

Apple assembly line gets pay raise, fewer hours

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Chinese workers who often spend more than 60 hours per week assembling iPhones and iPads will have their overtime hours curbed and their pay increased after a labor auditor hired by Apple Inc. inspected their factories.

The Fair Labor Association says Hon Hai Precision Industry Co., the Taiwanese company that runs the factories in China, is committing to a reduction of weekly work time to 49 hours, the legal Chinese maximum.

That limit is routinely ignored in factories throughout China. Aret van Heerden, the CEO of the FLA, said Hon Hai, also known as Foxconn, is the first company to commit to following the legal standard.

Apple's and FLA's own guidelines call for work weeks of 60 hours or less.

Foxconn's moves are likely to have an impact across the global technology industry. The company employs 1.2 million workers in China to assemble products not just for Apple, but for Microsoft Corp., Hewlett-Packard Co. and other pillars of U.S. technology.

Foxconn's factories are the last step in the process of manufacturing iPhones and other Apple devices, most of which have hundreds of components. Research firm IHS iSuppli estimates that Apple pays \$8 for the assembly of a 16-gigabyte iPhone 4S and \$188 for its components. It sells the phone wholesale for about \$600 to phone companies, which then subsidize it to be able to sell it for \$200 with a two-year service contract.

Ricardo Ernst, a professor at Georgetown University's McDonough School of Business, said companies play a risky game when they raise their manufacturing costs. U.S. consumers have shown little inclination to pay more for products that are made in the U.S. as opposed to China.

But iSuppli's figures suggest that if Apple were to absorb a Foxconn wage increase that keeps salaries level while cutting average working hours from 60 to 49 per week, it would pay less than \$2 extra to have an iPhone made.

Other electronics companies, particularly PC makers such as Dell and HP, earn less profit on what they sell and could see a deeper impact.

Thomas Dinges, an analyst at iSuppli, said Apple's competitors will probably have to accept the price increase too, since it's framed as a moral issue.

"At this point, it's politics. It's not really economics," he said, adding that there are few alternatives to Chinese factories for most of these products.

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Published on Electronic Component News (<http://www.ecnmag.com>)

The FLA auditors visited three Foxconn complexes in February and March: Guanlan and Longhua near the coastal manufacturing hub of Shenzhen, and Chengdu in the inland province of Sichuan. They employ a total of 178,000 workers, with an average age of 23.

Average monthly salaries at the factories ranged from \$360 to \$455. Foxconn recently raised salaries by up to 25 percent in the second major salary hike in less than two years.

Apple enormous profits — \$13 billion in October-to-December quarter — have made it the world's most valuable company, worth more than \$570 billion. It's also put the spotlight on the way its products are made.

In one-man Broadway play, actor Mike Daisey told of visiting China and talking to underage and injured Foxconn workers. Public radio program "This American Life" used Daisey's monologue in a show about Foxconn on Jan. 6, but retracted it two weeks ago, saying that Daisey had fabricated key parts of it, including him meeting 13-year-old workers.

The FLA said it didn't find instances of child or forced labor.

Apple has kept a close watch on its suppliers for years, and in January took the further step of joining the FLA. The organization has audited overseas suppliers for clothing manufacturers, but Apple was the first electronics company to join. It also commissioned the FLA to produce a special audit of Foxconn's factories.

"Our team has been working for years to educate workers, improve conditions and make Apple's supply chain a model for the industry, which is why we asked the FLA to conduct these audits," Apple said in a statement.

Apple CEO Tim Cook visited a Foxconn factory in Zhengzhou, China, on Wednesday.

The Washington-based FLA has its roots in a 1996 meeting of multinational companies and nonprofits convened by President Clinton, who challenged industry to improve conditions for garment and shoe workers. Its 19-member board is composed equally of representatives from member companies, universities and nonprofits like the Global Fairness Initiative. The organization is funded by participating companies.

Labor unions have criticized Apple's use of the FLA, insisting that audits are a "top-down" approach. Foxconn's workers would be better served, they believe, by being able to organize.

"The report will include new promises by Apple that stand to be just as empty as the ones made over the past 5 years," said SumOfUS.org, a coalition of trade unions and consumer groups, ahead of the release of the report.

The FLA found few safety violations, noting that the company had already dealt with

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problems like blocked fire exits and defective protective gear. It's also taken step to reduce the amount of aluminum dust in the air, after the metal created an explosion at a Foxconn factory in Chengdu last year, killing four workers.

The FLA said Foxconn has been recording only accidents that caused work stoppage but is now committing to recording and addressing all accidents that result in an injury.

Heerden said his auditors found Foxconn workers are the happiest with their jobs when they work 52 hours a week, well below the amount they often put in. Reducing their hours to 49 hours should help Foxconn retain workers in the long run, he said.

The FLA found that many workers at the Foxconn factories want to work even more overtime, so they can make more money. Foxconn told the FLA that it will raise hourly salaries to compensate workers for the reduced hours.

Heerden said that it's common to find workers in developing countries looking for more overtime, rather than less.

"They're often single, they're young, and there's not much to do, so frankly they'd just rather work and save," he said.

The auditors examined one years' worth of payroll and time records at each factory, conducted interviews with some workers and had 35,000 of them fill out anonymous surveys.

Apple has started tracking the working hours of half a million workers in its supply chain, and said that 89 percent of them worked 60 hours or less in February, even though the company was ramping up production of the new iPad. Workers averaged 48 hours per week.

Source URL (retrieved on 07/14/2014 - 8:25am):

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