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Position paper & road map

A living wage throughout the cane sugar supply chain



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This position paper for a living wage in the cane sugar sector is an initiative of CNV Internationaal and the Platform Living Wage Financials (PLWF).

CNV Internationaal is an independent foundation, affiliated with the CNV trade union organization. CNV Internationaal contributes to Decent Work in developing countries based on the CNV principles of international solidarity, personal responsibility, social dialogue, and pluralism.

CNV Internationaal has worked with trade unions in developing countries since its establishment in 1967. In 2019 CNV Internationaal became a member of Bonsucro.

→ www.cnvinternationaal.nl/en/our-work

The Platform Living Wage Financials (PLWF) is an unprecedented alliance of 18 financial institutions that encourages and monitors investee companies to address the non-payment of living wage in global supply chains. As an investor coalition with over €4.6 trillion in Assets Under Management and Advice, they use their influence and leverage to engage with investee companies.

→ www.livingwage.nl/platform-living-wage-financials

A living wage throughout the cane sugar supply chain

Introduction

This paper, based on a research study commissioned by CNV Internationaal and carried out by Profundo, describes the main reasons behind the absence of a living wage and poor labor conditions, both of which are not acceptable in this day and age. Based on this desktop analysis, we have created a roadmap towards constructive solutions, which both PLWF and CNV Internationaal will use as a foundation for their engagement with the sugar sector. This paper is a living document, which we will update regularly based on new insights, experiences and information. Comments and suggestions are always very welcome.

Living wage and the sugar sector

Every worker in every sector should have the right to earn a living wage. Unfortunately, this is not at all the case on many continents around the world. Even in industrialized countries like the USA and the UK, a living wage is not paid to every citizen. But before we go any further, it is important to define what a living wage is.

The Global Living Wage Coalition (GLWC) has developed the following definition:

“The remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events (GLWC, 2018).”

The concept of the living wage stems from the Declaration of Human Rights, which states that every (adult) person is entitled to work which provides sufficient income to sustain the livelihood of themselves and their family (article 23 and 25) (UN Declaration of Human Rights¹). This implies that children should not have to work to support their family, as the incomes of the adults should suffice to meet the family's needs.



1. www.un.org/en/about-us/universal-declaration-of-human-rights

This topic of the living wage is becoming increasingly important throughout society for governmental agendas, within the private sector, and for social bodies such as trade unions. This can be seen, for example, in some recent statements made by the German and Dutch governments in regard to policies specifically aimed at ensuring a living wage². In addition, the European Union has announced legislation for all its member states to maintain internationally responsible business. Several of the member states have already passed legislation or are preparing to do so³. The number of actors committed to working towards a living wage in the sugarcane sector is growing. For example, Bonsucro, one of the largest and most important worldwide sugarcane standards, has taken the bold step of including living wages in its strategy for the next 5 years. And, to make their motives concrete, they have included it in the new draft of the production standard. Bonsucro has thus placed themselves in the vanguard of a worldwide coalition to prepare the sector for the future.

To achieve a living wage, the sugar sector can build on experience with other sectoral standards to promote a living wage in the cane sugar



Bonsucro is a global membership organization that promotes sustainable sugarcane production, processing, and trade around the world. They currently have 280 members, including both processors and industrial buyers. The Bonsucro standard currently covers 5.8% of the land under cane globally, 123 mills and has certified a cumulative 72 million tonnes of sugarcane.⁴

sector. For instance, the RSPO (Round Table for Sustainable Palm Oil) and the textile industry have already taken multi-actor action towards realizing a living wage. We think the sugar sector is also ready to start taking the necessary steps.

This report focuses on the issue of a living wage in the sugar supply chain, meaning that the scope is limited to hired workers who are paid a salary. CNV Internationaal and PLWF are aware that there are also many self-employed farmers active in the sugar supply chain whose incomes are often well below living income levels. While this is not in the scope of this report, we

recognize this as another key issue requiring urgent attention.

Last but not least, a strategy on living wages should be seen as part of a wider, long term approach to modernize the sector and guarantee a sustainable and profitable future. Issues like mechanization should also be addressed in such an approach. The case of Brazil provides interesting lessons on this issue.⁵ Sustainability, including living wages, should not be understood merely as an expense, but as an investment in a more profitable future.

