



BASF - Brazil

Case Study

United Nations Global Compact

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1. Case study abstract

This document intends to address the implementation of commitments made by BASF in the scope of the United Nations Global Compact Program. Of the program's nine principles, the document discusses BASF's involvement with those related to Labour, as follows:

Principle 3: Businesses are asked to uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

BASF's performance regarding the commitment to the four Global Compact principles addressing labour relationships involves the way the company incorporates them in the strategic management of their operations and attribute them to both the domestic (collaborators) and the external (stakeholders) public. Out of the four principles, the document emphasises especially **Principle 3**, which addresses the Freedom of Association and the right to Collective Bargaining.

2. Research Method

This document is the result of the following procedures: three meetings carried out with labour union directors, employed at BASF's three production units (São Bernardo do Campo – Demarchi; Guaratinguetá – São Paulo and Camaçari – Bahia). In those units where a Plant Commission was already established, these directors were members of that Commission. In units where no Commission had been elected at the time, directors were company's employees and members of the union's directorate.

In meetings with union directors and members of the Plant Commission, key issues were detected for each of the three production units. These issues were systematically categorized on three different levels of importance, according to the seriousness:

Level 1: Indicates nonconformity to one Global Compact principle. This level indicates an issue related to nonconformity to the four principles taken into consideration here, evidencing explicit violation.

BASF presented no Level 1 problem along the survey activities.

Level 2: Identifies a difficulty faced by the company in implementing Global Compact principles in Brazil.

A handful of Level 2 problems were identified and will be herein discussed.

Level 3: Issues which do not affect directly any Global Compact principle.

Level 3 problems were identified during the survey. They are mostly local problems, related to the local legislation, not to the Global Compact principles.

Parallel to the collection of information from unions and Plant Commissions, interviews were carried out with representatives of BASF's units in São Bernardo do Campo (Demarchi¹), in Guaratinguetá² and of the company's administrative headquarters (Imigrantes³). Part of the interviews were preceded by a presentation, conducted by a company's representative, of the programs and activities developed by BASF in the fields of labour relations, Environmental Protection and Social Responsibility.

The company gave detailed answers to all problems pointed out. In several occasions, free discussions between union directors and representatives of BASF's several areas addressed the problems. All the information requested was sent and no pendency lasted at the end of the field work.

3. Brief description of the Company

BASF is a German chemical company that produces approximately 8 thousand different items in five business segments: (1) Paints and Performance Products; (2) Plastic and Fibres; (3) Chemicals; (4) Agriculture and Nutrition Products and (5) Petroleum and Gas.

The company is a world leader in the segment of chemicals and employs more than 89 thousand workers in 170 countries. Of these, 5.528 are employees at BASF South America; this means 6.2% of the total workforce (Annual Report, 2002).

The company's global sales revenue reached 32.2 billion Euro (2002). In South America, sales totalled 1.7 billion Euro, or 5.2% of the global revenue (Annual Report, 2002). The Brazilian market accounts for 56.4% of the revenue in South America (960.40 million Euro) and 2.9% of the global revenue.

BASF operates four production centres in South America (Brazil, Chile, Argentina and Peru) and sells products in Colombia, Venezuela, Paraguay, Equator, Bolivia and Uruguay.

The company implemented an organisational and productive restructuring process starting in 2001, aimed at cost reduction, alignment of activities with strategic objectives

¹ City of São Bernardo do Campo (São Paulo's metropolitan area), seat of the Paint business unit.

² City in the state of São Paulo where BASF operates the largest South American chemical complex.

³ Company's headquarters at the *Imigrantes* Highway, in São Paulo.

and improvement of the focus on consumers. At that point, the company announced the end of operations of 10 sites and 14 business units in different parts of the world. In South America, Brazilian production units were closed in Paulínia, São Caetano do Sul, Jacareí and Guaratinguetá (the last two being Dystar/BASF operations), the Sapucaia do Sul unit (Paints for Construction) was transformed into a distribution centre and vitamin units were closed in Brazil (Guaratinguetá, SP) and Venezuela (Turmero). A production unit in Barranquilla (Colombia) was sold. The graphic paint division (BSG) was closed in Brazil and in Chile. The production of Santa Cruz unit (Brazil) was discontinued.

