# *Kraft/Mondelēz Union Network*

January 23, 2013

## The layers of human rights violations at Mondelēz

Mondelēz International, the transnational snack foods company created last October when snack products were separated from the former Kraft Foods, calls itself a company with a dream: “Create delicious moments of joy for our consumers, employees and communities around the world.”

The new company has created no joy for employees in Egypt and Tunisia. Workers in these countries who “reimagined” their *rights* to include their rights to form independent unions and to negotiate with their employers, have been brutally dismissed for attempting to exercise these rights. Their trade unions have come under attack. And the new company continues to spin out the same shabby disinformation produced by the old to cover ongoing violations of international human rights standards.


### Repackaging repression: no spring for Kraft/Cadbury/Mondelēz workers in Egypt

Kraft Foods gained factories in Egypt through its 2010 acquisition of UK-based Cadbury, a key element in the international expansion leading to a “whole new company” called Mondelēz. The confectionery factory in Alexandria manufactures the company’s billion dollar ‘power brand’ chewing gum products.

Egyptian workers had for many years challenged the corrupt and repressive workplace system enforced by the Mubarak regime. The United Nations’ ILO repeatedly highlighted legal and practical restrictions on freedom of association and called for fundamental change. Companies operating in this environment, according to the United Nations Principles on Business and Human Rights and the OECD Guidelines on Multinational Enterprises, are clearly at risk of being complicit in human rights violations. They are therefore required to asses these human rights risks (a process known as ‘human rights due diligence’) on an ongoing basis and to take concrete measures to avoid complicity, in the first instance by taking corrective action when rights abuses occur.

Kraft, and now Mondelēz, have failed in this basic task – and refuse to acknowledge that massive failure. Public relations substitutes for due diligence where human rights are concerned; corporate management evidently hopes that problems will simply go away, and is content to peddle improvisations, denials and misinformation.

On March 12, 2011, the Minister of Manpower and Migration in the first post-Mubarak government issued a declaration affirming the right of all workers to establish independent unions and for these unions to function independently of the government or the state-controlled ETUF. The then Director General of the ILO, Dr. Juan Somavia, welcomed the declaration, declaring “The recognition of the rights of all trade unions to be registered and conduct freely their legitimate activities opens the door for a new era where the right to freedom of association will be fully respected in law and in practice… Egypt has been repeatedly in a list of countries discussed by the International Labour Conference in relation to the limitation of freedom of association. This announcement today is a fundamental change, an historical moment. It's a major step in the democratization process in which Egypt is involved.”

Workers at the Kraft Foods former Cadbury confectionery plant in Alexandria also sought independent trade union representation to represent their interests. For this they were punished.

The IUF has a list of 38 workers who, in 2011, were forced to accept early retirement after being threatened with dismissal for attempting to establish a union.

Despite this, the Kraft – now Mondelēz – workers persisted. On April 28, 2012, workers at the Alexandria factory held a general assembly and formed an independent union joined by 250 of the factory’s 300 workers. The union organized under the banner of the Egyptian Democratic Labour Congress, the umbrella organization established in the wake of the democratic uprising that toppled Mubarak. Two days later, the union filed its founding documents with the Ministry of Manpower and Immigration in Alexandria.

## Dismissals and disinformation

Management at the factory refused all meaningful discussion with the union, despite its clearly representative character. Only when a group of workers on the night shift of July 26/27 stopped work to protest management's refusal to comply with a government decree awarding a 10% pay increase to private sector workers did the factory management contact members of the union's Executive Committee, ordering them to put an end to the spontaneous protest. Five key members of the union's executive committee – founding activists - were then suspended and dismissed, despite the fact that some were not even present on the night shift. Since then, management has continued to reject recognition and dialogue.

Kraft, and now Mondelēz, attempted to defend these flagrant abuses when they were disclosed in the Egyptian press and when the IUF, on the basis of information from the union, called for corrective action.

The company's actions and apologetics reveal multiple layers of violations of basic rights by a cynical, abusive corporation prepared to trample on international human rights standards.

On July 14, 2012 a government decree awarded a pay rise (known as the 'social allowance') of 15% to public sector workers and a 10% increase to private sector workers. Article 1 states clearly that the July increase is calculated based on "the basic salary on 30/06/2012" thus precluding previous salary increases taking the place of the decreed July 2012 increase. Article 4 makes it clear that other pay increases cannot substitute for the July allowance.

