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THE ELECTRONICS INDUSTRY IN CENTRAL AND EASTERN EUROPE

When centrally controlled economic systems collapsed and the markets of Central and Eastern Europe (CEE) opened up to foreign capital, most of the world's biggest electronics companies started to invest in the region. How did this affect workers in the CEE? And how can we make the companies act responsibly towards their workers?

In the past, civil society organisations and trade unions in 'old' European Union (EU) countries have mainly emphasised labour rights issues in Asia. With the rapid and profound changes in the CEE labour market over the past ten years, however, these issues have become acute for this region as well. The makeITfair campaign – a European NGO project informing young consumers about social and environmental issues in the electronic industry – has taken a close look at labour conditions in CEE. Studies have been carried out in Poland, Hungary and the Czech Republic. This article summarises and illustrates the key findings.



Electronics production already existed in CEE during the period of centrally controlled national economies. With the collapse of the previous system, however, markets opened up and formerly state-owned firms generally proved unable to compete with advanced US, Asian and European companies. As a result, foreign multinational corporations (MNCs) have become the key actors in CEE's export-oriented electronics sector.

EU companies were among the first to invest in the region, responding to strategic opportunities such as lower labour costs and geographical proximity to the western European market. Korean firms also moved in early, looking to use central Europe as a production platform for the entire European market. By the mid-1990s, US firms had also moved in, followed by Japanese firms by the end of the 1990s.¹ Nowadays, most major electronics brands are operating within the region, such as Phillips, Siemens, Nokia, Motorola, Sony, Matsushita, LG Electronics, Ericsson, Daewoo, HP, Dell, IBM, Microsoft, Intel, Canon and Samsung. All the major manufacturers are also present; Flextronics, Foxconn, Celestica, Jabil, Sollectron, Sanmina, Zollner, Benchmark, Plexus and Elcoteq.

COMPETITIVE ADVANTAGES OF THE CEE MARKET

Electronics companies have seized the opportunity to invest in CEE, attracted by the competitive advantages of the CEE market. These include a large pool of skilled labour, combined with a flexible labour market and low labour costs. For example, in January 2009 the minimum wage in Romania was q153 per month.² Investing in the CEE also spreads the risks involved in producing goods in a single country (mostly China). Proximity to the EU market (especially compared to China) is an important factor as well. It enables companies to respond quickly to consumers' demands and allows for shorter delivery times.

Incentives such as subsidies and industrial park policies from national governments also contributed significantly to the creation of favourable investment conditions. Tax holidays and structural funds from the EU have helped Hungary to become the largest electronics manufacturing market in CEE. Gradually, CEE is becoming a support platform for advanced producers in Western Europe. The question is whether these current growth figures will be maintained. The region is mainly involved in low technology and labour intensive segments of electronics production, and labour costs are on the increase. What does that mean for the big electronics companies and their involvement in the region?

LOW WAGES AND TEMPORARY LABOUR

Low labour costs have been one of the major motivations for companies to move into CEE. Over the years, however, successive countries have joined the EU, which had an enormous impact on the local labour market. Huge numbers of young workers migrated to other parts of Europe. They were no longer just looking for jobs, but for jobs that provided them with decent wages. Companies had trouble hiring as many workers as they needed for their newly built factories. These developments led companies to seek low-cost labour in other parts of CEE – and sometimes to bring in workers from other countries, such as Ukraine, Mongolia and Vietnam.

Flexible labour supply is a key concern to the entire electronics sector, as the electronics market is dictated by highly fluctuating consumer demand. Companies respond to the constant changes in production volumes by making extensive use of temporary employment agencies. A 2007 survey of the International Metal Federation confirms that the electronics industry is the most affected industry in the metal sector: 58% of the labour force in electronics factories is affected one way or the other by temporary contracts.³ Temporary workers are extremely vulnerable to different forms of labour abuse. If production volumes decline, they will be the first to go. Moreover, unions cannot adequately represent them, especially when they are hired through an employment agency – and not directly by the employer.⁴