2. Ministerie van Buitenlandse Zaken; Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung, 2021

3. www.idhsustainabletrade.com/uploaded/2021/02/Joint_Declaration_NLD_DEU_270121.pdf

4. www.bonsucro.com



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Key findings of the Profundo sugarcane study

Key findings of the Profundo sugarcane study

The global sugar sector

Sugar is produced in 110 countries globally from either sugarcane or sugar beet. Sugarcane, compared to sugar beet, accounts for approximately 80% of global sugar production. Sugarcane production has increased significantly over the past 10 years, with a growth of more than 11%. The largest sugarcane producing countries in 2018 were Brazil with 39% and India with 20% of the total global production. Europe, together with Russia, lead as the largest sugar beet producing regions.

Sugar and alcohol are the key products derived from sugarcane processing. On average, around 75% of sugarcane is used for sugar and 22% for ethanol. Most consumption is domestic. Examples of products that consist of sugar and ethanol include alcoholic beverages, fuel, or other chemical applications. The sugar market can be described as highly volatile and, in most countries, it is also a politicized sector. It often involves family-owned companies that have links to the governments. This affects the transparency of the value chain because these

family businesses are not listed and there is no data on their trading performance. Global sugar consumption reached 172 million tonnes in 2018 with major markets in India, the EU, China, Brazil, the US, Indonesia, Russia, Pakistan, Mexico, and Egypt. Since 2001, world sugar consumption has increased by some 40%, or an average annual growth of 2.01%. However, between 2016 and 2018, the growth of world sugar consumption slowed to less than 0.84% and showed no growth in 2018. (Profundo, 2020)

Main stakeholders

While sugarcane production is rather fragmented with over 100 countries producing sugarcane, 70% of global sugar production is done in 10 countries. About 30% (64 million tonnes) of the 172 million tonnes of sugar globally produced is traded internationally (2018).⁶ Five global traders have an important share of this trade⁷. Industrial purchase of sugar is also quite concentrated with 6 major buyers⁸, though the large share of sugar consumption is fragmented. Because the large traders do not share trade data (partly be-

cause this involves commercially sensitive data) and the largest share of the consumption is fragmented, the sugar market not very transparent.

As said, a handful of traders provides for a large share of the global market. Their involvement entails (co-) ownership of mills, participation in sugar futures markets, physical shipment of raw sugar, and the production and marketing of ethanol fuel.

It is significant that only a limited number of traders and buyers supplies a relatively large portion of the market because they actually have enough leverage to create change in the value chain. If the benefits of change and in being more transparent are clear. If traders and buyers do not see how investing in living wages, labour rights, and sustainability translates to better prices, change remains difficult. An improved reputation is only desirable if it pays for itself throughout the supply chain. Transparency therefore has a price. And it can only be achieved if someone takes the initiative to join forces and take action to lead the way towards a fair balance in cost sharing.

6. www.isosugar.org/sugarsector/sugar

7. Traders are said to cover 25% of global sugar (172 mln tons in 2018), trade was 64 mln tons. The 5 global traders likely covered far more than 25% of the global trade, though the real share is not disclosed by these major traders.

8. Besides this 6, other mayor buyers for example Mondelez, Mars and some of the alcohol brands.

Shared responsibility and the redistribution of profits throughout the supply chain are measures which will assist in achieving that balance.

The following pages show some of the results of Profundo's research in regard to price setting, sales, and profits. The underlying calculation is based on the estimated sugarcane volume multiplied by the price in the relevant part of the supply chain. As other factors need to be considered as well, estimates are applied as to the share of sugarcane in the total turnover and profit of these companies. The gross margin and the operating margin are applied in this approach, taking into consideration how various supply chain participants have different margins. This methodology, which was developed by Profundo, has previously been used to assess other international value chains and has been approved by 3 peer reviewers. For more information, please see the chapter on the Methodology of the Profundo Report. Of course, we are always open to update when provided with additional information.



The top 5 global sugar traders are:

Company	Headquarter	Ownership	Sugar volume 2018/19 in mln MT (est)
Wilmar International	Singapore	Listed	13.6
Alvean (Copersucar)	Switzerland	Private	→ 12
ED&F Man	UK	Private	11
Sucres et Denrées (Sucden)	France	Private	→ 6
Louis Dreyfus Company (LDC)	France	Private	Unknown

Source: Profundo, 2020, p 15.

