

CORPORATE SOCIAL RESPONSIBILITY CODE OF CONDUCT OF THE EUROPEAN SUGAR INDUSTRY

FIRST REPORT

26th February 2004

INTRODUCTION – OBJECTIVE OF THE FIRST REPORT

The "Sugar Industry" Code of Conduct, signed by the CEFS and EFFAT on February 7th 2003 - within the context of their Sectoral Social Dialogue Committee in the sugar industry at European level - provides for the following in Part III entitled "Monitoring, assessment, updating»:

«The Code of Conduct (CoC) will come into effect on January 1st 2004. The year preceding this date will be devoted to preparing for its implementation. The first report, to be presented in February 2004, will take stock of the activities undertaken so far and the monitoring structures jointly arranged at European level to ensure adequate communication, promotion and training on the CSR Code of Conduct. The examples of good practice will also be updated as needed».

The present report proposes to respond to these commitments by addressing the following points:

I – The "sugar industry" Code of Conduct: context and scope

- A - Political context
- B - Economic and regulatory context
- C - Scope of the CoC

II - Implementation of the CoC in the sugar industry

- A – Working structures
- B – Communication
- C - Standards
- D - Examples of good practice

III - Conclusion

I - THE "SUGAR INDUSTRY" CODE OF CONDUCT: CONTEXT AND SCOPE

A. POLITICAL CONTEXT

In July 2001, the European Commission launched an initiative on Corporate Social Responsibility through a Green Paper, followed in July 2002 by a White Paper¹. On November 14th 2001, the European Commission asked the social partners to reflect on this theme in the sugar sector. On December 14th 2001, the social partners in the sugar sector undertook to conduct these deliberations within the framework of their sectoral committee². By responding in this way to a Commission initiative, the sugar sector is the first player to have embarked upon a process of voluntary compliance with standards on a large scale, covering eight essential social themes (see Part IV - Standards).

"Business driven", it is a question of a progressive dynamic process within the context of changes in the industrial landscape connected with the globalisation of the economy, the development of multilateral rules and the revision of the Common Agricultural Policy. The social partners in the sugar industry are aware of the need to ensure that their industrial sector is sufficiently competitive to allow it fully to assume its responsibilities vis-à-vis the different parties concerned. To this end, they have agreed to pool their efforts in a constructive manner within the framework of the European social dialogue. This dialogue is in no way intended to replace the national dialogue, whose rights and responsibilities remain unchanged, but proposes to complete it by laying the foundations for concrete and pragmatic actions aimed at strengthening the social responsibility of each of the parties within the present context of economic development.

B. ECONOMIC AND REGULATORY CONTEXT

At the moment we are witnessing the creation of numerous free trade areas involving the ever wider opening-up of frontiers, which is largely incompatible with the traditional rules of the Common Agricultural Policy.

According to the "Everything But Arms" Regulation³, sugar from the 49 Least Developed Countries will be completely liberalised between July 2006 and July 2009. The "Balkans" Regulation⁴ offered the Balkan countries unlimited access to the Union as from the end of 2000, temporarily halted following fraud on a massive scale.⁵

¹ Communication from the Commission concerning Corporate Social Responsibility: A business contribution to Sustainable Development (2.7.2002 – COM/2002/347 final).

² Sectoral Social Dialogue Committee in the sugar sector, officially recognised by the European Commission since November 1999.

³ Regulation EC/416/2001 of the 28.02.2001 (OJ L 60/43 of the 1.3.2001) and Regulation EC/2501/2001 of the 10.12.2001 (OJ L 346 of the 31.12.2001 (Art. 9)).

⁴ Regulation EC/2007/2000 of the 18.09.2000 (OJ L 240 of the 23.09.2000) and Regulation EC/2563/2000 of the 20.11.2000 (OJ L 295 of the 23.11.2000).

⁵ Regulation EC/764/2003 of the 30.04.03 (OJ L 109 of the 1.5.2003) and Regulation EC/1343/2003 of the 23.07.2003 (OJ L 189 of the 29.07.2003).

