Hewlett Packard

CSR Company Profile

Michiel van Dijk and Irene Schipper

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HP
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By:
Michiel van Dijk & Irene Schipper
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Stichting Onderzoek Multinationale Ondernemingen (SOMO)
Centre for Research on Multinational Corporations

Contents

1   Introduction

This corporate social responsibility (CSR) company profile on Hewlett Packard is part of a research project on the ICT hardware sector by SOMO, co-financed by the Ministry of Foreign Affairs in the Netherlands. Other financers are member organisations of International Consumer Research and Testing (ICRT) and two development organisations, namely Bread for All and the Swiss Catholic Lenten Fund.[1] In addition to this profile, profiles are made on Dell, Acer, Fujitsu Siemens Computers, Apple, Toshiba, Sony and Packard Bell.

The methodology used for the survey consists of:
- ☐   Website analyses;
- ☐   Analyses of annual- and CSR reports;
- ☐   Questionnaires to major computer brands sent by ICRT;
- ☐   Workers interviews in China, The Philippines, and Thailand;
- ☐   Interviews with the management of production sites.

The research is conducted by SOMO in collaboration with research and labour organisations in China, The Philippines and Thailand: SACOM in China (Students and Scholars Against Corporate Misbehavior); the Workers' Assistance Center, Inc (WAC) in The Philippines; the Centre for Labour Information Service and Training (CLIST) and Asia Pacific Workers Solidarity Links (APWSL) in Thailand. The definition of CSR used by SOMO is based on the "CSR Frame of Reference" published by the Dutch CSR Platform: a Coalition of 30 Dutch Civil Society Organisations and Trade Unions actively promoting CSR.[2]

The first part of the profile provides a short general company overview and then focuses on the companies' CSR policies and operational standards like supply chain responsibility, stakeholder involvement, independent verification and transparency and reporting.

The second part of the profile provides research findings of the field studies on social issues including workers interviews. Where relevant, the non-compliance cases with the EICC code reported by the Center for Labor Reflection and Action (CEREAL) in its 2006 report are also included.[3] For the analyses of the environmental policies and practices SOMO relies on the research reports of Greenpeace.[4]

The research by SOMO and its partners covers a total of 33 supplier companies: 9 suppliers of The Philippines, 6 suppliers in China, 12 suppliers in Thailand. In addition information on 6 Mexican suppliers is available from the CEREAL report. A number of these suppliers are identified as being a supplier of HP. Most of these suppliers are shared by the other brand companies.

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[1] Participating ICRT members include consumer organisations of Austria, Belgium, Finland, Switzerland, Italy, Portugal, Spain and the Netherlands. The results of the study will be used for publications in the consumer magazines of the ICRT members aimed to inform their members about both the price quality proportion of PC products and the CSR policies and practices of the brand companies.
[2] www.mvo-platform.nl
http://mvo-platform.tuxic.nl/files/Publicaties/MVO%20Normen/CSR%20frame%20of%20reference.pdf
[3] CEREAL, "New Technology Workers", June 2006, http://www.cafod.org.uk/var/storage/original/application/0788568b70a3b716f223722ad2729a0c.pdf (29 Nov 2006).
[4] Greenpeace, "Your Guide to Greener Electronics", 18 September 2006, http://www.greenpeace.org/raw/content/international/press/reports/greener-electronics-guide.pdf (29 Nov 2006) Greenpeace, "Toxic Chemicals in Computers" 18 September 2006, http://www.greenpeace.nl/raw/content/reports/toxic-chemicals-in-computers-e.pdf (29 Nov 2006).

Finally, this report also includes information on working conditions in part of the Hard Disk Drive (HDD) supply chain in Thailand and the Philippines. The HDD market is dominated by six HDD manufacturers (Fujitsu, Hitachi Global Storage Technologies, Toshiba, Seagate/Maxtor, Samsung and Western Digital), which together produce 98.4 percent of total factory unit shipments of HDD's in the world[5]. A survey among computer repair shops and technical research department of the Dutch consumer organisation indicates that, similar to other PC brands, the HDDs brands used by HP varies, implicating that all 6 HDD brands can be found in HP computers. This means that the suppliers of these 6 HDD manufacturers are also part of HP's supply chain and therefore HP can be held accountable for possible social and environmental problems at these second-tier suppliers. HP has confirmed they do buy from the 6 HDD 1st tier manufacturers listed.

To prevent the publishing of any inaccurate information about the company subject in this profile SOMO has implemented a review process in which the companies are requested to review the draft profile and inform SOMO about factual misunderstandings.
The comments provided by HP on the draft version of this report are incorporated.[6] HP not only provided feedback on the first part of the report but also worked with their sourcing teams to confirm which first, second and third tier suppliers they use. They have set up an extensive correspondence with their suppliers to verify the information in this report but the outcome of this process is not known yet by SOMO.

This company profile of HP includes suppliers for the printer and server business of HP, although the co-financers of this study, the ICRT, Bread for All and the Swiss Catholic Lenten Fund concentrate on only the PC business (desktops and notebooks) in their publications based on the SOMO research. As this profile is written to serve as a basis for other publications, as one of eight profiles, it offers the information in a way it is comparable with the other 7 profiles, with analyses but without conclusions. The ICRT member organisations together with the participating development organisations are responsible for the task to rate the included companies on CSR policies and practices and will publish their own publications based on this research.

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[5] Source: iSuppli Corp. April 2006. http://www.emsnow.com/newsarchives/archivedetails.cfm?ID=12618 Table: Worldwide Top-Seven HDD Supplier Ranking for 2005 (Ranking by Percentage of Total Factory Unit Shipments)
[6] SOMO received comments written by Bonnie Nixon Gardiner, HP Global Program Manager , Supply Chain Social & Environmental Responsibility, by email dated December 27, 2006.

2 Company Overview

Name:	Hewlett-Packard Company
Business Address:	3000 Hanover St., Palo Alto, CA 94304
Contact person CSR	Bonnie Nixon Gardiner, HP Global Program Manager , Supply Chain Social & Environmental Responsibility
Email:	bonnie.nixon@hp.com
Telephone:	Office: (650) 857-5138, Alternate (415) 460-9828, Cell (415) 860-8470
Internet:	Website: http://www.hp.com/go/supplierE
The respondent (who filled in the questionnaire)	Jeannette Weisschuh
Function(s) in company	Head of Corporate Affairs Europe, Middle East and Africa
Phone	+49 162 2897586 (fax: ++ 49 7031 14 3276)
Email	jeannette.weisschuh@hp.com
Logo:	

Hewlett-Packard, also known as HP, is one of the largest information technology companies in the world. The company is composed of three broad units: Technology Solutions Group (enterprise storage and servers, services and software), Personal Systems Group (desktop and notebook PCs for consumers and business, handheld computers and calculators), and Imaging and Printing Group (printers, copiers, digital presses, scanners, software and digital cameras).

The Personal Systems Group competes with Dell for the supremacy in the global PC market and uses many of the same suppliers. Following HP's acquisition of Compaq Computers in 2002, the company sells both HP and Compaq-branded products. HP computers are predominantly Microsoft Windows-based systems but the company does also provide Linux workstations.

With about 30 percent of sales each the Personal Systems Group and the Imaging and Printing Group make up the largest share of HP's total sales. The Technology Solutions Group generates 20 percent of total sales. Besides these three main units HP's business segments include financial services and corporate investment. 35 percent of production is sold in the US and 65 percent in other countries. Some of HP's Asian and Latin America manufacturing is for sale in those countries rather than for export to other countries.

Table 1: Sales by Segment, FY2006

Segment	Sales (million US$)	Sales (%)
Technology Solutions Group		
Enterprise storage & servers	17,308	19
HP Services	15,617	17
Software	1,301	1
Personal Systems Group	29166	32
Imaging & Printing	26786	29
HP Financial Services	2,078	2
Investments	566	1
Adjustments	-1,164	-
Total	91,658	100

Source: Hoover's Company Information

Table 2: Sales by Region, 2005[7]

Region	Sales (million US$)	Sales (%)
US	30,548	35
Other countries	56,148	65
Total	86,696	100

Source: Hoover's Company Information

Figure 1: Key Financial Figures, 2001-2005

	Mar 01	Mar 02	Mar 03	Mar 04	Mar 05
■ Revenue	45,226.00	56,588.00	73,061.00	79,905.00	86,696.00
■ Net income	680.00	-1,012.00	2,539.00	3,497.00	2,398.00
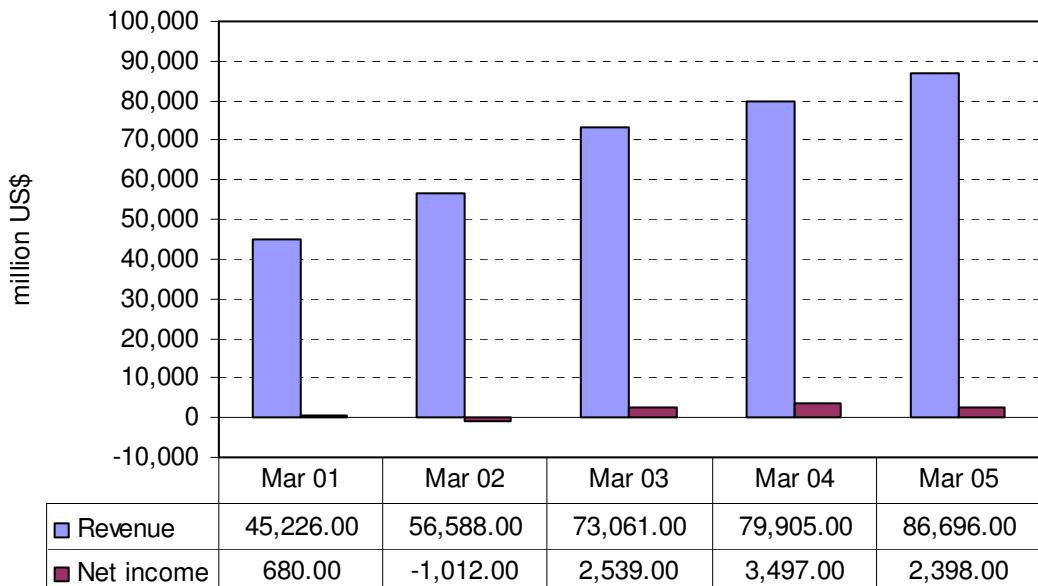
Source: Hoover's company information.
FY2006: Revenue 91.658, net earnings 6,198
http://media.corporate-ir.net/media_files/irol/71/71087/Q406FinancialTablesA.pdf
Data for 2003 represent combined revenues for HP and Compaq, including the period before the merger.
Data for 2001 and 2002 exclude Compaq.

Over the last five years revenue has almost doubled from US$ 45,226 to US$ 86,696 million while net income quadrupled from US$680 milion to US$ 2, 398 million over the same period. A significant part of the growth is attributable to HP's merger with Compaq in May 2002. In 2001, Compaq's annual revenues were roughly $40 billion.

HP employs about 150,000 people at more than 940 sites in more than 170 countries. The Chairman of the Board, CEO and President is Mark V. Hurd.

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[7] Updated 2006 data is available in graphical form by quarter at http://media.corporate-ir.net/media_files/irol/71/71087/presentations/4Q06EarningsPresentation.pdf

3   Supply Chain

According to HP's website, the company operates the "IT industry's largest and most complex supply chain."[8] It purchases approximately $53 billion of products and materials, components and manufacturing, transport and other services annually from approximately 700 direct material suppliers globally and more than 80% of its products are manufactured through alliances and partnerships. However, approximately 550 high-priority suppliers, make up 98% of the company's purchasing expenditure.[9] More importantly, over the last 5 years HP has gone through a massive consolidation and rationalization of its supply base reducing the total number of suppliers from thousands to hundreds of which only a small portion (approximately 150 suppliers with more than 300 factory locations) is based in higher risk geographies.[10]

The figure below shows major locations of HP product materials, components and services suppliers. HP buys roughly $53B of "electronics" products.[11]
Comment HP: HP historically manufactured its own products into the early 1990's when it began outsourcing to major North American based Contract Manufacturers. It was not until the late 1990's when several of these companies began building factories worldwide to serve a diverse marketplace. HP sells more than 60% of its products to markets outside the United States making it a truly global company that addresses markets where time to market is increasingly crucial. After the year 2000, much of the personal computing marketplace began to rely to a large extent on several Taiwanese based suppliers with factories in China, including Foxconn (one of the largest contract manufacturers worldwide).[12]

In 2004, HP was the largest customer of the biggest contract manufacturer in the world, Flextronics, accounting for 12% of its sales in 2004, and more than 10% in fiscal years 2005 and 2006 (concerning inkjet printers and storage devices).[13] HP also accounted for 12% of Sanmina-SCI's sales in 2005.

The major Taiwanese notebook suppliers producing for HP are Quanta (25% of its 2004 production was for HP[14]), Compal (32% of production for HP), Inventec (73% of production for HP) and Wistron (7% of production for HP).[15]

Where does the manufacturing of the PC's (notebooks and desk top computers) and its components take place?

- ❑   Assembly: 10% of assembly is done by own production sites of HP. 90% is outsourced in the following countries: USA, Czech Republic, Mexico, Hungary, China, Brazil, Australia.
- ❑   The Housing/Plastics are produced in China (100% outsourcing)
- ❑   Hard disc drives (HDD) are produced in China, Thailand, and Korea (100% outsourcing)

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[8] HP website, <http://www.hp.com/hpinfo/globalcitizenship/environment/supplychain/> (14-08-06).
[9] News release, November 6, 2006, HP to help improve CSR practices in Central Europe.
[10] Information added by HP, Bonnie Nixon Gardener in review process.
[11] P. Burrows, *Stalking high-tech sweathops,* BusinessWeek, 19 June 2006, p. 62-63. Correction related to information in the article: HP buys roughly $53B of "electronics" products. $67B is total spend which includes operational supplies for internal HP use. The additional $14B is not for product and is definitely not related to PCs or Notebooks.
[12] Information added by HP, Bonnie Nixon Gardener in review process
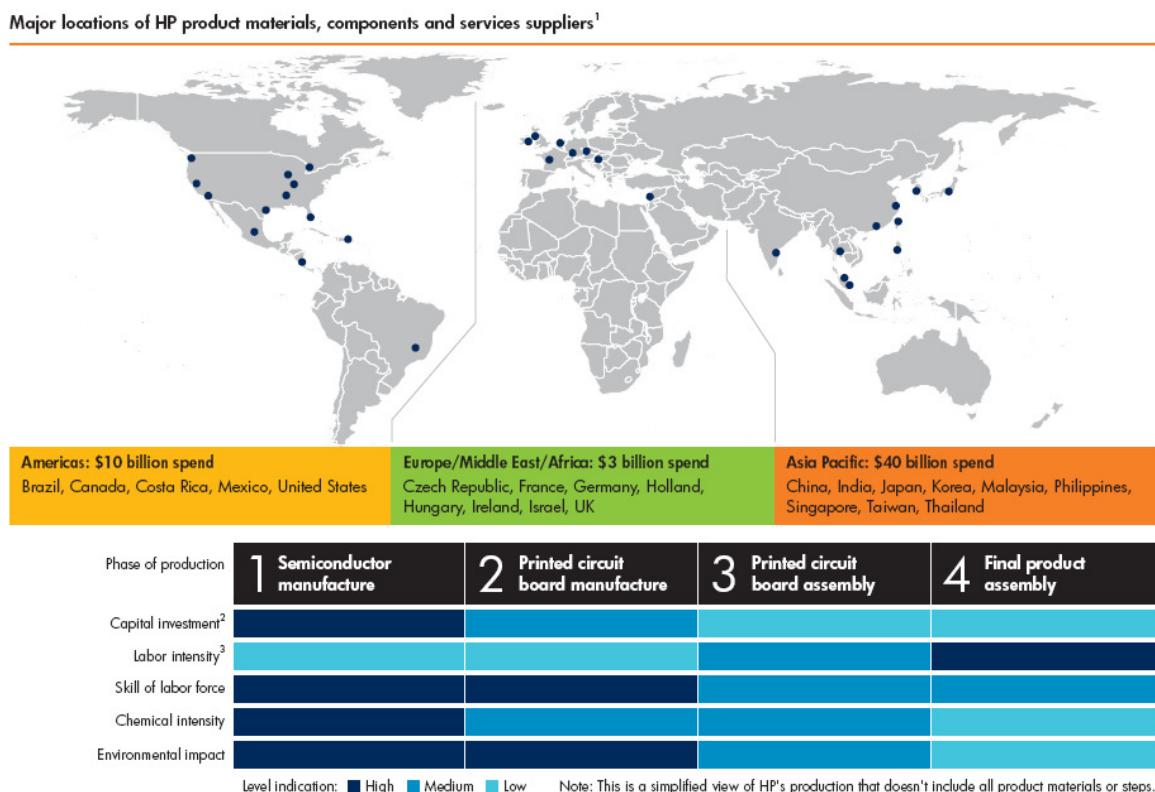[13] 10-k form Flextronics International Ltd.
[14] Estimation of Morgan Stanley research, see also SOMO report: 'CSR issues in the ICT hardware manufacturing sector', 2005.
[15] These percentages include other products and not just for notebook production.

- Monitor (desk top) are produced in China, Taiwan, and Korea (100% outsourcing)
- Central Processing Unit (CPU) produced in Germany, Malaysia, Philippines, and Costa Rica (100% outsouring)
- Printed Circuit Board (PCB) produced in China, Taiwan (100% outsourcing)
- Cables are produced in China, local to manufacturing site (100% outsourcing).[16]

The major production countries for desk tops are: 1 China, 2 USA, 3 Cz Republic, 4 Mexico, and 5 Hungary. The major production countries for notebooks are China, USA and Hungary.
In China more than 80% of HP's products are manufactured[17]

Figure 2: Major Locations of HP Suppliers

Major locations of HP product materials, components and services suppliers[1]

Americas: $10 billion spend	Europe/Middle East/Africa: $3 billion spend	Asia Pacific: $40 billion spend
Brazil, Canada, Costa Rica, Mexico, United States	Czech Republic, France, Germany, Holland, Hungary, Ireland, Israel, UK	China, India, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand

Phase of production	1 Semiconductor manufacture	2 Printed circuit board manufacture	3 Printed circuit board assembly	4 Final product assembly
Capital investment[2]	High	Medium	Low	Low
Labor intensity[3]	Medium	Medium	High	High
Skill of labor force	High	High	Low	Medium
Chemical intensity	High	Medium	Medium	Low
Environmental impact	High	Medium	Medium	Low

Level indication: ■ High ■ Medium ■ Low   Note: This is a simplified view of HP's production that doesn't include all product materials or steps.

[1] Sites on the map are representative and not an exact description. Locations with the largest sourcing expenditures are shown. Actual manufacturing locations may differ in some cases. Does not include HP-owned and operated manufacturing sites (see Operations).

[2] High = Billions of $; Medium = Hundreds of millions of $; Low = One-Tens of millions of $

[3] High = 5,000-25,000 workers; Medium = 1,000-5,000 workers; low = 50-1,000 workers

Source: http://www.hp.com/hpinfo/globalcitizenship/environment/supplychain/index.html

To offset some of the potential disadvantages of the concentrated sourcing approach, HP initiated the supplier diversity program to ensure that under-represented businesses, such as small, minority-owned, women-owned, and veteran-owned businesses, have equal opportunities to become HP suppliers and resellers. To this purpose, the company has maintained a Corporate Multicultural Procurement Program Office for more than 30 years. Purchases from minority- and

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[16] Questionnaire June 2006.

[17] http://www.purchasing.com/article/CA6372376.html, How HP measures supplier performance and compliance, Supplier performance metrics go beyond technology, quality, responsiveness, delivery and cost—environmental concerns are now on the list.By Maria Varmazis, Purchasing,September 21, 2006

women-owned businesses comprised 24% of HP's total qualified procurement spending in the United States during 2005.

