

# Unilever

## Overview of controversial business practices in 2010



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**SOMO**

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## Colophon

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## Introduction

This Unilever profile has been drafted by SOMO (Centre for Research on Multinational Corporations) and provides an overview of controversial business practices that occurred in 2010. In the context of the upcoming annual general meetings (AGMs) of shareholders of Unilever, this overview aims to provide additional information to shareholders and other stakeholders of Unilever regarding outstanding CSR issues. By highlighting such issues, the overview can be used to identify areas of the company's corporate responsibility policies and practices that need improvement and to formulate a more informed assessment of a company's corporate responsibility performance.

The range of sustainability and corporate responsibility issues included in this overview is broadly based on issues and principles that are present in global normative standards for responsible business behaviour, such as the OECD Guidelines for Multinational Enterprises. Rather than an exhaustive analysis of Unilever's corporate responsibility policies, operational aspects of corporate responsibility management, implementation systems, reporting and transparency, or total performance on any issue, the overview provides a descriptive depiction of a limited number of corporate responsibility-related issues and cases that merit further attention and reflection. Unilever's positive sustainability achievements in 2010 are not addressed here. Information on positive achievements can usually be found in a company's annual and/or sustainability report and on the company's website.

The research methodology for this overview primarily involved desk research methods, relying on information from SOMO's global network of civil society organisations, the company's own website and publications, media reports, and company information databases. All sources are cited in footnotes in the text. As per SOMO's standard research methodology, Unilever was informed about the research in advance and was given two weeks to review a draft report and provide comments and corrections of any factual errors in the draft version prior to publication.

This company profile is part of a joint project of SOMO and the VBDO (Dutch Association of Investors for Sustainable Development – *Vereniging van Beleggers voor Duurzame Ontwikkeling*).

### **About SOMO**

SOMO is an independent, non-profit research and network organisation working on social, ecological and economic issues related to sustainable development. Since 1973, the organisation has been investigating multinational corporations and the consequences of their activities for people and the environment around the world. SOMO supports social organisations by providing training, coordinating networks and generating and disseminating knowledge on multinational corporations in a context of international production, trade, financing and regulation.

# Controversial Business Practices in 2010

## Vanilla from Madagascar

### Summary

Unilever is using vanilla from Madagascar in a number of its ice cream products. The production of this precious commodity in this country is plagued by the problems of child labour and unsustainable farm gate prices. However, despite the fact that Unilever is a leading buyer of Madagascan vanilla its current vanilla sourcing policies do not address these issues adequately.

### Context: Issues in vanilla production from Madagascar

Madagascar is an island located in Southern Africa, east of Mozambique. It has a population of 21 million people. Madagascar is one of the poorest countries in the world. The country's Gross Domestic Product (GDP) per capita is \$391, which puts it at the 175th place leaving only seven other countries behind.<sup>1</sup> Its export amounted to approximately \$1.412 billion in 2010. Agriculture, including fishing and forestry, accounts for more than 25% of the GDP and employs 80% of the population. The most exported commodities are coffee, vanilla, shellfish, sugar and cotton cloth.<sup>2</sup>

In the period from 2005 to 2009 Madagascar's annual exports of vanilla beans amounted to \$49 million.<sup>3</sup> The country is by far the world's largest exporter capturing 37% of world trade by value in 2009<sup>4</sup> and only second to Indonesia in terms of total production in 2007.<sup>5</sup> With imports worth \$25 million in 2009 Madagascar captures two thirds of the EU vanilla imports.<sup>6</sup> The main competitor of the vanilla bean is synthetic vanilla, which accounts for the majority of the world's vanilla flavouring market. However, it is quite commonly acknowledged that real vanilla has a far better taste.<sup>7</sup> Real vanilla extracts are used in products like chocolate, cookies, ice creams, perfume, liquors and soft drinks. Vanilla is often referred to as the most expensive spice after saffron.