As the Union market is self-sufficient, sugar imports from third countries tend to drive Community sugar onto the export market, whilst the constraints of the WTO Agricultural Agreement no longer allow this. This situation automatically leads to a reduction in Community production quotas. It will be recalled that a reduction in the quota of 100,000 tonnes gives rise overall to the closure of one factory, i.e. an average loss of 300 direct jobs and 1,500 indirect jobs.

At the end of September 2003, the European Commission published a Communication⁶ setting out three possible options for the future of the sugar regime⁷: "maintenance of the status quo", considered to be unrealistic, "complete liberalisation", also ruled out at this stage, and a third option, which it prefers, consisting in reducing the support price and gradually abolishing the quota system. These options should be discussed shortly at the Council of Ministers, with a view to a revision of the sugar regime.

In a position paper sent to the European Commission on June 27th 2003, EFFAT drew the attention of policy-makers to the social impact and the consequences for employment of such and such an option, asking them to remain faithful to a social, economic and environmental model giving the Union a value unequalled anywhere else in the world. For its part, in its Press Release of September 23rd the CEFS⁸ argued the case for a fourth option, dismissed out of hand by the Commission, which through a system of production and import quotas fixed every year would allow the preferential access traditionally granted to the ACP countries to be maintained whilst offering real benefit to the poorest countries at remunerative prices.

On August 29th 2003, the WTO also decided to set up a panel with the task of examining a complaint by Brazil, Australia and Thailand⁹ against EU policy in the sugar sector, challenging in particular the legality of exports of C sugar and re-exports of ACP sugar.

The present economic, political and social context is therefore extremely uncertain and will require the solidarity of the European social partners more than ever in order to secure the future of the sector. Against this background the social partners have committed themselves in the framework of their Code of Conduct.

C – DETERMINATION OF THE SCOPE OF THE CODE

Current geographical area and field of activity

EFFAT is represented in all EU countries, where according to its Statutes, the CEFS represents the sugar manufacturers of the European Union, with the exception of Luxembourg, which does not produce beet, plus Switzerland. As associate members, European cane-sugar refiners and European raw cane-sugar producers sit on the Board of Directors in an advisory capacity.

⁶ Commission Communication 2003/554 of the 23.09.2003.

⁷ See Annex 1 attached to the current report on the sugar Common Organisation Market

⁸ See this Press Release on the CEFS Web site, along with the speech by Johann Marihart, President of the CEFS, on the 8.10.2003 (www.cefs.org).

⁹ Among the four leading exporters in the world are Brazil with 11.2 million tonnes of sugar in 2001, Australia with 3.5 million tonnes and Thailand with 3.4 million tonnes for the same period, compared to 6.1 million tonnes for the EU.

Hungary, Slovenia and Slovakia are also associate members and will become full members when they join the EU, fixed for May 1st 2004. Other candidate countries, as Poland or Rumania, have indicated their intention to become Members of CEFS. The candidate countries will themselves assess the time necessary to meet the CoC progressively.

The sugar industry Code of Conduct is thus applicable to the beet-sugar manufacturers of the European Union, for their activities connected with beet processing (see list of members in Annex II of the CoC). It certainly constitutes encouragement to promote voluntary standards and exchanges of good practice beyond the area of activity for which the CEFS has a mandate, with the companies concerned being responsible for going beyond the strict scope of the CoC if they consider this desirable. The non-sugar activities of CEFS member companies are not covered, and nor are the activities of these companies carried out in countries for which the CEFS does not have a mandate. Needless to say, if the mandate of the CEFS is widened, particularly through the affiliation of new candidate countries that are to become members of the EU on May 1st 2004, the scope of the CoC will be enlarged accordingly.

Aspects covered

The CoC covers the social aspects of sustainable development, with the environmental aspects being dealt with by the CEFS Working Group on the Environment which, in partnership with the International Confederation of European Sugar-Beet Growers (CIBE), produced in February 2003 a report entitled "Environmental Report – Beet growing and sugar production in Europe"¹⁰.

