

Summary

Philips da Amazônia
Brazil

Summary based on research by:

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1. Introduction

This study of Philips is part of a broader research project, called the Company Monitor, on working conditions and union relations with regard to four Dutch multinational companies in Brazil (Philips, Unilever, Akzo Nobel and ABN AMRO). In the case of Philips, it was decided to limit the object of the study to the Philips facility in the Manaus Industrial Zone. In this zone, the principal producers of electronic goods in Brazil and a number of their suppliers can be found. Another reason for the choice of this theme was the interest demonstrated by Brazilian union entities in this study.

The study of Philips da Amazônia dealt with the issues proposed in the structure of the Company Monitor Project, including union relations, working conditions and the concept and practice of Corporate Social Responsibility. Data collection consisted in interviews with company directors and unionists, information available in publications, on the company's website and other documents. The interviews were conducted in May and June 2005.

The management of Philips do Brasil co-operated in various stages of the studies that the Social Observatory conducted about working conditions in their industrial plants. Philips responded to a questionnaire. The participation of all unions allowed this study to be carried out successfully. The co-operation of Philips' management and the union representatives does not imply that they are responsible for the contents of this summary in any way.

2. General characteristics of Philips da Amazônia, Brazil

Business description

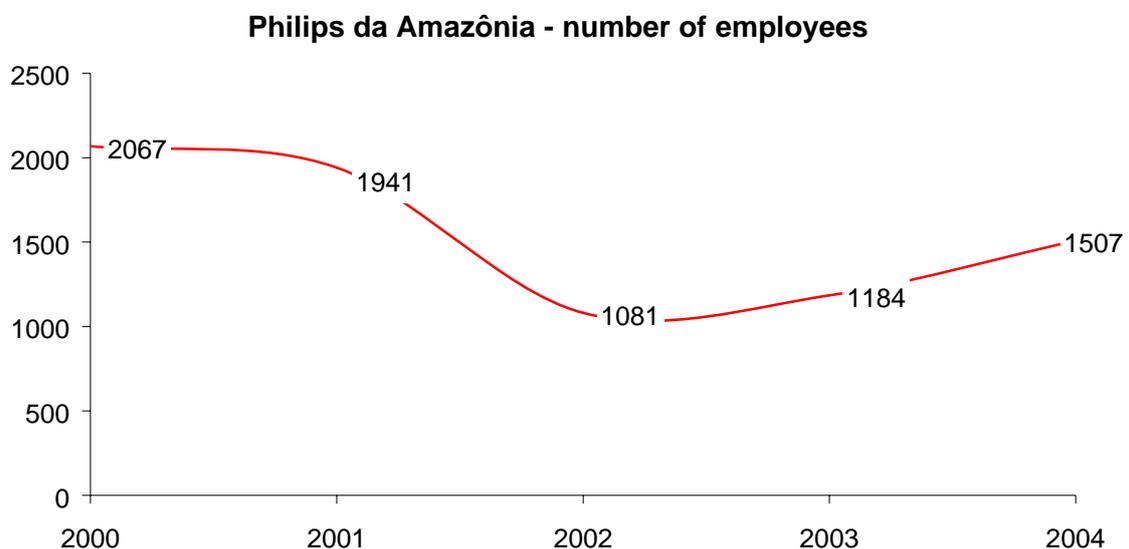
Philips da Amazônia in Manaus, Brazil, contains three business divisions: (1) monitors, (2) televisions and (3) audio. The Manaus Unit is considered the most important plant of the Philips Group in Brazil, because it includes an area of technology-intensive products (digital technology). It is the only plant that continuously exports last-generation video monitors, televisions and digital audio devices. It is also the unit with the largest amount of workers.

Located in the Manaus Industrial Free Zone, Philips da Amazônia Indústria Eletrônica Ltda (PAM) has a built area of 68,628 m² and a fixed investment of some US\$ 252 million. As in nearly the entire electronics sector, Philips da Amazônia's production was historically linked to the Brazilian domestic market. For example, Philips has been the leader in television sales for nearly 10 years, with a large market share, only exceeded in some recent years by Semp Toshiba. According to non-official data published by newspapers, Philips market share is about 20 percent.

Since 1999, production, mainly that of televisions, has been transferred to other countries due to devaluation and instability of the domestic market. It is estimated that 30% of the production at Philips da Amazônia is for export. The Manaus plant occupies the third position in net income among the 15 largest companies in Brazil's Northern region.

