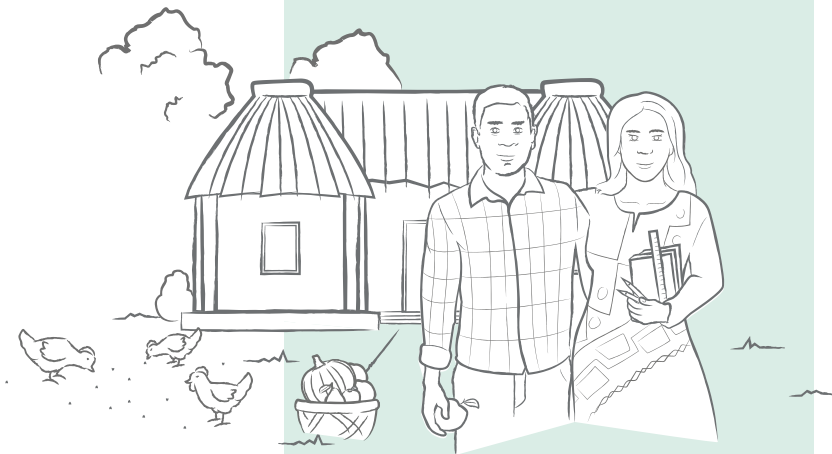


GUIDELINE ON

Living Wages and Incomes



REWE Group sources a large number of products via supply chains from all over the world. In some countries, wages and incomes are often too low. REWE Group aims at improving the wage and income situation in the supplier countries.



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I. UNDERSTANDING AND SCOPE

As a leading international trading and travel and tourism company, REWE Group is aware of its special role as an intermediary between manufacturers, service providers and consumers. The production of REWE GROUP private label products has an impact on people, animals and the environment. REWE Group's customers expect and should be able to trust that REWE Group, as a trading company, is aware of its responsibility in the supply chains of its private labels and addresses the effects. In its [Guideline for Sustainable Business Practices](#), REWE Group acknowledges its environmental and social corporate responsibility. The values described therein form the foundation for the responsible actions of the company (REWE Group 2011).

REWE Group sources a large number of products via supply chains from all over the world. In some countries, where raw materials come from or are processed, wages and incomes are often too low to ensure appropriate living conditions for the workers and farmers. In many countries, statutory minimum wages are not enough to provide sufficient income for the employees. REWE Group pursues the goal of improving the wage and income situation in the supplier countries.

In the present guideline, REWE Group specifies its requirements and measures for improving the wage and income situation in the supply chain. It is therefore part of REWE Group's comprehensive fairness strategy and is based on the [requirements of previous guidelines](#). The scope of the guidelines covers all private labels of REWE Group, which are sold in Germany by REWE, PENNY and toom Baumarkt DIY stores.

With this guideline, REWE Group aims to make its employees and partners in the supply chain aware of the importance of living wages and incomes in the supplier countries and to highlight measures and individual goals in this sector. The present guideline defines a binding framework for REWE Group and the business relationships with contractual partners. Defined requirements and targets are consistently reviewed, and new measures and targets are agreed as required. In addition, the guideline is updated on the basis of current trends and developments.

II. ISSUES IN THE VALUE CHAIN

Until now, many people in developing and emerging countries do not receive an appropriate wage for their work or an adequate income from the sale of the goods they produce. According to a report of the International Labour Organization (ILO), the majority of the 3.3 billion employees worldwide neither have economic security nor a decent livelihood (ILO 2019). Despite formal employment, every third worker in emerging and developing countries lives in poverty.

