



**FAIR LABOR**  
ASSOCIATION®

**Summary Report**  
*Investigation of Procurement Price and  
Credit Practices in Syngenta Hybrid Seeds  
Supply Chain in India*

In January 2015, Syngenta, a Participating Company of the Fair Labor Association (FLA), asked the FLA to undertake an investigation of procurement price and credit practices in its hybrid seeds supply chain in India. The FLA treated this request as a Safeguard investigation and commissioned a team of experts based in Hyderabad, India, headed by Dr. Davuluri Venkateswarlu, Glocal Research, to carry it out and issue a report and recommendations.

The objectives of the investigation included:

- Review of the role of Third Party Seed Organizers in Syngenta’s seeds supply chain and internal management systems that could impact workplace conditions and benchmark against the FLA’s Workplace Code of Conduct;
- Review of procurement prices, cash advances extended by Syngenta, and relationship of procurement price to working conditions at the farm level;
- Map all production processes in which growers are involved during an entire year and calculate cash advance requirements and their accessibility to credit; and
- Make specific, practical recommendations related to Syngenta’s social compliance program to improve labor rights and working conditions.

## **Methodology**

The investigation team conducted fieldwork during the period March to April 2015. The research on Syngenta’s hybrid seeds supply chain was based on an analysis of primary data collected through field visits and interactions with farmers and various categories of workers, seed organizers,<sup>1</sup> Syngenta management and field staff, and external stakeholders.

Data was collected from a sample of 70 seed farms in 26 villages in two Indian states that are the largest producers of hybrid seeds for Syngenta, Andhra Pradesh and Karnataka.<sup>2</sup> In addition to interviews, available records and registers were also reviewed as appropriate to confirm the consistency of information provided by interviewees. The report was completed in June 2015.<sup>3</sup>

---

<sup>1</sup> “Seed organizers” are independent businessmen who serve as middlemen for organizing seed production between companies that buy seeds – such as Syngenta – and seed farmers. The institution of seed organizer is a relatively new phenomenon, innovated by seed buyers as an administrative convenience to deal with very large numbers of small seed farmers.

<sup>2</sup> These two states account for about 70% of Syngenta’s total production of seeds in India.

<sup>3</sup> The report is available at <http://www.fairlabor.org/july-2015-syngenta-procurement-prices-report>.

## **Highlights of Findings**

The findings of the investigation include the following:

### **1. Role of Seed Organizers in the Supply Chain**

Seed organizers are critical for Syngenta and other seed companies in dealing with the very large number of growers in their supply chain. Prior to 2000, seed companies had direct contracts with individual growers, but with the rapid increase in demand for seeds and the growth of the number of growers, seed organizers were used as an administrative tool to deal with the large number of growers.

Seed organizers provide many services to seed companies and growers. Services that organizers provide to Syngenta include identification of villages and farmers, distribution of starter seed and critical farm inputs to growers, follow-up to ensure input application, and collection and delivery of final output to the company. Services to farmers include technical assistance, support in selected activities, and cash advances to finance grower activities and purchases.

Over time, the role of organizers in Syngenta's supply chain – especially in vegetable seed production – has been increasing, with organizers progressively performing more of the services traditionally carried out by growers. As the range of tasks performed by organizers has grown, so has their share of the total procurement price..

As part of Syngenta's ongoing internal labor standards monitoring program, Syngenta has conducted some training of organizers on the FLA Workplace Code of Conduct, with emphasis on child labor and safety and health.

### **2. Procurement Price and Cost of Production**

Annually, Syngenta establishes a price for the volume of seeds it will procure from growers; this procurement price is applicable for all purchases of a given seed type and location that meet the specified standard and target quantity. Many variables enter into the calculation of the procurement price, principal among them the (estimated) cost of production.

India's Minimum Wages Act, 1948, established minimum wages for workers in different sectors, including agriculture. Payment of wages below the minimum wage remains an issue in the agriculture sector. Generally speaking, wages tended to be higher in relatively more developed regions and for agricultural tasks such as plowing, spraying pesticides, and applying fertilizers, activities typically conducted by men, compared to sowing, harvesting, and cross-pollination, activities typically conducted by women.

The states of Andhra Pradesh and Karnataka have established statutory minimum wages for daily casual workers for agricultural activities. The research documented that, with very few exceptions, statutory minimum wages are not paid to agricultural workers. For

purposes of estimating the cost of production, Syngenta relied on the prevailing wage in the region rather than the (often higher) statutory minimum wage.

### **3. Company Interest-Free Cash Advances**

Syngenta provides interest-free cash advances to growers to enable them to acquire the necessary amount of quality inputs and follow the appropriate agronomic practices to ensure quantity and quality of seed. This system of cash advances directly to growers has been in practice for vegetable seeds for many years and began for rice in 2010-2012. For seed crops, Syngenta's cash advances are made through organizers. Due to the lengthy administrative process of issuing advances, in many cases it was found that the growers receive these interest-free cash advances much later in the production season.

Nearly all growers interviewed reported that they were aware of cash advances offered by Syngenta, but they lacked clarity on the amount of advance, whether the advances were interest-free or interest-bearing, and general administrative rules governing such advances. In some instances, the researchers found that organizers also lend money to growers for different purposes, and there is room for confusion and comingling of interest-bearing loans with Syngenta advances. The investigation did not find that Syngenta knowingly engaged in exploitative money lending with its farmers in India.

