

CORPORATE SOCIAL RESPONSIBILITY

CODE OF CONDUCT OF THE EUROPEAN SUGAR INDUSTRY

Second report of implementation (2004)

28th February 2005

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INTRODUCTION

The Code of Conduct on the social responsibility of companies in the sugar industry states that within the framework of their sectoral dialogue committee EFFAT and the CEFS monitor the progressive implementation of the Code and regularly update the examples of good practice. To this effect, EFFAT and the CEFS have undertaken to conduct a joint assessment of

implementation of the Code at European level each year, in February, in the form of an annual report covering the previous calendar year.

The first report on implementation of the Code, signed on February 7th 2003, was presented on February 27th 2004. The second implementation report is to be presented at the meeting of the European sectoral committee for the sugar industry planned for February 28th 2005. It will review the following points in particular.

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I- POLITICAL AND ECONOMIC BACKGROUND

I.A. ENLARGEMENT

The European sugar industry represents the interests of all industrial producers of sugar in the European Union of 25 (and also Switzerland), with the exception of Cyprus, Estonia, Luxembourg and Malta, which are not producers, i.e. 22 countries in all. Hungary, Slovenia and Slovakia have been members of the CEFS for several years. On May 1st, Latvia, Lithuania, Poland and the Czech Republic also became full members of the CEFS.

The EFFAT comprises 128 national trade unions set up in 37 countries representing some 2 600 000 members. This federation represents the interests of agriculture and the agri-foodstuffs, catering and tourism industries.

The sugar producers of the enlarged EU employ about 60,000 people in the industry, at 234 factories. The number of indirect jobs is estimated at around 500,000 (beet-growers and subcontractors). These figures, established in June 2004, vary however, particularly as a result of the restructuring process which is already well under way in the new countries. Production totals some 21 million tonnes of sugar from 160 million tonnes of beet harvested from 2.4 million hectares.

In the world, the EU 25 is:

- . The second consumer of sugar (17 million tonnes)
- . The third largest producer (19.7 million tonnes)
- . The second largest exporter (5.6 million tonnes)
- . The second largest importer (2.4 million tonnes).

(Source ISO 2003 - raw sugar value)

The three leading sugar producers in 2003 were:

- . Brazil (26 million tonnes)
- . India (21.7 million tonnes)
- . The EU 25 (19.7 million tonnes)

(Source ISO 2003 - raw sugar value)

I.B. REFORM OF THE SUGAR REGIME

The reform proposed by the Commission

In its Communication to the Council of September 23rd 2003, the Commission proposed to reform the sugar regime, favouring an option which provides for a reduction of the support price and progressive abolition of the quota system. In its Communication of July 14th 2004, the Commission fleshed out these guidelines by presenting "a radical overhaul of the EU sugar regime" proposing "to substantially cut back sugar exports and export refunds, abolish intervention, reduce EU production and the internal sugar price and grant a de-coupled payment to sugar beet farmers. According to the European Commission, "the reform process shall start in July 2005. [...] the changes should be implemented over four years. In view of the uncertainties in the international field, a review is foreseen in 2008." In practice, the market price, estimated at 655 Euros a tonne by the Commission, would fall to 421 Euros a tonne in two stages over three years, the minimum price for beet would fall from 43.6 Euros to 27.4 Euros a tonne and the production quota would be reduced by 2.8 million tonnes, falling from 17.4 million to 14.6 million over four years. Subsidised exports would be reduced by 2 million tonnes, from 2.4 million to 0.4 million. A conversion scheme of 250 Euros a tonne is planned for sugar factories deciding to leave the sector.

The European Economic and Social Committee issued an opinion on 15th December 2005 concluding in particular that the reform proposals go too far and that their implementation will have considerable repercussions for the European sugar sector, particularly in employment. A resolution of the European Parliament is in course of preparation.

