workers at the six business units was 288,800. Sample stratification and random sampling were conducted based on the characteristics of the workforce at the three locations. The survey was implemented in all three locations simultaneously over the period from February 13 to March 3, 2012. The number of valid surveys from all three factories was 35,166, and the results have a confidence rate of 99 percent. The number of workers surveyed in each of the locations was as follows:

- Guanlan: 10,262 workers surveyed
- Longhua: 8,256 workers surveyed
- Chengdu: 16,648 workers surveyed

The survey was administered in training classrooms at each of the workplaces, with 200 to 240 workers participating at a time. Workers completed the questionnaire either on a computer or an iPad. At each location, the workers had space for privacy while completing the questionnaire and two interviewers were assigned to each room to provide assistance and clarification. The survey is anonymous and the results are untraceable back to respondents.

Participants in the focus groups were randomly selected from the operator level or from the ranks of workers without managerial functions. A few focus groups consisted only of line supervisors in order to collect information and opinions from the lowest level of management directly responsible for implementing production goals and dealing with work issues daily. In total, 26 focus group discussions were held in Shenzhen (15 in Guanlan; 11 in Longhua) and 28 in Chengdu. Topics covered included working hours, wages, communication, and health and safety.

Finally, there were also in-depth interviews of workers and managers selected at random. These interviews of workers were conducted inside and outside of the Foxconn factory compound, including in the canteen, dormitories, apartments, and the convenience store. The purpose of these random interviews was to gain more information about the workers' lives; for instance, researchers visited workers' dormitories and asked them where they eat and shop and about their personal backgrounds. In Shenzhen, 12 Foxconn staff members were interviewed, while in Chengdu, 19 workers were interviewed. Box 1 offers a summary of the level of effort associated with the perceptions survey.

Interviews of a representative sample this large can only be conducted on-site and with the cooperation of management. To ensure that workers feel free to answer questions candidly, we explicitly discuss our non-retaliation policy with management and interviewees and provide workers with a phone number they can call if they have anything else they would like to tell us or if they believe they have been subject to recrimination.

Results

In the SCI methodology, "Findings" highlight gaps between desired and actual performance on different Employment Functions, such as Hiring and Compensation. Although some Findings might relate to clear non-compliance with the FLA Code and Compliance Benmarks or with local laws, many do not. Instead most findings identify gaps or shortcomings that, left unaddressed, may lead to non-compliance with a code or legal standard. The purpose of making the Finding is to identify areas where improvements will achieve long-term and sustained compliance. As such "Findings" are generally supported by a root cause analysis that allows the company to intervene

at the right level to effect change. Addressing each of the Findings is likely to increase the chances of sustainable improvement of working conditions.

SCI Findings can be categorized into two main types:

- Immediate Action Required: This category applies to discoveries or Findings at the workplace that need immediate action because they constitute an imminent danger, risk the workers' basic rights, threaten their safety and well-being or pose a clear hazard to the environment, and because they are clearly not in compliance with the FLA Workplace Code of Conduct and local laws
- Sustainable Remediation Required: This category applies to Findings that require actions tackling the underlying root causes in a long-term and systematic manner

Findings from the SCI Assessments of the three Foxconn factories appear in full as appendices. For each Finding, there is a reference to the Employment Function involved, the type of Finding (immediate action or sustainable remediation), an explanation of the Finding and the local law or FLA Benchmarks that are involved. Each Finding also includes an analysis of the root causes and recommendations for immediate action or sustainable improvement, depending on the type of Finding.

