

Special Report on Procurement Price and Credit Situation: Syngenta Hybrid Seeds Supply Chain, India

I. Background

Syngenta Seeds is the first agricultural company to affiliate with the Fair Labor Association (FLA). Since 2008, the FLA's third party monitors have assessed working conditions at farms supplying hybrid seeds for Syngenta in India in the states of Andhra Pradesh, Gujarat, Karnataka, Maharashtra, and Telengana. At present, 34 India-based assessments for Syngenta have been published on the FLA website, encompassing visits to 880 farms.¹ FLA conducted an additional six assessment visits in 2013² covering 72 farms in India. FLA's independent external monitors have conducted a total of 1189 worker and grower interviews during the course of these assessment visits. FLA's verification of labor conditions concentrates around working conditions at the farm level and the employment relationship between growers and workers is benchmarked against the FLA's Code of Conduct.³ For example, terms and conditions of employment of workers, payment schedule, payment of minimum wages and if growers extend any advances (with interest or interest free) to workers that binds them to work, etc.

As part of its farm-level assessments, the FLA has *not* comprehensively examined the terms of engagement between growers and Syngenta-contracted Third Party Organizers and terms of engagement between organizers and Syngenta, particularly in the context of providing loans (extending credit) to growers. The only aspect of advance payments made to the growers that the FLA is aware of, are the interest free advances (usually based on the acreage of land that is used for Syngenta seeds production) extended by Syngenta at the start of the season to growers through organizers. This is later deducted at the time of settlement of final procurement price.

FLA has conducted two Task and Risk Mapping studies in Syngenta's supply chains in India (hybrid cotton seeds in 2004⁴ and hybrid vegetable seeds in 2006⁵). The vegetable seeds supply chain mapped the contractual agreements between Syngenta and organizers and between organizers and a number of growers with whom the organizers work and to whom the Syngenta seeds production is contracted out. Growers work on a contract (verbal / written) that pre-sets the

¹ <http://www.fairlabor.org/transparency/tracking-charts>

² Reports are available with the FLA for review.

³ <http://www.fairlabor.org/our-work/labor-standards>

⁴ <http://www.fairlabor.org/our-work/special-projects/project/labor-risks-monitoring-and-remediation-cottonseed-farms-india>

⁵ Fair Labor Association Task and Risk Mapping Study of the Hybrid Vegetable Seed Sector (2007). Report available with the FLA for review.

procurement price per kilo of the product and establishes the area under production for each season. Syngenta provides foundational seed to the growers. Syngenta maintains a list of all growers and the area under production in their regional offices in an online database. Syngenta staff closely supervises the production process, visiting farms a number of times each season and work closely with the organizers and their field team (if any). At the end of each season, procurement price payments are made to the growers once they deliver seeds to Syngenta according to the pre-set quality and quantity criteria. In the case of corn seeds production, there have been reports that Syngenta contracts out detasseling work to organizers in which the growers have a limited role to play. The organizers arrange their own labor force that travels from farm to farm harvesting crops and hire field staff that oversees this process. The workforce may be hired on a daily basis or per acre of land. The cycle lasts about 40–50 days and Syngenta pays the organizer directly.

External information gathering conducted by the FLA recently (from January 1–20, 2015) indicates that organizers may be extending interest-bearing loans to growers to cover all their production costs for (1) Syngenta seed production (since the advances provided by Syngenta may only account for a part of the total production costs); (2) other commercial crop production undertaken by the growers; and (3) personal loans. In the case of Syngenta-provided cash advances, the term and conditions especially the fact that they may be interest free may not be entirely known or clear to the growers. The organizers may be involved in a number of other businesses such as seed production for other companies; work as labor contractors; money lending; farming activities of their own.. There is no clarity about the various roles of the organizers and whether their field staff is acting as sub-organizers on behalf of Syngenta and how this could impact Syngenta. Some seed companies are facilitating access to credit for the organizers from legitimate lending institutions by providing a guarantee. If this credit is used to facilitate the process of seeds production in a fair manner (without charging high interest rates to the growers) remains to be investigated further.

