

REPORT

How Systembolaget follow up the Code of Conduct in South Africa

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Inadequate housing and incorrect payroll deductions, but no evidence that pesticides have been used without protective equipment or that workers have been prevented from joining trade unions. These are some of the findings of an in-depth review of the supply chain in South Africa carried out by Systembolaget with the help of independent auditors and its own staff.

During 2016, considerable attention was paid to Systembolaget's work to promote social responsibility in the supply chain and its Code of Conduct, especially in South Africa. In particular this work was discussed in the Swedish television programme "Uppdrag Granskning" (which focuses on investigative journalism) and in articles picking up on a strike by workers at the Robertson Winery.

Systembolaget has, for some time, had a particular focus on the conditions in South Africa – which is one of the countries we class as a risk country because of the problematic conditions that may arise in the supply chain. Due to the increased attention in the autumn of 2016, as well as incident reports submitted to Systembolaget, we carried out further investigations and audits in South Africa. Systembolaget has also conducted a thorough review of all sustainability and responsibility work, among other things to improve the legal possibilities to exclude any suppliers where we discover serious deviations from the Code of Conduct.

The review and follow-up are still in progress and will continue throughout 2017. In summary, our review shows that the allegations that workers have been prevented from joining trade unions are not correct. The same applies to the allegations that pesticides have been used without protective clothing or that workers have been laid off or evicted for no reason. However, the review did show that there have been shortcomings in payroll management and accounting, and that in many cases the standard of housing is very poor.

Systembolaget follows up on all reported deviations from the Code of Conduct (the rules governing our work on sustainability and social responsibility in the supply chain). While the main responsibility for the social responsibility work in relation to the products sold to Systembolaget falls on the supplier, Systembolaget sets the standards. This includes our clear intention to live up to our goal that the products we sell shall be produced under socially secured conditions.

Systembolaget has concluded that long-term work on the Code of Conduct is effective, i.e. in that it leads to improvements at farms and producers. Nevertheless, the independent audit has shown that further improvements are needed, for example in purchase agreements and work processes in general, not only with regard to the conditions in South Africa but also in a number of other countries where beverages are produced.

Systembolaget's trade with risk countries

In many countries, the food and beverage industry offers an employment opportunity for people with poor education. There are over half a million farm workers in South Africa and half of them work in the wine industry. South Africa is a popular wine growing country, with world-leading producers. But the country is still poor and a large part of the population suffer difficult social conditions. There are other countries with similar conditions, including Chile and Argentina, and at Systembolaget they are classed as so-called risk countries. We are aware that while the problems in these countries can be significant, wine production also plays an important role in developing prosperity and better working conditions.

When it comes to products from risk countries, Systembolaget requests evidence of valid sustainability certificates and quality systems. In these countries, the producers are also asked to sign Systembolaget's Code of Conduct. It is also in these so-called risk countries where the greatest number of audits and follow-ups take place.

Examples of some of the measures we are introducing are situation analyses of suppliers' sustainability work in 2017, risk assessments in view of product launches in 2018 and compulsory e-learning for suppliers. Systembolaget has also initiated work to improve the reporting of deviations from the Code of Conduct through increased global monitoring, more visits to producers and increased dialogue with producer organisations, importers and suppliers.

A report focusing on the criticism of the conditions in South Africa was presented to Systembolaget's Board of Directors in May 2017, which included the following findings:

The producer Leeuwenkuil has been accused of not letting its workers to join trade unions or making trade union membership a sackable offence.

The independent audit concluded that there were no grounds for these allegations. The auditor conducted about 75 interviews with workers from different farms. On a majority of these farms there were no trade unions, but according to the workers, this was a choice they had made themselves.

How Systembolaget ensures compliance with the Code of Conduct

Systembolaget does not itself import the beverages it sells, but buys them from Swedish import companies. It is the import companies, in excess of 800, that have the task of monitoring and auditing compliance with our rules, i.e. the Code of Conduct. Systembolaget conducts training and communicates with all these companies to ensure compliance with the Code of Conduct. We also carry out our own site visits, samplings and audits with the help of professional, third party auditors.

