

# Raising the Bar for Taiwan's Supply Chains

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***A growing emphasis on social and environmental responsibility among major U.S. corporations has begun influencing the practices and operations of their Taiwanese supply chain partners as well.***

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Last summer, President Tsai Ing-wen announced that starting from the first day of 2021, Taiwan would allow the importation of U.S. pork containing trace amounts of ractopamine. Some Taiwanese have decried the decision as submission to pressure from Washington.

That the debate over ractopamine got heated was no surprise. Although moderate use of this leanness-enhancing feed additive is approved by Codex Alimentarius, the UN-affiliated food safety body, ractopamine remains banned in much of the world, and pork is a key part of the Taiwanese diet.

A story less often told concerns the ways in which American and other international standards are helping to make Taiwan's factories greener and safer, local business practices more sustainable, and conditions for migrant workers more tolerable.



Kaohsiung-based packaging and testing giant ASE has prioritized sustainability in its operations and facilities, including its “green” dormitory for female migrant workers.

Photo: ASE

From what Canadian entrepreneur Tom McNamee has seen, the push for social accountability and higher environmental standards is “mostly spearheaded by American companies, more specifically publicly traded companies.”

McNamee, who in 1994 founded Asia Specific Enterprises, a Tainan-based provider of value-added services to the office furniture and related industries, says that the majority of Taiwanese companies he has dealt with have been “more than willing to undergo the rigors involved with achieving compliance.” He explains that labor and environmental compliance typically goes hand-in-hand with other improvements, such as manufacturing efficiency and quality control, all of which tend to attract business from high-quality clients.

“Often the most non-compliant factories are family-run; they can be somewhat more obstinate,” says McNamee. “Also, safety is often the most striking issue in Taiwanese factories, especially in SMEs [small and medium-sized enterprises]. Machine safety and training aren’t always adequate.” To make matters worse, he says, workers often neglect basic safety standards such as wearing proper footwear or eye or hearing protection.

McNamee readily admits that weak enforcement of workplace-safety and environmental rules in Taiwan adds to the burden on companies such as Asia Specific. “Yet I do think that enforcement has improved a lot, as the government now acts on anonymous tip-offs,” he says. “Even so, we conduct in-depth factory audits as part of our supplier vetting process. Boots on the ground are essential to verify compliance, but once companies become compliant, they tend to remain that way.”

McNamee says that more enforcement measures, especially regarding conditions for foreign laborers, would make Taiwan an even better choice for outsourcing production. “On the other hand, the government’s strategy of concentrating industry in industrial parks, with shared waste-management infrastructure and regular environmental compliance auditing, makes enforcement easier,” he says.



Hon Hai Precision Industry Co. (Foxconn), one of Apple’s main suppliers, has come in for criticism regarding worker conditions at its factories. Photo: Toy W / Shutterstock

Taiwanese companies have long played a key role in supply chains for Apple, Dell, Hewlett-Packard, and others, with electronics accounting for over 39% of Taiwan's total exports during the first nine months of 2020.

More than ever, consumers and activists are holding major brands responsible for the non-sustainable or unethical behavior of their upstream partners – as Apple discovered to its cost in 2010. That year, a spate of employee suicides at the vast factories in China where iPhones are assembled made headlines around the world. Both Apple and Foxconn, the Taiwanese company in charge of the production lines, were forced into damage-control mode.

“Apple has had one eye open and one eye closed,” says Jenny Chan, an assistant professor of sociology at Hong Kong Polytechnic University. “Also, Apple is not alone in causing such problems. We seek to open the big black box of labor in global supply chains.”

Chan co-authored the 2020 book *Dying for an iPhone: Apple, Foxconn and the Lives of China's Workers*, and is an advisor to Electronics Watch (EW), an NGO that asks public-sector buyers such as universities to use their leverage to hold brands accountable.

Apple has engineers and managers stationed at Foxconn facilities in China, but according to Chan, their concern is speed and quality, not adherence to Apple's Supplier Code of Conduct. “Apple admits as much in its CSR [corporate social responsibility] reports,” she says.

Neither Apple nor Foxconn responded to requests for comment. However, on the Supplier Responsibility section of its website, Apple states: “We require suppliers to provide fair working hours, a safe work site, and an environment free from discrimination...regardless of a person's job or location.” It adds that in 2019, the U.S. company performed 1,142 supplier assessments in 49 countries.

