**Summary**
**FNV Company Monitor**

# Unilever – Peru

2006

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# 1. Introduction

This study focuses on the operations of Unilever in Peru, through Unilever Andina S.A. and its business partners. This report first highlights some general characteristics of both the multinational and its subsidiary Unilever Andina S.A., their business and business operations, and their policies and mechanisms with respect to Corporate Social Responsibility (CSR). Regarding labour relations and working conditions, the report focuses on Alicorp S.A.A., one of Unilever Andina's suppliers. Two plants of this supplier company were studied:

- COPSA plant, located in Callao, dedicated to the production of oils, edible grease, sauces, and soaps.
- Faucett plant, located in Callao, dedicated to the production of flour, pasta, and candies.

Data was collected from publications, the company website and other documents. In addition, 15 workers of Alicorp answered a standardized questionnaire. The researchers stated that they perceived a generalized fear among workers of sanctions for participating in the survey. The managements of Unilever and Alicorp were requested to cooperate to the research through letters followed by phone calls, but these requests were not answered. Therefore the data that could be collected are relatively limited and the results do not reflect the view of the managements of the companies.

# 2. Unilever – General Characteristics

## History and Business Description

Unilever was established in 1930 with the merger of two large European companies: Unie, a Dutch company that produced margarine, and Lever Brothers, an English company dedicated to the production of soaps. Unilever currently operates in 75 countries through 500 companies, which together employ more that 300 thousand people. In Latin America, Unilever operates in 19 countries, with 13 factories dedicated to the production and marketing of foods, cleaning and personal care products.

## Production and Distribution Strategies

**Corporate strategies**

From 1999 to 2004, Unilever implemented its *Path to Growth*-strategy. This strategy aimed to consolidate and simplify Unilever's business and entailed a profound restructuring and reorganization process. The company's business was separated in a foods and a personal and homecare products division. Its many production operations were concentrated in 150 plants worldwide, the number of brands was significantly reduced, from 1600 in 2000 to 440 at present, and the company introduced a uniform logo displayed on all products. The most profitable brands were grouped under Unilever Bestfoods Business.

The company took two different approaches to reorganize its supplies: first by organizing its own production chain, secondly by engaging in strategic alliances with companies to whom it outsources production. Many workers lost their jobs in this process, as plants were closed and activities outsourced. Although the business results of this exercise were less substantial than was expected, the company still maintains leading positions in the markets in which it operates. It has been estimated that some 50,000 workers have been affected by Unilever's new policies of outsourcing and closing or divesting production units.

For 2005 to 2010, Unilever developed a new mission to further consolidate its position in the world market for food products and personal and homecare products. Under the slogan "*Vitality: Adding vitality to life*", the company wants to market its main brands in a manner that responds to consumers' broader needs and values, such as the search for healthy lifestyles, the importance of time, etc. Thus, the company expects to better link the needs in nutrition, hygiene and personal care and to contribute to people's overall welfare. Unilever also aims for a more visible presence, rather than to merely promote its product brands.

**The regional structure for Latin America**
The production and supply strategy for Latin America categorizes Unilever's operations in four geographical groups: Brazil, Chile, Argentina and the Andean Group (which includes Colombia, Ecuador, Peru, Bolivia, and Venezuela). Each group works as a "centre of operations management" and specializes in a specific product category. For instance, Chile is specialized in foods; Argentina in the production of shampoos and Brazil in personal care products. Each group or centre is responsible for matters such as technical know-how and marketing relating to its particular product.

Unilever also works in alliance with a large group of local companies. These companies are referred to as "anchors" and produce and sell some of Unilever products and brands. This fits Unilever's ambition to better respond to the needs and preferences of local consumers and markets.

# 3. Unilever in Peru

## History and business characteristics

Unilever started its operations in Peru in the 1970s under the name Industrias Lever Pacocha S.A.. This company was the result of a merger of Industrias Pacocha S.A. and Industrial Lima S.A., a company that produced soaps and oils. In the next decade, the company's shares changed hands and its name was changed to Industrias Pacocha S.A. The company strengthened its market position by acquiring companies such as Productora Andina S.A. (responsible for the brand Pond's); Industrias Ventanilla S.A. (detergent brands); and Condiment Foods S.A. (herbal teas), and it was a leader in the market for greases (margarine). Unilever bought back the company in 1995-1996.