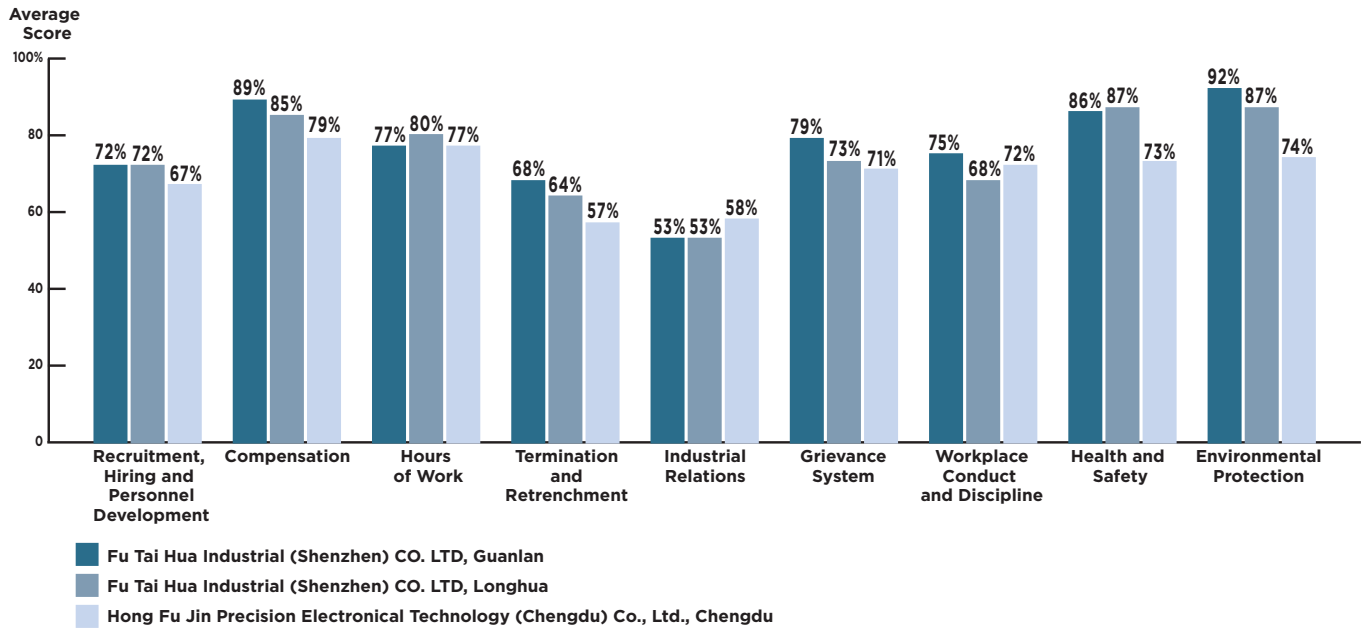
Employment Functions

With respect to each of the three Foxconn facilities, FLA assessors gathered raw information from many sources in order to assess Employment Functions (EF's) and Management Functions (MF's). The information was entered into the SCI reporting tool, which is housed on the FLA IT platform. From individual responses, the FLA developed aggregate scores of performance by employment function and by management function. Table 2 provides the scores for the three Business Groups with respect to each employment function. A perfect score means that the employment function is being managed in a way that is fully compliant with the FLA Code and national law.

It is evident from Table 2 that all three factories scored highest with respect to the compensation and environmental protection EFs, and lowest with regard to industrial relations and termination and retrenchment.

Employment Function Scores

TABLE 2 Score by Employment Function



With respect to most management functions, the Shenzhen locations (Guanlan and Longhua) performed better than the more recent Chengdu facility, which is newer than the the two factories in Shenzhen.

Principal Findings

FLA assessors identified specific issues that Apple and Foxconn need to address. Some of those were instances of non-compliance, some were gaps that represent a risk of non-compliance, some were simply areas of weakness in need of strengthening. A detailed review of all the findings, facility-by-facility, is in the attached SCI reports. Also attached is the Workforce Perception and Satisfaction Report, which presents the methodology and selected results from the worker perception surveys.

In what follows, we summarize some of the key, common findings of the SCI assessments, drawing also on the results of the worker perception surveys as appropriate. This is not an exhaustive review of the findings; those appear in the individual SCI reports appended to this report. The main findings relate to hours worked, particularly overtime and rest days; the social security benefits available to workers (especially migrant workers); the employment of interns, young workers (16-17 years of age) and short-term workers; the system of worker participation and representation; and workers safety and health. Our assessments did not find issues related to child labor, forced labor or payment of the legal minimum wage.

Hours of Work

There are two issues here – the FLA Code Standard of 60 hours per week in total (regular plus overtime) and the Chinese legal limits of 40 hours per week and a maximum of 36 hours overtime per month (effectively nine hours per week). All three factories exceeded the FLA Code Standard and the requirements of the Chinese labor law at some point in the last 12 months.