At the same time, investments increased in the São José dos Campos, SP (polystyrene) and Guaratinguetá (expanded rigid polystyrene) units and in the agrochemical division (MPB). In addition, the company expanded its Paints for Construction plant in São Bernardo do Campo.

4. BASF and the Global Compact

BASF is one of the first 44 companies that joined the Global Compact and committed themselves to follow the nine principles. BASF's commitment to the nine principles may be found in several documents describing its values in regard to the Environment and to Social Responsibility. In addition, BASF is a company that tries to incorporate these principles in the firm's management and in the strategic decision-making process. Labour representative organisations are invited to participate in this process. The company made a corporate commitment to this line of action, now being implemented in Brazil.

5. Macro description of BASF Brazil implementation of the Global Compact principles related to labour, including description of the information flow – top to bottom - and decision making processes.

Some of BASF's corporate guidelines adopt, as a global policy, the practice of mutual respect and dialogue with labour representatives (or 'collaborators') and unions, in regard to the right of free association (free unions) and collective bargaining. However, when the European and Brazilian practices are compared, differences appear in the timing to implement the dialogue institutional tools (Plant Commission, National and Regional Representation) and in the way these tools are constituted. In Europe, legislation details the operation of Plant Commissions. In Brazil, legislation is not specific about that.

5.1. BASF's Social Dialogue Policy

BASF's Social Dialogue Policy was launched prior to the company's adhesion to the Global Compact principles and to the changes introduced after 2001. In 1995, in Europe, BASF launched the so-called 'Euro-Dialog', with representatives of employees

from the European units. In Brazil, the creation of the first Plant Commission in a BASF unit happened in the beginning of the 1990s.

This process started in Germany, where the worker's representation follows a twofold structure. On one side there is the so-called Plant Commission System, regulated by law, where all workers elect company's delegates and choose the members of the Plant Commission. On the other side, there is the union representation system, in which only union members may participate. The operation of this system is regulated by the own union's statute, without the State's interference. However, union activities inside the company are regulated by legislation addressing union freedom. Hence, there is a double representation structure and BASF keeps relationship with both representatives of workers and union associates.

The survey shows that BASF's global policy regarding the relationship with unions and with representatives of workers of the company, is being effectively implemented and adapted to Brazilian conditions.

In Germany, the global 'Social Dialogue' policy and the consequent respect to worker's representations are both clear. It addresses the representative structure of the Plant Commission System, organised from the production unit up to the European regional level, as described below:

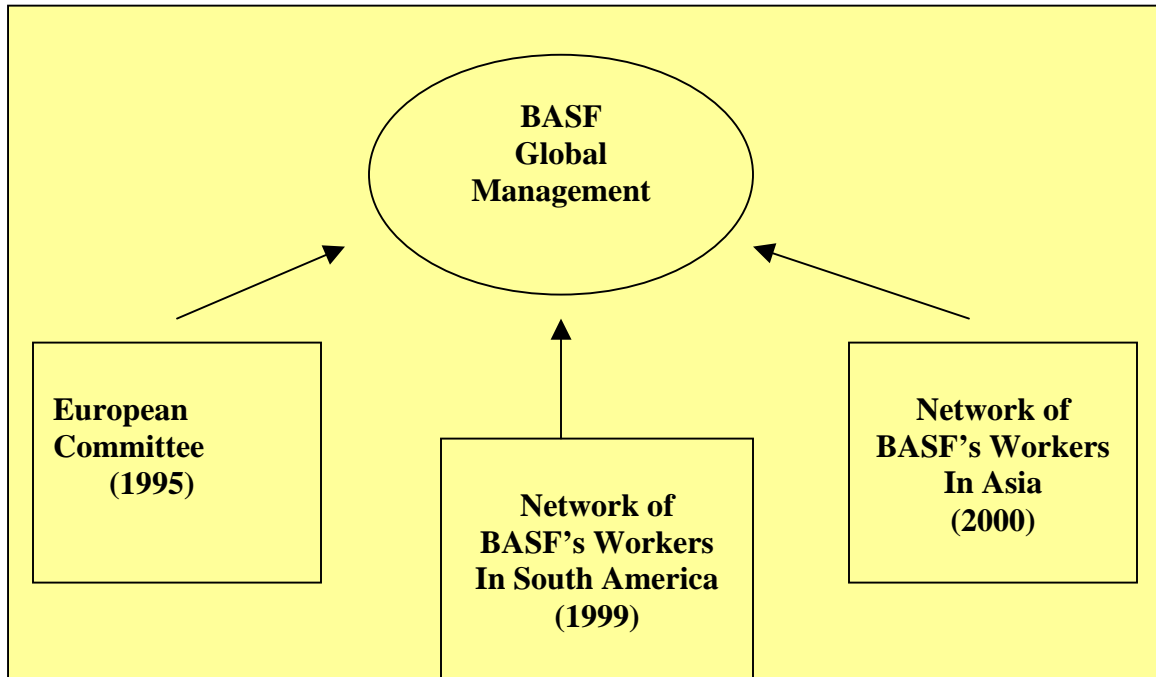
- **'Euro-Dialog': Representatives of employees coming from European BASF units form a regional Plant Committee;**

This is the highest instance of employee representation in European level. Employees meet with the company's management once a year at different locations. In these meetings, the company's management informs about recent measures and projects. The Committee representatives manifest their visions on the company's decisions and present their [requirements/conditions?](#) The 'Euro-Dialog' offers an opportunity for the exchange of information and for discussions between the company's management and representatives of employees.

In 1995 a volunteer agreement was reached between representatives of employees and the European Chemical Federation aiming at the establishment of said European Committee at BASF. Three members of the Committee constitute an executive group in the positions of president, vice president and secretary.

The worker's representation structure in Europe is reproduced in other regions. Since 1999, the BASF Worker's Network is operating in South America, with representatives from Chilean, Argentinean and Brazilian workers. The first meeting of Asian workers (South Korea, India, Indonesia, Pakistan and Malaysia) took place in November 2000 and now constitutes the Asian Network. Representatives of BASF's workers union in China participate in the Asian Network as observers.

BASF's Social Dialogue



BASF still has not established social dialogue with the global representation of the company's employees like some German automotive companies have (Volkswagen and DaimlerChrysler). The company's regional structures implement and divulge Social Dialogue guidelines. In North America (USA, Mexico and Canada – AFTA), a regional employee representation network has not been established yet.

- **Conglomerate Committee: meeting gathering plant commissions of all German units;**

In Germany, under the European Committee, there is a level of worker's representation that gathers plant commissions of all units to exchange information and to converge demands.

- **Joint Committee or Plant Commissions Assembly of a given segment or business;**

In Germany, there are committees in different production units of the same segment, that is, the chemical segment gathers committees from different sites in the country, specifically related to this business.

- **The Plant Commission represents employees of the local unit;**

Under the committees (of sites of the same business), are the local plant commissions representing employees at a production unit.

