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**Global reach–local
relationships:**

**Corporate social
responsibility, workers'
rights and local
development**

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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization, and*¹ which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work², in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.³

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

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¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

³ See <http://www.ilo.org/gea>. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work*, "Vision" document, ILO, 2006.

⁴ See <http://www.ilo.org/employment>.

Foreword

An important relationship exists between the private voluntary activities of companies and the economic and social impacts upon the community in which these investments take place.

This study describes a corporate social responsibility (CSR) initiative that was implemented in collaboration between a multinational enterprise and local and national government in Brazil to minimize the negative impact upon workers, the environment and the surrounding community of a change in the company's operations. Some activities are designed to support further economic development in several communities. The policy and process lessons from this case study may provide an interesting example for other companies seeking to adapt to market change. While individual corporate experiences may be unique in each setting, the broader policies and processes behind these experiences can inform decision-making of other companies.

The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration) is designed to guide private initiatives, company policy such as codes of conduct for suppliers and industry-wide initiatives. The ILO's MNE Declaration is the only international CSR instrument which has the full backing of workers, employers and government. This tripartite origin makes it both highly credible and yet sensitive to the concerns of enterprises facing tough competition.

The potential to join the synergies between CSR, local development and creation of decent work is expressed in the MNE Declaration, which encourages MNEs to ensure that their activities are in harmony with the development priorities and social aims of the host communities. The MNE Declaration encourages companies to contribute to job creation and retention, and to local economic development; and stresses that the process of social dialogue is a valuable tool for enhancing positive outcomes for all.

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Executive Summary

Companies are vital for generating decent work—more and better jobs for men and women everywhere. Corporate social responsibility (CSR) initiatives are a means for companies to maximize the positive contribution their operations can make to promotion of decent work.

Although CSR initiatives are business driven, workers' and employers' organizations, as well as local and national government, have an important role in encouraging company initiatives, engaging in social dialogue⁵ with companies; and collaborating where there is consensus that partnership would be mutually beneficial. CSR involves private voluntary activities implemented by companies in order to attain goals over and above those legal responsibilities enshrined in national legislation; therefore, CSR is not a substitute or replacement for legally mandated requirements on companies.

An important relationship exists between the private voluntary activities of companies and the economic and social impacts upon the community in which these investments take place. The potential to join the synergies between CSR, local development and creation of decent work is expressed in the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy which encourages MNEs to ensure that their activities “are in harmony with the development priorities and social aims” of the host communities. (MNE Declaration, para. 10) The MNE Declaration encourages companies to contribute to job creation and retention, and to local economic development; and stresses that the process of social dialogue is a valuable tool for enhancing positive outcomes for all.

This study describes a collaborative effort between a multinational enterprise and local and national government in Brazil to minimize the negative impact on a community of a change in the company's operations; and to support further economic development in several communities. The policy and process lessons may provide an interesting example for other companies seeking to adapt to market change. While individual corporate experiences may be unique in each setting, the broader policies and processes behind these experiences can inform decision-making of other companies.

The Michelin “Green Gold Bahía Project” (POVB, *Projeto Ouro Verde Bahía*) demonstrates how, through a process of social dialogue particularly with government, a company averted the potentially devastating effects on its workers and the community of a divestment. It preserved jobs and helped to create new ones during the transfer of ownership of an operation.

As regards the quality of the jobs, respect for workers' rights were ensured in the transfer, as well as many benefits; and the trade unions recognized this achievement of the POVB. Yet they also stressed that Michelin and the POVB must appreciate their perspective—that important workers' benefits were also lost in the process. Greater social dialogue with the representative trade unions could help to bridge this gap in perspectives and expectations, and possibly generate new proposals to help compensate the workers for their lost benefits.

⁵ Social dialogue is defined by the ILO to include all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy.

A note on methodology

This case study is based on background research on the rubber sector and a desk review of Michelin's policies and practices; and complemented by interviews at Michelin headquarters and in Bahía. An initial version of this case study was circulated to Michelin company executives, in order to receive their comments for revision; a tripartite validation seminar was held in Salvador, Brazil and comments were integrated into the text.

Separate interviews with the concerned workers and their local trade union representatives regarding the positive and negative aspects of POVB were conducted by the Trade Union Department of Socio-Economic Studies and Statistics—(DIEESE, *Departamento Intersindical de Estatística e Estudos Sócioeconômicos*). This report was commissioned by the ILO to ensure that accurate and representative information reflecting the opinion of workers and their representatives was included in this case study of POVB. DIEESE gathered information for their report from two primary sources:

1. a semi-structured questionnaire that was used to interview representatives of the Trade Union of Rural Workers of CamAmu and Igrapiúna (STR CamAmu and Igrapiúna); and
2. a workshop held on 3 December, 2007 in a workers' residential area in the municipality of Igrapiúna that included 30 workers on the new independent farms of POVB and the Directors of STR CamAmu and Igrapiúna.

It should be noted that the financial costs associated with the field research, data collection, and the funding of travel and other workshop expenses have been provided by Michelin, except for the interviews conducted by DIEESE, the cost of which was paid by the ILO. Nevertheless, the ILO retains all rights and editorial control over the final version of this text for publication.

Scope of study

The International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM) has raised concerns about this case study as it does not address Michelin's general industrial relations practices world-wide, about which they have voiced strong criticisms. ILO notes these concerns. However, this case study does not aim to discuss Michelin or its global practices per se, but rather is focused only upon an innovative CSR activity introduced in a specific production unit in Brazil where government, the local trade union and Michelin worked together to minimize the negative impact of selling off a non-productive rubber plantation. It was not within the scope of this study to comment upon Michelin's labour practices more generally.

Glossary

APP	Area of Permanent Preservation (<i>Área de Preservação Permanente</i>)
AFNOR	French national organization for standardization (<i>Association française de Normalisation</i>)
BNB	Northeast Development Bank (<i>Banco do Nordeste do Brasil</i>)
BSR	Business for Social Responsibility
CDA	Coordination of Agrarian Development
CEPLAC	Executive Commission for Cacao Agriculture (<i>A Comissão Executiva do Plano da Lavoura Cacaueira</i>)
CIRAD	Agricultural Research for Developing Countries (<i>Centre de Coopération Internationale en Recherche Agronomique pour le Développement</i>)
CMB	Cirade Michelin Bahía
CSR	Corporate Social Responsibility
DIEESE	Trade Union Department of Socio-Economic Studies and Statistics (<i>Departamento Intersindical de Estatística e Estudos Sócioeconômicos</i>)
EBDA	Bahía State Enterprise for Agricultural Development (<i>Empresa Baiana de Desenvolvimento Agrícola</i>)
EIU	Economist Intelligence Unit
FDI	Foreign Direct Investment
FNE-Verde	Programme of Financing for Environmental Conservation and Control (<i>Programa de Financiamento à Conservação e Controle do Meio Ambiente</i>)
IBAMA	Brazilian Environmental Institute (<i>Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis</i>)
ILC	International Labour Conference
ILO	International Labour Organization
IRRB	International Rubber Research Board
LED	Local Economic Development
MNEs	Multinational Enterprises
NAAF	Nucleus of Assistance to Family Agriculture (<i>Núcleo de Assistência à Agricultura Familiar</i>)
OEM	Original equipment market
PAF	The Family Agriculture Programme in Igrapiúna (<i>Programa de Agricultura Familiar</i>)

POVB	Green Gold Bahía Project (<i>Projeto Ouro Verde Bahía</i>)
PRONAF	Family Agriculture Programme (<i>O Programa Nacional de Fortalecimento da Agricultura Familiar</i>)
SAF	Agriculture—Forest System (<i>Sistema de Agricultura e Floresta</i>)
SRI	Socially responsible investment
TNC	Transnational corporation

1. Introduction

The ILO recently affirmed the central role of sustainable enterprises in creating decent work. Sustainable enterprises are a principle source of growth, wealth creation and employment. The promotion of sustainable enterprises is a major tool for achieving decent work.

Multinational enterprises are an important source of direct employment, and generate thousands more jobs through their value chain operations. They are also more visible than most enterprises, and can play an influential role in encouraging other companies to help promote decent work.

In order to access global markets, multinational enterprises (MNEs) have traditionally operated via wholly-owned subsidiaries in their key consuming countries overseas. In many cases, this was not only the strategy of the parent company, but foreign direct investment (FDI) also needed to comply with national policies to promote industrial development and create jobs. Such policies were in place in developing countries around the world during most of the 20th century.

The elimination of import substitution policies with market liberalization, and the rise of global competition, has compelled companies to focus their operations upon core business activities and core competencies. This has often involved either downscaling or divestment of subsidiaries and increased international outsourcing via contractors and independent suppliers around the globe. While this model may help cut costs and consolidate company activities, it poses new challenges for company strategies.

Many of the most important innovations in products or services derive from local operations, making local knowledge a key competitive advantage, even for global companies. Company sales, national or international, are still based upon the perceptions of local consumers who are part of the local work force and the local community. Local market ties are as relevant as ever.

How does a company retain the global reach of an MNE without losing the benefits of local knowledge and the relationships of collaboration and trust that have been built up over years? A company's CSR framework can help.

1.1 The growth of Corporate Social Responsibility (CSR) initiatives

Increasingly corporations are judged in the market not only by their economic contribution, but also by their social impacts and role as corporate citizens in the countries where they operate. An increasing number of global corporations are making social responsibility an important part of doing business. Companies are motivated by their own ethical concerns as well as by pressure from NGOs, trade unions, ethical investors and socially-conscious consumers. Each company has a unique approach to CSR, based on its type of business and its economic and social environment. Companies are often inspired by the example of companies around them, as well as relevant industry initiatives and multi-stakeholder initiatives.

According to the Economist Intelligence Unit, the key drivers for the growth in importance of CSR include the globalization of business, growing distrust of large corporations, the corporate-governance movement, the rise in importance of socially responsible funds and market pressures pushing companies to seek new competitive advantage. The perceived benefits motivating many businesses and investors to embrace CSR include: helping a company's bottom line; brand enhancement; and better staff

morale. The perceived obstacles limiting companies from fully embracing CSR include cost implications and unproven benefits. (EIU, p. 2)

Although the benefit to the company is difficult to measure, some analysts believe that the value of CSR is that it pushes companies to look beyond the bottom line, stimulating them to think more creatively about company operations, market niche and added value. The EIU argues that “while the bottom-line benefits of CSR may be hard to quantify, the reverse is also true: the lack of CSR doesn’t guarantee higher profits for a company, all other things being equal.” (EIU, p. 19) The EIU survey supports the notion that one of the most important aspects of CSR is relationship-building which can help a company to better manage changes, such as restructuring or divestment: “Clear communication with stakeholders can help companies withstand a crisis.” (Ibid)

There is a growing movement away from corporate philanthropy to thinking about how the core business of the company can bring added social value to a social initiative, in particular by forming partnerships with government, trade unions and employers’ organizations, NGOs and other institutions, which allow the company to focus its contribution. This movement is stimulated by strategy gurus such as Michael Porter who argue that the best form of CSR is actually one that uses the company’s expertise and has a business purpose. (Porter and Kramer, 2006). The EIU survey supports this view: 87 per cent of executives believe that good corporate citizenship should be linked to the company’s core business and should help the bottom line.

There are many critics who consider CSR to be a distraction or worse, from the point of view of either the alleged beneficiaries or the business, or both. And there are many sceptics who view it as a passing fad, although this camp is diminishing. The Economist, a long time sceptic, recently stated that “[c]orporate social responsibility, once a do-gooding side show, is now seen as mainstream.” (See, The Economist: 2008, p. 3)

An important test for the ability of CSR to help a company build trust is whether it is an add-on or forms a core component of the business strategy which permeates the way in which a company operates—from decisions regarding new investments down to day-to-day production operations and sales—and the people it impacts along the way. When a company faces difficult moments, a strong CSR policy rooted in respect for workers’ rights and consideration for the community well-being will have helped to build up a store of trust which the company can draw upon to engage with worker and community representatives to find the best solution.

2. ILO approach to CSR

The International Labour Conference has recently recognized CSR as an important part of sustainable enterprise development:

“Sustainable enterprises can use CSR to complement their pursuit of sustainable strategies and outcomes. CSR is a business-driven voluntary initiative and refers to activities that are considered to exceed compliance with the law. CSR cannot substitute for legal regulation, law enforcement and collective bargaining. However, where CSR is transparent and credible and based on genuine partnership, it can provide workers and other stakeholders with further opportunities to engage enterprises on the social and environmental impact of their activities.”⁶

The MNE Declaration is the key ILO instrument providing guidance to enterprises concerning labour issues and their operations, in both home and host countries, and within their supply chain. The main objective of the MNE Declaration is to “encourage the positive contribution which multinational enterprises can make to economic and social progress and to minimize and resolve the difficulties to which their various operations may give rise.” (MNE Declaration, para. 2)

The MNE Declaration covers a range of worker rights, including: freedom of association and collective bargaining; child labour; forced labour; non-discrimination; conditions of work and life; and industrial relations. It also encourages enterprises to consider ways in which they can contribute to local economic development, such as expanding their backward and forward linkages in the value chain.

An important feature of the MNE Declaration is that it encourages enterprises to engage in dialogue with government and employer and worker organizations, when appropriate, to ensure that their activities are “in harmony with the development priorities and social aims and structure of the country in which they operate.” (MNE Declaration, para. 10). Table 1 provides a brief overview of the guidance for enterprises contained in the MNE Declaration.

⁶ Conclusions concerning the promotion of sustainable enterprise, International Labour Conference, 96th Session, Geneva, 2007, para. 13.5

Table 1: Guidance for enterprises contained in the MNE Declaration

Areas covered	Enterprises should:
General Policies	Obey national laws and respect international standards; Contribute to the realization of the fundamental principles and rights at work; Consult with government, employers' and workers' organizations to ensure that operations are consistent with national development priorities.
Employment	Endeavour to increase employment opportunities and standards, taking the employment policies and objectives of governments into account; Give priority to the employment, occupational development, promotion and advancement of nationals of the host country; Use technologies which generate employment, both directly and indirectly; Build linkages with local enterprises by sourcing local inputs, promoting the local processing of raw materials and local manufacturing of parts and equipment; Extend equality of opportunity and treatment in employment; Assume a leading role in promoting security of employment, providing reasonable notice of intended changes in operations and avoiding arbitrary dismissal.
Training	Provide training for all levels of employees to meet needs of enterprises as well as development policies of the country. Participate in programs to encourage skill formation and development; Afford opportunities within MNE for local management to broaden their experience.
Conditions of work and life	Provide wages, benefits and conditions of work not less favourable than those offered by comparable employers in the country concerned; Provide the best possible wages, benefits and conditions of work, within the framework of government policies, to meet basic needs of employees and their families; Respect the minimum age for admission to employment; Maintain highest standards of safety and health at work; Examine the causes of industrial safety and health hazards, provide information on good practice observed in other countries, and effect necessary improvements.
Industrial Relations	Observe industrial relations no less favourable than those observed by comparable employers; Respect freedom of association and the right to collective bargaining, providing the facilities and information required for meaningful negotiations; Support representative employers' organizations; Provide for regular consultation on matters of mutual concern; Examine the grievances of worker(s), pursuant to an appropriate procedure.

