

Summary

Philips da Amazônia
Supply Chain
Brazil

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1. Introduction

This research describes the structure of the production chain of Philips da Amazônia (Philips) in Manaus, Brazil, as well as labour relations and working conditions in this chain. It focuses on the following three companies in Brazil's televisions production industry, which supply to Philips:

- Multibrás da Amazônia ("MASA");
- Pastore da Amazônia ("Pastore"); and
- Jabil do Brasil ("Jabil").

All three companies are based in Manaus Industrial Zone. Hereinafter they will also be referred to as "the Suppliers".

The research was carried out between May and June 2005. It is based on interviews with and documents provided by the Suppliers' management and by the unions (in particular the Plastic Industry Workers Union of Manaus and the Metallurgical Union), and on information that is available on the internet and on the Suppliers' websites. In addition, the Suppliers' management responded to a questionnaire and facilitated interviews with workers.

Labour relations and working conditions at Philips' own companies are described in a separate report.

2. Production chain of Philips da Amazônia

Description of the production chain

Philips da Amazônia has approximately 70 goods and service suppliers. The most important are LG Philips, Samsung, Gkib, Gatsby, Multibrás, Pastore, Jabil Circuit, Flextronics, Isopor, Bandeirantes, Orsa, Planave and JL Pinto. As a group, the suppliers employ about 2,000 people, or nearly twice as many as the total of direct workers at Philips da Amazônia. The company engages in equipment assembly, using components acquired from local suppliers, some of which are also large companies with multinational or Brazilian capital. Larger companies are mainly in the first tier of suppliers. For example, widescreens are purchased from a Korean-Dutch joint venture, LG Philips, and circuit boards are supplied by the U.S.-based multinational Jabil Circuit. Some parts, such as electrical cables, are purchased from smaller Brazilian companies, like GK&B. The components for circuit boards are imported (second-tier suppliers), while electrical parts are normally purchased from companies located in the country.

The plastic parts used in television assembly are provided by companies of different sizes, but mainly from large companies. Philips purchases plastic cabinets for its televisions from Multibrás, which belongs to a multinational group and supplies parts to various other manufacturers. When necessary, Multibrás subcontracts the production of injected parts to other companies, usually

smaller ones. Thus, a subcontracting network is formed to meet final demands. The raw materials are purchased mostly in Brazil from the petrochemical centres of Triunfo, Camaçari or São Paulo. The suppliers are usually large Brazilian companies like Trikem, or multinationals, such as Basf and Bayer.

Another element of the chain, the distribution, is divided among a number of companies, including some large retailers, including Brazilian and multinational supermarket chains like the French Carrefour, Makro Atacadista, and important department stores on the Manaus market (Bemol). It is important to note that the domestic market is the destination for most of the television production in Manaus.

Performance requirements for suppliers

For a company to become a supplier to Philips da Amazônia, it must allow Philips to monitor the flow of its products. For each type of activity, the Philips Integrated Management System establishes priorities for quality, occupational health & safety, and the environment. If demands are not completely met at the time of contracting, deadlines are set and a follow-up system established to ensure compliance. This procedure seeks to improve the development of suppliers, especially the smaller ones, and **to avoid simple exclusion**.

Philips' SA 8000 certification requires that the company selects suppliers and sub-contractors who are able to adhere to the specific regulations; Philips has to monitor its suppliers to be able to maintain the SA 8000 certificate. However, contracts with suppliers do not contain clauses that allow Philips to interfere in case of non-compliance with established rules and norms, such as, for example, those related to the timely payment of wages.

The company's management indicates that suppliers are submitted to evaluations through annual audits, defined in the Schedule of Certifications of Local Suppliers, using a checklist of the Integrated Management System. Monthly Quality Review meetings are held. These meetings have a pre-established agenda, which includes the follow-up and evaluation of data, such as: complaints, back charges, scope, banned and lead-free substances, ISO 9000 and ISO 14000, and in the past year SA 8000.