- **Plant Representatives – direct contact;**

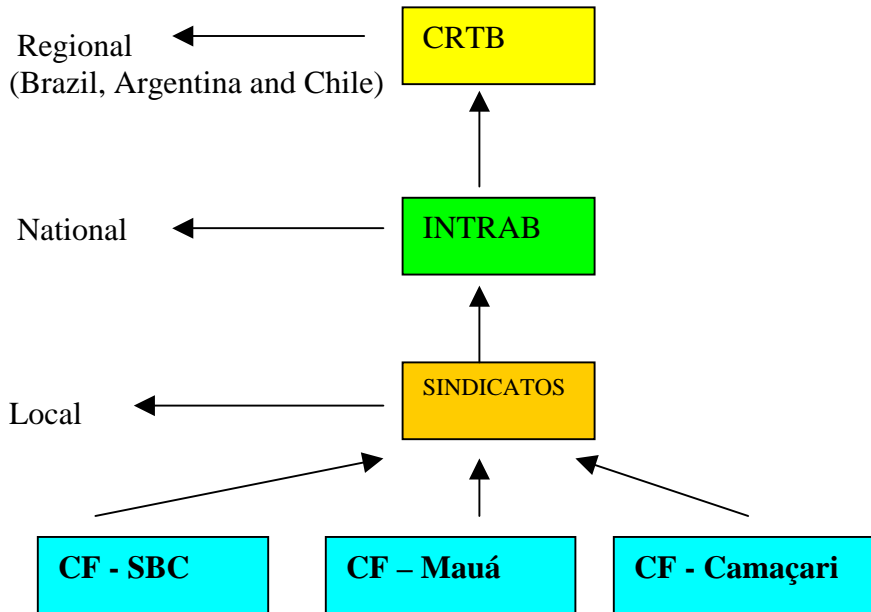
BASF stimulates other levels of employee's representation, besides the relationship with unions and/or Plant Commissions. In Brazil, for instance, there is a single-thematic employee's representation addressing exclusively the PPR (Participation in Results Program⁴).

- **The Implementation of the Social Dialogue in Brazil:**

BASF recognises and supports different levels of employees representation in Brazil. Firstly, BASF supports the institution of Plant Commissions in its production units in the Country. Right now, the company is negotiating with different unions the implementation of Plant Commissions. At the same time, if the local union does not show interest in creating a Plant Commission, BASF respects the decision. The statute of these Commissions follows the Plant Commission model of the São Bernardo do Campo unit, in São Paulo, which is operating for ten years now. It is important to take into consideration that, contrariwise to practice in Germany, in Brazil the law does not formally recognise Plant Commissions.

Secondly, BASF recognises and supports the National Employee Interunion (INTRAB) network that gathers, in its direction, workers representing local Plant Commissions and directors of chemist unions. Finally, INTRAB is articulated, in a regional level, with the CRTB (BASF Worker's Regional Committee), together with representatives from Chile and Argentina. Thus, it is being reproduced in Brazil what already happens in Germany. The twofold representation of BASF's workers by both unions and Plant Commissions (INTRAB and CRTB) ends up converging into the same collective negotiation process because representatives in Commissions are, in truth, union members.

BASF – Representation of Employees: The Social Dialogue in Brazil



The election process is under way in two of the three sites considered by BASF for the implementation of Plant Commissions: Mauá and Camaçari.

8. Brief description of BASF Brazil's implementation of Global Compact principles related to labour. Each principle will be described together with how the company **achieved/lives up to/ applies** them.

The four Global Compact principles under consideration are implemented based on the following actions and commitments:

Principle 4. Elimination of all forms of forced and compulsory labour;

In different documents, the company formally and explicitly expresses the commitment to **avoid /fight/prevent** forced and compulsory labour.

Principle 5. Effective abolition of child labour; and

BASF joined Fundação Abrinq's *Empresa Amiga da Criança* (Child-friendly Company) program, in 1996. BASF does not intend to use the program conformity label in marketing actions. There is no direct interest in using it because only one of the company's operations, namely Paints, involve end consumers.

As for the productive chain, BASF conditions the establishment of partnerships with product and service suppliers to answers to a rigorous questionnaire; information provided being later checked. Adopting this procedure, BASF contributes to the

company's values and principles along the production chain. The company, however, does not adopt this procedure for all its suppliers.

Principle 6. Elimination of all discrimination regarding employment and occupation.