4   CSR Policies

HP's supply chain initiatives on CSR originate from 1999[18] when it started to investigate working conditions in one of its recently sold printer units following concerns of workers that the new owner would not uphold HP's policies on worker safety.[19]

Comment HP: After an extensive amount of benchmarking of other industries HP learned four very important things.
1. *The proliferation of codes, questionnaires and auditing approaches causes confusion, overwhelm, audit fatigue, costs and inefficiencies among the footwear, apparel, toy and agricultural industry sectors.*
2. *Third party monitors conducting enforcement type compliance audits are not creating the sustainable change necessary to improve the conditions in the factories and for the workers. Management system assessments and audits are necessary for full integration into a factories day-to-day operational systems.*
3. *A company cannot manage a program from it's corporate headquarters, but must have a large locally based network that connects social and environmental responsibility into its balanced scorecard and sourcing decisions. Customers must visit supplier factories and make their expectations clear.*
4. *Capability building, knowledge transfer and training is a necessary step to achieve sustainable change. Brands have to be willing to invest resources to help suppliers build more sophisticated systems in much the same way they did with quality more than a decade ago. Suppliers need assistance in understanding the business case for social, health, safety and environmental improvements in the factory workplace.[20]*

In 2002 the company released its Supply Chain Social and Environmental Responsibility (SER) Policy and associated Supply Chain Code of Conduct, being the first electronic company with such a policy according to the company itself. In the same year it also published its first Social and Environmental Responsibility Report and endorsed the UN Global Compact. In 2004 HP was one of the leading companies in developing the Electronics Industry Code of Conduct (EICC), the standard that HP now applies, and joined the Business Leaders Initiative on Human Rights (BLIHR), a joint effort by a number of large multinationals to explore how international human rights principles and standards could be used to inform corporate policies and practices.[21] HP is also a member of the Global e-Sustainability Initiative (GeSI) and the Vice Chair of the Business for Social Responsibility (BSR) facilitated implementation group that focuses on standard tools and processes for the industry.

To reduce confusion HP replaced its Supply Chain Code of Conduct with the new Electronic Industry Code of Conduct. It establishes the minimum requirements that all product material suppliers must meet in doing business with HP. In response to stakeholder feedback concerning the EICC's freedom of association provision, HP has added specific requirements for freedom of

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[18] *HP's culture and emphasis on Global Citizenship date back to 1939 when the founders Walter Hewlett and Dave Packard contributed to the community and the environment and left a long legacy of doing well by doing good. Still today HP dedicates close to $70M annually and the Hewlett and Packard Foundations contribute funding to hundreds of global and local human rights, educational and environmental causes. HP has also had a strong track record leading the industry on environmental initiatives.* Addition by HP in review process.

[19] P. Burrows, *Stalking high-tech sweathops,* BusinessWeek, 19 June 2006, p. 62-63.

[20] Addition by HP during review process.

[21] BLIHR website, www.blihr.org (14-08-06).

association and product content restrictions, which are not part of the EICC, to make it stronger than the industry standard.[22] HP's freedom of association provision includes collective bargaining and alternative means of communicating and resolving worker issues. All suppliers involved in manufacturing HP's products must comply with the Supplier Code of Conduct as well as require their suppliers to do the same.

Comment HP: Currently HP has engaged more than 600 suppliers requiring them to complete specific agreements, detailed assessments for each of their factory sites manufacturing for HP and if they are considered high risk undergo a detailed management systems social, health, safety, ethics and environmental audit. To date HP has audited approximately 250 individual factories located in China and other parts of Asia, Central Europe and Latin America.[23]

Although HP clearly states on its website that they use a modified version of the EICC it can be confusing to other stakeholders looking at the document as it is similar in layout to the EICC, which can be downloaded from the website of the EICC.[24]

However, as explained by HP, the same confusion to suppliers is not likely: *Suppliers to HP are contacted directly by the company and provided with specific details on HP's expectations. HP states very clearly in the Global Citizenship Report and in direct communications to suppliers how its code differs from the EICC. Suppliers are sent a letter requesting that they download the Code from HP's web site at: http://www.hp.com/go/supplierE, read it, and sign HP's Supplier SER Agreement. HP also includes specific SER contract language with a direct link to the supplier website in supplier contracts, which eliminates confusion with the EICC industry standard code and web site. Once a supplier enters HP's confidential portal, they follow specific instructions to complete assessments based on HP's requirements.[25]*

HP's commitment to CSR towards their suppliers is spelled out in the company's Supply Chain Social & Environmental Responsibility Policy. In selecting and retaining qualified suppliers, HP is prepared to terminate suppliers who violate critical aspects of the code of conduct and will show preference to suppliers that exceed HP's Supplier Code of Conduct expectations, particularly the management system approaches to social and environmental responsibility. The Supply Chain Social & Environmental Responsibility Policy is composed of the following three principles:[26]

☐   Legal and Regulatory Compliance: Suppliers have to ensure that their operations and the products supplied to HP comply with all national and other applicable laws and regulations.
☐   Continual Improvement: Suppliers have to integrate environmental, occupational health and safety, and human rights and labour policies into their business and decision-making processes. Suppliers have to maintain effective management systems that are based on sound business and scientific principles, which include establishing appropriate objectives and targets, regularly assessing performance, and practicing continual improvement.
☐   Information Access: Suppliers to provide clear, accurate and appropriate reporting to HP upon request.

Besides the Supplier Code of Conduct, HP also publishes a document on Standards of Business Conduct covering all issues related to Business ethics and corporate governance, including advertising practices, handling sensitive information, procurement, finance and accounting

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[22] HP website, http://www.hp.com/hpinfo/globalcitizenship/environment/pdf/supcode.pdf (14-08-06).
[23] Addition made during review process by HP.
[24] http://www.eicc.info/
[25] Addition made during review process by HP.
[26] HP website, http://www.hp.com/hpinfo/globalcitizenship/environment/pdf/suppolicy.pdf (14-08-06)

practices and intellectual property. It does not cover social and environmental policies. HP has additional CSR-related policies available on their web site at: http://www.hp.com/hpinfo/globalcitizenship/policies.html

At the site, there are six CSR-related policies: Environment, Health and Safety Policy; Hardware Recycling Standards; Printing Supplies Recycling Policy; Paper Use; HP Global Citizenship Policy; HP Human Rights and Labor Policy

HP's aim is for all the companies that have adopted the EICC or are GeSI members to use common tools and engage their supply chains with a consistent message. This will ensure that their common suppliers receive the same demands from customers.
Comment HP: *In 2004 when CAFOD released its report on the computer sector, it asked Dell and IBM to start programs, while acknowledging HP's commitment to demonstrating progress. The mid-term report that CAFOD released asked HP to "raise the industry bar".[27]* The website www.eicc.info describes many of the common activities HP is working on based on the common code framework.
HP is a leading member of the EICC: they are represented in almost all working groups often taking the co-lead.[28]

4.1   Human and Labour Rights Policies

As mentioned above, HP's Supplier Code of Conduct is essentially the same as the EICC but with some additional requirements (freedom of association, management system emphasis and product content restrictions). In this and the next section, relevant content of the Supplier Code of Conduct is briefly outlined and where it differs from the EICC more information is provided.

With respect to social policies the EICC contains standards for labour and health and safety covering:

Labour:
☐   Freely chosen employment
☐   Child labour avoidance
☐   Working hours
☐   Wages and benefits
☐   Humane treatment
☐   Non discrimination
☐   Freedom of association – HP has considerably extended the paragraph on freedom of association. It emphasis that worker rights are to be respected as established or provided by local law but "basic worker rights to open communication, direct engagement and humane and equitable treatment must be respected even in countries where they are not given meaningful legal protection. Where worker representation and collective bargaining are restricted by law, participants are to facilitate open communication and direct engagement between workers and management as alternative ways of ensuring that

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[27] Addition made during review process by HP.
[28] Communications Workgroup (co-lead HP with Intel); Beta workgroup (HP member); Validation Workgroup (co-lead by HP with IBM); Joint audit workgroup (co-lead by HP with Cisco); E-tool workgroup (co-lead HP with Microsoft); Code workgroup (HP member). and Capability Building workgroup co-lead by HP with ST Micro. Upcoming EICC workgroups are reporting and Metrics workgroup; and Stakeholder Network workgroup.

workers' rights, needs and views are considered and acted upon appropriately and in good faith."[29]

Health and safety:
- ☐ Occupational safety
- ☐ Emergency preparedness
- ☐ Occupational injury and illness
- ☐ Industrial hygiene
- ☐ Physically demanding work
- ☐ Machine safeguarding
- ☐ Dormitory and canteen

Besides the Health and Safety standards in the EICC, HP has an EHS Management System that meets or exceeds applicable regulatory requirements globally. It reflects the International Labour Organization (ILO) Guidelines on Occupational Safety and Health Management Systems as well as the Occupational Health and Safety Management Systems Specification OHSAS 18001. Four HP sites are currently registered to OHSAS 18001.[30]

On environmental policies the EICC covers the following issues:

Environmental standards:
- ☐ Environmental permits and reporting
- ☐ Pollution prevention and resource reduction
- ☐ Hazardous substances
- ☐ Wastewater and solid waste
- ☐ Air emissions
- ☐ Product content restrictions

Environmental topics are included in supply chain social & environmental responsibility audits. In addition, *"HP has audited all major desktop and notebook suppliers on their processes to meet the requirements of the EU RoHS directive, which restricts the use of Pb (lead), hexavalent chromium, Hg, Cd, and two fire retardants PBB and PBDE. All HP products sold in the EU today meet these requirements* and it's HP's goal to meet these same requirements on a worldwide basis for virtually all HP branded products by the end of 2006.[31]

Besides the environmental standards in the EICC, HP requires its suppliers to follow the product content restrictions in the company's General Specification for the Environment (GSE). The GSE contains general product content restrictions such as Restriction of Hazardous Substances (RoHS), Prop 65, battery material content, packaging materials, product labelling and marking requirements, chemical registration requirements, ozone depleting substance restrictions, and others.

HP supports the development and the promotion of climate change policies through participation in several organisations and activities. In 2003, HP was one of the first companies to commit to the World Economic Forum's (WEF) Global Greenhouse Gas (GHG) Register, whose signatories account for nearly 5% of global GHG emissions. In December 2005, HP joined the California

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[29] HP website, HP website, http://www.hp.com/hpinfo/globalcitizenship/environment/pdf/supcode.pdf (14-08-06), p.3.
[30] Questionnaire, June 2006.
[31] Source: questionnaire June 2006.

Climate Action Registry (CCAR), which enables HP to use better to track and manage its greenhouse gas emissions.

Comment HP: HP and World Wildlife Fund-US (WWF-US) announced a joint initiative to reduce HP's greenhouse gas emissions from its operating facilities worldwide, educate and inspire others to adopt best practices, and use HP technology in conservation efforts around the world.

The projects include:

• By 2010, HP will reduce carbon dioxide emissions from HP-owned and HP-leased facilities worldwide to 15 percent below their 2006 levels. To achieve this, WWF-US and HP will identify the best technology and practices to reduce energy use. HP will also continue to investigate and purchase cost-effective renewable energy.

• HP will report and verify carbon dioxide emissions from its facilities, based on the Greenhouse Gas Protocol and the World Economic Forum's Global Greenhouse Gas Registry.

• HP will develop energy efficiency measurements for its product categories. Based on those metrics, HP will work with WWF-US to develop goals for improved product performance and report publicly on progress toward those goals.

• WWF-US and HP will define and implement educational efforts to address climate change with key stakeholders and highlight best practices adopted by consumers and businesses.

• WWF-US and HP will leverage HP technology to advance the science and practice of adapting and becoming resilient to climate change. An initial project involves funding from HP to study the effects of climate change on the wildlife and habitats of North America's Bering Sea.[32]

HP measures and verifies greenhouse gas emissions caused by the combustion of fossil fuels and consumption of electricity. In 2006 it wants to conduct energy audits at 53 of the largest facilities and implement measurable energy efficiency projects at each facility and reduce on-site emissions by 18%.

Comment HP: HP recently announced that it will double its purchase of green power for its U.S. operations as part of the U.S. Environmental Protection Agency's (EPA) Fortune 500 Green Power Challenge.

The company is committing to purchase 25 million kilowatt-hours (kWh) of green power. HP currently ranks No. 16 on the EPA's Fortune 500 list of Green Power Partners.

"EPA applauds HP's leadership in green power purchasing and its support of EPA's Fortune 500 Green Power Challenge," said Bill Wehrum, acting assistant administrator, Air and Radiation, U.S. EPA. "We encourage all of America's Fortune 500 companies to purchase green power and demonstrate that what's good for the environment is also good for business."

The EPA, using data on national average avoided carbon dioxide (CO2) emissions, estimates that HP's purchase will avoid the CO2 emissions of more than 3,100 passenger cars each year or the electricity use from more than 1,800 U.S. households annually.[33]

It also tries to improve the energy efficiency of its products. According to HP all of its commercial displays, consumer PCs, business desktop, business notebook PCs and almost all imaging and printing products meet energy star efficiency requirements.

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[32] Information about the World Wildlife Fund is added by HP in review process.
[33] In Italic is added by HP in review process.

HP is committed to designing environmentally sound products and implementing efficient and safe recycling programs. They encourage recycling policies based on shared responsibility between manufacturers, government, customers, and other stakeholders for collecting, transporting and recycling products; and individual manufacturer responsibility for funding company take-back programs to encourage ecologically sound product development as well as other criteria. HP has been recycling since 1987 and has established various voluntary product return and recycling programs in more than 40 countries, regions and territories. In 2005, HP collected and recycled more than 140 million pounds (approximately 64,000 tonnes) of used products. This brings the cumulative total since 1987 to more than 750 million pounds (340,000 tonnes). HP has set a goal to recycle a billion pounds (450,000 tonnes) by 2007. HP's global recycling standards and policies require recycling vendors to respect high environmental and employment standards. In addition to the millions of products that HP recycles, HP collects approximately 2.5 million hardware products each year that are refurbished, resold or donated.

HP complies with WEEE requirements. HP has been at the forefront of an industry coalition to secure smooth and efficient implementation of eRecycling rules under the provisions of the Waste Electrical and Electronic Equipment (WEEE) Directive. Anticipating the need for a competitive, effective, pan-European recycling market, HP established the European Recycling Platform (ERP) with Braun, Electrolux and Sony in 2004. The ERP sets standards and contract conditions and conducts audits to ensure conditions are applied.

By the end of 2005, ERP had more than 40 members across Europe and had been approved by several countries as a 'collective compliance scheme.'[34]

HP established its Design for Environment (DfE) program in 1992, with three priorities. These priorities still apply today:

- ☐ Energy efficiency – reduce the energy needed to manufacture and use products;
- ☐ Materials innovation – reduce the amount of materials used in our products and develop materials that have less environmental impact and more value at end-of-life;
- ☐ Design for Recyclability – design equipment that is easier to upgrade and/or recycle.

HP introduced a Product Environmental Tracking (PET) database in 2005 which can store product environmental data. PET helps HP respond to customer inquiries, manage product reporting requirements and track product environmental characteristics. The tool can then generate reports either tailored to specific inquiries or designed for ongoing needs, such as for eco-labels and declarations including the IT-ECO Declaration, Blue Angel, ENERGY STAR® and the Taiwan Green Mark. Many HP products carry one or more of these eco-labels[35].

HP gives preference to suppliers who are ISO 14001 certified, and who use ISO 14001 certified suppliers. HP has deliberately decided not to rely solely on supplier certification to external standards such as ISO 14000, OHSAS 18000 and SA 8000. According to HP, these can be very effective when implemented correctly. But due to observed corruption or improper commitment and implementation, HP does not accept certificates at face value and audits to ensure that suppliers are actually adhering to the code and implementing management systems: *HP feels strongly about selecting environmentally responsible suppliers. HP's approach to assessing supplier conformity with their Code is designed to encourage long lasting sustainable change. HP's*

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[34] This information in Italic is added by HP in review process.
[35] Source: questionnaire June 2006.

self-assessments and audits focus heavily on ensuring its suppliers have the essential elements of an environmental management system in place at their facility. HP therefore believes that monitoring should combine a focus on management systems with identification of the specific root cause of non-conformance issues. In addition, HP believes that education is instrumental in achieving long term success.[36]

The environmental performances of HP according to Greenpeace[37]

In the Greenpeace report 'Greener Electronics Guide'[38], HP scores **top points** for:
- ☐ Providing a substitution timeline for future substances on its radar (good chemicals management)
- ☐ Strong support and explicit support for Individual Producer Responsibility and;
- ☐ For being the first major company to devise an electronic waste take back / recycling metric based on percent of sales.

HP loses points for failing to provide timelines for the complete elimination of toxic polyvinyl chloride (PVC) and all brominated flame retardants (BFRs). The 2007 date on HP's website is misleading. Their goal is to eliminate the use of BFRs in the external case parts of all new HP brand products introduced after Dec. 31, 2006.

In March 2006, HP received congratulations from Greenpeace for their good environmental policies, and their ranking on the 3rd place. But in September 2006, one penalty point was deducted from HP's overall score when testing of an HP laptop revealed the presence of a type of brominated flame retardant, known as decaBDE. In its Global Citizen Report 2006, HP states: "HP eliminated the use of decaBDE many years ago and has no plans to reinitiate its use." Moreover, of the five brands of laptops tested by Greenpeace with results released in 2006, only the HP laptop was found to contain lead. HP is now ranked 5th[39]

This point was subsequently restored in November 2006 based on HP's response to this issue. HP stated in part:

> *"HP and our suppliers drive leading industry practices such as performing regular compliance audits according to our GSE. When issues like the one highlighted by Greenpeace or our own proactive compliance processes are identified they are promptly investigated and addressed. In the case highlighted by Greenpeace, we identified that the supplier mis-interpreted our GSE and we have re-communicated to them that DecaBDE is not permitted.*
>
> *The notebook tested by Greenpeace in March 2006 is no longer in production as it has been replaced by a newer generation product. However, the process issue leading to the non-conformance to our GSE specification has been resolved. HP continues to educate our suppliers on our General Specification for Environment and verify their compliance to those requirements."* [40]

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[36] Addition by HP.
[37] HP is ranked #1 on the Silicon Valley Toxics Coalition scorecard (addition by HP).
[38] http://www.greenpeace.org/raw/content/international/press/reports/greener-electronics-guide.pdf
[39] Comment of HP on this: This comment is irrelevant as the products were purchased for tested in March 2006 prior to the EU RoHS directive coming into force. The presence of lead was not significant.
[40] In Italic addition made by HP in review process.