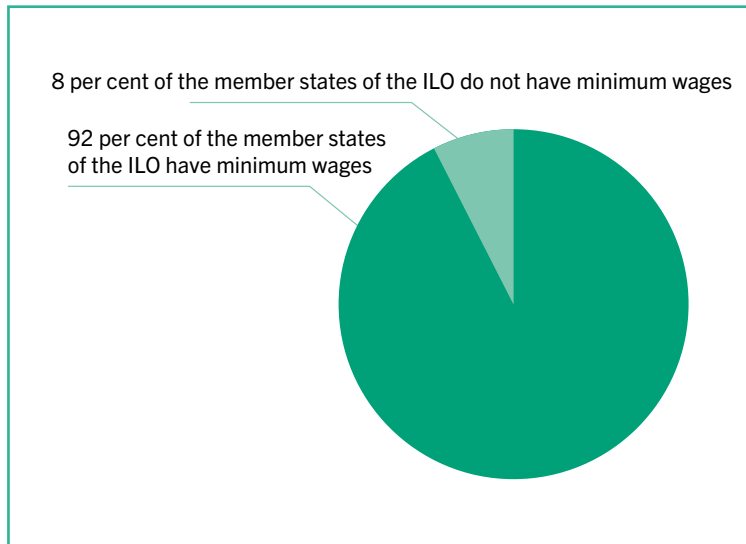
The topic of living wages and incomes coincides with numerous other human rights issues, such as discrimination or child labour. Women often earn less than men. The parents' low income makes it necessary for the children to work. Low hourly wages mean that workers have to work overtime in order to secure their living. Ecological problems are also closely linked - for instance with regard to deforestation.

Causes of low wages and incomes

The causes for non-living wages and incomes are often structural problems. Even though international conventions request the introduction of living wages and incomes, they are neither legally binding nor enforceable.

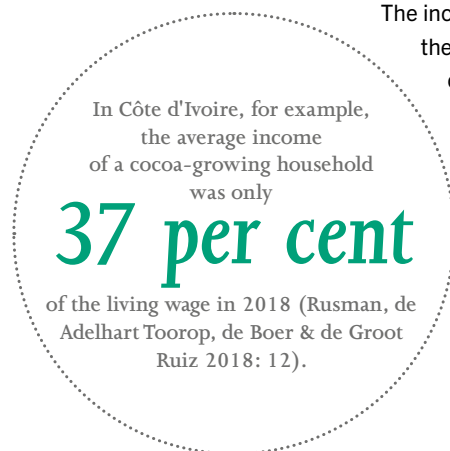
More than 90 per cent of the member states of the ILO have minimum wages. They are set low by some governments in order not to endanger international competitiveness - and in many cases they have not been adjusted for years, despite considerably increased living costs.





Source: ILO (n. d.)

In many countries, the statutory minimum wages are not sufficient to ensure an adequate standard of living. Furthermore, in some countries, minimum wages do not apply to all workers.



The income of smallholders is often below the poverty line. It usually depends on the world market prices for agricultural raw materials such as cocoa or coffee, which are often subject to considerable fluctuation. In some cases, the living wage of coffee producers from countries such as Ethiopia, Columbia or Kenya is below the production costs.

III. DEFINITIONS

Living wages are a human right. Article 23 of the 1948 Universal Declaration of Human Rights of the United Nations reads as follows:

“Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection” (UN General Assembly 1948).

Minimum wages

In the Convention 131 of 1970, the ILO made a recommendation for the fixing of minimum wages which reads as follows:

“The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include:

- a. the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;
- b. economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment” (ILO 1970).

These provisions, however, are often not implemented due to the lack of a concrete definition of minimum requirements. Moreover, several states face strong competition for low wages for years (Hütz- Adams & Bergau n.d.). The statutory minimum wages are far below the living wage in many countries.

Living wages

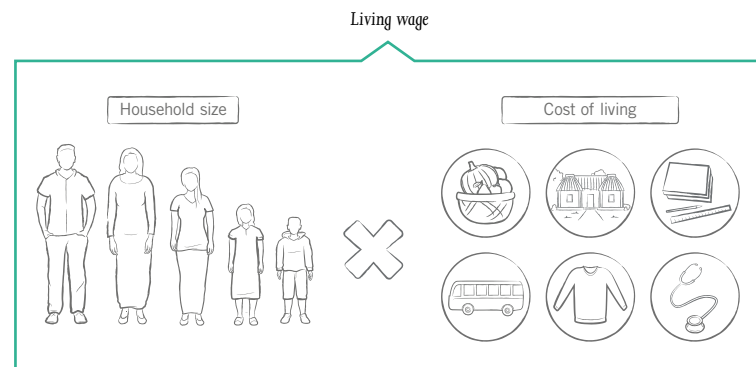
Several standard-setting organisations as well as its umbrella organisation ISEAL merged into the Global Living Wage Coalition (GLWC). These include Fairtrade International, Rainforest Alliance/UTZ, Goodweave as well as Social Accountability International. Its goal is to estimate living wages for various industries and countries and to improve the working conditions.