3. General characteristics of the Suppliers

Company relations with Philips

Multibrás da Amazônia

MASA's relation with Philips goes back more than 20 years. The company was founded in 1978 as Hévea da Amazônia. Since 1983 it is part of the Whirlpool group. This group also includes Whirlpool Eletrodomésticos S.A., one of the main brands for home appliances in Brazil and Latin America, and Embarco, a world leader in refrigerator parts. MASA manufactures plastic parts for

the television and the motorcycle markets.¹ It sells 20% of its products to Philips. Its other clients include Honda, Semp-Toshiba and companies in the group. It exports mainly to Mercosul countries.

The company's sales between 2000 and 2003 averaged approximately R\$ 85 million. Its operating profit floated around the 1.5%. Unfortunately, more recent figures were not available.

Pastore da Amazônia

Pastore produces plastic parts for the Manaus electronics industry and supplies to MASA and Philips da Amazônia. It operates a factory in Manaus and maintains an office in São Paulo. Pastore mainly produces for the Brazilian market and mainly buys its raw materials (for paint and plastics) from Brazilian suppliers.

The company uses outsourcing, for instance for the production of small pieces, if there is insufficient in-house production capacity. It uses carts to deliver parts to its clients' assembly lines in order to reduce packaging. It works with some of its suppliers to jointly develop new technologies and improve processes.

From the late 1990's to 2002, the company went through a difficult time. However, it has reversed this trend and its monthly billing currently amounts to some 10 million reals. Its net profit after taxes approximates 5%.

Pastore used to be a family-run business and embarked on a process of "modernisation"; it purchased modern machines and professionalised its administrative and management staff. It hopes to obtain quality, environmental and labour safety certifications and reportedly aims to improve its labour conditions and Corporate Social Responsibility (CSR) standards.

Like MASA, Pastore has had a relation with Philips for more than 20 years. The two companies undertake co-operative projects in what they refer to as "joint engineering." Philips conducts audits at the company that also include labour issues. Philips may request quality improvements, withhold payment or return purchased items.

Jabil do Brasil

Jabil is a subsidiary of the American multinational Jabil Circuits and one of the main companies in Philips' television production chain. It provides Philips with circuit board assembly services and recently purchased a Philips assembly plant at Philips' industrial site. The two companies are often confused in Manaus.

Jabil is a so-called "contract manufacturer" (CM): it manufactures products or components "under contract" for another brand. The company that owns the brand, in this case Philips, focuses on the development of know-how and marketing. By outsourcing the product manufacturing to a CM,

¹ Multibrás da Amazônia. Histórico. URL: <http://www.Multibrásam.com.br/htm/historico.htm>; visited on June 8, 2005.

the company can enhance flexibility and reduce its fixed (manufacturing) costs - in particular if the CM, like Jabil, has a world-wide presence and has specialised operations.

Jabil Circuit was founded in 1966 in Michigan, U.S.A., and currently owns 27 factories in four continents, nine research and development centres and ten repair centres. Its clients include Alcatel, Cisco Systems, Dell, Gateway, HP, Intel, Lexmark, Lucent, Motorola, Nokia, Philips and Whirlpool.

It entered the Brazilian market in 2000 and currently owns two manufacturing plants in Contagem and Manaus, and a business and technical assistance centre in São Paulo. The company's Brazilian headquarters are based in Manaus, but its operations are co-ordinated by the U.S. corporate centre. Its net profits amounted to R\$ 16,8 million. Jabil mainly produces for local clients and about 80% of its production is for Philips. Its contract with Philips provides for exclusivity, is valid through August 2006 and was negotiated at a global level.

Employment and employment trends

At the end of 2003, **Masa** employed 965 workers at its factory in Manaus. 742 of these workers were employed on a permanent contract.² Turnover of employees was roughly 15% at the time, which is not remarkably high by Brazilian standards. The unionists maintained that the company offers relatively secure jobs. Data on turnover in the sub-contracted jobs was not available.

Between 2000 and 2005, **Pastore's** workforce grew from 280 to 780 employees. In recent years, the annual turn over of employees varied from 16% to 20% - a rate that is much higher than the rates that were reported for the other companies in this study, as well as the company's own goal of 10%. The unionists ascribe this high rate of turn over to the company's lack of commitment to the workers. Pastore recognises the problem and plans to adopt measures to retain its workers.

