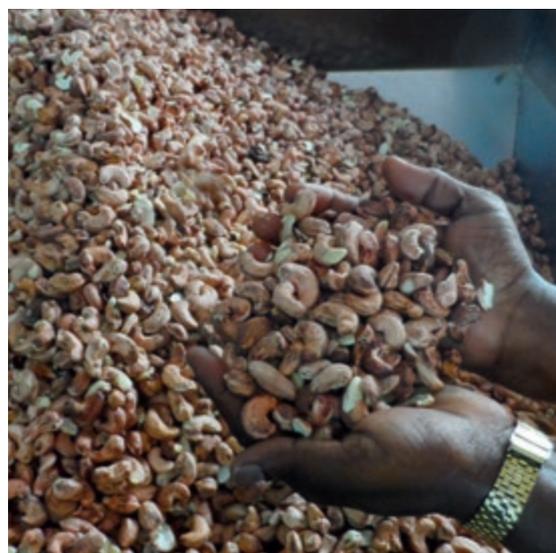


# CASHING IN ON CASHEWS

How EU supermarkets drive exploitation of cashew workers in India



## Introduction

This briefing examines the dynamics of the cashew nut supply chain and makes recommendations for change. It is based on Traidcraft's research among workers, factory owners, traders, wholesalers and retailers in India and Europe. Previous work by IIED<sup>1</sup> and ActionAid<sup>2</sup> revealed that terms of business in cashew value chains into Europe are governed by supermarkets. Traidcraft's research suggests the current story in India is no different. Supermarkets dominate the European retail market. This allows them to capture disproportionate rewards and pass on excessive costs and risks to those further down the supply chain.

In the cashew supply chain Traidcraft found a business environment characterised by low trust and a fragmented trading relationship. Supermarkets' poor practices lead to insecurity among their cashew suppliers which directly impacts the most vulnerable people in the value chain. Cashew processing workers have nowhere to pass risks. They bear the brunt of supermarkets' practices through low paid and sometimes irregular work, insufficient social protection and unsafe conditions.<sup>3</sup>

Traidcraft is recommending specific measures that all the key players including EU retailers, Indian and EU processors and policy makers can take to improve the supply chain.

## 1. Basics of India-EU trade in cashew nuts

India is the world's largest producer, processor and consumer of cashews. The Southern state of Kerala is the hub of an international value chain involving an estimated two million people.<sup>4</sup> Of about 500,000 people working in cashew processing in India, 90% are female.<sup>5</sup> As well as supplying a large and growing domestic Indian market, these workers process largely African grown cashew nuts for (re)export to European and other global consumers.<sup>6</sup>

Indian processors ship cashews to several EU countries where EU processors package cashews for consumers. The consumer packs may then be transported to other EU countries for sale. It is estimated that 46% of snack foods in Europe are sold through supermarkets. A smaller proportion of consumer packs are sold in 'out of home' locations, dominated by cheaper snacks such as peanuts.<sup>7</sup>

EU countries accounted for about one quarter of the volume of export trade from the port of Cochin, Kerala, in financial year 2012-13.<sup>8</sup> Chart 1 shows European importers in order of volume. The Netherlands is the largest European importer with over three thousand tonnes, although much of this product is for re-export to Germany and other EU markets. Spain and the UK are the next largest importers. The new member states also import cashews, for example Hungary bought 64 tonnes in this period.

**Chart 1:** EU destinations of cashew exports from the port of Cochin by volume<sup>9</sup>

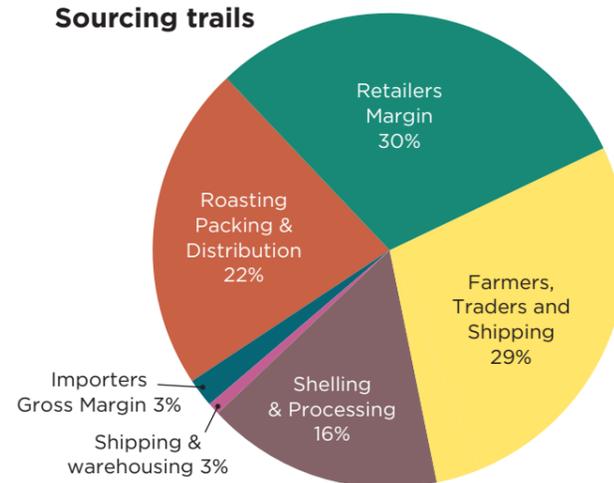
Country	Metric tonnes
Netherlands	3,877
Spain	2,203
UK	2,034
Germany	1,728
Greece	1,553
France	1,123
Belgium	579
Hungary	64

## 2. Where the money goes

The majority of the value in the cashew supply chain is captured by the European companies involved in processing and retail. The retailers make gross margins of 30-35% or more. The key transformative stages of the cashew supply chain are under-remunerated.