Sugar Panel at the World Trade Organisation (WTO)

On December 23rd 2003, at the request of Brazil, Australia and Thailand, the WTO set up a panel against the Community's sugar regime. These countries challenged in particular:

- . The EU's right to re-export with a subsidy the refined sugar produced from raw sugar coming from the ACP countries (1.6 million tonnes). According to them, these re-exports go beyond the commitment to reduce export subsidies entered into by the EU under the Uruguay Round Agricultural Agreement.

. The right to export C sugar (non-quota sugar) at the world market price, since manufacturers already receive a subsidy through the income obtained from quota sugar ("cross subsidies").

The report by the WTO panel, made public on October 15th 2004, confirmed these charges. The European Union immediately indicated that it would appeal against this decision. The final verdict of the WTO dispute settlement body (appellate body) will be known around mid-May 2005. The Commission then hopes to present its legislative proposal on the next common organisation of the market in sugar during the following weeks, i.e. probably at the end of June 2005. This reform could be adopted by the Council in the second half of 2005, to be brought into effect as from July 2006.

The social partners have already arranged a meeting of the sectoral committee for Friday May 27th 2005. They also held a select committee meeting on November 22nd to discuss the reform of the regime.

Foreseeable consequences for the sugar sector

European Union

The report by the WTO panel is negative for the COM in sugar. If the final decision of the WTO appellate body confirms that re-exported ACP sugar enjoys export subsidies incompatible with the rules of the WTO and calls exports of C sugar into question, this will definitely be taken into account in the draft Community regulation and will have drastic consequences for the European sugar sector.

As regards the European industry, Commissioner Fischler confirmed in his letter to the social partners dated September 16th 2004 (in reply to their request for consultation dated August 6th) that the restructuring that is envisaged will have considerable effects on the European industry. He referred to the impact assessment carried out by his departments in 2003, predicting the loss of 25,500 direct industrial jobs (in a sector employing about 36,000 people) and the closure of 54 sugar factories.

Reactions by EFFAT

EFFAT deplores the fact that the proposed reform of the sugar regime gives very little attention to the reality that thousands of European jobs are at stake, particularly in the new countries, and in the short term too. It must be born in mind that mathematically a reduction in quotas of 100,000 tonnes means the closure of one factory in the old Member States and three factories in the new Member States. Yet the conversion scheme proposed by the Commission is "nothing less than ambitious" and offers no answer to the foreseeable massive loss of jobs. This scheme

also takes very little account of the industrial part. The social partners note that the price of sugar in the EU reflects social, economic and environmental standards which are non-existent at the level of the world market. The reform would thus not result in any way in better living conditions either in the EU or in the third world but in all likelihood would destroy a large part of the economies of the ACP countries and the developing countries that are dependent on the sugar regime.

ACP countries - LDCs

On October 25th-27th last, at the 10th meeting of the Joint Ministerial Committee bringing together the Foreign Trade Ministers of 18 ACP countries and their counterparts, the ACP countries made known their very serious concern at the "unprecedented challenge" posed by the reform of the sugar regime, which is likely to have disastrous effects on their economies and threaten the activities of hundreds of thousands of "poor farmers who have no alternative to growing sugar-cane". They underline that the timescale proposed for the reform is unrealistic and that this reform calls into question the Cotonou Agreement and all the commitments contractually entered into by the EU towards the ACP countries.

They reiterated the proposal that they had already made with the Least Developed Countries (LDCs) to allow a longer period for implementation of the EBA regulation, with guaranteed quantities and prices. They also observe that the Commission has ignored this request, which it has so far never discussed with them. It will be recalled that the EBA regulation provides for gradual liberalisation of sugar imports from the 49 Least Developed Countries as from July 2006, with this liberalisation becoming total in July 2009. It is difficult to estimate what the level of these imports into the EU will be by 2010. The Commission recently evaluated it at between 750 000 and 1.5 million tonnes. This would mean a massive reduction in production quotas for the EU. For their part, the LDCs and the ACP countries want to ensure that the quantities imported will be at sufficiently remunerative prices.