Jabil employs 650 workers at its manufacturing plant in Contagem. With the acquisition of the Philips factory, Jabil's workforce in Manaus grew from approximately 800 to 2,923 permanent and 377 temporary employees. Its turnover is reportedly about 5% a year. The company employs 60 employees in São Paulo.

Relevant aspects of Corporate Social Responsibility

Multibrás da Amazônia

MASA is certified by ISO 9002 (Quality Management), ISO 14000 (Environmental Management), OHSAS 18000 (Occupational Health and Safety Management), UL International (Product Safety) and SA 8000 (Social Responsibility Management). MASA annually publishes a Social Report about its economic, social and environmental performance. In its corporate vision, mission and principles, the company committed to CSR standards, including sustainability, respect and

² Multibrás da Amazônia. Relatório Social 2003. Manaus. June 2004.

diversity. The SA 8000 standard obliges MASA to seeing that similar these norms are also upheld by its suppliers. There was no information on how the company monitors compliance.

The SA 8000 norm functions as a company's Code of Conduct and is broadly distributed among the employees, as a small pocket brochure and on posters. It includes prohibitions of child and forced labour, the rights to freedom of association, collective bargaining and non-discrimination. In addition, it elaborates on issues such as health and safety, disciplinary practices, work shift and remuneration. Furthermore, the company's Social Report also highlights career planning for the employees, profit sharing schemes, an annual training programme and other benefits.

CSR issues are part of the company's Integrated Management System, which also includes environmental quality management and occupational health and safety. As required by the SA 8000 standards, the company organises periodic audits and created a confidential complaint mechanism through which workers can report non-compliance. Complaints may be lodged with two "inspectors" who are elected by the workers. These inspectors may investigate issues that allegedly contravene the company's commitments, present these cases to an Ethics Committee that is composed of directors and Health and Safety managers and propose remedial measures.

MASA supports a variety of social projects, including initiatives that engage employees in community work, educational programmes, and projects focused on health, training and culture.

Pastore da Amazônia

Pastore adopted a Quality Policy that is distributed to all employees. This Policy is concerned with the promotion of staff's personal development (through education, leisure, and health and safety programmes); the company's position in society (through social programmes); respect for environmental and labour laws and regulations; and countering discrimination. In addition, there is an Employee Manual that specifies employees' rights, responsibilities and benefits. The manual also regulates Personal Appearance and Conduct. The company is currently preparing an Ethics Code. Philips annually verifies Pastore's standards as part of its own annual audit.

The unions are particularly pleased with the commitment expressed in the Quality Policy to abide by the law. This commitment opens space to negotiate a Profit Sharing plan, since the company is not in complete compliance with the legislation on the issue. The company's Human Resources (HR) department is responsible for compliance with the Quality Policy and the contents of the Employee's Manual. Labour issues are monitored by the managers. Lastly, there is a Quality Committee that is composed of approximately 30 worker's representatives.

On more than one occasion, the union demanded that Pastore addressed instances of non-compliance with legislation, and the company was frequently criticised in the union journals.

Jabil do Brasil

Jabil's Code of Ethics is available on the website of the U.S. company's headquarters.³ It includes a commitment to provide fair, safe and healthy working conditions; equal employment and opportunities without any form of discrimination; protection of workers' personal information; and an encouragement of open communications. The employees are described as the company's most valuable asset and the company sees integrity as a cornerstone in the way it does business.

Employees are encouraged and have a responsibility to report suspected violations of the Code to their supervisor, the Human Resources, the Internal Audit or the Legal departments. It also provides a "Jabil Integrity Hotline" for this purpose. It is granted that employees who report irregularities in good faith will not suffer disciplinary action or retaliation. The Jabil Code was prepared and is monitored by the HR department, in collaboration with the Internal Employee Commission and the heads of the various departments. All new employees are provided with a copy of the Code.