Asked if Foxconn now treats its workers better than in 2010, Chan concedes that there have been improvements. “Workers can enjoy sports facilities, but they're still expected to do 12-hour shifts, and sometimes they only have one day off per month,” she says.

Apple's Supplier Code of Conduct stipulates that workweeks should not exceed 60 hours, including overtime, and that workers should have “at least one day off every seven days except in emergencies or unusual situations.” China's labor law sets a 40-hour workweek as the standard.

Chan blames the problem of compulsory overtime on ordering practices and fluctuations in demand. Companies like Apple operate just-in-time (JIT) inventory systems, in which goods and raw materials are received only as they are needed in the manufacturing process. Consumers do not want to wait for the latest iPhone.

Chinese labor law limits overtime – defined as working more than eight hours in a single day – to 36 hours per month. According to both Chan and China Labor Watch, this rule is ignored by Foxconn and others on a massive scale.

To handle production spikes, agency workers are deployed, and interns as young as 16 years old come in from nearby vocational schools. Chan sees the use of interns as “illegal and unethical...a kind of forced student labor.”

“Large suppliers which have been under scrutiny have shown some improvement, but rights violations remain frequent,” says Chan. “The likes of Apple and Amazon don’t want their reputations ruined and without media attention or watchdog action, there’s little motivation for U.S. companies to tackle problems like student interns being forced to do night shifts or work overtime.”

Nonetheless, Chan describes Foxconn as a better employer than many enterprises outside the supply-chain auditing system, “where conditions could be even more inhumane, and even now owners sometimes take possession of employees’ identity documents, so they can’t suddenly quit.” In this sense, she says, regulations imposed by image-conscious brands “are not utterly useless.”

An agreement signed this March between EW and the Responsible Business Alliance (RBA) has given Chan cause for cautious optimism.

“RBA, which some companies have been using as a shield, has just agreed to work with EW on supply-chain issues,” she says. “There’s a multi-year action plan to come. I really welcome this breakthrough.”

Like Foxconn, Kaohsiung-based ASE Group, the world’s largest providers of independent semiconductor manufacturing services in assembly and testing, has also suffered highly negative publicity. In 2014, the company was dubbed a “serial water polluter” by Citizen of the Earth, Taiwan, an environmental justice foundation. Since then, ASE has striven to make its facilities and procedures more environmentally friendly and to win recognition for its efforts.

In each of the last five years, Dow Jones Sustainability Indices (DJSI) ranked ASE as the leader in the Semiconductors and Semiconductor Equipment Industry Group. Since 2016, it has also been included in the DJSI World Index, a selection of the top 10% of the world’s 2,500 largest companies judged by long-term economic, environmental, and social criteria.

In 2020, ASE was one of 277 companies around the world rated “Climate A,” and one of just 106 companies graded “Water Security A” by CDP, an NGO that helps investors manage their environmental impact.

“Several factors drive ASE’s green efforts,” says ASE Group Senior Vice President K.C. Chou. “The biggest is the urgent need for our industry to reduce its global carbon footprint amid intensifying climate change. Our business activities, including building and manufacturing operations, are a substantial contribution to greenhouse-gas emissions.”

Pointing out that the industrial sector accounted for 48.9% of Taiwan’s total CO2 emissions in 2019, Chou says that as ASE continues to expand its production capacity, “It’s critical we accelerate our transition to green factories and pursue environmentally

friendly initiatives across our entire operation.”

In recognition of their energy-saving and other “green” characteristics, ASE’s buildings in Taiwan have received 16 EEWH and 8 LEED certificates. EEHW is a homegrown system of assessing sustainable architecture, while the LEED certification system originated in the U.S.

“We also face external challenges, especially with regards to critical water and energy supply constraints in Taiwan, where our largest manufacturing base resides,” Chou says.

In Kaohsiung’s Nanzhi Technology Industrial Park (known until earlier this year as the Nanzhi Export Processing Zone), the company operates Taiwan’s largest wastewater recycling facility. It processes up to 30,000 metric tons of water per day, enabling the company to use every drop of water three times.

