Kraft Union Network

July 31, 2012

Latest addition to Kraft breakup team - another hint of the future?

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Financial News Release

Kraft Foods Names Kim Rucker EVP, Corporate And Legal Affairs, For Future North American Grocery Company

Avon Executive Brings Outstanding Legal, Corporate Governance and CPG Experience to Role

NORTHFIELD, Ill., July 19, 2012 /PRNewswire/ -- Kraft Foods (NASDAQ:KFT) announced today that Kim Rucker will become Executive Vice President, Corporate & Legal Affairs, Kraft Foods North America in late August. Rucker, 45, joins the company from Avon Products, Inc. where she serves as Senior Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer. She will join Vernon's Management Team and lead the legal, corporate governance and corporate affairs functions. Upon launch of Kraft Foods Group, Inc. later this year, Rucker will become Executive Vice President, Corporate & Legal Affairs, General Counsel and Corporate Secretary. Rucker will report to North America President and future CEO Tony Vernon.

Avon calling?

According to Vernon, quoted in the Kraft press release, "Kim's extensive experience providing strong strategic and legal counsel to boards of directors, CEOs and executive teams of large public companies will be invaluable as we become a standalone entity," Vernon said. "Her broad and deep background in law and corporate governance, plus her knowledge of the CPG sector, make her an important asset to our team. I look forward to working closely with Kim as we become a world-class public company and North America's favorite food and beverage business."

Rucker's corporate CV? "Since 2008, Rucker has led Avon's global legal operation, including corporate governance, compliance, litigation, government affairs and intellectual property. Prior to joining Avon, she was SVP, corporate secretary and chief governance officer for Energy Future Holdings, formerly TXU Corp."

What do we know of corporate governance and compliance at Rucker's former employers? Avon, the pioneer direct-sales cosmetics company, is a commercial shambles, circled by potential private equity sharks attracted by the plummeting share price and the target of several US federal investigations and shareholder lawsuits.

In 2008, the company launched an internal investigation into allegations of bribery in China in violation of the US Foreign Corrupt Practices Act. The following year, the probe widened to take in up to a dozen additional countries. The US Securities and Exchange Commission (SEC) and the Justice Department have since launched formal investigations, compelling Avon to identify the affair as a "risk factor" with potentially important implications for investors in its regulatory filings.

The investigation has cost the company hundreds of millions of dollars in legal fees and led to the dismissal of 4 top executives in 2010, followed by the vice-chairman and former CFO in 2011.

Avon Products Shareholder Seeks Records Over Bribery Probe

By Chris Dolmetsch - May 15, 2012 1:05 AM GMT+0200

An Avon Products Inc. (AVP) shareholder asked a New York court to compel the cosmetics maker to let it inspect its books and records in connection with a bribery probe.

The York County, Pennsylvania, retirement plan today asked a New York state Supreme Court judge in Manhattan to order Avon to allow it to inspect the company's books and records in order to identify "mismanagement and breaches of fiduciary duties" by the board and executives and assess whether the directors lack the "independence necessary to exercise their business judgment," according to the court filing.

The case arises out of an internal probe into potential violations of the Foreign Corrupt Practices Act in 2008 that has escalated into a U.S. Securities and Exchange Commission investigation of Avon, according to the court filing.

In a 2011 conference call with investors, one analyst asked "Why should investors believe management and the board have any control over the business at this point?"

"Look, the buck stops with me," replied [CEO Andrea] Jung, who has been chief executive officer since 1999 and chairman since 2001. Jung resigned in December and was replaced in April 2012.

Analysts also eventually noticed that Avon couldn't fund its dividends with free cash flow after raising the payout rate to shareholders.

The China bribes, which were to ease the way for Avon to become the first direct sales transnational in China, date back to 2005-2006 – before Rucker joined the company. Rucker undoubtedly would like to go down in the annals of corporate history as the force that cleaned up a company addicted to massive bribery. But the SEC probe widened in October 2011 to take in allegations of improper communication with securities analysts which allegedly occurred on Rucker's watch. And according to a Bloomberg article earlier this year, "Avon confirmed on May 11, 2012 that the SEC is investigating trading activity before Coty Inc. offered to buy the door-to- door cosmetics retailer last month for $10 billion."

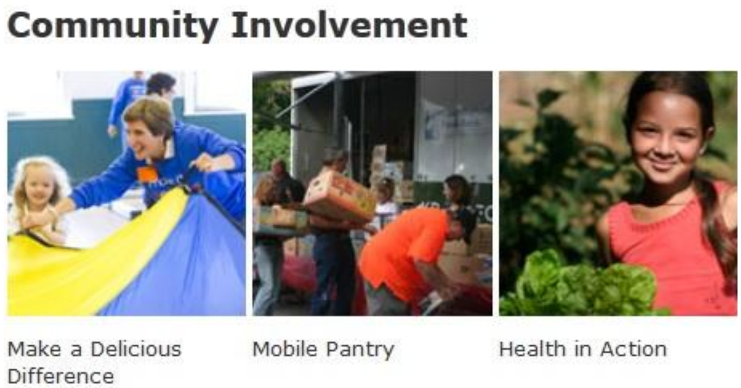
The least that can be said about "broad and deep" legal and corporate governance at Avon when Rucker had the job is that there wasn't much of it.