There are more than 60 descriptions of living wages (UN, ILO, NGOs etc.). The GLWC has agreed on the following definition of living wages which takes all these descriptions into account:

“The remuneration received for a standard workweek by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events.” (GLWC n. d.a).

The GLWC cooperates with Richard and Martha Anker for calculation of living wages. The renowned experts have developed a detailed methodology for estimating living wages and incomes. The so-called Anker methodology is internationally comparable and enables local and raw material-specific estimations.

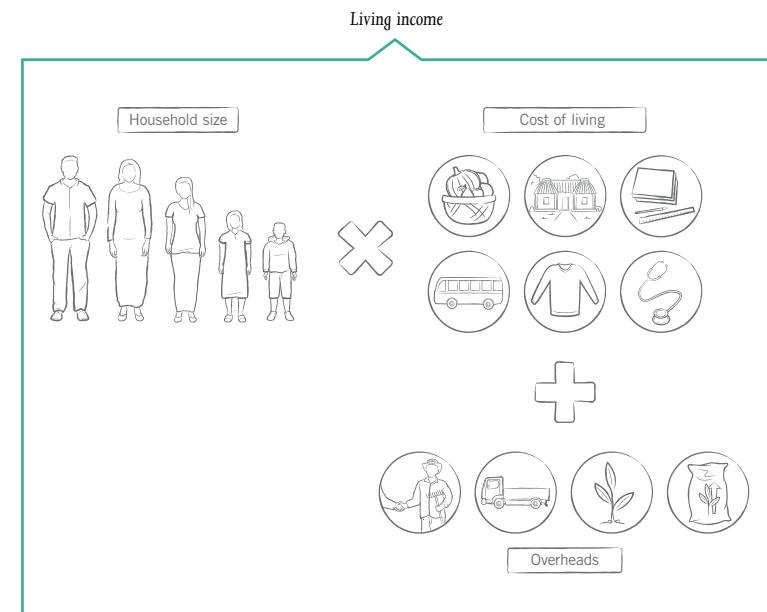


Living incomes

The definition of living wages does not apply to independent suppliers such as smallholders or tradesmen as they do not receive any wages but generate their income through sales of goods and the services they produce. Their income is often generated from several sources. The term living income was introduced in order to take these different conditions of workers and self-employed suppliers into account (Paulsen, Schüller & Albert 2016). The definition of GLWC for living wages also applies to living incomes - only slightly amended:

“The net annual income required for a household in a particular place to afford a decent standard of living for all members of that household.” (GLWC n.d.b).

The Anker methodology can also be used for estimating living incomes. An international working group, the “Living Income Community of Practice“, has developed benchmarks for living incomes of cocoa farmers in Côte d'Ivoire and Ghana by using the Anker methodology (GLWC n. d.b).



IV. APPROACH OF REWE GROUP FOR CREATING MORE SUSTAINABLE SUPPLY CHAINS

Through a clear strategic commitment and appropriate measures, REWE Group aims to actively contribute to reducing and resolving social and ecological impacts.

Sustainability is firmly anchored in REWE Group's corporate strategy. For REWE Group, this means: Promoting more sustainable product ranges and ensuring fair treatment of partners and suppliers, acting in an environmentally and climate-conscious manner, assuming responsibility for its employees and taking responsibility for contributing to a sustainable society. The “Green Products” pillar bundles all activities aimed at making purchasing and production processes more sustainable and thus expanding more sustainable product ranges. The activities of REWE Group are broken down into three fields of action:

- People
- Animals
- Environment

REWE Group has developed an approach for responsible supply chains in order to identify, evaluate and process the effects of private label products on people, animals and the environment:

1. Risk analyses: REWE Group continuously assesses opportunities and risks in the area of sustainability. On the one hand, these analyses are based on external evaluations of product areas, specific products or raw material supply chains. On the other hand, the assessment and experience of the external NGO expert advisory board for sustainability as well as other stakeholders such as producers and suppliers and also employees are included.