“We’re exploring the use of smart energy technologies and increasing our investments in renewable energy,” says Chou. “In 2019, ASE’s consumption of renewable electricity increased by 29% compared with the previous year. As of 2019, seven of our manufacturing sites in China had achieved 100% renewable electricity usage.”

ASE is working toward joining the RE100 initiative (a commitment by major companies to source 100% of their power from renewable sources by the end of 2050), Chou confirms.



Migrant workers at ASE are recruited directly by the company. They thus do not need to pay fees to labor brokers. Photo: ASE

ASE joined RBA in 2015. “Of RBA’s 160-plus members, about 30% are our customers,” Chou says. “We benefit by learning from and collaborating with members who are customers, partners, peers, and suppliers. We’ve adopted the RBA Code of Conduct to strengthen the social, ethical, and environmental responsibility of our supply chain, with an expectation that our suppliers will likewise act in accordance with the code.”

In keeping with the RBA code, but in striking contrast to large parts of Taiwan's economy, migrant workers employed by ASE (in Taiwan or elsewhere) do not pay fees to labor brokers. The company instead uses online job ads, employee referrals, and other channels to recruit workers directly.

## Improving fisheries

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ASE's reputation as an employer is much better than that of Taiwan's huge distant-water fishing fleet. Applying the same law that allows it to ban cotton and tomatoes from Xinjiang, U.S. Customs & Border Protection (CBP) has penalized four fishing vessels because forced labor onboard was suspected. All four were Taiwanese-owned and/or flagged.

On August 18, 2020, environmental NGO Greenpeace USA alleged that two of the fishing vessels subjected to CBP Withhold Release Orders (WROs) had "known direct or indirect links" to one of the world's leading tuna traders, Kaohsiung-based FCF Co., Ltd.

FCF's international profile grew in early 2020 when it purchased San Diego-headquartered Bumble Bee Foods, which it has been supplying for more than 30 years. FCF, which does not itself own any vessels, buys tuna from around 600 fishing boats per year.

FCF Sustainability Officer Fong Lee admits the company had previously purchased tuna from at least two of the sanctioned vessels but emphasizes that it does not buy from any vessel subject to an active WRO.

"About 95% of the global albacore catch goes to North America, so if a vessel is subject to a WRO, we're effectively unable to sell its fish anywhere," he says.

FCF resumed buying tuna from Tunago No. 61, the subject of a WRO effective from February 4, 2019 until March 31, 2020, after the vessel went through a social improvement program, was audited by a third-party entity, and adopted an action plan to address identified issues. Those steps resulted in the WRO being lifted, Lee explains.

"We're in complete agreement that significant progress must be made to ensure responsible labor practices are followed on all tuna vessels," says Lee. "FCF will continue working within its supply chain, with others in the industry, and through the Seafood Task Force [a non-profit coalition comprising seafood processors, buyers, and retailers that focuses on issues surrounding labor and illegal fishing] to make responsible recruitment and treatment of all workers an ongoing top priority," says Lee.

According to Lee, FCF is committed to independent auditing and monitoring of its social responsibility program to ensure that all vessels it does business with are in full compliance with laws and policies in place to ensure the safety and protection of all workers. FCF strives to audit 20% of each fleet's vessels annually, he says. The audits include visits with boat owners as well as interviews with migrant fishermen.

Since 2018, FCF has been involved in the assessment of purse-seiners – vessels that employ a kind of fishing net that can be tightened to trap dense schools of fish inside – so they can meet standards set by the nonprofit Marine Stewardship Council (MSC). The MSC, in its own words, aims to “contribute to the health of the world’s oceans by recognizing and rewarding sustainable fishing practices.”

According to Lee, MSC certification is, “in terms of seafood sustainability, probably the gold standard. It covers 28 performance factors, including bycatch, all of which are audited by experts.”

However, an analysis conducted by Paris-based NGO BLOOM last May of MSC certification recipients between 2009 and 2017, found that the vast majority (83%) were large-scale industrial fisheries that continue to use destructive fishing practices. BLOOM’s scientific director and lead author of the study, Frédéric Le Manach, denounced the MSC as “a marketing shield for the world’s industrial fishers.”

No companies have been removed from FCF’s list of approved suppliers since stricter policies were introduced. However, Lee stresses, “we can’t risk letting things slide. We can’t water down our policies, and we’ve structured them to ensure their independence.”