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EXCLUSIVE ASIA APPLE

Apple Took Three Years to Cut Ties With Supplier That Used Underage Labor



By Wayne Ma



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Seven years ago, Apple made a staggering discovery: Among the employees at a factory in China that made most of the computer ports used in its MacBooks were two 15-year-olds. Apple told the manufacturer, Suyin Electronics, that it wouldn't get any new business until it improved employee screening to ensure no more people under 16 years of age got hired.

Suyin pledged to do so, but an audit by Apple three months later found three more underage workers, including a 14-year-old. Apple, which has promised to ban suppliers that repeatedly use underage workers, stopped giving Suyin new business because of the violations. But it took Apple more than three years to fully cut its ties with Suyin, which continued to make HDMI, USB and other ports for older MacBooks under previous contracts. A person close to Suyin, which is headquartered in Taiwan, said that the

company hadn't intentionally hired underage workers and that it had passed Apple's audits in later years.

THE TAKEAWAY

Ten former members of Apple's supplier responsibility team claim the company avoided or delayed cutting ties with problematic suppliers when doing so would have hurt its business.

Apple no longer does business with Suyin. But the previously unreported episode, drawn from documents reviewed by The Information and interviews with people who have direct knowledge of Apple's dealings with Suyin, is a stark example of the dilemmas Apple faces in fulfilling its pledges to put workers first and not use manufacturers that consistently violate labor laws. And it demonstrates the fine line Apple has to walk in balancing the need to maximize profits with the expectation that it will prioritize good working conditions for its own employees and its suppliers'.

Poor working conditions at Apple suppliers in China and **India** have become a hot issue in recent weeks, as complaints have converged from different directions. Earlier this month, contract workers at a Wistron iPhone factory in India rioted, complaining that part of their wages had been withheld. That came days after The Information **reported** on the excessive use of temporary workers in Apple's supply chain, a practice Apple ignored despite China's rules limiting it.

On Tuesday, The Washington Post **reported** allegations that factories operated by Lens Technology, a key supplier of glass iPhone screens, had used forced labor from China's predominantly Muslim Xinjiang region. (Apple denied the Post account.) The Post earlier **reported** that Apple was lobbying to weaken legislation aimed at stopping American companies' use of this labor force. (The Information was the first to **report** the lobbying effort's existence in October.)

Li Qiang, founder of New York–based activist group China Labor Watch, which regularly investigates Apple’s supply chain, said the recent incidents don’t surprise him, as Apple typically doesn’t go above and beyond the minimum standards set by local authorities when policing its supply chain for worker abuses. “Apple is a company that is beholden to shareholders and in pursuit of profit. Every penny to them is important,” he said.

Few Alternatives

Apple has said in its **publicly available** supplier responsibility reports, which examine its compliance with labor, environmental and safety policies, that it has zero tolerance for the use of forced and underage labor and that suppliers’ use of temporary and contract workers must comply with local laws. Suppliers must pay all wages and benefits as required by local laws and can’t make employees younger than 18 years of age work overtime or nights. If Apple finds violations of its supplier code of conduct, its suppliers typically must fix them within 90 days.

But Apple faces problems in immediately removing suppliers who consistently breach these rules: Most obviously, there aren’t many alternative manufacturers that can easily pick up the slack. New suppliers can **take years** to meet **Apple’s exacting standards** for quality and volume. In the case of Suyin, Apple’s procurement team was reluctant to abruptly shift orders to other suppliers because it would have created delays and incurred higher costs, said a former employee.

In interviews, 10 former members of Apple’s supplier responsibility team—the unit in charge of monitoring manufacturing partners for violations of labor, environmental and safety rules—claimed that Apple avoided or delayed cutting ties with offenders when doing so would hurt its business. For example, the former team members said, Apple continued working with some suppliers that refused to implement safety suggestions or that consistently violated labor laws.

Apple has publicly taken action against two suppliers in recent months. After the riots at Wistron, Apple told the company it wouldn’t qualify to manufacture the next iPhone until

it completed corrective actions. Apple took similar steps in November against another iPhone manufacturer, Pegatron, after discovering that employees falsified documents to misclassify student workers so they could work nights or overtime and in some cases perform work unrelated to their majors. Apple rarely discloses problems with individual suppliers but did so after media coverage brought these incidents to light.

Apple has had issues with Pegatron before. A longtime Apple manufacturing partner with iPhone and iPad assembly factories in China, Pegatron came under fire from labor activists and the media for worker abuses in **2013** and **2014**. Some of the alleged violations included falsifying documents to conceal worker overtime, which Apple says is grounds for terminating business if repeated.

Cutting out Pegatron entirely would be costly and could lead to production delays. Apple has long used its relationship with Pegatron as leverage to negotiate lower fees with its biggest manufacturer, **Foxconn Technology**, according to multiple former Apple employees and an internal Apple presentation describing the strategy.

Because suppliers typically have up to 90 days to fix problems, Pegatron—like Wistron—is expected to qualify to make the next iPhone by the time **mass production** starts in July.