FLA and the Indian Committee of Netherlands commissioned research on compensation practices at the farm level in Syngenta's supply chain in 2012 and produced a report entitled "Wages of Inequality."⁶ The research found discriminatory practices at the farm level in the payment of wages to men and women as well as lack of payment of minimum wages to workers. This study did not explore the cost of production, loan availability, credit accessibility and terms and conditions at which loans are available to the growers (for Syngenta production work and their own commercial crops, if any). The study primarily focused on the compensation for workers. Subsequent to the publication of the study "Wages of Inequality," FLA has been

⁶ <http://www.fairlabor.org/our-work/special-projects/project/wages-inequality-wage-discrimination-and-underpayment-hybrid-seed>

engaging with Syngenta to understand the procurement price calculations and cost of production (such as labor cost, input costs, infrastructure costs, etc.) and to establish corrective action plans as common practice for FLA member companies. Syngenta has provided FLA with certain information that needs to be reviewed independently and verified.

In a recent documentary titled “Seeds of Debt” and supplementary information published by DanWatch on December 26, 2014,⁷ a number of allegations have been made against Syngenta’s business practices in corn hybrid seeds production in the state of Andhra Pradesh, India. These allegations relate to high interest loans provided by organizers and further imply that the inability of the growers to pay back these high interest loans is leading to farmer suicides. The film also makes a link between how the low procurement prices paid by Syngenta is leading to lack of maintenance of labor standards at the farm level. The documentary highlights some possible issues in the hybrid seeds sector and commercial crops in India in general. If they are present in Syngenta’s supply chain or not remains to be verified by the FLA.

In order to further understand business practices that go beyond farms and affect working conditions, Syngenta has requested that the FLA undertake an independent comprehensive assessment of Syngenta’s seeds supply chain in India in the first quarter of 2015. The FLA has developed the following terms of reference for the investigation, which will be conducted by a team of independent experts and will be made public.

II. Terms of Reference

A. Review of procurement prices; cash advances extended by Syngenta; and relationship of procurement price to working conditions at the farm level

1. The team will understand the calculation method used by Syngenta, organizers and growers (independent of each other) to calculate:
 - i. Procurement price
 - ii. Cost of production (farm inputs, labor costs, infrastructure costs, etc.)
 - iii. Profit margin for the growers
2. The team will review the procurement prices paid by Syngenta for all seeds covered under this research and verify it with organizers and growers.
3. Verify the breakdown provided by Syngenta per kilo of seeds / per acre of land / type of seed with growers.
4. Verify the progress report provided by Syngenta regarding the Wages Action Plan with Syngenta staff and growers.

⁷ <https://www.danwatch.dk/en/articles/seeds-debt/548>

5. Based on the above information, conduct a gap analysis on the discrepancies in the calculation methods used by Syngenta, organizers and growers.
6. Review the contractual agreements between Syngenta and the organizers to identify gaps in reference to the items above
7. Review the policy, process, terms and conditions and related documentation regarding the interest-free cash advances extended by Syngenta to growers and identify and analyze the role of organizers in the process.
8. Establish what percentage of the total production cost is covered by the above-mentioned interest-free cash advancements by Syngenta.
9. Identify how the growers raise a request to secure the interest free advance payments by Syngenta, their awareness around the clauses and how and by whom requests are handled.
10. Identify the percentage of interviewed growers who have secured advance payments from Syngenta in the past 24 months and their understanding of whether they have paid any interest on such advances at the end of the season.
11. Review the process, terms and conditions and related documentation regarding the end-of-the-season settlement of the advance payments against procurement price.
12. Establish the relationship between procurement price and payment of (at least) official minimum wages to farm workers, both women and men.
13. Establish the relationship between the procurement price and other working conditions such as hours of work, use of personal protective equipment, use of child labor, etc. at the farm level.
14. Establish the relationship of farm profitability from seeds production versus other farm operation-related income.
15. If possible in the scope of the visit, identify the root causes and modus operandi of non-payment of minimum wages to the workers.

B. Review the role of organizers in Syngenta's supply chain, internal management systems that could impact workplace conditions. and benchmark against the FLA's Code of Conduct.