Jabil confirmed that it does not perceive basic labour rights as part of its CSR responsibilities. It does not consult or engage with the unions, communities or government actors on CSR issues or policies. Philips conducts audits at Jabil that also include basic labour rights.

The company has ISO9000, ISO14000 and OHSAS18000 certification. Reportedly, the recent growth in the number of its employees is the reason why it is not (yet) SA 8000 certified. The company aspires to participate in the federal government's "First Employment Programme". However, this programme focuses on people with lower income – a target that will be hard to fit with Jabil's requirement that new employees were at least enrolled in high school.

4. Labour relations at suppliers

Freedom to Organise and Associate

Multibrás da Amazônia

MASA's workers are represented by the Manaus Union of Workers in the Plastic Materials Industry – one of the strongest unions in the Manaus Industrial Zone. It officially represents 8,000 workers and has 1,680 affiliated members. Another strong union in this region is the Metallurgical Workers union. Both are affiliated to the same national union centre and operate in the same region; however, there is little contact between these two unions.

MASA respects the right of its employees to join the Plastics Union and 430 of its workers are members. At the time of the interviews, nine of MASA's employees were appointed union directors and two of them were on leave for union duties. The unionists can freely conduct their

³ Jabil Circuit. The Jabil Code. 2004. URL: <http://www.jabil.com/governance.asp>; seen on Sept. 10, 2005.

union activities within the company and there have been no conflicts with the company in recent years.

Pastore da Amazônia

The Plastics Union also represents Pastore employees. Approximately 45% of Pastore's employees are members of this union. At the time of the research, there was only one union director working at Pastore. It appears that the company in practice respects employees' right to join the Plastics Union; however, the relations between the company and the union have been difficult in recent years and can be described as a nearly permanent conflict.

The unionist at Pastore reported that he is factually restricted in his union work. He stated that management wants to control union activities and that, for this reason, the union operates somewhat covertly. For instance, the Collective Labour Convention stipulates the availability of a bulletin board, but provides that posted matters should not contain "political or partisan content" and should not damage the dignity of members of management. Pastore uses this provision to screen the materials that the unions submit to them for posting – the union cannot post materials themselves. It should be noted that the bulletin board is a valuable means for the union to reach the workers.

The company reports that it tries to improve its relations with the union. It allows the distribution of newspapers, the use of the bulletin board, the use of a sound truck at the factory gate, and free access for union representatives.

Jabil do Brasil

Jabil's workers are represented by the Manaus Union of Metallurgical Workers, the union that also represents Philips' workers. The company respects its employees' right to join the union and approximately 30% of its work force are members.

Apart from the Internal Accident Prevention Commission (CIPA; see below in the section on Health and Safety), workers are internally organised in the Internal Commission of Jabil Employees (CIEJ). The CIEJ is composed of 9 workers and appears to be inherited from Philips (when it was known as the Internal Personnel Commission). It has no ties to the union and is not mentioned in the Collective Agreement.

The unions distribute bulletins at the work floor and have use of a bulletin board to convey union information to the workers. In addition, union directors can freely move around the work floor and are allowed to organise workers' meetings on the company grounds. The union confirmed that the company respects the provisions in the Collective Convention that protect the freedom to collect, and pass on financial contributions.

Access to information

The unions at **MASA** have good relations and easy access to the company's management. They meet every two weeks, and all managers tend to be present at these sessions. The union is well informed on the company's strategies and plans, and it regularly meets with management to discuss issues such as CSR, labour relations and working conditions. **MASA** is transparent; it presents its budget to the employees and informs them about the indicators for the Profit and Income Sharing Plan. The unions are apparently not engaged at the corporate level.

The unionist at **Pastore** maintains that the company provides some general financial information in its Economic report, but is much less transparent than what might be expected from a multinational in the sector. **Pastore's** factory management and union representatives institutionalised a monthly meeting to evaluate issues and opportunities for improvement. In general, the company only engages the union if something needs to be quickly resolved, but the management appears to dodge regular dialogue. Furthermore, in 2004 the company still refused to discuss the issue of profit sharing.