Apple said in a statement that it has “the strictest standards in the industry to ensure workers across our supply chain are treated with dignity and respect. Our work with suppliers begins long before the production process to identify any potential issues, address them with lasting corrective actions and make sure they agree to uphold our standards. We monitor the suppliers we work with closely and if there are issues that come up we move quickly to make sure they are addressed and resolved or we terminate the relationship, which we have done many times.”

It added that last year 9% of “new suppliers we evaluated did not receive any business from Apple.”

Squeezing Pennies

Apple is one of the world's most valuable companies, with a market capitalization of \$2.3 trillion, both because of the appeal of its products and because of its obsession with **squeezing pennies** from production. Its approach to manufacturing ensures that it has some of the **highest profit margins** in the consumer electronics business. However, that same relentless drive has meant that workers' rights and safety have sometimes taken a back seat to the bottom line, the ex-employees said.

Although Apple says it won't hesitate to remove suppliers, several former Apple employees say removals are rare. Between 2007 and 2020, Apple removed just 22 manufacturing facilities from its supply chain, according to its supplier responsibility reports. That figure represents about 1% of the roughly 2,000 locations where Apple suppliers work on its products, Apple's internal data shows. Some suppliers have multiple locations.

"Our goal is to work hand in hand with suppliers to improve their management systems, rather than to simply remove them from our supply chain without correcting the issues we discovered," Apple said in its latest supplier responsibility report. "In the event that a supplier is unwilling or unable to improve operations to meet our requirements, they risk removal from our supply chain."

One factor that contributes to the low number of removals is that Apple's supplier responsibility team can't unilaterally ban a supplier because the team ultimately reports to the head of operations. It can make recommendations, but higher-ups in manufacturing and procurement make the final decision, former members of Apple's supplier responsibility team said.

The size of Apple's supply chain also makes it inherently difficult to monitor for labor, environmental and safety violations. Former Apple employees said factory audits, like the one that uncovered Suyin's underage workers, aren't completely effective in catching violations. For one thing, Apple often notifies suppliers of upcoming audits months in advance—surprise audits are in the minority. Apple said in its latest supplier

responsibility report that it interviewed more than 52,000 supply chain workers in 2019. However, through its contractors, Apple is indirectly responsible for employing between 1.4 million and 1.8 million workers in China each year, The Information previously reported.

Another issue is that there are few incentives for suppliers to fix problems or for Apple's procurement employees, who visit factories more often than auditors, to point them out, the former Apple employees said.

The procurement employees are mostly evaluated based on how much they can drive down the price of components. "On your performance reviews, you were supposed to report how much money you helped Apple save. You couldn't report that you saved Apple from a PR black eye," one former longtime Apple procurement employee said, referring to the self-assessment portion of personnel reviews.

Sun Hye Lee, an assistant professor at Loughborough University in the U.K. who has **written** about Apple's supplier responsibility challenges, said Apple's unwillingness to impose tough penalties on suppliers makes it easy for those suppliers to repeat their violations. "It's giving the message to other suppliers that Apple won't leave us forever, so we just have to hold the line for a while and then we can go back to what we were doing before," she said.

Unwilling to Change

Apple's experience with Biel Crystal, one of two primary suppliers of glass iPhone screens, illustrates some of these challenges. In 2013, Students and Scholars Against Corporate Misbehavior, a Hong Kong-based activist group also known as Sacom, **accused** Biel of high rates of worker injuries and other labor violations at its main factory in Huizhou, China.

Apple's supplier responsibility team investigated Biel and confirmed some of the allegations, according to an internal report of its findings. A "significant number of work-

related injuries were associated with mechanical hazards” while “the hazard properties of existing chemicals in use were not well understood,” the report said. “The environmental, health and safety culture in Biel is weak among all levels of management,” it added.

The team directed Biel to complete more than two dozen corrective actions within 90 days, including offering better training, improving safety monitoring and communication with workers, and putting in place new safety procedures for handling chemicals and operating machinery, the report showed. But one year later, Biel still hadn’t completed many of the tasks, according to an ex-Apple employee with direct knowledge of Biel’s supplier responsibility record.

Doing so likely would have created more costs for the supplier, this ex-employee said. Multiple members of Apple’s supplier responsibility team recommended that Apple find alternatives to Biel because it was unwilling to make changes. But Apple kept using Biel.

Two other ex-Apple employees, both of whom were senior managers involved in the company’s supply chain, said there were constant tensions between the supplier responsibility team and procurement employees over assessing Biel’s workplace practices.

The problem was that removing Biel would have left Apple dependent on its other supplier of glass iPhone screens, Lens Technology. But Apple, like many companies, tries to avoid relying on a single supplier for any component, as that can make it harder to negotiate on price or leave the company vulnerable to supply chain disruptions if something happens to the supplier. For example, Apple played Biel and Lens off each other to get the cheapest price for glass screens, according to three former Apple employees familiar with both suppliers.