A corporate Affirmative Action Program named 'Diversity' is being implemented at BASF, aiming at the promotion of minorities to directive positions. This program places BASF among the very few multinational companies operating in Brazil that face ?? the problem of discrimination against women, Afro-American individuals and other minorities, both in employment and in occupation.

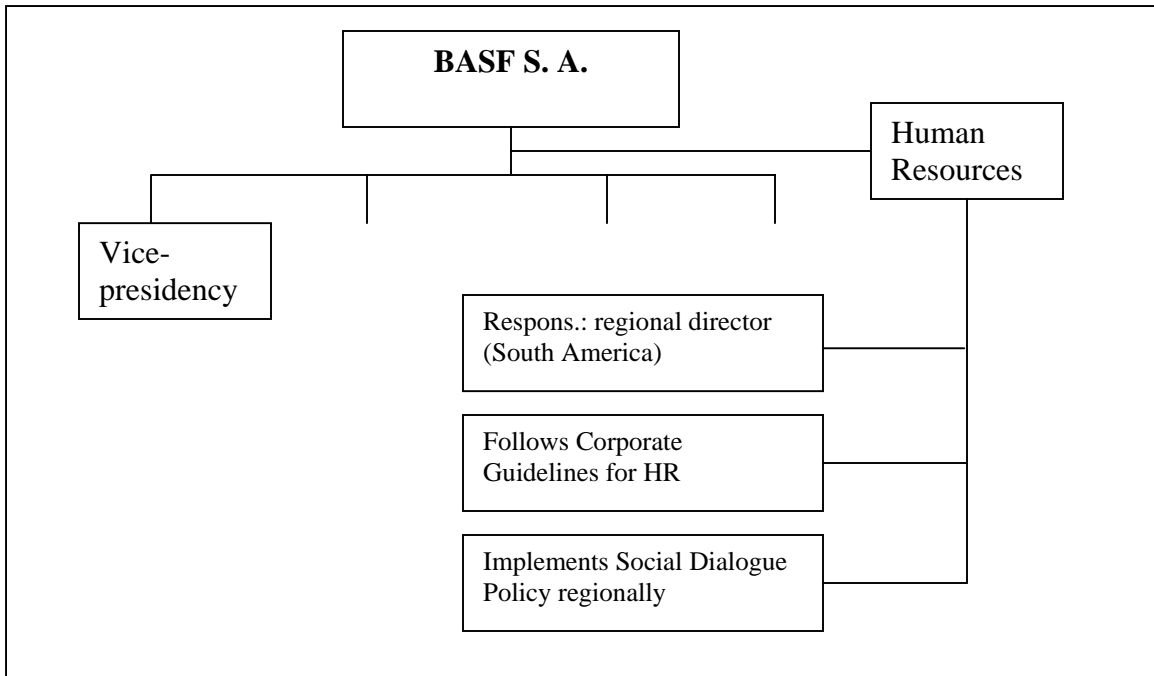
Principle 3. Businesses are asked to uphold freedom of association and effective recognition of the right to collective bargaining;

In the case of **Principle 3**, BASF implements the Social Dialogue guidelines the following way:

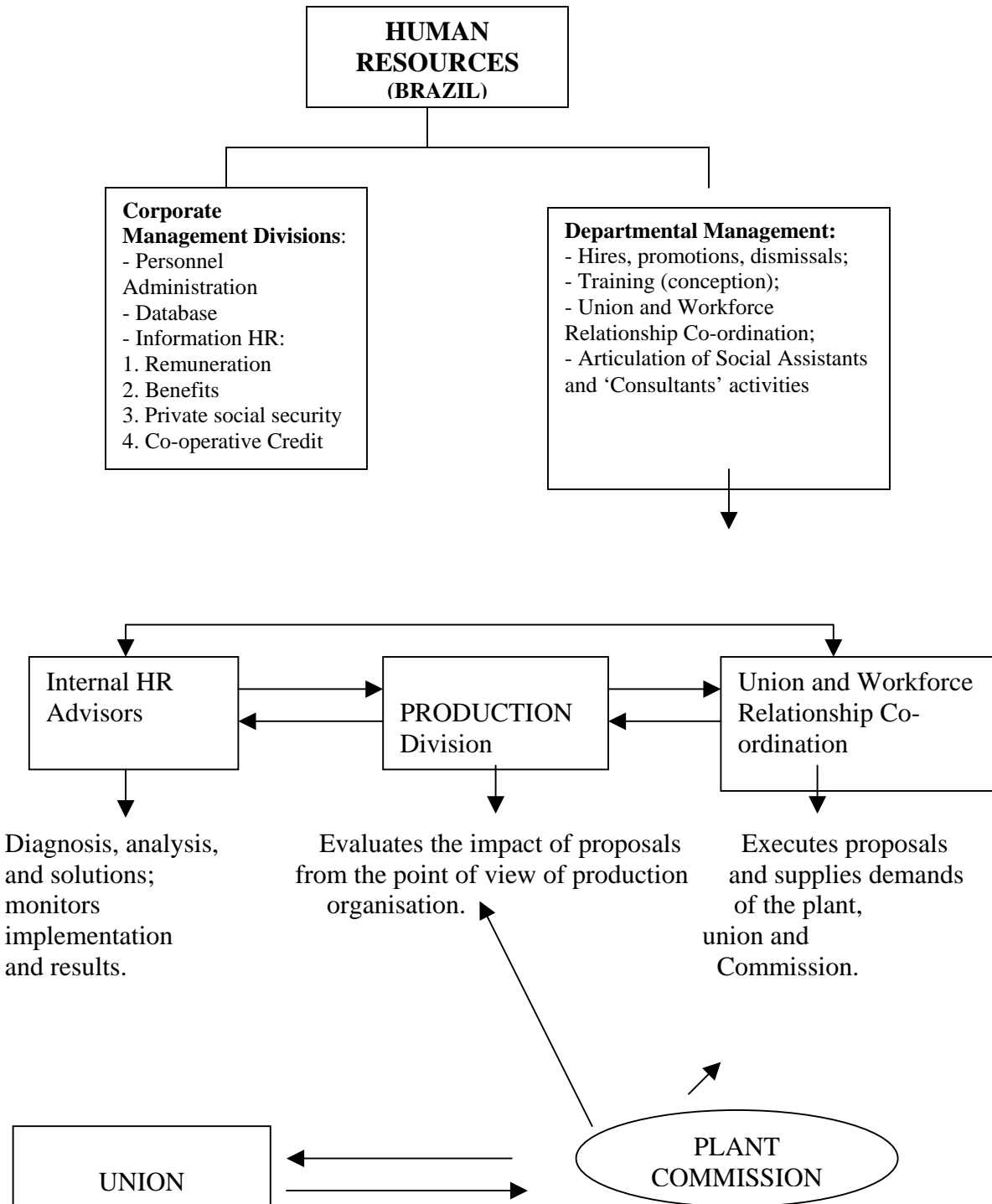
1. As in Europe, BASF negotiates and supports the constitution of Plant Commissions in production units. The process is currently under way; some units have already elected their now operating Commissions, others have not.
2. It recognises and debates with a national-level labour institution, the so-called INTRAB;
3. This nationally representative institution is part of the South American network that implements the Social Dialogue at a regional level.

6.1. The Top-Down Social Dialogue decision-making process at BASF

The company is organised in Brazil as a public holding company. It adopted the matrix type of structure. The Human Resources area is not vertically articulated with the other company's vice-presidencies, since it reports directly to BASF S.A.'s President. (See diagram). It is a functional, not an operational, area. There is a regional director (South America) and he follows the Social Dialogue's corporate guidelines in his relationship with workers' representatives, as follows:



The Human Resources area has a functional profile, with four management divisions: one dedicated to Paints and Varnishes (Demarchi), a second to Chemicals (Guará), a third to Corporate Personnel Administration and Information Systems and the last to Corporate T&D (Training and Development), Benefits, Selection of New Hires, Remuneration, Private Social Security and Co-operative Credit in Brazil, as well as departmental management for the major plants in other South American countries.