2. Derivation of focus topics and goals: On the basis of the risk analyses carried out, focus raw materials and key topics as well as goals and measures were defined, which are adapted and scrutinised when new results or findings emerge.

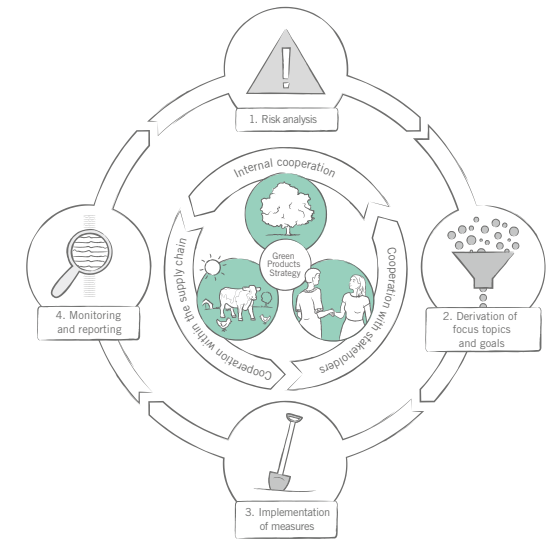
3. Definition and implementation of measures:

Measures to achieve the goals and work on the focus raw materials and key topics are implemented on three different levels of cooperation.

3.1 Internal cooperation:

By raising internal awareness and providing training, continuously analysing opportunities and risks as well as formulating strategies and goals, REWE Group continues to integrate sustainable procurement into its purchasing processes with the aim of taking sustainability aspects into account in every supplier and/or product decision.

3.2 Cooperation within the supply chain: REWE Group follows a three-step approach in its cooperation with parties involved in the supply chain, which includes the definition of requirements, as well as the control and the development of the parties involved. Business partners in the supply chains of private labels are obliged to indicate the production sites in which the products are manufactured for REWE Group. By raising the contract partners' awareness and holding them accountable, concrete rules are created to implement sustainability throughout the supply chain. Training courses support suppliers and producers in implementing REWE Group's requirements and continuously improving their performance. In various projects, REWE Group works directly with raw material producers to meet the challenges. In addition, transparency and the integration of sustainability are promoted as part of the supplier evaluation. Work in the supply chain also includes the establishment of effective complaint mechanisms.



3.3 Cooperation with stakeholders: In the long term, sustainability along the supply chain can only be achieved through cooperation with all relevant stakeholders. REWE Group is in continuous contact with a large number of stakeholders and is involved in various national and international initiatives, alliances and forums.

Key elements include participation in external events, industry initiatives, partnerships, commitment to the further development of sustainability standards and monitoring of relevant developments at political and regulatory level.

4. Monitoring and reporting: The implemented activities are monitored and evaluated. The findings of the monitoring are incorporated into the further development of the measures.

V. REQUIREMENTS AND MEASURES

REWE Group lays down its responsibility to strengthen human rights and prevent thereof violations in its Declaration of Principles on Human Rights (REWE Group [2019a](#)). In the Guidelines on Fairness (REWE Group [2019b](#)) the company strives to improve the working conditions within the supply chain of all private label products.

The company has laid down basic values that apply to all business relationships with REWE Group's contractual partners in its Guideline for Sustainable Business Practices (REWE Group [2011](#)).

Risk analysis

At the beginning of 2017, REWE Group conducted an extensive risk analysis. On this basis, focus raw materials and key topics were defined in which REWE Group's actions have a significant impact on human rights. In particular, the supply chain stages of raw material production and processing have been identified as relevant in the analysis. The key topics in the field of fairness are "child and forced labour" and "living income" in the field of fairness.