Pictures in the Swedish Television programme showed workers who appeared to be spraying pesticides without protective clothing. On Systembolaget's request, an independent auditor has inspected farms and interviewed workers.

All those who were interviewed have denied that pesticides are used without protection. Instead, the interviewees stated that they have been trained and informed about the importance of protective clothing.

The TV-program "Uppdrag Granskning" claimed that a former worker on a farm that supplies Robertson had been laid off, evicted and now lives in sub-standard housing.

The independent auditor reviewed the case, which is a legal matter that has been going on for about four years. The review showed that the man was dismissed in 2012 after a number of warnings. The house he now lives in, which lacks running water, electricity and toilet facilities, does not belong to the farm owner, but was procured for the man as part of an agreement. Systembolaget is awaiting the outcome of the legal employment procedure in South Africa.

We were informed by workers at one of the farms supplying the wine maker Robertson, that they have installed CCTV surveillance to counteract theft. The independent review found that the information regarding CCTV surveillance was correct, but that the farmer had installed the system because of exports to the United States, which, based on US anti-terror legislation, requires cameras to be in place.

On farms supplying Robertson, there are six cases where workers claim that employees have been laid off and/or evicted without cause. The independent review has shown that due legal process was followed and that the terminations complied with current South African legislation concerning warnings and documentation.

On another farm that supplies Robertson, workers have reported that they have been treated patronisingly by the management and that they do not dare to report verbal harassment.

During a follow-up in the spring of 2017, workers said that the situation had improved, but that complaints against the farm's management were still not being dealt with. Systembolaget's Swedish importer is discussing the introduction of a telephone service, where workers can anonymously report complaints, with the farm management. The farm owner must be able to resolve reported deficiencies, and the importer must be able to follow them up.

Incident reports and external criticisms point to various errors concerning salary payments on a number of farms.

The independent audit confirmed deficiencies at Leeuwenkuil. There was evidence that some farms paid wages below the statutory minimum. This has been confirmed, and the farms should now have introduced the correct salary and paid out the difference retroactively. Systembolaget's importers are waiting for evidence that this is indeed the case.

The independent review has also established the existence of incorrect payroll deductions. Under South African law, deductions may be made for housing and food, but such deductions may not exceed 10 percent of the salary. On a number of farms, much larger deductions had been made. The workers were buying for more than they could afford.

Also, the deductions were not specified on the salary slip. On a couple of farms, the independent audit showed that payroll deductions were correct and on several farms interviewed workers stated that the deductions matched the purchases made. However, dealings of this kind are incorrect, and must be rectified. The farms involved are to introduce better administrative procedures for payroll management and comply with legislation on maximum payroll deductions.

One farm that allowed workers to obtain supplies directly from a store and then deducted the costs from the salary, has completely stopped this practice. Instead, workers receive their entire salary and pay for their food in cash at the store. The farm assists with transportation to the shop after payment of wages.

The deficiencies in payroll management will be followed up by continued auditing and reviews in the autumn of 2017.

The TV programme "Uppdrag Granskning" contained several film clips where workers on farms were seen living in filthy areas and in broken down houses or huts.

Systembolaget's independent audit confirmed that this had occurred. In total, just over 40 houses were inspected on seven farms. Leaky roofs, broken windows, cracks in walls, no in-door toilets and unhygienic conditions in communal toilets were frequently seen.

There is a housing shortage in South Africa and there is a tradition of workers living on the farms, on land owned by the farm or the producer. In some cases, rent is deducted from wages and South African law contains minimum requirements for such housing. However, these requirements are very low, especially from a Swedish perspective.

The audit and review have revealed that part of what was broadcasted in "Uppdrag Granskning" is no longer applicable. A depicted burnt down row of houses has been demolished, and on another farm sub-standard housing has been demolished and five new houses have been built. However, at the same time, the review has shown that a number of workers with families still live in small one-room houses intended as temporary accommodation, so-called "Wendy Houses". Conditions are extremely cramped with insufficient amenities.

Under what circumstances will Systembolaget terminate its agreement with a supplier?