As part of Unilever's reorganization strategy, described in the former section, the company decided in 2003 to limits its Peruvian operations to marketing, and outsource all of its production activities. The company's name was changed to Unilever Andina Peru S.A..Unilever Andina Peru S.A. currently employs approximately 140 workers in Customer Management, Finance & IT, Human Resources, Marketing and Supply Chain.

## Unilever's partners

Unilever currently does not own any production plants in  Peru. The broad range of Unilever products on the Peruvian market is produced by Unilever plants elsewhere and imported from Chile, Argentina, Brazil, and even Mexico - in line with the regional group-structure described above. In addition, Unilever works with two Peruvian companies, Alicorp S.A.A. and DEMSA, that produce a range of Unilever's food products and toiletries.

**Alicorp S.A.A.**
In 2001, Unilever sold the Industrias Pacocha's oil plant in Huacho to Alicorp S.A.A., a Peruvian Multinational. At the same time, Unilever engaged Alicorp for the production and distribution of its domestic oils and margarines and laundry and toilet soaps.

With the purchase of the Industrias Pacocha's oil plant, Alicorp obtained 31.6 percent of the market,with its brands La Danesa, Fina, and Sello de Oro.  It is important to mention that while La Danesa is still produced domestically, it is sold under the brand of Unilever Andina Peru, which has a share of 40 percent in the domestic market.

Alicorp is one of the leading companies in the Peruvian food market. Its product range includes edible oils (57% of the Peruvian market), margarine (33.4%),  pasta (44.4%), flour, biscuits (24.1%), soaps (74.9%), salsas, sweets and domestic animal foods (27.9%). Most of Alicorp's production is for the domestic market, however some of its products are sold to other Latin American countries, Europe and Asia.

Alicorp owns two plants in Callao, one in Piura and one in Arequipa. It currently employs 1816 permanent workers (1093 production workers, 695 employees in other areas, and 28 managers,) and 592 temporary workers.

The organizational structure, a key element in the company, is based on the "five basic columns," which are: (i) focused improvement, (ii) autonomous maintenance, (iii) planned maintenance, (iv) training, and (v) security and environment (which includes a better control and disposal of dangerous and non-dangerous industrial waste). All plants have also implemented a system for global efficiency, which includes a control of the parameters of quality, maintenance, and production per hour. All plants are also adopting international production standards, such as Good Manufacturing Practices (GMP).

In the detergent market, Unilever kept control of the brands Amigo, Opal, and Marsella until the end of last year, with a market share smaller than 10 percent. Unilever therefore decided to sell those brands to its competitor Alicorp, which now expects to consolidate itself in the domestic market and to prepare itself for the internationalization of its products.

**Derivados del Maís S.A. (DEMSA)**
Unilever outsourced the production and distribution of corn starch and related products (the band (*Mayzena Duryena*) to Derivados del Maíz S.A. (DEMSA). DEMSA has been dedicated to the production of starch (corn, potato, and sweet potato), since 1961. It produces a range of products, varying from paper, cardboard and textiles to several food products, both for further processing and for direct consumption (corn flour, oils, syrups, etc). It also produces and distributes for other companies that specialize in foods, cleaning and home products.

DEMSA employs 425 employees (117 production workers, 301 other employees, and 7 managers). DEMSA performed well the past few years. Its profit in 2004 reached US$ 23 million, which constituted a 9% increase compared to 2003. Its sales increase is reportedly attributable to the expansion of the company's client portfolio, the opening of branch offices elsewhere in Peru and contracts it concluded with Unilever (for greases), Beiersdorf (body creams) and Drokasa (soaps).