During peak production periods, the average number of hours worked per week exceeded the FLA Code Standard of 60 hours. Also, there were periods in which some workers did not get one day off in seven days. This is confirmed by the worker survey: the sample of workers surveyed indicated average weekly working hours of 56 hours, average maximum weekly working hours of 61 hours, and occasional long periods without a rest day; nearly half of the employees indicated that had been periods when they worked 11 or more consecutive days.

The monthly legal limit on overtime hours (36 hours) was exceeded in Chengdu by about half the workforce in July 2011 and January 2012. In Guanlan almost 80% of the total workforce exceeded the legal limit on overtime hours between September 2011 and January 2012. In Longhua, most of the workers (77.1%) worked overtime beyond the legal limit between March 2011 and February 2012.

The root causes include high labor turnover, which undermines efficiency, and gaps in production and capacity planning. A majority of the workers worked fewer than 60 hours per week (regular hours plus overtime) in early 2011, but in November and December 2011, 34% and 46% of the workforce respectively worked up to 70 hours per week and 37% did not receive the required 24 consecutive hours of rest in a seven-day period during the peak season (November 2011- January 2012).

When asked in the survey how they feel about working hours, 48% thought that their working hours were reasonable, and another 33.8% stated that they would like to work more hours and make more money. 17.7% of the respondents felt that they worked too much. Correlating the views of employees on hours of work and contentment levels from the survey suggests that after a certain number of hours, employees are not more content if they work additional hours. The diagram below groups workers: (1) working fewer than 52 hours per week; (2) working between 52 and 59 hours per week; and (3) working 60 or more hours per week, and compares them with respect to contentment, loyalty and attachment to the factory, and working relationships. Employees who worked 52 hours or less weekly were slightly more content, more loyal and had better relationships at work. The relationship above was confirmed when participants shared views at the focus groups on working hours, breaks and shift arrangements. While employees remain concerned about long working hours, they welcome them because of the boost to their pay. In all focus group discussions about working hours, employees raised concerns that stricter working hour regulations would lower their income.

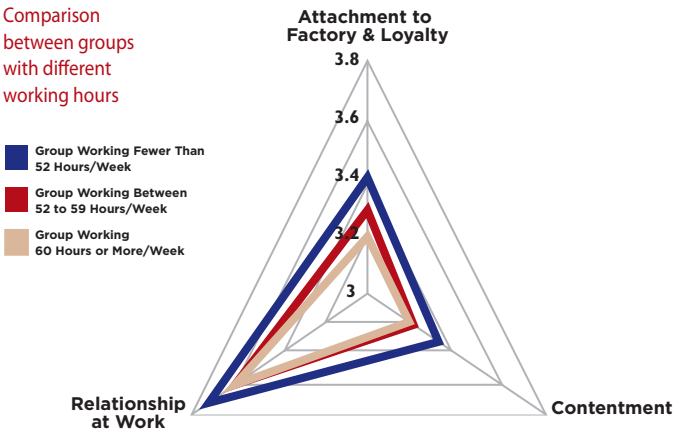
Compensation

The SCI assessors found that wages are paid on time and are above the applicable legal rates. The legal minimum wage in Shenzhen is RMB1500, while the starting wage at Foxconn is RMB1800. After the probation period, wages go up to about RMB2200. Sick leave payments are higher than the local law requirement, with workers compensated 70% as opposed to the minimum law requirement of 60%. Overtime hours were also paid at the appropriate premiums.

With respect to satisfaction with wages, 64.3% of workers thought that their salary was not sufficient to cover their basic needs. The discontent with salaries was more pronounced in Chengdu where the legal minimum wage is lower; 72% of workers at Chengdu said their salaries did not cover basic needs. (According to the survey respondents, the average monthly salary in Chengdu was 2,257 RMB, compared to 2,687 RMB in Longhua and 2,872 RMB at Guanlan.)

The system used to measure overtime has an issue in that it uses a unit of 30 minutes for unscheduled overtime (for 14% of workforce) and does not pay workers for fractions of a unit they may have worked. In other words, a worker who puts in an extra 29 minutes may not get paid for that time, and a worker who puts in 59 minutes may only be paid for 30. This does not apply to overtime that is scheduled in advance. A similar issue regarding payment arises with respect to team meetings that take place before or after work and training that takes place outside working hours. These generally last about 10 minutes and management did not see these as work and accordingly did not pay for them.