Over the next few years, Biel took some steps to improve conditions. For example, by mid-2016, Biel eliminated foul-smelling odors by renovating a glass-polishing operation and installed its first treatment system to reduce volatile organic compound emissions, according to an internal Apple email.

Still, activists felt Biel hadn't done enough. In 2016, Sacom **issued** a follow-up report on Biel, concluding that there had been no improvement in working conditions. Three ex-Apple employees with direct knowledge of Biel's supplier responsibility record said Apple's audits had found only slight improvements to Biel's working conditions between 2014 and 2016.

That year, Biel executives told Apple employees that investing in better working conditions wasn't worth it. In mid-2016, a member of Apple's supplier responsibility team paid a visit to Biel's factory after Biel executives stopped responding to the team, according to an internal Apple email documenting the visit. During the visit, a Biel executive said its management initially believed investing in supplier responsibility would lead to more orders and better deals with Apple. But after Biel made some improvements, it didn't get additional business and even lost some orders to Lens. Biel had lost the motivation to make additional investments in supplier responsibility, the executive told the Apple employee.

Apple still works with Biel, which is now the world's largest supplier of glass screens for smartphones. Biel didn't respond to multiple requests for comment for this article.

Other Violations

In 2012, Apple uncovered a major problem in its supply chain: students exploited as temporary labor in its China-based factories. Teachers were often acting as unofficial labor brokers, helping recruit students for factories under the guise of internships. Temporary labor agencies also were recruiting students for factories and mistreating them.

Many students were forced to work in order to graduate, according to a former Apple employee in the labor and human rights section of the supplier responsibility team. While the students worked at the factory, the labor agencies confiscated their government-issued identification cards, which they needed to travel freely within China.

After Apple discovered the issue, it helped write new industry standards governing the

treatment of student workers. Apple's supplier responsibility team considered banning the use of student labor altogether. But it backed down after some suppliers like Foxconn objected, either because they needed the student labor to meet demand or because a ban would jeopardize legitimate internships for students, the former Apple employee said. Instead, the team capped the percentage of workers who could be students at 20% of factory employees. That percentage was cut to 10% five years later to conform with new Chinese laws.

Some activists argue that Apple should have banned student workers entirely. Aidan Chau, a researcher at Hong Kong-based China Labour Bulletin, said student workers receive less protections than other workers because they are interns. This means they aren't eligible for social security benefits or severance pay and can be paid less than ordinary workers. "Student workers should be banned until they have the same rights as ordinary workers," Chau said.

Reports of student labor abuses in Apple's supply chain continued to crop up. In 2017, Foxconn was **accused** by the Financial Times of making student interns work overtime to assemble the iPhone, a charge Apple later confirmed. In 2018, Quanta Computer, another Apple supplier, was **accused** by Sacom of making students work overtime to assemble the Apple Watch. The November incident with Pegatron involved student interns as well.

Some of Apple's suppliers have also failed to provide legally required social insurance benefits to factory workers in China, an issue that China Labor Watch brought to Apple's attention in 2012. Apple says in its supplier code of conduct that benefits like social insurance should be paid. But after an analysis, the supplier responsibility team came to the conclusion that enforcing the rule would increase Apple's costs, according to a former team member who was involved in the discussions. Apple executives decided to leave it to local authorities to enforce the law, which still isn't uniformly enforced throughout the country, three ex-employees said.

Apple took the same approach when it came to a law that limited temporary employees to

no more than 10% of a factory’s workforce, The Information **previously reported**. The law was meant to discourage the use of temporary workers, which contract labor agencies had historically abused. Some of Apple’s suppliers, such as Quanta, refused Apple’s request to reduce their dependence on temporary workers, according to an internal Apple presentation.

Enforcing the temporary-worker law would have created additional costs for Apple and delayed product releases, according to three former team members and a former senior Apple manager familiar with the company’s operations in China. Apple never removed any supplier for repeatedly violating the law, they said.

Apple continues to face problems with temporary workers in its supply chain, mostly regarding protests over unpaid bonuses.

Wayne Ma is a reporter covering U.S. tech in Asia, from Apple's supply chain to Facebook and Google operations in the region. He previously worked for The Wall Street Journal. He is based in Hong Kong and can be found on Twitter at [@waynema](#).

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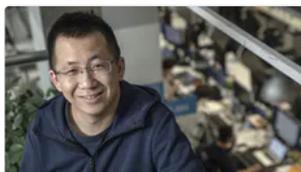


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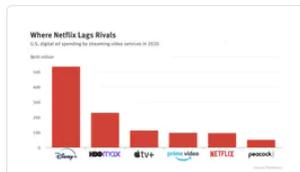
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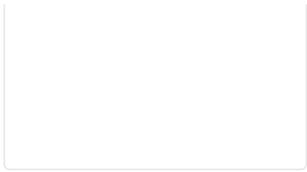
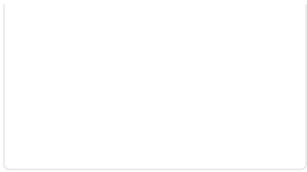
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