

## Summary

Akzo-Nobel  
Brazil



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2005-2006**

**Research conducted in co-operation with SOMO and FNV  
Bondgenoten. Commissioned by FNV Mondiaal for the project  
FNV Company Monitor**

Summary by SOMO, June 2006





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# 1. Introduction

This study looks into the operations of Akzo Nobel Brazil and, in particular, at the labour conditions and at the company's Corporate Social Responsibility (CSR). The research was conducted between April and November 2005, and built on a previous study that was conducted in 2002, also by the Instituto Observatório Social (Social Observatory Institute or IOS), during the first phase of the Company Monitor Project. The 2002 study identified a number of concerns, in particular relating to great disparities in the working conditions at the different Akzo Nobel plants, lack of policies to ensure equal opportunities for women and black employees, lack of common guidelines for collective bargaining and engagement with the Unions, and obstruction of Union activities by local management.

IOS conducted this research with assistance from the National Confederation of Chemical Workers (CNQ/CUT) and the Unions that represent workers at the Akzo Nobel factories in the region of Osasco (CUT); the São Paulo Region (CUT); ABCD, Mauá, Ribeirão Pires and Rio Grande da Serra (CUT); Guarulhos, Mairiporã, Caieiras, Franco da Rocha, Francisco Morato and Region (CUT); Jundiaí and Região (FS); and São Gonçalo, Niterói, and Itaboraí (CUT).

The following Unions participated in the study: the Chemical Industries Workers Unions of Barueri, Jundiaí, Guarulhos, São Bernardo, São Paulo and São Gonçalo. The directors of these Unions granted interviews, provided copies of the Collective Conventions and Agreements and other relevant documents and information.

Representatives from Akzo Nobel Brazil Holding and directors of the different business units also lend their co-operation. They provided documents and information, were available for questions and interviews, and helped facilitate visits to the production plants. The company also responded to a comprehensive questionnaire that was sent to the managers at the group's production units.

It was at times difficult to verify information provided by Akzo Nobel's units with the Unions, because many Union directors are not Akzo Nobel employees and therefore are not familiar with the detailed situations in the different plants.

The Akzo Nobel group includes 17 production units, divided in three main divisions: Pharmaceuticals, Chemicals and Coatings. Similarly to the 2002 study, this research aims to cover all three divisions. It focuses on selected units, which were chosen on the basis of their importance to the group's operations, the number of workers, and the interests of the Unions involved. This report relates to the following units and business divisions:

- 1) Pharmaceuticals: Organon do Brasil Ltda (São Paulo, SP) and Diosinth (Barueri, SP);
- 2) Chemicals: Eka Chemicals do Brasil SA (Jundiaí, SP);
- 3) Coatings: Tintas Repintura Automotiva (São Bernardo do Campo, SP), Tinta Imobiliária (Guarulhos, SP), Tintas Industriais (São Paulo) and Tintas Marítimas (São Gonçalo, RJ).

The following plants were not included in the 2002 study: EKA Chemical, Tinta Imobiliária, Tintas Industriais and Tintas Marítimas.

## 2. General characteristics of Akzo Nobel in Brazil

Akzo Nobel has been maintaining business operations in Brazil since 1940. Its business units are grouped in three divisions, as shown in the table below, and have a large degree of autonomy.

### *Principal Activities of the Akzo Nobel Group*

Division	Products	Business units
Healthcare	Medicine, Veterinary Products, Active Ingredients for the Pharmaceutical industry	Intervet and Organon
Chemicals	Chemical specialities, Polymers, Functional Chemicals, Plastics Processing	Salt, Energy, Polymer Chemistry, Base Chemicals, Functional Chemicals, Divested Operations, Surface Chemistry, Pulp and Paper Chemistry
Coatings	Coatings for automobiles, boats, and decoration	Car Refinishing, Maritime and Protective, Decoration/Building, Finishes and Powdered Coatings

Source: Akzo Nobel Annual Report 2004.

Since 1992, the national management is divided in three segments for each of its three business divisions. The corporate headquarters and 11 plants are based in São Paulo State. There are two additional factories in Rio de Janeiro state, one in Bahia and one in Ceará.

The Brazilian factories mainly produce for the home market. Exports are mainly limited to the Mercosur countries. Akzo Nobel also sells imported products from Europe and the United States. The company's activities are focused on the Chemical sector. Its main products are paints, pharmaceuticals and materials for paper and fibre production.

The table below provides an overview of Akzo Nobel's performance in Brazil.

### *Income of the Akzo Nobel Group worldwide and in Brazil from 2001 to 2004 (in millions of €).*

Year	2001	2002	2003	2004
Global – Sales	14,110	14,002	13,051	12,688
Global – Operating result	1,571	1,492	1,347	1,210
Brazil – Sales	456	470	275	322
Brazil – Operating result	49	20	6	74

Source: Akzo Nobel Brasil, Balanço Social 2004.

### Pharmaceutical division

On 1<sup>st</sup> January, 2005, Diosynth was merged with Organon. However, in this report, these operations will be separately described and referred to using the former name Diosynth.

Akzo Nobel's pharmaceutical division encompasses three operating units and four production plants. In the past five years, this division was Akzo Nobel's strongest branch, generating sales of approximately €500 million. From 2001 to 2004, Organon was responsible for 58% of this division's income, Intervet accounted for 31% and Diosynth for 11%.