### **4. Other Findings**

The investigation found that most of the growers supplying Syngenta are small farmers who rely heavily on family labor for cultivation, have been working with Syngenta for several years, and may also produce seeds for other buyers or participate in commercial farming. In addition to cash advances, growers depend on a variety of sources of credit, including loans from organizers, from input suppliers, banks and cooperative societies, and from money lenders, with interest rates charged by money lenders being the highest.

Growers reported that they preferred seed production for Syngenta to commercial crop production because of the certainty and stability of relations. They perceived the following advantages in seed production for Syngenta v. commercial production: announced procurement price well before the season, expected seed yield, interest-free cash advances, input supply, technical support, and better control over production. Syngenta seed growers perceived that seed production supplements their income and makes farming profitable.

The issue of farmer suicides in India has received attention recently from various quarters. Studies have identified a number of factors contributing to farmers' suicides, among them high indebtedness, crop failures because of monsoon, price fluctuations, high input costs, governmental policies, mental health, personal issues, and family problems. Farmers facing the highest suicide risk were those who grew cash crops, had "marginal" farms of less than one hectare, and faced debts. The study team did not come across any study reporting suicides among farmers producing hybrid seeds.

## Recommendations

The study team made the following recommendations to Syngenta, also endorsed by the FLA:

- 1. Reassessing of the role of organizers in the supply chain:** Syngenta should reevaluate its supply chain model so that the role of seed organizers – and their share of the cost of seed production -- is limited. Syngenta should also reevaluate the number of organizers in its supply chain, seeking to have fewer organizers with stronger contractual agreements in place.
- 2. Strengthening written contracts with organizers and growers:** Syngenta should give preference to tri-party agreements (Syngenta, organizer, grower) in seed procurement, as these agreements promote transparency and tend to minimize the room for mismanagement of commissions.
- 3. Systematic third party monitoring of organizer activities and operations:** Syngenta should bring production-related activities of organizers under the purview of FLA's independent external monitoring.
- 4. Orientation and training of organizers on labor standards and their involvement in the Syngenta's internal monitoring program:** Syngenta should conduct a comprehensive training for organizers on labor standard requirements, and include organizers in the identification of non-compliance areas, root cause analysis and preparation of corrective action plans.
- 5. Documentation maintenance for cash advances made by the organizers:** Syngenta should require that organizers maintain detailed records of the cash advances paid to the growers, terms and conditions and interest rates on loans organizers might extend to farmers outside of the Syngenta cash advances. Syngenta should support organizers in this task, for example by introducing a uniform system with standard formats for data collection that are updated periodically by the organizers and randomly cross verified by Syngenta.
- 6. Review cost of production calculation method with stakeholders:** Syngenta should conduct a thorough review of the cost of production of hybrid seeds and include statutory minimum wages in the calculation of procurement price.
- 7. Assess the feasibility of ring-fencing the cash advances paid to growers to ensure payment of minimum wages to the workers:** Syngenta should assess the possibility of allocating advance for payment of minimum wages to the workers. Syngenta could introduce a system whereby the workers and growers track the type of activity and the total hours worked, which will determine the amount needed to pay minimum wages.

**8. Timely payments of interest-free cash advances:** Syngenta should improve its system of interest-free cash advances to eliminate delays and promote prompt payment of such advances.

**9. Link growers to legitimate lending institutions to access upfront credit:** Syngenta should take steps to facilitate growers' access to legitimate lending institutions that provide low-interest credit.

### **Syngenta Remediation Plan**

Consistent with protocols for Safeguards, the FLA requested that Syngenta prepare a remediation plan that would address the recommendations that emerged from the investigation. Syngenta has communicated to the FLA that it is committed to develop and implement a remediation plan that responds to each of the recommendations made by the investigation team and the FLA.

Further, Syngenta has informed the FLA that, to operationalize its commitments, it has created a cross-functional task team with representation from Procurement, Field Production, Finance, and Supply Chain Management functions, that will come together for face-to-face meetings in August 2015 to work out a piloting schedule for the remedial activities during India's dry season (October to December 2015). Based on the pilot, the task team will develop detailed action plans and timelines for implementation that will be submitted to the FLA in the first quarter of 2016.

With respect to Recommendation No. 6, that requires Syngenta to review cost of production with stakeholders and include three costs related to (1) interest on working capital; (2) actual lease amount of land, and (3) minimum wages in the procurement price calculation, the FLA notes that Syngenta's currently does not agree with the inclusion of interest on working capital and actual land lease amount in the calculation of procurement price.

On July 15, 2015, Syngenta communicated to the FLA that it is committed to: (1) ensure that minimum wages are paid in its supply chain for hybrid seeds; and (2) take remedial action whenever this is not the case. The FLA expects the company's comprehensive action plan for compliance with minimum wages laws to be implemented in early 2016 to spell out clearly both the relationship between wage levels and cost of production calculations, as well as systems for proactive monitoring and enforcement of compliance with wage laws.

Finally, the company has stated that a first multi-stakeholder consultation in India to understand and ensure payment of fair compensation (starting from statutory minimum wages) to workers in the hybrid seeds sector is planned for late 2015.

## **Next Steps**

The FLA intends to review and report publicly on Syngenta's comprehensive remediation plan in early 2016. The FLA will continue to conduct periodic monitoring of Syngenta's supply chain as part of its normal farm due diligence activities and will report publicly on compliance with wage laws.

The FLA is committed to help convene the proposed 2015 Syngenta multi-stakeholder consultation in India, and will work to help ensure involvement from interested civil society organizations and unions as well as companies, to discuss issues around the payment of fair wages to workers in the hybrid seeds sector.