**Chart 2** breaks down the composition of the UK retail price for cashews excluding VAT.

### Sourcing trails

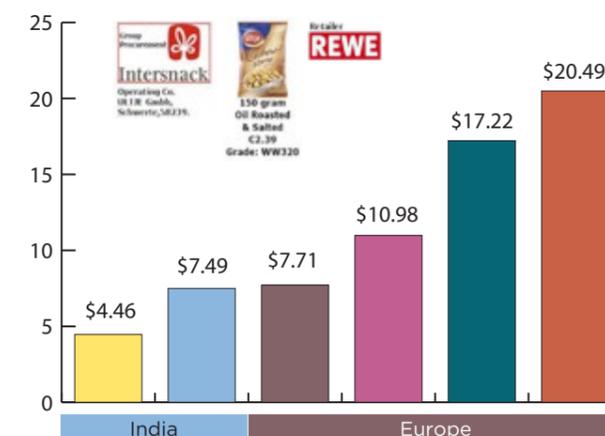


We found a similar picture across other European countries, when we sourced the trails of supermarkets in Germany, the Netherlands, and the UK.

### Germany (estimate) mark up for independent branded roasted and salted WW320 cashews sold 150g packs in Rewe.



### Price for 1kg of cashew kernels



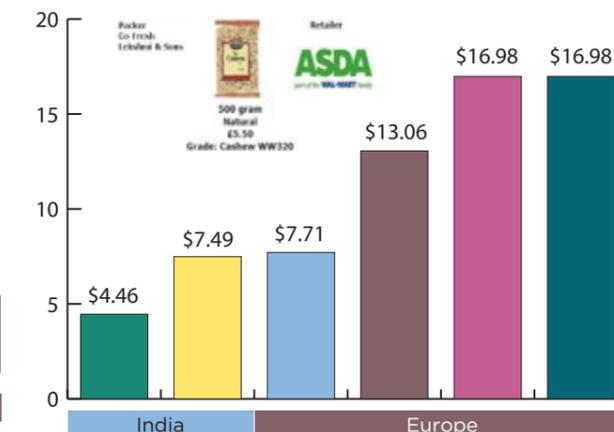
### Netherlands (estimate) mark up for retailer own-brand roasted WW320 cashews sold in 150g packs in Ahold

#### Price for 1kg of cashew kernels



### United Kingdom (estimate) mark up for independent branded natural WW320 cashews sold in 500g consumer packs in Asda

#### Price for 1kg of cashew kernels



The chart above shows how in the case of natural cashews sold into the United Kingdom, US\$9 is made in the European Union where little value addition takes place. The mark up in India, where all the transformative processing takes place, is only US\$3.

See Appendix 2 for a diagram of a cashew supply chain from India to Europe.



1. K.N. Harilal, Nazneen Kanji, J. Jeyaranjan, Mridul Eapen and Padmini Swaminathan, Power in Global Value Chains: Implications for Employment and Livelihoods in the Cashew Nut Industry in India, Summary Report, International Institute for Environment and Development, March 2006  
 2. Action Aid, Who Pays, How British Supermarkets are Keeping Women Workers in Poverty  
 3. We focus on processing workers in this report because other organisations work with farmers. For example RONGEAD: <http://www.rongead.org/ECHOS-DU-CAJOU-ARECA-RONGEAD.html> and the African Cashew Initiative.  
 4. Traidcraft commissioned research by Natural Protocol, March 2013.  
 5. Ibid  
 6. Ibid  
 7. CBI Market Information Database - <http://www.cbi.eu>  
 8. 24.72 percent according to Cochin port data, 2012-13  
 9. Cochin port data, 2012-13

10. Research by Natural Protocol. 2013

### 3. Unfair trading practices

Traidcraft's research in India shows how powerful supermarkets are able to abuse their market power to exert downward pressure on price, apply Unfair Trading Practices (UTPs) and undermine the trust that is essential to good business relations.