II - IMPLEMENTATION OF THE COC IN THE SUGAR INDUSTRY

A - WORKING STRUCTURES

At European level

A Sectoral Social Dialogue Committee at European level specific to sugar was set up and officially recognised by the European Commission on November 23rd 1999¹¹. Its objectives are, in particular, exchanges of views and, if appropriate, concerted action on all matters connected with Community legislation and Community policy having economic or social repercussions for the sugar sector¹². It can be officially consulted by the Commission within the context of its legislative work. The CoC was developed in the frame of this sectoral

¹⁰ See CEFS Web site – Heading "Sustainable Development" - www.cefs.org

¹¹ In accordance with the Commission Decision of May 20th 1998 on the creation of sectoral dialogue committees to encourage the dialogue between the social partners at European level (OJ L 225 of the 12.8.1998). See also the Commission Communication entitled "The European social dialogue – a force for innovation and change – COM/2002/341 final of the 26.6.2002 and the publication by the DG for Employment of December 2002 on the European sectoral social dialogue entitled "Labour relations and industrial change" - Europa Web site – DG for Employment – Publications.

¹² See Agreement between the CEFS and the ECF signed on November 12th 1997, with the ECF having since taken the name of "EFFAT", European Federation of Food, Agriculture and Tourism.

committee, which was also allowed to present it officially to the European Commission on February 7th 2003.

It will be recalled that the European social dialogue in the sugar sector, created in 1969, has been working for more than 35 years on basis of following rules: providing for information, exchanges of views and, if necessary, joint action on all non-conflictive subjects of common interest, with collective bargaining remaining a national responsibility.

The social partners in the sugar sector have signed numerous joint declarations on social subjects, such as apprenticeship (November 2000) and economic matters (Common Organisation of Market for the sugar sector and its importance for employment in 1999 - Everything But Arms in November 2000 and February 2001, Rules of origin in November 2001, Bratislava Declaration on the consequences of enlargement – November 2002).

Health and safety was a priority issue. In the frame of the European Programme Leonardo Da Vinci the social partners jointly introduced an interactive vocational training tool called "Active/interactive safety in the sugar industry", which was circulated in 2000 to all European sugar factories in the EU eleven languages. This tool was selected for the European Summit of Lisbon as an example of European social dialogue. Translated into Hungarian it is currently also used in the Hungarian sugar factories (2003).

Grounded on a solid and pragmatic basis, the European social dialogue has thus progressively developed over the time and is now coming to complete maturity with the CoC, covering social, economic and political aspects.

Joint ad hoc Group on CSR

Within the context of the CoC, Part III paragraph 3 provides for the creation of a minimal structure responsible for preparing an annual CSR report, comprising two members of the Sectoral Committee for each organisation. In practice, an ad hoc "CSR Report" group, composed of members of the CEFS Working Group on Social Questions and members of EFFAT, is preparing a joint report which will be submitted to each organisation for approval before its official presentation to the European Commission planned on 27th February 2004, within the framework of the Sectoral Committee.

At national level

In the current EU countries the existing national structures would seem to be sufficient at this stage to ensure the management and proper development of the Code of Conduct in the field.

Concurrent with the communication circulated by national affiliates of EFFAT, the members of the CEFS Working Group on Social Questions¹³ have in particular accepted to be "pivotal" persons in charge of the distribution of information within the industry at national and local level, a clear understanding of the CoC and, if appropriate, its promotion. Human Resources Directors of companies or Directors responsible for social questions in the national federations¹⁴, these persons decide on the best way by which to attain these objectives in accordance with the structure of the sugar industry within each delegation.

¹³ The CEFS Social Working Group includes at least one representative of each delegation. These persons have been involved from the beginning to the definition of the CoC, its launch as well as its implementation.

¹⁴ The CEFS members are companies in 9 countries of the EU + Switzerland and in one CEEC. In 6 countries of the EU and in 2 CEECs there are represented by federations.