#### *Akzo Nobel's Pharmaceutical Factories in Brazil*

Company	Location	Type of Product
ORGANON Organon do Brasil Industria e Comercio LTDA	São Paulo/SP	Medication for human use
INTERVET AKZO NOBEL LTDA	Cruzeiro/SP	Medications for veterinary use
AKZO NOBEL LTDA	Fortaleza/CE	Vaccine against foot and mouth disease, injectable de-wormers
DIOSYNTH (now Organon) Diosynth Produtos Farmoquímicos LTDA	Barueri/SP	Raw materials and intermediary substances for the pharmaceutical industry

Source: Akzo Nobel, 2004 ([www.Akzonobel.com.br](http://www.Akzonobel.com.br)); Receita Federal, 2004 ([www.receita.gov.br](http://www.receita.gov.br)). Prepared by IOS, 2005

### Chemical Division

Akzo Nobel's chemical division includes two operational units and six production plants in the municipalities of São Paulo, Bahia and Rio de Janeiro. In addition, Akzo Nobel has a 50% shareholder participation in Flexsys Indústria e Comércio Ltda, a joint venture with Monsanto, which has two plants located in Itupeva, SP and in São José, SP. In the past four years, Eka Chemicals' sales income amounted to a total of € 159 million.<sup>1</sup> This company produces paper and fibre.

<sup>1</sup> Brazilian Central Bank using the Euro-Real exchange rate for 2004.

### *Akzo Nobel's Chemical Factories in Brazil*

Company	Location	Type of Product
EKA CHEMICAL Eka Chemicals do Brasil S.A	Jundiaí/ SP, Jacareí/SP, Rio de Janeiro/SP, Eunapolis/Bahia	Chemicals for Cellulose: Sodium Chlorate Chemical for paper: Cellchen additives and Chemical plants Pemascand: Re-coating of titanium, Purate, Purê / Purate
CHEMICAL	Paulínia/SP	Surfactants: Fatty Starches, Fatty Acids, Armeen TMD, Redicote, Quaternary Salts of Ammonia Functional Chemicals: Polycide P4, Arsenic trioxide
AKZO NOBEL LTDA- Divisão Química	Itupeva/SP	Polymer Chemicals: Organic Peroxides, Liquids and Solids Rubber Chemicals: Sulfur Insoluble Crystex
Flexsys Indústria e Comércio Ltda.	Itupeva/SP Santo André	Production of additives for the rubber products, tire, mining and gasoline industries

Source: Akzo Nobel, 2004 ([www.Akzonobel.com.br](http://www.Akzonobel.com.br)); Receita Federal, 2004 ([www.receita.gov.br](http://www.receita.gov.br)). Prepared by IOS, 2005.

### **Coatings Division**

The coatings segment has five operating units and five production plants located in São Paulo and Rio de Janeiro States. Akzo Nobel generates a net income of nearly €197,521 million in this division, and is the strongest company in Brazil's coatings market.

### *Akzo Nobel's Coating Factories in Brazil*

Company	Location	Product type
AKZO NOBEL LTDA Divisão Tintas Repintura Automotiva	São Bernardo do Campo/SP	Products for Automotive refinishing
AKZO NOBEL LTDA Divisão de Tintas Imobiliárias- Raposo Tavares – São Paulo /SP	São Paulo/SP	Paints, Varnishes, Enameles and complementary items in the decorative line
AKZO NOBEL LTDA Divisão de Tintas Industriais	Guarulhos/SP	Coil, coatings for wood, coatings for plastic, resins, varnishes
AKZO NOBEL LTDA Divisão Powder Coatings	São Roque/SP	Powdered coatings for the automotive and appliance industries
AKZO NOBEL LTDA Divisão International – Marítima	São Gonçalo/RJ	Marine and protective coatings for boats

Source: Akzo Nobel, 2004 ([www.Akzonobel.com.br](http://www.Akzonobel.com.br)); Receita Federal, 2004 ([www.receita.gov.br](http://www.receita.gov.br)). Prepared by IOS, 2005

## **Company management and relations with the corporation**

Akzo Nobel has a two-layer organisational structure. The first is the corporate centre, composed of a limited number of high-level managers. The second part of the structure comprises the 17 Business Units, divided into three business divisions (Pharmaceuticals, Chemicals, and Coatings). Each Business Unit maintains a certain amount of autonomy. The General Managers of the Business Units report directly to the corporate Board of Directors of Akzo Nobel. The Business Units, however, are not authorised to make individual decisions.

The Akzo Nobel management strategy is quite decentralised. This decentralisation is most evident in the fact that individual plants do not report back to the Business Unit Headquarters located in the host country, but only to the Business Unit Headquarters in their respective division, which is not necessarily located in the same country.

By exception, Akzo Nobel also has a national holding and corporate management in Brazil. This Holding stated that the Brazilian units are only formally combined for tax reasons.

Human Resources (HR) management is also mostly decentralised. The Unionists take up the majority of their concerns with the HR director at the plant in question. However, the mandate of these HR directors appears limited on issues such as profit sharing or benefits, and in negotiations on such matters they often have to consult with a higher level of corporate management.

## **Employment and employment trends**

In 2004, Akzo Nobel employed 2,469 permanent employees, 575 sub-contractors and 228 intern/trainees in Brazil. This constitutes 2% of the group's total workforce. These numbers remained fairly stable over the past five years and there was a turnover of only about 5%.

39% of Akzo Nobel's workers in Brazil are between 31 and 40 years old. Only about 20% of the Brazilian workforce is female, and these women mainly work in administrative positions. 73% of the employees have completed high school (or a higher level of education), and 47% of the workers are employed in operational positions.

In 2001 Akzo Nobel embarked on a worldwide restructuring process that aimed to realise a €200 million cost reduction. By 2004, a total of nine thousand employees had been laid off, equalling to approximately 7.4% of the workforce. It appears that this massive restructuring process did not impact on the operations in Brazil as heavily, where about 3% of the jobs were lost in this time span.

The pharmaceutical division employed 916 workers in 2004, approximately 38.2% of Akzo Nobel's workforce in Brazil. Half of these workers are employed by Organon. 29,3% of the

employees in the pharmaceutical division are women, and 39% of Organon's workforce are female. Diosynth only employed 14,3% women. In general, there is a low turnover of employees in Akzo Nobel's pharmaceutical division.