POLAND: THE CASE OF LG ELECTRONICS

After the 1989 political and economic transformation, Poland started to attract foreign direct investment (FDI). The share of foreign investment in the electronics industry has steadily increased over the past few years, particularly in the field of liquid crystal display (LCD) panel and screen production. According to estimates by the Ministry of Economics, eight out of ten flat receivers sold in Europe will be signed 'made in Poland' by 2010.⁵ Since Poland became an EU member, however, the labour market has changed. Joining the EU gave Polish citizens the opportunity to work in many other EU states – an opportunity that as many as 2 million Poles have seized.⁶ This meant that Poles were unwilling to work for minimum or close to minimum wages. As a result, wages increased rapidly,⁷ prompting companies to continue their search for low labour cost elsewhere.

makelTfair has looked into the working conditions of electronic workers in Poland, and the results were staggering.⁸ Workers producing parts for mobile phones work 12 hour shifts with just two 15 minute breaks. Many workers are subcontracted, unions are weak and the workers only earned between ā200 and ā350 per month (including overtime) in 2007 – barely enough to get by. Moreover, the turnover of workers is very high.

LG Electronics in Poland

In 2005, LG Electronics announced that it would build the largest LCD screen factory in the world in Biskupice near Wroclaw. It stated that thousands of workers would find employment in production alone. The company assumed that recruitment of workers – who, in the case of production, would largely be women willing to work for low wages – would be easy. The Polish government offered extensive support, giving the company significant tax breaks. With the wages offered by companies such as LG, however, it is no longer easy to find that many workers. Nowadays, production workers want to earn at least 2,000 PLN (€500) per month. For 10 hour shifts on the production line, the LG worker receives approximately 1,000 PLN (€250, after tax) per month.⁹

LG in Biskupice mentioned from the start that they had difficulties finding enough workers. At a certain stage, LG announced that it wanted to bring in production workers from China to solve the problem. The provincial government, however, put a stop to those plans, emphasising that foreign firms should offer Polish workers better working conditions instead. In June 2007, after two fatal accidents occurred at other LG plants, the trade union NSZZ Solidarność started a campaign for better labour conditions. The union demanded a wage increase of 10%, campaigning against long working hours, forced overtime, temporary contracts, unsafe workplaces and the obstruction of union activities. Many of the workers who joined the protests were fired. Up until today, they have not been reinstated.

A big difference in pay

In January 2009, Dell decided to move its main plant from Limerick, Ireland to Lodz, Poland. Working on the assembly line in Poland, a worker gets €2.89 an hour, which is well above the minimum wage (€281 per month in 2009).¹⁰ Similar Dell manufacturing workers in Limerick were getting €10 an hour. Supervisors in Poland get €2,500 a month while senior managers in Ireland earn €3,500–€10,000 per month.¹¹

AGENCY WORKERS IN THE CZECH REPUBLIC

The electronics industry accounts for about 30% of total foreign investments in the Czech Republic. Of electronics industry exports, 92% goes to the European market, indicating that low-cost production facilities have been established in the Czech Republic to serve Europe as the end-market. The salaries of the production workers with contracts for an unlimited period of time are equivalent to those earned in similar positions in other, comparable companies and in some cases even higher. The working conditions of people employed by agencies, however, are in many cases alarming. These workers often come from abroad (Ukraine, Vietnam, Mongolia, Belarus).

The labour agency industry is fraught with abusive practices. Agencies hiring temporary workers have to apply for a licence at the Ministry of Labour and Social Affairs, but the criteria being used for assigning these licences are extremely lax. Legislation on agency employment, designed to clarify legal relationships and to provide better protection for temporary workers, came into effect in 2004. In reality, however, foreign workers find themselves in an extremely vulnerable position. The new law states that a worker can acquire a visa connected to a concrete position only. If a contract is terminated, the agency will report to the Labour Office, which will ultimately result in the cancellation of the residence permit. If the worker does not find a new job soon, he or she becomes an illegal immigrant. Some agencies even arrange for people to become illegal immigrants on purpose, in order to offer them another job under inferior conditions. Recent findings also discovered a large people trafficking network, maintained by the bribes paid to Czech officials in the Czech embassies – mostly in Hanoi, Ulaanbaatar and Kiev.



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Vietnamese migrant workers in the Czech Republic

La Strada, an organisation providing social services to Vietnamese immigrants, describes how all Vietnamese workers coming to the Czech Republic are heavily in debt. The workers pay official or unofficial intermediary agencies between \$6,500 and \$14,000 for the journey. Corruption at the Czech Embassy is one of the reasons why prices are so exorbitant, according to La Strada. "Usually the agency in Vietnam takes half of the money and the other half is for the agency in the Czech Republic. Besides official expenses such as training, air ticket, insurance, Czech lessons and so on, both agencies have to count with additional expenses because they need to bribe a lot of people," explains the owner of a Vietnamese agency.¹² In this way Vietnamese migrants incur huge debts, sometimes selling their land and homes, for travel and job arrangements in the Czech Republic. As a result, returning to Vietnam becomes an unthinkable alternative.