CEFS proposal

Along the same lines, even though the practical details may differ, the CEFS has constantly stressed that the only way in which to control the opening-up of the markets whilst safeguarding the EU's interests is to introduce a system for the quantitative regulation of demand with price controls. In fact, the opening-up of the market has become irreversible within the framework of the EU's agreements with the WTO and due to the preferential agreements signed with the LDCs ("Everything But Arms" Regulation) and the concessions granted to the countries of the Western Balkans (see CSR report of the 27.02.2004).

However, these agreements do not have sufficient guarantees for it to be certain that they really benefit the poorest countries. As underlined by the CEFS in its different positions, the best way in which to enable the developing countries to develop is to design a system of guaranteed quantities and prices allowing sufficient predictability.

A glimmer of hope is provided in this connection with the Commission's decision to propose zero-duty quotas for the countries of the Western Balkans. The determination of such quotas is

being analysed at the moment.

II - IMPLEMENTATION OF THE CODE OF CONDUCT IN 2004

II.A - COMMUNICATION

Brochure

In May 2004, the CEFS and EFFAT published a brochure entitled "Corporate social responsibility and social dialogue in the European sugar industry". With an introduction by Mrs Odile Quintin, Director-General of the Directorate-General for Employment and Social Affairs, this brochure describes the main characteristics of the European social dialogue in the sugar industry and draws attention in particular to the Code of Conduct signed in February 2003 and to the examples of good practice. Published in French, English and German, this brochure has already been widely distributed by the two organisations, both within the profession and externally (Liaison Forum of the DG for Employment, UNICE, WWF, International Sugar Organisation, European Commission, Economic and Social Committee). In addition, the brochure has also been examined and/or downloaded many times on the Eurosugar joint Website.

Eurosugar Site

The site "www.eurosugar.org" was created by the social partners in June 2004. Apart from extensive information on the two organisations, it also gives all the joint positions since 1997 and the Code of Conduct translated into three languages in html format (French, English and German) and in five languages in PDF format (Spanish, Slovak, Portuguese, Greek and Hungarian). The examples of good practice are accessible there too, along with the CSR brochure and the first report on implementation of the Code of Conduct presented in February 2003.

The members of the European social dialogue sectoral committee can also access the joint letters sent to the Commission or other organisations and the replies received, together with the conclusions of the different meetings of the sectoral committee. It is therefore both a working tool for the sugar industry's sectoral committee and an external communication tool.

This tool also allows the working documents to be regularly updated or translated into different languages of the EU, whilst new documents can also be added. Between June 4th and November 8th, the site was visited by about 300 people who had been informed of its address. Since November 8th, it has been referenced on the Google search engine in six languages, with English, French and German offering greater visibility. A monthly statistical report allows the number of visits to be monitored.

International Sugar Organisation

On July 15th 2004, the CEFS and EFFAT sent a joint letter to Commissioner Dimas, in charge

of social affairs, pointing out that the sugar industry's Code of Conduct contributed towards implementation of Article 29 of the International Sugar Agreement on human rights and asking the Commission to transmit this Code to the International Sugar Organisation (ISO), which comes under the United Nations. On October 13th, the Commission did indeed transmit the Code to the ISO, presenting it as good practice with reference to the standards defined by the International Labour Organisation and suggesting that it make it known to its members. The ISO has confirmed that it has sent a message to its members informing them that they can access the Code of Conduct on the Eurosugar site and announcing that the CSR brochure will be distributed at the next session of the ISO Council (November 23rd-26th 2004). The Code of Conduct will thus be distributed to all the world sugar profession as a source of inspiration [see Annex 1].

Relations with NGOs - Amis de la Terre

In May 2004, the non-governmental organisation "Be Cause - Amis de la Terre" (Friends of the Earth) wrote to the social partners indicating that it had registered the Code of Conduct in order to give it "legal form and value".

The social partners decided to write to this organisation to underline that the Code of Conduct constitutes a voluntary approach of engaging in a dynamic and progressive process of social responsibility covering a number of social aspects. The social partners report every year on the progress made or the difficulties encountered.