Under the departmental management there is a network of horizontal relationships involving ADVISORS, UNIT MANAGEMENT and a UNION AND WORKFORCE RELATIONSHIP CO-ORDINATION. This network conveys decisions made by the management to those at the shopfloor and distributes assignments and competencies

between leadership positions (bosses) and employees. Accordingly, employees incorporate the Social Dialogue and Action Program guidelines, thus ensuring that Safety, Health and Environmental Protection practices are effectively carried out.

ADVISORS: these are company's employees whose assignment is the proposition of alternative ways of improving managerial procedures regarding selection of new hires, training, remuneration and promotions. They are also required to provide solutions to contingent problems (relationship, organisational atmosphere etc.). In practice, advisors operate as a support structure, mobile and flexible enough to help Human Resources management to deal with collaborators, in matters related to labour relations.

They are organised, together with all business units of a given site, in a matrix-like structure. In the case of the São Bernardo do Campo plant, SP, (Demarchi), the site is essentially mono-purpose, meaning that it is a site dedicated to paints (domestic and automotive). Another site visited in Guaratinguetá, São Paulo, includes several business units, making advisors' work even more complex, because they have to face many different situations.

MANAGEMENT OF UNITS: evaluates whether proposals presented by the Human Resources area are feasible, based on the business production organisation.

UNION AND WORKFORCE RELATIONSHIP CO-ORDINATION: composed of management assistants, the Co-ordination's task is the direct communication with the shopfloor – to take into consideration the demands of the plant commission and the local union. Everything related to legislation and relationship comes under the analysis of this Co-ordination. It operates providing direct advice to the Human Resources management.

THE PLANT COMMISSION: the Plant Commission is an important communication instrument linking the managerial structure to workers. The Commission is both a sensor that feels the organisational atmosphere and a more direct and less formal means of communication with the shopfloor. It allows the involvement of union directors and representatives of the unit's workers in the Responsible Action Program (Health, Safety and Environmental Protection).

From the standpoint of unions and workers' representatives, the Commission is an entity inside the company and dedicated exclusively to activities aimed at the organisation and the increase in awareness levels of workers in regard to labour rights. In addition, commitments made by the company and related to Environmental Protection and Social Dialogue are routinely inspected at the plant by the Commission. At sites where a Commission is operating, a room with fax, telephone and computers (with access to the Internet) is permanently available to workers.

7. Principles' implementation analysis: the viewpoint of the company matched and compared with that of the labour union (site's committee of employees). Both groups were interviewed and their suggestions, complaints and action plans were matched.

There are three broad aspects to be considered regarding the way BASF is implementing its Social Dialogue *vis-à-vis* local conditions and the way workers representatives evaluate and react to the company's actions. The core question are the two rights expressed by Global Compact's Principle 5: the guarantee of Freedom of Association and the right to Collective Bargaining.

In the surveyed units, most problems detected by representatives of workers are **level 3**, that is, they do not threaten Global Compact principles. They are either localised, relationship problems or related to local Labour Safety and Health legislation and/or company's procedures.

Examples of **Level 3** problems:

- . The Plant Commission wants to take part in meetings of the legally required CIPA – Internal Commission to Prevent Accidents (*Comissão Interna de Prevenção de Acidentes*). BASF however states this is not a statutory assignment of the Commission but rather of representatives elected for that purpose.
- . Employees promotion and wages. The company wants to have flexibility to move workers to different positions but the Plant Commission and the Union want to avoid wage differences for equivalent positions.