4.2 Compliance with CSR Standards

4.2.1 Supply Chain Responsibility

HP acknowledges the importance of CSR both within the company and towards the supply chain and among the entire industry. "In an outsourced environment, HP acknowledges the challenges of assuring conformance. We are committed to ensuring conformance with our Supplier Code of Conduct (Electronic Industry Code of Conduct) and General Specification for the Environment at facilities that manufacture our products around the world. To meet HP's SER conformance expectations, suppliers are required to:
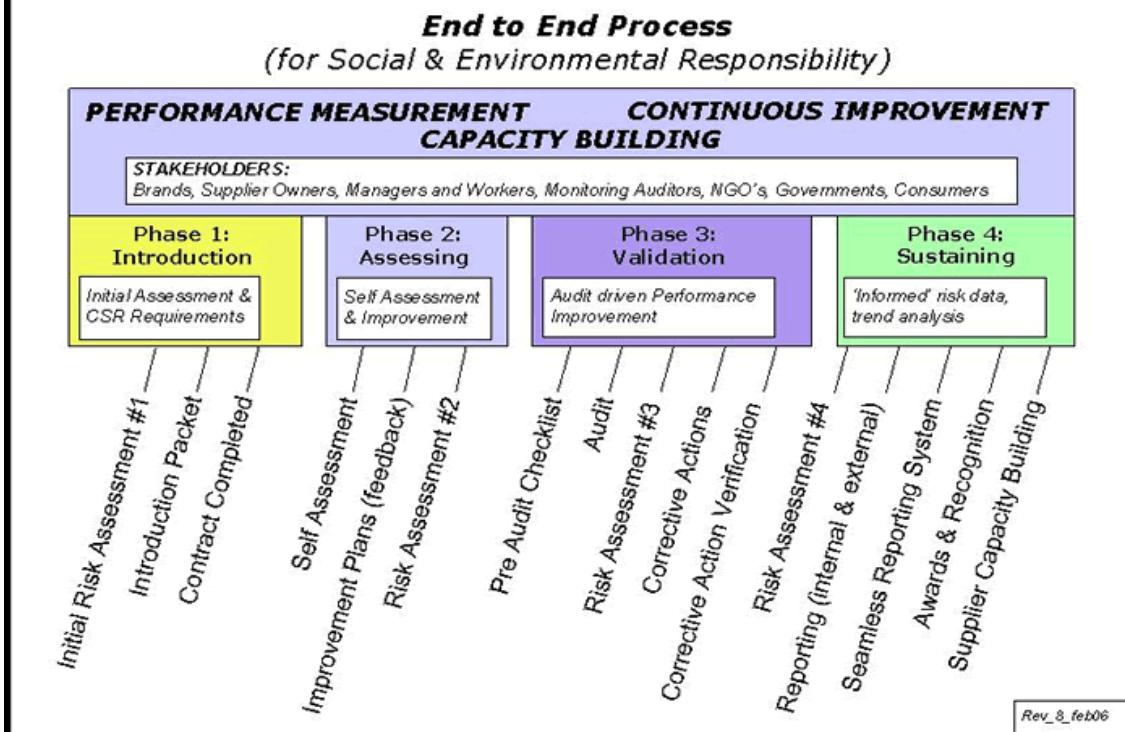
- Comply with all national and other applicable laws and regulations and require their suppliers to do the same (including labor agencies)
- Read and understand HP's Supply Chain Social and Environmental Responsibility Policy
- Meet expectations in the Electronic Industry Code of Conduct
- Review and sign HP's Supplier Social and Environmental Responsibility Agreement
- Follow HP's product content environmental specifications in HP's General Specification for Environment
- Complete and submit the HP Supplier SER Performance Assessment Questionnaires for each site that manufactures products for HP
- Obtain HP's review and feedback of SER questionnaires and create an improvement plan with defined timeline and metrics
- Participate in periodic onsite audits including follow up
- Respond in a timely fashion with detailed corrective action plans and progress
- Provide clear and accurate reporting to HP upon request"[41]

According to the questionnaire filled in by HP; ' *HP has a 4-step supplier engagement process that includes risk assessment for individual supplier facilities, a supplier SER agreement and self-assessment questionnaires, onsite audits and continuous improvement. HP provides extensive feedback on both self-assessment and audits. As a result, suppliers are heavily engaged in corrective action plans and going back and forth with us on plans and progress, including the results of follow up audits. HP uses each step of the process to educate suppliers on the provisions of the Code and engage in dialogue about HP's SER expectations and potential or identified non conformance issues. HP also actively engages with any stakeholders interested in discussing HP's supply chain accomplishments, opportunities and challenges. In all cases, if an external party identifies credible issues associated with a particular supplier, HP immediately investigates the situation and takes appropriate actions. Finally, HP uses its Global Citizenship Report to report transparently on our work and our audit results'.*

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[41] HP website, http://www.hp.com/hpinfo/globalcitizenship/environment/supplychain/compliance.html (15-08-06).

Supplier Engagement Model

End to End Process
(for Social & Environmental Responsibility)

PERFORMANCE MEASUREMENT   CONTINUOUS IMPROVEMENT
CAPACITY BUILDING

STAKEHOLDERS:
Brands, Supplier Owners, Managers and Workers, Monitoring Auditors, NGO's, Governments, Consumers

Phase 1: Introduction	Phase 2: Assessing	Phase 3: Validation	Phase 4: Sustaining
Initial Assessment & CSR Requirements	Self Assessment & Improvement	Audit driven Performance Improvement	'Informed' risk data, trend analysis

Initial Risk Assessment #1
Introduction Packet
Contract Completed
Self Assessment
Improvement Plans (feedback)
Risk Assessment #2
Pre Audit Checklist
Audit
Risk Assessment #3
Corrective Actions
Corrective Action Verification
Risk Assessment #4
Reporting (internal & external)
Seamless Reporting System
Awards & Recognition
Supplier Capacity Building

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To date, HP has introduced the EICC to 550 of its high-priority suppliers, addressing a total of 98% of purchasing expenditure.[42]

In 2005, HP held three supplier capacity-building events, one in China[43] and two in Mexico, to help its first-tier suppliers in those regions to better understand HP's SER requirements and promote sustainable improvement in their suppliers' factories. HP also recently initiated the Focused Improvement Supplier Initiative (FISI), a year-long training program to train management staff of its suppliers in Southern and Northern China to improve social and environmental conditions in their factories.[44] It aims to minimize factory risks, share best practices, access social and environmental responsibility content experts in China, improve the skill sets of key factory managers, and demonstrate progress toward conformance to the Electronic Industry Code of Conduct. FISI participants are required to send factory management staff to monthly social and environmental responsibility training and submit monthly reports on the progress of corrective actions, key factory metrics, trends and improvements.

Comment HP: The China Training Institute located in Guangzhou is facilitating the monthly trainings and Hon Hai (Foxconn) is providing the facilities and logistical support. Expert trainers from all over China are leading trainings in productivity and overtime, worker communications, management systems and root cause analysis, hiring and employment practices, laws and

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[42] News resease, November 6, 2006: HP to help improve CSR practices in Central Europe.
[43] The August 2005 event in Shenzhen China reached more than 330 supplier participants from more than 200 suppliers, info from Questionnaire.
[44] HP, *HP initiates social and environmental responsibility program for supplier factories in China*, 1 June 2006, <www.hp.com/hpinfo/globalcitizenship/gcreport/supplychain.html> (14-08-06).

regulations, health and safety and environmental programs. Providing concrete tools for factory managers is critical to internalizing and embedding the provisions of the code of conduct.

This year, HP is working with the EICC, GeSI, the World Bank, the Shenzhen Labor Ministry, the Shenzhen Electronics Association and BSR to build a capability building strategy for China.

With the extensive effort being spent by HP on SER audits, the FISI program and supplier communications in China, HP has observed significant progress by their suppliers in China on SER. Here are the highlights:

- *The suppliers are more aware of EICC and SER expectations. Their attitude has changed from defensive and reserved to be more open and receptive.*
- *Although there is still a ways to go for all suppliers to comply with the EICC requirements, they are becoming more receptive to the Code, SER management structure and processes are being established to monitor the performance metrics. Progress has been observed in the following areas:*

- Overtime control: change from no limit to 80 hours per month per the EICC
- Minimum wage: workers are paid according to the labor law (including OT wage).
- Use of Young Workers (16 to 18 years old): suppliers are very serious about that and have tightened the process to monitor the situation. Some suppliers only recruit workers over 18 yrs old to minimize risk.
- Communication/feedback: suppliers are paying more attention to communication and listening to the voice of their workers. Not only social committees but labor unions are being allowed and/or established in many factories.
- E& OHS: conditions of industrial hygiene, safety, dormitory and canteen have been improved significantly over the past years.

In addition, the Chinese government is beginning to stress building a more harmonious society and CSR is becoming a hot topic in China. This has also strengthened the suppliers' belief in the SER philosophy. [45]

HP is also leading an 18 month training for first and second tier suppliers in Central and Eastern Europe (CESR). This is the first program in the electronic sector focused on second tier or sub-tier suppliers. One of the major challenges in dealing with sub-tier suppliers is that HP does not have a direct relationship, contract or leverage with these suppliers and must work through the direct customer or first tier supplier to influence change and ensure they have a supplier management program of their own. *This is specifically the case with many of the suppliers identified in this report. HP is committed to following up with first tier suppliers to conduct follow up communications, assessments and audits of the suppliers identified. However, HP does not have a direct relationship with these suppliers and must go through the appropriate channels to #1; determine if they are in fact second or third tier suppliers and #2; contact them through their first tier relationships. [46]*

Ultimately, HP believes that a necessary step in the process is to help build capability and is committed to help bring skills to factory management to create long-term sustainable change.

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[45] In Italic is addition made by HP in review process
[46] In Italic is addition made by HP in review process.

Example of actions taken by HP after observation of non conformances by HP auditor:

Example provided by HP in the questionnaire.
At a facility in China that employs thousands of workers, HP's audit program resulted in substantial improvement in worker hearing protection. The HP auditor initially found high noise levels and lack of hearing protection in a stamping facility. Further investigation by the HP auditor revealed that there were no noise control measures in the facility. Root cause analysis and worker interviews revealed that workers had not been trained in hearing protection, and subsequent discussion with the environmental health and safety manager indicated that there was no hearing conservation program. The result of this HP audit program was that the facility established a comprehensive work safety program, including worker hearing testing and a program to recommend and implement preventive measures, producing significant and widespread improvements for the facility's workers.

HP's audit program led to improved personnel policies and guidelines at a major power supply vendor in China which employs 9,000 workers. During an HP initial assessment review, the auditor noted that the supplier lacked adequate policies and guidelines. The supplier had obtained ISO14001 and OHSAS certificates and so our auditors believed that factory management had been exposed to the benefits of management system approaches. The HP auditor observed non conformances with our Code, including excessively high overtime rates, inadequate factory and housing facilities, and high worker turnover. When we discussed these Code non conformances with the supplier, they immediately implemented a corrective action plan. Since then, management has conducted a full internal review of EHS policies, processes and plans and has established a personnel policy and labour management system. Wages were reviewed and raised by 20% or more in some cases. Factory and housing facilities have been improved. The HP auditor believes that the underlying problem was a lack of formal systems and that the improved personnel policies and guidelines should establish a system so that these improvements for workers will be sustained.

4.2.2   Stake holder involvement[47]

HP is an active member of the Global e-Sustainability Initiative (GeSI) and is a member of the EICC Steering Committee. HP led in the development of a common supplier self-assessment questionnaire that received more than 900 comments from companies, NGOs and socially responsible investment firms. In 2005, the company engaged with the Catholic Agency for Overseas Development (CAFOD), Center for Labor Reflection and Action (CEREAL), Ethical Trading Initiative, F&C Asset Management, International Labor Organization and World Wildlife Fund during quarterly stakeholder forums in coordination with the EICC Group and GeSI. In addition, HP has met regularly with stakeholder groups, including Interfaith Center on Corporate Responsibility, Domini, CAFOD, CEREAL, As you Sow, F&C Asset Management, Hong Kong Christian Industrial Committee, Verite', ASK, CSR Asia, and Silicon Valley Toxics Coalition to discuss supply chain activities.

CEREAL´s evaluation (Mexican Labour group researching compliance with EICC) of HP Social and Environmental Responsibility (SER) actions in Mexico is positive so far. In comparison to other companies, HP has one of the most advanced philosophies and one of the best practices concerning corporate social responsibility according to CEREAL. (see also Annex 1 for evaluation of CEREAL).

The latest study from CEREAL, shows however there are still huge gaps between companies' stated policies and the day-to-day experience of workers.
Comment HP: The study also indicates that progress is being made and there have been some significant improvements including:

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[47] HP website, http://www.hp.com/hpinfo/globalcitizenship/environment/supplychain/results.html (15-08-06).

- *Wages paid by electronic companies are consistently higher than the minimum wage legally allowed in Mexico*
- *The number of discrimination cases found by CEREAL in 2005 was considerably lower than that recorded in 2001. This is a result of corrective measures implemented by companies themselves to prevent discrimination in employment agencies' offices and in the factories*
- *A forum for regular communication between CEREAL and the electronics companies to address worker issues has been created.[48]*

4.2.3 Verification

HP's product material suppliers must complete and submit a questionnaire, which covers social and environmental responsibility (SER). The self-assessment questionnaire responses are used as an initial baseline assessment for determining if an onsite SER audit should be conducted. Up till now, the company has audited 200 factories owned by 150 key suppliers. According to HP, allegations of labor problems contributed to its decision to stop dealing with three suppliers, including South Korean Trigem Computer Inc. Trigem, however, was not aware of this issue.[49]
Comment HP: *HP takes many factors into account when deciding whether or not to terminate business with a supplier and SER practices is only one of the factors. We also look at a suppliers' overall ability to meet HP's quality and delivery requirements, financial status, and overall lack of a management system approach to their operations. HP prefers to work collaboratively with a supplier to resolve issues and not terminate a supplier where possible. Terminating suppliers ultimately leads to workers losing their jobs, which is not HP's desired outcome.[50]*
Finally, HP also conducts supplier visits and plant tours, in particular during the supplier qualification and contract renewal phase to assess SER.

The figure below summarizes HP's SER policy program in 2005.[51]

Figure 3: HP SER Program

SER program summary table – cumulative through 2005

Phase 1: Introduction	Phase 2: Assessment	Phase 3: Validation	Phase 4: Continuous improvement
475 suppliers (721 sites) risk assessed and engaged	415 suppliers (595 sites) completed self-assessments	HP audited 78 suppliers (130 sites)	Held HP supplier forum in Shenzhen, China with over 330 supplier representatives
363 suppliers signed SER agreements	HP provided 319 suppliers feedback	21 Corrective Action Plans in progress between supplier and HP	HP held two supplier forums in Mexico City and Guadalajara, Mexico with more than 40 services suppliers
Based on risk level, suppliers may be moved to phase 2	93 suppliers responded with improvements	HP conducted 2-3 rounds of verification to corrective actions	Held auditor training sessions in China, Mexico, Brazil and India
(28 suppliers are inactive)	224 suppliers are ISO 14001 certified	HP decided not to audit 332 suppliers (547 sites) due to low risk	

Source: HP, 2006, *2006 Global Citizen Report*, p. 53.

In 2005, HP audited 54 suppliers at 85 sites in Mexico, China, Thailand, Malaysia, the Philippines, Indonesia, Korea, Czech Republic, Poland and Hungary.[52] Figure 4 and Figure 5 illustrate

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[48] In Italic is addition made by HP in review process
[49] P. Burrows, *Stalking high-tech sweathops,* BusinessWeek, 19 June 2006, p. 63.
[50] In Italic is addition made by HP in review process.
[51] The 2006 report and numbers should be released about the same time as this report – see hp.com for update.
[52] The number of 54 is provided in the questionnaire, however the 2006 Global Citizen report mentions 78 suppliers, see Figure 3.

aggregated audit results of non conformances to HP's Supplier Code of Conduct, showing findings by code element and differences between geographic regions.

One of the results of the audits is that HP observed a lack of awareness at the factory level of HP's expectations with respect to social and environmental responsibility and failure to integrate the code of conduct into the suppliers' standards, worker communications and management systems: HP continues to communicate its social and environmental responsibility policy to its suppliers in order to increase awareness. [53] What is also striking in Figure 4 is the finding that for 41-100% percent of the audited sites, major non conformances are observed related to working hours, meaning excessive overtime hours.

On its website HP states that the results show a relative high rate of non conformances because the audits are directed at investigating suppliers with a high risk profile. The presented data is therefore "not, and is not intended to be, representative of HP's supply base as a whole or the bulk of our product materials expenditures."[54]

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[53] HP, 2006, *2006, Global Citizenship Report*, p. 55
[54] HP website, http://www.hp.com/hpinfo/globalcitizenship/environment/supplychain/results.html (15-08-06).

Figure 4: HP Social and Environmental Audit Summary

HP Social and Environmental Responsibility audit conformance summary table, 2005
[% of nonconformance among sites audited]

EICC provisions	Nonconformances Major	Minor	Comments
General			
EICC awareness	11-20%	41-100%	In 2005 HP increased outreach and education through Supplier Forums to help suppliers better understand and incorporate EICC requirements into their operations.
Supplier mgmt program	21-40%	41-100%	HP continues to work with suppliers to develop management processes for suppliers to monitor their own suppliers (including labor contractors) for SER.
Labor			
Freely chosen employment	1-10%	1-10%	Processes are generally in place to ensure that employment is freely chosen.
Child labor avoidance	11-20%	11-20%	Workers below the age of 16 are extremely rare. Nonconformances generally relate to young workers between the ages of 16 and 18 working at night or conducting hazardous work.
Nondiscrimination	21-40%	21-40%	HP continues to work with suppliers to make its expectations clear in this area.
Humane treatment	1-10%	11-20%	Nonconformances generally relate to unclear communications to workers about disciplinary processes and wage deductions.
Wages and benefits	11-20%	1-10%	Nonconformances generally relate to use of deductions, varying accounting procedures, lack of worker understanding of pay calculations, and payment of flat hourly rates or wages despite overtime.
Working hours	41-100%	1-10%	HP continues to work with suppliers on processes for controlling excessive overtime and providing rest days.
Freedom of association	0%	1-10%	Means for communications between management and workers are generally in place.
Labor management system			
Management system elements	1-10%	21-40%	Some suppliers lack basic management system elements (policy statements, management commitment, internal risk assessments, ongoing training for workers beyond new employee orientations, effective corrective action process, communications) for proactively managing risks and ensuring continual improvement in human resources.
Health and safety			
Machine safeguarding	1-10%	21-40%	Nonconformances generally relate to enforcement and monitoring of ongoing use of machine safeguards.
Industrial hygiene	1-10%	41-100%	HP continues to work with suppliers to evaluate and control workplace exposure to controlled materials and to use personal protective equipment (PPE) appropriately.
Occupational safety	11-20%	21-40%	Nonconformances relate to the need for appropriate PPE and enforcement of the use of PPE.
Emergency preparedness	21-40%	21-40%	HP continues to work with suppliers on emergency and fire response procedures, evacuation drills, and equipment.
Occupational injury and illness	1-10%	21-40%	Risk assessment, reporting, tracking and corrective action processes should be improved in some cases.
Physically demanding work	1-10%	41-100%	HP continues to work with suppliers on use of ergonomics programs.
Dormitory and canteen	11-20%	21-40%	Nonconformances generally relate to hygienic conditions and personal space in dormitories and canteens.
Environmental			
Product content restrictions			See "Eliminating materials of concern" in Materials innovation section.
Hazardous substances	21-40%	21-40%	HP continues to work with suppliers regarding on site hazardous materials labeling, handling and storage and monitoring of vendor processes for off site disposal of hazardous wastes.
Wastewater and solid waste	1-10%	11-20%	Nonconformances generally relate to monitoring of water and solid waste treatment processes.
Air emissions	1-10%	1-10%	Exhaust systems for capturing fumes are widely used; air emissions monitoring is widely conducted.
Environmental permits and reporting	1-10%	1-10%	Permits generally available for inspection.
Pollution prevention and resource reduction	1-10%	11-20%	In some cases, reduction goals and performance metrics are not in place or reviewed to ensure that they are met.
EHS management system			
Management system elements	1-10%	21-40%	While ISO 14001 and/or OHSAS 18000 certifications are in place, some suppliers do not perform comprehensive risk assessments.
Ethics			
Business integrity	1-10%	11-20%	Nonconformances generally relate to lack of formal ethics policies or standards of business conduct by suppliers and lack of worker ethics training and awareness of requirements.
Disclosure of information	0%	1-10%	Processes and contracts generally in place.
No improper advantage	1-10%	1-10%	Suppliers generally have policies ensuring that bribes are not accepted by management.
Fair business, advertising & competition	1-10%	11-20%	In some cases, ethics policies do not include fair business and competition statements.
Protection of identity (whistleblower)	1-10%	11-20%	In some cases, suppliers lack processes for workers and external stakeholders to report confidentially ethical concerns.
Community engagement	0%	1-10%	Suppliers generally participate in community activities and provide donations.
Intellectual property	1-10%	1-10%	Processes and contracts generally in place.

Source: http://www.hp.com/hpinfo/globalcitizenship/gcreport/supplychain/performance.html (15-08-2006)

Figure 5: Mayor Nonconformances per Type

Major nonconformances by type, 2005 [% of total, worldwide]

■ **Labor**
  • Working hours
  • Nondiscrimination
  • Wages and benefits
■ **Health and safety**
  • Emergency preparedness
  • Dormitory and canteen
  • Occupational safety
■ **Environment**
  • Hazardous substances

■ **Management systems**
  • Labor risk assessment/management
  • EHS audits and assessments
  • Labor company commitment
  • EHS risk assessment/management
  • Labor audits and assessment
  • EHS legal and customer requirements
■ **General**
  • Supplier management program
  • EICC awareness
■ **All other**

Source: HP, 2006, *2006 Global Citizen Report*, p. 55.

HP generally uses in-house auditors[55] but in 2006 and going forward HP has a third party auditing company conduct verification audits for HP as well as assess the overall effectiveness of HP's CSR business model and progress. Ongoing verification audits are expected to satisfy the ongoing demand for external verification.[56] A pilot project with common auditing with EICC and GeSI members will start in January 2007. In January and February of 2007, 20 Chinese suppliers will receive a common audit and another 80 common audits are planned in the first half of 2007.[57]

In case a supplier is not in conformance with the Code of Conduct, HP requires the supplier to implement a corrective action plan. If a supplier does not demonstrate improvement in a reasonable amount of time the business relationship may be discontinued.