It is important to remember that - whilst the activity of processing beet into sugar is the same in all the different delegations - the organisation of the industrial structures at national level varies considerably from one delegation to the next (multinational or transnational corporations, federations representing SMEs and/or large companies, companies with a family capital structure or companies quoted on the stock exchange, etc.). The choice of the means to be used to achieve the required results at national level does not therefore fall within the competence of the Sectoral Committee but of each delegation at company or federation level.

The above mentioned persons in charge of the CoC have, in all delegations, devoted a good part of their time and efforts in course of 2003 to explain and promote the concept of social responsibility in the sugar industry to the management of the different companies concerned and to all human resources directors involved, with the aim of progressive integration into the human resources policy of companies. A number of them have in addition taken communication initiatives towards representatives of trade unions, or external organisms, or public authorities (See "Communication" below). National federations have undertaken this explanatory and promotional work at level of each company represented. The human investment involved for ensuring proper introduction and implementation of the CoC has therefore been considerable.

B - COMMUNICATIONS

A number of measures have been taken within each delegation to organise translation, information, training and promotion.

Translation into 10 European and CEEC languages¹⁵

<p style="text-align: center;">French, English, German Greek, Italian, Spanish, Dutch, Portuguese Hungarian, Slovakian</p>

The languages valid at the launch of the CoC are French, English and German (Part III of the CoC §5). The CoC has also been translated into Greek, Italian, Spanish, Dutch, Portuguese, Hungarian and Slovakian (See Annex 2).

Information

At European level, the CoC has been on the CEFS Web site and the EFFAT Web site since February 7th 2003, along with examples of good practice and the Press Release (www.cefs.org - www.effat.org). At the launch of the CoC this Press Release was taken over by the Agence Reuters as well as by a number of European specialized media (Agence Europe, Europolitique, Agra-Europe, Novethic etc). A specialized London office (Entico Corporation) circulated it to economic or financial organisations as the International Monetary Fund, the World Bank and the OECD.

As mentioned above, either by CEFS or EFFAT, in all the delegations, the CoC has been distributed to the management and to the human resources managers as well as to the trade

¹⁵ See Annex 2 attached to the current report.

unions and works councils. A number of delegations have distributed it to external bodies, such as the agri-foodstuffs federations and employers' or beet-growers associations. In one case, it has even been communicated to the authorities. Specific measures have been taken in some countries: an article has been devoted to it in a sugar profession brochure and in another country it has been placed on the company's Intranet. Depending on the characteristics of each delegation, all appropriate measures have been taken to present the CoC to the persons concerned and to ensure that it is properly understood. This informative work will continue in the future through the working bodies of the sugar sector.

Training

In 2003, specific training measures were not considered necessary in so far as for each delegation a member of the CEFS Working Group on Social Questions has taken charge of the dissemination of information and its clear understanding at national level. Each of these persons has participated in and contributed to the preparation of the CoC and is acquainted with all its different aspects.

In the second stage, it is possible that more specific measures could be taken at European level, which, if necessary, could be aimed at persons outside the Working Group on Social Questions responsible for implementing the CoC in the field. A training seminar could be organised, if necessary, in 2004.

Promotion

Externally, reference has been made to the sugar industry CoC in a number of public pronouncements such as at the European Commission Liaison Forum in April 2003 and the Berlin Conference organised by BPI on June 18th 2003. The Code has also been presented to the ETUC and its European trade union affiliates and welcomed with much interest.

At national level several members of the CEFS and EFFAT presented it to professional organisations (as agro-food organisations or association of human resources directors), or to employers' organisations or trade unions or structures representing sectors.

C – MINIMUM STANDARDS

The minimum standards described in Part II of the CoC cover eight essential themes of working life:

1. Human Rights
2. Lifelong education, training and apprenticeship
3. Health and safety
4. Relationship between the social partners
5. Fair pay
6. Working conditions
7. Restructuring
8. Business relations and choice of suppliers.