The following critical raw materials were identified based on a risk analysis in the field fairness: Cotton, textiles, natural stone, coffee, cocoa, tea, palm oil, fish as well as fruit and vegetables in general, however with special focus on bananas and pineapples.

Pilot projects

Pilot projects are a vital element of the approach. Through pilot projects in focus supply chains, REWE Group aims to actively implement measures and to estimate the results thereof.

Additional premium for cocoa farmers

In cooperation with the Federal Ministry for Economic Cooperation and Development (BMZ) as well as the Fairtrade organisation, REWE Group is the first food retailer in Germany to start a project for living income in the cocoa sector. As of autumn 2020, REWE and PENNY will sell different Fairtrade chocolate bar varieties whose supply chains can be traced back completely. With immediate effect, cocoa for these chocolates is harvested by the "Fanteakwa" cooperative in Ghana. In addition to the respective Fairtrade premiums and minimum prices, the cocoa farmers receive a so-called Living Income Differential¹ – an additional premium that promotes decent living incomes. The joint project also includes trainings conducted by the Initiative for Sustainable Agricultural Supply Chains (INA) and its local partners.

Furthermore, the focus is on cultivation of other crops such as cashew trees for generating additional income sources for the farmers. In this context, REWE Group will join the Competitive Cashew Initiative, which aims to increase the competitiveness of the cashew value chain in selected countries in Africa.

¹ The Differential is based on the reference price for living incomes that was calculated by Fairtrade (Veldhuyzen 2019).

Living wages for banana workers

REWE Group conducts another pilot project for living wages in the cultivation of bananas. The aim is to ensure better wages and social conditions for the workers of banana plantations. The project is conducted together with World Banana Forum that is associated to the Food and Agriculture Organization of the United Nations (FAO). To this end, a strategy for paying living wages to all workers of the banana plantation as well as a mechanism for monitoring payments is developed for the Rio Sixaola plantation in Costa Rica which exclusively supplies REWE Group. REWE Group also participated in the Living Wage Advocacy Initiative (LIWIN).

Regarding the topic of orange juice, REWE Group is involved in a project in Brazil in cooperation with Fairtrade: In order to strengthen the economic situation, especially of small-scale orange growers, REWE Group has established a special partnership with four Fairtrade smallholder organisations. The project contributes to higher incomes and better living and working conditions for orange growers in line with the principle of "help for self-help". Training programs are aimed at raising the orange growers' awareness of more efficient, social and ecological business practices.

Moreover, REWE Group cooperates with relevant stakeholders and, together with the Fruit Juice CSR platform, finances the development of a benchmark for living wages by the experts Richard and Martha Anker. As a member of this European initiative, REWE Group is involved in social and ecological improvements of the supply chains in the fruit juice industry.

Raising internal and external awareness

REWE Group is committed to ensuring that produce in its product ranges are manufactured in compliance with human rights. To this end, REWE Group increases transparency along the supply chain where this is still required.

- All business partners of REWE Group are contractually obliged to comply with the minimum requirements such as internationally and nationally applicable laws as well as the core labour standards of the International Labour Organisation (ILO) and to commit themselves to the Guideline for Sustainable Business Practices.

- This is accompanied by the obligation to comply with the following principles in particular:

- *All forms of discrimination are prohibited. Business partners undertake not to exclude or favour persons on the basis of their gender, origin or other reasons.*
- *All companies in the supply chain must pay their employees the national minimum wages regularly (at least monthly).*
- *Business partners must ensure that working hours are in line with the national legal or industry standard working hours.*
- *The business partners comply with occupational safety regulations in accordance with national law and international standards.*
- *All business partners allow employees to exercise their right to freedom of association and collective agreements.*
- *Business partners must ensure that no children are employed at their production sites. The national laws and standards defined by the ILO apply here. The business partners must ensure fair and respectful treatment of employees. Any form of forced or compulsory labour or human trafficking must be excluded by the business partners.*
- *The business partners are prohibited from any form of corruption, bribery or extortion.*

Together with its suppliers, REWE Group pursues the goal of improving the wage and income situation in the respective projects. Thanks to regular trainings, REWE Group actively contributes to raise internal awareness with regard to sustainability topics. In regular working groups, the company raises the awareness of buyers and category managers and develops joint projects and measures.