7.1. Division of Competencies and Assignments between BASF and Workers Representative Organisations (regional, national and local).

In the surveyed units, a second order of problems indicates challenges in the local implementation of the Social Dialogue as envisaged by the company (**Level 2**). Challenges involve the Union/Plant Commission (local), INTRAB and CRTB and are related to:

- problems of agenda (what to negotiate, at what level – local, national or regional);
- problems of procedures (how to proceed);
- problems of flow of information (how to incorporate decisions made for national and regional scopes into the local level or how to make local claims reach national and regional levels).

In several situations, the company wants to negotiate at a certain level of representative organisations while the union wants to deal at a different one (or vice versa). These differences pop up in different themes such as:

7.1.1. PPR (Participation in Results Program)

Both unions and Plant Commission complain over BASF creating parallel levels of workers representative organisations. The PPR National Commission would be an example of this practice. Representatives of workers are elected in each unit for negotiations taking place at a national level. The elected members of the Commission do not have their job positions guaranteed. Members of the Plant Commission and/or union directors may candidate for representatives but, institutionally, neither the Commission nor the union take part in PPR's Commission. Directors recognise that BASF obey the law but, according to their opinion, the company should propose negotiations to take place within INTRAB's scope.

BASF understands that the PPR agreement involves active participation of unions and representatives elected by collaborators. The goals of the units are discussed and agreed upon by representatives of both the company and workers, including a member of the Plant Commission. The company also holds that different representations of collaborators (CIPA, PPR, Plant Commission) are a healthy alternative because they enrich the dialogue and promote the building of new leaders. The union wants a Single Representation System (SUR), centralising CIPA's, PPR Commission's and Plant Commission's actions.

7.1.2. Community Consultative Council

This is one of the Codes belonging to the Responsible Action program, where BASF commits itself to the establishment of institutional relationship with communities (or stakeholders) where it operates.

7.1.3. Responsible Action

Labour unions sustain that the Responsible Action program has never been officially announced in regard to the two levels of workers' representation. According to their opinion, participation in the Responsible Action Program is still low, despite the fact that the company promised to incorporate workers and their local representatives in the program's management. BASF argues that the theme was discussed three times at CRTB, during the second, third and fourth meetings of the Social Dialogue. BASF understands that the program was announced in the company and to all employees.

7.1.4. Corporate program "Procedure for Compatible Work"

Local unions admit that BASF presents and negotiates the implementation of this program at CRTB. For the company, this procedure indicates that the program would be approved. The union understands that the Program should be negotiated in each unit. BASF understands that the program was discussed by CRTB, with the involvement of

INTRANB and representatives of Plant Commissions, and that there is no need to discuss it locally.

7.2. Production discontinuity, displacement and outsourcing

There is a common demand, coming from all unions, INTRAB, CRTB and Plant Commissions, for broader access to information and a more intense participation in decisions involving changes in production (transfer of product lines to other locations, closing and outsourcing of business units etc.). The representatives of workers understand that this discussion is part of the right to collective bargaining, included in Global Compact's **Principle 5**.

BASF informs that most decisions involving mergers, joint ventures, closing, sale and outsourcing of business units and/or plants undergo two processes: firstly, they are corporate decisions with a clear strategic goal, taken at the company's headquarters; secondly, there is a local/regional dimension that influences headquarters decisions, that is, there is a certain autonomy to influence the path of the negotiation. Depending on the situation and on the business under consideration, the local/regional aspects become more important for the decision.

Recently, Brazil signed the OECD – Organisation for Economic Co-operation and Development Guidelines for multinational companies, because the country is the final destination of a large volume of direct investments made by these companies. Thus, multinational companies operating in the country must follow the procedures established in the document. These guidelines include the requirement that companies negotiate previously with unions any changes affecting production (sale, discontinuity or outsourcing). To achieve that, a continuous flow of information is necessary between the two parties to allow their participation in the collective negotiation on the subject, as defined by OECD's Guidelines.