The chemical division employed 382 workers in 2004. This constitutes approximately 16.1% of Akzo Nobel's Brazilian workforce. 80% of the employees in the chemical division are male. Practically all the production work is carried out by men, and 74% of the female employees work in administrative positions. Furthermore, it appeared that only 1% of the female employees work in management positions, as compared to 11% of the male employees. Employee turnover is very low in this division, varying between 1-3% per year.

The Coatings division employed 1,094 workers in 2004, about 45.7% of Akzo Nobel's Brazilian workforce. Only 14% of these workers are female. Turn over is relatively low and stable.

### **Relevant aspects of Corporate Social Responsibility**

Akzo Nobel aspires to be "the first choice of customers, shareholders and employees, and a respected member of society." The company's Business Principles set out the core values that should underlie the conduct of all Akzo Nobel companies in order to fulfil this ambition. In addition, the company maintains that it is guided by the OECD Guidelines for Multinational Companies, the ILO core labour standards, the Universal Declaration of Human Rights and the principles of the United Nations Global Compact initiative.

In its Business Principles, the company commits to observe the laws of the countries in which it operates, to protect human rights, to care for the environment, health and safety and sustainable development. The principles also include commitments to recruit, hire and promote employees on the sole basis of suitability for the job; to stimulate their individual and professional development; to provide safe and healthy working conditions; to prohibit any kind of harassment and child labour. The Principles leave room for management of the different companies to adopt local rules of business conduct. Akzo Nobel Brazil adopted a Code of Conduct that reflects the Business Principles. It includes the statement that Akzo Nobel expects its business partners to uphold similar standards.

In June 2005, Akzo Nobel released its official Corporate Social Responsibility programme. The different CSR initiatives were brought together in this program and new policies were promulgated. Budgets are granted to the different units to finance their own CSR projects. The company also created a Social Responsibility Council and a Social Responsibility Advisory Group.

In Brazil, CSR issues and monitoring compliance with the Business Principles are the responsibility of each operational unit. At Organon, the workers are specifically trained on the Business Principles and Code of Conduct. Both documents are available in Portuguese on the Intranet for all employees. The Holding company stated that all employees are informed about

the corporate values and sign an agreement to respect these principles. The Union directors also reported that new workers are supplied with a copy of the Code of Conduct and Business Principles and asked to sign it.

Employees are asked to contact a superior to report violations of the Code of Conduct, legislation or other policies. At Eka Jundiaí, Chemical, Organon, Chemical and Intervet, workers can use a 0800-telephone number to report non-compliance with the Code of Conduct. The company states that this service will also be made available at other units. Workers reported that there is no dialogue on CSR issues that involves them, the Union, communities or other stakeholders.

Organon is the only unit that sees charity as part of its CSR obligations. The other units do implement so-called Social Action programmes. The company provided a list of these programmes, which comprise a wide array of social and community initiatives.

### **3. Labour relations**

Brazil did not ratify ILO Convention 87 on the Protection of Unions. Although the Brazilian constitution guarantees the right to organise and associate without government interference, it also establishes the so-called one-Union system. This system assigns one Union to represent an entire professional category in a specific geographical area. This Union is thus effectively granted a monopoly position. The system also implies that multiple Unions, representing different categories of workers, may be relevant to a single company. The law protects the employment of Union directors until one year after the termination of their mandate. The law does not recognise federations of trade Unions.

Most Unions operate at the municipal level, although some are also active at the state or national level. Although the Federal Constitution allows for Union delegates to be appointed at a company level, this provision was not translated in Brazilian labour law. As a consequence there is often no Union representation at the workplace. A few Unions negotiated the right to form a factory commission or another kind of representation mechanism.

#### **Active unions within the company**

Akzo Nobel maintains relationships with various Unions representing different professional categories of its workers (for instance: engineers, secretaries, chemical technicians etc.) The company signed collective agreements with 15 Unions and with some Unions that represent the sub-contracted workers. The negotiations are conducted by the HR managers responsible for individual units. As mentioned, Union representatives stated that these managers have a limited mandate and frequently need to consult with managers at the higher level, in particular when it concerns “sensitive” issues such as the profit sharing plan. All Unionists confirmed that they

never suffered any persecution from the company and that no one was laid off for their Union work.

Most of Akzo Nobel's workers in Brazil are represented by Unions for chemical workers. Ten of these Unions are affiliated to one of the largest confederations of trade Unions; the *Central Unica dos Trabalhadores* or CUT and five to the *Força Sindical*. The Collective Labour Agreements or Conventions concluded by Unions for Chemical workers carry more weight than others.

It appears that there are great differences in the rates of unionisation at the different Akzo Nobel companies and across the different divisions. In general, the number of Union directors at Akzo Nobel is low in comparison with other chemical companies of similar size. The highest rates of Union membership are found at the Eka Jundiaí plant (60%), Tintas Repintura Automotiva (57%, up from 30% in 2002), Tintas Industriais (33%) and Tintas Marítimas (20%). Unionists stated that the higher rates could be explained by increased Union activity at these plants. In particular the impressive increase in Union membership at the Repintura Automotiva unit shows how an active presence and proximity to the workers can be essential to boost Unionisation.<sup>2</sup>

The rate at Organon is 10% (a rise from 6.9% in 2002). At Tinta Imobiliaria the rate of Unionisation is 12% (falling from 24.2% in 2002). The lowest rate is found at Diosynth, where Union membership fell from 6.4% in 2002 to the current percentage of 2%.