Cooperation with stakeholders

In countries in which REWE Group procures focus raw materials from several supply chain levels - such as coffee, cocoa and cotton - the company purchases raw materials with certifications of Fairtrade, Rainforest Alliance/UTZ, Naturland, GOTS or Cotton Made in Africa. These certifications ensure compliance with binding labour and social standards.

In the fruit and vegetables segment, all suppliers need to prove compliance with ILO core labour standards in the context of an audit (e.g. Rainforest Alliance) or risk assessment (e.g. GRASP).

For the processing step in the supply chain, REWE Group has initiated the Social Improvement Program. All first-tier production sites from defined high-risk countries will be integrated into the program by 2020. Part of this program is the presentation of recognised social audits (amfori, SMETA or SA8000) as well as the participation in training programs.

The standard organisations are currently not able to include living wages and incomes in their standards. REWE Group therefore cooperates with standard systems such as Fairtrade and Rainforest Alliance as well as organisations like amfori BSCI to further develop the issue of “living wages and incomes”. As a member of the Steering Committee, REWE Group supports the further development of the schedule for the Salary Matrix of IDH, The Sustainable Trade Initiative. The Salary Matrix is a tool for calculation of actually paid wages taking into account the social benefits. This tool allows the determination of the difference between the actual wage and the living wage. REWE Group also participates in the piloting of the Salary Matrix on a banana farm.

REWE Group is in contact with relevant stakeholders such as BMZ, e.g. within the scope of the Initiative for Sustainable Agricultural Supply Chains (INA). Moreover, REWE Group closely cooperates with a group of German retailers, the BMZ and the German Society for International Cooperation (GIZ) in the “Working group of German retailers for living incomes and wages”. Together they have developed a voluntary commitment on this issue. The activities of the working group are directed to global agricultural supply chains for private label products of its members.

By signing the voluntary commitment, REWE Group will actively participate in the development and implementation of its business activities in a responsible manner in coordination and cooperation with all relevant stakeholders in its global supply chains. The aim of realising living wages and incomes is to secure human rights and reduce poverty.

VI. OBJECTIVES

REWE Group's objectives for improving the wage and income situation give its commitment a clear orientation and are subject to continuous progress monitoring.

- **Objective 1:** Integrating sustainability guidelines: REWE Group's aim is to integrate the realisation of living wages and incomes in its global supply chains into its sustainability strategy in the long term.
- **Objective 2:** Communication: By the end of 2020, REWE Group will communicate its requirements to all relevant suppliers.
- **Objective 3:** Pilot projects: By the end of 2025, approaches for securing living wages and incomes should be tested and, if successful, scaled in pilot projects.
- **Objective 4:** Dialogue: REWE Group will further foster the dialogue with other companies, stakeholders and standard organisations to support living wages and incomes. The company wants to share its experience and work on joint solutions.
- **Objective 5:** Analyses: REWE Group participates in benchmark analyses for determination of the amount of living wages and incomes and on data of actual wages.
- **Objective 6:** Transparency: In its annual sustainability report, REWE Group reports on its experiences and makes the gaps between the paid wages and the respective living wages and incomes transparent, where possible.



VII. REPORTING AND COMMUNICATION

REWE Group is convinced that transparency and the provision of comprehensive information are key components of its due diligence obligations in the area of human rights. Through its [Declaration of Principles](#), REWE Group shows a clear commitment to the protection of human rights and is continuing to commit itself to actively promoting their respect and observance.

REWE Group reports regularly and publicly on the progress of and obstacles in the implementation of the measures and the attainment of the desired goals. This is done in the form of press releases via the REWE Group homepage or via the Group's sustainability report.

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The dialogue on the topic of living wages and incomes is of great importance to us. Please contact us with suggestions and questions at: nachhaltigkeit@rewe-group.com

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