## Market position

In Peru, as part of the corporate reorganization process, Unilever Andina S.A. implemented a series of measures to diversify the product range, increase investments in advertising and attention for marketing. By 2004, 75% of the company's sales were realized in small stores and markets, while only 25% was realized in supermarkets and drug stores. The company also introduced smaller sized containers for its main shampoo, margarine, deodorant and toothpaste products, catering to the population with lower-income.

At the same time, the company introduced measures to reduce fixed costs and increase sales. It rejuvenated its management and, as mentioned, established strategic alliances with domestic companies, such as the partnerships with Alicorp S.A.A. and DEMSA. It owns a broad range of brands on the Peruvian market, including Axe, Close Up, Dove, Lux, Pond's, Rexona, Sedal, Vasenol, Efficient, Ades, Dorina, La Danesa, Hellmann's, Knorr, Maizena Duryea, and Mc Collin's.

The effects of the local restructuring exercise did not differ much from the results at the corporate level. Thus, for instance, the levels of income for sales and profits reached in the last five years are negative or have shown a negative tendency. The following table shows Unilever Andina's results and ranking in Peru's top 100 Companies, from 2000 to 2003.

| Year | Income Ranking | Profit Ranking | Total Income | | Net Profit | |
|---|---|---|---|---|---|---|
| | | | Soles | US$ | Soles | US$ |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2000 | 51 | 2215 | 400,000 | 112,432 | -17,000 | -4,281 |
| 2001 | 52 | 2266 | 361,770 | 104,910 | -10,647 | -3,087 |
| 2002 | 72 | 65 | 359,638 | 102,141 | 16,442 | 4,670 |
| 2003 | .. | .. | 4.182,000 | 1.202,000 | .. | .. |

100 nuevos soles is approximately €24.
Source: Peru Top 10,000 Companies (2002-2004).

### Supply chain policy

Regarding its relationship with suppliers, the company has set up the Business Partner Code, by which supplying companies must agree with a set of standards to meet the performance levels desired by Unilever. These standards are related to the productive processes as well as with the principles that Unilever advocates.

According to its Social Report 2004, Unilever has 19 thousand business partners across its chain of production, which carry out approximately 15% of its total production. Unilever is committed to establishing relations with its suppliers to raise quality standards, to improve efficiency in its activities, and to increase its participation in the market.

Unilever's Business Partner Code sets out its expectations that key suppliers and other partners adhere to business principles consistent with its own on key points covering business integrity, labour standards, consumer safety and the environment

Additionally, Unilever has set up a new approval process for suppliers, to assess and rate their compliance with its business principles. This process was initiated in 2005, with the assessment of "first-tier" suppliers. Unilever expects to work with its partners to comply with the requirements and standards established by the company and to achieve the desired level of performance.

Unilever's operations throughout the world are regulated by the operational standards set in the Code of Business Principles, and the local laws and regulations of the countries in which it operates. In the Code, Unilever states that it respects principles such as the rights of employees to freedom of association, non-discriminatory treatment of employees, and the implementation of health and safety standards.

# 4. Reorganisations and outsourcing

As explained above, since the year 2000 Unilever's strategy has been based on the outsourcing of production, supplies, sales and marketing services. This process is carried out from: (i) the plants Unilever has in the region, and (ii) local companies with whom Unilever has strategic alliances. The sale of the Industries Pachocha plant by Unilever to Alicorp is an example.

With the sale of the Industrias Pacocha's oil plant, a number of workers were taken over by Alicorp. Some of these workers first resigned from Pacocha in order to enter into a new contract with Alicorp – which put them in a position as if they were “new” employees to the company. Other workers refused to resign, despite the company’s pressure, and were transferred. These workers were not obliged to sign a new contract. In this process, workers were not informed about the advantages or disadvantages of resigning, or about the arrangements for the transferred workers.

Four months after the transfer, Alicorp S.A.A. cancelled the contracts of the workers who used to work for Pacocha. This caused a legal dispute over the workers’ rights, benefits and entitlements that followed from their employment relation. There is at least one known case of a suit filed by a former Alicorp employee, who also used to work for Pacocha, against his two former employers. This suit is still pending.