1. Identify the total number of organizers and number of growers they work with respectively in the visited locations.
2. Map all the various tasks and responsibilities of Syngenta staff, organizers and their field team.
3. Describe the selection process used by Syngenta to select organizers who will undertake production activities.
4. Are there *other* roles and activities of the organizers in addition to their work for Syngenta known to Syngenta? How does Syngenta, in the selection procedure of

organizers, seek to avoid possible conflict of interests and unethical practices of organizers?

5. Review the contractual terms and agreements (including documentation) made between Syngenta and organizers. List all the activities the organizers perform for Syngenta and related compensation clauses.
6. Determine if any code awareness sessions and trainings are provided by Syngenta to the organizer on policies and procedures (especially those related to working conditions and internal monitoring) and determine the impact of these sessions on the implementation of policies and procedures.
7. Review the terms and conditions of the contractual agreements between the organizers and the growers.
8. Map all the economic and social activities in which organizers are involved as part of Syngenta's supply chain and outside it. Present the findings in the form of a task mapping table over an entire year.
9. Determine what percentage of all activities conducted by organizers are Syngenta-related (what percentage of the time over the entire year they are involved in Syngenta activities).
10. Determine if Syngenta facilitates access to credit from lending institutions to the organizers (if yes, note the interest rates and distribution and accounting mechanisms).
11. Determine if the organizers are involved in money lending to Syngenta growers for seeds production, other commercial crops, personal loans or other purposes. Note the terms and conditions of these loans, interest rates, duration of the loan and pay back conditions. Furthermore, determine if organizers also lent money to non-Syngenta farmers.
12. Review how and what share of Syngenta interest free advance payments is offered to the growers through organizers. Determine the physical movement of cash.
13. Determine how organizers communicate about Syngenta extended interest free advance payments to growers.
14. Determine if the credit provided to growers by an organizer bind them to produce only for that organizer.
15. Determine if and what kind of documentation is maintained with the credit offerings and if such documentation is available for review with the grower or organizer.
16. Determine the power dynamics between Syngenta and organizers and organizers and growers.
17. Determine how the organizers' practices can impact on workplace conditions as per the FLA COC (such as awareness, bonded labor, harassment and abuse, discrimination, freedom of association, hours of work and compensation, and identify risks).

C. Map all production processes in which growers involved during an entire year and calculate cash advances requirements and their accessibility to credit.

1. Map the total area owned by the interviewed growers and percentage used for Syngenta production.
2. Map all farm activities undertaken by the grower during an entire year (both seeds and other crops they may be undertaking).
3. Provide a detailed breakdown of production costs for all crops as provided by the growers and cash advancement they require in order to carry out various production activities (including seeds and other commercial crops).
4. Identify the loan requirements of growers for Syngenta production and other purposes (including for personal reasons) and establish all channels through which growers secure cash; interest rates they pay and terms and conditions of the loans. Highlight any risks identified by the research team.
5. Establish relationship between procurement price and payment of (at least) minimum wages to all farm workers, especially in the context of Syngenta seeds production.
6. Establish relationship between the procurement price and other working conditions at the farm level especially in the context of Syngenta seeds production.
7. If possible within the scope of the visit, identify the root causes of non-payment of minimum wages to workers, especially in the context of Syngenta seeds production.
8. Determine the nature of advancement paid to the workers (by growers or organizers) for booking their time for the working season. Are these interest-free and documented?
9. Determine all factors that determine the compensation for workers (for e.g. local prevailing wages, procurement prices, type of work performed, gender, etc.)

D. Make specific, practical recommendations related to the FLA-Syngenta Program to improve the existing situation.

1. Approaches to standardize the calculation of seeds production for all parties for procurement price, cost of production and profit margins..
2. How the policy, procedures, training and monitoring related to organizers compliance to FLA's Code of Conduct could be strengthened.
3. How can Syngenta be sure that their interest-free loans are indeed provided interest-free by the organizers to the growers.