Employment and employment trends

At the end of 2004, Philips da Amazônia employed 1,507 workers. This number reflects a general trend at the Manaus Industrial Zone, where production and employment in general have been increasing. Even so, direct employment at Philips da Amazônia is far from the level found at the beginning of the decade, when the company still assembled circuit boards.



Relevant aspects of Corporate Social Responsibility

Philips has a global sustainability policy that aims to attain a balance between market demands and the integration of individual, environmental, economic and social responsibilities. For the company, sustainability includes four responsibilities:

- Individual responsibility – team work, continuous learning, diversity and inclusion among employees, partners, suppliers and the community.
- Environmental responsibility – incentives to innovative solutions that cause less environmental impact;
- Economic responsibility – increased value of shares in the financial market;
- Social responsibility – make products compatible with consumers needs, so that they promote quality of life and projects that distribute resources to the communities where the company operates.

The first dimension of Philips' sustainability policy, individual responsibility, deals with themes related to labour relations and health and safety conditions. Individual responsibility is encouraged by awareness raising, voluntary projects and by other initiatives related to health and safety policies. One of the projects, called *Singulares*, seeks to disseminate the concept of diversity by creating a committee responsible for this task. A study was conducted about the role of women at the company, and awareness-raising activities were introduced. The actions in the area of occupational health and safety are part of a specific programme - the +Life Programme – which disseminates information, trains employees, provides incentives for them to take a proactive position to promote individual health and disease prevention actions.

Philips da Amazônia became SA 8000 certified in 2004. This standard defines requirements concerning working conditions and relations. The company is also certified by international quality management norms (ISO 9001), for environmental management (ISO 14001) and occupational health and safety assessment (OHSAS 18001), in the form of an Integrated Management System (SGI). The requirements for achieving SA 8000 certification include the core ILO Conventions, disciplinary practices, working hours, wages and management systems in health and safety. Although the standard encourages the participation of interested parties, the unionists interviewed stated that the union was not involved in the preparation of the company for certification. On the other hand, unionists gave interviews to auditors who conducted the necessary certification audit.

In addition to the implementation of the SA 8000 standard, Philips da Amazônia's employees should follow the company code of conduct (called General Business Principles - GBP) and must formally manifest their commitment to this code. According to the guidelines of the GBP, violations of the code should be immediately communicated to the employee's superior, to the *compliance officer*, to the Human Resources department or the Ethics Line.

The Ethics Line was created by a policy that Philips implemented in 2001 to combat any type of discrimination and abuse of power. The purpose of the Ethics Line is for workers to contribute to the effectiveness of the GBP through anonymous complaints by telephone in relation to: abuse of power, environmental pollution, sexual harassment, conflict of interests, corruption, crime, disrespect, discrimination, drugs, false information, poor use of company assets, medicine and labour health, theft, child labour and the improper use of illegal software, information and the Internet. Access to the Ethics Line is made by following instructions on the Ethics Line Card distributed by the company or those contained in a pocket manual provided to employees. Philips believes the Ethics Line is a way for the company to "*correct possible deviations from Ethical Conduct*". According to information provided by Philips da Amazônia, it is Philips do Brasil that maps the grievances presented through the Ethics Line. The company did not provide information about the number, type and result of the complaints. It is also Philips do Brasil that evaluates if the charges made are specific or generic, and takes measures so that all the possible causes can be evaluated. The representatives of the Amazon unit indicate that the Human Resources management for each plant should respond immediately to the Ethics Line or begin an

investigation, with proof needed as mentioned in the programme guide (procedures, witnesses, etc.).

3. Labour relations

Freedom of Association

- | | | |
|--------------------------|-----------------------------------------------|------------------------|
| <input type="checkbox"/> | ILO Convention 87 (protection of unions) | not ratified |
| <input type="checkbox"/> | ILO Convention 135 (employee representatives) | ratified on 18-05-1990 |

National legislation:

Although Brazil has not ratified ILO Convention 87, the Brazilian constitution guarantees the right to form a union, free from government interference. It also establishes a so-called 'One Union' system. Through this system, only one single union can legally represent a certain professional category within a specific territorial area. This power of representation does not depend on a worker's affiliation to the union and establishes a type of monopoly, given that there can be no other union in the same area representing workers in the same professional category. The overwhelming majority of unions have a municipal (the smallest allowed by law) or intermunicipal base, although there are state and national unions. The system does not formally recognise the existence of union federations. The 'One Union' system does not avoid several unions from operating in a single company or establishment because they each represent different professional categories.