With no local bees to pollinate the crops in Madagascar each flower must be pollinated by hand which makes it a time consuming process. Moreover, each flower only lasts one day, meaning growers have to inspect and pollinate their plantations every day. In order to maintain their vanilla crop farmers need to spend 260 days per hectare during the first year and about 460 days during the next four to eight years.<sup>8</sup>

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<sup>1</sup> International Monetary Fund (2010), for list see Wikipedia

<[http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_%28nominal%29\\_per\\_capita](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_%28nominal%29_per_capita)> (30 March 2011)

<sup>2</sup> CIA website, the world factbook, <<https://www.cia.gov/library/publications/the-world-factbook/geos/ma.html>> (30 March 2011)

<sup>3</sup> UN Comtrade, <<http://comtrade.un.org/>> (30 March 2011)

<sup>4</sup> Ibid.

<sup>5</sup> FAOStat, <<http://faostat.fao.org/>> (30 March 2011)

<sup>6</sup> UN Comtrade

<sup>7</sup> Vanilla Beans Guide, Imitation Vanilla Extract and Vanilla Flavouring, <<http://www.vanillabeansguide.com/vanilla-extract/imitations-vanilla-extract-vanilla-bean-paste-and-vanilla-flavouring>> (30 March 2011)

<sup>8</sup> CNN website, "Is world's largest vanilla market on verge of collapse?", 9 July 2010 <http://tinyurl.com/65xcjwz>

Because of its labour intensive characteristics vanilla production is less suited for large-scale production on plantations.<sup>9</sup> According to a study from 2006 by the Madagascar Ministry of Agriculture, there are 80,000 vanilla farms of which 70,000 located in the Sava district in the North Eastern part of the island.<sup>10</sup> At least up to 2001 a typical farm comprised a family of five persons on 2.7 hectares of (usually) owned land.<sup>11</sup> In 2008, 69,000 hectares with vanilla were harvested in Madagascar.<sup>12</sup> In general, it can be said that hundreds of thousands of people in Madagascar depend on vanilla for their livelihood.

### **Socio economic problems: unsustainable farm incomes and child labour**

In a CNN website news item<sup>13</sup> published in July 2010, economist and vanilla-expert Michel Manceau states that with market prices so low, many farmers in Madagascar will stop growing vanilla. "The game is to press the price down as strongly as possible to those people, who today are making a dollar a day family income, if they are only in vanilla," he said. "A dollar a day. That's the limit that has been reached in the last two or three years and most of them are quitting vanilla," he continued.

According to a study conducted in 2008, Malagasy planters sold vanilla for \$2 per kilogram while it was being exported for \$30. This meant that planters were receiving a 6.6% share of the export price.<sup>14</sup> Obviously the retail price of vanilla content in chocolate, cookies, ice creams, perfume, liquors and soft drinks will be much higher.

An extensive study on the presence of child labour in Madagascar was conducted by the ILO-IPEC in 2007.<sup>15</sup> The results indicated that 28% (1.9 million children) of Malagasy children in the range 5-17 years old are economically active. In rural areas the percentage was 31%. Agriculture and fishing were the main sectors of employment. With regard to children in the range 5-14 years old, 22% (1.2 million children) were engaged in economic activities. More than four out of five economically active children (1.5 million children) were found to be engaged in harmful work, namely work prohibited by national legislation of Madagascar in force. Among others, the law prohibits child labour until the age of 14 and dangerous work until the age of 18.<sup>16</sup> The ILO study does not provide for a breakdown of child labour in the vanilla business specifically. However, in the Sava region that is responsible for the vast majority of vanilla production, 33% (97,000 children) of all children in the range 5-17 years old are economically active. As a result tens of thousands of children are claimed to be involved in the production of vanilla pods in Madagascar.<sup>17</sup>

<sup>9</sup> O. Cadot, L. Dutoit & J. de Melo, Centre for Economic Policy Research, March 2006, The Elimination of Madagascar's Vanilla Marketing Board, Ten Years On, <<http://www.unige.ch/ses/ecopo/demelo/WorkProgress/CEPRvan.pdf>> (30 March 2011)

<sup>10</sup> PADANE, Note de synthèse sur l'étude de la filière vanille, March 2006, <[www.padane.mg/impact/documents/note\\_vanille.pdf](http://www.padane.mg/impact/documents/note_vanille.pdf)> (30 March 2011)

<sup>11</sup> O. Cadot, L. Dutoit & J. de Melo, Centre for Economic Policy Research, March 2006, The Elimination of Madagascar's Vanilla Marketing Board, Ten Years On, <<http://www.unige.ch/ses/ecopo/demelo/WorkProgress/CEPRvan.pdf>> (30 March 2011)