Working Hours and Loyalty, Contentment and Relationship at Work



China's Social Insurance Law, adopted on October 28, 2010 (effective July 1, 2011), requires basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. Unfortunately, the system is still patchy and presents significant structural obstacles to providing effective coverage. The main problem faced by many employers and workers is that of transportability of benefits between provinces. Social security, medical and unemployment insurance require contributions from both the employer and the employee. However, migrant workers may not be able to claim those benefits in their hometown if they retire or become unemployed. It all depends on whether the two provinces in question (where they work and where they have residence) have established the institutional mechanisms to transfer the relevant funds. Government is slowly patching the holes in the national social insurance safety net but they still affect a large number of migrant workers in China.

At the Shenzhen facilities only 1% of the workforce are local, while the migrant workers are not enrolled in the unemployment and maternity insurance systems. The reason for this is that all migrant workers in Shenzhen are unable to claim these benefits because they do not have Shenzhen residence cards. At the Chengdu facility, the problem does not present itself because most of the workers are from in-province; therefore, all those workers are fully covered.

The problem is not so acute in the case of maternity, because the Shenzhen authorities allow women to register and claim benefits when they become pregnant, even if they had not paid into the system previously. Therefore, the major problem is that there are no transfer mechanisms in place between most provinces in China for unemployment insurance.

Interns

The issue of work by interns has been the source of much controversy in China in recent years and represents a major concern for external stakeholders. We therefore made a special effort to understand and assess the risks of the internship system at Foxconn.

Internship agreements for vocational school students are three-party agreements involving the

school, Foxconn, and the intern. For college students, the agreement is signed directly between Foxconn and the intern. Internships are for three to six months and a teacher accompanies the interns. In 2011, 2.7% of the workforce of Foxconn Group consisted of interns, an average of 27,000 interns per month. Their average tenure was 3.5 months.

The intern labor force is seasonal, peaking in the summer months when most students seek internships (5.7% of the workforce consisted of interns in August 2011). At the time of our March 2012 assessment, 519 interns worked in the three factories assessed, including 126 at the Longhua facility and 58 in Guanlan. The working hours of interns should not exceed eight hours per day, five days per week, and interns should never work seven days straight. Our assessors found that interns worked both overtime and night shifts, violations of the regulations governing internships.

Foxconn provides interns with work-related injury and health insurance, and personal accident and liability insurance is provided by their schools. Under Chinese labor law, interns are not defined as employees and legally, no employment relationship exists between the factory and the interns. This means that the general protections of the labor law do not apply to interns, including the social security benefits that normal workers receive. While regulations applying to interns exist in Guangdong Province and the Ministry of Education has issued policy regarding interns, their employment status remains vague and represents a major risk.

Industrial Relations

The FLA assessment methodologies examine not only whether policies and procedures exist, but also whether they are being implemented. In assessing the degree of implementation, we consider whether the line staff have received proper training to carry out the policies and procedures, whether they follow them in practice, and most important, whether the policies and procedures are communicated to all concerned. Communication is a two-way process, and we assess to what degree workers are integrated into the processes that govern the workplace. The more workers participate in those processes, the more they are accepted, trusted and effective. Our surveys regularly show that workers' integration correlates positively with increased loyalty, lower turnover and greater job satisfaction.

We measure the degree of communication, consultation and negotiation, and combine the scores under the heading of Worker Integration. A low score for worker integration typically means that workers were not consulted when policies and procedures that directly affect them were designed. Or, if they joined at a later date, the workers were not made fully aware of those policies and procedures. A low score would also indicate that workers are not participating in, or engaging with, committees and processes regulating conditions of work such as health and safety committees, grievance processes and union activities.

Workers had very limited knowledge of the structure, function and activities of the worker participation bodies within Foxconn. When we investigated the industrial relations system at Foxconn we found that even though a union exists, a large majority of workers seemed unaware of its activities and of the collective bargaining agreement. Only 32.7% of the respondents in our perceptions survey stated that workers elect worker representatives, while 20% believe that management elects them. Another 42.3% do not know how the committees are formed. Workers are equally divided on the question of whether worker representatives participate in the factory's decision-making processes: 12.8% said they don't; 17% said that they do; and a large majority (70%) did not know. This low level of awareness may be explained, in part, by the turnover rate of workers. Yet the bottom line is that too many workers are not aware

of the system of worker representation, which reduces the potential for workers' integration.