4.2.4   Transparency and Reporting

Since 2002 HP publishes a CSR report, the Global Citizenship report, using GRI guidelines. In the same year it also released the company's code of conduct

Main documents:
◻   Global Citizenship Report
◻   HP Supply Chain Social and Environmental Responsibility (SER) Policy
◻   HP Standards of Business Conduct
◻   General Specification for the Environment (GSE)
◻   Website

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[55] Quoted from the questionnaire:' *Wherever possible, to maintain the quality of our audits, we prefer to use HP auditors rather than external organizations. HP auditors have access and authority to meet with key management and to help HP internalize SER information and connect it with our sourcing decisions.*'

Addition made by HP during review: *HP has well trained internal auditors that conduct the majority of the audits. HP has a strong philosophy that its sourcing managers must proactively measure the performance of their suppliers as well as be measured themselves. In extensive benchmarking, HP found that many companies who focused only on third party auditor solutions were disappointed with consistent quality.*

[56] HP, 2006, *2006 Global Citizen Report*, http://www.hp.com/hpinfo/globalcitizenship/gcreport/pdf/hp2006gcreport.pdf (16-08-06), p. 51.

[57] Minutes EICC implementation workgroup meeting held at BSR conference, November 2006.

HP has a policy of not publishing the names and addresses of suppliers: "HP signs non-disclosure agreements with suppliers that prevent public disclosure of its partner relationships. In addition, in the electronic sector unlike other sectors, extreme care is taken to preserve intellectual property and supplier relationships that tend to be more longer term in this sector due to the capital investment made. HP has balanced their commitment to transparency with protecting HP's commercial interests. In the electronics sector, suppliers are of strategic importance and a closely guarded source of competitive advantage. This differs from the apparel sector where supplier relationships are frequently transient in nature."[58]

HP publishes supply chain social and environmental responsibility results, such as summaries of audits results, as presented above, annually in the Global Citizen Report.
To report potential violations of law, company policy or standards of business conduct, HP employees and stakeholders may call a confidential 24-hour and globally available telephone number (the Guideline), fill in an electronic form or send a mail.

4.2.5 Analyses of CRS policy

General international Guidelines and Standards (not sector specific)	Part of Company Policy?	Comments
UN Norms on Business and Human Rights	No	Comment SOMO: at the moment there are almost no companies signatories of these UN Norms.
ILO core labour standards and Conventions are included in company policy	No	Comment from the EICC: The code refers to recognized standards – including the ILO. The EICC is built on internationally recognized standards and conventions such as the ILO conventions, ISO standards, and the United Nations Declarations on Human Rights. We believe that the EICC contains the general wording of the ILO standards. Comment from SOMO: Trade unions and NGO's specifically ask for standards in accordance of ILO standards instead of 'referring to' or 'based on' or 'built on' to avoid loopholes.
Commitment UN Global Compact	Yes	Member since 2002
Commitment to Universal Declaration of Human Rights	No	See above comment under ILO conventions
Commitment OECD Guidelines	No	See above comment under ILO conventions
Development of Company Codes of Conduct		
Development of Code of Conduct by the company on social issues?	No	The company publishes a document on Standards on Business Conduct covering all issues related to Business ethics and corporate governance. It does not cover social and environmental policies. The question is if this is relevant as most manufacturing is outsourced

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[58] HP website, http://www.hp.com/hpinfo/globalcitizenship/environment/supplychain/results.html (15-0806).

Development supplier Code of Conduct on social issues?	Yes		In principle EICC, but HP has also its own Supplier Code of conduct which is stronger on some points than the EICC, especially related to freedom of association.
Guidelines and standards for the electronics sector			
The Electronics Industry Code of Conduct (EICC)	Yes		
The Global e-Sustainability Initiative (GeSI)	Yes		
Guidelines and standards on Occupational Health & Safety			
ILO Guidelines on Occupational Safety & Health management Systems ILO-OSH 2001	No		Not explicitly but UN and ILO norms are referred to in the EICC
OHSAS 18001: Occupational Health and Safety Management System specification.	Yes		HP has an EHS system which reflects OHSAS 18001 and other related ILO norms.
ILO core labour standards covered			
Core Labour Standards	**ILO Convention**		
Freedom of association and the right to Collective bargaining	87 and 98, complemented by 135	Yes	The EICC does not include collective bargaining. The EICC is advised by NGO's and trade unions to remove "in accordance with local laws" and insert in accordance with ILO conventions 87 and 98 (facilitation by a parallel means). Because local laws can effectively suppress FoA as it does in China and Mexico for example. Referring to local laws is creating a loophole. HP's own Supplier Code of conduct is stronger related to freedom of association and collective bargaining compared with the EICC. They removed in 'accordance to local laws', they do mention collective bargaining, but not insert "in accordance to ILO conventions 87 and 98".
No use of forced, debt bonded or involuntary prison labour	29 and 105	Yes	The EICC covers this sufficiently.
No Child labour	ILO Convention 138 and 182	Yes	The EICC covers this sufficiently.
No discrimination in employment	100 and 111	Yes	The EICC covers this sufficiently.
ILO Conventions	**No. of declaration**	**Subscribed by the company?**	**Comments**
Right to security of employment	Tripartite Declaration. art. 24-28	No	Not included in EICC, not in own supplier Code. But according to HP this is covered via wages & benefits, discrimination, and

			freedom of association clauses.
Living wages are paid	26 en 131	No	EICC refers to legal minimum wage.
Safe and sound working conditions	155	Yes	The EICC covers this sufficiently.
Maximum number of working hours (48 + 12)	1	Yes/No	Comment EICC: all work will be voluntary and overtime is to be an intermittent solution and is not to be used as a routine means for business operations. <u>The code reflects a 60 hour cap of working hours except in emergency or unusual circumstances.</u> Comment SOMO: by not describing emergency and unusual circumstances a loophole is created. Comment SOMO: the EICC does not break the work week down into 48 plus 12 hours so that it is clear when workers are required to work overtime. Comment SOMO: it would be better to require that overtime is voluntary.
Compensation for overtime work		Yes	The EICC covers this sufficiently.
Operational aspects			
Does the company policy on social issues include external manufacturers and suppliers?	Yes		

Is there a monitoring system in place to check compliance with the mentioned standards/codes/policy?		**Own sites**	**Supplier sites**
	Internal Monitoring	Not applicable: HP hardly has any own production facilities so this is not relevant	Yes: 1-2 times per year
	External monitoring (third party organisations involved)	Not applicable: HP hardly has any own production facilities so this is not relevant	Yes: 1 per year. HP is planning a pilot project together with Gesi and EICC members to perform 100 shared external audits starting end 2006-2007.

What is the percentage of supplier monitored each year?	No percentage given, but between 2004 and 2005, HP has conducted onsite facilities audits for suppliers representing more than half of HP's total direct materials spend and more than three-quarters of the spend with suppliers not judged to be in the lowest risk category (e.g. suppliers with own brand and no geographic risk). This includes all major desktop and notebook suppliers (source:questionnaire)	
Are (local) stakeholders involved at the design level/at implementation (production) level/ at monitoring level and at relevant decision-making level?	Only feedback on policy is requested	Yes.
	Real involvement as in multistakeholder initiatives	Yes, in Mexico there is an example of local stakeholder involvement (CEREAL) on the monitoring level with a leading role for HP. It is still limited but a good example.

The Environmental policies of the computer companies:

General Environmental Policies	Company policy?	Comments

ISO certification 14001	Yes	HP does not require ISO 14001 certification of suppliers but prefers it they have it, no info on HP.
ISO certification 9001/9002		No info
Other Eco-Labels that are used by the company, like Blue Angel, ENERGY STAR, Green Mark etc.	Yes	Among others Energy star and Blue Angle.
Environmental guidelines and standards for the electronics sector	Score methodology of Greenpeace	Environmental guidelines and standards for the electronics sector based on Greenpeace report (Bad=0, Partially bad=1, Partially good=2, Good=3)
A chemicals policy based on the precautionary principle (includes materials innovation, design for less environmental impact, not using hazardous materials that could impact recycling)	Greenpeace:	2
Chemicals management: Supply chain management via banned/restricted substance lists, policy to identify problematic substances of future eliminations/substitution	Greenpeace:	3
Timeline for phasing out all PVC	Greenpeace:	1
Timeline for phasing out all BFRs (not just the 2 banned by RoHS)	Greenpeace:	1
PVC free and/or BFR free models available?	Greenpeace:	0
Commitment Individual Producer Responsibility (IPR) (producers finance the end-of-life management of their products, by taking back/recycle/reuse their own brand discarded products	Greenpeace:	3
Voluntary take back in every country where it sell products	Greenpeace:	2
Provides information to individual customers on take back and recycling services	Greenpeace:	2
Reports on amount of waste electrical and electronics equipment (WEEE) collected and recycled.	Greenpeace:	3

Operational aspects environmental policy			
Does the company policy on environmental issues include external manufacturers and suppliers?	Yes, as in EICC plus additional product content regulations		
Is there a monitoring system in place to check compliance with the mentioned standards/codes/policy?		Own sites	Suppliers sites
	Internal Monitoring	not applicable	yes: 1-2 times per year
	External monitoring	not applicable	yes: 1-2 times per year

Transparency and Cooperation

Transparency/Reporting	Comments
Separate website section on CSR?	Yes
Reporting on CSR performances?	Yes

Are GRI indicators used?	Yes	
Special Office for complaints CSR issues	Yes	
Coorperation with the Reseach	**Comments**	
Response to the questionnaire	Yes	
Disclosure of production and supply chains	Disclosure of production countries?	Yes
	Disclosure of production locations?	No
Assistance with organising interviews with local management of suppliers?	No	
Feedback to draft company profile	Yes	

5 Field Research

This section identifies and describes CSR issues specific to the suppliers of HP. The findings are based on the analysis of labour conditions of 12 direct suppliers of HP. They are located in China (4), Mexico (4), Philippines (1) and Thailand (3). In addition it summarizes CSR issues related to the Hard Disk Drive supply chain of HP in Thailand and the Philippines.

Most research into working conditions in the ICT sector concentrates on the ILO's eight primary labour rights, which are specified in most model codes of conducts such as the International Confederation of Free Trade Unions (ICFTU) base code and the CSR Frame of Reference SOMO works with.

Much of the overall manufacturing process of ICT hardware is low-tech and labour intensive and thus faces similar working condition issues as in the garment and footwear industries. This research reveals violations including dangerous working conditions, degrading and abusive working conditions, excessive working hours and forced overtime, illegally low wages and unpaid overtime, denial of the right to strike, discrimination in employment, use of contract labour and "trainees", workers without a contract, and lack of freedom of association and unionisation.

SOMO, in cooperation with local labour organisations, have gathered information about the working conditions in factories producing (parts of) computers for one or more of the targeted companies. This information is obtained through interviews with the workers and trade unions, field organizers and factory management in some cases. The interviews are conducted outside the factory in an informal setting, in a situation where the workers feel safe to speak openly, i.e. not in the presence of the management. A reasonable amount of workers per factory is interviewed. The workers are selected (as far as possible) on the basis of sex, age and type of job so as to represent the workforce in the factory. The worker interviews are undertaken through individual interviews with each worker, or through group discussions.

So far, HP is the only company in this research that has provided feedback on the field research, they worked with their sourcing teams to confirm which first, second and third tier suppliers they use. They have set up an extensive correspondence with these suppliers to verify the accurateness of the information in this report but the outcome of this process is not known yet by SOMO.

5.1 HP Suppliers

Comment HP: HP has over 550 direct material suppliers. HP is currently focused on these 1st tier direct suppliers with which they have contracts. They are just beginning to address 2nd tier suppliers by requiring the 1st tier suppliers to have a supplier management program in place for their own suppliers that includes SER practices. HP does not select or have contracts with 2nd tier suppliers and can only influence their behaviour through its management of its 1st tier suppliers.

HP has a risk-based approach to auditing and audits approximately 100 sites a year as well as conducting follow-up verification audits. Since the inception of its audit program, HP has audited 255 sites, all of which are in high risk geographies.[59]

5.1.1 China

Jiangmen Gloryfaith PCB Co. Ltd.

Jiangmen Gloryfaith PCB Co. Ltd. (hereafter Gloryfaith) produces printed circuit boards (PCBs) for HP. The company was founded in 2001 and is wholly owned by Hong Kong-based Kingboard Chemical Holdings Ltd, listed in the Hong Kong Stock Exchange. The facility is located at the industrial zone of Jiangmen, which was developed in 1992. Foreign investors including those from cross-border Hong Kong are granted preferential policies and trading incentives. Kingboard has been active in the Jiangmen since 2000. Over these 6 years, Kingboard Chemical has pooled capital of over HKD 600 million in its plants based in Jiangmen, which manufacture PCBs, laminates, copper foil, glass fabric, bleached paper, and specialty chemical.[60] In the near future, it plans to construct its own industrial park to compete for a leading position in the global electronic industry. By the end of 2004, the gross product values of Gloryfaith reached RMB 300 million. With its initial business success, the management further invested to expand its manufacturing facilities to a floor area of a total of 103,000 square meters (Phase I and Phase II development), which in turn enhanced the maximum production capacity. Nowadays, Gloryfaith's monthly production output is an average of 180,000 square feet of single-side and 150,000 square feet of multi-layer (up to 50 layers) PCBs. The daily production quota is very high. Besides HP, the company supplies various types of PCBs for IBM, Philips, TCL, LG, Sharp, Samsung, and Sony. The components are then utilized by other factories in the upper stream of the supply chains to produce desktop and laptop computers, LCD and magnetic products, household electrical appliances, audio-visual devices, digital consumer electronic products, and so on.

Comment HP: HP does not purchase directly from Jiangmen Gloryfaith or the parent company, Kingboard. This is a 3rd tier supplier that provides a small amount of PC board fabrications for HP's suppliers for printer products. This is not a desktop or notebook supplier.

Ltd. Tyco (Dongguan) Electronics Ltd.

Ltd. Tyco (Dongguan) Electronics Ltd. (hereafter Tyco Electronics) is one of the 16 manufacturing facilities in China of US-based Tyco International Inc. The company was founded in 1990 in Jinmei Village in Changping Town, eastern Dongguan City. Over the past 15 years, its manufacturing plant and dormitories have expanded to a floor size of more than 50,000 square meters. It has a very large workforce of some 5,000 persons and the majority is young female workers. Its major electronic outputs include wire and cable, data connectors, printed circuit boards, magnetics, resistors, and circuit protection devices, which are used in IBM, HP, and Dell's notebook and desktop computers, servers, disk drives, engineering workstations, mass storage systems, and touch screen business equipment (for example, LCD touch monitors).

Comment HP: TYCO was audited by HP in May 2006. A Corrective Action Plan is in place and HP is scheduled to conduct a follow up verification audit in 2007.

Dongguan Primax Electronic Products Ltd.

Dongguan Primax Electronic Products Ltd. (hereafter Primax Electronics), was established in 1989 as the first offshore manufacturing site of the Taiwanese company Primax Electronics Ltd. Its plants (headquarters and branches) and workers' dormitories are located in industrializing Shijie

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[59] Information provided by HP during review process.
[60] Jiangmen Daily on April 27, 2006.

Town, northeast Dongguan City. Primax Electronics' main factory has a workforce of over 3,000 persons. The factory supplies imaging products (such as scanners and printers) and computer peripherals (such as wired or optical wireless "PC mouse") for IBM, Dell, HP, and Philips. They also provide their customers with other office equipment (for example, shredders) and communication devices (for example, MP3 players).
Comment HP: HP audited the Primax Dongguan facility in March 2005 and conducted a follow-up verification audit in December 2006.

Volex Cable Assembly (Zhongshan) Co. Ltd.
Volex Cable Assembly (Zhongshan) Co. Ltd. (hereafter Volex Cable) was founded in October 2000 at the Torch Hi-Tech Industry Development Zone in Zhongshan City, Guangdong Province. It is a subsidiary of Volex Asia, part of the Volex Group a global producer of electrical an optical cable assemblies and power cords (plugs, cables and connectors). Volex Cable's factory occupies 80,700 square meters and has a workforce of about 1,500 to 2,000 persons, with variations between low and peak seasons. It produces 3-wire angled plugs and straight plugs which are widely applied to desktop PCs, notebook PCs, printers, and other home appliances as well as office equipment. The company supplies to HP for its Compaq brand and Apple, Dell, Epson, Canon, Nortel and Ericsson.
Comment HP: Volex was audited in November 2005. HP has a Corrective Action Plan in place.

5.1.2 Mexico

Comment HP: Although some of the suppliers highlighted in Mexico are HP's suppliers, they do not manufacture or assemble desktop or notebook PCs. They are suppliers of other products for other business units within HP. The information on these suppliers was obtained from the CEREAL report published in June 2006. Solectron, Flextronics, and Jabil are all involved in HP's SER program and have been audited by HP on several occasions. In addition, these three suppliers are members of the Electronic Industry Code of Conduct group and are also members of CANIETI in Mexico and working with CEREAL to manage worker issues. The progress and letter referenced above from CEREAL should accompany any issues cited.

Solectron (Guadalajara)
Solectron Corporation (US) provides a full range of global electronics manufacturing and supply-chain management services to the world's leading technology companies, the company has approximately 50 sites worldwide. It primarily manufactures computing and storage equipment, which include servers, storage systems, workstations, notebooks, and peripherals; communications equipment, including wireless and wire line infrastructure products; networking equipment, such as routers and switches that move traffic across the Internet; and consumer products, such as cellular telephones, set-top boxes, and personal/handheld communications devices. The Guadalajara facility of Solectron's will be, with the planned expansion, the largest plant of Solectron in the Americas. The facility will focus on providing printed circuit board assembly manufacturing and enclosures, system integration and state-of-the-art design and engineering services to Solectron's customers worldwide.
Comment HP: The Solectron site was audited in December 2003 and again in January 2006. A Corrective Action Plan is in place. This facility produces PCB's for HP's server products.

Flextronics
Headquartered in Singapore, Flextronics is the leading Electronics Manufacturing Services (EMS) provider with a global workforce (31 March 2004)of 82,000 employees and facilities in 32 countries

on five continents. Flextronics operates six Industrial Parks in low-cost regions around the world such as Latin America, Asia, and Eastern Europe. These parks enable ICT companies to extend their global reach by offering an infrastructure that combines leading-edge engineering, manufacturing, procurement and logistics services. Each park incorporates the manufacture of printed circuit boards (PCBs), components, cables, plastics and metal parts needed for final system assembly, functioning as complete manufacturing centres. One of these parks is located in Guadalajara. Flextronics has Partnerships with Alcatel, Dell, EMC, Ericsson, Epson, Sony Ericsson, HP, Microsoft, Motorola, Nokia Networks, Siemens, and Xerox.[61]

Comment HP: Flextronics in Mexico is primarily a printer assembly, repair and distribution supplier for HP. This site has been audited in December 2003. HP has a Corrective Action plan in place and conducted a follow up verification audit in January 2006. It does not assemble desktop or notebook computers.

Jabil (Chihuahua)

Jabil Circuit, Inc. (Florida, US) is a global leader in the Electronic Manufacturing Services (EMS) industry, offering manufacturing and supply chain solutions to many of the world's leading electronics and technology companies across a broad range of industries. Jabil has more than 40 design, manufacturing, and repair facilities worldwide. The vast majority of sales come from the computing and communications industries. Currently the largest customers include Cisco Systems, Inc., Hewlett-Packard Company ("HP" accounting for 10% of sales 2005), International Business Machines Corporation, Marconi Communications plc ("Marconi"), Network Appliance, NEC Corporation ("NEC"), Nokia Corporation ("Nokia", accounting for 13% of sales 2005), Quantum Corporation ("Quantum"), Royal Philips Electronics ("Philips", accounting for 14% of sales 2005) and Valeo S.A. ("Valeo"). For the fiscal year ended August 31, 2005, Jabil Circuit Inc. had net revenues of approximately $7.5 billion and net income of approximately $231.8 million.[62]

Comment HP: Jabil was audited by HP in December 2003 and again in April 2006. HP has a Corrective Action Plan in place for this facility. This facility does printer assembly and MDTV final assembly for HP. It does not assemble desktop or notebook computers.