.....Source: ILO. For full text see www.ilo.org/public/english/employment/multi/download/english

2.1 Respect for workers rights

Respecting workers' rights is core to the concept of decent work, and the areas covered in the MNE Declaration should be the foundation for any company's CSR policy. Responsible enterprises ensure compliance with national labour legislation. In cases where the labour law may be particularly weak, companies can seek guidance from the MNE Declaration and international labour standards more generally. Voluntary actions to contribute to economic or social development, no matter how well intended, cannot compensate for CSR practices which ignore workers rights. The most essential rights include freedom of association and collective bargaining, elimination of child labour and

forced labour; and non-discrimination.⁷ However, other rights, including wages and conditions of work, safety and health, maternity protection and social protection, are also very important. An increasing number of multinational enterprises are looking beyond their own operations to promote respect for workers' rights within their supply chain—an approach which ILO encourages.⁸

2.2 Employment security

Restructuring of companies and industries is increasingly common in many sectors. A study by ILO on socially sensitive enterprise restructuring (Rogovsky, 2005) concluded that the pressure from globalization for enterprises to be ever more efficient and cost-effective has led many companies to reduce their workforce or shut operations down all together.

Adverse effects for workers include insecurity and anxiety for those who need to find a new job, increased stress for those workers who remain with the company and heightened distrust of management. Potential negative effects for the company include harm to its reputation and brand within the local community and nationally, which may decrease sales and hinder future staff recruitment efforts.

It is essential that enterprises be allowed to take key business decisions for their long-term survival: “Enterprises need to be viable in order to be sustainable, but this does not deny the fact that in vibrant, dynamic economies some enterprises will inevitably contract or fail and there is an ongoing process of entry and exit.” (ILC conclusions, para. 8) However, “[t]he principles and values of decent work provide as much guidance in the case of enterprises which contract or fail as they do in those which succeed and grow. In this regard, active labour market policies and social protection are very important for managing efficient and socially just transitions that take into account national circumstances.” (Ibid) (See Box 1)

Restructuring, divesting or closing an operation tests the relationship between a company and the host community, potentially exposing the company to harsh public criticism. A company's broader CSR strategy may contribute to developing a store of good will for it to draw upon during such trying moments.

The key to restructuring in a way that minimizes harm to workers and communities is to develop a plan of action which balances the company's need to adapt to change with the affected workers' need for a smooth transition. This plan should be developed in dialogue with workers' representatives and local or national government and ideally result from joint agreement. A meta study of Latin American CSR initiatives to benefit the community concluded that dialogue during the restructuring process is particularly beneficial for all concerned:

There is a learning curve that can be accelerated by partnership with institutions that have experience in community engagement...[A] well-planned exit strategy should be part of every company's efforts in community engagement as it actively commits both the company and the community to avoid traditional dependency programs...[I]ntangible

⁷ For an extensive discussion of the central role of respecting workers' rights in social responsibility activities of enterprises, see ILC 2007, pp. 94-107.

⁸ See, ILC Conclusions Concerning Sustainable Enterprises: “The principles of sustainable enterprises should be promoted along supply chains.” Para. 13(6)

benefits to the community, like an increase in individuals' self-esteem, are more valuable than an increase in income as they represent a change in mind set, particularly one from dependency to independence which is at the root of participation. (Gutiérrez and Jones, p. 15)

Box 1:

The ILO MNE Declaration provisions on security of employment

The ILO MNE Declaration provides the following guidance for a change in enterprise operations affecting employment:

Governments should carefully study the impact of multinational enterprises on employment in different industrial sectors. Governments, as well as multinational enterprises themselves, in all countries should take suitable measures to deal with the employment and labour market impacts of the operations of multinational enterprises. Multinational enterprises equally with national enterprises, through active manpower planning, should endeavour to provide stable employment for their employees and should observe freely negotiated obligations concerning employment stability and social security. In view of the flexibility which multinational enterprises may have, they should strive to assume a leading role in promoting security of employment, particularly in countries where the discontinuation of operations is likely to accentuate long-term unemployment.

In considering changes in operations (including those resulting from mergers, take-overs or transfers of production) which would have major employment effects, multinational enterprises should provide reasonable notice of such changes to the appropriate government authorities and representatives of the workers in their employment and their organizations so that the implications may be examined jointly in order to mitigate adverse effects to the greatest possible extent. This is particularly important in the case of the closure of an entity involving collective lay-offs or dismissals. Arbitrary dismissal procedures should be avoided. Governments, in cooperation with multinational as well as national enterprises, should provide some form of income protection for workers whose employment has been terminated.

Source: ILO MNE Declaration, Paragraphs 24-28.

The process of thinking creatively together about alternative options which have the most potential to provide the company with flexibility while safeguarding the interests of the workers helps the company to find a positive solution to the immediate challenge that the company is facing, and also helps to preserve the positive relationship and good will with workers and the community which can be drawn upon if further adjustments are needed in the future. By respecting the rights of workers and demonstrating the willingness to safeguard the interests of the community to the greatest extent possible within the competitive environment in which the company operates, a company demonstrates a sustainable approach to change management which can enhance rather than harm its reputation locally and nationally.

In the area of restructuring or closing operations, government can encourage and support sustainable approaches to change management by defining the rights of workers and the process for engaging in dialogue on restructuring. It can also contribute by implementing policies which generally foster a healthy macroeconomic environment to help workers and communities to adapt quickly. In moments of particular need, government can provide additional support to workers through programs such as skills development and assistance for job seekers; as well as providing support to workers interested in starting their own businesses. Government can also support communities through measures such as temporarily increasing public sector investment to help the local labour market adjust.⁹

⁹ The ILC emphasized that “[s]ustainable enterprises and economies must develop the ability to adapt to rapidly changing conditions in the marketplace. In order to support enterprises and their

Workers' organizations can contribute by working constructively with the company to minimize job loss and smooth the transition for displaced workers and those who remain. They also can act as a key channel for communications, and provide advice and support to workers.

Employers' organizations can support enterprises during adjustments of the workforce by providing information and assistance, and sharing good practices.

2.3 Social Dialogue

Social dialogue is an important means of ensuring that CSR contributes to economic and social development of workers and the broader community. Social dialogue is defined by the ILO to include all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy. It can exist as a tripartite process, with the government as an official party to the dialogue or it may consist of bipartite relations only between labour and management (or trade unions and employers' organizations), with or without indirect government involvement. Social dialogue processes can be informal or institutionalized, and often it is a combination of the two. It can take place at the national, regional or at enterprise level. It can be inter-professional, sectoral or a combination of these. The main goal of social dialogue itself is to promote consensus building and democratic involvement among the main stakeholders in the world of work. Successful social dialogue structures and processes have the potential to resolve important economic and social issues, encourage good governance, advance social and industrial peace and stability and boost economic progress.¹⁰

In order for social dialogue to take place, it requires basic enabling conditions which include:

- Strong, independent workers' and employers' organizations with the technical capacity and the access to relevant information to participate in social dialogue;
- Political will and commitment to engage in social dialogue on the part of all the parties;
- Respect for the fundamental rights of freedom of association and collective bargaining; and
- Appropriate institutional support.

Through social dialogue, the company can ensure that its envisioned project or series of actions are in harmony with the objectives of the target beneficiaries and optimally designed. It is sustainable from a community perspective as well because social dialogue enables the company to take broader development needs into account in a more holistic manner, and the community can share in the design and responsibilities (such as contributing to management and funding) which avoids dependence.

workers to cope with such challenges, governments should develop a legal and institutional framework, including labour regulation, social protection, active labour market policies and efficient employment services which also support enterprises' capacity to adapt. Such policies should be developed in full consultation with the social partners." (ILC conclusions, para. 6).

¹⁰ For further information , see www.ilo.org

There may also be a substantial difference in public perception of a project when it is developed and carried out through a process of social dialogue. If a project, however well intentioned, is merely imposed, the community may react negatively; and the company risks being criticized. The CSR agenda has “attracted criticism for being insensitive to local priorities and potentially harming prospects for sustainable livelihoods in the South.” (Fox 2004, p. 29) Social dialogue can remedy this potential shortcoming of CSR while preserving its voluntary nature. Working together also gives the project more credibility and hence a higher chance of success.

Social dialogue with workers and their representatives is a key part of building trust.

Sustainable enterprises engage in social dialogue and good industrial relations, such as collective bargaining and worker information, consultation and participation. These are effective instruments to create win-win situations, as they promote shared values, trust and cooperation, and socially responsible behaviour. Social dialogue includes examples at international level, such as the conclusion of International Framework Agreements between multinational enterprises and global union federations in different industrial sectors. (ILC Conclusions, 2007, paragraph 13(1)).

Dialogue between an MNE and its suppliers is also important. Through dialogue, the MNE can better understand its suppliers’ needs, strengthen capacities and transfer technology. It can also be more effective at encouraging and supporting suppliers’ voluntary initiatives.

Social dialogue is the key institution for clearly defining the appropriate roles of each group within a specific local context (community, sector, etc.). Through the dialogue process, an idea can become fused with the values of the other partners (trade unions, local authorities, national government, employers’ organizations and others) as they work together, and at the same time allow the company to manage expectations about the limits of what it can realistically contribute.

A partnership approach, where each partner contributes its strength, helps a company to avoid being excessively diverted from its focus on its core business. More importantly, a partnership approach helps clarify for all that business does not, and is not expected to, substitute for government. In a partnership model, the company takes up a targeted or supporting role, and government retains primary responsibility for local economic development. Through dialogue, the roles of all contributing parties can be clearly defined and limited. Companies can help to shape public policy, but should not be primarily or solely responsible. The MNE Declaration can serve as a basis for guiding social dialogue for defining roles and managing expectations.

2.4 CSR and Local Economic Development (LED)—a common approach based on social dialogue, participation and partnership

In many ways, the spread of globalization brings an increasing focus on local issues and processes. While economic growth often occurs, new disparities within and between countries and regions become more apparent. New job opportunities are created for many people, but many existing jobs are destroyed or become precarious and workers are left unprotected. The pressures as well as opportunities arising from globalization require strengthened local economic and social systems in order to ensure that the gains from globalization can translate into genuine economic and social development at the national and local levels. The decentralization policies adopted by many countries in recent years have been implemented with the aim to achieve greater transparency, effectiveness, accountability and impact through devolution of authority and resources to the local level. While this strengthens the focus on local issues and inclusive development, it also generates

a broader range of demands upon local actors and institutions and increases demand for strengthening capacities of these local institutions and stakeholders in sustainable and cost-effective ways.

Local economic development serves as a change agent, encouraging new partnerships between economic, political and social actors at the local level who work together in mutual respect of each other's skills and perspectives. Government, labour and society form partnerships with the private sector to ensure equitable and sustainable development impacts, even when important company changes such as restructuring and divestment are involved.

The ILO's approach to LED emphasizes the importance of an employment-centered approach that includes concern for the number of jobs retained and created, as well as the quality of those jobs—that is, respect for rights at work, fostering opportunities for social dialogue, supporting the organization of workers to gain voice and representation, and ensuring social protection for all workers (ILO, 1999). The LED approach should be flexible enough to be tailored to specific situations, priorities and capacities. It also should draw on local resources, skills and stakeholders, and link them to national and international skills and resources.

Several potential challenges arise for companies seeking to contribute to local economic development. First of all, an effective strategy for sustainable local development requires a medium and long-term vision that is shared with stakeholders and partners on decisions and activities to be undertaken. However, at the same time, the involvement and commitment of others is often favourably influenced by having more visible, short-term activities which have immediate impact. Hence, the tension between visible and immediate impact, versus long-term sustainability needs to be managed.

Second, in terms of achieving developmental impact, there is another tension between activities that stimulate local expertise and use local endowments, versus the opportunity provided by the presence of an MNE to tap into international expertise and resources. Lastly, a participatory approach may introduce a possible tension between the corporate domain of proprietary decision-making versus the expectations of key stakeholders and beneficiaries to dialogue and participate in the decision-making process. Nonetheless, companies can make a uniquely valuable contribution to LED.

The ILO emphasizes the valuable link between CSR and LED. Voluntary initiatives can contribute to economic and social development in a community. However, to have a significant impact, it must be meaningful and sustainable for the region in which CSR initiatives take place. An essential element for beneficial LED is:

“a participatory development process that encourages and facilitates partnership arrangements between the main local private and public stakeholders of a define territory, enabling the joint design and implementation of a common development strategy, by making use of the local resources and competitive advantage in a global context, with the final objective of creating decent jobs and stimulating economic activity”. (LED Programme, ILO¹¹)

¹¹ LED Programme, ILO: http://www.ilo.org/dyn/empent/empent.portal?p_lang=EN&p_prog=L

2.5 The importance of creating an enabling environment for CSR initiatives

A holistic agenda for CSR “means recognizing where business activities are currently aligned with development goals, and applying a mixture of policy instruments and interventions to create this alignment where this is not the case. At the heart of such an approach is an understanding of the ‘enabling environment’ for responsible business practice, and its relationship with development priorities.” (Fox: 2004, 31) A key element of an enabling environment for sustainable enterprises includes “balancing the needs and interests of enterprise with the aspiration of society for a path of development that respects the values and principles of decent work, human dignity and environmental sustainability.” (ILC conclusions, para. 5)

The government should assume the central role in creating an enabling environment. The International Labour Conference (ILC) has stressed the need for “policy coherence and collaboration within government, as sustainable enterprises have needs which transcend line ministry boundaries. Good governance calls for effective intra-governmental coordination and collaboration.” [ILC Conclusions, para. 16(10)] Government at various levels and across ministries should work together to help support a company initiative to promote local economic development and smooth the transfer of ownership of an operation.

Employer and worker organizations can also contribute to creating an enabling environment, through the support and encouragement they provide to firms genuinely interested in doing more to promote economic and social development, and sharing experiences which may inspire other CSR initiatives. Table 2 provides a summary of the roles recently identified by the International Labour Conference for government and employers’ and workers’ organizations concerning CSR-related aspects of sustainable enterprise development, including socially responsible change management and contributing to local economic development.

This partnership approach was expressed in the MNE Declaration 30 years ago. A unique feature of the MNE Declaration is that it speaks to governments and workers’ and employers’ organizations about what they can do to encourage a positive synergy between economic and social development to help generate more and better jobs for men and women in their communities. These three groups can help foster a positive climate for enterprises to take initiatives, provide valuable information to enterprises about which initiatives would contribute most to promotion of decent work and social development, and collaborate with enterprises on particular projects when they have a positive contribution to make. Nonetheless, the MNE Declaration recognizes that CSR initiatives are voluntary—MNEs and other enterprises are encouraged, but in no way obligated, to engage in dialogue and adopt a partnership approach to contributing to local economic development.

This approach is now being actively taken up by CSR advocates such as Business for Social Responsibility (BSR):

[T]he overall contribution that a corporation makes does not only depend on its own ingenuity and performance. It often rests upon the quality of government and the nature of collaboration and coordination between the private and public sector...While business, government and civil society groups may have an idea of what is expected from them, [they] often lack the process and agreed upon institutions for defining specific roles and responsibilities (Business for Social Responsibility, 2005:16).

Table 2: Company and constituent roles in promoting sustainable enterprises

Government should:	<ul style="list-style-type: none"> • promote good governance, including democratic political institutions, transparent and accountable public and private entities, effective anti-corruption measures and responsible corporate governance; • promote social dialogue, based on freedom of association and the right to collective bargaining, including through institutional and regulatory frameworks; • ensure respect for universal human rights and international labour standards; • foster an enabling legal and regulatory environment, including well designed, transparent, accountable and well-communicated regulations; • promote respect for the rule of law and secure property rights; • promote fair competition, including universal respect for labour and social standards, and to eliminate anti-competitive practices at national level; • promote access to financial services; • provide education, training and lifelong learning; • provide adequate social protection; and • promote responsible stewardship of the environment.
Employer and worker organizations should:	<ul style="list-style-type: none"> • participate in national processes to advocate and design appropriate policies and regulations in order to encourage sustainable enterprise development. • provide a variety of important services to their members that can have a significant impact on the formation and growth of sustainable enterprises including knowledge management, training, awareness-raising, advice and guidance on how to access public and private services, links to research and consultancy resources, and advice on innovative practices at the workplace. • provide information on good practice in collective bargaining and in sharing information about CSR.
Enterprises should:	<ul style="list-style-type: none"> • engage in social dialogue and good industrial relations, such as collective bargaining and worker information, consultation and participation. • invest in the development of skills and competencies of workers to ensure their employability and ability to adjust to changing technologies and work organization. • offer conditions of work that provide a safe and motivating working environment and mutually beneficial flexible work organization; • follow corporate governance and business practices based on values such as accountability, fairness and transparency, respect for the rule of law and for fundamental principles and rights at work.