The European food retail market is highly consolidated. A small number of large companies wield extraordinary power because of their dominant shares of the retail market. This concentration of buyer power amongst a handful of firms<sup>11</sup> weakens the bargaining position of suppliers. Some Indian processors point to Europe as the number one price offender, offering the lowest prices for the highest quality nuts. The largest European importer to supply European supermarkets was described as an "aggressive buyer" by an Indian factory manager.<sup>12</sup>

Examples of these unfair trading practices are contained in the boxes below

#### Example one: Outsourcing pushes down labour standards

Pressure from EU buyers is forcing Indian processing factories to outsource as a means of cutting costs.<sup>13</sup> Indian processors are forced to find ways to reduce the price of labour which makes up 80% of their costs. This might include outsourcing or evading or incorrectly paying social security. Workers' safety may be compromised as it is much harder to audit and enforce good practice at small processors or home workers.

#### Example two: 'Unjustified payments'

A supermarket and supplier may have agreed a price but this is often undermined by supermarkets demanding unjustified payments or contributions post-negotiation. Suppliers may agree to pay to ensure their product remains on the shelf. The payments may include covering the costs of retailer's advertising or promotions, or theft from retailer's premises.<sup>14</sup> These 'unjustified payments' are applied by retailers irrespective of the product, and severely undermine mutual trust.

#### Example three: Unilateral and short-notice changes

Supermarkets commonly make last minute, unilateral changes to key contract terms including price, volume, technical specification and payment terms. For example, Traidcraft interviewed an Indian cashew processor who had just received cancellation of an order. Because the supermarket had reduced their order, a purchase of two container loads (approximately 32 metric tonnes) was cancelled when the product was already partially processed to the buyer's specification and packed for dispatch.<sup>15</sup>

Although this constitutes breach of contract, many supermarkets do not write contracts and suppliers are not in a position to challenge the practice.<sup>16</sup>

#### Example four: Squeezing on price

EU buyers often base their prices on distress sales observed through online auctions or for lower quality broken or scorched cashews to push sellers for lower prices on whole cashews.<sup>17</sup> Because market price information on cashew sales is not publicly available, there is no reference price. Buyers use this uncertainty to squeeze on price.

#### Example five: Late payments

European supermarkets receive cash from their customers on the day of sale, or within three days if the customer pays by credit card. However, the supermarkets' industry standard is to pay suppliers 60 to 90 or more days after receipt of invoices. So suppliers might not be receiving any payment until after their product has been sold and consumed.

This late payment is passed on by large EU processors to Indian cashew processors.<sup>18</sup> The norm is payment within two weeks of the cashews leaving India but payment can be as late as six weeks. This creates a cash flow problem for Indian processors, many of whom have purchased their RCN through credit from local banks.

### 4. Low wages and insecurity

#### Wages

The Indian Constitution states that workers like those employed in the cashew industry should receive a living wage.<sup>19</sup> International treaties like the ILO Convention on equal pay<sup>20</sup> and the UN Declaration on Human Rights enshrine the same protections in international law. Members of the Ethical Trading Initiative also agree to pay a living wage.<sup>21</sup> But Traidcraft's research found that such commitments are being broken in the cashew supply chain.

Minimum wages for the cashew industry in India are set at State level:

- The current daily rate in Tamil Nadu is 147.70 rupees (INR) (including the employers' compulsory social protection payment) or INR 132.50 without.<sup>22</sup>
- Minimum wages in Kerala's cashew industry are higher than in its neighbour state, reflecting a higher cost of living, at INR 198.36 (inclusive) for lower skill jobs and INR 268.36 for the highest rate.<sup>23</sup>

Factory managers told us that the pressure on price (and requests for large volumes) is leading to more and more outsourcing.<sup>24</sup> Labour-related expenditure (including wages and social security) make up about 80% of processing costs,<sup>25</sup> so suppliers often seek to reduce this outlay. This can lead to lower labour standards, and jeopardise food safety.

#### Home workers

We have documented instances where home-workers earn less than the minimum wage, and understand that this is widespread practice.<sup>26</sup> For a day's work peeling 10 kilograms of cashew nuts, a home worker in Tamil Nadu would receive 130 rupees<sup>27</sup> (the minimum wage is 147 rupees). According to our interviews this is enough to buy basic food for a small family but leaves nothing for other costs or savings. One calculation (from the garment sector) puts the living wage in India at 300 rupees per day.<sup>28</sup> Home-workers in Tamil Nadu are receiving less than half of this.