5.1.3 Philippines

Astec Power Phil. Inc.

Astec Power Phil. Inc. (hereafter Astec Power), in Cavite Philippines, established its manufacturing in 1994. It is 99.99% British, 0.003% Filipino and 0.001% American owned company. The parent company of Astec Power is a wholly owned subsidiary of Emerson which is headquartered in Carlsbad, California, USA and listed on the New York Stock Exchange. On April 28, 2006, Emerson acquired Artesyn Technologies and merged it with Astec Power (the parent company), creating the single largest power conversion supply manufacturer in the world. with over 25,000 employees, Astec/Artesyn is now the undisputed industry Leader. Astec Power has a total workforce of 4,000 employees in 275k sq ft. Its mission is for ACDC modules, servers, medium or high power custom and standard products. The company manufactures printed circuit boards of computer motherboards, magnetic coils for HDD, wiring coils, power supply for computers and machines, and DVD-EI. Customers of Astec are Sony, HP, Nokia, Fujitsu, IBM, LG, Compact and Certek Laguna. Products are exported to Japan, China, Europe and Panasonic. Local sub-

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[61] CRS issues in the ICT hardware manufacturing sector, SOMO, 2005.
http://www.somo.nl/html/paginas/pdf/ICT_Sector_Report_2005_NL.pdf
[62] 10-K report Jabil Circuit Inc. 2005:
http://jbl.client.shareholder.com/EdgarDetail.cfm?CompanyID=JBL&CIK=898293&FID=950144-05-10851&SID=05-00

contracting companies of the company are APC,MEC, Maxxon, Petronics, DKP, Ultimate, P. Imes, Radix Philippines and Dae duck.

Comment HP: This facility was audited by HP in October 2005 and the printer and server power supplies unit is scheduled for a follow-up audit in 2007. HP has a Corrective Action Plan in place. This facility does not manufacture power suppliers for HP's desktop or notebook computers.

5.1.4 Thailand

Fujitsu (Thailand) Co., Ltd.
Fujitsu (Thailand) Co., Ltd (hereafter Fujitsu) established in 1988, is located in the Navanakorn Industrial Estate and employs total about 4000 people. It mainly produces hard disk drives (HDDs) for a variety of customers, including besides HP, Sony, Dell, Matsushita, Hitachi, Toshiba, IBM, Sony and National (Panasonic).

Comment HP: Fujitsu has signed our SER agreement and received the EICC from HP. Fujitsu has not been audited by HP for SER practices. With only a few exceptions, Japanese companies are just beginning to look at social issues within their own supply chain. They have historically focused mainly on environmental issues and have been reluctant to participate in factory audits for social issues. Fujitsu has their own brand name and produces PCs as a competitor to HP and Fujitsu Corporation should be held directly accountable for their own SER practices and those of their suppliers and subsidiaries.

When a company has a major brand like Fujitsu, Toshiba and Hitachi – HP generally deems them lower priority as we believe that these companies should be held directly accountable for their factory practices and should engage directly with research organizations, NGOs, customers and governments.

Comment SOMO: We recognize differences between types of suppliers but regard them all as part of HP's production and supply chain. (see for the labour conditions at Fujitsu the paragraph about the Thai HDD supply chain.)

Delta Electronics
Delta Electronics was established in the Bangpoo Industrial Estate, an economic processing zone (EPZ) near Bangkok. The facility consists of three production sites: Delta 1 (monitors and televisions), Delta 3-4 (components and small products for adapters), and Delta 5 (power supplies and adapters). Another production facility, Delta 6, is located in Welgrow, and produces cooling fans for computers. The company has a workforce of 12,000 employees of which 10,000 are regular and 2,000 are subcontracted workers. Delta Electronics Thailand is part of the Delta Group, the world's largest provider of switching power supplies, headquartered in Taiwan. The company is a supplier of almost all large PC manufacturers, including Acer, Apple, Dell, Fujitsu Siemens, Sony, NEC, HP, Toshiba and IBM.

Comment HP: Delta Thailand was audited by HP in 2004 and again by HP's third party auditing firm in 2006. Delta has a Corrective Action Plan in place and has been very involved in HP's SER program.

Western Digital Thailand
Western Digital (US company) is the second largest Hard Disk Drive manufacturer worldwide (after Seagate which recently acquired Maxtor). Like Fujitsu, Western Digital Thailand (hereafter Western Digital) is located in the Navanakorn Industrial Estate. The facility consists of former Fujitsu and Read Rite factories, which were acquired in 2001 and 2003, respectively. Since July 2006 the facility is named Western Digital. Its main customers are HP, Lenovo/IBM, Sony, Panasonic, and Dell. Western Digital employs about 22,000 workers in Thailand of which about 8,000 work at the

facility in Navanakorn. Western-Digital is investing this year to expand capacity at its two plants in Thailand.

Comment HP: HP has audited the Western Digital Malaysia site in July 2005, but has not audited the Thailand facility.

(see for labour conditions at Western Digital at the paragraph about the Thai HDD supply chain.)

5.2 Working Conditions in Supplier Companies

5.2.1 Employment is Freely Chosen

No evidence was found of child, forced, bonded or involuntary labour.

5.2.2 Discrimination and Unequal Treatment of Contract Workers

A number of discrimination cases were found, mainly relating to discrimination of contract workers. The workforce of several companies involved mainly consists of this type of workers.

In some factories contract workers were denied insurances (*Gloryfaith*), and holidays (*Astec Power*) or received a lower wage (*Delta Electronics).*

5.2.3 Child Labour

No evidence of child labour was found at suppliers of HP.

5.2.4 Freedom of Association and the Right to Collective Bargaining

In several factories violations of the freedom of association and the right to collective bargaining were reported, particularly in the Mexican factories. According to the CEREAL report, 90% of the workers in the electronics factories investigated by CEREAL are members of a union without knowing it.[63] This is because the companies sign a collective employment contract with an unrepresentative union, which agrees to sign the agreement in secret in exchange for a monthly fee, the so-called 'bite'. These contracts force all workers in the company to enrol in the trade union and only the trade union can negotiate on labour conditions with the management. Consequently, workers are prevented from organising themselves and create their own trade union. CEREAL indicates that it has copies of collective employment contracts between unrepresentative unions and *Flextronics.*

For *Jabil* factory, CEREAL reported that a worker stated that he was warned not to set up a trade union with threats of being fired. He also had to sign a paper in which he had to promise not to set up a trade union because that would be a reason for dismissal. After hearing of this case, *Jabil* said it has never laid off workers for union affiliation and is no longer asking related questions. In a letter HP replied it has met with *Jabil's* management to discuss the matter and make sure freedom of labour association is respected.

At *Delta Electronics Thailand* there is a trade union. According to the management the union only has small complaints like the food quality, the transport ventilators and wages. According to the workers Delta has a strong union with about 5,000 members. Currently there is a labour dispute in preparation by the union because they want wage increases. Some of the workers explained that because of the low wages their debts are increasing each month. They are really angry with the

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[63] CEREAL, *ibid*, p. 41.

company because their financial situation is getting worse every month while they can read on the Stock Exchange Information that *Delta Electronics'* profits are getting larger.

5.2.5 Wages and Overtime Payment

In all the factories except for the Mexican ones for which no information on this issue was available, workers complained about their wage when interviewed. At *Astec Power* and *Delta Electronics* they stated that their wage is not a living wage because it is simply not enough to cover their living expenditures. At *Tyco Electronics*, workers find their salary too low and therefore try to cut costs on food in the canteen. At *Primax Electronics* and, they indicated that the wage was just sufficient to live on but no money was left for leisure. At the two Chinese suppliers, *Gloryfaith* and *Volex Cable*, the wage for the first month is withheld until the end of next month, seemingly to prevent workers from quitting. This is in clear violation of Chinese labour law.

Primax Electronics hires contract labour during peak season who receive a fixed overtime wage of RMB 700-800 a month, depending on their position in the factory. These workers have to complete a standardized 11 hour work shift, five to seven days a week. If it is assumed that such a worker needs to do overtime 22 days with 3 hours overtime per shift and receives wage according to the national labour law (i.e. RMB 3.42 minimum wage per hour and 1.5 times this wage during overtime) s/he should earn (1) a basic wage of RMB 574 per month plus (2) overtime wage of RMB 5.12 x 3 hours x 22 days = RMB 337.92. This adds up to RMB 911.92 per month. Even if the worker at *Primax Electronics* could receive the highest possible monthly payment of RMB 800, it still falls short of RMB 111.92 to receive the legal minimum wage.

Also at three other factories there are problems with overtime payment. At *Volex Cable* workers state they receive RMB 800-900 including overtime and therefore also seem underpaid. At *Astec Power* workers indicate that overtime wage is sometimes not paid. And at *Gloryfaith* workers receive an arbitrarily set overtime wage of RMB 3.5. According to the national labour law this should be RMB 5.12 – 1.5 times the regular minimum wage of RMB 3.42.

In a number of factories, workers also reported a number of excessive wage deductions. *Primax* maintains a strict dress code and mistakes result in fines and wage deductions. There is also a fine of RMB 100 for losing the staff card. At *Gloryfaith* workers point at fines of RMB 100 for concentration failure (mostly because workers are too tired), RMB 70 for not being present and RMB 10-500 for other misdemeanours, such as turning a camera away. At *Solectron* workers complained about unfair wage deductions. The company has denied that wage penalties exist and they are confused with non-paid bonuses as a consequence of absence.

In both *Delta Electronics* and *Western Digital* the bonus is reduced in case of sickness. In the Delta factory, the bonus for not being sick adds up every year. However when a worker is one day sick the complete bonus is lost and has to built up years again. As a consequence workers take up holiday when they are sick not to loose the bonus.

Finally in some factories workers who already receive a very low wage (see above) even have to pay for drinking water (*Astec Power)* or food and housing (*Volex Cable)*. In the latter case, workers cannot refuse the payments for food and housing which make up about 25 percent of their wage.

Comment HP: According to HP's audit findings, most suppliers are paying minimum wage according to the local laws. However, there are confirmed instances of incorrect overtime

payments as well as disciplinary wage deductions. These are considered major non-conformances and HP is actively addressing these issues with their suppliers.

5.2.6 Excessive Working Hours and Intensive Production Rhythms

Table 3 presents the regular working hours and overtime per factory for which information was acquired (no information is available for the Mexican suppliers). In all the factories, a few hours overtime per day is standard practice and in most cases the number of hours by far exceed the ILO (48+12) maximum number of working hours. Moreover, in many factories overtime is compulsory, meaning that workers are forced to do overtime and production rhythms are inhumane.

At *Astec Power* workers have a seven day workweek of 12 hours. Their regular work time is 8 hours per day, six days a week. In addition, daily overtime is 4 hours a day and work on Sunday. Workers are not allowed to refuse overtime on Sunday.

At some of the Chinese factories, working hours do not only violate ILO standards but also are not in compliance with local labour law which states that maximum overtime per month is 3 hours per day, 36 hours a month. For example, at *Primax Electronics* in addition to the regular 168 hours a month (8 hours a day for 21 days) workers are required to do overtime for about 80-100 hours per month. Further, during peak season, extra short-term labourers have to complete a 11-hour shift, 5-7 days week. Working at *Primax Electronics* is described as tough and hard and workers say they feel they are treated as machines. The working rhythm is very intensive because the company is placed under pressure to meet short lead times. Workers indicate the 10-12 hour day is excessively long, work routines should not be stopped under any circumstance and they do not even have time to go to the restrooms. Assembly workers were given 10 minutes break for every two hours of work. Workers also say that if unrealistically high targets are not met overtime is compulsory but will not be paid.

At *Tyco Electronics, Volex Cable* and *Gloryfaith* workers are forced to do overtime per day in between 2-4 hours a day and often on the weekends. *Volex Cable* offers its workers a 2 time 45 minutes break, which implies that the working time is 'only' 10.5 hours a day and therefore does not exceed the maximum of 3 hours overtime per day, specified in Chinese Labour Law. Nonetheless, a shift of 12 hours seems excessively long. The long working hours of the other two factories clearly do not comply with local labour law. Workers at *Gloryfaith* also complained that in one occasion some departments were forced to finish an order and therefore were denied the standard three days International Labour Day holiday. They also pointed out they are monitored with 24 hour cameras and therefore feel pressured to work. In addition, the breaks of 30 minutes are perceived as much too short because there is hardly any time to eat, in particular because it already takes a lot of time to walk from the production site to the canteen and back, which is subtracted from lunch time.

At Delta Electronics the workweek is 5 days per week and therefore total working hours including overtime does not exceed the 60 hour standard set by the ILO.

Table 3: Regular working hours and overtime per factory

Factory	Regular working hours	Regular Overtime	Comment
Astec Power	8 hours, 6 days per week	4 hours a day and on Sunday	Compulsory on Sunday
Primax Electronics	8 hours, 5-6 days per week	80-100 hours per month	Compulsory on Saturday. During peak hours contract workers have an 11-hour shift, 5-7 days per week
Tyco Electronics	8 hours, 5-6 days per week	2-3 hours, 5-6 days per week	Compulsory overtime
Volex Cable	8 hours, 5 days per week	In the weekends and 2.5 hours per day, 6-7 days per week	Compulsory overtime. 12 hour shifts but including 2 times 45 min. breaks.
Gloryfaith	No info	3 hours during day shift, 4 hours during night shift	Sometimes compulsory
Delta Electronics	8 hours, 5 days per week	2 hours during day shift, 3.5 hours during night shift	

Note: With regular overtime is meant overwork performed on a day-to-day basis.

Comment HP: Excessive working hours and overtime is an issue that HP finds during our audits. HP does not routinely find excessive overtime in Thailand due to the strong Thai Labor laws and is committed to investigating this further. HP's code of conduct clearly states that overtime should not be mandatory and should not exceed 60 hours per week. Many factories state that if they do not provide the workers with overtime that the workers will go elsewhere in an effort to maximize their earning potential at this time. .

There is no easy and quick fix to reducing excessive overtime, particularly in China as this is a widespread practice in all industries. Through HP's FISI program, over 30 suppliers in China are attending monthly training sessions which includes the topics of productivity and working hours, laws and regulations and management systems to help them more fully understand alternative ways of managing their business and people to avoid excessive and or forced overtime. HP is committed to addressing this issue in our supply chain

Health and Safety Conditions

The health and safety conditions vary significantly across factories. General complaints include: (1) bad working conditions in terms of temperature, smell or dust (*Astec Power*, *Western Digital*), (2) the quality of the food in the canteen is poor (*Tyco Electronics*), (3) low quality infirmary (*Delta Electronics, Solectron),* (4) frequent small accidents such as cuts (*Astec Power, Solectron*), and (5) allergic reactions to the soap used for everyday cleaning before going into the clean-room (*Fujitsu*).

Comment HP: HP audits include an extensive health and safety review. When HP finds issues such as those listed above, they require immediate corrective actions.

For some factories very disturbing health and safety conditions were encountered. In the *Gloryfaith* plant workers have to deal with and are exposed to hazardous substances but received no proper advance training. They are also not provided with chemically resistant gloves although they have to work with sulphuric and nitric acid. Workers complain they suffer from skin problems on hands, face and shoulders. Some technicians reported that they have to cover their noses with their hands in order to prevent inhaling chemical substances in certain production rooms. Allegedly, there was also a grave accident in which a worker lost his hand. The worker has not been in the factory afterwards.

Also at *Solectron* there were cases of worker exposure to chemical substances. The company has acknowledged this and indicated that will improve working conditions in the factory. HP stated that

Solectron has an occupational safety program and that it will continue to verify *Solectron's* health and safety practices.

In the *Jabil* factory workers had complaints about the strenuousness of the women's tasks, about the lack of protective belts and shoes which caused back pain and about the lack of working space. There also was a particular severe case in which a pregnant woman was not allowed to go to the hospital when there were complications. This resulted in the loss of her baby. *Jabil* denies that what happened was the fault of the factory. HP responded it will pressure *Jabil* to take the special needs of pregnant women into account.

At *Delta Electronics* the LCD workers complain about a terrible smell in the cooler fan department that sticks in their cloths for days. The management has not responded to their complaints. Workers also reported an accident in 2001 when six people died after the collapse of a building.

Finally, it was found that for some factories working conditions were very good. In particular workers at the *Volex Cable* and *Fujitsu* factories indicated that the health and safety conditions were up to standard except for the relatively minor points mentioned above.

Comment HP: HP's audits include extensive health and safety review. Based on HP's 2005 nonconformance table referenced at the beginning of this document, HP has confirmed that health and safety issues make up a large percentage of the nonconformances that we find during our audits. We are addressing health and safety nonconformances through highlighting the issues with our suppliers and requiring corrective actions.

5.2.7 Housing

In the four Chinese factories, workers generally reside in dormitories, on or close to the factory site. Not all conditions are up to standards. At *Primax Electronics* workers stay in dormitories with rooms for 15 to 20 persons, which are in general hygienic but there is some sound disturbance. Workers pay RMB 60 per month for housing. At *Tyco Electronics w*orkers are housed in 9 collective dormitories, which fit 10-12 persons. Conditions are described as noisy and overcrowded. Cooking is prohibited and therefore workers have to pay for three meals a day in the canteen. *Volex Cable* offers convenient dormitories in the proximity of the factory but the rent of RMB 70 per month is considered to be expensive. Finally at *Gloryfaith,* workers sleep, free of charge, with 10-12 persons in dormitories with virtually no facilities. There are only fans and limited public bathrooms.

Comment HP: According to HP's audits, we have confirmed that hygienic conditions, personal space in the dormitories and food preparation, food storage, and cleanliness of the canteens are common non conformances at supplier facilities. HP's suppliers have been correcting the issues HP identifies in the audits in their dormitories and canteens and at least two suppliers have built more dormitories to add more personal space and new canteens. HP often finds that management does not view the dormitories and canteens as an extension of the factory in the same way and therefore provide the funding, resources and staff to manage them appropriately. HP is making this very clear to management in their communications, audits and trainings.

5.2.8 Awareness of Code of Conduct and Audits

In none of the factories workers were aware of the code of conduct of HP or any of the other suppliers.

Only few of the factories have been inspected by auditors of the suppliers or even local labor officers (*Volex Cable*, *Delta Electronics*). Although it is possible that HP was among the inspecting companies none of the workers interviewed specifically recalls having seen or spoken to an HP auditor.

Comment HP: Due to the limited amount of time HP has to complete the audit and conduct worker interviews and the high number and turnover of workers in a facility, it is not unusual that workers would not recall speaking with an HP auditor. However, HP does conduct routine worker interviews of at least 20 workers to confirm the assumptions that auditors are finding in process gaps. HP has audited most of the sites identified at least once and will conduct follow up audits in 2007.

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At *Volex Cable* workers pointed out that they are afraid of reporting bad working conditions to the auditors because of the risk of losing their job. Visits are known in advance and management instructs the workers what to respond and how to behave when the auditors are in the factory. Allegedly, management has falsified labour contracts to mislead the inspectors and locked up workers in the dormitory to prevent them speaking to the visitors.

Comment HP: One of HP's audit recommendations for facilities is to implement anonymous feedback programs, such as worker liaisons and anonymous suggestion boxes to help eliminate the issues of workers feeling afraid to report bad working conditions. HP impresses upon suppliers the importance of open communication with workers.

The management of *Delta Electronics* said that companies like HP, Sony and Dell stimulate the company to treat its workers well and deal correctly with environmental issues and that some of these companies do come with codes of conduct and perform audits. Some buyers are very specific, like not using child labour and ensuring that the maximum working week does not exceed 60 hours. Some of them also ask about the suppliers of *Delta Electronics* and even check them. The management mentioned the EICC code and said that *Delta Electronics* complies with this standard.