2.6 Sustainability and replicability

For the ILO, an essential element of any CSR initiative is its impact on the sustainability of the enterprise. Any company’s most important contribution is the quantity and quality of jobs it creates, the products or services it provides, the contribution it makes to economic growth and development and the taxes it pays. This implies that CSR initiatives should be integrated into, or at least consistent with, a company’s overall business strategy to ensure that the company remains viable.

Sustainability is an important point for the company to keep in mind, particularly when it is considering undertaking a resource-intensive “flagship” CSR project. Such a project may be sustainable, particularly with larger companies which are better able to absorb the cost of expensive projects, in particular on-going operating costs, and where the project serves to demonstrate and reinforce the values of the company. But not all companies can afford to divert substantial resources. Governments and employer and worker organizations should not expect companies to contribute to development at the risk of harming the company’s viability. Often, a company’s best contribution is to focus on protecting the rights of all workers who contribute to their operations; and making modest

contributions to broader development when they can. The decision must be left to the company.

A related concept is replicability of initiatives, both within the company, and by other companies seeking inspiration. Initiatives concerning local economic development are not easily replicable, as they depend for their success on a flexible approach which responds to particular circumstances. However, the dialogue process underlying development of the unique initiatives could be applied elsewhere by the company, and by other companies. Furthermore, the protection of workers' rights is easier for a company to implement globally, and indeed should be replicated in all operations, consistent with national laws.

2.7 An integrated approach to CSR and local economic development

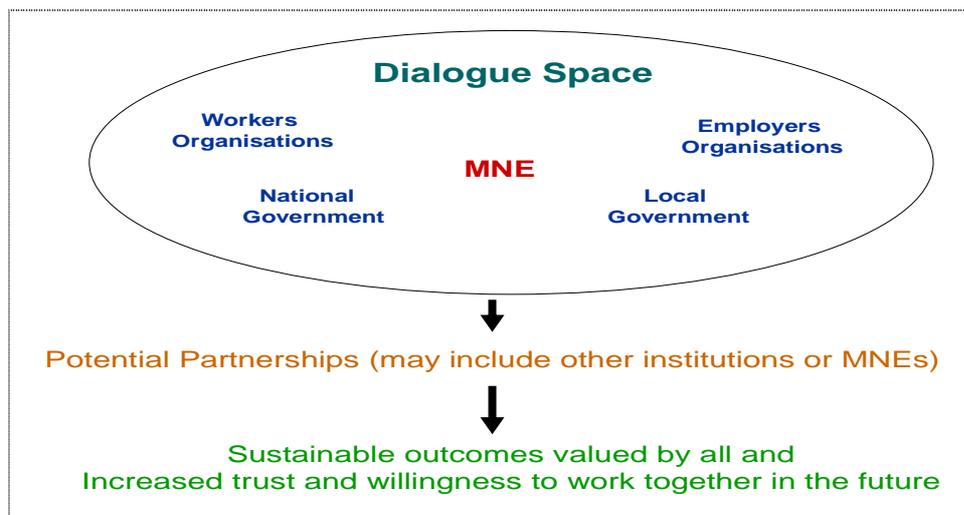
The various components discussed above (the importance of social dialogue as a key process, partnerships, sustainability and replicability, managing expectations and promoting an enabling environment) are all important and have a synergistic effect. Figure 1 illustrates this link.

The next section will explore how some of these elements of the ILO's approach to CSR and LED were put into practice in several rural communities in Brazil where Michelin was producing rubber.

Figure 1: Securing sustainable CSR outcomes

Enabling Environment for Social Dialogue on Voluntary Initiatives

- show mutual respect for the important role MNEs, government and worker and employer organizations each play
- welcome company interest in undertaking CSR initiatives
- use the MNE Declaration as a guide and for managing expectations
- learn from experiences to further develop capacities
- share effective practices
- cultivate a shared commitment to promotion of decent work



3. The Michelin “Green Gold Bahía Project” (POVB)

Michelin is an industry leader in tyre manufacturing. Rubber is a critical input to its manufacturing process. Rubber production is crucial to the livelihoods of many people in a community in the state of Bahia, Brazil where Michelin’s under-performing plantation was located. When cost pressures made it impossible to maintain this plantation, Michelin considered several ways to divest while minimizing harm to the workers, the community and surrounding environment. The Michelin “Green Gold Bahia Project” (POVB, *Projeto Ouro Verde Bahia*) provides an example of collaboration between a multinational and local and national government to address that challenge.

The following study looks at the policies and processes involved in this divestment and how they were translated into meaningful and sustainable economic and social development of the local region. It also examines how this project fits within Michelin’s Corporate Social Responsibility (CSR) programme and broader business strategy, as an example of sustainable enterprise management. This case study is of interest to the ILO because it is an initiative of great importance to the local community. It addresses three key actors: Michelin; the Brazilian government at national and local levels; and the national and local trade unions and the workers they represent.

3.1 The CSR context for POVB

Michelin is a leading multinational. Although Michelin’s approach to CSR is an expression of its own values, those values are no doubt influenced, at least to some extent, by the beliefs and expectations of its customers, peers and the investment community.

The French have a long tradition of enterprises assuming a leading role in both economic and social development. Indeed, one of the early nineteenth century advocates for the creation of an international organization to support the rights and welfare of workers around the world was the French industrialist Daniel Legrand (Legrand, 1783-1859).¹²

In recent years, the government has taken an active role in promoting a culture of social responsibility among enterprises, encouraging companies to integrate CSR into their operations both at home and in their host countries, including financial assistance to encourage companies to start sustainable development practices. Also, the French national organization for standardization (AFNOR, *Association Française de Normalisation*), has been active in facilitating dialogue among the various stakeholders for an agreed approach to CSR, as well as business associations and various trade unions that have been active in promoting CSR.

The POVB is a unique CSR initiative, even within Michelin’s own operations and is likely also influenced by the Brazilian approach to CSR. Brazil is considered among the exceptions to the general tendency for CSR to be “overwhelmingly shaped by actors in the North.” (Fox 2004: 30)¹³ The push for Brazilian companies to improve their social and environmental performance came largely from domestic actors responding to local needs

¹² ILO History, ILO webpage, <http://www-ilo-mirror.cornell.edu/public/english/about/history.htm>

¹³ The other exceptions Cappellin and Giulaiani note are South Africa and the Philippines.

and concerns and is significantly shaped by one of the highest and most persistent levels of inequality in the world (Cappellin and Giuliani, 2004: 2).

The CSR movement gained force in Brazil in the 1980s and expanded further in the 1990s. Some business associations have been particularly instrumental in spreading a culture of broader concern about the impact of enterprises on their surrounding communities. Ten per cent of Brazilian business associations surveyed prioritized issues of unemployment and professional training, racial discrimination in the workplace, and the struggle against child labour as key themes of their institutional social investment; and several focus on mediating between companies, employees and the state concerning these issues. However, 49 per cent of business associations surveyed considered that it was not appropriate to engage in social investments, arguing that the priority of firms should be economic aims, that CSR initiatives should be left to each enterprise to decide, or that most social initiatives were more appropriately dealt with by the state (ibid: 26-28).

Trade unions also play a key advocacy role in Brazil regarding CSR. However, Brazilian trade unions generally consider firms in large part responsible for the deterioration of conditions in the workplace and demand respect for labour rights, while those Brazilian business associations engaging in CSR emphasize a more philosophical approach to the role of business in society.

As Cappellin and Giuliani explain, CSR “became part of a broader strategy to gain legitimacy; a way of cleaning up the soiled image of entrepreneurs and companies that were regarded by many as responsible for the concentration of wealth and growing speculation in financial investment. Brazilian entrepreneurs could use CSR as a tool to restore the climate of trust among workers, enhance their competitive strategy and, above all, increase consumer loyalty and community acceptance. As flexibility and deregulation of labour costs became dominant features of labour market regulation, corporate social responsibility became a means of partially mitigating the social effects of these policies and processes.” (ibid: vi). In contrast to the growth of corporate social responsibility efforts in response to deregulation of the labour market, corporate responsibility directed at environmental protection has grown out of *increased* regulation, as well as perceived business opportunities in the field of environmental protection (ibid: 48).

In the 1990s, companies operating in Brazil, in particular large domestic enterprises, shifted away from philanthropy to focus on social investment, environmental protection and community development. Social investments in employees focussed on improving skills and productivity, reducing accidents, increasing literacy, improving health, reducing absenteeism, and strengthening worker identification with the company goals (ibid: vii).

Cappellin and Giuliani describe CSR in Brazil as a growing trend with staying power. Brazilian firms are increasingly convinced that “[i]f a company wants to be successful, it has to learn to uphold its reputation (in order to retain its market), to manage transparency and trust (in order to stay in the market), and to manage sustainability (in order to create value, eco-efficiency and social accountability).” (ibid: 1).

This trend towards enterprise involvement in the community is partly motivated by a national public programme called *Comunidade Solidaria*, which was instituted in 1995 to promote partnership and cooperation between business and civil society, in a public but non-state sphere. Other influential policy changes included the decentralization of decision-making in relation to local policies and codes protecting the rights of children and of consumers. Cappellin and Giuliani also stress the impact on CSR initiatives of the Constitution of 1988, which made labour rights applicable to all workers:

Organizations and individuals that struggled for the new constitution also created new expectations of business...It became increasingly clear in public opinion that corporate policies affected not only workers' conditions but also the larger dimensions of social life. As such,

both private consumption and investment decisions acquired political and social significance in addition to their economic importance. (ibid: 7)

Key organizations which have also helped to raise awareness of CSR among Brazilian enterprises are Ethos Institute, a research and advocacy organization which works closely with business, and its counterpart, the Social Observatory Institute (*Instituto Observatório Social*), which is linked to the Brazilian trade union The Central Union of Workers (CUT—*Central Única dos Trabalhadores*).

3.2 The industry context

3.2.1 A. Rubber production globally and in Brazil

Natural rubber is primarily used in tyre production and constitutes roughly 50 per cent share. The last few years have seen an increase in automobile and tyre demand, particularly in Asia, leading to a robust demand for both synthetic and natural rubber. Consumption patterns of natural rubber continue to increase due to growth of demand in China.

Annual global consumption of natural rubber was 8.2 million metric tonnes in 2004 (Michelin, 2004) and 8.74 million tonnes in 2005 (International Rubber Study Group), with 71 per cent of this being used in the production of tyres (Michelin, 2004) in 2004. Natural rubber production has grown much more slowly, at only 0.4 per cent in 2005, increasing the supply gap and leading to rising prices. The trade in natural rubber decreased in the previous decade primarily due to increasing consumption in the producer countries. Though some growth is expected from Latin America and Africa, their share of world production and trade is likely to remain negligible.

It is estimated that the rubber industry supports roughly 10-12 million people (Gordon, 2004). Tapping of rubber, unlike other crops, is a year-long process and therefore provides year-long employment and income, thereby mitigating rural-urban migration.

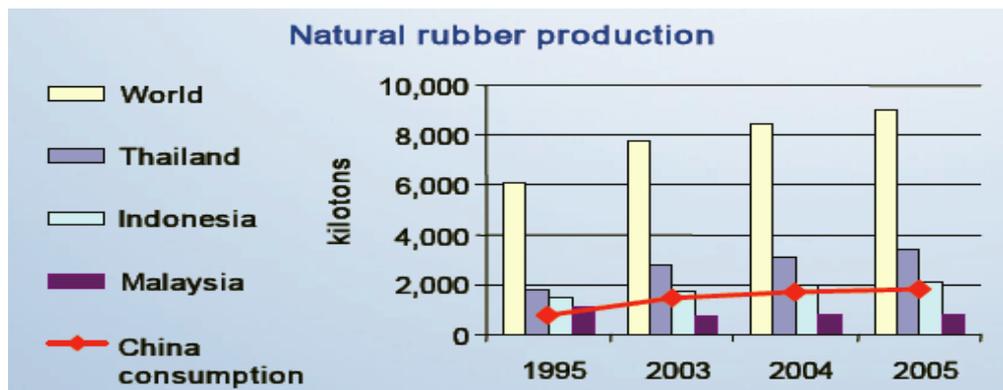
Plantations for the most part are owned by private enterprises. Most rubber is grown in small holdings.¹⁴ Estate plantations have been declining in most large producer countries in East Asia primarily because higher yields from other cash crops present a better alternative. Smallholder farms on average have lower productivity, as they are unable to afford productivity enhancing inputs.

The initial stages of processing are fairly simple and include ‘tapping, collecting latex, cleaning and coagulating, milling the unsmoked rubber, drying the sheets and selling the unsmoked sheets’ (Gordon, 2004). Small holders typically tap their trees daily, the weather permitting.

The main countries for production are Malaysia, Indonesia, Thailand, India, China, Vietnam, Sri Lanka, and Brazil. Plantations in Asia produce on average 2.3 tonnes per hectare/year in industrial plantations due to an advantageous industrial layout and monoculture, and account for 92 per cent of world output. The two largest producers of natural rubber currently are Thailand and Indonesia, as seen in Figure 2.

¹⁴ FAO Asia-Pacific Forestry Sector Outlook Study—The utilization, processing and demand for Rubberwood as a source of rubber supply by Balsiger, Bahdon and Whiteman.

Figure 2: Natural rubber production



Source: International Rubber Study Group (Michelin Factbook 2005).

The rubber plant is native to Brazil, as indicated in its scientific name *Hevea Brasiliensis*. Although Brazil's climate is favourable to the development of this plant, Brazilian production currently accounts for only 1 per cent of the world rubber market. Production in Brazil historically averaged 2 tonnes per hectare/year, the same as in Africa.

Rubber and tyre production plays an important role in the economy of the State of Bahia in Brazil. Bahia was once the country's largest producer of rubber, with an estimated 20,000 hectares devoted to rubber production. Today, most of the rubber trees in the region are in decay. The decline in competitive position is due to the disbursed layout of the plantations, which raises the cost of latex collection, and to the South American Leaf Fungus (*Microcyclus ulei*) which is destroying crops in many regions of Brazil. Brazil's production currently is insufficient to meet its own demand for natural rubber, with only one third of rubber needs supplied domestically.

3.2.2 The tyre industry

The main activities in the value chain for tyres include: sourcing raw materials and energy, production, distribution and marketing, inventory and transportation, re-grooving and re-treading, material recovery, energy recovery, and waste disposal. Some of these activities include a considerable amount of value-added, such as distribution and marketing, while other activities such as sourcing and inventory and transportation provide low value-added.

Tyre companies typically sell two types of tyres—new and used (retreaded) tyres. There are in turn two customers—the OEM (original equipment market, i.e., car and truck manufacturers) and the replacement market which involves direct sales to users. Three out of four tyres sold are replacement tyres (OEM share is 28 per cent (Michelin Factbook, 2005) in the passenger and light truck segment and 14 per cent in heavy trucks in 2003). For most manufacturers, the OEM market is dominant despite having lower profit margins. However, for Michelin the higher profit margin of the replacement market for tyres accounts for 70 per cent of unit sales worldwide (Michelin, 2004). The world market for passenger and light truck segments is approximately a billion tyres annually. (See Table 3 and Figure 3)

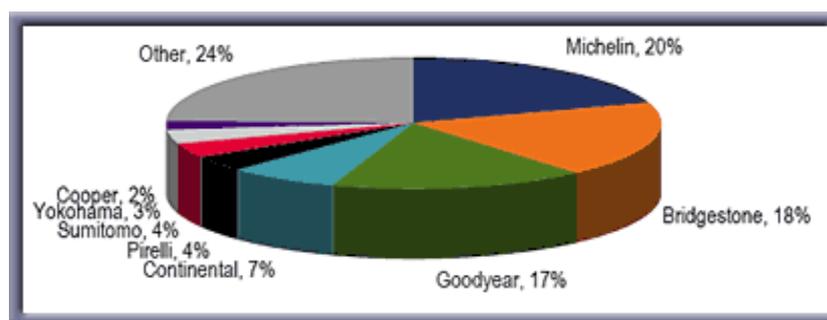
Innovation is a key element of the strategies of most tyre manufacturers. New products involve a great deal of time to develop and bring to market. Manufacturers invest heavily in their product designs to ensure that they meet customer specifications.