As no mandate had been given to this organisation to carry out such a registration, the partners do not recognise it as having any legal form or value. However, they have noted the interest shown by "Friends of Earth" in the Code of conduct and willingly accept that it can be distributed by them by way of a source of inspiration. But the Code cannot be translated or used without their express authorisation.

The fact that the organisation "Be Cause - Friends of Earth" wished to make use of the Code of Conduct on a global scale proves the pertinence of the activities on CSR initiated some years ago by the social partners. It is therefore essential to further develop the work done so far and to ensure an adequate context to achieve this aim.

External presentations

On September 29th 2004, the CEFS and EFFAT were invited by the Commission to present the Code of Conduct and the Website to the different sectoral committees meeting at the Liaison Forum of the DG for Employment.

The brochure was briefly presented and distributed by the CEFS to UNICE at the meeting of the European Employers' Network on October 20th 2004.

At national level, numerous delegations indicate that they have widely distributed the brochure both internally and externally. A number of them regularly refer to the Code in their work or at their meetings.

EFFAT made several presentations of the Code of Conduct in the framework of the various social dialogue committees it is involved with. These presentations lead to further discussions and the conclusions of agreements on the issue of Corporate Social Responsibility between EFFAT and CEETTAR (Agriculture) and EFFAT and HOTREC (HORECA).

EFFAT also presented the Code of Conduct and distributed the CSR brochure in several meetings with other European Trade Unions Federations and in a workshop on "CSR - liability and fundamental social rights" organised by the European Trade Unions Institute on December 8th 2004.

EFFAT member organisations also initiated similar presentations and disseminations of the Code of Conduct amongst their affiliates and took care of incorporating the Code of Conduct in their communications towards external audience.

II. B. MINIMUM STANDARDS

The social partners have analysed the status of implementation of the different standards at national and, if appropriate, European level.

Standard 1 (Human rights)

Standard 1 does not seem to pose a problem for any delegation, including the new countries where all the ILO Conventions mentioned in this standard are applied without any obstacle.

The social partners support the work in course at the Council with a view to revising the present Generalised System of Preferences for the period 2006-2015. Customs duties will be abolished for countries that have ratified and undertaken to implement 27 international conventions, including the main Conventions of the International Labour Organisation (ILO), the Kyoto Protocol and conventions relating to action to combat drugs, fraud and corruption. The ILO Conventions refer in particular to forced labour and child labour.

Standard 2 (Education, apprenticeship and lifelong training)

Continuing vocational training covering a wide range of subjects is applied in all the delegations (safety, risk prevention, first aid, languages, computers, management, communications, time management, etc.). Several delegations regularly train apprentices under apprenticeship or linked work and training contracts, with a view to their learning a trade (e.g. electrician, machine operator) or acquiring the necessary skills to carry out a job (or several). All the delegations provide specific training in the sugar manufacturing process. They all indicate that they try to upgrade employee skills. Indirectly, this improves their chances of retraining in another sector if necessary.

Standard 3 (Health and safety)

All the delegations take specific and thorough measures in the field of health and safety and organise training and/or exercises in anticipating and managing risks. Seasonal workers also receive training. In the new countries, a special effort is made concerning safety equipment and the compulsory wearing of such equipment. Seminars, workshops and conferences are regularly organised on themes connected with safety. The Leonardo kit, developed with the help of the Leonardo programme in 1997-2000, is still used in seven delegations, particularly for new recruits. It should be noted that the kit has been translated into Hungarian and has now been introduced in the different Hungarian sugar factories. The Force cassette developed in 1994 under the Force programme is still partly used in two delegations.

Standard 4 (Relations between the social partners)

European level

At European level, the sugar industry's sectoral committee met on February 27th 2004. 36 people attended, including five representatives from the Commission (DG for Employment and DG for Agriculture). Apart from the presentation of the first CSR report on implementation of the Code of Conduct in 2003, the reform of the sugar regime and the sugar panel were also discussed at length with the Commission officials and with the participation of representatives of both sides from the new countries. Other major challenges for the sugar industry were also examined (rules of origin, Balkans, nutrition policy, etc.). The bureau of the sectoral committee also addressed the question of the sugar regime at a technical meeting on November 22nd. Other joint meetings were held with a view to the drafting of this report (December 17th 2004, January 26th 2005).