The sugar sector is the only sector to have undertaken voluntarily to comply with such a number of standards, covering not only such and such an important specific aspect for the image of a particular sector but of labour relations as a whole.

These standards are referring to the ILO fundamental Conventions, the OECD guidelines and the Universal Declaration of Human Rights¹⁶. In some cases they also refer to the European legislation by integrating an added value specific to the European sugar industry and its social dialogue. In a number of cases, the social standards have already been incorporated in the company's human resources policy or are subject to specific instructions for the management.

Object of the first report

The object of the first report is not to present a systematic evaluation of the level of application of each of the standards, since the CoC does not come into effect until January 1st 2004. It is to describe the measures taken during 2003 with a view to the proper preparation of their implementation (Part III of the CoC § 4).

The analysis of the first report is therefore primarily of a qualitative nature and mainly covers the above communication measures. The implementation process is progressive and requires a gradual work of integration at European, national and local level. It necessitates to continuously raise communication, need of explanation, debate and reflection at all levels as needed.

This is for instance the case for standard 8 "Business relations and choice of suppliers", requiring clarification of the scope of certain concepts, as, for instance, the concept of "major supplier". To what notion does this adjective "major" refer? Does it refer to the supply of raw materials such as beet ? What is the status of other suppliers enabling factories to operate?

An analysis demonstrates that the answers to these questions differ from one delegation to another according to the national legislation, local customs and company cultures. This report does not intend to answer these questions or, much less, to propose a single solution which would be incapable of adapting to multiple realities. On the other hand, in a concern for moral and intellectual honesty, it is considered necessary to look at these different notions in greater depth so that they can be approached in a responsible manner. This clarification effort will be set out in more detail in report No 2. The first report in fact constitutes the starting point in a dynamic process that will gradually develop in time on concrete and pragmatic bases.

D – EXAMPLES OF GOOD PRACTICE

It will be recalled that the examples of good practice should be considered as a source of inspiration and exchanges of good practice. They illustrate a positive social behaviour going beyond the minimal standards¹⁷. Regarding the European social dialogue for instance, they highlight the consultation of the social partners by the European Commission in the frame of the Regulation "Everything But Arms", or the joint creation of the Leonardo Kit.

They constitute an Annex to the CoC essentially intended to reflect practical realities in a dynamic manner. The model for the presentation of examples, comprising seven evaluation criteria, also allows them to be updated clearly and easily.¹⁸ According to Part III of the CoC, the examples of good practice will be updated as need be.

¹⁶ See Annexe 3 attached to the current report on "Legal references".

¹⁷ See Introduction of the Annex II on Examples of Good Practice.

¹⁸ The presentation model for examples comprises seven criteria: date and place, subject, context, project, result, resources allocated and contact.

The different CEFS and EFFAT delegations have thus verified the validity of the examples presented in February 2003, when the CoC was launched. They have updated them whenever necessary.¹⁹ However in most cases the examples need to be applied for several years and cannot be modified each year.

Furthermore, Hungary has presented some new examples of good practice, which had not been included when the CoC was launched. Even though Hungary will not become a full member of the CEFS until May 1st 2004, it was considered interesting to incorporate these examples straight away as a source of inspiration and exchanges of good practice, particularly with a view to enlargement. This theme will be tackled in greater detail in report No 2.

III - CONCLUSION

The CoC has generally been positively received by a public already trained in the concept of Corporate Social Responsibility, particularly from large companies. For a public not familiar with this concept, it seems clear that a major information and training effort will have to be made to ensure that everyone is aware of the scope of this instrument and to help them use it in the field within a dynamic and progressive perspective. The few negative reactions received stem in particular from a poor interpretation of the CoC, requiring once again a communication effort to clarify its contents.

The first report describes a starting situation as regards the CSR process in the sugar industry. It will serve as a reference to observe the progress made over the time in the second and subsequent reports.

¹⁹ See Annex 4 attached – New examples on page 1.