Table 3: Top ten tyre producers

Rank	Company	2006	2005
1	Bridgestone Corp.	\$19.7	\$17.4
2	Groupe Michelin	\$19.0	\$18.1
3	Goodyear Tire & Rubber Co.	\$17.8	\$17.3
4	Continental AG	\$7.5	\$7.1
5	Pirelli & Cie SpA	\$5.0	\$4.5
6	Sumitomo Rubber Industries	\$3.5	\$3.5
7	Hankook Tire Co.	\$3.0	\$2.5
7	Yokohama Rubber Co.	\$3.0	\$2.9
9	Cooper Tire & Rubber Co.	\$2.4	\$2.0
10	Kumho Tire Co. Inc.	\$1.8	\$1.7
11	Toyo Tire & Rubber	\$1.7	\$1.6

....Source: Automotive Digest http://www.automotivedigest.com/research/research_results.asp?sigstats_id=1322

Figure 3: Percentage of market share



Source: Automotive Digest http://www.automotivedigest.com/research/research_results.asp?sigstats_id=1036

3.2.3 Michelin world-wide

The Michelin company is the world leader in the tyre industry, with a share that is around 20 per cent of the market, producing about 200 million tyres for sale in 170 countries. The group has 74 production units in 19 countries. The product line includes tyres for passenger and light trucks, trucks, speciality production lines (like aircrafts, earthmovers etc) and travel publications. Michelin has two worldwide brands—Michelin and BF Goodrich—as well as a large number of smaller brands serving other markets (ibid, 2004).

Michelin employs around 126,000 people across the world and paid 238 million Euros in local taxes and levies in 2004 (ibid, 2004). The company's approach is to achieve 'increasingly efficient solutions to meet expectations and aspirations, respecting the natural environment, while achieving economically sound operations'. The Michelin Performance and Responsibility Report 2003-04 states that it wishes to maintain its expertise and strategic presence in the world of rubber cultivation because of the fragility of the rubber production system and the social and economic importance of rubber cultivation in the countries where it is grown. The company owns six plantations world-wide (two in Brazil and four in Nigeria), which supply 3 per cent of Michelin's total rubber needs. It considers natural rubber to be an essential raw material, as it provides year-round employment for six

million people, reducing migration to urban areas. Furthermore, the rubber tree is often planted in deforested areas, thereby providing forest cover and helping to preserve soil (Michelin, 2004). Michelin participates in the 'Rubber Eco Project' launched by the International Rubber Study Group in 2004, aimed at restoring confidence in rubber cultivation.

3.2.4 The Michelin Bahía Plantation

The Michelin Plantation is situated near the coastline of Bahia state in Brazil, as seen in the map (Figure 4). The plantation is located in two municipalities: Igrapiúna and Ituberá, whose estimated populations in 2004 were 16,122 and 25,970 inhabitants, respectively. The plantation is located in an area of environmental importance, inhabited by various species (sometimes rare) of plants, birds, mammals and other wildlife.

Figure 4: The Michelin Bahía Plantation



At the time when Michelin's production facilities were first installed in 1979,¹⁵ the Brazilian government viewed rubber as a strategic product. Companies were obliged to purchase 40 per cent of their rubber needs nationally (this percentage was estimated to

¹⁵ Michelin first opened a trade office in São Paulo, Brazil, in 1927, followed by its first Brazilian factory to produce tyres for trucks and buses in 1979, in Rio de Janeiro state. By 2008, the company has three industrial production sites and two agricultural sites, with a total of over 5,000 employees.

consume all national rubber production at that time). However, national rubber was not of sufficient quality. Therefore, it made sense for the company to buy its own plantation, to ensure a reliable source of quality rubber for the company's needs. In 1984, Michelin acquired the Bahía rubber plantation from Firestone. At that time, the Bahía plantation accounted for 10 per cent of national rubber output, and was strategically important to Michelin. This was despite the fact that the hilly topography of the plantation prohibited the monoculture and industrial layout required to compete with Asian plantations. In contrast, the Michelin plantation in the Brazilian state of Mato Grosso is flat and can be planted in an industrial plantation layout.

In 1997, the government eliminated local content requirements on rubber, allowing companies to import rubber as they wished. With this policy shift, Michelin no longer needed to maintain its own plantation as a source of rubber, and began to rely upon the plantation instead as a crucial laboratory to test new disease-resistant varieties of rubber tree. The profitability of the plantation was no longer a main concern to Michelin.

However, by the late 1990s, serious problems arose for the Bahía rubber plantation. The South American Leaf Blight began attacking the rubber trees on the plantation and throughout the area of Bahía state, where it thrives in the uniquely moist climate (Mato Grosso is much drier). Consequently, although most of the rubber trees were at the end of their productive life, it did not make economic sense to replace the trees, so the company reduced its new investments nearly to zero and Michelin was forced to increase its rubber imports. Annual output dropped to an average of around one tonne per hectare, and the plantation began to lose money.

3.3 The decision to create the POVB

Michelin faced an important decision regarding the future of its rubber plantation in Bahía state. In 2002, the company began an internal process of reflecting upon ways in which to divest from the plantation—how to do this was the key question. Economic considerations were tightly linked with social and environmental issues. Michelin was the largest employer in a radius of 150 kilometres and 600 direct jobs were at risk, plus hundreds of indirect jobs (Michelin, 2006: 26). The region where the POVB is located has one of the lowest rankings on the Human Development Index (HDI) in Brazil, making workers particularly vulnerable to unemployment if the Michelin plantation were shut down, as few other job opportunities exist and skill sets are suited for agricultural work. The location of the plantation is in an environmentally-sensitive area, where efforts are made toward conservation of the few remaining sections of the Atlantic Forest in the region. The company was concerned that unemployment or poor environmental management might result from selling the plantation and would reflect negatively upon its corporate image. Furthermore, the company might have difficulty finding an interested buyer, given the challenges to recuperate the plantation area. Michelin's decision in this case would surely have a significant, and highly visible, impact.

The company decided that its corporate social responsibility (CSR) programme "Performance and Responsibility Michelin" was to be the framework in which to conduct the divestment of the Bahía plantation. Michelin's CSR policy states that its fundamental value guiding business decisions is respect for people—customers and employees, as well as suppliers and their employees. (Michelin 2002: 19). Other key elements of Michelin's CSR strategy include:

- facing major industrial challenges;
- meeting the expectations of customers and employees;
- maintaining quality relationships with partners and the communities in which the Company operates (Michelin, 2004: 35).

Divesting from the Bahía plantation posed a challenge of how to respect this fundamental value. Michelin's top executives required a solution that would relieve the company of the financial burden of this unproductive plantation, but in a way that did not eliminate the plantation, did not lead to environmental degradation and would preserve jobs.

The main options considered included:

1. Land reform—This option involved handing over the plantation to the government for redistribution through the national land reform programme, which risked deleterious impacts upon the fragile natural environment surrounding the plantation site if the new small land holders did not receive adequate guidance on sustainable agricultural techniques.
2. Sell the plantation—This option involved giving up any influence the company might have over the future of the plantation and its land, with possible adverse economic or environmental consequences. The company was concerned to preserve the natural forest (called the *Mata Atlântica*) surrounding the plantation and contacted several NGOs and foundations in this regard. However, if the plot were sold to an environmental group, then rubber production would likely be terminated in favour of allowing the re-growth of the Atlantic forest, but could also result in job loss for employees and reduced revenues for the local municipalities where the plantation is based. They also considered the alternative to sell the plantation to a business person interested in rubber production, but this option was also discarded. The new owner would continue rubber production and thereby retain jobs and municipal revenues, but Michelin was uncertain that its environmental and social values would be maintained and could not guarantee that the delicate environmental balance in the region would be respected.
3. Create rubber farms to be purchased by Michelin employees—This option involved breaking the plantation into parcels, to be sold to Michelin employees who could then source to Michelin and other buyers. This could be done in a way that allowed Michelin to continue to support an environmentally and socially sensitive approach to rubber production in *Bahía*.

In March 2003, Michelin chose option 3 as the best way to ensure continued latex production, retain jobs of a high standard, ensure that the culture and values of the company would be respected and guarantee preservation of the natural environment inside and around the plantation (communication from the company). With this decision, the POVB was born.

At that time, Michelin did not imagine that the project would unfold into various new lines of action, as a result of the consultation with various stakeholders. Although the POVB was not developed together with the trade union or any other stakeholders, the company reported that the results of its internal decision-making process were shared through a consultation phase, before launching the project. The Trade Union of Rural Workers of CamAmu and Igrapiúna (STR CamAmu and Igrapiúna) was consulted and supported the POVB solution. Only after having received the views and approval of the trade union was the project launched in a direction that was shared by all stakeholders involved.

3.3.1 Consultations prior to launching the POVB

In 2003, Michelin Brazil launched a broad communication plan regarding the new project, which at that time consisted of three pillars:

- the transfer of the plantation to the independent farms, with a shift toward more diversified planting to include cocoa, based upon a business plan that showed a clear need to include other plant cultures after the rubber plant begins producing in its sixth or seventh year of life;
- the creation of a nature reserve, to protect parts of the Atlantic forest surrounding the plantation; and
- continued scientific research to combat the *Microcyclus* fungus.

The Trade Union of Rural Workers of CamAmu and Igrapiúna (hereinafter Trade union), plantation employees, the municipal authorities, the government, the official state institutions responsible for areas related to this issue (as listed in Table 4) and the World Business Council for Sustainable Development (WBCSD) were consulted in this phase. Suggestions received from stakeholders helped to refine the project and include new elements, such as: a family agriculture programme; improvements to be made in a workers' housing unit (*Vila Canário*); construction of a new housing project in the adjacent municipality of Igrapiúna; an agreement with the company Ambial to install a modern factory for processing hearts of palm; construction of ecotourism infrastructure at the large waterfall located on the plantation premises (known as *Pancada Grande*); a project to renew parts of the Atlantic forest (the *Mata Atlântica*) around the plantation; and establishment of a Centre for the Study of Biodiversity.

The Trade Union expressed special interest in the family agriculture programme, as well as the diversified planting of cocoa trees with the rubber trees, as this would help to maintain current employment and generate new rural jobs. The company considers that trade union participation was fundamental to bring the idea of family agriculture to fruition within the POVB project.

Throughout the project development phase, a series of meetings were held with employees. All questions and suggestions were noted and delivered to the POVB project team for consideration.

No local employers' association exists; therefore, input from employers was provided by the Brazilian Business Council for Sustainable Development (*O Conselho Empresarial Brasileiro para o Desenvolvimento Sustentável*), an arm of the WBCSD.

3.3.2 The partnership to develop POVB

The decision to formulate the POVB strategy, within the framework of a CSR initiative, involved the design of an unprecedented business strategy for Michelin. Its success hinged upon active consultation with the main stakeholders: workers and the trade union representatives; former employees who became farm owners; government officials at the local, state and national levels; other companies and foundations in the region; and NGOs engaged in social activities in the region.

The President of Michelin came with a delegation of high-level staff to support the consultative process with Brazilian counterparts in the design of the POVB. Meetings were

arranged with local counterparts, state government officials and even included a meeting with the President of the Republic, Luiz Inácio Lula da Silva.¹⁶

A team was formed to further develop this new project. The team consisted of representatives of the local trade union, representatives of State agencies such as the Brazilian Environmental Institute (IBAMA, *o Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*) and mayors of the local municipalities.

Government participation in the dialogue process takes place at various levels. At the national level, this has included consultations with the Brazilian Northeast Development Bank (BNB, *Banco do Nordeste do Brasil*) and Brazilian State agencies such as IBAMA. At the regional level, the *Bahía* State authorities involved in dialogue include the Secretary of Agriculture (*Secretaria de Agricultura*), the Secretary of Environment and Hydraulic Resources (*Secretaria do Meio-Ambiente e Recursos Hídricos*), the Agricultural Development Company of *Bahía* State (EBDA—*Empresa Baiana de Desenvolvimento Agrícola*) and the Executive Commission of the Cocoa Cultivation Plan (CEPLAC - *Comissão Executiva do Plano da Lavoura Cacaueira*). At the local level, this has involved close communication with the mayor's office and Municipal Councils in the two towns of Igrapiúna and Ituberá where the plantation is based. NGOs and foundations which operate in the local region of *Bahía* state have also been included and actively collaborate in this initiative.

The Michelin staff who participate actively on the team include: the legal department, as the legal aspects of this project were very sensitive; the communications department, to ensure popular support for the initiative to go forward; and various technical departments, since technical assistance was vital to the survival of the small farms getting started.

A "Protocol of Intentions" for the POVB was created and signed between all parties, which was part of the approach toward transparent communication with the main stakeholders, creating a spirit of trust between them. As part of Michelin's commitment to broad-based consultation and participation, a Support Committee was established in the Protocol to improve the flow of information, development and implementation, and to provide institutional support. Table 4 lists the members of the Support Committee.

Table 4: Institutional partnerships in the support committee of the POVB project

Public Ministry, of the State of <i>Bahía</i>
Secretary of the Environment and Water Resources (SEMARH), of the State of <i>Bahía</i>
Secretary to Combat Poverty and Social Inequalities (SECOMP), of the State of <i>Bahía</i>
Secretary of Industry, Trade and Mining (SICM), of the State of <i>Bahía</i>
Secretary of Agriculture, Irrigation and Agrarian Reform (SEAGRI) of the State of <i>Bahía</i>
Coordination of Agrarian Development (CDA)
Municipal Government of Igrapiúna
Municipal Government of Ituberá
Brazilian Institute of the Environment and of Natural Renewable Resources (IBAMA)

¹⁶ The company did not arrange any meetings between the President of Michelin and trade unions or employers' organizations because they did not consider this necessary. "Although we had been supported fully by headquarters, the solution emerged locally. We already had the credibility we needed with the local representatives." (Communication from company).

3.4 The challenges involved in bringing POVB to life

Michelin's two central commitments in the POVB included extensively supporting the new small holders; and ensuring that the former Michelin employees remained employed and that their rights were fully respected, including the rights of freedom of association and collective bargaining. These two commitments are consistent with Michelin's stated values: "[w]hen industrial restructuring proves to be absolutely necessary we systematically deploy the appropriate resources to resolve the issue of our employees' professional futures. All employees are offered solutions within the Group or individual support if they prefer to continue their careers outside the Company or if separation becomes inevitable." (Michelin 2005-2006, p. 35) In this case, the former employees became either suppliers or employees in the supply chain, reinforcing the basis for Michelin to retain a high level of engagement. "With regard to suppliers, Michelin plays an important role by having established vendor responsible behaviour and product quality requirements." (Ibid, p. 45)

A timeline of four years was established to set up the POVB and make it operational. Designing a viable strategy for the POVB entailed deep changes at all levels: the layout of the plantation and the productive methods used; the management and ownership structure; the human resource policies used; and the rubber buying practices. The challenges involved for each are discussed in further detail below.