4. How can Syngenta facilitate and enable access to credit by lending institutions under standard interest rates, if and how organizers should/can play a role in that process, and how 'fair credit' can be ensured by Syngenta.
5. How and which of the organizers' activities should be included in future FLA Independent External Monitoring visits.
6. What role can Syngenta play in facilitating more direct credit access to growers?
7. What additional steps can Syngenta take in order to ensure payment of minimum wages to workers?

III. Scope and nature of field visit

This Special Report will aim to cover two hybrid seeds producing regions (Andhra Pradesh and Karnataka) in India. The following hybrid seeds will be investigated in depth (prioritized on the basis of risk): (1) corn (maize); (2) watermelon; (3) okra; (4) hot pepper (chili); (5) sunflower; (6) tomato; and (7) rice.

The Research Team will draw a Purposive Sample⁸ and ensure that enough, relevant and verifiable data is collected in order to make conclusive assessment.

- i. Visit appropriate number of villages with production of all crops (should not be fewer than 3 villages in each location).
- ii. Visit appropriate number of farms undertaking production of above-mentioned seeds (should not be less than 20 in each location).
- iii. Interview an appropriate sample of Organizers working in each location and staff and workers directly employed by them. Identify their field-staff and interview them and assess if they are operating as sub-organizers.
- iv. Interview an appropriate number of Growers who undertake Syngenta production. Ensure interviews with long terms growers who have supplied Syngenta for over 5 years and new growers (should not be less than 20 in each location). Ask direct questions on whether they have received advance payments, credits or loans.
- v. Check for contracts and type of documentation growers have received from Syngenta or Organizers. Assess whether growers have contracts? Is it easy for Syngenta to deny relationship with them?
- vi. Interview an appropriate number of workers in each location. In case the workers are not available at the farms at the time of the visit, identify local workers from the same

⁸ SAGE Research Methods: Purposive Sampling is a form of non-probability sampling in which decisions concerning the individuals to be included in the sample are taken by the researcher, based upon a variety of criteria which may include specialist knowledge of the research issue, or capacity and willingness to participate in the research. Some types of research design necessitate researchers taking a decision about the individual participants who would be most likely to contribute appropriate data, both in terms of relevance and depth.

- villages who have undertaken work in the past season at Syngenta supplier farms (should not be less than 25 workers in each location).
- vii. Interview appropriate Syngenta staff in the Hyderabad office, Seed Production locations, Supervisors, Regional Production Managers (RPM), Territory Production Managers (TPM) and other appropriate staff.
 - viii. Interview family members of growers and workers (should not be less than 15 family members in each location).
 - ix. Interview appropriate and relevant external stakeholders (Civil Society Organizations, Government Officials, Local Money Lenders, Labor Contractors, Extension Service Providers) who are linked to seeds production activities in the visited communities.
 - x. Map all existing legitimate lending institutions in the visited communities and elaborate on the terms and conditions and process of securing loans from them. Provide contact information in a table.

The visit to the farms associated with the survey will be PARTLY UNANNOUNCED. Syngenta will obtain access of the investigation team to the facilities (Regional Production Centers, Syngenta Office in Hyderabad and seeds supplying farms). The team will meet with Syngenta management, workers and their representatives, and representatives of local or international organizations knowledgeable about working conditions in the seeds sector in the region. A portion of the worker interviews – about one-third – should be conducted off-site.

IV. Timeline and Activity Plan

The preparation, implementation and final publication of results will take place over a three-month period starting in March 2015. A report is expected in May 2015

V. Deliverables

Report and recommendations in draft form will be provided to the FLA for comments and clarifications within 15 working days of completion of investigation. The report will be in narrative form with some statistics, in the English language, and will have any relevant attachments or annexes. Upon receiving feedback from the FLA, a revised version (final) of the report will be submitted within 10 working days of receiving the FLA comments.

VI. Investigation Team Members

Principle Investigator –Dr. Venkateshwarlu Davuluri (Glocal Research and Consultancy)
Co-Investigator – Dr. T Narashimha Reddy (Executive Director CARE, NGO)
Co-Investigator – Mr. Jacob Kale (Central University, Hyderabad)