#### Social security payments

Social security payments are incorrect or not paid at all with few consequences for factory owners. Workers can struggle to check that the correct social security payments are being made as this often involves travel to another town, which can be too expensive or far away to reach. Workers are left without adequate medical insurance or pension fund when they retire.<sup>29</sup>

#### Employment insecurity

RCN are generally only available twice a year but with adequate storage processing can take place year round. However workers are rarely given permanent contracts and workers arriving throughout the year contributes to a very insecure pattern of employment.

#### The piece rate system

Wages are primarily determined by a piece rate – payment according to the amount a worker processes. Workers are paid for the weight of whole unbroken kernels they produce. This system transfers inappropriate risks to workers who have no control

11. Appendix one details the concentration of the food retail market across EFTA member states.

12. Interview with a key informant, Traidcraft, May 2013.

13. Traidcraft Exchange interviews with cashew processing factory managers, India, April – May 2013

14. Traidcraft Exchange interview, conducted (October 2013) Competition Commission 2008 Groceries Market final report, EC DG internal Market summary and responses to the Green paper consultation on UTPs in retail supply chains.

15. Traidcraft Exchange interview, conducted July 2013.

16. Costs of legal action are high and in such a concentrated food retail industry, suppliers who create difficulties can reasonably fear losing their market.

17. Traidcraft Exchange interviews, April & May 2013.

18. Traidcraft Exchange interviews with Indian cashew processors, May 2013

19. Indian Constitution, Clause 43: "The State shall endeavour to secure, by suitable legislation or economic organisation or in any other way, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities."

20. ILO Convention 100 on "equal pay for work of equal value"

21. Ethical Trading Initiative Base Code, Clause 5.1 ETI food retailer members include Asda, Coop, M&S, Sainsbury, Tesco and Waitrose.

22. <http://www.paycheck.in/main/salary/minimumwages/tamil-nadu rates from Department of Labour and Employment, Government of India, at 10 April 2013>

23. <http://www.paycheck.in/main/salary/minimumwages/kerala rates from Department of Labour and Employment, Government of India, at 5 March 2011>

24. Traidcraft Exchange interviews with cashew processing factory managers, India, April – May 2013

25. Ibid

26. Traidcraft Exchange interview, May 2013

27. Ibid.

28. The Asia Floor Wage. <http://www.fairwear.org/ul/cms/fck-uploaded/documents/countrystudies/india/countrystrategicplanindia2013.pdf>

29. Traidcraft Exchange interviews with cashew processors at factories and home-workers, India, April-May 2013

over the processes such as drying and post-harvest storage which can affect the quality of the RCN.

If RCN are poor quality, fewer whole cashew kernels can be extracted and under the piece rate system workers are not paid for broken kernels.<sup>30</sup> Workers are also deprived of their wages when there is an equipment failure (for example a broken boiler) or if there are no nuts to process.

In some areas, some workers have negotiated different rates according to the quality of raw cashew nuts they are processing. However, this is not the case elsewhere in the country and the risk of poor quality RCN inputs is borne by the workers themselves.

**Lower piece rates for temporary employees.** We found instances where temporary workers were paid 28 rupees per kg while permanent workers earned 38 rupees per kg for the same work.<sup>31</sup> At this pay rate, a temporary worker processing 5kg per day, (their lowest estimate of daily output), would receive just 140 rupees per day, almost 60 rupees less than the state minimum, and far from a living wage.

There are also geographical discrepancies. The de-shelling piece rate in Tamil Nadu is only 60% of that in Kerala. The NGO CADRE estimate that 60-70% of women in the Tamil Nadu border region work in the cashew industry. This would suggest a huge amount of outsourcing to this area to avoid the higher cost of Keralan labour standards.

We also found evidence of pay rates below the legal minimum in Kerala. The wage books of workers at a small processing unit in Kollam showed average earnings over several days amounted to 173 rupees before deductions, well below the state minimum wage of 198 rupees.<sup>32</sup>

## 5. Unsafe working conditions for Indian cashew processors

Deshelling cashew nuts involves manual labour in inherently unsafe conditions due to the RCN oil. We found no evidence of a concerted effort to ensure satisfactory working conditions. Few factories had heard of labour standards' codes of conduct and

only two Indian factories have a labour standards audit uploaded onto Sedex (a collective database for supply chain audit data). This is despite the UK retailers promising that all of their own-brand sales will meet the ETI code as part of their membership commitment.