This suggest that there were at least irregularities in the manner in which the companies applied labour regulations and workers’ protections, and that job security was a serious concern. In any case, the workers were not properly informed about their rights and entitlements, and the manner in which they could maintain their employment relation.

# 5. Conditions in the supply chain – Alicorp

## Labour relations

**National context**

The general framework for the labour rights and duties is provided in the *Law of Labour Productivity and Competitivity*. Other relevant legislation are the *Law that Regulates the Activities of Special Service Companies and Workers’ Cooperatives* and the accompanying Code.

From 1990 to 1998, the Fujimori regime implemented a policy of labour market deregulation. New legislation limited workers rights and curtailed the functioning of the unions. In addition, companies slimmed down productive departments and often preferred not to directly employ new workers, but to hire flexible labour via contracting agencies.

In 1992, Fujimori issued Law Decree 25593 of collective labour relations. This Decree provided a range new and weaker regulations and protections of workers rights, union freedom, collective bargaining, and the right to strike. Moreover, the Decree obliged the unions and companies to renegotiate the existing collective agreements.

As a consequence, union membership was drastically reduced, union leaders lost their jobs and some unions disappeared entirely. In 1990, 277,000 workers, or 22% of all registered workers were union members. By 1997, this number was reduced to 72,000, representing only 4.7% of the Peruvian work force. The most recent information about the rate of unionization is from a National Household Survey in 2000, which found a 3.1% unionization rate in urban areas. It is worth mentioning that the low rate of unionization is also explained by the fact that only one fourth of the wage-earning population works for companies that have more than 20 employees, the minimum number of employees for the formation of unions.

The International Labour Organization (ILO) noted that the decree contained resolutions that conflicted with ILO's Conventions signed by Peru. The ILO reiterated this criticism and only withdrew its concerns in January 2003 when the decree was replaced by Law 27912, enacted by the democratic regime of president Alejandro Toledo.

**Company practice**
Unions do not exist in Alicorp. One of the surveyed workers stated there had been an attempt to form a trade union in the company, but did not provide details on the matter. The other surveyed workers apparently had no knowledge about the possibility of forming a union. The researchers perceived a generalized fear among workers of sanctions for participating in the survey and insisted on confidentiality. Workers also feared reprisals from the company if they would want to establish a trade union. This suggests that Alicorp does not have a positive attitude towards freedom of association.

## Working hours

**National legislation**
The Labour Law prescribes that there are eight working hours per day, and that the working week is 48 hours (six days of eight hours). However employers may follow a special administrative procedure to deviate from this rule, except when the working hours are regulated by a collective agreement. Hours worked overtime must be compensated with higher remunerations.
Workers have the right to enjoy one day of rest per week, to rest and to a 30-day paid vacation period.

According to Article No. 239 of the Ley General de Trabajo (General Labour Law), overtime work must be compensated with a minimum 25 percent surcharge over the value of an hour for the first two hours and a minimum 35 percent surcharge over the value of an hour for the additional hours that exceed the workday hours. Overtime, however, may be compensated with free days, in a number equal to the overtime.

**Company practice**
The working day established by the company complies with the laws and regulations, that is, 48 hours a week. However, this quantity of working hours a week may be covered by workers in different shifts and schedules. For example, the company has set up, in some cases, atypical working schedules that include: 10 hours during some workdays and 8 hours during a weekend day (either Saturday or Sunday). The shift and schedule is set by the company considering the work assigned to each worker. An atypical workday exceeds the normal workday, which is 8 hours a day, but does not exceed the maximum 48 hours a week.

It is necessary to mention that compliance of working hours does not exclude the possibility of overtime. Ten of the surveyed workers declared they worked in shifts or schedules after their regular hours.

Regarding the additional remuneration workers receive for working outside their workday or schedule (overtime), ten workers stated they made extra hours. Only 5 of them declared they received additional remuneration in exchange of their additional work, while the other 5 declared they did not receive additional remuneration. No further details on the issue are available.