<sup>12</sup> FAOstat

<sup>13</sup> CNN website, "Is world's largest vanilla market on verge of collapse?", 9 July 2010 <<http://tinyurl.com/65xcjwz>>

<sup>14</sup> E. Packer, The Flavor of Money: The Vanilla Industry and the Economy of Antalaha, Fall 2008, <[http://digitalcollections.sit.edu/cgi/viewcontent.cgi?article=1571&context=isp\\_collection](http://digitalcollections.sit.edu/cgi/viewcontent.cgi?article=1571&context=isp_collection)> (30 March 2011)

<sup>15</sup> International Labour Office; ILO International Programme on the Elimination of Child Labour (IPEC), "Enquête nationale sur le travail des enfants à Madagascar 2007", 2008, <<http://www.ilo.org/ipecinfo/product/viewProduct.do?productId=9350>> (9 August 2010)

<sup>16</sup> International Labour Office; ILO International Programme on the Elimination of Child Labour (IPEC), "Enquête nationale sur le travail des enfants à Madagascar 2007", 2008, <<http://www.ilo.org/ipecinfo/product/viewProduct.do?productId=9350>> (9 August 2010)

<sup>17</sup> The Sunday Times, "Bitter plight of the vanilla trade children", 14 March 2010 <<http://www.timesonline.co.uk/tol/news/world/africa/article7060962.ece>> (9 August 2010)

In a 2010 report by The Sunday Times the newspaper exposes the above mentioned prevalence of child labour and low income of smallholder farmers. These problems contrast with the fact that real Madagascan vanilla seems more popular than ever and that it is promoted/marketed as a symbol of quality by both retailers and food companies, as is pointed out in the article.

### Role of company

Unilever purchases 127 tonnes of Vanilla beans each year amounting to about 1.4% of the world market supply. Most of this demand is supplied from sources in Madagascar which roughly equals 8% of national production.<sup>18</sup>

Vanilla being the default flavour, one of the most popular uses for vanilla is in ice cream and Unilever is the leading manufacturer of ice cream in the world.<sup>19</sup> Unilever uses Madagascan vanilla for its ice cream products in the popular Magnum, Ben & Jerry's<sup>20</sup> and Carte D'Or range. Some of these products even explicitly advertise the origin of this vanilla:

- ❑ In the United Kingdom, Unilever UK Ltd. has recently launched new Vanilla & Caramel Ice Cream under the brand name Wall's Magnum Gold. The product is described as "an indulgent mix of smooth Madagascan vanilla ice cream with a swirl of delicious caramel, all covered in a cracking golden dipped milk chocolate."<sup>21</sup>
- ❑ Carte D'Or is to launch a range of frozen desserts that move the brand into a new category. Available from September 2009 are Madagascan Vanilla & Chocolate Cheesecake, Madagascan Vanilla & Raspberry Cheesecake and Chocolate Truffle & Raspberry Torte. The new range is expected to add incremental growth to the Carte D'Or brand, parent company Unilever said.<sup>22</sup>

In the Sunday Times article of March 2010, a spokeswoman for Unilever states that Unilever has no direct responsibility for auditing vanilla production on Madagascar, but that child labour is unacceptable.<sup>23</sup> In a reaction to a draft version of this report, Unilever commented further:

*"Unilever does not buy Vanilla directly from the producers, but from a few large, global flavour suppliers and small number more regional flavour producers. They in turn source Vanilla from a range of processors and traders who act as intermediaries to a very large number (thousands) of small and large growers. Unilever has engaged all its suppliers of vanilla from Madagascar to ensure that they comply with Unilever's Supplier Code within their own operations and further-more exercise the necessary diligence with their own suppliers and growers to ensure systemic<sup>24</sup> child labour is not deployed for Vanilla production.*

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<sup>18</sup> Unilever, E-mail 4 May 2011

<sup>19</sup> Unilever Pakistan website, Our brands, Food brands, <<http://www.unileverpakistan.com.pk/brands/foodbrands/walls.aspx>> (4 April 2011)

<sup>20</sup> The Sunday Times, "Bitter plight of the vanilla trade children", 14 March 2010, <<http://www.timesonline.co.uk/tol/news/world/africa/article7060962.ece>> (9 August 2010)

<sup>21</sup> Product Launch Tracker, "Wall's Magnum Gold's Vanilla & Caramel Ice Cream available in United Kingdom", 26 March 2010.