A majority of the members of union committees are drawn from the ranks of management. There are 188 representatives on the main union committee, of which 54 are operators and multi-skilled workers, 29 are line leaders/supervisors and the remaining 105 are engineer or staff level. This committee sits at the top of a four-tier pyramid of thousands of subsidiary bodies that stretch all the way down to 15,810 action teams at production line level at the Shenzhen facilities (9,447 of them on Apple production lines). There are another 3,258 action teams in Chengdu. Although the Foxconn union holds elections, the candidates are often supervisors or managers nominated by management. While this is a common situation in Chinese factories where unions are present, it does not meet the standards of the relevant ILO Conventions or of the Trade Union Law of China and the Regulations on Collective Bargaining.

The Shenzhen Municipal Implementing Regulations for the Trade Union Law of the People's Republic of China specify that the Chair, Deputy Chair and committee members should be nominated and elected by union members without interference from management. They also state that the legal representative, managing director, deputy director, personnel department director or any of their relatives should not hold office as trade union chair, deputy chair, standing committee member, committee member or member of the trade union fund audit committee. The intent of these provisions is clearly to avoid the conflicts of interest that might arise when managers represent workers on union committees and to ensure that unions more effectively reflect and represent workers' needs and interests. Although the Foxconn managers sitting on union committees may not hold the exact positions mentioned in the Implementing Regulations, they are nevertheless members of the management team and not workers.

The Implementing Regulations also instruct local unions to organize and hold workers' assemblies or congress meetings; ensure that the resolutions adopted are carried out; conduct collective bargaining and oversee the performance of collective contracts; represent union members in consultations with the employer on all matters that affect the interests of workers; and assist in mediation and labor disputes.

In addition, the law requires that the union ensures that workers are made aware of labor laws and regulations. The Foxconn union does publish booklets explaining its role and activities, but our survey data show that these have not raised workers' awareness or participation rates.

Health, Safety and Environment

Our assessors identified numerous issues related to inconsistent policies, procedures and practices. These problems appear in detail in the individual assessment reports, along with the actions that Foxconn has agreed to take to improve performance in this area. In many instances those actions have already been completed.

The issue of aluminum dust was of particular concern to us because of the explosion at the Chengdu site last year. There is an ongoing government investigation into the causes of the explosion that initially restricted access to the building concerned but our assessors were subsequently able to visit that building and confirm that no work is being conducted there. They were also able to visit other buildings in which aluminum is cut, drilled, ground or polished. The standard operating procedures in these sections have been strengthened and the concentration of dust particles in the air regularly measured. We looked at the frequency of measurements, the calibration of the instruments, the training of the staff responsible for those measurements and the keeping of records. Our assessors did identify some machines at which sensors, hoods or barriers needed to be connected

to automatic cut-out mechanisms to prevent workers from reaching into the machines, and they also flagged the use of compressed air in some sections where it could pose a risk. A number of these issues were rectified immediately.

A general observation concerning Health, Safety and Environment performance in the Foxconn facilities is low worker integration. Both the SCOPE and SCI exercises found that a majority of workers were generally not involved in the safety and health committees and had relatively low levels of confidence in the management of those issues. There are either no elections held, or management nominates the candidates. The result is that committees are management-dominated and do not engage workers. We also found that the committees are mostly reactive and do not proactively monitor conditions. As a result, workers are largely unaware of the existence or role of safety and health committees and, if they are, they tend to doubt their effectiveness.

The SCOPE survey revealed that a considerable number of workers are concerned about the protection of their health and safety. The Shenzhen facilities fared better than the facility in Chengdu on this count, a pattern also observed in regard to other health and safety questions.

Our SCI assessment also found that implementation problems could be avoided if workers had more involvement in developing and monitoring health and safety procedures. The rate at which workers leave employment at the different facilities clearly complicates performance in this area as new workers have to be trained in health and safety policies and procedures and it is difficult to maintain participation in the health and safety committees if workers are constantly leaving. There may be an opportunity to break this negative cycle and even achieve a virtuous circle here, however, in that greater engagement and integration of workers may improve their perception of their health and safety at work and raise the actual standards of performance and these would in turn reduce turnover rates.