Collective bargaining

For **MASA**, and **Pastore**, collective bargaining is conducted between the Plastics Workers Union and the association of corporations in this sector. The Metallurgic Union conducts collective bargaining for **Jabil**. The negotiations result in a Collective Convention that is relevant to the entire sector and that is annually renewed. The unions also negotiate Collective Agreements that cover specific issues, such as compensation for overtime hours and profit sharing.

5. Labour conditions at suppliers

Child and Forced labour

Both at **MASA** and **Pastore**, the minimum working age for regular employees is 18. The union reported that there are younger trainees, as permitted by law. There are no reported cases of child or forced labour for any of the three Suppliers.

Discrimination

The unionists maintain that **MASA** is highly concerned with discrimination on the basis of gender or disabilities. Unionists believe that men and women are treated equally in hiring, training and promotions, and that there are more women than men in management positions. There is also equality in salaries, as required by Brazilian law. It was reported that 33% of the factory workers are women, and that 15% of the operators are female. Sexual harassment is a priority issue for the unions, but there were no known cases. There are reportedly many positions for people with physical disabilities. There is no affirmative action plan or policy.

The unionist reported that **Pastore's** management is not very concerned about gender discrimination, although there is no apparent inequality in the treatment of men and women. The company reported that there is only one female director, although there are more women than men in management. They earn similar salaries for the same work. During a factory visit, IOS researchers observed more male operators and more women working as operating assistants.

Jabil is reportedly very concerned about gender equality. Men and women are treated the same and there is equal pay for similar work. However, the company also reported that in May 2005 only 13% of the management positions were filled by women, whereas nearly 53% of the total workforce was female. The union confirmed that there are vacancies for people with disabilities, as required by law. There are no affirmative action programmes or policies in place. There was no information available on the employment of black workers.

Wages and bonuses

The base salary stipulated in the Collective Convention for **MASA** and **Pastore** amounts to R\$ 420 a month. This base salary is among the highest negotiated in the region. The base salary level applicable at **Jabil** is R\$ 388,22, which is also higher than the average in the sector. All unions believe that the negotiated wages are still inadequate, yet in conformity with the common wage standards. The low salaries are mostly complemented with some benefits that fulfil basic needs for food, transportation and medical service. At the time of the study, the minimum wage in Brazil was R\$ 300,00.

The lowest salary paid by **MASA** is R\$447,00. A machine operator at MASA receive between R\$ 600,00 and R\$ 900,00 per month.

The lowest wage paid by **Pastore** is R\$ 426,00. The company reported that the average salary at the company is R\$ 823,00. It appears that 544 workers receive up to R\$ 600,00; 124 receive up to R\$ 900,00 and the other 126 earn more than that. The union is calling for the company to adopt a Job and Salary Plan. Pastore reported that it will prepare this plan and is still reviewing job descriptions. It conducted a study among companies in the sector to determine a competitive salary level.

Jabil appears to pay the highest wages. The company stated that its lowest salary amounts to R\$ 495 for the function of a production operator, and that its average monthly salary level is R\$ 1.008,42 – an amount that by far exceeds the average salary level in the sector. However, the majority of the workers, approximately 52%, earn one-and-a-half to twice the minimum wage of R\$ 300; about 32% earn twice to four times the minimum wage; 15% earn between four and 15 times the minimum wage, and 3% earn even more than that.

Profit Sharing Plan

At **MASA**, the Profit and Income Sharing commission is formed by the union. The Profit and Income Sharing programme provides for the annual payment of about two monthly salaries if the specified goals are achieved. There is no information about flexible remuneration for managers.