In factories producing for the international market that we visited, we found that many workers:

- Were crouched on the floor, repetitively hitting the cashews with a stick or a stone to break them open.
- Complained of joint aches, back pain, and other related health problems. One woman worker who had processed cashews for 10 years said she suffered from diabetes and blood pressure problems as a result of her working conditions.<sup>33</sup>
- Chairs are rarely provided, so workers squat. This leads to leg, back and knee pains. Many women damage their uteri.

### De-shelling cashew nuts releases a caustic liquid from the raw cashew shell which affects the skin, eyes and general health.

- Exposure to the caustic liquid can cause dermatitis, blistering and discolouration of workers' skin.
- Protection for workers was very variable. It ranged from none, to lime or castor oil to put on workers' hands, to individual "finger-gloves" to women using whole-hand gloves. One worker told us that they were not provided with gloves, but had to buy these themselves at the price of 8 rupees, so many women went without.
- Many workers crouch on small wooden planks on the floor all day. The dust/fragments of the shell, which we presume are also caustic, cause urinary and reproductive health issues.
- The caustic dust is in the air and breathing in the dust can lead to respiratory illness possibly TB.
- The dust affects people's eyesight: Sightsavers International have worked with CADRE<sup>34</sup> on this issue.

### Workers often lack access to toilets and little is being done to improve general conditions:

- Toilets are often insufficient or unusable, so workers don't drink water which leads to kidney problems.
- Insufficient hand-washing facilities mean people consume the cashew shell oil when eating.
- In a few instances workers are not allowed to talk in some stages of processing (because this means they may "spit" on the cashew kernel). However enforcing silence for long periods of time can have harm workers' mental health.<sup>35</sup> In some places we saw the use of loose mouth guards which stay on using elastic around the ears which means workers can communicate.

### Lower standards at smaller processing units:

- Conditions in smaller processing units can be much worse than those in the larger, more formal factories: many more women sit on the floor, particularly during the de-shelling stages. People are often not provided with anything to protect their hands and toilet facilities are worse than in the larger facilities.<sup>36</sup>

**These poor working conditions are a significant issue for the EU supermarket supply chain.** Well-respected exporting companies are buying in up to 90% of kernels from these small scale processors and packing and exporting under the exporter's name.<sup>37</sup>

### Working conditions: migrant workers

We found evidence that the need for low-cost labour is driving established cashew processing companies to use labour contractors to recruit migrant workers. This can be highly problematic: labour contractors have been known to deduct pay from workers to service debts and control other aspects of workers' lives. Migrant workers sometimes live at the factory premises, offering unlimited scope to work over-time. One key informant went on record saying this source of cheap labour is wonderful because "they want to work all hours of the day!"<sup>38</sup> Unless well-managed, the use of migrant workers can be exploitative and lead

to quasi-bonded labour. These workers often take on long hours as the piece rates are set so low.

## 6. Key trends in the supply chain

### Increasing volatility of prices

Demand for cashew nuts is rising globally against a supply that is not always reliable. Cashew production in West Africa is vulnerable to political and logistical risks. For example, the coup in Guinea Bissau resulted in massive loss of sales for the large cashew farming community as buyers did not travel to the country.<sup>39</sup> The fluctuations in supply mean that prices can be very volatile.<sup>40</sup>

### Risk, trust and short termism

If smaller and medium sized Indian processors do not have sufficient cash, they are unable to hold stock from the February-May harvest season, when RCN prices are low, until higher prices can be achieved. European buyers are now felt to be excessively concerned with the price per kilogram and not interested in forming long term business relationships.

### Opacity and lack of market information

Some processors complained about a lack of feedback, pricing and market information from European buyers, especially concerning who the ultimate business customer is. This resulted in distrust about the role the trader was playing when they purchased the cashew kernels for re-sale.<sup>41</sup>

### Declining labour checks and standards

Many of the factories that have made strides in improving working conditions would welcome a robust audit system. This would enable them to differentiate themselves from those businesses with lower labour standards.

A number of those Traidcraft spoke to mentioned that auditing had been common in the past but that this had died out as a practice. European buyers now seem unconcerned by these questions and cashews appear to be sold into the EU irrespective of the labour standards involved in production.