Major cane-sugar consuming companies 2017	
Company name	Volume sourced 2017, estimates (tonnes)
Coca-Cola	5 million
Associated British Foods	1.7 million
Nestlé	1.25 million
Pepsico	793,000
Unilever	400,000
Kellogg	271,000

Source: Profundo, 2020, Table 2, page 18 (Global Market Report Sugar, Winnipeg, Canada, IISD, p 4)

As their trade volumes are not public, estimates indicate that they jointly cover at least 25% of the sugar produced. Since only about 30% of sugar is traded internationally, their share in the trade substantially exceeds 25%.

The major cane sugar consuming companies (also referred to as Fast Moving Consumer Goods companies) are listed in the table below. In total, these 6 companies accounted for around 9.4 million tonnes of cane sugar consumption in 2017 (5,5 % of global cane sugar production):

←

The total value generated in the cane sugar supply chain is US\$ 304 billion, with a total gross profit of US\$ 82.4 billion. Operating profit is US\$ 19.1 billion. Highest value generated on cane sugar by major sugar cane consuming companies, a 27% share, in gross profit (52%) and net profit (50%) their share is even larger (see table and figure below).

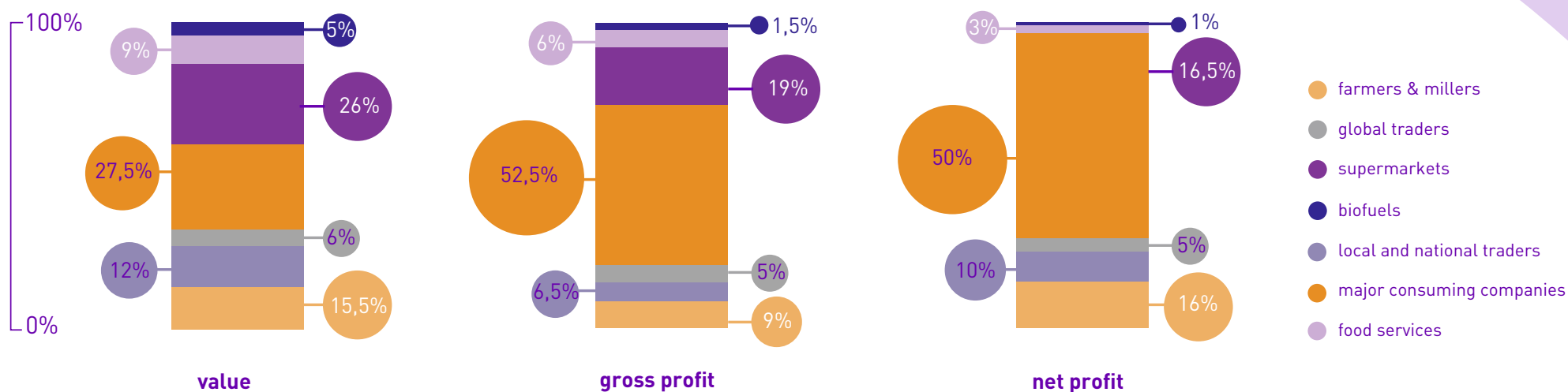
The total value chain in sugarcane: proceeds and profits

US\$ million	Value	Gross profit	Operating profit
Millers/farmers etc	47.424	7.706	3.012
Local wholesalers	37.070	5.454	1.854
Global traders	17.267	4.027	898
FMCGs	83.522	43.177	9.510
Supermarkets	78.302	15.660	3.132
Foodservice/others	26.101	5.220	522
Biofuels	14.630	1.182	166
Total	304.316	82.427	19.094

Source: Profundo, 2020 p 54.

Please note that for the first tier of VC no separate data are available on farmers.

Share in total turnover, gross profit and net profit per VC actor in sugar cane



Source: Based on 2019 data from Profundo report 2020, p 54.

Please note that for the first tier of VC no separate data on farmers is available.



Dutch financing of the sugarcane sector

The research conducted by Profundo has put additional focus on the financing role of the Netherlands. It is clear that the financial sector plays an important role in investing and financing the sugarcane sector. There are multiple approaches towards financing. One role is that of share or bondholder in sugar producers, traders and processors. Another role is to provide direct loans to these companies or provide the necessary financing for trading sugar. In this position paper we will go into more detail about how the financial sector can play a positive role in moving the sugar sector forward.