When Czech factories started to dismiss workers due to the financial crisis, foreign and agency workers were the first to go. Thousands of workers are now facing the threat of becoming illegal and homeless. "They are desperate," says Nguyen Vu Nam, a secretary of the Union of Vietnamese Businessmen. "They wait for someone to give them work; they are under enormous pressure because they have to pay off their debts and provide for families back home."¹³

IN A TIGHT SPOT: LABOUR UNIONS

In the electronic sector, trade unions are generally weak. This is for several reasons; firstly, most electronics plants have been established through Greenfield investments, i.e. investments in areas where no union structures existed before. Secondly, most of the employees of the electronics industry are women who traditionally have been reluctant to join the unions. Women are even more reluctant to participate in spectacular union activities, and they are often treated in a very patronising manner by trade union representatives, resulting in the quite limited impact of the unions on the improvement of working conditions in the electronic industry.

Although unions in the electronics sector are overall rather weak in Poland, there are several powerful unions in other sectors, for example, the coal miners union. Their power is linked to the strong position of the coal miners in Polish society before the economic restructuring in 1989, as well as their 'negotiating' methods characterised by violent clashes with police.



Establishment of trade union in DELL, Łódź, Poland¹⁴

In mid 2009 DELL decided to change its working week from 5 to 6 days. The management claimed that the electronic market required flexibility from IT producers, so the factory needed to be able to produce six days per week to deliver laptops to clients as fast as possible. Unfortunately no one asked the workers what they wanted. After the changes were implemented the workers complained, particularly single mothers and students (who have classes at weekends) about the obligation to work on Saturdays. DELL proposed that the students could take annual leave every working Saturday and found childcare for children of the working parents, which unfortunately cost more than the daily earnings of the parents (€23.50 for childcare as compared to €17 income per day).

The DELL workers decided to establish a trade union in the summer of 2009 to make joint demands for better working conditions and represent the interests of workers as a group in the factory, but also in the media. This experience shows that it is far from impossible to establish trade unions in CEE. However, it remains to be seen whether the trade union will be strong enough to negotiate successfully for improvements with the DELL management.

In other countries that did not have the experience of the Polish Solidarity movement during the Communist era, trade unions did not operate as independent organisations but answered to the demands of the Communist Party instead. As a result, the general public in countries like the Czech Republic did not think unions were particularly credible after the 1989 transformation, since they did not have any experience in organising or bargaining activities.

Many employers do not respect the right to collective bargaining and do not take part in collective agreements. Labour conditions generally have to be negotiated at a company level, since often only the most basic issues are settled in negotiations at a higher level.¹⁵ This means the workers' position is weakened even further, as inequality in bargaining power is felt most acutely at the company level.¹⁵ Moreover, many of these company-based 'unions' are controlled, in other words: they have been created by employers themselves to frustrate the activities of independent trade unions.

In some cases, employers seek to destroy independent trade unions. The most anti-union employers are usually foreign companies. In 2009, the annual survey of violations of trade union rights reported that foreign companies in Romania make employment conditional upon the worker agreeing not to create or join a union.¹⁶ Intimidation and repression are being used to stop the spread of independent trade unionism. Repression includes trade union surveillance and interference, refusal on the part of companies to recognise or bargain with unions, preventing workers from forming a union and putting pressure on workers to leave unions. Unfortunately, EU membership did not curb the general anti-union attitude in new member states. Unfortunately, employers have rarely been punished by the courts for their anti-union behaviour.¹⁷

Over the past years, companies in Poland were particularly harsh in their suppression of trade union rights. Several cases of serious discrimination were reported, including the transfer of trade unionists to workplaces far from their homes, and interference such as the opening of union correspondence or even the surveillance of trade union activities. In Hungary, trade unions are often divided, competing with each other on a party political level. As a result, they are not very effective in worker representation on an everyday basis.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Large foreign corporations operating within CEE usually have their own CSR policies and codes of conduct, which are meant to improve working and environmental conditions. Moreover, a majority of big brand name companies have joined the Electronic Industry Citizenship Coalition (EICC), an organisation promoting a code of conduct for the global electronics supply chain. Other companies, such as Nokia and Motorola, have joined the Global e-Sustainability Initiative (GeSI), a partnership of ICT companies that monitors code of conduct implementation. Companies are generally stating that they will implement their code of conduct – whether an EICC or an individual company code – in all of their production plants.