30. Traidcraft Exchange interviews with key stakeholders.

31. Ibid

32. Traidcraft Exchange interview with factory manager, 4 May 2013.

33. Factory worker interviewed by Traidcraft Exchange, May 2013

34. CADRE, NGO working in Tamil Nadu (an area to which Keralan businesses are subcontracting)

35. For example in iPhone manufacture: <http://www.digitaltimes.com/articles/19278/20130806/foxconn-mass-suicide-survivor-apple-iphone-factory.htm>

36. Traidcraft interviews with key informants

37. Ibid

38. Traidcraft Exchange, interview with key informant, May 2013.

39. IRIN Africa: <http://www.irinnews.org/Report/96106/GUINEA-BISSAU-Falling-cashew-exports-raise-hardship>

40. Research by Natural Protocol, 2013

41. Traidcraft interview with key informant, Sept 2013

## 7. Recommendations and guidance

### What can Indian processors do?

- Comply with the law of the state where they are operate and pay at least the minimum wage and all social security provisions.
- Negotiate a collective bargaining agreement with independent trade unions and regularly and actively consult with shop floor stewards on work place related issues.
- Pay workers a living wage<sup>42</sup> and communicate to their customers (EU processors) what impact this has on their cost of production.
- In conjunction with worker representatives devise a payment scheme where workers are not expected to bear risks for factors outside their control.
- Hire workers directly.
- Do not exceed maximum legal working hours per week per worker.
- Provide workers with sufficient and effective health and safety protection. Move workers onto permanent contracts after an appropriate training or probation period.
- Enable local civil society organizations to educate workers on what their employment contracts include and how to access social services and check on social security payments made.

### What can EU processors do?

- Recognise that cashew processing has intrinsic risks and understand what these are.
- Assess if there are suppliers able to meet minimum standards of compliance with national and state laws, and who are able to meet European labour standards codes of conduct such as the ETI base code.
- Select suppliers which meet these standards. If no supplier meets these standards make it a condition of contract for the supplier to meet the standard over the life of the contract. If the company sources too little to ensure such leverage then work with others buyers to develop a pool of suppliers who can meet standards.

- Assess whether their own practices undermine the possibility for better working conditions and rectify these practices. This includes ordering patterns (buying direct as far as possible) and whether prices paid are sufficient for a living wage to be paid.
- Reward those suppliers who have good practices with more orders.
- Develop long term relationships with suppliers and work together to develop a plan to improve practices.

### What can EU retailers do?

- Pay suppliers within thirty days.
- Avoid making late notice changes to orders unless the retailer pays the cost of the change.
- Avoid the application of Unfair Trading Practices (UTPs) such as those highlighted in this report.
- Make longer term commitments to buy.
- Recognise and remunerate quality products.
- Work with Indian processors and others in the supply chain to bring about sustained improvements in the sector.

### What can EU policy makers do?

- Recognise that voluntary initiatives to end UTPs have not succeeded.
- Back the establishment of an independent enforcement mechanism with the power to tackle UTPs, including the power to fine.
- Review competition policy to prevent and reverse the increase of buyer power in food supply chains.
- Require retailers and processors to report on the percentage and number of workers in their supply chains who receive a living wage.

## How the supply chain works and guide to terminology

**Consumers:** – buy cashews as a snack (stocked in grocery section of supermarket) or as an ingredient.

**Retailer:** buys from EU processor. The retailer selects their processor (supplier). Cashew consumer packs are delivered to a retailer’s distribution depot for storage. The retailer transports consumer packs to shops, and attracts consumers to come to the shop to purchase cashews.

Cashew kernel prices have risen over time so margins in the EU are under pressure. Retailers do not want to sell cashews above key price points (eg £2), so there has been a move to sell broken/ split cashews, or cashews are mixed with cheaper ingredients or the consumer pack size has reduced, to enable consumers to buy a ‘cheap’ snack.

**EU processor:** packs cashew kernels into consumer packs. Will sometimes roast/salt or mix with other ingredients prior to packing. The smallest value addition is when EU processor is packing “natural” cashew kernels.

EU processor buys from **Indian processors** directly or through a trader or broker. (Trader takes ownership of product, broker takes commission from both buyer and supplier and is there to handle disputes.)

**Indian Processors:** as a minimum, pack kernels. May also do some or all of the stages of processing of a Raw Cashew Nut (“RCN”) to “Cashew” Kernel. The types and grades of kernel include whole, broken and scorched. There are also different sizes (W320 is most common size sold to EU). Graded cashews are vacuum packed into 25 or 50lb “flexi-packs” for the EU. For India and the Middle East they are packed into tins. Indian processors selling direct or through traders are likely to control key aspects of the process (e.g. packing). They may control the other capital intensive stages of production or this could be outsourced to a smaller factory/processor. Most frequently out-sourced stages are the labour intensive stages - de-shelling & sometimes peeling.