CSR Policy:

Philips in Manaus is SA 8000 certified. This norm defines requirements concerning working conditions and relations. Requirement 4.1. reads: "The company shall respect the right of all personnel to form trade unions of their choice and to bargain collectively." In its General Business Principles, Philips states that it "respects the freedom of employees to choose whether or not to establish, or to associate with, any organisation." Philips respects – within the framework of (local) law, regulations and prevailing labour relations and employment practices – the right of its employees to be represented by labour unions and other employee organisations.

Company practice at Philips in Manaus:

Most of Philips' employees in Brazil are represented by unions in the metalworkers category. Proportionately, the unions affiliated to CUT (Central Única dos Trabalhadores) include in their negotiation processes 70% of the workers of the Philips Group in Brazil. Many workers at Philips da Amazônia are represented by the Metalworkers Union of Manaus. This union has suffered from political instability in recent years, due to legal disputes between members of the former and the current board of the union. Other important unions are the hotel workers union, the plastics workers union and the security guard union.

At Philips da Amazônia, there is an organisation parallel to the union organisation that seeks to establish a link between workers and management and claims to be a space for discussion and

resolution of problems at the company. This organisation is called the Internal Personnel Commission (CIDOP). The CIDOP is formed by 16 members (representatives of the company and workers) and 16 substitutes, each with a one-year mandate. The only representatives of the company that participate in the meetings of the CIDOP are the General Manager and/or the Human Resources Manager. According to the company, the CIDOP meets at least once a month not only to discuss daily problems, but also to talk about profit and income sharing. According to some statements made by workers, the CIDOP was deactivated for two years, but is now functioning regularly. The company, nevertheless, alleges that this information is incorrect and that the activities of the CIDOP were not interrupted for a period of two years. By some workers, the CIDOP is seen as an internal organisation of Philips because it also represents the management.

Workers at Philips da Amazônia are well informed about union activities. The company has a bulletin board for information of interest to workers. This has caused some issues recently. According to the union, the company controls the bulletin board, since any and all information to be posted must first be approved by the Human Resources department. Due to this procedure, important events could not be promoted. The company, on the other hand, states that it only checks the date of compliance to post information on the bulletin board – when to post and take it down, without censuring the information. It said the union was responsible for any problems that may have occurred, because it had not delivered the information to be posted on the board far enough in advance.

In relation to the evaluation of the freedom to collect and pass along financial contributions (for union dues and health plans), as called for in the clauses of the Collective Labour Conventions, the Secretary of Finances of the Metalworkers Union of Manaus reported that Philips da Amazônia complies regularly with the agreement.

Collective bargaining

- ❑ ILO Convention 135 (employee representatives), ratified on 18-05-1990
- ❑ ILO Convention 98 (Right to organise and collective bargaining), ratified on 18-06-1965

National legislation:

The national labour law is the main instrument that regulates labour relations in Brazil. Collective bargaining was effectively resumed in the country at the end of the 1970s, and is thus relatively recent and quite limited. The collective labour conventions (which regulate the relation between a workers union and an employers union) or the collective labour agreements (which regulate the relationship between a workers union and a company) are effective for up to two years, although one-year agreements and conventions are more common. Basically they contain the annual salary adjustment, the base salary level, fringe benefits and union rights. The convention or agreement loses its validity at the end of one or two years and must be renewed through a new agreement signed before the conclusion of that in force. This places the workers at a disadvantage given a possible automatic loss of rights if no new agreement is reached and creates pressure to sign the agreement. The alternative is to request the intervention of the

labour court, which, without a strike, can take an average of eight years to rule on a collective complaint through all appeal levels (if a request is made for conflict resolution in the labour courts).

CSR policy:

In its General Business Principles, Philips recognises the right to collective bargaining. Furthermore, Philips da Amazônia's is SA 8000 certified, which means the company needs to respect the right to collective bargaining.

Company practice at Philips in Manaus:

In the case of Philips, the Collective Labour Conventions that establish the norms between the company and workers involve the local company association, known as the Union of Electrical Appliance, Electronics and Related Companies of Manaus, and the Manaus Metalworkers Union. This means that the Collective Conventions establish rules that encompass a large number of companies and workers. The Convention is renewed each year. One can note that the negotiations have been centred around salary issues, given that the other clauses that compose this convention have remained unaltered.