Unionists at **Pastore** maintained that the company still refused to discuss Profit and Results Sharing. When the unionists brought up the issue last year, the management reportedly responded by saying: *“Don’t even think about it, there’s not even a light at the end of the tunnel.”*

Benefits

MASA provides a number of benefits (pension and health plans, transportation and daycare assistance) as negotiated by the collective convention. In addition, there is a restaurant, the company provides a monthly food basket and reimburses 50% of student’s education costs. **Pastore** does not provide a health plan, and the union criticised the food and transportation benefits. According to the union at **Jabil**, the absence of sufficient daycare facilities is relevant to nearly all companies

Working hours

At **MASA**, the regular working week has 42 ½ hours for shift workers and 44 hours per week for workers in administrative positions. When there is a need for increased production, the company discusses this with the union and negotiates overtime hours and remuneration. Workers are given advance notice and are free to refuse the work. Compensation for overtime varies from 100-130% of the regular salaries and often includes special benefits such as breakfast, transportation, etc. Legal provisions concerning maximum working hours and compensation are complied with. There is no hour bank system because the union objects to this. Overtime is common practice, and the union stated this is partly due to the fact that many workers want to work overtime to boost their income.

Pastore imposes a working week of 44 hours and overtime is a common practice. Workers get advance notice if there is a need for overtime, and there are no repercussions if they refuse to take these shifts. The company complies with the maximum working hours and payments are properly made.

The normal working week at **Jabil** is 40 hours for shift workers and 44 hours for employees in administrative positions. Unionists stated that overtime is common practice, although there were no precise data available. They stated that many workers like to work overtime to increase their income. There is no advance notice if overtime is planned, but there are no repercussions if a worker refuses to work these hours. The legal maximum working hours are complied with and in general the company correctly compensates all hours worked.

Health and safety

There are Internal Accident Protection Commissions (CIPAs) at all three companies. At **MASA**, it is composed of 12 members, at **Pastore** it has 16 members and **Jabil's** CIPA has 32 members. In each case, half of the members are appointed by the workers and the other half by the company. The employment of CIPA members is protected by law to help ensure that they can independently and adequately exercise their functions.

MASA reduced the number of labour accidents (with and without missed workdays) from 135 in 2000 to 20 in 2003, even though the number of **MASA's** employees substantially increased during this period. IOS visited the factory and observed that workers used protective equipment, that there are warning signs and maps for health risks. The union is concerned that excessive overtime work might lead to accidents and closely monitors the accident reports. It believes that accident prevention is improved by the fact that accident rates are linked to the payment of profit sharing.

Similar to what was reported for **MASA**, the union at **Pastore** is concerned about the health and safety risks of long shifts, and monitors the accident reports. The unionists think the number of accidents at **Pastore** is significant.

Training

Jabil stated that it considers training a permanent concern and that its employees receive nearly 40 hours of operational training before they are put to work in the production line. In addition, the company provides training that is tailored to the needs of each operational area or individual employee, linked to the annual performance evaluation. Last year, the company offered 3,126 hours of training to its employees.

6. Subcontracting and temporary workers at suppliers

Subcontracting

Nearly a quarter of **MASA's** workforce is made up of employees that work in subcontracted operations. The Collective Labour Convention guarantees equal rights (wage and benefits) to subcontracted workers. Subcontracted operations mostly relate to “non-core” support activities, such as cleaning, the cafeteria service, security etc.⁴ Upon the union's request, the company hired a number of subcontracted personnel in the tool and maintenance section. In addition,

⁴ Multibrás da Amazônia. Relatório Social 2003. Balanço Social 2002. NB: Brazilian legislation prohibits subcontracting of activities that belong to a company's core operations.

MASA frequently contracts a number of companies for the supply of plastic parts. In this case, MASA provides the moulds and specifies quality standards.

Temporary workers

SUFRAMA, the “Superintendency of the Manaus Free Zone,” reports that the number of temporary workers in Manaus remained stable in the past two years, despite the increase in the workforce

Pastore reported that there were only two temporary workers to replace workers on maternity leave.

11% of **Jabil**'s 2,900 employees have temporary contracts. The company reportedly aims to keep the number of temporary workers down, which means that temporary workers have a good chance to be hired on a permanent basis. Temporary contracts are for up to 180 days and reportedly guarantee income and satisfactory working conditions.

7. Concluding remarks

The increase of outsourcing of Philips operations can have a negative impact on working conditions. Even if Philips requires that suppliers comply with labour laws and safety conditions, salaries and benefits tend to be reduced by these suppliers. It is important to be cautious about possible new outsourced operations. Union representatives can act jointly on this issue.