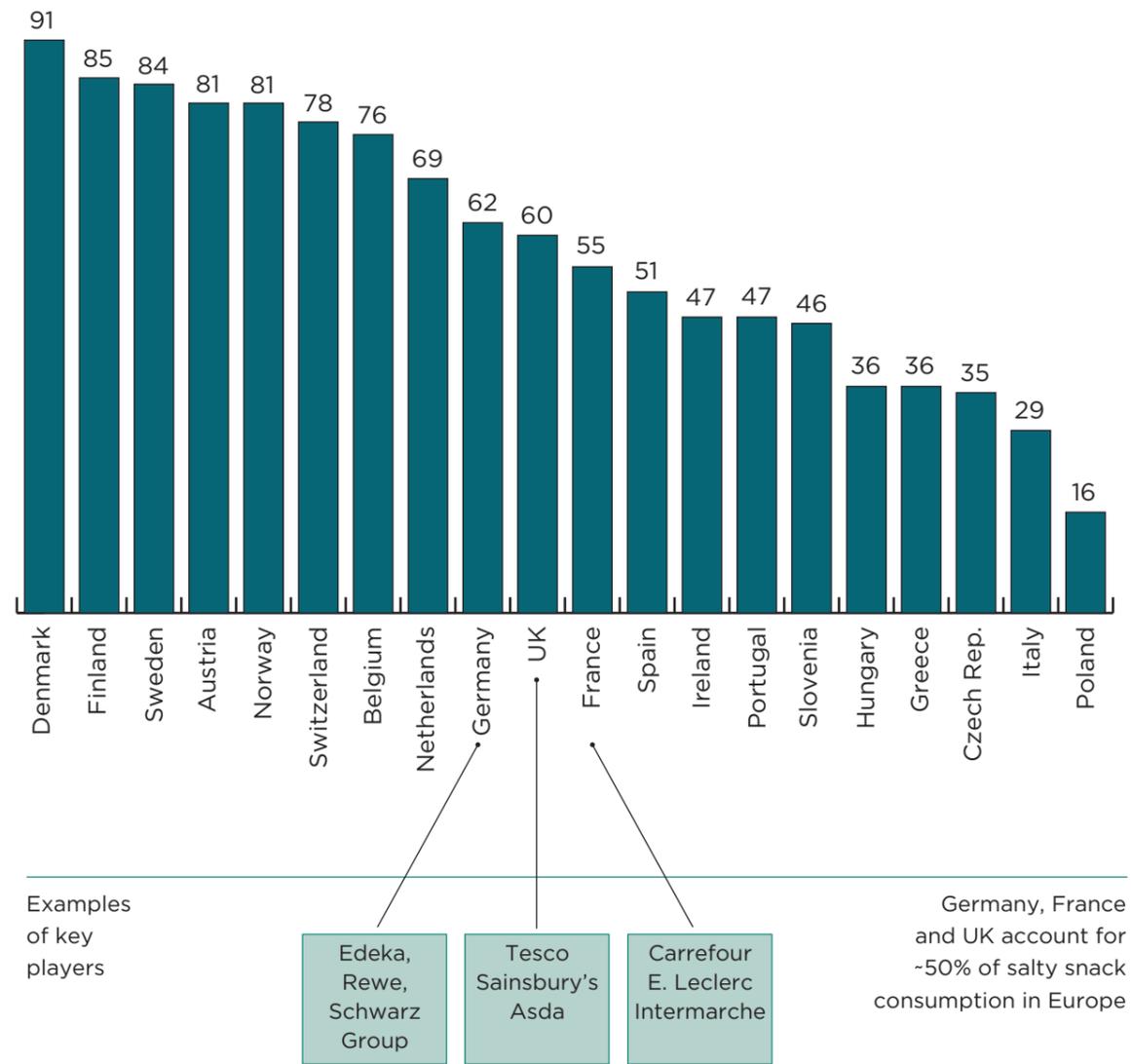
Some of the Indian processors organise their selling and buying within a group of companies. The output may be uniform but the same human resources approach may not be applied across the different companies and facilities.

**RCN traders or RCN brokers:** sell to Indian processors. Farmers sell to RCN brokers and traders. Well organised and empowered farmers are able to negotiate adequate prices. More remote and isolated farmers are often exposed and receive a pittance for their crop once all the other players in the supply chain have taken their margins.