## Wages and bonuses

**National legislation**
The Labour Law provides that employers must register their workers and their remuneration and stipulates a number of minimum standards and benefits. The national minimum wage is currently 500 soles (€120) per month, which is equivalent to almost 17 soles (€4) per day. Workers are legally entitled to receive a Christmas bonus and a bonus for National Holidays. Each bonus is equivalent to one month of salary. Furthermore, if a company generates profit during the year, a part of the profit should accrue to employees through a profit sharing scheme. More favourable conditions may be agreed upon in the collective bargaining process.

**Company practice**
Eight of the surveyed workers receive a daily wage under 25 soles, while the remaining seven receive a wage under 35 soles. These are the basic salaries workers receive, that is, the amounts do not include complementary remunerations that vary according to the characteristics of the work done, the personal conditions of workers, and the financial situation of the company. Therefore it is difficult to give an accurate estimate of total remuneration structure of Alicorp S.A.A.

Although these basic wages are above the legal minimum, they are below the average for comparable companies. According to statistics published by the Peruvian Labour Ministry in 2004, the average wage for production workers in companies with 50 workers or more was 985 soles (€240) per month or 33 soles (€8) per day. The average wage for all production workers in the industrial sector was 855 soles (€205) per month or 29 soles (€7) per day. Most of the sruveyed workers receive a basic wage below these averages.

The Basic Consumption Basket for Metropolitan Lima provides another measure to asses the wages of Alicorop workers. The value of this Basket is determined by the Ministry of Labour at approximately 50 soles per day. Based on this value, the Ministry defines the following classification of jobs.

- **High quality jobs**: formal sector jobs where workers enjoy full labour rights, benefits and protection, that provide an income above the Basic Market Basket.
- **Good quality jobs**: jobs that provide an income above the Basic Market Basket that may or may not be in the formal sector and could therefore lack some social benefits.

- **Medium quality jobs:** jobs that may or may not be in the formal sector and provide an income between 50% and 100% of the Basic Market Basket.
- **Low quality jobs:** jobs that may or may not be in the formal sector and provide an income below 50% of the Basic Market Basket.
- **Very low quality jobs**:.jobs outside the formal sector without any social benefits that provide an income below 50% of the Basic Market Basket.

Based on this official classification, half of the surveyed workers probably has low quality jobs, as they have a basic wage below 25 soles, and the other half has medium quality jobs.

### Health and safety

The interviewed workers mentioned cases of accidents in each of the plants, which resulted from the negligence of workers. The number of accidents mentioned by the workers varied between 1 and 6 accidents during the past two years. However, workers did not give any further details about type of accidents and their consequences.

At least two inspections are carried out every year at Alicorp (one requested by the MInisterio de Trabajo and the other by workers' request) in order to verify compliance with general labour norms and health and safety conditions. The inspections produce positive effects for the workers by providing suggestions to improve safety.

# 6. Conclusions

All production of Unilever in Peru is outsourced to the supplier companies Alicorp and Demsa. Apparently, this makes it difficult to enforce corporate standards. The outsourcing of production may therefore have negative effects on labour standards. However, comprehensive data on Unilever's supply chain management or on labour relations and working conditions at Alicorp were not available, due to the lack of response from the managements of Unilever Peru and Alicorp to the request for cooperation to the project. Despite the limited data, a few serious points of concern were still identified. These are freedom of association and wages at Alicorp.

Unilever states in its Business Patner Code that *'There shall be respect for the right of employees to freedom of association'.* No trade union exists at Alicorp and experssions of fear among workers for retaliations from Alicorp in case they would try to establish a union, suggest that freedom of association is not fully supported. Apparently, the Unilever business Partner Code has been ineffective in this regard.

Wages at Alicorp are higher than the national minimum wage, but below the industry average. Furthermore, all surveyed workers earn a basic wage below the Basic Consumption Basket determined by the Ministry of Labour and some earn even less than 50% of this basket. Using the Ministry's official classifications, it can therefore be concluded that Alicorp workers have low to medium quality jobs.