According to the union, the company responds adequately to its requests for information for the collective negotiations. The production unit at the Manaus Free Zone has historically respected the base salary established by the Collective Convention. Other amounts in the company salary structure, its Job and Salary Plan, are set unilaterally, without union participation. This practice is in line with the general trend in Brazil, since companies normally do not negotiate their salary structures, and are free to define them without any legal restrictions, except for the minimum salary and the principal of equal wages for similar positions.

The fringe benefits - a form of indirect salary - established by the Collective Labour Convention, include meal and transportation bonuses guaranteed at symbolic prices (while the current policy of fiscal incentives for companies is maintained for companies at the Industrial Zone); auxiliary payment for funerals of employees and their families; illness and accident assistance, and daycare assistance. The company monitor study in 2003 found that daycare assistance at the company was insufficient. In the meantime, the company has agreed to improve this situation.

4. Labour conditions

Child labour

- | | | |
|--------------------------|--------------------------------------------------|-----------------------|
| <input type="checkbox"/> | ILO Convention 138 (minimum age) | ratified on 28-6-2001 |
| <input type="checkbox"/> | ILO Convention 182 (worst forms of child labour) | ratified on 2-2-2000 |
| <input type="checkbox"/> | ILO Convention 90 (night work of children) | not ratified |

National legislation:

Brazilian law sets a minimum age of 16 for any kind of work, 14 for work as a trainee, and 18 for work in taxing, dangerous or unhealthy conditions. The company must allocate 15% of positions that require technical training to adolescents enrolled in a professional internship programme organised by an officially recognised institution. The ILO conventions concerning child labour issues have been ratified by Brazil.

CSR policy:

In its General Business Principles, Philips mentions ILO conventions 138 and 182.

Company practice:

Child labour is not an issue at Philips da Amazônia. Union leaders stated they did not know of any situations at the company that would indicate non-compliance with the ILO conventions and the Brazilian legislation referring to the issue. This appears to confirm the non-existence of any form of child labour at Philips da Amazônia.

Forced labour

- ❑ ILO Convention 29 (forced labour) ratified on 25-4-1957
- ❑ ILO Convention 105 (forced labour) ratified on 18-6-1965

National legislation:

Forced labour or labour similar to slavery is a crime in Brazil, which has ratified the ILO conventions on this issue.

CSR policy:

In its General Business Principles, Philips states that under no circumstances forced labour is to be used.

Company practice:

There are no issues regarding forced labour at Philips da Amazônia.

Discrimination

- ❑ ILO Convention 100 (equal remuneration) ratified on 25-4-1957
- ❑ ILO Convention 111 (discrimination) ratified on 26-11-1965
- ❑ ILO Convention 107 (indigenous populations) not ratified

National legislation:

The Brazilian Constitution prohibits any form of discrimination based on sex, race or colour, age, religious belief or political ideas, and the legislation qualifies discriminatory practices as criminal acts. Brazilian legislation does not allow the payment of differentiated salaries and benefits.

CSR policy:

In its General Business Principles, Philips refers to equal and fair treatment of all employees, regardless of personal background, race, gender, nationality, age, sexual preference or religious beliefs.

Company practice:

Racial or gender discrimination is not seen as a problem at Philips da Amazônia. Even so, men are predominant in management positions. This situation is similar in the unions, where the proportion of women in leading positions is even lower. Gender and racial issues are not considered in collective bargaining processes. No mechanisms have been included in collective agreements to ensure anti-discriminatory measures. However, the company has several programmes to address issues related to discrimination.

Wages and bonuses

- ❑ ILO Convention 26 (minimum wage), ratified on 25-4-1957
- ❑ ILO Convention 95 (protection of wages), ratified on 25-4-1957
- ❑ ILO Convention 99 (minimum wage), ratified on 25-4-1957
- ❑ ILO Convention 131 (minimum wage), ratified on 4-5-1983

National legislation:

Brazilian legislation calls for a unified national minimum wage of R\$ 300,00 (as of May 5, 2005) and the possibility of higher state minimum wages. Salaries cannot be reduced nominally, except when the union agrees and signs a specific agreement. Only about 50% of workers have labour relations protected by legislation. The other 50% are part of the “informal” market, unprotected by the rights defined in the legislation, and receive salaries below minimum wage. Salary rules internal to companies are rarely negotiated with a union.

CSR policy:

Philips’ General Business Principles state that remuneration shall comply with local labour laws and shall at least be in line with prevailing industry norms.

Company practice:

Workers at Philips da Amazônia feel that outsourcing is one of the main causes for the reduction of average salaries in the industry. Philips decided to dismiss mechanics, masons and electricians and to contract the services of a company called Cargo Engenharia. This company rehired some of the people who lost their jobs at Philips, but did not give them the benefits they enjoyed in their previous positions, such as medical and dental care.