The impact of the sugar sector: deep dive on living wage

The social impact of the sugar industry revolves around legislative compliance, land ownership and rights, labor rights, and child labor. Production in the sugarcane industry is connected to a range of work settings, including formal employment and the use of informal and seasonal labor forces. A recurring problem in the sugarcane supply chain is this use of seasonal and informal laborers, whose rights are not properly respected in local law. Smallholder farmers who lack negotiation power in a captive market where many farmers are dependent on a small number of buyers, end up having low incomes. Additionally, (migrant) temporary workers are in too weak a position to bargain for decent wages with crop owners or their sub-contractors. Profit and value are gained during sugarcane processing, marketing activities, and capital-intensive activities that are outside the reach of the small-scale producers. This unsustainable situation is one of the reasons child labor and bad working conditions in the sugarcane farming sector still exist, despite initiatives to modernize the sector, like the improvements achieved by Bonsucro and other standards. Environmental and health

effects are linked to biodiversity, soil, water, and climate impacts linked to crop production as well as high water use in sugarcane processing. Sugarcane farmers are affected by unpredictable weather influences on their harvest and the volatility of prices. From a supplier perspective, oversupply conditions mean high competition in the global market. Particularly for smaller producers, the profit margins are very small and implementing sustainability measures to keep up with the international market is a challenge.

The Profundo study shows that in the countries studied⁹ and involved in the supply chain of each of the top 5 buyers mentioned, most sugarcane workers do not earn a living wage. Moreover, forced labor and debt bondage are prevalent in Guatemala, Bolivia, and Vietnam. The countries studied have a legal minimum wage which does not provide people with a living wage. In addition, the minimum wage generally does not apply to agricultural workers or it is not enforced.

Bolivia, a country which accounts for a share of 0.5% of global sugarcane production and is the

9. Geographically, the research focusses on five in Latin American countries (Bolivia, Colombia, Guatemala, Nicaragua, and Peru) and three countries in Asia (Cambodia, Indonesia, and Vietnam)

seventh largest sugarcane producer in Latin America¹⁰, is a good example of the situation described above. They have a legal minimum wage but it does not apply to the agricultural sector. For each harvest season, the government, employers, and trade unions agree on a piece rate for the sugarcane harvest. However, instead of the government taking a leading role, they are led by the wishes of the employers. This means that the wage agreements are always far lower than the union demands. Moreover, the negotiated piecework wages are not paid, despite the fact that collective agreements have been reached. The sugarcane workers who were interviewed for the Profundo study have indicated that only 10% of them receives the agreed piece rate. With this low piece rate, workers are forced to work long hours during harvest time, often 12 hours a day, 7 days a week. They also have to be assisted by family members and children in order to earn a decent income. But even then, workers only earn EUR 240 to EUR 360 per month during the harvest season, while the minimum wage is EUR 250.

Working conditions are even harder for the internal migrant workers who are recruited by employment agencies for the harvest season. Is-

Most vulnerable not receiving living wage



sues such as debt bondage and broker fees of up to 10% of a worker's salary are not uncommon. Other abuses include obligatory payments for housing and transportation. The quality of such accommodations is usually sub-standard.

Although circumstances vary from country to country, the situation of outsourced workers is precarious in most places. In Indonesia, the official minimum wage is close to a living wage. However, this only applies to direct employees, while 80% of the workers are outsourced. In Colombia it seems that sugar workers are paid 1 to 1.5 times the minimum wage, but the minimum wage is below the living wage calculated for Colombia. There are also large income dif-

ferences between the different types of workers, again, most notably between direct and outsourced workers.

Unilever, an important industrial buyer of sugar, has committed that everyone who directly provides goods or services to Unilever will earn at least a living wage or living income by 2030.¹¹ Coca Cola, the largest industrial buyer of sugar, already committed in 2013 to buying more certified sugar by 2020. While they have been developing a strategy towards achieving this, so far, there is not a hard target¹² nor have they given any information on their progress. Nestle works on concrete projects to address human rights including living wage in 3 countries¹³.