## Collective bargaining

Collective bargaining was effectively revived in the late 1970s. Collective labour agreements and conventions complement the provisions of the national labour law. The conventions are negotiated for a specific sector in a specific region; agreements are based on the conventions and are negotiated by the local Unions. Agreements and conventions are valid for one or two years and determine issues such as wage levels, benefits and some Union rights.

It is important to note that the provisions of the collective convention or agreement automatically "expire" upon termination of the negotiated period. This means that a company could frustrate the negotiations and cause workers to automatically lose the rights they previously acquired in the Collective Agreement. Either of the parties can request the Labour Court to decide on the terms of an Agreement or convention; however, this process can take years. The public authorities can also ask the Labour Court to intervene in the negotiations.

Akzo Nobel's directors supported the Code of Conduct, stating that the company recognises its workers' right to organise and to collectively negotiate on labour issues. However, as mentioned, collective bargaining only happens in at a local or plant-level, and the company does not

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<sup>2</sup> Interviews with Unionists at the following plants: Diosynth, Organon, Tintas Imobiliárias, Tintas Industriais, Tintas Repintura Automotiva, Tinta Marítima, Eka Jundiaí. It was not possible to obtain unionisation rates at the other Akzo Nobel production plants.

encourage any broader form of dialogue with the Unions. The company claims that this decentralisation serves to better respond to regional and local disparities.

By contrast, the workers representatives state that their demands are often similar and that they share many concerns (for instance on inequalities in pay, overtime, benefits etc.). For this reason, the Unions would like to better co-ordinate their work, share experiences, broaden their base, and jointly strengthen their position and effective dealings with the company. The Committee of Akzo Nobel Workers, described hereinafter, constitutes an effort in this direction.

## **Freedom of Association and Access to Information**

In general, Union directors get free access to the work floor if they give advance notice. However, the Unions at Organon, Diosynth and Tintas Imobiliárias claimed the company would, at times, refuse entry if the Union director was not an Akzo Nobel employee. In general, access appears to be less of a problem when the relations between the Union and the company are better. The fact that not all Union directors are Akzo Nobel employees also affects their ability to effectively mobilise and communicate with the workers.

Brazilian law is silent on the Union's right to information. Even if the company for instance intends to close a plant, it is not required to discuss this plan with the Unions and workers. Lay-offs must be notified 30 days in advance. The representatives of Akzo Nobel confirm that there is no legal provision in Brazil determining the information that shall be provided by the company. Furthermore, most decisions about restructuring are taken by the Holding in the Netherlands and arrive to the management in Brazil ready to be implemented. Therefore, it would not be possible to inform the trade Unions in advance.

The company does not share information or communicate with the Unions on an ongoing basis. However, Akzo Nobel's directors appear to believe that their provision of information is adequate. Worker's representatives contest this and claim, for instance, that they are barely or not at all informed about the company's performance and strategy. If information is shared, it mostly comes late.

At some units with a Profit Sharing Plan in place (Organon, Tinta Industrial and Tinta Imobiliária), Akzo Nobel shares its Accounting Statement, as called for in the legislation. However, other types of information (e.g. on restructuring measures) are not shared. Akzo Nobel's Tinta Marítima and Tinta de Repintura Automotiva plants share information about profits but do not supply the Accounting Statement. Moreover, at the Tinta Marítima unit, profits are not presented intelligibly. The Union directors requested an explanation of specific provisions, but this request was not responded to.

A particular concern relates to the lack of advance notice about increase in production, and the related need for overtime work. This is further described below, in the section on working hours.

## **The Committee of Akzo Nobel Workers**

In 2004, a substantial number of the company Unions, representing 10 of the total 15 production plants at Akzo Nobel in Brazil, initiated the “Committee of Akzo Nobel workers”, an initiative of the National Confederation of Chemical Workers and CUT, with support from the Dutch Union Federation FNV. The main objective of this Committee was to improve the flow of information between the Unions that represent Akzo Nobel’s workers, lend mutual support and identify opportunities for joint action. The Committee cannot intervene in or address local issues; the local Unions maintain their mandate. However, it should also be noted that, in theory, there are no impediments to a collective bargaining process at a national level, as long as all (local) parties agree.

The Committee requested a dialogue with Akzo Nobel about issues relevant to all workers, such as corporate policies on CSR, health and safety, and profit sharing plans. However, the company so far refused to recognise the Committee and maintains it only negotiates with individual Unions. Perhaps the company fears that a dialogue will lead to harmonisation of labour standards, in which case it could no longer benefit from the regional disparities in rights, wages and benefits. According to the company’s representatives, the decision for not recognising the Committee results from the different markets and branches where the company operates, making a common platform for discussions impractical. Akzo Nobel also perceives that the Committee will enable the Unions to reinforce their demands and organise general strikes.

In a meeting with the Holding in September 2005, Akzo Nobel said it believes its relationship with the Committee complicated due to the diversity and quantity of the Unions. The company declared that it did not oppose the Committee, but did not believe that there was a common agenda to be discussed. It believed that a dialogue about harmonisation of standards would be senseless, because Akzo Nobel’s activities are too diverse. The directors stated that the Dutch company faced similar problems in its negotiations with the Unions at a national and European level.

Since its formation, the Committee expanded at each meeting. The Committee now established a calendar that calls for two annual meetings that include workers from each of Akzo Nobel’s units. These meetings serve to review Union and company’s activities, to discuss issues of common concern and to prepare a joint plan of action. Currently only five Unions do not participate.

Beneficial effects of the Committee are already showing. For instance at Eka Jundiaí, Tinta Industrial, Tinta Marítima and Repintura Automotiva, the Unions were able to negotiate a better profit sharing plan. At times this required actions, such as work stoppages, which were organised with the Committee’s support. Various Unions reported that their relationship and communications with management significantly improved since the Committee was established. Union membership at the São Bernardo unit increased since the formation of the Committee and 100% of the production workers are currently unionised.