Working hours

- ❑ ILO Convention 30 (hours of work), not ratified
- ❑ ILO Convention 52 (holidays with pay), not ratified

- ILO Convention 14 (weekly rest), ratified on 25-4-1957

National legislation:

In Brazil, the maximum workweek is 44 hours per week. One paid rest day a week is guaranteed. In the case of work on uninterrupted shifts, the maximum daily shift is 6 hours, with a total of 36 hours a week. In this case, collective agreements can establish a different number of hours per day. In addition, some professional categories have the right by law to a workweek lower than 44 hours, due to the taxing working conditions. There are many collective agreements that define workweeks lower than 44 hours, most of which limit workweeks to 40 hours a week. Overtime is allowed for 10 hours a week and 2 hours a day at a maximum, and only in cases of an imperative need for service. Normally, salaries for overtime hours should be at least 50% above the norm or a 100% on Sundays and holidays. A collective labour agreement may determine that hours of overtime are accumulated before these are compensated. Unions may also negotiate a so-called “hour bank” system, which means that overtime is compensated in time-off.

CSR policy:

Philips’ General Business Principles determine that working hours shall comply with local laws and shall at least be in line with prevailing industry norms.

Company practice:

The collective labour agreement for metalworkers, which applies to most of the workers at Philips da Amazônia, establishes that workers receive an additional pay of 60% for overtime work on regular working days. On Sundays, holidays and at night (from 10pm to 5am) workers receive an additional pay of 110% up to a limit of 8 hours per day.

5. Reorganisations, outplacement, work flexibility and job security

Reorganisations and relocations

Since the mid 1990s, Philips has drastically reduced the number of its factories. There were more than 260 in 1997 and the goal is to reach an amount of less than 130 factory units worldwide. In Brazil, Philips had eight factories operating in 2000, which employed about 8,000 people. By 2004 there were only four factories left, while the number totalled 4,000. This drastic reduction was due to the transfer of various operations to LG Philips Displays do Brasil and to Jabil Circuit, to which some 4,000 workers were transferred. At the end of 2004, Philips da Amazônia employed 1,507 workers.

6. Conclusions

This study confirms that Philips da Amazônia is a leading company in its sector and offers normal working conditions. Researchers did not find issues of extreme severity. In some areas, however, there is room for improvement:

Discrimination

Women at Philips da Amazônia continue to be in disadvantage in relation to their male peers; for example, there are less women than men in management positions. The company has a policy to address this issue. Union organisations should seize the opportunity and openly discuss this issue with the company.

Wages

Wages at Philips da Amazônia are low, although the company stands out in relation to its peers in the sector and other companies in the same region. Low wages are largely determined by the economical context of Brazil and the Manaus Industrial Zone, which is an Export Processing Zone. Nevertheless, it should be noted that collective bargaining has been restricted to negotiations on the base salary instead of discussing the whole salary structure of the company. This situation could be improved.

Work pace

Although this issue was not tackled thoroughly in the study, it is important to mention that the company determines the work pace without negotiating with the metalworkers union. This issue could be a subject of research in the Company Monitor.

Other issues

At Philips da Amazônia, there is a commission (CIDOP) created by the company that claims to represent the interest of the workers. Management representatives are also included in this Internal Personnel Commission. The CIDOP may work as an instrument for upgrading industrial relations. However, workers in this commission should be protected in a better way. They should have guaranteed job stability. Furthermore, the union is the only organisation that can legally represent the interest of the workers at Philips da Amazônia.

In its Corporate Social Responsibility (CSR) policy, Philips da Amazônia acknowledges the rights of workers, which is emphasised by certification in accordance with the SA 8000 standard. This standard makes clear reference to the core conventions of the ILO. In the process of implementing the standard, however, the trade union has not been involved actively, although the union did give interviews to auditors who conducted the necessary certification audit.

The concept of Corporate Social Responsibility is already well known at the suppliers that were included in the research project, although it is usually mistaken for philanthropy or social

investment. Nevertheless, the suppliers studied increasingly structure labour relations in accordance with management systems, notably the SA 8000 standard.

Some of Philips' suppliers have higher unionisation than Philips da Amazônia itself. This does not mean union activity is more intense at these suppliers. Due to the lack of fringe benefits, workers at subcontracting companies are eager to join a union because these usually offer free dental and health care services.