Table 4: EICC Violations of HP Suppliers

	Astec Power	Primax Electronics	Tyco Electronics	Volex Cable	Gloryfaith	Solectron (Guadalajara)	Jabil	Flextronics	CKL	Delta Electronics
Supplier Country	Philippines	China	China	China	China	Mexico	Mexico	Mexico	Thailand	Thailand
Labour										
Freely chosen labour										
Child labour avoidance										
Working hours more than 60 hours	X	X	X		X				X	
Working hours: forced overtime	X	X	X	X	X				X	
no minimum wage paid/overtime not paid/unreasonable wage deductions	X	X		X	X				X	X
Workers indicate it is not a living wage	X	X	X						X	X
(in)Humane treatment		X			X					
Non discrimination	X				X	X				
Freedom of association		see note 1	see note 1	see note 1	see note 1	see note 2	X	X		
Health and safety										
Occupational safety	X									
Emergency preparedness										
Occupational injury and illness										
Industrial hygiene					X				X	X
Physically demanding work							X			
Machine safeguarding										
Dormitory and canteen	X	X	X	X	X					

Note 1: Under Chinese law, the All China Federation of Trade Unions (ACFTU) is the only trade union recognized in China. It exercises a legal and heavily protected monopoly over all subsidiary union organizations and trade union activities. It remains under the control of the Communist Party, which appoints its officials. This means that by law there is no possibility of truly independent unions forming in China, which compromises workers' freedom of association.

Note 2 A major problem in Mexico is the lack of independent unions that can negotiate strong and fair collective bargaining agreements. According to some estimates, roughly 90 percent of all Mexico's collective bargaining agreements are negotiated by non-independent, pro-government, pro-company unions. These "protection contracts" are generally negotiated without the consent, or even the knowledge, of the majority of workers. The Mexican law prevents the forming of a new (democratic) union when there is already signed a contract with a union. Note 3 in a few cases a welfare committee or workers committee are set up instead of (or to prevent) a union. But these committees do not represent the workers rights as unions can do. In some cases the main tasks of these committees are birthday parties, library services, and organising karaoke etc.

5.3   HP Hard Disk Drive Supply Chain in Thailand

Figure 6 depicts part of the Hard Disk Drive (HDD) supply chain in Thailand. The working conditions in six suppliers (including one second-tier supplier) of HDD manufacturers have been analysed. The figure shows that almost all suppliers produce equipment for more than one HDD manufacturer (indicated by the arrows). Below, first a brief description of the HDD suppliers is presented, followed by a summary of the findings on working conditions in the next section. HP confirms that it is buying HDDs from Western Digital, Seagate/Maxtor, Hitatchi, and Fujitsu, although they cannot confirm whether these suppliers are part of their supply chain specifically for desktop and notebook computers, they maybe end up in servers or other HP products. And Murata and Mektec do supply for HP as 2nd tier.

SOMO received corrections and supplementing information by Seagate (one of the HDD manufacturers operating in Thailand) related to their suppliers subject in this field study.[64] Seagate took the initiative to send the draft report to its (former) suppliers for verification.

Comment HP: HP does not directly manage these suppliers and has not conducted audits to confirm working conditions at these supplier facilities in Thailand. In general, HP has not found forced overtime during our audits in Thailand due to the strong Thai Labor standards. HP is starting to address 2nd and 3rd tier suppliers through programs such as CESR where they work with their first tier suppliers to help them gain the skills and knowledge to manage their own suppliers. In their reaction to the company profile HP states that feed back on labour conditions should be sent to the HDD manufacturers. In our research we regard them as part of HP's supply chain and therefore part of HP's concern.

LTEC Ltd.
LTEC Ltd. (hereafter LTEC) is a joined Thai-Japanese company. The company produces components for Nokia mobile phones, microwaves, digital cameras, airbag switches, National electric thermoses, Sony cameras, Acer computer notebooks, Fujitsu microchips, IBM SIMs, Toshiba calculators, control screens for Sharp microwaves and HDDs for Seagate/Maxtor. LTEC employs 6,400 persons and plans to expand to 10,000 employees. Female employees account for 82% of all employees. Five years ago, LTEC upgraded its factories and installed automatic machines, now the factories have regular, semi-automatic, and fully automatic packaging machines. Previously, three workers were needed for each machine, now only one person per machine is needed.

MMI Precision (Thailand) Co. Ltd
MMI Precision a Singaporean owned company. The company operates in four countries – Singapore (Headquarter), China, Malaysia and Thailand – and in Thailand there are four branches of MMI precision. The information in this report refers to 2 production sites situated in Nawa Nakhorn Industrial Estate 1 (project 1 and 3) and is hereafter referred to as MMI. Its main client is Seagate/Maxtor but the company also supplies NEC, Minibear, Fujitsu and Fujikura. The interviewed workers are producing the metal covers for HDDs.

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[64] SOMO received the comments of Seagate on February the 16th 2007 relating to the following suppliers: Innovex, MMI, Ltec, Mektec and Paragaon. According to Seagate MMI is not one of their suppliers anymore since December 2004.

Info provided by MMI[65]: Overall the company has 211 regular workers and 517 contract workers. Overall workers composition: Female=46.5%, Male= 53.5% in both Zone 1 & Zone 3. MMIT took over TPW and continued the Maxtor (now Seagate) business until 2004. Zone 1: Motor Brackets for spindle motor [HDD] & also other non-HDD businesses, e.g. automotive, telco, medical businesses. Zone 3: All non-HDD business [machining]. Current main clients: SC Wado/JVC, Fujikura, Shindengen, Fabrinet-Avanex. Since the ceasation of Maxtor's business in 2004, MMIT has shifted the business focus to non-HDD businesses.

The activities and main clients mentioned by the workers do not correspond with the information provided by the management of MMI.

Innovex
Innovex is owned by Hana Company and was previously named Adflex. Its parent company which supplies raw materials is located in America. Starting in 1999-2000 the company transitioned from the lead wire business to flexible circuit interconnects. Over 95% of the company revenue is from the flexible circuit business. There are two branches of Innovex in Thailand: one is in Korat and the other is in Lamphun province. The information below pertains to the latter production site. It mainly produces electronic components for various brands, including: Nokia (mobile phone circuit board chips), IBM (hard disk processors), Philips (TV and computer circuit boards), Hitachi (electric circuit boards), Samsung (televisions and digital cameras), Seagate/Maxtor (hard disk drives). IBM (Now Hitachi) and other customers order erratically. There are about 3000 employees at Innovex.
Comment Innovex: although most of their production in intercompany; 3M is the largest flexible circuit manufacturer in North America.
Comment HP: Violations should be addressed at main customers IBM, Philips, Hitachi and Samsung

Mektec
Mektec's main business is flip-chip "assembly" for disk drives. It attaches semiconductor dies using the flip-chip method to FPC for the disk drive industry for which as noted earlier Thailand is the number 2 spot in the world. Mektec's main customers are Seagate/Maxtor, Western Digital, Hitachi, TI and Fujitsu. The company states that: "We are the world's largest flex and flip chip assembler, and supply to computer, automotive and communication manufacturers worldwide. Our plants are located in Bangpa-in Industrial Estate and Hi-Tech Industrial Estate, Ayutthaya." Mektec has 3,600 employees as of Jan. 2007.[66]
Comment HP: Currently have found that this is a supplier to HP for HP's printer business . This is not a PC or notebook supplier. HP's business with Mektec is at the Taiwan facility. HP has audited the Taiwan facility.

Paragon
Paragon has 350 employees. Paragon is a supplier of Mektec according to the interviewed workers. Paragon is Mektec's Subcontractor (outsourcing) .The interviewed workers (female) work on the production department checking the APC for computers and digital camera's. It concerns flip chip assembly.

Murata Company
Murata Company (hereafter Murata) is Japanese-owned producer of Panasonic, Hitachi, Cannon, and Toshiba products, the majority of which are Toshiba televisions and copiers. After five years,

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[65] Info supplied by MMI through Seagate.
[66] SOMO received comments from Seagate by email on February the 16th 2007 relating to the following suppliers: Innovex, MMI, Ltec, Mektec and Paragaon. Mektec provided feedback on the draft report.

Murata has repaired and refurbished its factories and added one more to bring the total number of factories to eight. It has increased the number of employees continuously and is currently hiring. Murata Company employs over three thousand workers, of which about 1,000 workers are male, and it does not have any policy to discontinue hiring. Usually when there is little work, the company will rotate workers and responsibilities to other busy areas. Many workers have left Murata in the past because of job monotony and boredom, to look for a better workplace, problems with co-workers, or long-term health problems. Full time employment is offered to workers who pass a probationary period, after which they are paid on a daily rate.

Comment HP; We use several of the 1st tier HDD suppliers mentioned. Murata and Mektec: we have confirmed do supply for HP as 2nd tier. SOMO should follow up with the Japanese companies that are the main users of Murata for any issues with this supplier. Murata is a 2nd tier supplier to HP for printer business, not confirmed for PC business today.

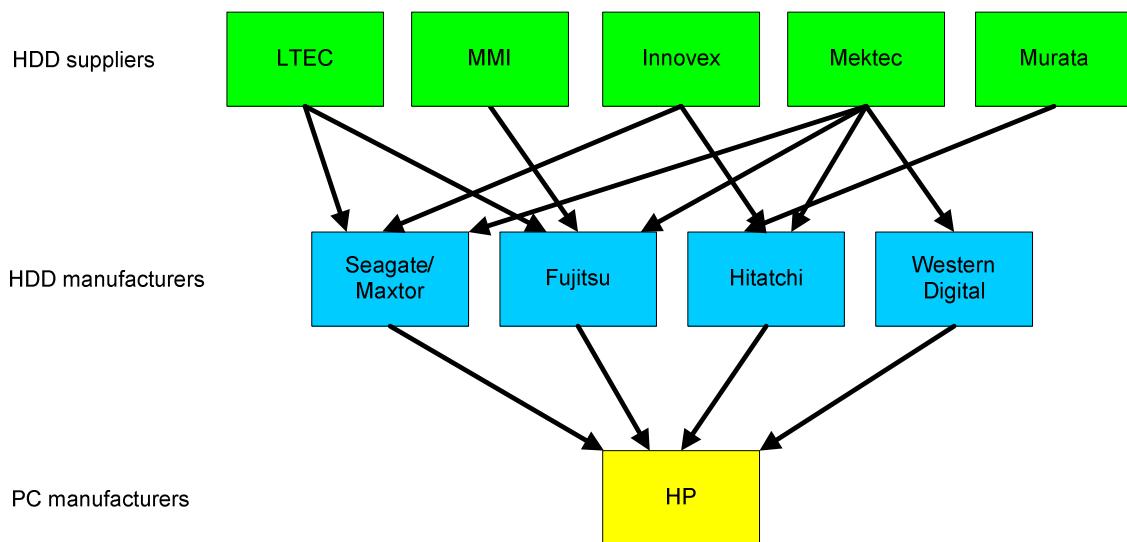**Fujitsu (Thailand) Co., Ltd.**
Fujitsu (Thailand) Co., Ltd (hereafter Fujitsu) established in 1988, is located in the Navanakorn Industrial Estate and employs total about 4000 people. It mainly produces hard disk drives (HDDs) for a variety of customers, including besides HP, Sony, Dell, Matsushita, Hitachi, Toshiba, IBM, Sony and National (Panasonic).

Western Digital Thailand
Western Digital (US company) is the second largest Hard Disk Drive manufacturer worldwide (after Seagate which recently acquired Maxtor). Like Fujitsu, Western Digital Thailand (hereafter Western Digital) is located in the Navanakorn Industrial Estate. The facility consists of former Fujitsu and Read Rite factories, which were acquired in 2001 and 2003, respectively. Since July 2006 the facility is named Western Digital. Its main customers are HP, Lenovo/IBM, Sony, Panasonic, and Dell. Western Digital employs about 22,000 workers in Thailand of which about 8000 work at the facility in Navanakorn. Western-Digital is investing this year to expand capacity at its two plants in Thailand.

Figure 6: HP HDD Supply Chain in Thailand

Second tier HDD suppliers

HDD suppliers

| LTEC | MMI | Innovex | Mektec | Murata |

HDD manufacturers

| Seagate/ Maxtor | Fujitsu | Hitatchi | Western Digital |

PC manufacturers

HP

5.4   Working Conditions in the Thai HDD Supply Chain

Comment HP: In general, during HP's audits of suppliers in Thailand, we have found that suppliers in Thailand are following the Thai Labor Law standards and we have not found a large number of major labor non-conformances to the Code. After thorough investigation of all these suppliers if it is found that the 2nd or 3rd tier supplier provide HP's 1st tier suppliers with components, HP will work closely with their 1st tier to ensure communications, assessments, audits, corrective actions and trainings.
HP is concerned with the allegations made in this report. We take any violation of our code of conduct seriously. Currently, we do not know enough about the methods behind the allegations listed below to verify the validity of the findings nor some of the suppliers but we are committed to follow up vigorously. The issues listed in the reports below are a good indicator of the importance of our work within the industry as well particularly as it reaches down into 2nd and 3rd tier suppliers. HP is committed to achieving the standards set out in our code.   We firmly believe that working collectively on these issues is the most efficient and effective way to achieve sustainable improvements and we invite SOMO and it's research NGOs to work closely with us to resolve some of these issues in our supply chain.

5.4.1   Employment is Freely Chosen

No evidence was found of forced, bonded or involuntary labour.

5.4.2 Discrimination and Unequal Treatment of Contract Workers

Some cases of discrimination were reported.
At *LTEC* it was reported that workers who have hepatitis B only get a year-to-year contract. Further, workers pointed out that obtaining sick leave and the size of the end-of-year bonus and promotions strongly depend on personal contacts with the supervisor.
Comment LTEC: LTEC does not discriminate against employees on the grounds of infection with Hepatitis B virus. Supervisors cannot decide rankings or promotions of their subordinate by only their preferences.

A number of discrimination cases were found relating to discrimination of contract workers. The workforce of several companies in this research mainly consists of this type of workers. For example, in *Western Digital* 60 percent are agency hired. At *Western Digital* and *Fujitsu* contract workers received a lower wage. At *Fujitsu* contract workers were denied certain bonuses and insurances, and when female workers apply for a job they have to take a urine/pregnancy test, contract workers getting pregnant will be fired.
At *Western Digital* most males are regular workers but the majority of female workers, mainly in the assembly line, are hired through an agency. The agency requires the female candidates to take a urine test, which is very likely used to determine pregnancy. This is confirmed by the fact that one of the workers was dismissed after she got pregnant. Only after a lawsuit, filled by CLIST, the worker could return to the factory as a subcontracted worker.[67]

Only 30% of the workforce in *MMI* is employed on a regular basis, the rest have their employment outsourced through agencies. The outsourced workers don't have any job security. Their length of employment contract is completely dependent on the amount of orders the company receives. Resulting from this uncertainty was a high turnover rate of around 50% for a given day.
The wages of the workers at MMI are different between the regular workers and the contract workers. The regular workers earn at least 8,000 Baht per month (the highest amount we learned was 15,240), and benefits like an annual bonus equal to one month wages and monthly diligence bonus of 450-500 per month, and transport allowance and rice, social security and their uniform is provided for free. The contract workers earn 184 baht per day, making 4,784 per month (26 x 184), they get no annual bonus and their monthly diligence bonus amounts 150-200 baht per month, they have to pay 160 baht for a shirt, 99 baht for the trousers, 350 baht for safety shoes. Subcontracted workers also have to buy their safety mask and safety glasses themselves (!), these costs were deducted from their salary. Moreover, contract workers have less air-conditioning, and no medical check-ups for the contract workers.
Comment MMI: Contract workers pay 170 baht for their shirts and they are allowed to wear their own pants. Personnel protective equipment [PPE] are provided free-of-charge to all staff, contract workers included, if the jobs condition requires them, as per safety regulations. Contract workers are provided free annual health checks. The regular workers had been with the company and previous company (TPW) for more than 10 years and hence, the higher salary as compared to the new recruits.

Also at LTEC the benefit is different between temporary workers and permanent workers.

At Murata, if the company finds out that some of the subcontracted workers are union members then these workers will be fired immediately. One interviewed female worker (contract worker) of Murata said the medical test for the labour agency includes a pregnancy test. The workers have to pay themselves for the medical test. Also at *Murata*, women who become pregnant during the

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[67] CLIST is a Thai non governmental Thai workers' rights organization.

probation period will not obtain fixed employment. Also when women are found to be pregnant during the application the company will not offer her employment.

5.4.3 Child Labour

No evidence of child labour was encountered in any of the factories investigated.

5.4.4 Wages and overtime payment

At 6 production sites, *MMI, LTEC*, *Innovex, Fujitsu, Western Digital* and *Murata*, workers state their wage is not enough to cover the cost of living, let alone save money, although it meets Thai labour Law. They also point out they feel forced to work overtime in order to earn additional income to cover basic expenditures.
Comment LTEC : The legal minimum wage rate is periodically reviewed and adjusted by the Wage Committee to suit the economy and standard costs of living. The basic minimum wage rate is generally considered as appropriate and acceptable by the government,. employers, and employees.

Workers at *Paragon* also mention a case of unjust wage deductions because that their annual bonus will be cut if they do not meet their production targets. They may loose up to 4/5 of their bonus.
At *Western Digital* the bonus is reduced in case of sickness

5.4.5 Freedom of Association and the Right to Collective Bargaining

The findings with respect workers' freedom of association and the right to collective bargaining vary across production sites.

There is no union at *LTEC.* This can be explained by saying that the Northern region of Thailand is known for being really tough to unionise and as a subsequence the workers in this region are not familiar with unions. Companies are reallocating their factories from other parts of Thailand to the Northern region because wages are lower, government incentives are higher and there are no unions there.[68]

At present there is no labour union at the *Fujitsu* Thailand factory. The main reason for this is that in 1998 after a major strike the company shut down and fired all the union leaders. It also started to hire more contract instead of regular workers, which makes it more difficult to set up a union. Workers indicate that in the past the company actively discouraged the formation of a trade union but this is less the case now. Nonetheless, workers feel that setting up a union is not possible.

There is no union at *Western Digital,* but only a welfare committee. It is not known what they do and whether they function on behalf of the workers. Workers feel it is very difficult to organise because they are all covered up with protective clothing, do not have time to talk and the breaks are very short. Workers are afraid they will lose their jobs when they start forming a union.

According to the workers at *MMI* are now 235 regular workers and 600 subcontracted workers. 80% of the regular workers are member of a union. Three years ago this location had 1600 workers

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[68] Interview SOMO with fieldworkers, October 2006, Bangkok.

of which 1400 union members. After a major labour dispute three years ago, all union members were laid off (1400!). This weakened the union to great extent; this is also called 'union bashing'. The current union members have a better relationship with the management since the management is replaced. The subcontracted workers do not join the union because they are afraid to be dismissed because of this. According to them, the union only supports the regular workers. The use of contract workers has reduced the unions bargaining power.

Comment MMI; Staff were laid off based on business exigencies and severance compensation as per labor law were provided. Not all union members were laid off. The past union chair is still employed by MMIT and he continues as the union lead in MMIT.

Moreover, in 2004 MMI successfully dismantled the trade unions at two of its other factories by spinning of these factories and making them subcontracted factories, with new workers via labour agencies and no trade unions anymore. The workers expect the same will happen at one of the two factories in Nawa Nakorn, at the moment workers of this factory experience quite some sabotage from the management.

Comment MMI: MPMT and MMI's Korat project [MPA] were expansions of MMI Group's business and have nothing to do with MMIT's operations. Management adhered to the CBA closely.

At *Innovex* there is no union. It seems as if workers are not aware of their right to form unions. They mention that there exists some kind of labour rights training but only supervisors attend. The workers indicate they are not informed nor invited about them. Allegedly, the trainings are not about labour rights but deal with issues like working hours and wages.

Comment Innovex: At every quarterly communication meeting, every employee is given the opportunity to submit questions or complaints and every submission is answered. There have also been regular, random skip level meetings with the workers by senior management. The safety committee, which has 4 daily production workers out of the 15 members, meets monthly. The Safety Officer performs daily facility walks to monitor compliance and look for potential problems.

Also at *Mektec* there is no trade union. The company does not seem to discourage the trade union actively but it rather provides alternatives to avoid trade union. The factory has set up an association for the workers, with activities as library services, renting CD and karaoke for the break time etc. Workers rights are not an item.

Comment Mektec : Mektec always encourages its employees to express their opinions regarding to their work. The company also set up systems for their employees to express their concerns or complaints through several activities. Furthermore, Mektec allows its employees to express their abilities through activities such as Quality Circles Committees (QCC) and several other improvement projecst.

At *Paragon* the management discourages the formation of a union by prohibiting people to talk with more than 5 persons together and states workers have to talk to the management when there are problems. The workers strongly feel that the management does not want a union in the factory. Hence, not surprisingly, so far no union has been formed at *Paragon*.

