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## Apple Is About to Discover the Price of Fair Labor

By: Ben W. Heineman Jr.

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*The latest Foxconn flare-up increases the pressure on the world's most-watched company to reform its global supply chain*



Once again, Apple is on the front pages because of problems with its suppliers in China. But hard questions still exist about whether the new indictment will make any difference.

The headlines shout that one of Apple's main suppliers is "[Vowing Reforms in China Plants.](#)" This pledge from Foxconn, the huge Chinese electronic supplier, came after the Fair Labor Association (FLA), an independent monitor, issued a report confirming widespread violations of Chinese labor laws and other labor standards at three factories

that make iPhones, iPads and other devices. Under pressure from recurring supplier problems, Apple had been forced to hire FLA earlier this year.

The monitoring group found, for example, that Foxconn workers worked an average of 80 hours of overtime a month, although Chinese law allows only 36 hours. Workers also logged more than 60 hours a week, which is 50 percent more than the 40 hours allowed under the law.

Following the recommendations of the Fair Labor Association, which Apple supported, Foxconn said it would comply with the rules relating to weekly hours and monthly overtime hours by mid-2013. As a result, it will need to hire tens of thousands of new workers at additional cost. Foxconn also agreed to make other changes relating to working conditions, health and safety and a variety of other issues addressed in the [report](#).

But as the news dies away, some hard questions will remain:

- Will Apple allow FLA to assess conditions at its 155 other suppliers who provide important elements in all of its products? The focus on Foxconn should not obscure the enormous supply chain that is used by Apple, which likely has similar problems.
- Now that it has committed to comply with local law and the FLA working standards in a wide variety of areas (e.g. forced labor, child labor, hours of work, compensation, health, safety and environment), will Apple actually force its suppliers to remedy in a timely fashion the deficits uncovered in the audit of all 156 suppliers? Even if real, is this a two-year process or a five- to ten-year process?
- Who will bear the ultimate cost of such improvements? If Foxconn hires tens of thousands of new workers, will Apple force Foxconn to eat those costs, or will it pay Foxconn a higher price for the same volume of product? If it does pay Foxconn more, will Apple eat that cost itself--and reduce its huge profit margins and huge cash flow--or will it try to pass those costs onto the consumer through higher device prices?
- If it were to eat the costs itself, would Apple's vaunted profits margins erode and its cash flow drop in any material way, and would that impact the remarkable rate of increase in its stock price?

- Will enough Apple customers protest against the company as reports come out about all 156 suppliers to harm its reputation or to force it to be serious about remediation? Will any customers care enough to boycott Apple products in a way that impacts the company's financials---customers in China or customers in the rest of the world?
- Will Apple's example force others in the electronics industry---Dell, HP, IBM, Lenovo, Motorola, Nokia, Sony, Toshiba etc---to accept the FLA as monitor of both their own facilities and the facilities of third party suppliers? Fifteen years ago, the apparel industry, under similar pressure, entered into an agreement to improve labor conditions and to have third party monitors, which is how the Fair Labor Association got started.

Stories about Apple and Apple's suppliers, especially Foxconn, have recurred over and over again in the last few years. Is this time different?

Under Tim Cook, Apple seems to have realized that it has a hard time living with the inconsistency of producing much beloved products but also making outsized profits -- due, in part, to serious legal and ethical deficiencies in its supplier base.

Whether that realization will make any difference in hard, concrete operational and financial ways is clearly a critical question to watch in America's most closely examined company.

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<http://www.theatlantic.com/business/archive/2012/03/apple-is-about-the-discover-the-price-of-fair-labor/255268/>