FLA Recommended Actions & Remediation Plan

For each finding from the SCI assessment, the FLA has made a series of recommendations to Apple and Foxconn in two categories: (1) immediate action required; and (2) sustainable remediation required. Apple and Foxconn have provided the FLA with a comprehensive remediation plan that addresses each of the findings, which is attached. Below are some aspects of the remediation plan prepared by Apple/Foxconn in response to the findings highlighted in the previous section.

Hours of Work

Foxconn has agreed to move beyond compliance with the FLA 60-hour/week standard to achieve full compliance with Chinese law regarding hours of work (limit of 36 hours of overtime per month) by July 1, 2013. This means reducing overtime hours from 80 per month to 36 while protecting worker pay. Foxconn will have to hire and train a significant number of extra workers, build accomodation for them, and develop a compensation package that addresses the income lost through reduced hours.

Compensation

Foxconn has accepted that the policy and practice relating to unscheduled overtime and work-related meetings outside of regular working hours need to be changed. In the future, workers will be paid for overtime in units of 15 minutes and for work-related meetings outside regular hours will be compensated.

Given the concerns expressed by workers about whether wages cover their basic needs, the FLA recommends a follow-up study to document spending patterns and the actual costs of the components of a basic needs wage.

We discussed the issue of unemployment insurance for migrant workers extensively with Apple and Foxconn, and they have agreed to a two-track remedial strategy. The companies will investigate alternative private options to provide unemployment insurance to migrant workers and work with government agencies to expedite the transportability of benefits.

Interns

Foxconn has proposed to adapt its system to ensure that interns enjoy the protections necessary for a productive, healthy and safe educational experience. Given that students find internships valuable and that Foxconn is in a position to offer a significant number of internships at above-market conditions a set of recommendations have been endorsed by both Foxconn and Apple and those can be found in an annex to this document.

Industrial Relations

Foxconn has agreed to develop an action plan to align union activities with the provisions of the Shenzhen Municipal Implementing Regulations for the Trade Union Law, to enhance workers participation in committees and other union structures, to ensure that nominations and elections take place without management involvement and to engage committees in decision making processes. Workers will all receive a copy of the Collective Bargaining Agreement and new workers will receive information about the union and union activities during their orientation process.

Health, Safety and Environment

The key to improved performance in this area is to enhance workers' engagement in the health and safety committees and to make those more active in the formulation and implementation of policies and procedures. The turnover of workers makes it necessary to refresh the training of workers frequently.

We will continue to make periodic checks on the implementation and review of the standard operating procedures by Foxconn in order to ensure that the workers involved have the appropriate training and personal protective equipment, that the dust concentrations are measured at the appropriate times and remain within safe levels, and that the correct documentation is maintained.

Next Steps

The remedial plans agreed with Apple and Foxconn involve specific deliverables in defined timeframes. FLA assessors will verify some items on site and impact assessments will be made of certain aspects - training in particular - of the remedial process. Many of those have specific milestones that the FLA will track over time and report on publicly via our website.

FOOTNOTES

[1] FLA Workplace Code of Conduct available at www.fairlabor.org/our-work/labor-standards

[2] The employment functions follow the worker's employment life-cycle: (1) Recruitment, Hiring and Personnel Development; (2) Compensation; (3) Hours of Work; (4) Industrial Relations; (5) Workplace Conduct; (6) Grievance System; (7) Environmental Protection; (8) Health and Safety; and (9) Termination and Retrenchment.

[3] The management functions are: (1) Policy and Procedure; (2) Training; (3) Implementation; (4) Communication and Workers Integration; (5) Review Process; and (6) Responsibility/Accountability.

[4] SCOPE stands for Sustainable Compliance Perceptions.

[5] In addition to the three business units that were subject to the SCI assessments, the worker perception survey was also administered to workers at the SHZBG-GL business unit (manufacture of components) at Guanlan, the SHZBG-LH business unit (manufacture of components) at Longhua, and the IDSBG-CD business unit (assembly) at Chengdu.

[6] In Chengdu, the number of workers surveyed at one time was about 150. Moreover, at this location paper questionnaires were used during the first two days of the survey, with the results transferred to machine readable records by INFACT personnel.