## **Labour conflicts**

In the past five years, very few strikes were recorded at the group's units. The few that took place happened in the coatings division and related to issues such as profit sharing, salary readjustments and inequalities, and supply of basic food baskets.

Various lawsuits were filed against Akzo Nobel companies over the payment of allowances for dangerous and unhealthy work. These are described below, in the section on Health and Safety.

In 2003, there were work stoppages at the Repintura Automotiva unit. Worker's demands related to profit sharing and salary equality. There were additional stoppages in 2005 over the food basket. The Unions state that the company was mostly receptive and willing to find a solution.

The management is also receptive to discuss conflicts with the Unions at Eka Jundiaí and the Tinta Marítima unit. However, the management at Organon, Imobiliária and Diosynth is reportedly less willing to engage with the Unions.

# **4. Labour conditions**

## **Child labour**

Brazil ratified the ILO conventions on Child Labour. The legal minimum working age is 16. Youth of 14 years may work in a trainee programme and at 18 they may accept any forms of employment. Akzo Nobel's Business Principles prohibit the use of child labour and require its business partners to follow the same standards. There were no reports of child labour at any of the group's units. The Unions did not know how the company monitors the prohibition of child labour in the supply chain.

## **Forced labour**

Brazil ratified the ILO conventions on forced labour, and the use of forced labour is a crime in Brazil. It follows from Akzo Nobel's business principles that it should not use any form of forced labour. The Unions confirmed that there were no reported incidents of forced labour.

## **Discrimination**

The Brazilian Constitution prohibits discrimination on the basis of sex, race or colour, age, religion or political ideas. Brazil also ratified the principal ILO Conventions on this issue and the law prohibits discrimination in salaries and other working conditions. Akzo Nobel's Business Principles state that it hires and promotes its employees on the sole basis of their suitability for the job, and that it does not allow any form of harassment.

### **Sex discrimination**

As described in the section on employment, Akzo Nobel's sex balance is skewed, also in comparison with other companies of similar size. Only 20% of Akzo Nobel's workforce are women, and they rarely work in the production area or on a management level. The employment of women at the different Akzo Nobel units is also described in the section on employment.

According to the representatives of Akzo Nobel, the figure of 20% female workers does not imply discrimination: the limited access of women to the labour market limits their recruitment. Women have only recently started to pursue specialisation for technical and operational positions. Therefore, it will require time to achieve a balance between male and female workforce. However, the company does not implement specific programmes or policies to actively improve the gender balance. No incidents of sexual harassment were reported.

### **Racial inequalities**

In Brazil, black people have historically been socially marginalised. There are few black workers among Akzo Nobel employees, and practically none in management. The Tinta Marítima unit is the only exception, with nearly 40% of the production workers being black. They do not, however, occupy management positions. Akzo Nobel has no programmes or policies in place to actively address and help reduce racial inequalities. Akzo Nobel's explanation for the low percentage of black workers is similar to that regarding female workers. The company perceives that the problem of black people's access to universities is even worse than for women. Akzo Nobel emphasises that colour, sex, or religion, are taken into account during selection process. Every qualified worker is able to participate in the selection process of Akzo Nobel, and therefore employees are selected according to the labour market's supply of workers qualified for the offered positions.

### **Workers with disabilities**

The Unions alleges that Akzo Nobel does not comply with the legal requirements for large companies to have 2-5% of their positions filled by people with disabilities. Organon's division developed the "Be Efficient" project, which aims to make employees aware of the importance of working together with disabled people and to help them integrate in the company. According to Akzo Nobel's representatives, there is a lack of disabled people capable of working in the company because it is a chemical factory; the employment of disabled workers is hindered by the increased risks inherent to the operations.

### **Wages and bonuses**

Only as of 1 May 2005, the law provides for a monthly minimum wage of R\$300 (€110). States may promulgate a higher minimum wage and the Unions may agree to a lower standard in an Agreement.

None of Akzo Nobel's workers receive less than the minimum wage and most earn more. In 2005, the average salary in Akzo Nobel's productive area was close to R\$ 1,050 (€290); in the administrative areas it approximated R\$ 2,030 (€560).<sup>3</sup>

Wages at the São Paulo units are much higher than at those in other states, and there are stark disparities in wages between the various Akzo Nobel units. The company argues that these differences in wages are caused by differences in job functions and that they reflect the regional differences in costs of living. Akzo Nobel comments that the law does not require them to pay the same wage for different functions in different localities.

### **Pharmaceutical division**

Organon's average salary for administrative positions is 56% higher than what's paid by Diosynth and Intervet. This fits with the fact that Organon appears to provide overall better working conditions. Organon's wages for production work are similar to those at Diosynth, while the wages paid by Intervet are 39% lower. The company argues that this difference is justified by the different regional location of these companies.

However, in January 2005, the Inter-Union Department of Social-Economic Studies and Statistics (DIEESE) calculated that the average costs of a Basic Food Basket in São Paulo amounted to R\$ 173 (€48) and to R\$ 125 (€35) in Fortaleza. This would indicate that the difference in the cost of living between the two regions is about 28%, while the difference in wages paid by Akzo Nobel is much higher, amounting to around 36%

Furthermore, Union directors reported that workers at Diosynth do not receive the allowance for hazardous conditions, as required by law. A number of legal actions have been filed by former Akzo Nobel employees demanding the payment of this allowance.

### **Chemical division**

Unlike the situation in the other divisions, wage levels appear fairly balanced between the two units in the chemical division. Average wages vary between R\$1,200 (€330) for production work and R\$2,235 (€620) for administrative work at EKA Jundiaí; and R\$1,133 (€310) for production work and R\$1,745 (€480) for administrative work at the Itupeva unit.