<sup>22</sup> Just-food global news, "UK: Unilever extends Carte D'Or into frozen deserts", 30 October 2009

<sup>23</sup> The Sunday Times, "Bitter plight of the vanilla trade children", 14 March 2010, <<http://www.timesonline.co.uk/tol/news/world/africa/article7060962.ece>> (9 August 2010)

<sup>24</sup> 'Systematic' is here defined by Unilever as other than occasional help provided by children to their small-holder parents outside of school hours (Unilever, E-mail 4 May 2011)

*We are satisfied with reports from our suppliers that no systemic use of child labour is found within their supply chains. This includes a review of the actions they have deployed to enforce and monitor compliance by their growers, including audits of the farms, support to local growing economies and provision of educational facilities.*

*We will follow closely the ILO-IPEC (International Labour Organisation International Programme on the Elimination of Child labour) initiative to undertake a framework study of Child Labour in Madagascan Vanilla supply shortly to commence. This is a tri-partite study involving Government, Trade Unions and the Madagascar Vanilla Industry Association, and is funded by the EU.*

*We are prepared to engage either directly or within the industry to support remediation practices that may be recommended should systemic use of child labour in the Vanilla supply chain be confirmed.”*

In other words, based on the policies and interventions of its suppliers Unilever believes that it is not sourcing from producers that resort to child labour. It would consider further action only in the case that systemic child labour in Madagascan vanilla production would be confirmed by a new ILO-IPEC study.

On at least three aspects the Unilever response merits further comment:

Firstly, there is no reference to unsustainable incomes that Madagascan Vanilla farmers receive. However, by sourcing 8% of their produce Unilever clearly has a responsibility to address this issue. Low farm income is undoubtedly a principal factor in smallholder farmers having to resort to their children’s labour. Indeed, according to the Sunday Times investigation, as the result of prices having fallen from US\$600 a kilo six years ago to around US\$20 today, two dozen growers interviewed claimed they had been forced to rely on their children for unpaid work in the fields.

Secondly, it is highly unlikely that Unilever’s current approach is effective in mitigating the high risk of child labour among their Madagascan vanilla suppliers. According to the Sunday Times, the ethical standards for (first tier) suppliers of leading retailers and manufacturers are not effective because many in the trade believe they cannot monitor the work of farmers further down the chain who might be resorting to child labour. This becomes even clearer in the light of the more than 6,000<sup>25</sup> individual farmers that might be indirectly supplying vanilla to Unilever. Even if some of them are audited this leaves a vast number of their suppliers unmonitored.

Lastly, there is no need for Unilever to wait to adopt more appropriate policies as there is clearly enough evidence (put on the table by IPEC and other institutes) that illegal child labour is a very serious issue affecting vanilla farming in Madagascar. As noted above, precise figures on child labour in vanilla farming in this country are unavailable and as such more research on the incidence, nature and possible remedial approaches (by IPEC) is needed. However, based on the aforementioned estimate we already know that tens of thousands of children are likely to be involved in production. According to the IPEC research in 2007, we could expect that the work of 80% of these children constitutes illegal child labour according to national legislation. Additionally, 25% of these illegal child labourers have quit school altogether.

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<sup>25</sup> To arrive at this approximation we took the share corresponding share of the total Madagascan volume sourced by Unilever (8%) of the total number of vanilla farmers in Madagascar (80,000).



## **Conclusion**

All of this indicates that Unilever, despite its awareness of the problems in its vanilla supply chain and its influence as a major client, is not taking enough responsibility for addressing child labour and low incomes of small farmers in Madagascan vanilla production. It should be noted that Unilever committed to sourcing Fairtrade-certified ingredients, including vanilla, by the end of 2013 for its Ben & Jerry's ice cream brand. Ironically, at least as far as vanilla sourcing is concerned, this commitment merely underlines that Unilever will source responsibly for the minority share of their ice cream production while failing to do so for the majority share.