A joint position paper on the rules of origin was signed on April 2nd 2004 asking the Commission to base origin on real added value and really significant operations. This position paper has been sent to 18 people, including five Commissioners and five Directorates-General (see EuroSugar Website).

From May 19th to 21st 2004, EFFAT, the IUF and the NGG organised a conference called the "Globale Zuckerkonferenz" on the situation in the sugar industry on all the different continents. Johann Marihart, President of the CEFS, and also Jean-Louis Barjol and a number of representatives of the German sugar industry were invited to attend this conference and make presentations. Peter Baron, Executive Director of the International Sugar Organisation, was also attending. Franz Fischler, European Agriculture Commissioner, chose this occasion to unveil to the social partners the European Commission's proposed restructuring of the European sugar sector, which was subsequently presented in the Commission's Communication of July 14th.

A joint letter was sent to Commissioner Fischler and Commissioner Dimas on August 6th requesting consultation of the social partners on the impact of the reform of the sugar regime at economic and social level and on the supporting measures. Commissioner Fischler replied on September 16th, confirming the foreseeable economic impact according to his departments (20,000 to 30,000 jobs and the closure of 60 factories). He asked the partners to make their point of view known to the other institutions [see Annex 2].

The joint letter sent to the Commission in August 2004 concerning the International Sugar

Agreement has already been mentioned in the part "I-Communication".

National level

All the delegations regularly consult the social partners within the framework of sectoral, branch and collective negotiations (negotiations on wages, working time, retirement schemes, etc.). The delegations inform and consult employees in cases of restructuring, as provided for by the legislation. A number of delegations report information initiatives or other specific actions with the social partners in the context of the reform of the sugar regime. Industrial groups having over 1,000 employees in at least two European countries have created European Works Councils (EWCs) (Danisco, Südzucker, Tate & Lyle). Some Councils are being formed at present (Nordzucker, Greencore Group). The existing Councils or those in course of being set up also incorporate a number of new countries. The European Works Council of Eridania Béghin Say, which used to cover ten countries, has now disappeared following the break-up of this company. These European Works Councils usually cover all the industrial group's activities, with sugar representing only a part of their business. They allow information to be provided at a transnational level and strengthen the existing links between the social partners within the companies.

National level - New countries

The new countries indicate that they have perfectly identified the social partners at the different negotiating levels and do not know of any problem connected with the possible intervention of the public authorities. The dialogue is therefore bipartite and well organised in the cases that are mentioned. They are already present or are being gradually incorporated in the EWCs.

Standard 5 (Fair pay)

Pay is discussed at national level within the framework of collective wage negotiations, in accordance with parameters defined at national, branch or sectoral level and with each company's own criteria.

In addition, Directive 2000/78/EC of the 27.11.2000 on equal treatment in employment and occupation is observed in all the delegations. This directive aims in particular to remove all discrimination based on religion or convictions, a handicap, age or sexual orientation. It also covers equal treatment as regards pay.

Standard 6 (Working conditions)

Several delegations mention an improvement in working conditions (organisation of work, planning, improvements to certain bonuses, implementation of Community legislation, etc.). In some new countries, a special effort is being made to reduce the number of places with risks, increase the amount of preventive equipment or improve conditions in general (example of filters for computer screens).

A number of delegations report an increase in symptoms of stress connected with the

foreseeable impact of the reform of the sugar regime, particularly in the new countries.

Standard 7 (restructuring)

In five delegations, one or more factories have had to be or are going to be closed down (11 factories in all listed at this stage). Four delegations indicate that these closures are directly linked to the reduction in quotas.