### **Coatings division**

The coatings divisions shows the largest discrepancies in wages between the different units. Furthermore, the average wage for production work is about R\$990 (€275), which is lower than in other divisions. Salaries for administrative work are similar to what is paid at other units.

The 2002 OIS report found stark differences in wages paid to employees doing similar work in the Automotive Refinishing division. At the time, the Union helped mobilise the workers to demand correction of this practice. Currently, this division has the highest average salary in the division, at

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<sup>3</sup> The average salaries were calculated based on the amounts presented by the company. Conversion to Euros is based on exchange rate of January 2005.

about R\$1,300 (€360) for production and R\$1,754 (€485) for administrative work, as well as the highest equality in wages.

In 2005, the average salary for production work at Tinta Marítima (Rio de Janeiro) was R\$677 (€190), while the average in Repintura Automotiva (São Paulo) was R\$1,300 (€360) - a difference of 35%. DIEESE Basic Food Basket calculations would suggest that the difference in costs of living between these two regions is about 6%. However, the difference between the above wages is nearly 48%.<sup>4</sup> Comparing the payrolls of these two companies, it appears that, at times, the difference in the wages paid to workers with the same job title nears 100%. For instance, Repintura Automotiva pays a reactor operator R\$1,681 (€465) and a maintenance mechanic R\$1,897 (€525). Tinta Marítima pays workers in these functions only R\$871 (€240) and R\$933 (€260) respectively.

Some workers also complained about the lack of a public, uniform salary plan. Without such a plan, a manager is free to set or adjust a worker's wage level according to his likes or dislikes. The importance of this issue is shown by the report that there are significant differences in the wages earned by boiler operators at Tinta Marítima. Moreover, this unit reportedly only pays the allowance for hazardous work to the workers in the production area, while the law requires that this benefit be also extended to workers in the administrative sector, who are also at risk. Some former administrative employees have filed suit against the company demanding this pay.

### **Profits or Results Sharing Program**

Brazilian law allows companies to offer a Profit or Result Sharing scheme that is exempt from taxes, on the basis of a collective Agreement. This scheme should be negotiated with a commission of workers. The Union may appoint one of the commission members while the company names the others.

For the purpose of profit sharing, Akzo Nobel defines goals for each division, which are submitted to the aforementioned Profit Sharing Commissions. These commissions then further specify the goals on the basis of indicators such as production volume, product quality, costs etc. All workers have access to the information that is used to determine the goals.

The profit sharing plans of Akzo Nobel's units widely differ in terms of remuneration, goals and the form of the commissions. At some plants, profit sharing exceeds what is required by the collective convention. In other plants profit sharing is linked to productivity.

At the units where profit sharing exceeds the minimum pay stipulated in the convention, there are usually issues of disagreement. At Diosynth, for example, there is disagreement about the criteria and the goals, which are, reportedly, not discussed with the Unions and not clear to all workers. Workers' representatives at Diosynth are, reportedly, only invited to discuss the plan when it

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<sup>4</sup> Exchange Rate for January 2005.

needs to be signed, and other workers are not included in this discussion. There was also controversy at this unit over the provision that imposed environmental or sanitation fines should be considered by the profit sharing program commission. Profit sharing is not a source of controversy at Organon.

The management at Eka Jundiaí recently agreed with worker's demands for profit sharing above the minimum provided in the collective convention. This should be introduced in 2006. Similar demands were posed by the Tinta Marítima Union, backed by threats that it would file suit if the company continued to refuse to negotiate the plan. The management recently agreed to reopen the discussion. The current plan is seriously flawed by the absence of a commission, an unintelligible presentation of the accounts, and the inclusion of what seems to be an obscure link to the performance of units in other countries. Akzo Nobel Holding denied that such a link could exist, and added that trying to establish it would be entirely inappropriate.

There is an active profit sharing commission at Tinta Industrial. It has six members who are elected in a general assembly with the participation of all workers. The company also supplies information about profits. The profit sharing commission at Repintura Automotiva receives information about profits, but does not receive the accounting statement from the company.

## Benefits

Overall, the Akzo Nobel group provides a series of benefits. These include, among others, a medical and dental plan, a cafeteria within the plant, transportation, a food basket and a recreational club. However, there are great differences between the benefits available at the various plants.

- **Pension plan and life insurance:** The company maintains a retirement scheme called Akzo Nobelprev. However, the Unions stated that this plan is so expensive that only employees in management positions can benefit from it. The Eka Jundiaí, Tinta Marítima, Wanda, Organon and Repintura Automotiva units provide life insurance.
- **Medical and dental care:** All researched units have health plans for their employees, which is, in limited form, extended to dependants. Dental care is not always provided and, in some cases, is paid entirely by the workers. Illness and Accident Assistance is negotiated in the collective agreements of some units and the duration and amount of compensation vary.
- **Transportation:** Organon and Repintura Automotiva offer a collective transportation service to their employees. At Eka Jundiaí, the company responded to workers' demand to negotiate changes in the itinerary of the bus service.
- **Childcare:** The company does not always comply with the provisions on day care in the Collective Agreement. Organon is the only division that offers education to workers' children.
- **Loans:** Workers' co-operatives provide credit facilities at a number of units.
- **Education:** Organon also offers a study grant and reimbursement for school fees to employees. Intervet developed a program to counter functional illiteracy that aimed to

the education of 80% of its workers to high school level, and to achieve this for all workers by 2015. English classes are offered at Tinta Marítima for administrative workers only.

## **Working hours**

In Brazil, the general maximum working week is 44 hours, with one paid day of rest. Uninterrupted shifts may be no longer than six hours, totalling 36 hours per week. The collective agreements may provide for a different number of daily working hours. Akzo Nobel's administrative employees work eight hours per day, or 40 hours per week. The working hours are more flexible in the production areas and average 44 hours a week, generally in three shifts.