Rucker was part of an executive team which provided the large public company Energy Future Holdings, formerly TXU Corp, with "strategic and legal counsel". TXU was taken private in 2007 by a consortium of private equity firms in the largest leveraged buyout in history. The USD 45 billion buyout – in which KKR, TPG Capital and Goldman Sachs invested a mere 18% in equity – is a disaster sinking under the weight of its debt. KKR values its equity at 10 cents on the dollar. The LBO turned one of the most profitable public utilities in the US into a financial wreck.

And whatever knowledge of consumer products Rucker picked up at Avon won't apply at Kraft Foods, whose customers shop in stores.

Like John Cahill, who joined Kraft in January from the buyout firm Ripplewood Associates and thereby escaped the bankrupting of the largest US industrial baker (see More than a hint of the future… in Kraft Union Network December 9, 2011), Rucker has scored some timely career changes. It may be that the US corporate landscape is so thoroughly littered with financial and industrial wreckage that the headhunters at Kraft could find no more suitable candidates than these. Or maybe their particular skills provide a taste of Kraft's plans for making the world more delicious by splitting the company in two.

Union-busting: the two faces of Kraft



Kraft executives are scrambling to engineer by year's end the breakup of the company into a North American grocery division and an international snacks company (North American snacks included) to be known as Mondelez International. Guesswork rules when it comes to splitting one of the world's biggest food companies. But faced with the prospect of a union at their factory in Upper Macungie Township (a suburb of Allentown, Pennsylvania), top corporate management lost no time to combat what they perceived as a mortal danger to the company.

Over 300 workers are employed at the factory, making Grey Poupon mustard, A-1 Steak Sauce, T-Discs for the Tassimo hot beverage-maker and natural cheese products (the factory lost the processed cheese line in 2007, with the loss of many jobs).

Among other issues, workers at the plant complain about scheduling – some employees on the Tassimo lines have worked 30 days straight without a day off. To qualify for double time pay for extra hours worked, workers must put in 7 straight days within the scheduled work week. Workers on the Tassimo lines complain about understaffing. Rules changes are frequent, and management favoritism widespread.

The pension plan has been closed to all employees hired after 2004, and future company contributions for qualifying employees limited. Laid off workers have no recall rights in the event of new openings, and are forced to reapply as new employees.

The IUF-affiliated BCTGM began recruiting and organizing at the plant earlier this year, and was building up momentum to sign up a majority of workers for a union representation election. BCTGM Local 492 filed for an election on May 24 and the election was set for June 28.

The Kraft corporate SWAT team instantly swung into action:

Corporate HR boss Lance Hemmerich headed for Allentown to lead a vicious anti-union campaign designed to instill fear. Hemmerich remained in Allentown to supervise the campaign until shortly before the election. He was assisted by Associate HR director Lance Utzig, Kevin Balock, HR manager from Kraft's cheese factory in Campbell, New York (who stayed for the entire anti-union campaign) and by Sheri Gaunt, HR Manager from Kraft's Jacksonville, FL plant.

Captive anti-union meetings – mandatory for all employees – were conducted for 5 straight weeks.

Movies were shown with actors playing the part of union negotiators giving up current benefits the workers allegedly enjoyed without a union and risked losing if the union won. Union recognition would result in a strike; workers would be without pay or medical benefits, and could be permanently replaced. The union would be to blame. The costs of union membership were consistently exaggerated. Workers were told the union would bring up on trial individual members for violating union bylaws. Workers were told they would miss out on a lump sum pension payment.

Two days before the election, a leaflet – allegedly produced by an anti-union worker – was distributed falsely claiming that the union was responsible two fatal 2010 shootings at a Kraft plant in Philadelphia because of the animosity it had generated. The union-busting team may not have produced this leaflet, but it was allowed to remain in circulation for two days while union materials were assiduously removed.

Enough workers were rattled by the campaign that on election day the company prevailed.

So Kraft's Allentown workers remain without rights and without a voice in the workplace. What did the anti-union campaign cost the company? If Kraft hired a union-busting consultant to supplement corporate HR's efforts, we'll never know. Under US law, a company must file official forms with the Department of Labor to detail the consultant's work – unless the union-busters never appear directly to the workers and their work is purely "advisory". Companies can book such services as "miscellaneous costs of doing business", or they can evaporate into financial thin air, detectable only by internal accountants. On the CSR circuit, no one asks.

In its 2011 annual report Kraft states "We believe that our relationships with employees and their representative organizations are generally good." Jim Condran, BCTGM International Representative who services Kraft's North American Nabisco facilities, observes that "At our union locations, the company wants cooperation for a better relationship and flexibility, but when we try to help their employees by organizing their shops the same company hates us."

It has long been routine for US management to respond with anti-union aggression when workers seek union representation; the standard response is that "It's legal." This of course overlooks the fact that America's labour legislation was explicitly established to promote collective bargaining and trade union rights at the workplace. The system today is broken. It speaks volumes about Kraft's corporate priorities that senior management could devote over a month to hands-on management of an anti union campaign of this magnitude when the company is preparing the biggest transformation in Kraft history.

Will the corporate HR team deployed in Allentown be split to fill HR management at Mondelez with experienced union-busters? There's always something going on at Kraft…

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