On July 26, just before the end of the first shift, an unsigned notice printed on plain paper was posted on the factory bulletin board announcing that the company would not pay the social allowance decreed by the government.

When workers arriving for the second shift asked for an explanation and a discussion with management, management refused – and most management staff left the plant.

Workers arriving for the third (11:00 pm - 8:00 am) shift came to work and were told the company had refused to discuss the notice with workers or their union representatives. Some 85 workers on the shift demonstrated inside the factory until the end of the shift, calling on management to meet with their union representatives to discuss the notice and the wages issue.

When the spontaneous protest began at the start of the third shift, management called union leaders on their mobile phones, telling them to get people back to work. At least one of the five union leaders who were later suspended went to the factory around midnight but found the gates locked and was unable to gain access to meet the workers inside.

On July 30, the 5 union's five founding board members were suspended. This suspension was carried out despite the fact that the action the previous Thursday night had been a spontaneous response to management's refusal to explain or discuss the notice they had put up denying the increase. *At least two of the five suspended leaders were not even at the factory after 11:00 pm when the protest started* (although they had been there earlier in the afternoon/evening on the 26th trying unsuccessfully to find someone from management who would talk to them about the wage issue).

On August 8, the 5 union officials were informed that they were dismissed and their cases referred to the Labour Court.

On August 15, the 4 remaining union officials approached Managing Director Gawad Abaza with a request to resolve the issue through union-management discussions. He refused, saying that he would not agree if the Labour Court ordered reinstatement. Other members of management staff echoed his confrontational position. Factory manager Mohammed Mustapha threatened workers with dismissal,

Repression meanwhile spread to the Kraft/Mondelēz factory in Tenth of Ramadan City near Cairo, where workers had also formed an independent union. Union members were told that management was taking legal measures to dissolve their organization – a clear attempt to intimidate them from either supporting the Alexandria workers or taking action on their own behalf.

Thus the facts. How did Kraft, and now Mondelēz respond to these events when publicly challenged?

**KRAFT + Cadbury = Mondelēz International = Human rights abuses!**

A nameless "Kraft Foods" responded on two occasions (September 4, 2012 and October 4, 2012) to reports in the Egyptian press and to IUF reports and communications published by the Business and Human rights Resource Centre (http://www.business-humanrights.org/Home).

*Mondelēz CEO Rosenfeld has never responded to a November 28, 2012 letter from IUF Secretary Ron Oswald calling on the company to take corrective action in Egypt and Tunisia (on which more below) or to subsequent communication from the IUF.* Rosenfeld distinguished herself previously for rejecting requests to appear before the UK Parliament for questioning on the impact of the Cadbury acquisition, saying it was neither “appropriate” nor “the best use” of her time. Kraft and now Mondelēz evidently feel no need to account for the impact of their acquisitions or their human rights record.

In its communications to the Business and Human Rights Resource Centre, “Kraft Foods” simply sidesteps the fundamental human rights issues, and gives a false account of the wage issue, stating “That in April 2012, Kraft Foods anticipated and implemented a 2012 government-mandated salary increase, to a level over and above the one prescribed by the government. Our workers are aware of the timing of our annual increases and this year was no different. It is therefore incorrect to write that there was a “refusal to pay”.

This is simply untrue. Wages at Cadbury/Kraft in Egypt have normally been raised three times each year. This year, in January, all employees received an automatic 7% “cost-of-living increase” as mandated by Egyptian law since 2003. In April, a "performance bonus" was paid on the basis of performance and other factors. Some workers got more than others while some received no increase at all.

In 2011 the company paid these increases as they had in previous years, but combined the April performance bonus and the July social allowance, paying them together in July.

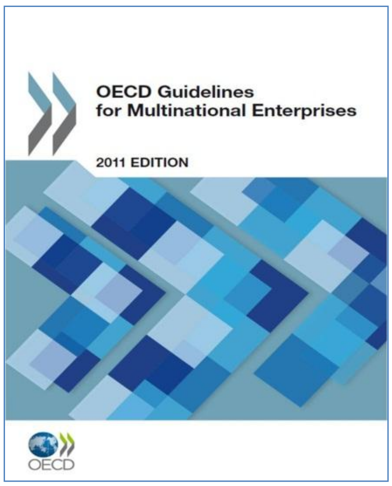
We have already seen that the government-decreed July social allowance specifically designates pay as of June 30 as the basis for calculating the increase, and further specifies that no previous increases may substitute for it. Kraft’s assertion that there was no refusal to pay is therefore untrue. The unsigned notice on the factory bulletin board was a clear departure from the normal timing and a blunt refusal to pay and was understandably perceived as a provocation by workers suffering from high inflation. More inflammatory still was the company’s refusal to enter into discussions with the union, the normal route for resolving conflicts, and the route which complies with international human rights standards.