Overtime is allowed for a maximum of 10 hours per week and two hours per day, and only in cases of urgent need. The Collective Labour Agreement may provide that the hours of overtime are accumulated before these are compensated. Akzo Nobel's production workers work approximately three overtime hours per week and administrative staff about four hours overtime per month. There are notable differences between units and, in some cases, it appears that workers have great difficulties in refusing overtime work.

- At Organon, production workers work about 2 hours overtime per month. When the monthly payroll is being completed, workers in the administrative department are obliged to stay until this job is finished. The Union reported that these extra hours are not compensated.
- There is rarely any need for overtime at Eka Jundiaí. If there is, the overtime work is announced in advance and workers can refuse to work.
- At Repintura Automotiva, overtime currently averages 4 hours per week. In early 2005, the company announced a policy of regular overtime for all the employees in order to meet production demands. However, it did not negotiate this measure with the Union. The division has been producing at its peak since January 2005. The company promised that new workers would be hired in 2006.
- Overtime is frequent at Tinta Marítima and averages 7 hours per week. There were reported cases in which a worker who refused overtime was pressured or suffered retaliation. The Union tends not to be informed in advance of the need for overtime.

## **Health and safety**

Brazilian law provides for a wide range of regulations on health and safety issues. To ensure the participation of workers in the prevention of occupational accidents and diseases, the law provides that an Internal Accident Prevention Commissions (CIPAs) must be created at specified factories. Half of the CIPA members are elected by the workers, the company appoints the other half, including the CIPA's President.

As mentioned, under Brazilian law, employees that work in unhealthy and dangerous conditions are entitled to an allowance, which is equivalent to 40, 20 or 10% of the regular pay, depending

on the type of conditions. Exposure to dangerous conditions entitles workers to an additional pay of 30% above their regular salary. Employers must report proven or suspected occupational injuries or illnesses to the National Social Security Institute (INSS).

Akzo Nobel's Code of Conduct states that the company will do its best to guarantee a safe working environment for all its employees, and that it will take all necessary measures to guarantee the adherence to the existing legislation. All its units have CIPA's in place. In many units, there has not been any serious accident for more than five years, allowances for unhealthy, dangerous and night work are properly paid out, and employee's suggestions for improving working conditions are often accepted.

In its 2002 research, IOS found some serious health and safety concerns for Diosynth. Workers were required to handle unhealthy and dangerous substances including methanol, lye and acid. The company reportedly provided protective equipment, though without explanation on how this equipment should be used. In contrast to other units, Diosynth (now part of Organon) currently appears not to pay any allowance for unhealthy conditions, despite the Union's pressure. The workers' representatives are in possess of a report by the company's former safety technician, who found unhealthy conditions and advised that allowances be paid. This technician was allegedly laid off after he released the report in 2003. The CIPA members also pointed to unhealthy conditions, but did not pressure the company out of fear for their jobs. Various former employees filed suit to demand additional pay. The company lost a number of these cases in the lower courts and appealed the decisions. Lastly, there are allegations that injured workers are being put back to work, so the injury will not be recorded as a work accident with absence.

## **5. Reorganisations and work flexibility**

### **Reorganisations and relocations**

In 2001, Akzo Nobel embarked on a major restructuring exercise to counter the difficulties in the global chemical industry. Akzo Nobel decided to redefine its priority divisions and sell or deactivate other units. In this strategy, the company ended its operations in fibres and sold Tékніка from its pharmaceutical division. In January 2005, Diosynth was merged with Organon.

According to the Unions, Diosynth fired 26 employees in the second half of 2005 when a part of its operations was outsourced. The company did not respond to a workers' representatives' request for a meeting to discuss the lay-offs. From 2001 to 2004, jobs were lost at Organon in sales (due to a reduction in demand), in HR (due to restructuring) and in production (due to mechanisation of production). Organon's HR management explained that the workers were informed in advance and provided with a lay-off package. The Unions were, however, not informed, because they were not represented in the unit in questions. There were 30 lay-offs and 34 new hirings at Intervet.

In the chemical segment, the group gave up Polyenka, deactivated the Eka Química Ltda, and sold its participation in the Fábrica Carioca de Catalizadores. The group also invested €50 million in the construction of a factory complex for paper and cellulose in Eunápolis, southern Bahia state. The plant began operating in 2005. In the same year, Eka Chemicals opened a plant in Rio de Janeiro for the production of silica sol - a raw material for the paper and cellulose sector and the petrochemical industry.

In the Coatings segment, restructuring measures implemented in the past five years at Repintura Automotiva created jobs in a newly created distribution centre and caused lay-offs when machines replaced manual labour in the production area. The company did not provide advance notice to the workers and the Unions about these reorganisations. It engaged an agency to help deploy the laid-off workers back in the labour market; however, some workers were unable to find another job.

The above cases highlight what appears to be a general and disconcerting company practice not to engage or dialogue with the Unions and, more specifically, not to inform the Unions about measures that may or will lead to job losses.

### **Subcontracting and Temporary Workers**

Akzo Nobel subcontracts activities that are not related to its core business, such as canteen service, cleaning, gardening etc. The company claims that it carefully picks its service providers, monitors their labour contracts but does not accept responsibility for their working conditions. Suppliers are required to comply with Akzo Nobel's Code of Conduct, mostly as a contractual condition. Tinta Imobiliária conducts a campaign for compliance to the code of conduct by its suppliers. Virtually all units use temporary contracts when production peaks and to temporarily replace a worker on leave. Subcontracted workers represent about 17% of Akzo Nobel's employees in Brazil, while the temporary workers amount to approximately 6%.<sup>5</sup>

The law provides that temporary workers cannot be contracted for more than three months, and that their wages may not be lower than the regular pay offered for the work. The company maintains that temporary and permanent workers receive equal pay. However, the Unions mentioned reports of temporary workers who get less pay and benefits.