3.4.1 *Creating viable small holdings*

The first challenge involved making the land commercially competitive again. Key elements included moving from one single plantation to viable independent farms so that producers could utilize labour and land more intensively by increasing the concentration of rubber trees. Breaking up the plantation made this possible, as each farmer was able to focus upon a specific plot of land, making it more manageable.

A feasibility study was undertaken, which set a target income for each small holder of US\$30,000. [For comparison, the minimum wage is R\$380 per month, or slightly above US\$300 at the time of writing this study]. Based on findings, the plantation was parcelled into twelve 400 hectare plots of land, each of which would have 200 hectares covered by rubber trees. The remaining land was retained by Michelin for its R&D activities related to combating leaf blight.

The study also examined how to diversify production, to protect the income of small landholders against future fungus attacks. Michelin developed the Agriculture and Forest System (SAF, *Sistema de Agricultura e Floresta*) of interspersing banana trees amongst the rubber trees to provide shade for the cultivation of cocoa trees, thereby diversifying the crops and providing bananas for the farmers to either sell or use for domestic consumption. The productive cycle and development of cacao and rubber are very complementary. The rubber trees, planted in double lines with three metres between each tree and 17 metres between the lines, take eight years to grow and begin production. The banana trees grow and produce their crop in twelve months and cocoa yields its first fruit in four years, providing income for the farmers while they wait for the rubber trees to become productive. When all plants become productive, the harvests of cocoa and rubber take place during different seasons, generating employment for workers and income for farm owners throughout the year. Farms plant an average of 400 rubber trees and 900 cacao trees for each hectare of land, with an estimated additional income generating potential of between R\$ 6,000 and R\$ 8,000 per year for the farmers (Michelin 2006: 37), which would place the family earnings above the equivalent of an annual minimum wage. The SAF model of crop diversification has become a component of the National Programme to Strengthen Family Agriculture (PRONAF, *Programa Nacional de Fortalecimento da Agricultura Familiar*).

3.4.2 *Providing financial and technical support for the new owners*

Once the basic project design was prepared, it was presented to those staff members who were more likely willing and able to become an owner/manager of a parcel, such as technicians, executives, managers and section bosses. Michelin made clear, however, that no one would be forced to accept this proposal or dismissed from their jobs if they refused to participate.

Nineteen employees expressed interest. Candidates were interviewed by external consultants specialized in human resources who assessed them on various aspects, including their ability to manage an enterprise, leadership skills, technical know-how, practical experience, confidence in the Michelin company, ability to work in a team, social skills, willingness to stay in the area, stable financial status, dynamic personality and age.

Twelve people were selected. Five continued working for Michelin and the other seven people left the company to dedicate 100 per cent of their time to the new independent farms. Those employees that ceased their employment with Michelin received their statutorily mandated severance packages (*o Fundo de Garantia*), paid by Michelin in accordance with government labour law, which served as their start-up capital to manage their new mini-plantation. Those who retained their employment with Michelin has their workload reduced by one day per week, in order to have adequate time available to manage their new business. The new owners reported difficulties in obtaining credit to purchase the land, and needed support to reduce their exposure to risk.

The POVB provided 2.7 million Euros to finance the acquisition of land, with an eight-year payback period, adjusted in line with the anticipated return from each farm. It also negotiated a special credit line of R\$25 million over ten years at 8.75 per cent interest rate with the BNB to support the financing of the new planting required, to be repaid over 20 years (data provided by Michelin). BNB also developed a system for financing crop diversification.

The POVB also formed institutional partnerships to improve family farming conditions more broadly, by increasing access to both financing and technical assistance. This was in fulfillment of the promise by Michelin's President Edouard Michelin to Brazil's President Lula that the company would support the country's National Family Agriculture Programme (PRONAF). The Family Agriculture Programme in Igrapiúna (PAF—*Programa de Agricultura Familiar*) was launched with the signing of a protocol between the Bahía State Enterprise for Agricultural Development, the Northeast Development Bank and the Nucleus of Assistance to Family Agriculture (NAAF—*Núcleo de Assistência á Agricultura Familiar*). When PAF started in 2005, the programme involved 50 farmers. By August 2006, the programme had expanded to include three towns and 500 farmers. By June 2008, the programme included 59 towns and over 1,200 families were involved.

In its financing activities, BNB typically provides loans to finance planting, with subsidized interest rates ranging from 1 per cent to 6 per cent annually. The average debt is R\$10,000 per family, and payments begin in the fifth year when the cocoa will yield fruit, with the loan to be paid back within twelve years. Presently, 40 per cent of loans from BNB for planting go to women.

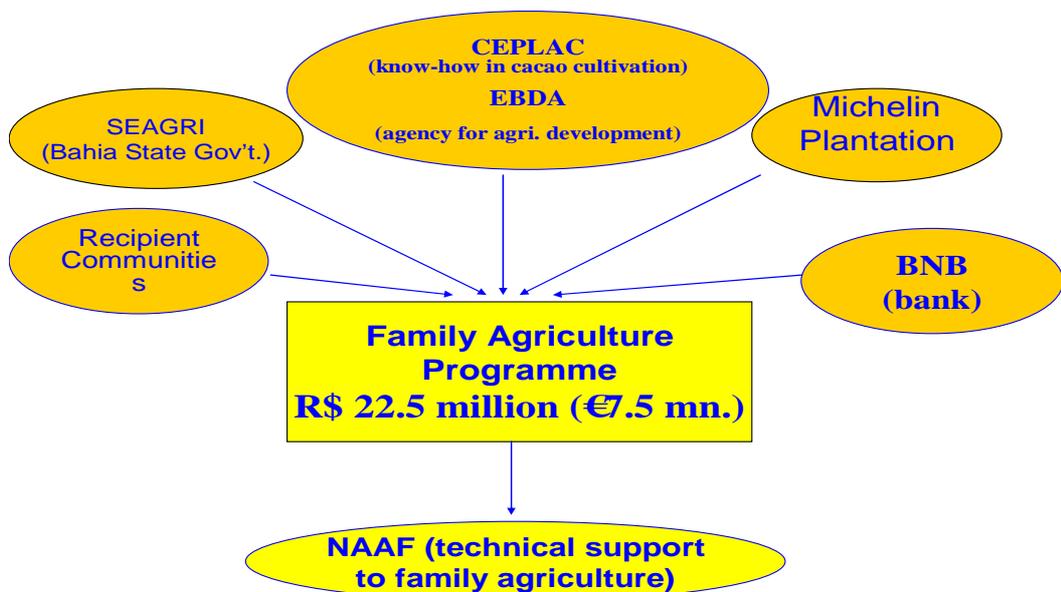
In collaboration with these initiatives, Michelin provides technical assistance and training for farmers, as well as rubber tree and cacao seedlings to be planted. The company estimates that 1,200 workdays per year (contributed by one engineer and five technical staff) are provided free of charge to PAF. An EBDA official noted that Michelin's technical support, which complements the technical efforts provided by EBDA staff, has been very positive. Due to their high workload, EBDA staff often lack time to provide

adequate technical support required by the farmers involved in PAF. Yet, this technical support is a key element to the success of the PAF programme. In the past, when farmers encountered problems and had no technical guidance on how to respond, they would frequently end up falling into debt. Hence, Michelin's technical assistance has been very important to the success of small farmers in the PAF programme.

Michelin provided rubber seedlings from its Nursery at cost for the independent farms, as well as for the Family Agriculture Programme. Similarly, cocoa trees are supplied at cost by the Executive Commission for Cacao Agriculture (CEPLAC, *A Comissão Executiva do Plano da Lavoura Cacaueira*) of the Federal government, a partner in the POV B (Michelin 2006: 37). Michelin also provides a stable market to these producers, by guaranteeing to purchase the latex produced by the families participating in PAF. On the other hand, the family producers are free to sell their latex to any buyer and are under no obligation to sell to Michelin

Figure 5 illustrates the public-private partnerships at the state-level and the local municipal-level which the POV B has created in order to provide support to the family agriculture programme, which in turn provides support the independent farmers and others in the community.

Figure 5: Network of collaborators for the POV B support to NAAF



Source: Michelin 2006

3.4.3 Combating the South American leaf blight

The next challenge for the POV B was to overcome the blight which had decimated yields and would continue to threaten the livelihoods of the independent farmers. The Brazilian Amazon is home to the microcyclo-ulei, known as the South American Leaf Blight, a parasite that attacks the leaves of the rubber tree. An epidemic of this fungus has nearly eliminated rubber production in Bahía.

The existence of this fungus and the need to experiment with new varieties and forms of cultivation *in situ* now make the Bahía plantation a significant laboratory for the development of disease-resistant strains. Since 1992, Michelin has been collaborating with CIRAD, a French agricultural research centre working for international development, (CIRAD, *Centre de Coopération Internationale en Recherche Agronomique pour le Développement*), specializing in tropical and sub-tropical regions, to obtain rubber tree

varieties that are resistant to the fungus and also maintain high productivity. Michelin is also a member of the International Rubber Research Board (IRRB).

The next challenge for the POVB was to overcome the blight which had decimated yields and would continue to threaten the livelihoods of the independent farmers. The Brazilian Amazon is home to the *microcyclos-ulei*, known as the South American Leaf Blight, a parasite that attacks the leaves of the rubber tree. An epidemic of this fungus has nearly eliminated rubber production in Bahía.

Michelin has developed a genetic engineering research project called the CMB (Cirade Michelin Bahía) Project in 2005 to study the epidemiology of the fungus and create a resistant species. The Michelin Laboratory is the only place in Brazil where the *microcyclos-ulei* is studied, with eight researchers working with an annual budget of one million dollars. The Michelin Laboratory was recently recognized as the most advanced research centre worldwide related to study of the *microcyclos-ulei*.

After 15 years of research, 14 varieties have been selected for longer-term study and several have been recommended for planting in the states of Bahía and Espírito Santo. In December of 2005, 13 of the 14 selected varieties were sent to the facilities of CIRAD to be kept for a one-year quarantine period before being planted in research fields in Asia and Africa. In order to develop more active research partnerships and technical exchanges with Asian and African scientists, Michelin has presented its research findings in international fora and in 2004, hosted the first international Congress on *microcyclos-ulei*, joining researchers from South America, Africa and Asia to share research findings. Michelin also provides research grants, logistical support and scholarships to conduct research on this fungus. Michelin's aim is to transfer this know-how and the clones to Asian plantations, so they will be able to resist the disease more effectively if it migrates there.

As part of the scientific research, a grafting process is carried out so that the research material for more resistant varieties can be cloned to produce seedlings. The Michelin Pau Brazil Nursery is one of the largest in Brazil—it was reported that an estimated 850,000 rubber seedlings would be grafted in 2006. The POVB supplies the twelve 200-hectare farms with seedlings, selling to them at cost price. The grafting method is also taught to interested companies, including competitors, in order to increase rubber production as well as contribute to social development of the region.

3.4.4 *Reducing risk and pooling resources through Cooperverde*

To reduce risk and pool resources, the independent producers formed a cooperative—*Cooperverde*—consisting of 23 people (the above-mentioned producers and their spouses). The formation of the cooperative was conceived as part of the POVB plan and to this end, the company hired an external institution to provide training in cooperativism to the new Independent Farm owners. Cooperatives in Brazil benefit from access to low-interest loans from the banks. Furthermore, as cooperatives have no income there are no taxes to be paid; each independent producer pays only individual income tax. And the cooperative addresses collectively many of the issues common to all of the independent farmers, such as road maintenance and obtaining a license for cutting and planting rubber trees. In addition, the new farm owners decided that the cooperative would handle areas that require specialised knowledge, such as hiring firms to conduct the accounting and payment of workers, as well as being responsible for dialogue with the local trade unions.

The cooperative joins all production and negotiates the sale on behalf of all members. Revenues belong to the cooperative members, although three percent is taken out to cover the cooperative's administrative expenses such as rent. *Cooperverde* does not hold an exclusive supplier contract with Michelin—rather, they have a special purchasing

agreement in which they give each other preference. A negotiated price exists with Michelin, which the independent farmers confirmed matches the market price.

As part of the agreement, *Cooperverde* must inform Michelin regarding the amount of rubber they intend to sell at the beginning of the year, and each independent producer prepares a business plan which forecasts production for the year.

At present, *Cooperverde* supplies 100 per cent of production to Michelin. *Cooperverde* is allowed to sell to other buyers, but many cooperative members prefer to sell to Michelin because its payments are guaranteed, which is not always the case with other buyers. And members appreciate other advantages of dealing with Michelin such as bank loans on favorable terms. If either side decides to stop trading, they must advise the other side in advance.

None of the independent owners had experience with cooperatives, so they required training, especially *Cooperverde's* accountant who needed to learn about special requirements pertaining to cooperatives.

3.4.5 *Supporting the new owners to run a business*

Shifting from a plantation owned and operated by a multinational corporation to twelve independently owned and managed farms operating together in a cooperative posed another layer of challenges and required a new management model.

The twelve new owners had to adjust to being responsible for overseeing all aspects of production, including managing the land and overseeing its recuperation to productive levels, replanting new rubber species still in the testing stage, and learning how to raise additional crops and managing a new multi-cropping approach. A team from Michelin provided the basic information required about the plantation and production costs and other relevant information and helped the new owners to develop a business plan, which each producer has adapted to his own strategic vision.

The new owners also became responsible for the duties of an employer: issuing employment contracts, making regular salary payments and negotiating and discussing issues with the local trade union representatives. Michelin provided the following support to prepare these former employees to become supervisors and employers of the new independent farms:

- Skills identification: the choice of the 12 new owners (all former Michelin employees) was based upon interviews and evaluation that they possessed the appropriate skills to operate an independent farm;
- Training programme: Michelin is developing a new training programme, financed by Michelin, for employees of the independent farms;
- Technical training: Training for rubber tappers is offered by Michelin;
- Research: All technical assistance required is provided by the Research Centre; and
- Financial Support: This is provided by Michelin when the need arises, for example, if there is a delay in receiving loans from the bank.

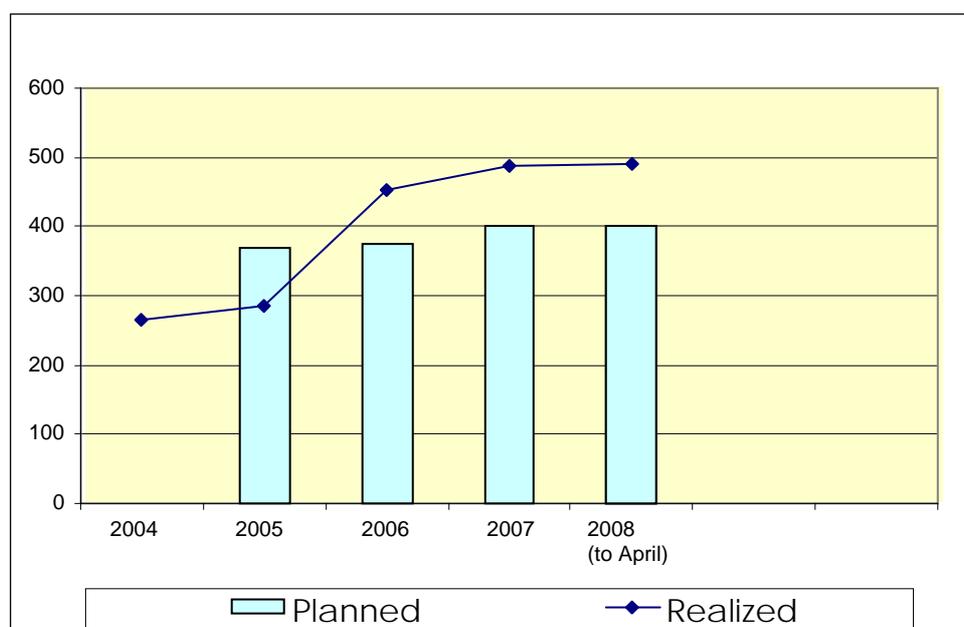
When external skills are required, the Cooperative *Cooperverde* identifies and hires the necessary specialist (such as a lawyer, human resources specialist, etc).