“Kraft Foods” says *nothing* about the dismissal of 5 union officers, stating only that, in response to spontaneous protest by workers on one shift, “We contested these actions by a small number of striking workers before the Labor Tribunal.” What the company in fact sought from the Labor Tribunal was the *dismissal of 5 key union leaders, some of whom were not even present when the protest occurred!* The clear intention was to eliminate the union by sacking the leaders and intimidating the members. More rights violations wrapped in more misinformation.

More dishonest, and distinctly more sinister, is the November 29, 2012 (by which time Kraft had become Mondelēz) communication to the Chair of the Mondelēz European Works Council from André Benoît, Director of Corporate & Government Affairs Central & Eastern Europe / Middle East & Africa “on behalf of” CEO Rosenfeld stating that “Mondelēz International/Kraft Foods recognized the new union after its creation…

Today, that original union no longer functions, and we understand that employees are not seeking to form a new union."

The Mondelēz Alexandria management engaged in no meaningful discussion with the newly-formed union representing a large majority of its workforce – until it frantically instructed union leaders to stop a spontaneous demonstration on the night shift. After that it proceeded to sack the key leaders, and refused to negotiate with those who remained. It is hardly surprising that the union "no longer functions": its leaders have been fired and its members intimidated. This was followed by management intimidation of the independent union at the Tenth of Ramadan factory.




## What do international standards say?

*In all countries where we do business, we respect local laws and regulations*.

"Kraft Foods" responding to allegations of human rights abuses

*Respect for human rights is the global standard of expected conduct for enterprises independently of States' abilities and/or willingness to fulfill their human rights obligations, and does not diminish those obligations.*

OECD Guidelines for Multinational Enterprises Chapter IV: Human Rights (commentary)

The Kraft/Mondelēz defense, when evasion, untruth and euphemism no longer suffice, is alleged compliance with laws that have been repeatedly assailed for non-compliance with international human rights standards. Union-busting? "It's legal". In Egypt these laws are not in compliance with international human rights standards and they are administered and enforced by a system built on corruption and intimidation. But there is also nothing in those laws that compelled Kraft/Mondelēz to abuse employee rights; acting in compliance with international human right standards was and remains an option. They sacked these workers and rendered their union "non-functioning" because they perceived an independent union as a challenge to authoritarian control, and are treating with the consequences as a public relations exercise.

## Trampling on human rights in Tunisia

Kraft/Mondelēz have been present in Tunisia since 2007, when the company bought Danone's European biscuit division. Mondelēz has 49% ownership of one of Africa's largest biscuit makers, SOTUBI (Société Tunisienne de Biscuits), whose Tunis factory makes Mondelēz branded products like TUC as well as the factory's popular SAIDA biscuit. The factory employs 1,600 workers, 80% of them women. Like the Egyptian

Cadbury workers, SOTUBI workers are learning what it means to face a hostile management determined to strip them of their rights.

In the summer of 2012, when negotiations for the collective agreement between SOTUBI and the IUF-affiliated FGAT – UGTT deadlocked, the company resorted to escalating pressure on union negotiators. When a union representative was given a 3-day suspension, the union held a membership meeting. Following the meeting, Zaid Naloufi, the general secretary of the local union, was disciplined and summarily dismissed on July 10. His offense? Representing and meeting the members who elected him!


The dismissal of the general secretary was followed by the August 13 suspension of deputy general secretary Karim Amdoumi following an altercation provoked by the warehouse manager. Although the warehouse manager has since withdrawn his complaint, Amdoumi remains on suspension! Management told the union he would be reinstated *if* the remaining members of the union board resigned from their elected positions. Under pressure, the three board members resigned on October 16.

What did Kraft and now Mondelēz have to say about these anti-union dismissals and suspensions? “Kraft Foods” simply washed their hands of all responsibility, telling the Resource Center that “It is important to reiterate that although Kraft Foods does own a minority interest in the *Societé Tunisienne de Biscuits* (SOTUBI), this enterprise is not a Kraft Foods company and we do not exercise management control… As is the case for all our JV relationships, we would expect SOTUBI to respect local laws and regulations.”