In reality, however, CSR policies exist more at a corporate level and not on the factory floor. Results of auditing processes that monitor the compliance of suppliers and factories to CSR codes are not available. Furthermore, the audits are almost exclusively carried out by companies themselves without external and independent verification. Existing CSR activities are seldom related to working conditions. They mainly consist of occasional initiatives such as community projects and sponsorship.¹⁸ One encouraging exception to the rule is provided by Hewlett-Packard (HP).



"Join the makeITfair campaign!"

Case Study: Central Europe Supplier Responsibility Project (CESR) by HP¹⁹

Since 2006, HP has been working with a group of first- and second-tier suppliers in an 18-month initiative to help small suppliers develop social and environmental responsibility expertise. The goal is to help suppliers understand the connection between improved standards and business efficiency. The project provides training sessions – facilitated by the Copenhagen Centre for Corporate Responsibility – for 20 HP suppliers in the Czech Republic, Hungary and Poland and is supported by a grant from the European Commission. Among the participants are suppliers of packaging components, plastic and sheet metal parts. They receive training and advice on management systems, labour, occupational health and safety topics, and sound environmental practices.

*So far, the project has resulted in a report, **Small Suppliers in Global Supply Chains**. Following the conclusion of the project, HP will share its CSR engagement experience in other regions such as China and Latin America. There is no information available on the result of the project on improved standards by HP suppliers.*

WHAT COMPANIES SHOULD DO

The rapidly expanding electronics industry in CEE faces many social and environmental problems – issues that electronics companies must take responsibility for throughout their entire supply chain.

Companies should also assume responsibility for agency workers, especially those from abroad. These workers run the risk of becoming illegal immigrants once they lose their job. Their situation remains highly insecure; a situation that needs to be addressed urgently by employment agencies and companies alike. Companies can integrate agency work in their codes of conduct and pay specific attention to agency workers in their monitoring efforts. Electronics companies should also train their suppliers in implementing codes of conduct and improve their auditing and monitoring systems. In addition to improved internal monitoring systems, external and independent verification is important. Special emphasis should be placed on foreign companies, since they often already have CSR policies.

Finally, companies must work with local NGOs and trade unions. Companies, including their suppliers, must recognise workers' rights to form or join trade unions. The fight for better working conditions cannot be won if workers themselves cannot be heard.

Consumers can make their own contribution by persuading the electronics industry to implement more equitable and sustainable production methods.

Consumers must be informed about the labour conditions that people making their favourite products are subjected to, and demand more responsibly produced electronics goods. As an increasing number of CEE workers vote with their feet and migrate to neighbouring EU states, demands relating to improved wages and working conditions can and should be made by consumers as well.



For more information, see the makeITfair website at

www.makeITfair.org



NOTES

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- 8 See report summary *Making IT fair in Poland*, Summary of KARAT (2007). *Production of Next-Generation Electronics in Poland – Gender Aspects*, <<http://makeitfair.org/the-facts/reports>>
- 9 KARAT (2007). *Gender Aspects: Production of Next-generation electronics in Poland*.
- 10 <http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-QA-09-029/EN/KS-QA-09-029-EN.PDF>
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- 14 This box is based on information from interviews with two female workers employed at DELL, Łódź, conducted in August 2009 by Marta Gontarska from KARAT and press information published in summer 2009 in various Polish daily newspapers and magazines.
- 15 Leonhard Plank, Cornelia Staritz, Karin Lukas (2009). *Labour Rights in Global Production Networks: An Analysis of the Apparel and Electronics Sector in Romania*.
- 16 Romania: *Annual Survey of Violations of Trade Union Rights (2009)* <http://survey09.ituc-csi.org/survey.php?IDContinent=4&IDCountry=ROU&Lang=EN>; ICFTU 2005: 4, as quoted in: *Labour Rights in Global Production Networks*.
- 17 ICFTU 2005: 4, idem.
- 18 Interviews with human resource managers 2008, in: *Labour Rights in Global Production Networks*.
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