3.4.6 Protecting the rights of Michelin workers during the transfer of ownership

Michelin employed 630 workers prior to the implementation of the POVB. Significantly, the change in ownership at the end of 2004, when there were approximately 270 employees did not involve any dismissals. Each independent owner absorbed around 20 people, and new practices such as intensification of planting and multi-cropping increased labour requirements so that most farms doubled their labour force to an average of 40 workers per farm. For example, the workforce of one farm grew from 18 employees in 2004 to 38 in August 2006. The independent producers together employ approximately 500 staff as of April 2008.

In addition, Michelin has retained around 1,000 hectares of rubber trees for research and family agriculture. As seen in the table below, job creation has been steady since POVB's creation, leveling off in 2008 at approximately 500 employees (in addition, 100 sub-contractors were also hired at that time). It remains to see if growth will continue or if employment potential of the current size of the POVB farms has nearly reached its saturation. It is worth noting that the number of women employees has increased overall by 60 per cent with the introduction of the cultivation of cacao.

Figure 6: Employment generated in transition to independent farms, 2004-2008



Both workers and the new owner-producers had been concerned that a change in ownership might alter the terms and conditions of their employment. Michelin ensured that the transfer of employees to the payroll of the independent farms was prepared in consultation with the local trade union.

As one of the conditions specified in the transfer of ownership, Michelin required the independent farmers to guarantee they would maintain the same terms and conditions of employment for workers as they had enjoyed with Michelin. This includes trade union representation, as workers were already organized under Michelin ownership. The new farm owners have committed to engage in collective bargaining each November to set wage agreements together, to ensure equitable and equivalent wage rates across the different independent farms.

A supervisor on one of the independent farms (who had previously worked with Michelin for 26 years) described the work of rubber tappers under the new ownership structure. Each rubber tapper works a plot of approximately three hectares from Monday to Saturday. Working hours are from 06:00 am to 14:20, with an hour for lunch, totaling 7 hours and 20 minutes per day of work. The Supervisor checks the rubber tapper's work each month, and uses the evaluation as the criteria for awarding quality and productivity bonuses to employees.

A joint management structure consisting of the independent farms, the cooperative and *Michelin do Brasil* was established for overseeing social benefits for employees working with different employers in the same plantation area. In November each year, the employers (both Michelin and Cooperverde representing owners of the independent farms) and workers (represented by a committee of workers and the local trade union representative) meet to negotiate salaries, benefits and working conditions (including security and health programmes) for workers. The committee of workers' representatives is composed of employees from Michelin and the 12 independent farms, elected directly by the trade union and workers themselves.

The independent producers reported that employees' wages were unchanged with the shift from Michelin to the POVB and that negotiations are assisted by Michelin to ensure that employees feel these discussions are fair. At the time of interviews, rubber tappers receive a fixed wage and a quality and productivity bonus, which together total around R\$450,00, equal to equal to approximately 120 per cent of the minimum wage.

3.4.7 Maximizing the positive impact on the workers' families and the community

The POVB has become involved with various public-private partnerships to promote social development in the local communities surrounding the plantation. These projects include the following areas:

Support to the municipal primary school: The POVB established two municipal primary schools on the plantation for children of employees, to ensure they attend school. Children attending secondary school travel by bus to the municipal school outside the plantation.

Support to a health clinic: The POVB established a family health clinic on the plantation in 2005. It is staffed by one general practitioner, one nurse and one nursing assistant and is open five days per week, from 07:30 to 16:30. A dentist is also available on a more restricted schedule. The municipality of Igrapiúna pays the dentist's salary and Michelin has provided the infrastructure and equipment required for the dental work. Michelin donated the building housing the clinic. The general practitioner is employed by the Municipal Council, while the other staff are hired by Michelin. A basic pharmacy distributes free medicine and care includes laboratory exams (sent to a laboratory for analysis), dressing of wounds, gynaecological examinations, monitoring of pregnancies, tests for newborns and children's vaccinations. Patients needing more advanced care are transported to a larger medical facility.

The POVB set as a key objective to raise the population's awareness about preventative health measures. A meeting room in the clinic is used to provide information and hold discussion groups. During vaccination campaigns, nurses will sometimes visit people's residences. Home visits are conducted to register new families; at the time of the interviews, 375 families were on the clinic's register. Some employees on the independent farms have been trained to conduct simple check-ups on fellow employees.

Improving infrastructure for the region: The POVB arranged for the electrical supply for the plantation and surrounding area to be renewed and transferred to the Bahía Electricity Company, for which Michelin bore part of the costs. In addition, POVB installed a station for treatment of domestic water. It also created a partnership with a private mobile telephone company to introduce mobile telecommunications for better quality and broader access within the plantation and within the local municipality of Igrapiúna. Effluent treatment facilities were also installed for employees of Michelin and Independent Farms.

Subsidizing costs of low-income housing: To meet growing housing needs, the POVB worked together with the local municipality to build 264 low-income dwellings for families with an income of R\$450 to R\$600. Of the new homeowners, 60 per cent are employees of Michelin and the independent farms and 40 per cent were identified by the municipal government. A primary school and day care centre, shops, a leisure centre, and a large park will also be built as part of the Nova Igrapiúna Project. Michelin donated 18 hectares of land. The *Caixa Econômica Federal*, a large federal bank which finances housing, carried out the initial evaluation of applicants to be registered. To avoid creating a financial burden, the owners contribute at most 20 per cent of their monthly income toward mortgage payments and Michelin covers the remainder. The project includes skills development for construction workers engaged in the housing project, and for homeowners and their families concerning income-generating activities such as the production and sale of handicrafts. Trade union representatives indicated that workers felt the monthly payment of R\$100 per month is excessively high when their net base salary is little more than R\$400 per month. Michelin replied that the value of monthly house payments for employees of Michelin and the Independent Farms at Nova Igrapiúna was determined by the *Caixa Econômica Federal Bank*, in accordance with the buyer's salary. In order to minimize the cost of monthly payments, the company indicated that the bank's calculations did not include the value of the land donated by Michelin, the infrastructure (such as basic sanitation, effluent treatment, landscaping and urban planning which were paid by Michelin) and the construction blocks (for construction, instead of bricks, which were made by the Municipality of Nova Igrapiúna in partnership with Michelin).

Breakfast Meetings with Employees: Efforts to foster good relationships with employees include a monthly breakfast meeting between a randomly-selected group of ten workers, management and the POVB Director in order to discuss areas of concern and identify solutions. Employees have raised complaints during these discussions about working conditions on the farms. They have also made requests, such as jobs for their wives on the farms. Three examples of issues raised and solutions provided by management include:

1. Rubber Plant employees who live in the nearby town and work on the night shift had difficulty using public transportation and resorted instead to traveling by bicycle which could be quite dangerous returning home on the narrow, poorly lit local road. Michelin placed at their disposal a transportation system, using vans, to meet their needs;
2. An area used for cleaning rubber drying carts had no roofing to protect employees from the rain. A roof was provided over this area; and
3. Workers residing in Village 3 reported the drinking water had an unpleasant taste. Michelin had a water treatment system installed and the quality of the water continues to be monitored by an external laboratory.

The Rural Family House Project: Starting in 2007, this project benefits the children of Michelin employees, Independent Farm employees and also farming families in the region, as well as the Mid-Sizes Farmers and Family Farmers of the region. The Rural Family House is a rural training centre that provides human and vocation training for young people and contributes to the sustainability of the families and the development of their communities. Children of family farmers between 16 to 21 years of age who have completed elementary school education, both boys and girls, are eligible to participate in the

programme. An alternative pedagogical approach is used, whereby youngsters receive one week of theoretical training and practice in the Rural Family House, alternating with two weeks in their own community, living with their family and applying their recently acquired knowledge. Training lasts three years, involving a total of around 2,700 hours of instruction and practical experience. By the end of 2009, 90 students are projected to have completed to course.

3.4.8 *Environmental protection*

The Johannesburg World Summit in 2002 recognized the interdependent and mutually reinforcing nature of the three key components of sustainable development – social and economic development and environmental protection

(see http://www.un.org/esa/sustdev/documents/WSSD_POI_PD/English/POI_PD.htm).

The Atlantic forest comprises the second largest group of continuous forests in South America, after the Amazon, and one of the most threatened forests on earth. It is estimated that only 90,000 of the original 1.3 million square kilometres of forest cover remains (Michelin, 2006). Only between five and six per cent of the original Atlantic Forest remains in the states of Bahía and Espírito Santo, where the Michelin plantation is located. Due to the high levels of biodiversity, these forests are priority conservation areas within the biome. An important part of the POVB involves support for environmental awareness and protection of the delicate environmental area. Research activities include collaboration with universities, as well as study grants for students to conduct research in the region. There is also a Centre for Biodiversity Studies which supports research activities conducted by Michelin staff as well as visiting researchers. The Centre for Biodiversity studies organizes and manages all of the reserve projects including the reforestation programme, environmental education, and reserve protection.

Michelin's System of Environmental Management on its plantation in Bahía includes an Environmental Policy and the company obtained ISO 14001 certification in 2004. As part of the POVB, Michelin established an Ecological Reserve composed of three blocks of around 1,500 hectares of Atlantic forest. The company aims to create an ecological corridor over the next 20 years by enriching another block of 1,500 hectares, with native plant species between the rubber trees to form eventually a single group that will protect the plants, mammals and bird species in the area, some of which are endangered. Michelin has hired four forest wardens to guard the plantation sites against illegal felling of trees.

All contracts with the independent farmers stipulated the preservation of the lowlands and existing wetland forests in the new farms, a total of a thousand hectares, raised to the level of Areas of Permanent Protection (APPs) (Michelin, 2006:30).¹⁷ While few species in the APPs are of conservation concern, their purpose is to protect the watershed and quality of water and provide possible transit routes for wildlife through an otherwise agricultural landscape. The following table shows the relation between the total area dedicated to the ecological forest and the area under cultivation in the rubber farms.

¹⁷ The preservation of APPs is required by very specific federal legislation, therefore, Michelin stipulates that participants in the POVB programme comply with federal environmental laws.

Table 5: Ouro Verde Bahia Project Area

Territory	Hectare
Ecological Corridor	2,963.5
PMB (except Ecological Corridor)	1,754.0
Mid-size farms	4,962.0
Total	9,679.5

Source: Michelin. 2006.

When discussing the POVB with state officials, the issue of environmental sustainability was raised. One state official from the Department of Environment stressed that even companies aiming to preserve the environment also contribute to its degradation—therefore, it is important to develop environmental awareness: “The environmental process will only be successful if there is education”. For this reason, the POVB was seen as a positive example because people were educated about environmental awareness and sustainability throughout the process.

The largest waterfall on the Brazilian coast (61 metres high, called “Big Break Waterfall”, *A Cachoeira da Pancada Grande*) is located on Michelin property. A hydroelectric dam had existed previously at the site of the waterfall. Michelin removed the equipment and transformed the site into the Big Blow Waterfall Park in 2003, creating the Michelin Centre of Environmental Reference and providing bridges, observatory points, picnic facilities and information about the characteristics, natural species and bio-diversity of the area. Michelin provides training to its employees on conservation and supports environmental education for the public, particularly school children.

3.5 Outcomes of POVB to date

The POVB project has moved forward, with all stakeholders assuming new autonomy and responsibilities. The newly appointed Director of the Bahia plantation in 2007 has continued Michelin’s commitment to the PVOB.

Michelin emphasizes that the essence of this CSR project is to transfer responsibilities gradually to key stakeholders. In Michelin’s view, a decentralized format is the basis for sustainability of the project. Therefore, the POVB has no overall management. Instead, each stakeholder has a set of responsibilities. Michelin still coordinates the project, in order to ensure 100 per cent transfer of responsibilities takes place, for example:

1. The economic pillar: the Ouro Verde Cooperative has been strengthened and new rubber tree varieties and cacao are being planted, as foreseen in the business plan developed by Michelin. As of 2007, the independent farm owners retain majority capital invested in the plantation.
2. The social pillar: the new housing project in the municipality of Igrapiúna was developed in cooperation with the mayor’s office, and the school and health centre in the community are administered by the municipality.
3. The environmental pillar: Michelin has provided the physical facilities to support research activities conducted on the plantation, yet the universities involved are entirely autonomous in the research methodology and projects which they develop.

This decentralized format created space to receive new ideas and the project was implemented gradually as contacts were made, communication was built and new ideas unfolded. This open-ended process helped to avoid mistakes and enabled the project to include new initiatives as it evolved over time.

Michelin attributes the success achieved thus far to transparent communication with all stakeholders, as well as the establishment of a Protocol of intentions for the POVB project, together with the State government, Municipal government, environmental entities and the Public Ministry, which enriched the POVB's development by contributing new resources and ideas.

3.5.1 *Views of the consultation process*

The Government's views of the consultation process have been quite positive. Officials interviewed described the POVB as a high priority project for the government of the State of Bahía, and emphasized that the process of consultation and participation of various stakeholders—at Federal, State and Municipal levels—had been fundamental to the project's evolution and development. Officials appreciated that the President of Michelin personally came from France to consult with the State and Federal government.

These officials acknowledged that the process of broad-based consultation, which must keep all the interested parties informed and working together, required a major commitment on the part of Michelin; and believed that others also should help to support the process. For its part, government at various levels committed to aid the consultation process and project development by observing, evaluating, following-up and authorizing project activities.

They considered the process of consultation to be mutually beneficial. On the company side, when the government acted as a partner, the project acquired more credibility and visibility, encouraging Michelin to go beyond its economic role to impact socially upon the community. For its part, government participation at various levels helped it to become more comfortable working with the private sector and improved its capacity to do so. Officials valued the fact that the POVB is in the hands of the private sector as it gives it a sharp focus, which is crucial for its sustainability; and they felt comfortable working with Michelin. At the same time, they acknowledged that, more generally, the process of adjusting to working with the private sector needs to develop further to become fully efficient. Michelin's dialogue and engagement with government at various levels concerning POVB was very strong, and is a very good example of how the guidance in the MNE Declaration concerning dialogue with government can be put into practice.

Concerning engagement with workers, the Trade Union of Rural Workers of CamAmu and Igrapiúna raised concerns about the lack of consultation involving them or their representatives during the creation and implementation of the POVB (DIEESE, 2007: 7). Michelin took the decision to divest itself of the Bahía plantation based upon an internal review of options, and only afterwards held discussions with employees. Workers received a communication that the plantation would be sold to the independent farms, and this would be undertaken without any reduction of employment, rights or benefits to workers. Consultation was limited to who would be the owners of the new independent farms.

The workers' observations highlights one of the main lessons raised in this study: process is important. An essential component of social dialogue is demonstrating respect and appreciation. The perceived lack of dialogue with a key stakeholder can strongly shape perceptions—when people feel they are not respected and appreciated they are less likely to value company social responsibility efforts, even quite substantial efforts. Diminished appreciation affects the quality of outcomes, in particular the level of trust cultivated and

the ability to work together in the future. Although social dialogue takes more time, and may be perceived as a distraction from the primary objective of an initiative, the payoff is a stronger foundation for the project and a stronger appreciation from all sides.

Dialogue is also important for managing expectations. It may be that the workers had excessively high expectations of what Michelin, as a company in a competitive industry, could do to sustain and improve their standard of living after selling the plantation, and what the POVB could achieve. Michelin might have managed these expectations better had it engaged more with the workers, in particular their representatives.

It is also important to remember employer organizations as a potential contributor to a dialogue on developing an initiative. They can bring expertise on how an initiative could engage other companies, with perhaps greater development impacts.