In the letter to the European Works Council previously referred to, Mondelēz again “reiterates” their disclaimer of all responsibility but adds that “The General Union authority of Tunisia has urged SOTUBI’s former union to resign, as it had lost credibility and trust of its members, given the union’s reluctance to establish effective communication channels with SOTUBI management. We understand that the General Union has also encouraged SOTUBI’s union office to initiate new elections.”

Mondelēz makes no reference to the punitive dismissal/suspension of the union leaders and fabricates an explanation for the resignation of the remaining Board members, who in fact resigned under pressure of losing their jobs. At no time did the FGAT or what the author calls the "General Union authority" urge them to resign.

**What should Mondelēz be doing?**

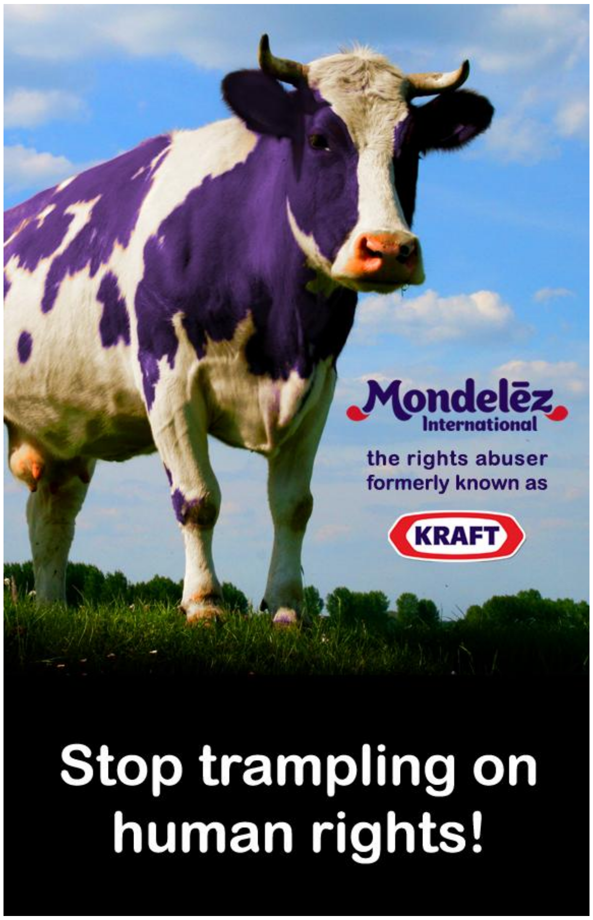
KRAFT + SAIDA بسكويت تونسي فاخر = Mondelēz International = **Human rights abuses!**

Mondelēz "expects" their joint venture partners "to respect local laws and regulations". What are the consequences of "non-respect" (a euphemism for abuses) for international standards? International standards require more than this sub-minimal expectation. The OECD Guidelines and the UN Guiding Principles on Business and Human Rights base the business responsibility to adhere to international human rights standards, not on what the company "expects", or on what it chooses to define as falling within its "influence", but on its real world *impact,* directly through its own operations and through those of the suppliers, sub-contractors, franchisees/licensees, joint venture partners and other actors with which it is linked.

According to the OECD Guidelines, adhered to by the governments of the United States and 43 other signatory countries, enterprises should:

*1. Respect human rights, which means they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved.*
*2. Within the context of their own activities, avoid causing or contributing to adverse human rights impacts and address such impacts when they occur.*
*3. Seek ways to prevent or mitigate adverse human rights impacts that are directly linked to their business operations, products or services by a business relationship, even if they do not contribute to those impacts.*

The Commentary to this chapter explains that "'A State's failure either to enforce relevant domestic laws, or to implement international human rights obligations or the fact that it may act contrary to such laws or international obligations does not diminish the expectation that enterprises respect human rights [38] …Addressing actual and potential adverse human rights impacts consists of taking adequate measures for their identification, prevention, where possible, and mitigation of potential human rights impacts, remediation of actual impacts, and accounting for how the adverse human rights impacts are addressed. [41] Business relationships' include relationships with business partners, entities in its supply chain, and any other non-State or State entity directly linked to its business operations, products or services. [43]"




The Mondelēz disclaimer of responsibility for the adverse human rights impacts of its Tunisian joint venture is a clear statement that it does not feel obliged to perform the human rights due diligence prescribed by the OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and is not prepared to address the adverse human rights impact of its practices.