A number of actions connected with social responsibility are being taken in the different delegations (regular information for employees on the reform, special vocational training effort, assistance in finding new jobs, internal resettlement, external resettlement, reindustrialisation of sites).

All the delegations underline that a short period for implementation of the reform will not allow basic steps to be taken to plan resettlement, assistance in finding new employment or the reorganisation of production sites. Furthermore, local employment markets cannot absorb a large number of job losses over too short a period. Maintaining the competitiveness of companies and their ability to make a profit will obviously be a decisive factor in defining the socially responsible measures that can be taken.

Standard 8 (Business relations and choice of suppliers)

The first CSR report indicated that standard No 8 required clarification of certain concepts such as the notion of "main supplier". The analysis conducted on this concept reveals that, just like last year, there is no single reply to this question. The reply given differs according to national legislation, local customs and company culture. Directly linked to the commercial policy of companies, the definition of this concept also requires global consultation with all the other departments in the company. As the case may be, the main supplier can be defined according to the volume or value of purchases but also other criteria determined by company policy.

It is also the responsibility of companies to decide if it is opportune to make a reference to the CSR approach of the European Sugar Industry with some of their suppliers. It seems to the social partners that at this stage a good tool could be to recommend companies to refer as far as possible to the CSR approach with the suppliers they judge important, at a time and in the manner they consider appropriate, be it in writing or verbally, in particular regarding the respect of fundamental core labour standards. The CSR should actually be seen as a constructive approach which should be presented positively. The progress made could be recorded in the next report.

For their part, beet-growers have positively received the Code of Conduct as soon as it was signed, along with the brochure on CSR published in June 2004.

II - C- EXAMPLES OF GOOD PRACTICE

All the delegations have checked the validity of the examples of good practice. Ten or so new examples have been proposed, particularly on the themes of vocational training, health and safety, relations with the social partners and restructuring.

So as not to overload the databank and to keep a suitable balance between the subjects dealt with, it is proposed to select the 50 most up-to-date examples to be placed immediately on the EuroSugar Website and to provide access to the other examples, older but still relevant, through a "folder" also on the site [see Annex 3].

III - CONCLUSIONS

The social partners attached great importance to the social responsibility approach during 2004, at both European and national level, and it appears that this approach is now better known and better understood by all those concerned than in 2003.

Focusing in particular on the current proposal for reform of the sugar regime, the European social partners strongly draw the attention of the authorities to the economic, social and human disruption that this proposal would cause in its present form.

They are particularly aware that their ability to act in a CSR manner will largely depend on the rules laid down within the framework of the future sugar regime. This action capacity is in fact directly linked to the conditions for corporate profitability and competitiveness.

It will also depend a great deal on the timescale for implementation which will determine the degree of predictability and planning making it possible to anticipate the necessary measures for resettlement, reintegration and support in a positive search for employment. The time periods allowed will also be determinant in avoiding saturation of the local labour markets especially when a number of sugar factories are concerned. The authorities therefore have a great responsibility here, particularly in disadvantaged regions or where employment is strongly linked to the sugar industry.

This responsibility does not only concern the European Union and its new Member States but also exists vis-à-vis the developing countries with which the EU has signed agreements. Today there is no certainty at all as to whether the policy of opening up frontiers introduced in recent years has really enabled the poor countries to develop. Yet traditionally the European Union has based its external trade policy on the development of the poor countries of the world.

The social partners are thus determined to shoulder all their responsibilities in terms of CSR. With this in mind, they plan to hold a plenary session on May 27th 2005 and on December 6th 2005 if needed. They are regularly in contact to analyse the development of the situation, to consult and to decide on any useful action.

In July 2005, they will organize a specific conference on the foreseeable economic and social impact of the sugar reform, with the participation of the CIBE.

However, they strongly urge the authorities to assume all their responsibilities too within the context of the current reform and to do everything possible to strike a reasonable and human balance between compliance with the rules of the WTO, the policy of opening up frontiers and respect for the social model which, so far, has always been to the credit of the European Union and has established its reputation.