10. Profundo, 2020, page 20

11. www.unilever.com/planet-and-society/raise-living-standards/a-living-wage/

12. www.coca-colacompany.com/news/coca-cola-sustainably-sources-beet-sugar

13. <https://www.nestle.com/csv/raw-materials/sugar>



Country	Minimum Wage by law (per month)	Minimum wage for the Agricultural sector (per day (PD) or per month (PM))	Living wage for a basic but decent living in a rural area based on a family (per month)
Bolivia	€ 254.42	Minimum wage does not apply to agric. workers	Not available
Colombia	€ 208	-	€ 579.34
Guatemala	€ 290.55	€ 9.55 (PD)	€ 462.26
Nicaragua	€ 227.11	€ 101.48 (PM)	€ 353.11
Peru	€ 221.10	€ 7.03 (PD)	€ 465
Cambodia	€ 158.98	Minimum wage does not apply to agric. workers	€ 163.11 – € 256.28
Indonesia	€ 108.61 – € 256.66	€ 81.38 (PM)	€ 119.28 – € 164.06
Vietnam	€ 109.79 – € 158.07	-	€ 277.89

Sources: Data were obtained from the *The Sugar Cane Value Chain in Latin America and Asia. Main Actors, Market Mechanisms, Labour Issues and Opportunities* Barbara Kuepper, Diana Quiroz, Gerard Rijk, Eline Achterberg. Profundo (2020) which obtained the minimum wage data from country specific sources and the living wage data from the Living Wage COP and the Wage indicator.



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Road map towards a living wage

Road map towards a living wage

Looking at all of this information and data, several things become clear. For one, a living wage is key in finding solutions to a number of core problems in the sugar industry, including child labor and kidney disease caused by heat stress. Further, all the major traders and cane sugar consuming companies have some direct involvement in these due diligence risks and ought to contribute to finding solutions. Only a limited number of buyers and traders are active in the international sugar trade, and therefore they have a major influence on the agreements to pay the sugar workers a living wage.

A step-by-step approach, as proposed by Bonsucro, will help farms and mills to collaborate with their workers and their unions on bridging this gap. The first priority will be to start re-collecting data on the gap between a living wage and the current wages in specific countries. Part of the strategy might be to start the work in the top 10 producing countries and first get their data clear on the gap benchmarking prevailing wages against a living wage.

These factors reveal a clear roadmap that the sector can jointly support. This roadmap will be made up of the following steps:

For consumer companies & traders

- We expect companies to make a living wage assessment with the providers in their own sugar supply chains and to report on these.
- We expect clear KPIs to bridge living wage gaps leveraging the bench marks of the global living wage coalition.

Certification schemes

- We advise companies to use certification schemes.
- We advise companies in the sugar sector to give living wage, social dialogue, and freedom of association a solid place in their social auditing schemes.
- We advise companies to give labor rights and living wage a mature place in their procurement policies and practices.
- We advise companies to be proactive members in living wage task forces within their certification schemes, together with traders, producers, and workers to hear their concerns.

Reporting

- Report on living wage gaps based on assessments in their own supply chains.
- Provide transparency on where you source sugar up to the mills and plantations.
- Report on which percentage of procured sugar complies with specific standards and/or certification schemes.

For farmers & millers (producers)

- We expect producers to make an assessment of the actual wages paid to their direct and subcontracted employees. This will be used to make a living wage assessment in their own sugar supply chains. They should also report on these procedures and processes.

Certification schemes

- We expect producers to become members of a certification scheme.
- We advise producers to actively participate in pilots to set up a step-by-step approach to calculate the current wages of workers and outsourced workers together with trade unions.
- We expect producers to work with trade unions and to commit to company improvement plans to reduce the gaps between actual wages and a living wage.

Reporting

- Report on living wage gaps based on their own assessments.
- Report on which percentage of produced sugar complies with specific standards and/or certification schemes.



For long-term **investors**, there is a direct interest for sustainable business operations. Investors can play a key role in accelerating living wages in the sugar value chain by engaging with their investee companies. They can encourage companies to implement the necessary steps and provide support by sharing industry best-practices or emphasizing the importance of having a viable strategy for the long-term. Investors can also vote at AGMs, file shareholder resolutions, and engage with policy makers. By integrating living wage in responsible investing policies, investors can favor companies that have their policy and practice concerning living wage in order.