Diosynth's management stated that temporary workers are contracted only if there are peak production demands. It maintained that there is no difference between their working conditions and those of the permanent workers. The Union alleged that, in 2005, nearly 26 employees were laid off when a specific (core) business activity was subcontracted. The Union has requested discussions about this decision, but until now the company has not responded to the requests.

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<sup>5</sup> Data presented by the Holding in 2005.

At Repintura Automotiva, temporary workers do not receive the same benefits as the permanent employees. They are contracted for three months only, and offered a regular contract if they are needed for a longer period. This unit contracts a company called Evasicor to cans the paint in smaller cans. However, Evasicor's working conditions and wages are reportedly much below Akzo Nobel's standard and the company does not comply with the Collective Labour Convention – a serious violation of Brazilian labour law. After much pressure and actions by the Union, the management finally committed to end its contractual relationship with Envasicor if the company would not comply with Akzo Nobel's standards by December 2005.

The Union at Tinta Imobiliária stated that the company permanently uses so many temporary workers that it pushes the legally allowed percentage of nearly 10%. These workers reportedly earn much less than what the permanent employees get for the same work and they do not receive benefits such as profit sharing, health plan etc.

## 6. Conclusions

In a Company Monitor meeting in 2003, Akzo Nobel's directors agreed to improve their dialogue with Unions, to discuss the findings of the 2002 report with the local managers and to take corrective measures within 6 months. Notable positive developments since the 2002 research include:

- All plants are now covered by the Code of Conduct;
- There were no more reports of excessively long working days (which in the 2002 study were reported to reach up to 16 hours);
- At the Repintura Automotiva unit, the company's relations with the Union have much improved.

At the same time, a number of serious concerns remain and seem not to have been addressed since 2002.

The fact that HR issues are decentralised to unit-level leads to stark differences between wages, workers' rights and working conditions provided by the different units. It appeared, for instance, that the workers at Diosynth (now Organon) have, in many ways, a sort of "second class" status when it comes to working conditions, their relationship with the company and benefits. In addition, some workers reported that there is a form of "veiled" pressure against the right to Unionisation at the unit. The problems reported in 2002 for the Diosynth plant (concerning freedom of Unionisation and difficulties and delays in obtaining information) appear to persist. In particular, Diosynth reportedly fails to discuss serious health and safety issues with the Unions. Moreover, there are reasons to question the health and safety conditions, as well as the company's refusal to pay the legal allowance for unhealthy working conditions.

In general, the company's relations with the Unions also leave much room for improvement. At a number of units there is a need for more dialogue about salary plans, profit sharing and other

benefits. A similar situation occurs with regard to issues that relate to the Union's ability to work effectively, including Union directors' access to the work place, which is problematic at times, and communication with the workers. Akzo Nobel commented that allowing access to the work place or not is up to the company, because Brazilian law does not address this.

Improved information sharing with regard to the company's performance is also needed to ensure effective negotiations. Moreover, it appears common practice for the company not to engage the Unions in decisions or restructuring measures that lead to job losses. Unions are only informed at the last hour. Improved access to strategic company information for all business units would also require active support from the corporate headquarters, since, according to the management in Brazil, most decisions about restructuring are taken in The Netherlands and arrive ready to be implemented. Numerous reports highlight the absence and need for a broader dialogue and improved communications with workers' representatives.

The Unions mentioned the company's persistent refusal to recognise and negotiate with the Committee of Akzo Nobel's Workers as an issue of specific concern. This Committee could strengthen the individual Unions in their position and allow for the development of a common agenda. A dialogue between the company and the Committee might be the first step towards harmonisation of wages and labour standards across the different units. However, the company insists on communicating and dealing with the individual Unions only. According to the company, the decision not to recognise the Committee results from the different markets and branches in which it operates, making it impractical to have one common platform for discussions. Akzo Nobel also fears that the Committee might organise general strikes affecting all units. As a consequence, there is no way to effectively address the inequalities in wage levels, profit sharing and other benefits that persist between the different units.

There are also reports about inequality in remuneration and benefits for similar work. This applies to workers that do the same job within one single operation, as well as to similar jobs at different units. This indicates an apparent issue of compliance with job and salary plans or related standards. Moreover, it highlights the need for uniform policies and guidelines.

The profit sharing plans for the different units also widely differ. The company responds that wage differences are based on regional norms and individual years of service, and are in line with legal requirements. The company did not adopt a uniform profit sharing plan, nor did it design a model or set minimum requirements for that purpose. These measures are basic to ensure that all employees have access to an equitable profit sharing plan.

Furthermore, the issue of equal treatment and discrimination remains pertinent to Akzo Nobel's operations. Relatively few women are hired, and only few occupy management positions. There are very few black workers, and very rarely are they employed in management positions. Workers with special needs also represent a very small percentage of the work force. In relation to these issues, little appears to have changed since 2002. Akzo Nobel explains that this is a result of the national labour market structure and the nature of the company's operations. However, the

management did not specify any definite action plans to address the issues proactively. They do, however, have a programme to integrate disabled workers.

The frequent use of subcontractors and temporary workers also represents an issue of concern. It appears that, in some cases, these workers get paid less and do not get the same benefits as permanent employees. This appears to be the case in the Coatings Division in particular. Unions at these plants also claim that the company relies on temporary staff where it should simply hire more permanent workers. Diosynth reportedly decided to subcontract operations, which resulted in a loss of jobs, without consulting with the Unions or giving any form of advance warning.

The research points out that Akzo Nobel still needs to do more to ensure that the company's commitment to its Business Principles and Code of Conduct, ILO standards, OECD Guidelines and the Global Compact are upheld in all its operations and that all its employees can rely on sound and equitable working conditions.