There is no union at *Murata*. Similar to *Innovex*, it seems that workers are not aware of the freedom of association and the right to collective bargaining. There are trainings which deal with working hours, pay rates ad the like in which only staff participates. When workers have complaints they can put them in a suggestion box but it seems that nothing is done with them.

5.4.6   Excessive Working Hours and Intensive Production Rhythms

Table 5 presents an overview of regular and overtime working hours per production site.

During the time of the investigation there was due to limited orders not much work at *Innovex*. Workers indicate they want to work more but there is simply no work. This raises also problems. It is the company's policy to compensate workers during regular workdays. As a consequence, it forces workers to take up holiday when there is no work in order to avoid paying them salary. It regularly happens that workers show up at the factory but sent home again and told they have to use one of their rest days. Finally, workers also mention that when workers are ill they are only allowed to rest for two hours. If they need longer they have to take a sick day and lose their daily pay benefits.

At *LTEC*, workers mention that their regular workweek is 8 hours per day during 6 days a week. Moreover, they indicate they are forced to work overtime for an additional 4 hours per day and on Sundays. This means that working hours at *LTEC* exceed the ILO standard.
Comment LTEC : LTEC working hour is 8hours/day + overtime 2.5 hours/day (Max 10.5hours/day). LTEC adjusts the worker's working schedule to avoid 7 days working in a row. LTEC has not forced the workers overtime working and had got the consent of overtime working from the workers. LTEC ensures that the number of hours for working overtime and working on holidays should not exceed the 36hours / week. Thai law)
But even when LTEC workers work 10.5 hours per day instead of the 12 hours as claimed by the workers, LTEC still exceeds the ILO standard and the EICC.

At Murata workers state they work 12 hours per day, including overtime for five or six days per week, depending on the company's schedule. There is regular overtime work, depending on orders. If there is a large order workers overtime is compulsory also during holidays. If there aren't many orders, workers can take some holidays. Overtime and holiday pay is paid in accordance with company regulations.

At Innovex workdays are eight hours long, and the workweek is six days long, with Sundays off. During peak production workers overtime is compulsory. Currently there is not enough work so there is no overtime at all, moreover, workers are forced to take holidays even if they have showed up at the factory dressed and ready for work, only to be told that they must use one of their rest days, and the worker has no choice but to follow the orders
Comment Innovex : This is not Innovex practice. Over the past two and a half years, we have had two shutdowns (one in August 2006 and one in December 2006). Both of these shutdowns were announced well in advance, employees were paid half their daily wages and given the option of supplementing that pay by taking annual leave for the other half of the day.

At *MMI* the workers must work 12 hours per day. Overtime is automatically required. For the outsourced workers it is written into their hiring contracts that they must work 12 hours per day. A temporary worker was intimidated by the agency that he cannot refuse overtime and will get dismissed immediately in case overtime is refused. One interviewed worker said that if they refuse overtime on Sunday, their salary will be cut with 1 day salary. Her working schedule over 2006 showed that she worked 2 Sundays per month in the low season. The peak season was 4 months this year, in that period she worked every Sunday (thus 7 days per week, 12 hours per day).

Based on other interviews MMI: The employer requires the workers to work 36 hours of overtime per week. Often the workers have no opportunity to take any day off in a month. The only time off is when the shift is changed (one per month), where workers will have almost a whole day before they will have to go to work again. The workers will have to work 324 hours per month. The employer will inform on Saturday whether the workers will have to work the following Sunday. As

for Monday through Saturday the workers must work 12 hours per day. If the workers don't want to work overtime they must provide the line leader with a reason. The line leader will at these occasions ask/plead/threaten the workers to stay as there is so much work to do.

Comment MMI: Overtime is performed only with the consent of our staff. We do not force our staff to work overtime if they do not agree to do so for whatever reasons that they may have.

At *Mektec* overtime is also forced by the management. Workers point out that in practice they cannot refuse overtime because only with a 'very good' reason they are allowed not to work. A normal working day is 10,5 hours for 6 days per week. During peak season they also work on Sundays which is about three months per year.

Comment Mektec: Regular working hour is 7 hours per day. Should there be any overtime in each day; Mektec would allow its employees to volunteer to work overtime. Mektec also makes sure that within one week, including their day off or any holidays, overtime would not exceed 36 hours per week. This is enforced by Thai Labor Law.

It would be better if Mektec refers to the EICC instead of referring to Thai labour Law which is legalising work weeks up 84 hours.

At *Paragon* overtime is not compulsory as is the case at *Mektec*. However, as wages are very low workers generally want to work more than the regular workday of 8 hours. The overtime is usually 3,5 hours. The company knows this and therefore has made overtime conditional on reaching the daily production target. In other words, workers are denied overtime if they do not reach the set production target, which is hard to meet.

Excessive working hours were also reported by some of the workers of *Fujitsu,* and *Western Digital*; 2-4 hours overtime plus overtime during the weekends is regular practice. This overtime is perceived as compulsory. At *Fujitsu* labourers stated that if they refused to work overtime without a very good reason they are put on a black list and receive warnings. After three warnings there is a chance you will be dismissed. In addition, it was reported that in case overtime is refused, the annual bonus is deducted, salary is cut or wage increases are not followed up. Further, workers said there are mandatory exercises of 15 minutes with music and trainer to prevent workers from falling asleep because they are so tired of the work.

At *Western Digital* workers indicate that supervisors threaten them with dismissal if they do not accept the overtime work. With 12-hour shifts, 7 days a week during peak season (which lasts 10 months a year according to workers) working hours in this factory are particularly excessive and unreasonable.

Finally, at *Mektec* and *Paragon*, workers are subject to degrading treatment and intensive production rhythms. Every month the manager is speaking to the workers just to yell and shout at them to make them work harder. Moreover, workers feel that targets are set which are impossible to complete. At *Paragon* there is also a weekly meeting with the supervisors to make them work harder and the management threatens to close the factory in case they do not increase their efforts.

Comment Mektec: Yelling is not practiced within Mektec. Mektec has many other ways to encourage workers to work harder such Quality Circle Committee activities. Mektec set targets with careful consideration and we have exceeded our targets every year. Mektec to have records and evidence to support this. At Paragon there is a weekly meeting with supervisor to enhance workers attitude and guide them to work happily and effectively.

Table 5: Regular working hours and overtime per factory

Factory	Regular working hours	Regular Overtime	Comment
LTEC	8 hours, 6 days per week	2.5 according to LTEC, 4 hours per day according to the workers and every Sunday.	Compulsory overtime. 10.5 or 12 hours in each day, 63-84 hours per week.
MMI	8 hours, 6 days per week	4 hours per day and 2 out of 4 Sundays.	12 hours in total each day, 72-84 hours p.w.
Innovex	8 hours, 6 days per week	No overtime	48 hours p.w.
Mektec	8 hours, 6 days per week	2.5 hours per day. During peak production (about 3 months per year) also on Sunday	Compulsory overtime. 10.5 hours in total each day, 63-73.5 hours p.w.
Paragon	8 hours, 5-6 days per week	3.5 hours per day. During peak production (June-January) every day including Saturday and Sunday	11.5 hours in total each day, 57.5-80.5 hours per week.
Murata	8 hours, 5-6 days per week	4 hours,per day	12 hours in total each day, 60-72 hours per week.
Fujitsu	8 hours, 6 days per week	4 hours per day and 2 Sundays per month	Compulsory overtime
Western Digital	8 hours, 5 days per week	4 hours overtime per day. During peak season (10 months per year) a 12 hour shift, 7 days per week.	Compulsory overtime

Note: With regular overtime is meant overwork performed on a day-to-day basis.

5.4.7 Health and Safety Conditions

At *LTEC* workers have mixed feelings about the working conditions. On the one hand, they point out that there is a nurse and on some days a doctor, sufficient protective gear and drinking water, trainings on hazardous chemicals and a clean canteen. On the other hand, they report there have been some minor and two major accidents in the factory, that several workers feel sick although they passed the annual health check, there are not enough toilets and protective clothing is not comfortable and is often not used because workers feel it prevents them from meeting production targets. Nonetheless, all and all it seems that *LTEC* takes working conditions serious. This is illustrated by the companies willingness to investigate the before mentioned accidents.
Comment LTEC : LTEC conducts health & safety education when they join the company. Protective equipments such as eye glasses, gloves, mask, helmet, and boots which is necessarily for their safety are provided and workers are required to wear protective clothing. LTEC displays sign boards to inform employees of hazards in the work place. The company does not set unrealistic production targets which can not be met with protective clothing.

Workers at *MMI* have a number of complaints concerning their working environment and are very concerned about their health and safety. First, the work *MMI* entails very heavy lifting. Second, the factory is very hot due to the casting oven with hot aluminium. The workers have heat rashes, sore and dry throats before they have completed their first year. Third, in the factory with the casting oven, workers have to take out hot pieces with only simple cloth gloves. Further, as they are pressured to speed up – it is said that some workers even take amphetamine to work faster - there is not sufficient time to let the products cool off. Hence, sometimes the aluminium is splashing around, occasionally leaving skin burns in case it hits the workers. Fourth, workers complain about aluminium dust in the factory. When it rains, the water leaks which sometimes results in electrical sparks because the electrical plugs are all covered in aluminium dust, which serves as the leader of electrical current to the outside. The aluminium dust when wet turns into acidic waste with a foul smell. The workers complained about this pool of acid to the management but it has not been

cleaned up. The factory building is old and workers are afraid it will collapse some day. Besides aluminium dust and lead dust there dust from the sand paper used for polishing the pieces. Some workers have to go regularly to the doctor to scrape out lead dust form the throat. When workers cannot take it any longer they will be replaced to another department but the problem remains. Fifth, the noise impacts the workers hearing. They are using headphones and mouth caps but they do not offer sufficient protection.

One female worker even fell sick and appeared to have aluminium dust in her longs. She only partly recovered and no improvements have been made since. Finally, the drinking water is not clean in both factories. To the astonishment of the workers a public health and safety inspection did not confirm their complaints.

Comment MMI: Workers' performance based on targets was developed by Industrial Engineers and is within stipulated standards. PPE is provided as appropriate, e.g. thick gloves for handling hot work. There were no cases of amphetamine consumption that MMIT is aware of and MMIT's clinic do not possess or prescribe such drugs. MMIT does not engage in the use of lead or its derivatives. PPE are provided as appropriate. There are also no records or medical reports of these mentioned OHS related, or cancerous cases. MMIT has an in-house Safety Committee with a certified Safety Officer. The Union Chair is a committee member of the Safety Committee. There was no complaint receive from the workers nor the union regarding insufficient toilets and unhygienic canteen conditions. A Canteen Committee, which is also comprised of mainly union committee members, oversees the proper operation of the canteen and the selection of the caterer. UV and filters are installed for the drinking water.

At *Innovex* workers point out that health problems include: Fatigued eyes, backaches, sore legs for workers who are forced to stand. For workers using magnifying lenses all day long, some suffer from fatigued eyes and migraine headaches; some have soreness in the eyes leading to headache. One worker said that workers "have swollen red eyes that look like they have stung by wasps and the have to stop working for a week to recover." There is sufficient fire equipment at the factory but to conserve electricity the lights close to the fire exit are largely dimmed. There are not sufficient toilets and workers must wait in line, and workers complain about the canteen. Some workers suffer from bladder diseases because they are forced to hold their urine. Some workers suffer from abdominal pains or swollen legs and don't know what is causing the pains. Apart from these concerns, workers are also worried about inhaling toxic fumes, because they don't know what chemicals they are inhaling and what the effects will be. During yearly health check-ups, they have told that their health is normal. Finally, workers report they are exposed to certain chemicals (including Borik Acid) because of limited or protective gear. Due to the bad working conditions work injuries happen regularly. Safety officers do come to inspect them but do not seem to write reports or undertake any action.

Comment Innovex: Low concentrations of Boric acid are used in the gold plate process and all industry standard safety standards are adhered to. Innovex provides personal protective equipment for every employees working with chemicals. We conduct regular internal audits and, as noted, were recently audited by BVQI (ISO certification agency) and certified for OHSAS 18001. Employee health conditions are monitored regularly. Innovex recognizes the potential hazards associated with microscope work and has complied with or exceeded all safety standards. Innovex has 109 toilets which are more than required by Ministry of Labor. All areas that have chemicals or possible fumes have the accepted standard safety monitors and controls.

The testimonies of the workers about the H&S situation at Innovex are in contrast with the comments of Innovex management.

At *Mektec* health and safety conditions seem up to standard. There is a problem with aluminium dust but good protection equipment is provided for free. Every year there is an extensive medical

check up: including blood test, urine tests, x-rays of the lungs. The more dangerous the work the more medical check ups. Nonetheless, workers report an accident with a machine. A worker warned the management that the machine was defect but she still had to work with this machine and hurt herself badly. The management paid the medical costs and her sick leave. The worker returned to work although her hand never healed completely.

At *Paragon* there are problems with dust. Before workers used protection masks but recently the company abolished them because it wants to save money (!) In addition, similar to *Innovex,* workers who use magnifying glasses extensively, experience trouble with their eyesight.

Also at *Murata* working conditions are up to standard. There is a health centre for which workers do not have to pay. There are also few accidents and if any they are taken seriously. Further, workers point out that there is sufficient protection for working with chemical products, a clean canteen and sufficient toilets. In general workers are satisfied with the working conditions. Nevertheless, some still report problems with their eyesight and backaches because of heavy lifting.

At *Western Digital* the main health and safety problems mentioned are aluminium dust and noise. The aluminium dust is in the "kitting out" room where electronics parts are being put together before going to the clean room. Some electronics parts first have to go to the washing room, before going to the "kitting out" and the clean room. The noise problem is in the washing room, where the work is very hard (male workers).The workers do wear big ear covers. In the clean room the main problem is the low temperature (17celsius) in the factory necessary for the production process and the chemicals they have to work with. Most clean room workers have problems with their skin (itching). It is likely that this occurs because they have to mix chemicals at the end of their shift before going home. All production workers of the clean room have to mix these chemicals, and one shift in the clean room contains about 1000 workers. When mixing the chemicals they still wear all their protective clothing. After the mixing the factory takes their protective clothes and washes them. The interviewed worker does not know what kind of chemicals they have to mix. But she thinks it's not healthy, because a lot of workers have problems with their facial skins.

5.4.8 Awareness of Code of Conduct and Audits

None of the interviewed workers had any knowledge about codes of conduct and never seen any. *Comment HP: Important to note that the brands have not visited second tier suppliers at this point and would not have any assurance that the code of conduct was introduced to these workers. HP's first tier suppliers are just beginning to implement the EICC in their own facilities and not all have supplier management procedures for SER in place. HP is working to address 2nd tier suppliers through targeted programs such as FISI and CESR.*

Several production sites (*LTEC*, *MMI*, *Innovex, Western Digital, Fujitsu* and *Murata)* have been visited by representatives of buyer companies but none of them has spoken with workers. It is also not clear what was the purpose of the visit: labour inspections or business.
Some buyers have audited *Western Digital.* According to the management social standards are not a requirement of the buyers. They only require occupational health and safety. Furthermore, *Western Digital* only asks its suppliers for ISO certificates, whether they are lead free or not and they do random checks on what kind of metals are used. The company does not check its suppliers on social standards.
Comment HP: HP is scheduled to audit Western Digital Thailand in 2007 and has completed the Malaysia audit. HP is working to influence our first tier suppliers to implement more rigorous

supplier SER programs with their own suppliers and lack of a supplier management program is a common non-conformance found during HP audits.

Comment LTEC : LTEC distributed the Code of Conduct booklet to all employees. Employees had a meeting to learn about the Code of Conduct. LTEC undergoes several factory inspections per year by many customers for trouble shooting, periodically quality audits and environmental audits.
Comment Seagate: Seagate has sent the Electronics Industry Code of Conduct (EICC) to their suppliers.
Comment MMI: Workers are briefed on Company Policy and Work Rules during orientation and via monthly communication meetings. MMIT policy and work rules are based on current Thai Labour Law B.E. 2541. MMIT is TS16949/ISO 9002 certified.
Comment Innovex: Innovex has a written policy and a reminder was sent by email to all employees from the COO reminding them of the policy as recently as November 2006. Several customers require information regarding workers conditions. Typically, customers cannot speak with the workers because very few of the production workers speak English.

5.4.9   Summary of Violations

Table 6: Summary of EICC Violations in the Thai HDD Supply Chain

	LTEC	MMI	Innovex	Mektec	Paragon	Murata	Westerm Digital	Fujitsu
Labour								
Freely chosen labour								
Child labour avoidance								
Working hours more than 60 hours	X	X		X	X	X	X	X
Working hours: forced overtime	X	X		X	X	X	X	X
No minimum wage paid/ overtime not paid/ unreasonable wage deductions					X		X	
Workers indicate it is not a living wage	X		X			X	X	X
(in)Humane treatment				X	X			
Non discrimination	X	X				X	X	X
Freedom of association	see note 1	X	see note 1	see note 2	X	see note 2	see note 3.	X
Health and safety								
Occupational safety		X	X		X		X	
Emergency preparedness								
Occupational injury and illness								
Industrial hygiene							X	X
Physically demanding work		X	X					
Machine safeguarding								
Dormitory and canteen	X	X	X					

Note 1 The Northern region of Thailand is really tough to unionise. Companies are reallocating their factories from other parts of Thailand to the Northern region because wages are lower, government incentives are higher and there are no unions there. According to interviewed labour groups the local police man play the role of hit man. They told the story of an organizer, trying to organise workers, who was shot for doing this but fortunately not killed. This happened between 1 and 2 years ago. More recently a researcher on workers rights was threatened and decided to go back to Bangkok. The workers in this region are not familiar with unions.
Note 2: in a few cases a welfare committee or workers committee are set up instead of (or to prevent) a union. But these committees do not represent the workers rights as unions can do. In some cases the main tasks of these committees are birthday parties, library services, and organising karaoke etc.

5.5 HP Hard Disk Drive Supply Chain in the Philippines

Figure 7 depicts HP's Hard Disk Drive (HDD) supply chain in the Philippines. Below, information on working conditions for six suppliers (including two second-tier supplier) of HDD manufacturers is reported.[69] Similar to the Thai HDD supply chain most suppliers produce equipment for more than one HDD manufacturer (indicated by the arrows).

Comment HP: We are working very hard to determine whether all or any of these suppliers are in fact in our supply chain. We have no information or verification that these suppliers are providing product that goes into HP computers. In addition, the information provided by SOMO about these sub-tier suppliers in the descriptions below does not indicate that they are supplying to HP although several other brand name companies are identified as their main customers.

Because the identified main customers of the sub-tier suppliers in this research are HDD manufacturers of which HP has confirmed it buys HDDs from, SOMO considers these sub-tier suppliers part of the supply chain of HP and they can be therefore held accountable.

Hitachi Global Storage Technologies Philippines Corporation

Hitachi GST was formed as a result of the strategic combination of IBMs and Hitachi's storage technology businesses. Hitachi Global Storage Technologies Philippines investments are focused on the manufacture of Hard disk drive (HDD) and HDD component parts such as head gimbal assembly or magnetic heads, slider and headstack assembly for, among others, IBM, Apple and Dell. Subcontractors of Hitachi GST are the San Technology, Micro Device Technology (MD Tech) and Luzon Magnetics. The company was established on May 11, 1994, is located in Laguna Technopark Inc. and employs about 7000 employees.

Comment HP: Hitatchi is a global brand in its own right and concerns should also be addressed to Hitatchi.

San Technology Inc.

San Technology Inc., (hereafter San Technology), a Japanese owned company, was established in Cavite, Philippines in November 8, 1988, to expand production of magnetic head cores for computers for its parent company Sumitomo Special Metals Corporation. In May 2003, the parent company decided to join the Hitachi Group: Hitachi Metals Special Metals decide to form a strategic business alliance; Hitachi metals acquired 32.9 % of the voting rights of Sumitomo special Metals from Sumitomo Metals Industries. In 2004, with effect from April 1, Sumitomo special metals Co, Ltd. And Hitachi Metals, LTD. merged their permanent magnet operations, with the view to expanding them under the new company name of NEOMAX CO. Therefore, since April 2004, San Technology is a subsidiary of Neomax Co.