Michelin replied to these observations by calling attention to its strong presence in the region—being the only company within 150 km—and the concern that raising a sensitive subject before having several solutions to propose would raise anxiety among employees and their families, as happened at the first beginning of the leaf blight crisis. Michelin felt it necessary to maintain confidentiality during the preliminary phase when technical studies were being conducted. Michelin believes that the proposal of the Ouro Verde Bahía Project was communicated at the right time, when the company could present several scenarios which had been studied initially, providing the opportunity for each stakeholder – workers, unions, government and community—to react, express their needs, concerns and views about how it could be conducted.

From its point of view, Michelin is satisfied that it was able to conduct a smooth transition from a situation of crisis over the future survival of the plantation itself to the POVB project, by adopting a process that ensures respect for the rights of workers and demonstrates willingness to safeguard the interests of all stakeholders, in line with the principles of decent work, human dignity and environmental sustainability with a medium and long-term vision.

By creating twelve new mid-sized farms managed by its former employees, Michelin guaranteed that its own company values would not be lost in the divestment process. The new mid-sized farmers committed to Michelin that they would retain respect for these values by integrating the future management of their farms within the economic, social and environmental aspects of the POVB project. Starting in 2008, a “due diligence” annual meeting is planned to ensure that all twelve farms continue to operate within the same objective, to jointly plan activities (Michelin and the Independent Farms), in order to keep alive the spirit of the POVB project.

Michelin believes that CSR is a complement to government regulation and social policy, not a substitute. The poor region in which the plantation is located presents a high demand for public services; through the POVB project, Michelin aims to make its contribution and share responsibilities with other stakeholders to respond to these needs and ensure the long-term survival of the POVB.

Two points should be stressed here. First, views of what constitutes adequate and timely engagement of the workers and their representatives in dialogue will vary, and may depend on particular circumstances. In this case, Michelin felt it had made substantial efforts to engage the local trade unions, and indeed emphasized the importance of their contribution for the success of the POVB. Second, dialogue on CSR initiatives and actions, although highly recommended by the ILO, is voluntary and hence the company needs to determine when and how much is appropriate. This is why the MNE Declaration states that companies’ “activities should be in harmony with the development priorities and social aims and structure of the country in which they operate. To this effect, consultations should

be held between multinational enterprises, the government and, *wherever appropriate*, the national employers' and workers' organizations concerned.” (para. 10, emphasis added).

3.5.2 Impacts

Table 6 provides a summary of the main outcomes reported by the POVB for the period November 2004 to August 2006.

Table 6: Reported impacts of POVB and linked initiatives (to June 2008)

Employment:	No jobs were lost. By June 2008, a total of approx. 220 new jobs had been created
Area of planted cocoa:	700 hectares
Dry rubber production:	Increased by from 8,000 tonnes to 12,000 tonnes (at the Michelin plant)
Latex production:	Increased from 3,000 tonnes to 3,500 tonnes (both Michelin and the Independent Farms)
Social programmes:	Over 1,200 families are taking part in the Family Agriculture Programme, in 59 towns

a) Employment impacts

According to Michelin, no jobs have been lost, and 250 new jobs have been created. If production trends continue, Michelin estimates in 15 years the independent farms will reach the production target of one hundred thousand 15 kg. sacks of cocoa/year (equivalent to 1,500 tonnes) and one thousand tonnes/year of dry rubber. This output level would generate 400 new direct jobs (Michelin 2006: 37).

Manoel Luís da Silva, the President of the Rural Workers' Union of CamAmu and Igrapiúna, which represents plantation workers in the surrounding region, stated that a positive aspect of the POVB has been increased employment generation. However, the workers also report that Michelin gradually reduced its labour force on the plantations during the period leading up to POVB, which was confirmed by the company, as a reflection of the impact that leaf blight had upon the productivity and profitability of the plantation. As seen earlier in this text, employment levels have grown following the creation of the Independent Farms.

b) Conditions of work

Throughout the divestment and transfer of the plantation from Michelin to the new independent farms, the security and rights of Michelin workers was ensured. (DIEESE, 2007: 8) To do this, Michelin fired all plantation workers and directors under the “without just cause” (*demissão sem justa causa*) procedure and duly paid them the full severance pay package specified under Brazilian legislation.¹⁸ Immediately afterwards, all workers who wished to stay were hired by the new independent farm owners on formal employment contracts, with a signed work card (*carteira de trabalho assinada*) and without limit of

¹⁸ With the severance pay package, many workers reportedly were able to buy their own house, make improvements on an existing house, make other purchases or pay off debts (DIEESE, 2007: 8).

time. The independent farm owners agreed to not reduce the wages and benefits paid to workers below levels practiced by Michelin.

Workers confirmed that all wages are paid on time and all labour rights are respected on the independent farms. However, the trade union was quite concerned that sub-contracted workers, who are engaged in cleaning and cultivation of cocoa trees, have worse employment conditions than employees.

Workers earn a fixed wage, plus an additional bonus based upon productivity and the quality of their work. Workers not only tap trees, but are also responsible for maintaining their rubber trees in good condition. Their work is evaluated by supervisors who check five trees on each worker's lot per month. Pay increases are also awarded for the quality of the latex collected, up to a maximum of R\$60 per month. Workers indicated that evaluations by supervisors are rarely overturned when workers challenge the fairness of evaluations. Michelin has replied, indicating that there are cases where employee and the supervisor do not agree regarding the quality of service provided, but this is part of the work relationship and can be discussed. In addition to their wage, workers receive a bonus, based upon quality and productivity. These bonuses are normally between 20 and 35 per cent of the minimum wage, but could be as high as 50 per cent. Workers reportedly felt their bonus package had declined under the POVB, even though their productivity had risen (they previously tapped around 400 trees per day, and now under POVB they tap and estimated 900 trees per day). Most workers felt their rate of work had intensified both under Michelin and even more under POVB (DIEESE, 2007: 10). Workers reported that monthly bonuses for rubber tappers could reach up to three Minimum Wages under Michelin, and this had fallen to lower levels under the POVB, although workers recognized that part of this adjustment reflected the significant increases obtained in the Brazilian Minimum Wage in recent years. The workday has remained unchanged from—06:00 to 14:20; but some workers commented that they work on holidays and weekends with no bonus or higher wage for this

Michelin replied with a clarification on these points raised by workers above. Over the two years from 2006-2008, the Brazilian minimum wage rose by 60 per cent. Over the same period, rubber tapper wages paid by the POVB increased by 34 per cent and inflation was per cent 22.6 per cent. Additional revenues for workers include the bonus for quality and productivity, which normally ranges between 20 and 35 per cent, but reaching as high as 46 per cent of the minimum wage in September 2007. Regarding workers' productivity estimates, the company indicated that 400 trees were tapped per day on average in the 1980s when the method was related to extraction of a liquid latex called Brazilian fine crepe (*crepe claro brasileiro*). A new method introduced in the 1990s for the production of Brazilian dark grain (*granulado escuro brasileiro*) has raised productivity. The estimate of tapping 900 trees is based upon the calculation of 44 hours of work per week (that is seven hours and twenty minutes of work per day).

As regards the situation of sub-contracted workers, Michelin clarified that such workers are not hired under the Collective Work Agreement signed with the trade unions and which guides the annual meetings in November to discuss the terms and conditions of employment for workers. For this reason, these workers are hired under different contracts and are paid according to the national minimum wage, which is readjusted annually by the federal government. These workers are requested to obey legislation and use necessary protective equipment, as this is not provided by the company to sub-contracted workers.

Workers also lost certain benefits. They were no longer eligible for the federal government's Social Integration Programme (PIS—*Programa de Integração Social*¹⁹) as the independent farm-owners took the decision to register themselves with the federal government for tax purposes as individual contributors (*pessoa física*) rather than corporate contributors (*pessoa jurídica*). Hence, the Independent Farm owners are not required under law to contribute toward PIS for workers. This change amounted to a loss of around one monthly minimum wage of lost benefits per year. Michelin clarified that employees were informed about the decision to register the new Independent Farms as individual contributors and recommends that this situation be communicated clearly when a new employee is contracted.

There were contradictions between information received from workers and from the company regarding transportation to work. Workers claimed to have lost free transportation to and from the plantation for work under the POVB, which had been provided previously by Michelin. They also were concerned about workers living outside the plantation who either must pay for public transport or ride a bicycle as far as 25 kilometres to work, resulting in an unfortunate increase in road accidents as some workers have been hit by traffic on the roads leading to the plantation. Transport issues were also cited by workers living in the residential villages on the plantations. These workers benefit from free housing, but must travel between 1 and 15 kilometres to reach the paved road into town, as these residential villages lack any local commerce, services or leisure activities.

However, contrary to this information, the company confirmed that free daily transportation is provided on a regular bus service to transport the workers from the villages to the closest cities. Michelin confirmed that the situation of transportation was not altered with the implementation of POVB. Instead, with the turn-over and increase in number of employees, more people were hired who live in the cities of Ituberá and Igrapiúna, thus increasing the number of people who ride their bicycles. The Independent Farms that are closest to these cities do not provide residential villages for their employees, but pay for the transportation of their employees on a regular bus service. In addition, regular lines of public transportation are offered by a specialized company to transport the local population who live on the plantation. There are not enough passengers to justify transportation more than once a day.

As regards housing, Michelin confirmed that the situation did not change with POVB. The number of dwellings in the inner villages was not sufficient to meet the needs of all workers even before the POVB; as such, some employees live outside the plantation in rented or owned houses. The six Independent Farmers who have villages provide free housing to their employees.

Other Benefits

In 2003, Michelin closed the hospital that operated inside the plantation; with the improvement of the health care system in the neighbouring cities, Michelin decided to transfer out-patient care to the municipalities and started an occupational health programme. Workers reported that they lost a previous 50 per cent subsidy for medication (DIESSE, 2007). Michelin replied that under the POVB, an out-patient clinic for the general rural population was created, which also provides basic pharmacy drugs free of

¹⁹ The PIS is a contribution paid by companies to benefit their workers. Microenterprises and small enterprises are exempt from the PIS under Federal law

(www.portaltributario.com.br/tributos/pis.htm).

charge. Michelin reportedly monitors the out-patient clinic activities, as well as its medicine inventory.

Workers reported that electricity was no longer provided free of charge under the POVB. Michelin provided further details on the process related to electrical supply on the plantation. The electrical distribution network which was in place prior to POVB had maintenance problems as the infrastructure was old. Instead, Michelin created a partnership with the local utility company (COELBA) and invested its own resources to modernize the electrical facilities of the region. With the divestment, Michelin passed the distribution network to COELBA, which installed meters and started charging for energy use. Michelin carried out a study to determine the average electricity consumption in the houses outside the village, and as a result, Michelin added the total value corresponding to the average consumer by the houses to the workers' wages (including workers who already lived in the city and paid for their own energy consumption), following negotiation and approval of the value-added to the wages by the workers' union during the collective bargaining process in 2005.

Workers reported that they no longer had a profit-sharing component in their wage package after the creation of POVB. Michelin replied with details on this arrangement of the PLR profit-sharing arrangement (*Participação nos Lucros e Resultados*). The company reported that PLR had not changed under POVB. However, in 2007, six of the twelve Independent Farms had good production and sales, and paid the PLR to their workers (ranging between 25 and 35 per cent of the minimum wage).

Michelin makes an additional payment for employees when they complete 10, 20, 25 and 30 years of service rendered to the company. As the Independent Farms have only been in existence for 3 years, other awards and festivities have been created, including sports championships, raffles and annual Best Rubber Tapper Award with a cash prize for the chosen employee. Individual farms may have additional awards or events.

Daycare facilities were provided under Michelin for female employees with small children. These facilities were not continued under the Independent Farms, but now are being organized once again, as the number of female employees is increasing as a result of increased cacao production on the farms.

c) Safety and health

Emergency transportation: Workers indicated that occupational safety and health had declined in some aspects with the change of ownership to small farms. When employed by Michelin, workers had access to a vehicle available in case of emergency; now emergency attention is delayed or never arrives. Michelin confirmed that a vehicle is made available by Michelin at the Family Out-Patient Clinic in Village 8, which is used for transportation of patients with a scheduled doctor appointment to the Out-Patient Clinic and to cover emergencies during the day. In the evenings, emergency assistance is also provided for employees and their families of both Michelin and the Independent Farms by the vehicle in charge of security inside the farm. In compliance with the general guidelines of the plantation, the vehicle must take emergency patients to the hospital at either Igrapiúna or Ituberá, depending upon the seriousness of the emergency and the capacity of the local hospital. The local municipality also provides weekly transportation for those members of the local population requiring more complex medical exams scheduled in nearby cities, as referred by the Family Out-Patient Clinic.

Protective Equipment: Workers receive two uniforms (including trousers, shirt, safety glasses and boots) per year which they feel is insufficient. As a result, many wear torn clothing at work. Furthermore, safety gloves are not provided. Many workers buy their own gloves for work, as they feel these are mandatory protection equipment for rubber tappers. Michelin confirmed that two uniforms are supplied to its employees and those of

the POVB after the period of employee's work experience. Twice a year, when uniforms are no longer usable, they are replaced by the employers, in strict accordance with the Collective Bargaining Covenants signed with the worker's union. Michelin hired the Jose Silveira Foundation, a center specialized in health care and occupational safety auditing located in the capital city Salvador, to check the individual protection equipment (IPE) used by all employees of all Michelin and the Independent Farms. The inspection report indicated that the IPE used was appropriate for activities carried out by employees in their assigned duties. The report concluded that ear protection devices should be provided to workers exposed to noise risk, but did not indicate that gloves were required for rubber tappers. Michelin and the Independent Farms reported that they provide gloves, boots, long sleeve shirts and half-facepiece respirators with highly resistant and semi/disposable filters for workers who handle chemicals (this does not include rubber tappers, as they do not handle chemicals). The report concluded that the work environment of employees exposed to chemicals did not cause adverse health effects as per relevant laws and regulations.

Commission for Accident Prevention (CIPA per cent *Comissão Interna de Prevenção de Acidentes*)²⁰: Workers were concerned that members of the CIPA were not invited to participate in POVB meetings, hindering management from knowing about workers' occupational safety and health requirements (DIEESE, 2007: 12). Nonetheless, workers also reported that the number of workplace accidents had declined. Michelin reported that while its own CIPA works properly, whereas the CIPA's operation at the Independent Farms was delayed due to difficulty in hiring qualified professionals to support the CIPA's work. CIPA representatives had been elected and regular meetings were scheduled as from April 2008 onward.

Workers stated that fallen trees blocking access to the lots were not removed quickly, which meant workers would either leave some trees untapped (consequently reducing their productivity) or would risk injury by scrambling over these fallen trees to tap their rubber trees.

Sick Leave and Healthcare Plan: Workers stated they had lost the right to sick leave. For each workday lost due to illness, workers reported that one or even two workdays are deducted from their monthly earnings. As a result, workers frequently come to work sick, in order to avoid a reduction in their monthly pay package. This situation is compounded by their limited access to health care; only one health centre exists on the plantation area and appointments must be made in advance, as the doctor is only present certain days of the week. To improve health, workers have requested that the POVB provide a medical plan and a basket of basic food items each month, known as a *cesta básica*; but, to date, they have not received these items.