In Egypt, the company justifies its actions in the name of a local law and practice which are sharply at variance with international human rights standards. Mondelēz simply walks away – it has done no identification, prevention, mitigation, remediation or accounting. It even denies that it is called upon to do these things. In Egypt and Tunisia it has violated the key provisions on the rights of workers to form trade unions and to engage in negotiations with their employers set out in Chapter V of the OECD Guidelines. And it ignores all calls to engage with the representative unions representing these workers in Egypt and Tunisia and with the IUF in response to these abuses.

Human rights due diligence is about managing the actual and potential human rights risks which can arise inside a company's own operations and in those operations with which it is linked. Mondelēz is a company which ignores these risks, as it arrogantly ignores other risks.

Led by former Kraft CEO Irene Rosenfeld, Mondelēz doubtless aimed at creating delicious moments of investor joy by 'reimagining' and rewiring the finances of the former Kraft Foods Inc.

Kraft assumed enormous debt to acquire Lu and Cadbury on the road to becoming a 'global snacks powerhouse' called Mondelēz. For nearly one year, following the announcement that the former Kraft Foods Inc. would split into two companies, a North

American grocery company and a portfolio of global snack foods, Kraft strongly hinted that the debt would be loaded onto the new North American company. *Only on October 5 of last year, after shares in the new company had been publicly trading for a full week, did Kraft disclose any information on the capital structure of the new company* in the form of an "Unaudited Pro Forma Consolidated Financial Information and Accompanying Notes" for Mondelēz International, Inc. filed with the US Securities and Exchange Commission. That filing shows long term debt of USD 22.09 billion with total equity of USD 25.29 billion – a debt-to-equity ratio of 87.3%.

On December 19, Mondelēz gifted CEO Rosenfeld with a "special equity award" of USD 10 million in stock – *as head of a company which had been in existence less than 3 months!* This came on top of Rosenfeld's 2011 USD 22 million total compensation package.

If Mondelēz' capital structure resembles a highly leveraged private equity buyout, it comes as no surprise. To split Mondelēz and Kraft, Kraft brought in financial wizard John Cahill from the private equity fund Ripplewood Holdings LLC, described by the Financial Times as "one of the most secretive" private equity firms. Ripplewood, has a long and distinguished record of ruining companies, including food companies, by loading them with debt.

In 1999, for example, Ripplewood purchased the profitable Arkasas-based Meyer‟s Bakeries for USD 73.1 million. At the time of the purchase, the company had annual sales of USD 90 million and a healthy balance sheet. To fund the purchase, the company‟s entire assets were pledged as collateral for a USD 45 million bank loan. Another USD 10 million was borrowed from another investment fund, also using the company‟s assets as collateral.

The company filed for bankruptcy in early 2004, listing $44.2 million in assets and $48.7 million in debt. The investor lawsuit filed in response to the debt-driven bankruptcy that year was a classic indictment of leveraged buyout-induced failure: "The short-term focus of the Ripplewood directors on resale of the company excluded attention to critical research and development, maintenance and operations issues."

Long criticized for being stodgy and 'boring' despite its market leader position in a number of categories, Kraft has "reimagined" its management model by cutting loose the grocery business which funded its global expansion, piling on debt and vacuuming out cash, and it has brought in the management team to do the job.

The Telegraph

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## Kraft boss Irene Rosenfeld says meeting MPs was not 'the best use of my time'

It was never going to be easy for American company Kraft to win over the British as it sought to take over Cadbury – one of the nation's best-loved brands.


Irene Rosenfeld, Kraft chief executive, also blasted the UK press Photo: Bloomberg News

By Josephine Moulds
10:20PM BST 29 May 2011

10 Comments

But Kraft chief executive Irene Rosenefeld has made a spectacularly bad job of it. In the most recent PR faux pas, the 57 year-old said that appearing before MPs to explain the takeover "was not the best use of [her] time".

Ms Rosenfeld, who was paid $19.3m (£11.7m) last year, repeatedly refused to attend hearings of the Business, Innovations and Skills Committee to answer questions on the £11.5bn acquisition. MPs hoped

# IUF Risk Alert!

Given the squeeze on Mondelez cash flow, and top management's hunger for top compensation, it is not surprising that the birth of Mondelez was accompanied by a cascade of plant closures and more outsourcing.

Mondelez is a company dripping risk – human rights risks, reputational risks and potential financial risks. Will it change course? Reinstatement of dismissed trade union leaders and members in Egypt, good faith negotiations with their unions and engagement with the IUF, which represents the huge majority of Mondelez workers worldwide, would mark an essential first step in Mondelez assuming its human rights responsibilities.

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