42. A living wage is a wage that enables the worker to meet their basic needs and have some element of saving. The level of a living wage will vary between countries, states and what social services and in-kind benefits are provided and the local cost of living.

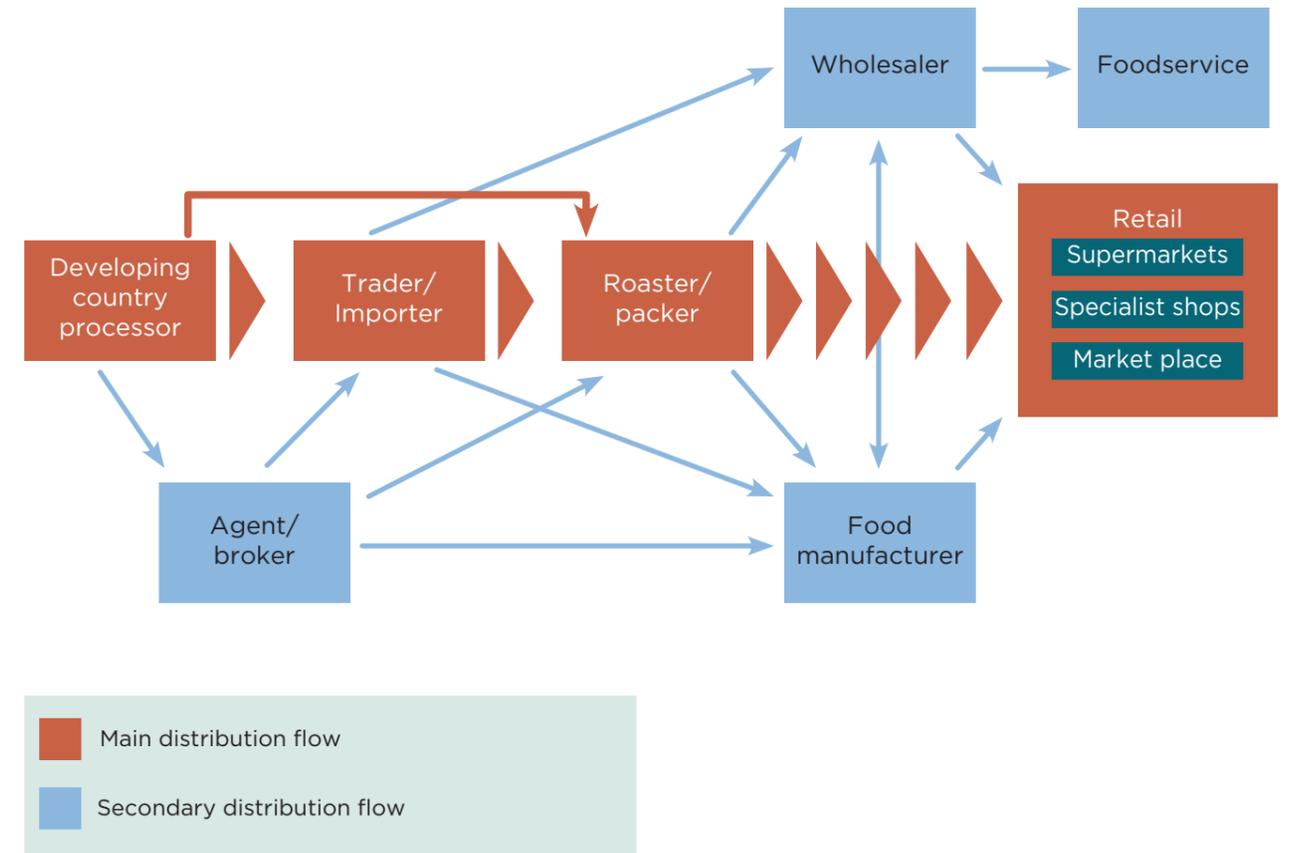
### Appendix 1: Concentration of the food retail market across EFTA member states

Market share of top 3 retailers per EU/EFTA country (%)



Source: ACA cashew market analysis, 2010

### Appendix 2: Cashew trade channels into EU markets





Traidcraft Exchange is the only development charity in the UK which specialises in making trade work for the poor. Together with local partners we create opportunities for poor people to harness the benefits of trade and develop sustainable livelihoods. We also use the experience of our sister fair trade company, Traidcraft plc, to improve wider trade practices. Traidcraft's Policy Unit conducts research and advocacy work to reform trade rules and improve the way companies operate.



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