- An agreement can be terminated if a producer does not allow Systembolaget to carry out an audit. Other grounds for termination are a material breach that is not addressed, such as child labour or serious danger to life and health.
- For defects concerning, for example, incorrect wages or deficiencies in sanitation, the producer must be given the opportunity to rectify the defect within a reasonable period of time.
- The idea behind the Code of Conduct, which we have developed in cooperation with a number of other companies in the international food and beverage industry, is to improve social conditions among producers. As long as this is the case we view our collaborations favourably. But if improvements do not occur over time, or if a serious deviation from the Code of Conduct is discovered, we have the option of terminating an agreement. However, it is important to remember that such an action may have serious financial and social consequences, and may lead to workers losing both their jobs and homes. Therefore, action of this type must be handled with care.

Plans have been introduced to improve the situation. The producer Leeuwenkuil has purchased land in order to build new houses for workers with families who work on a number of farms. These houses are expected to be in place by 2018 at the latest. The deficiencies found in previous audits have been addressed by renovating the houses concerned. Issues concerning fire safety and toilets have been addressed on a majority of the farms.

One of the farms reviewed no longer sells grapes to Leeuwenkuil. Thus, this farm is no longer relevant for the producer's or Systembolaget's work with measures and improvements.

The next step is to follow up the farms and housing situation in the autumn of 2017.

Serious allegations were encountered during the independent audit, which Systembolaget classified as cases of zero tolerance.

There have been two cases of use of abusive language, which is not only a violation of Systembolaget's Code of Conduct but may also be in breach of South African law. In one case, the producer acted quickly, with a spirit of cooperation and an action plan. In the second case, a dialogue is under way between Systembolaget, the Business Social Compliance Initiative (BSCI), the supplier and producer and an action plan is in place. Follow-up is continuous and checked according to the intervals recommended by BSCI.

Future action

- A situation analysis of our suppliers' sustainability work will be undertaken during 2017.
- Systembolaget will extend the number of audits at producers and farms. Approximately 200 audits will be carried out in 2017, and approximately 300 are planned for 2018.
- During 2018, compulsory e-learning will be implemented for all suppliers, focusing on the Code of Conduct and environmental responsibilities.
- In 2018, Systembolaget will implement a risk assessment with regard to social sustainability of companies producing the products from identified risk countries before a product is being launched in our fixed assortment.
- Increased focus on incident handling (deviations from the Code of Conduct) through increased global surveillance, more travel and visits and dialogue with producer organisations and trade unions.

Summary

Systembolaget has been working on sustainability issues in South Africa for many years and actively participates in BSCI (Business for Social Compliance Initiative), a network of companies that have decided to improve working conditions in their global supply chains.

During 2016 the work in South Africa was intensified as a result of BSCI updating its Code of Conduct. Following criticism in a documentary ("Uppdrag Granskning") broadcast on Swedish Television, Systembolaget appointed third party auditors to follow up the potential deviations from the Code of Conduct identified in the TV programme. While this work was in progress, Systembolaget was informed of further incidents at more farms and producers, following information from an association of 8 trade unions in South Africa's wine industry.

In total, 143 potential deviations from the Code of Conduct at sites of 35 producers or farms were investigated.

A large proportion of the incidents were groundless or unproven. The independent audit has written off accusations of illegal dismissals, lack of freedom to unionise, incorrect evictions and criticisms that pesticides were used without protective equipment.

On the other hand, the auditors found evidence of unlawful payroll deductions and wages below the statutory minimum. In some of these cases, the errors have been corrected and in others, action plans have been prepared.

The independent audit has also identified significant deficiencies in the housing that some workers live in on farms and at producers. The standard of housing can be very low, even if it is not illegal in South Africa. Improvements, and construction of new housing, are ongoing, but much more needs to be done.

During the spring of 2017, two cases of so-called zero tolerance against Systembolaget's Code of Conduct were encountered. They concerned the use of abusive language. In one case, the producer acted quickly, with a spirit of cooperation and an action plan. In the second case, a dialogue is under way between Systembolaget, BSCI, the supplier and producer. Follow-up is planned for the autumn of 2017.