Michelin responded by stating that the deduction of a missed workday from the employee's salary is in compliance with the local Labour Law; the sick leave allowances is only provided if a medical certificate is received. This system has remained constant under Michelin and now under POVB. Neither Michelin nor the Independent Farms offer a health care plan to the rubber tappers. This benefit is usually provided by large industrial companies, but they claim rural employers cannot bear such an expense. Finally, a basic

²⁰ Under Brazilian law (Law number 6.512 from 22/12/77 and overseen by NR-5 of the Ministry of Labour), each workplace above a certain minimum size must have an Internal Commission for the Prevention of Accidents (CIPA); this law also provides protection for CIPA members against dismissal. A CIPA is a commission composed of representatives of the employer and workers, with the mission of protecting the health and safety of workers and all others who have contact with the company.

food basket was never provided under Michelin nor under the POVB, as the company understands the wages paid are sufficient to meet basic needs.

d) Collective bargaining and labour relations

Concerning labour relations, a Michelin manager expressed the view that relations with employees are more personalized than before with Michelin, due to more frequent contact between the farmer and employees. The independent farm owners interviewed believed that the workers are happier than when they worked for Michelin. The workers somewhat contradicted this view, reporting no conflicts with the new farm owners but also stating that they rarely see the new owners on the farms.

The trade union affirmed that no obstacles are placed against the presence of the trade union on the farms. Trade union representatives can enter the farms and speak with workers, but must advise management beforehand. No reprisals have been reported against unionized workers. According to the trade union, there was even an improvement in unionization levels of workers under POVB.

The trade union was already active on the plantation under Michelin ownership. Leaders of the Trade Union of Rural Workers of CamAmu and Igrapiúna noted this was a tense relationship that improved over time through active mobilization by the trade union and workers (DIEESE, 2007: 13). Both trade union representatives and workers affirmed that a good work environment exists in the plantations, although they reportedly do not feel they are listened to very much. Communication takes place via supervisors, so the trade union must depend on the willingness of supervisors to raise workers' concerns, criticisms and suggestions with the small farm owners. Workers felt that the trade union could also be an effective channel of direct communication with employers. Both the trade union and workers recognized the importance of trade union activities in having achieved improvements and ensuring that workers' rights are respected.

The Trade Union of Rural Workers of CamAmu and Igrapiúna highlighted that collective negotiations have continued with the new farm owners, although the trade union has more difficulty in gaining further improvements for workers since the new farm owners lack Michelin's resources to raise benefits. Nevertheless, the trade union representatives acknowledged that conditions of work on the POVB farms are superior to those on other farms in the region.

e) Financial outcome for the new owners

The independent producers interviewed appreciated receiving a productive farm. Through upgrading and intensification of land utilization and multi-cropping, farmers were able to make enough money at the end of the month to pay employees and some of the expenses. They reported that their financial affairs and quality of life have improved dramatically with ownership because they are able to structure their work time and activities as they wish.

f) CSR practices of Cooperverde and individual mid-sized farms

Cooperverde, the cooperative for the mid-sized farms, has become active in the area of social responsibility. The cooperative has engaged in partnerships with the two local governments, one of which involves direct communication with the Mayor of Igrapiúna. It also has developed an institutional collaboration with the local municipal authorities. It is a member of the Regional Development Committee (*o Conselho Regional de Desenvolvimento*) that joins together different sectors of society to address sensible use of local resources. *Cooperverde* also participates in the non-profit Programme for the Recuperation of the Atlantic Forest. The Cooperative itself does not take part in the

National Family Agriculture Programme, but several independent farmers provide support individually.

Other individual initiatives of the new farmers include:

- Support to the Rural Family House with different types of initiatives, such as providing access to the properties for training and visits, lectures on technical issues and on cooperativism;
- Environmental Education addressed to local people living at *Vila Canário*, in cooperation with the Youngsters Volunteers Association and the Rural Family House;
- Cooperative work under the leadership of the owners of the Independent Farms to clean and maintain the Villages;
- Transport of employees, in the event of an emergency;
- De-pollination of Vila Canário's elementary school and health centre;
- Group Health Insurance is provided for the employees of the Independent Farms;
- Social Transportation is provided for members of the local community to travel from Vila Canário to the cities of Igrapiúna and Ituberá (passengers pay for this service).

g) Local development impacts

State representatives were appreciative of the POVB. Bahia state has few examples of CSR activities aimed at social development which included broad participation, although CSR initiatives were on the rise. Although Michelin has operated in Bahia state over two decades, the POVB was the first time that the company started interacting with the State government. They hoped that Michelin's example will stimulate others to engage in similar public-private partnerships to support people to become small and medium-sized entrepreneurs.

The Administrative Secretariat of the Municipal government of Igrapiúna offered an evaluation of the main impacts of the POVB on the city of Igrapiúna:

- Combating poverty—Collaboration to expand the PAF in support of family agriculture offers small farmers the opportunity to cultivate a variety of plants (including Michelin rubber seedlings) on a hectare of land, thereby ensuring a minimum income in the short term, in addition to gaining a greater consciousness about protection of the natural environment;
- Social inclusion—The donation of land by Michelin has enabled the construction of low-income housing in Nova Igrapiúna, thereby providing decent living conditions and home ownership for workers from Michelin, the independent farms and from the municipality of Igrapiúna. This initiative has provided a new model of organized urban expansion, which provides housing while guaranteeing the dynamism of the local economy;
- New employment opportunities—The creation of the independent farms and the diversification of agricultural production and replanting in new areas (under the Agriculture – Forest System and as part of the PAF) has generated more economic activities in the city of Igrapiúna;
- Guaranteed access to health services—The improved clinic services and promotion of health awareness among workers on the plantation has contributed to greater well-being among the local population;
- Improved educational services—The enlargement of the primary school building in Vila Canária, in collaboration with the municipal authority, has improved access to quality education for children of plantation workers.

Concerning impacts on small enterprise development more broadly, BNB officials spoke with respect about participants in this programme. They regard the small farmers as entrepreneurs rather than recipients of social assistance because their loan payments are more reliable than those made by larger farmers. The expansion of these family agriculture initiatives in the Northeast of Brazil has played an important role in making it possible to increase the number of BNB branches to provide financing for sustainable development. An Executive Manager and a Superintendent at Brazil's Northeast Development Bank (BNB) were interviewed regarding the credit line that was negotiated with Michelin and the POVB independent farmers. They described the set-up of financing for the POVB as a mutual learning process that coincided with BNB's interests. They appreciated the straightforward and clear communication between Michelin and BNB, and the company's effective involvement. They recalled the initial moments in the negotiations as difficult because Michelin was transferring ownership of the land to the twelve independent producers and they were not quite sure about the terms of the business proposal. The partnership was gradually built up through intense discussions regarding the technical aspects of the project and development of the indicators to be used by both partners. Some difficulties arose, due to the need for an environmental evaluation. This process of dialogue also contributed to the identification and provision of technical assistance and training to the twelve independent producers. In their view, this model of financing could be explored by other companies, but this has not yet happened.

Concerning environmental issues, the Department of Agriculture and the Department of Environment and Hydraulic Resources for the State of Bahia reported during interviews that there had been much concern when the state authorities learned that the rubber trees had been infected with the fungus. Officials had assumed that Michelin would sell the plantation and leave Bahia state, and therefore were surprised and relieved when the company proposed working together to develop the POVB. While staff admitted that they had been sceptical of the project in the beginning, and concerned about the feasibility of successfully putting such a complicated proposal into practice, all reported being pleased with the outcome of the POVB and felt they had been consulted in the design and implementation of the project.

Summary of Findings

The ILO approach to CSR, expressed in the MNE Declaration, stresses the importance of contributing to decent work and local economic development. It advocates a comprehensive approach and speaks to the possible contributions of a range of actors, including MNEs, government and worker and employer organizations. This inclusive and participatory approach has a great deal of potential to promote decent work and enhance development impacts. But it also requires each company to think in new ways about how its voluntary initiatives might be developed and carried out. Furthermore, it challenges companies, governments and workers' and employers' organizations to develop new skills to engage in social dialogue with each other, and to collaborate when appropriate for greater economic and social development.

The POV B project is an example of how the collaborative approach advocated in the MNE Declaration can help to address challenges. All those interviewed for this case study expressed appreciation for Michelin's decision to create the POV B. The POV B was implemented using a consultative process that sold major sections of the Michelin plantation in a way that provided economic, technical and social conditions to ensure a transition in ownership that creates new jobs, while also preserving many of the rights of workers, most importantly the right to organize and bargain collectively. New businesses and jobs were created; small producers benefited from strengthened family farming programmes; and the surrounding municipalities benefited from improvements in housing, infrastructure and social services.

However, the consultation with government at national and local levels was much stronger than consultation with workers and their representatives. Many of the workers' rights were preserved during the transition of ownership, which they recognized and appreciated. Most significantly, this includes improved trade union access to workers to organize, and continued engagement in collective bargaining. However, the smaller farmers have a different level of legal obligations concerning benefits owed to workers, and have less financial resources to continue paying discretionary benefits Michelin had provided. The loss of these benefits has clearly hurt the workers. It is possible that, through strengthened social dialogue in the future, the POV B project can find creative solutions to restore many of the benefits lost, and address many of the concerns of workers, in particular safety and health issues, making the initiative even more commendable

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Appendix

MEMORANDUM OF UNDERSTANDING between the STATE OF BAHIA—with the participation of the Secretariat of the Environment and Water Resources (SEMARH), Secretariat for Combating Poverty and Social Inequality (SECOMP), Secretariat of Trade, Commerce and Mining (SICM), Secretariat of Agriculture, Irrigation and Agrarian Reform (SEAGRI), Coordination of Land Development (CDA), Municipality of Igrapiúna, Municipality of Ituberá, Bahia Public Ministry, Brazilian Institute of Environment and Renewable Natural Resources (IBAMA) —and the company Plantações Michelin da Bahia LTDA.

The STATE OF BAHIA, a public corporation, enrolled at the Taxpayer Registry nr. 13.937.032/0001-60, with headquarters at Av. Luiz Viana Filho 300, 3ª avenida, Centro Administrativo da Bahia —CAB—hereinafter STATE, herein represented by its Governor, Mr. PAULO GANEM SOUTO, with the participation of the following State Secretariats and Municipalities: SECRETARIAT OF THE ENVIRONMENT AND WATER RESOURCES (SEMARH), herein represented by its Secretary Mr. JORCE KHOURY HEDAYE; SECRETARIAT FOR COMBATING POVERTY AND SOCIAL INEQUALITY (SECOMP), herein represented by the SECRETARY Mr. CIODOVEO PIAZZA; SECRETARIAT OF TRADE, COMMERCE AND MINING (SICM), herein represented by the Secretary Mr. OTTO ROBERTO MENDONÇA DE ALENCAR; SECRETARIAT OF AGRICULTURE, IRRIGATION AND AGRARIAN REFORM (SEAGRI), herein represented by the Secretary MR. PEDRO BARBOSA DE DEUS; COORDINATION OF LAND DEVELOPMENT (CDA) herein represented by Mr. EDIMIR CELESTINO DE ALMEIDA FERRAZ, the CITY OF IGRAPIÚNA, herein represented by its MAYOR Mr. FRANCISCO ROME DE JESUS; the CITY OF ITUBERÁ herein represented by its MAYOR Mr. NILTON KLEBER TUNES TEIXEIRA; in the presence of the Mr. MARCELO HENRIQUE GUMARÃES GUEDES representing the Regional Office of the Lower South Region of the STATE OF BAHIA PUBLIC MINISTRY and Mr. JULIO CÉSAR DE SÁ DA ROCHA, representing the BRAZILIAN INSTITUTE OF ENVIRONMENT AND RENEWABLE NATURAL RESOURCES and the company PLANTAÇÕES MICHELIN DA BAHIA LTDA., HEREINAFTER PMB with offices at Rodovia Ituberá/Camainu, S/N, Km 05, enrolled at the Taxpayer Registry nr. 28.835.676/0002-03, herein represented by its MANAGING DIRECTOR LUIZ FERNANDO FACHINI BERARDI and by the its MANAGING DEPUTY DIRECTOR LIONEL ROBERT BARRÉ have agreed to execute this Memorandum of Understanding, pursuant to the following terms and conditions:

ARTICLE I—OBJECT

The object of this Protocol is to enable the Technical and Scientific Cooperation between the subscribers aiming at the implementation of the OURO VERDE BAHIA PROJECT, as created by Plantações Michelin da Bahia Ltda. (PMB).

Sole paragraph: This Project has six goals:

- to create medium-sized properties to be developed by farmers who would own their agricultural businesses;
- to diversify agricultural farming with the introduction of cocoa farming under the shade of the rubber trees;
- to create an "ecological corridor" connecting the various areas of the surrounding Rain Forest;
- to create a centre for agronomic research;
- to upkeep the existing replanting of improved strains of natural rubber in the area, which belongs to PMB, in order to acquire the needed rubber output produced on the agricultural properties in the area; and to enable reforestation integrated to the agribusinesses.

ARTICLE II —DUTIES

The subscribers of this Protocol undertake, to the best of their competence and technical and financial ability, to support the implementation of the OURO VERDE BAHIA PROJECT.

ARTICLE III—SUPPORT COMMITTEE

The support of the public agencies who subscribe the present Memorandum of Understanding for the implementation of the OURO VERDE BAHIA PROJECT will be coordinated by a Support Committee, which shall follow up the implementation of the Project, identifying possible sensitive points that need contribution from the Government Authorities, aiming at assisting, guiding and facilitating the solution of potential problems related to the implementation of the Project.

3.1 The above referred Support Committee is made up of PMB representatives and the undersigned government authorities with the SEMARH representative as Chairman.

3.2. The above mentioned representatives and their deputies shall be nominated and replaced by means of a simple letter from the Agency Head addressed to the Support Committee Chairman.

3.3. The Support Committee shall deliberate by a simple majority vote from those present at the meeting and the Chairman shall have the casting vote.

3.4. Decisions taken by the Support Committee will be sufficient to solve routine issues referred to herein.

3.5. The Committee shall meet as indicated and decided in its first Meeting and shall prepare partial reports for each implementation phase of the Project and one Final Report at the end of the works.

ARTICLE IV—SPECIFIC AGREEMENTS

Other than the participation in the Support Committee, the subscribers to the Memorandum of Understanding may determine, through specific agreements, a specific cooperation with PMB, for implementation of special items of the OURO VERDE BAHIA PROJECT, specially in connection with sections a and b of Article I sole paragraph.

ARTICLE V —ACCOUNTABILITY

This Agreement does not commit or bind the Parties. Each Party shall use its own staff and material resources, and shall not be bound to labour, social security, tax, civil or commercial obligations, whatsoever.

ARTICLE VI —DISCLOSURE

It is expressly agreed by the subscribers herein to communicate previously, in writing, to the Support Committee, any matters resulting from the execution of this Agreement to occasionally be used in publications, reports, meetings, publicity material in Brazil.

ARTICLE VII —TERMINATION

Should there be non-compliance with its terms and conditions, this Contract may be terminated at any time by mutual agreement or by one of the Parties, with at least sixty (60) days advance notice.

ARTICLE VIII —TERMS OF THE AGREEMENT

This Agreement shall become effective from the day of its signature and shall remain in full force and effect for a period of four (4) years, and may be extended upon agreement by the Parties.

ARTICLE IX —ADDITIONS, CHANGES OR DELETIONS OF AGREEMENT CLAUSES

Wherever required, and by means of side letters agreed to by the parties, the articles herein may be amended, changed or deleted and such letter will constitute an integral part of this Agreement.

ARTICLE X —JURISDICTION

The Parties elect the courts located in the city of Salvador (State of Bahia), to settle any controversy arising out or in connection with this Agreement, with the exclusion of any other Courts, however privileged the same may be.

In witness hereof, this Agreement has been duly executed in 4 (four) counterparts of same tenor and content, in the presence of the undersigned witnesses.

Salvador, December 17th 2003.

PAULO GANEM SOUTO

GOVERNOR OF THE STATE OF BAHIA

JORGE KHOURY HEDAYE

SECRETARY OF THE ENVIRONMENT AND WATER RESOURCES
CLODOVEO PIAZZA
SECRETARIAT FOR COMBATING POVERTY AND SOCIAL INEQUALITY
OTTO ROBERTO MENDONÇA DE ALENCAR
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