Trade unions and other civil society organizations can play a key role by making their knowledge and expertise available and by engaging in constructive and positive social dialogue.



Task force

Certification schemes like Bonsucro should facilitate a taskforce for a living wage. All stakeholders should actively participate in this taskforce. The main goal of such a taskforce is to work together to figure out how to increase the value of certification and develop finance mechanisms to balance cost sharing in the supply chain. Furthermore, they should support the process of implementing of a living wage in the sector by organizing the following actions:

- Provide technical assistance on the use of methodologies like the IDH salary matrix and the Sustainable Procurement Kit developed by IDH and Oxfam. Companies can use the Kit to assess the degree to which the price paid for a particular product enables the payment of a living wage at the supplier level.
- Facilitate the necessary funding for pilots.
- Support pilots on specific plantations to set up a step-by-step approach to calculate the current wages of workers and outsourced workers, together with employers and trade unions.
- Encourage the necessary benchmark studies to be done together with the Global Living Wage Coalition (using the Anker methodology) for those countries where the certification scheme has members and there is not yet a study.
- Provide transparency in the value chain when it comes to origin of sugar, but also value creation, redistribution of profits, and propagation like the RSPO list of producers and mills used by refineries.
- Participate in dialogue based on data on the wage share in the production to establish the price needed at different levels in the value chain and the financial mechanisms to enable the realization of a living wage.
- Ensure that lessons learned are available to all actors throughout the value chain and provide technical assistance to producers and unions who want to work towards a living wage.

Bonsucro's viable step-by-step plan for a living wage goal in the sugar sector

Bonsucro has included an indicator in its new production standard for farms and mills to work towards a living wage on a step-by-step basis. This indicator is part of a renewed package that particularly improves the social sustainability of the standard and is the outcome of extensive stakeholder discussions within the sector itself. The standard was submitted to a public consultation in June and July of 2021 and is expected to be approved before the end of 2021.

Time to prepare

We believe that the proposed living wage indicator is very reasonable and achievable for the various Bonsucro farm and mill members. The process will begin by calculating the current wages among workers with the help of tools developed by, for example IDH. It should include clear guidelines regarding what can be included in a real wage and what cannot, and benchmark these with a living wage to get a clear understanding of the gap between current wages and a living wage.

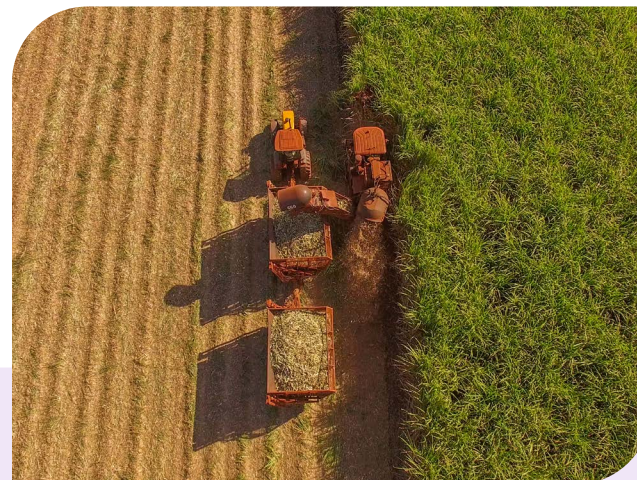
Benchmark for living wage available

The living wage has been defined by an Anker benchmark study for a living wage in each production zone. This is a structured methodology to assess all costs of living, such as the cost of food, other essential needs, and unforeseen events. This method has been consistently applied in 40 countries so far¹⁴. Only 5 countries with Bonsucro members do not have a benchmark study available yet. Such an Anker and Anker methodology assessment provides an objective benchmark for a living wage in a specific location/region.

14. www.globallivingwage.org/anker-living-wage-and-living-income-reference-values/

Bridging the gap together

Although it is not a requirement of the Bonsucro production standard, based on the differences established between the real current wages and the benchmark for a living wage, together with the workers and their unions, a timed and realistic plan can be made to close the living wage gap, initially for direct workers and subsequently for indirect workers. The agreements of the plan may be part of a collective bargaining agreement between workers and employers to ensure that those plans are sustainable and agreed upon by all stakeholders.





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