The company has about 2000 employees; most of them were female workers. The youngest workers in the factory are 20 years old and there is no temporal employment because of the no-hiring policy implemented by Hitachi since the merger in 2003. Products manufactured are chips inductors, printed circuit boards for computers and magnets for Hard disk drives. Apart from Toshiba, San Technology produces for Hitachi (Laguna), Samsung, Seagate, Hanstar, Maxtor, Fujitsu, IBM, Main Aike and P.IMES & Hayakawa (CEPZ). Products are exported to Japan, Singapore, Korea, Malaysia, Taiwan, China and Indonesia.

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[69] Working conditions at Astec Power are already discussed above because they are also identified as a direct supplier of HP and are therefore not addressed in this section.

Mechanical Keyparts Philippines Incorporation

Mechanical Keyparts Philippines (MKP) Incorporation (hereafter MKP) is a 99.99% Japanese and 0.01% Filipino owned company that was established on September 26, 2000 at Cavite Economic Zone. The company was designed for the assembly of carriage spacer for the hard disk drives. It has a labour force of about 1500of which 25% are regular or fixed employees and 75% are agency hired or Labor-Only Contracting (LOC) workers, also known as Sunpiro. Apart from for Toshiba, MKP makes products for Nidec Subic, Nidec Laguna, Nissin Precision (Laguna), TRC and Kapco manufacturing and exports to Singapore, Japan, Malaysia and Thailand.

Micro-device Technology

Micro-device Technology (hereafter MD-Tech), separated from San Technology Inc. and established its own manufacturing production on January 1, 2005. It is fully owned by Sumitomo Metal Micro-Devices, Inc. In 2004 the company had a labour force of about 1,000 employees of which 70% were fixed and 30% were probationary employees. On 2006, after the company separated from San Tech, employment was lowered to 900, all fixed workers; 90-95% are females and 5%-10% are males. Its main products are printed circuit boards, flat screen TVs, hard disk, TV slide, DW rewind for computers, plasma displays which are produced for TMD, Samsung, Nanox, PIT, Toshiba, Nokia, SMDR, Panasonic, Hayakawa, and P. Imes.

Tsukuba Die-casting Corporation

Tsukuba Die-casting Corporation (hereafter Tsukuba), a 100% Japanese-owned company was established in the Cavite economic Zone (CEPZ) on April 9, 1996. The company has a total workforce of 1,000 of which 30% are regular and 70% are temporal workers. Among the latter, 30% are agency hired. Workers identified Toshiba as one of the clients of Tsukuba. Local sub-contractors of the company are Kapco, P-ton and CAM Laguna. The company is a supplier of aluminium base for HDDs. It has a unique position of having two other small Japanese firms located with it in the same compound: KAPCO for coating of aluminium die-cast and P-TON for plastic injection. Thus, advantage of reducing production time, providing close communication, and interaction among the three firms, and reducing cost for the customer who has deal with only one firm with regard to product specifications. On the other hand, while having receive instructions for specifications directly from Toshiba for the base and cover it supplies, must closely interact with Kapco for surface treatment and with P-Ton fro plastic injection parts. Such agglomeration economies originating from co-location of suppliers is exemplified by the fact that lower-tier suppliers Kapco and P-ton are located in the same compound as higher-tier supplier Tsukuba Die-casting.

Kent Adhesive Products Co.

Kent Adhesive Products Co. (hereafter Kapco), a 99.99% Japanese and .0025% Filipino was established on May 9, 1996 in Cavite Philippines. It is a manufacturer of surface coated hard disc frames and other coated products and electronic parts if similar feature. The identified products produced by the workers in the production were HDD 2.5-1.8, HDD base, SH cover, top cover and HDD plating for Fujitsu, MKP, EMECEM-Subic, PTON, Tsukuba and Bridgestone and exported to Japan and China. Around 500 workers are employed at Kapco. Most of the workers are agency hired by Sunpiro manpower agency. Kapco uses the following sub-contracting companies: MKP, Tsukuba, Dayap and Emecem.

Fujitsu Computer Products Corporation of the Philippines

Fujitsu Computer Products Corporation of the Philippines is 100% Japanese and fully owned subsidiary of Fujitsu Limited in Japan. It was established in February 1, 1995 at Carmelry Industrial

Park I-SEZ Canlubang, Laguna Philippines. Its line of business is for the manufacture of Magneto Optical Disk (MOD) Drives, Magnetic Hard Disk drives (HDD's), semi-finished computers, components parts and accessories. It was considered by PEZA as a Pioneering activity, FCPP expanded rapidly in its first 5 years of operation exporting its products to the United States, Europe, Japan and Southeast Asian countries. The HDD production started on April 1996. The company has a 6,158 total number of employee as April30, 2006 wherein; 5,443 (88%) are the operators which composed by 96% female and 4% male with 715 (11%) engineers, staff and technicians in which 65% are male and 35% are female. The products of the company are mainly supplied to its mother company which is the Fujitsu limited in Japan and also provided to Sun Micro/SAE and the products are exported to USA and China.

Figure 7: HP Supply Chain in the Philippines
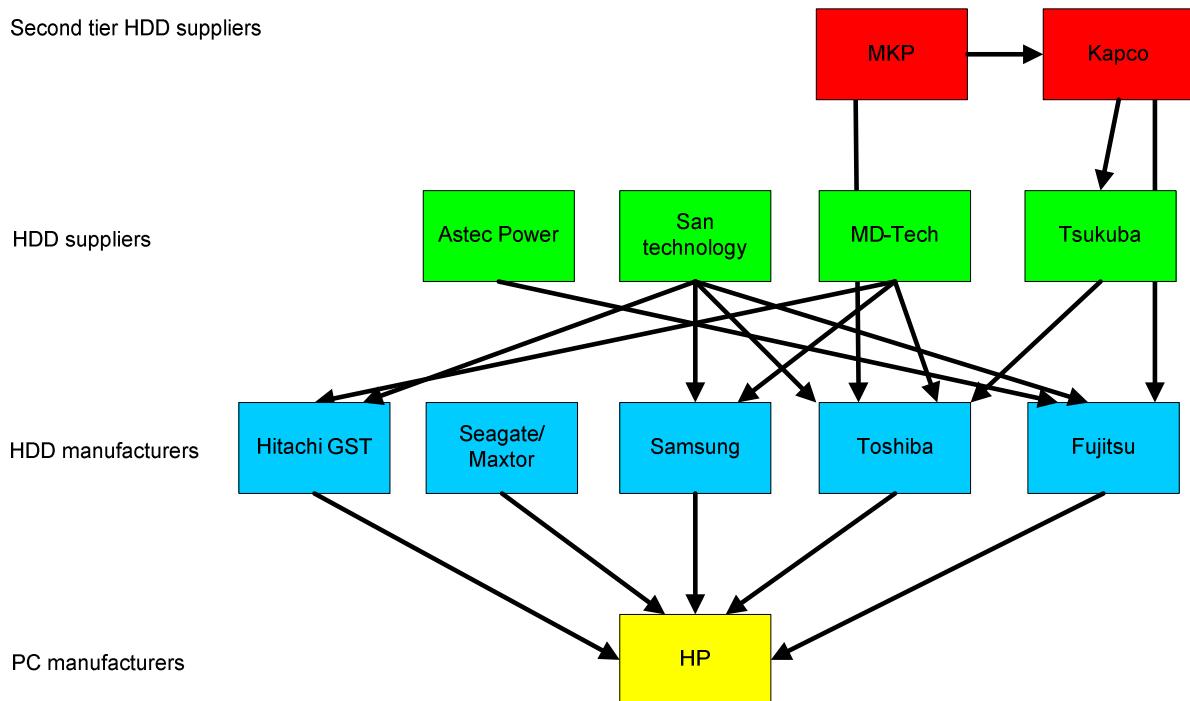
5.6   Working Conditions in the Philippine HDD Supply Chain

Comment HP: Based on HP's audits in the Philippines, overtime, discrimination, and freedom of association have been confirmed as nonconformances against the EICC. When HP has observed non-conformances, it has required corrective actions.

5.6.1 Employment is Freely Chosen

No evidence was found on forced or bonded labour.

5.6.2 Discrimination

Most of the workers in the electronics factories were direct hired (not agency hired) Labor-Only contracting or the manpower agencies already existed in the zone in which there are factories that are supplied with workers by the agencies like in the case of *MKP, Kapco and Tsukuba.* It is beneficial for the companies hiring employees from LOC's since there will be no regularization of employment and no benefits / incentives will be spend on the workers.
Astec is practicing the hiring of apprentice employees where they will only give 75% of the minimum wage for the apprentices as legal regulations.

A number of unequal treatment or discrimination cases were found, mainly relating to discrimination of contract workers. In some factories contract workers were denied holiday (*Astec Power, Kapco*) and paid sick leave (*Kapco*). In the latter company the majority of workers work on a contract basis. Workers pointed out that the management of *Kapco* also discriminates on sexual orientation as it does not want to hire gay or lesbian workers.
At *Astec* the salaries of regular employees are paid on a monthly basis. The highest paid workers are those who have stayed in the factory for more than five years. They receive an average of PhP350 to PhP400 daily including benefits and incentives based on their monthly wage rate. On the other hand, contract workers receive only PhP254.00 on daily rate while apprentices receive 75% of the minimum wage computed at a daily rate.

At Fujitsu opportunity on training and promotion is not equal according to the interviewees, the one who were promoted and sent for training to other countries are those who were closely related or favorites of higher-positioned employees.

5.6.3 Child Labour

At Fujitsu the youngest workers in the factory are aging 15 to 18 years old which are recommended or had been supplied by a identified community orphanage known for offering under aged workers. The company required parent consent signed by parents or guardians of the applicants.[70].

5.6.4 Freedom of Association and the Right to Collective Bargaining

In several factories violations of the freedom of association and the right to collective bargaining were reported. Company management is strictly prohibiting the workers on the memberships on unions and threatened them that the company will be closed or relocated whenever there were unions to be organized.

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[70] Explanation: Previous documentation and research by WAC revealed that the Sisters of Mary is an institution that gather teenagers from the rural and depressed areas, house them in a convent and provide their high school education under a scholarship program which is financed by philantrophic entities including Korean and Japanese investors. After graduation, the teenagers are assisted by the Sisters of Mary in seeking and applying for a job and provide their boarding houses until such time that they have gained a relatively stable job. In some cases, the Sisters of Mary are either sought out or have an agreement with certain companies where the teenagers would be brought after graduation. While in school, the students are trained with technical and homeroom skills and with obedient attitudes inside the convent where they stayed. Basically, the institution supply young, cheap and meek or docile labor to companies. Since teenagers graduate from high school usually at the age of 16 and are thus underaged or minors under Philippine labor laws, the company requires a parental or guardian consent to avoid prosecution with a violation of the Philippine Labor laws.

Workers at *MKP, Kapco* and *MD-Tech* pointed out that at these factories unions are strictly prohibited by the management.

At *San Technology,* it was mentioned that the workers had planned to organize a union back in 2003 but this was detected early on by the management. To bust the union, the company management immediately transferred some of the workers involved to different departments in order to make it difficult for them to meet and discuss their organizing plans. While some have been promoted to higher positions, specifically to sub-leader or to line leaders, none of the workers obtained higher supervisory or managerial positions. The explanation behind the promotions is that under Philippine labour law workers or employees who have supervisory or managerial functions cannot become members of a union of workers. If the union accepts members who have supervisory functions, their union registration will be revoked by the Department of Labour and Employment.

At *Tsukuba* there is no union in the company but there was a report that there was a plan to organize one last January 2006. However, when the management found out, they ordered the transfer of 10 workers into separate areas to prevent union formation.

5.6.5 Wages and Overtime Payment

Workers at *Astec Power and Fujitsu* said their wage is not sufficient to cover living expenditures. At *Astec Power* they complained that they even have to pay for drinking water. At *Fujitsu* the wage rate is based on the hours of work of the workers with a daily target quota. Workers at *San Technology* and *MD*-Tech indicated they are satisfied with their wage. Workers at *MKP* and *Tsukuba* pointed out that the wage is sufficient for single workers but no enough to support a family of multiple persons.

At the time of the research the minimum wage was PhP254.00. The new wage order for a new minimum wage is PhP272.00 in the region where the companies are located. Apprentice workers receive 75% of that as provided for by the Philippine labour laws.

5.6.6 Excessive Working Hours and Intensive Production Rhythms

Table 3 presents the regular working hours and overtime per factory for which information was found. In all the factories except *MD-Tech*, a few hours overtime per day is standard practice and in most cases the number of hours by far exceeds the ILO (48+12) maximum number of working hours. Moreover, in many factories overtime is compulsory, meaning that workers are forced to do overtime, and production rhythms are inhumane.

At *Astec Power*, *San Technology*, *MKP* and *Tsukuba* four hours per day overtime is normal and compulsory. Except for *Astec Power*, overtime on Sunday is mostly voluntary (although 'voluntary' at *MKP* means that workers need to have a good reason to refuse) but obligatory during peak production.

At Fujitsu working days of the workers depends on the production in which when the production is low, they are required to work for 8 hours a day, 6 days a week with 3 hours overtime while when the production is high, they should work for 4 hours daily, 8 hours Sunday overtime and the engineers for 5 hours overtime a day.

At *Hitachi Global Storage* regular working hours are 8 hours, six days per week for the first two weeks and 8 hours, 5 days a week for the last two weeks of the month. The workers render 8 hours regular work plus 3 hours of mandatory overtime daily. Sunday 8-hour overtime is not normal and happens only when the demand for production is high. There is no evidence that overtime is compulsory. Like in other factories, peak production has no regularity and depends on the volume of order of the customer.

In the Philippines, as may be deduced from the information gathered from the different factories it is normal and standard for a worker to render 12 hours (8 hours regular and 4 hours mandatory overtime) of work daily for 6 days with mandatory Sunday or rest day overtime when production is high.

Table 7: Regular working hours and overtime per factory

Factory	Regular working hours	Regular Overtime	Comment
Astec Power	8 hours, 6 days per week	4 hours per day and on Sunday during peak production	Compulsory on Sunday. 72-84 hours per week
San Technology	8 hours, 6 days per week	4 hours per day and on Sunday during peak production	Compulsory overtime. 72-84 hours per week.
MKP	8 hours, 6 days per week	4 hours per day and on Sunday	Overtime on Sunday is voluntary but workers need to ask permission not to work. During peak production overtime on Sunday is compulsory. 72-84 hours per week.
MD-tech	8 hours, 6 days per week	No regular overtime except during peak production.	Compulsory on Sunday during peak production. 48 hours per week.
Tsukuba	8 hours, 6 days per week	4 hours per day and on Sunday	Compulsory overtime. 72-84 hours per week.
Kapco	8 hours, 6 days per week	4 hours per day	Compulsory overtime. 72 hours per week.
Fujitsu	8 hours, 6 days per week	3 hours per in low season, 4 hours peak season and engineers 5 hours per day and on Sunday in peak season.	Compulsory overtime.66-91 per week.
Hitachi GST	8 hours, 6 days per week	3 hours per day. On Sunday during peak season	About 66 hours per week.

Note: With regular overtime is meant overwork performed on a day-to-day basis.

5.6.7 Health and Safety Conditions

The safety and health conditions vary significantly across factories. General complaints include: (1) bad working conditions in terms of temperature (Fujitsu), smell or dust (*Astec Power* and, *Tsukuba)*, frequent small accidents such as cuts (*Astec Power*).

At *Kapco* workers pointed out that the production area is not fully ventilated. There are various reports of diseases (bronchitis, dizziness, sinusitis) and cough because of bad chemical odour and the lack of sufficient protective clothing. Workers also said there have not been improvements in working conditions since they started complaining.

Mentioned chemicals workers of *San Technology* work with are: Isopropyl alcohol, adhesives, UV-transparent, acetone, flux, lead, ammonia, silicon, nitric acid, and sodium hydroxide.

At *P.IMES* the chemicals or substances they were usually using were alcohol, acetone, soldering materials and paints.

At *Astec* chemicals or substances used in the production were IPA, flux, soldering materials, solvent, lead, araldite, residue, thinner, sunning bar, adhesives and thermal.

At *Kapco* chemicals that present in the production area were nitric acid, chromium, nickel and IPA.

At *Tsukuba-die casting* chemicals or substances used in the production were molding materials, metal or iron, and cleaning chemicals.

In all factories protection materials are supplied.

Finally, for *Hitachi Global Storage* workers indicated that working conditions were in general very good. In particular workers praised the strong environmental commitment of *Hitachi Global Storage*, which aims to reduce the usage of harmful chemical substances.

5.6.8 *Awareness of Code of Conduct and Audits*

Most of the interviewed workers did not known what a code of conducts is and for whom they are made. Some clients of a particular company visited the factory not to look at the condition of the workers but to inspect the production process because many of the products delivered to them were rejected. When speaking about the Corporate Social Responsibility (CSR) policy, workers told about the company policies, rules and regulations in the production for the customers' satisfaction and also for the environment management. Labour issues were not given too much attention by the company to be part of their CSR policy.

5.6.9 Summary of Violations

Table 8: Summary of EICC Violations in the Philippine HDD Supply Chain

	Astec Power	Hitatchi Global Storage	Fujitsu	San Technology	MKP	MD-Tech	Tsukuba	Kapco
Labour								
Freely chosen labour								
Child labour avoidance			X					
Working hours more than 60 hours	X	X	X	X	X		X	X
Working hours: forced overtime	X		X	X	X	X	X	X
no minimum wage paid/overtime not paid/unreasonable wage deductions	X							
Workers indicate it is not a living wage	X		X		X		X	
(in)Humane treatment								
Non discrimination	X							X
Freedom of association				X	X	X	X	X
Health and safety								
Occupational safety	X						X	X
Emergency preparedness								
Occupational injury and illness								
Industrial hygiene								
Physically demanding work								
Machine safeguarding								
Dormitory and canteen	X							

Annex 1: Evaluation CEREAL

CEREAL'S PERSPECTIVE: "Work experience with HP Mexico Social and Environmental Responsibility SER Team, April – September 2006

During the last six months, the work experience of CEREAL with the HP Mexico SER team has taken place mainly under three areas of activity:
1. Direct relationship with HP's SER team in Mexico
2. Relationship lead by HP's local SER team with contract manufacturers (CMs), outsourced design manufacturers (ODMs) and suppliers in Mexico.
3. Relationship facilitated in part by HP's local SER team with the electronic industry in Mexico.

All these activities are covered in the Electronic Industry Code of Conduct, which is adopted by HP and monitored by CEREAL.

In regards to ODMs, CMs and suppliers of HP Mexico we could state that:
a) HP's SER team in Mexico gives continuous follow-up to their suppliers (through regular visits, questionnaires, courses and audits) with the purpose of helping them fulfil the EICC requirements.
b) If a supplier does not comply with EICC requirements the HP SER team will request corrective actions that will resolve the problem. During the last semester CEREAL has not received any news of HP ending a business relationship with a supplier due to a non-compliance issue.
c) The HP team has facilitated communication between their suppliers and CEREAL, where non-compliance issues have been taken care of and documented by our organization.[71]

Due to the complex and extensive supply chain of HP in Mexico, the conditions that CEREAL has found vary among the different suppliers. There are companies with a commitment almost as strong as HP, but there are also companies that do not apply the necessary corrective measures sufficiently or promptly. We believe these circumstances are due to the recent birth of the EICC and we are confident that these shortcomings will be resolved.

It is worth mentioning the social responsibility leadership role that HP has played through the Electronics, Telecommunications and Informatics Industry National Chamber (CANIETI). HP has facilitated conversations between CEREAL and companies that are not part of HP´s supply chain, where HP recognizes the importance of having social responsibility practices. These conversations between CEREAL and companies have allowed the resolution of several labor conflicts in a more effective and prompt manner than from one obtained through strict legal means.

The relationship during this semester between HP, CEREAL and companies has highlighted disagreements and differences about the manner in which we should all work together. However, it is obvious that these differences have been worked out along the semester and agreements are taking place to ensure a more coordinated work."
CEREAL
Guadalajara, México
October 27th 2006

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[71] Work experience with HP Mexico SER Team, (Social and Environmental Responsibility), April – September 2006 Period Feedback from CEREAL (Centre for Reflection and Action on Labor Issues). Received by SOMO from HP in November 2006.