Human Rights Impact Assessment Report

COFFEE FROM BRAZIL

ALDI SOUTH Group

12/2021

EXECUTIVE SUMMARY

HRIA SUMMARY: BRAZILIAN COFFEE

This report presents the key results of a Human Rights Impact Assessment (HRIA) of the Brazilian coffee supply chain conducted by Ergon Associates (Ergon) on behalf of the ALDI SOUTH Group (hereafter ALDI) and supports the implementation of the ALDI SOUTH Group International CR Strategy.

To conduct this study a strict HRIA methodology was followed. This included desktop analysis, remote stakeholder engagement conducted with support from a local partner (in lieu of a country field visits, cancelled due to COVID-19 travel and safety restrictions), an impact assessment and the development of recommendations to mitigate, prevent and/or remedy identified impacts.

The assessment considered the different perspectives of people that are affected by activities within ALDI's coffee supply chain. This included potentially impacted rightsholders, as well as key supply chain stakeholders – such as coffee processing factories, international traders, direct suppliers, and key ALDI employees. The process also engaged stakeholders beyond ALDI's immediate supply chain, including trade unions, government, civil society organisations, and NGOs, allowing ALDI to improve its understanding of key human rights issues, the organisation of the coffee harvest and the structure of coffee producing sector in Brazil.

UNDERSTANDING THE BRAZILIAN COFFEE SUPPLY CHAIN

- Brazil produces more than one third of the world's coffee (ICO, 2021), and the sector is key to Brazil's rural economy – sustaining livelihoods for millions of people. The relative professionalisation and productivity of the Brazilian coffee sector, as compared to many other producing countries, enables conditions that support higher earnings and working conditions for many.
- Coffee is a commodity crop and is usually handled by multiple actors and blended at multiple points along the supply chain, making traceability to farm level extremely difficult.
- Base coffee prices are determined by global commodity exchanges in London and New York, reflecting supply and demand throughout the globe as well as speculative activity and foreign exchange movements, so they can often bear little relation to the actual costs of production.
- ALDI does not have direct commercial relationships with producers or cooperatives in Brazil, but instead works with importers.
- ALDI relies on certification to ensure sustainability/social standards in its supply chain. More than 50% of its total supply is certified by Rainforest Alliance, Fairtrade or Organic. ALDI's Code of Conduct, Social Standards in Production and associated policies and position papers are contractually binding for all suppliers.

HUMAN RIGHTS: KEY IMPACTS

	Rights category	Rights issue	Where the issue takes place: Smallholder production	Where the issue takes place: Crop development & farm maintenance	Where the issue takes place: Harvest operations	Where the issue takes place: Processing operations
NEGATIVE IMPACTS	Labour Rights	Working conditions		✓	✓	
		Occupational health and safety	✓	✓	✓	
		Freedom of association and collective bargaining		✓	✓	
		Forced labour		✓	✓	
		Child labour	✓	✓	✓	
		Non-discrimination and equal opportunity (labour)		✓	✓	
		Gender-based violence and harassment (in the workplace)	✓	✓	✓	
		Availability and accessibility of workplace grievance mechanism		✓	✓	
	Civil & Political Rights	Freedom of/access to information	✓	✓	✓	
	Economic & Social Rights	Right to adequate standard of living (livelihoods)	✓			
		Right to adequate standard of living (housing, food, water)	✓	✓	✓	✓
		Right to health	✓	✓		
		Discrimination (access to land)	✓			

ALDI, like other single retailers, is a relatively minor actor within the broader sector and has no direct contractual or investment relationships to the supply chain activities in Brazil where these most salient human rights impacts occur. The study concluded that ALDI's relationship to these impacts can be regarded as one of potential linkage with limited influence on its own on the sectoral and commercial root causes of the impacts identified.

Linkage does not determine whether ALDI should or should not act to address impacts. However, it may inform the type of action that can be taken.

Many of the impacts identified through this HRIA are largely driven by root causes that are either related to the governmental and regulatory framework, or are contextual, such as those that are characteristic of smallholder production, informal rural employment in Brazil, and societal norms.

IDENTIFIED ACTIONS

Based on the recommendations of this study, ALDI has developed a supply chain specific Human Rights Action Plan for those areas, where we do have a potential linkage and therefore leverage to address negative and enhance positive impacts for rightsholders. These are supplier selection and requirements, supplier engagement, dialogue and producer capacity. Our commitment to strong actions is reflected in the following objectives:

- Continuing and intensifying stakeholder engagement.
- Strengthening gender equality activities.
- Strengthening supplier screening and monitoring.
- Enhancing long-term relationships.
- Increasing cost transparency.
- Scaling up certified coffee.

CONTENT

BACKGROUND OF THE STUDY

The 2018 Human Rights Risk Assessment (HRRA), which covered the whole ALDI SOUTH Group's food supply chains, identified coffee as one of ALDI's high-priority raw materials (in terms of profile, volume bought and high risk of adverse impacts on the enjoyment of human rights). Brazil was selected as a focus country for this Human Rights Impact Assessment (HRIA) due to its paramount position within the global coffee market (supplying more than one third of the world's total), and consequently within ALDI's supply chain: Brazil is one of the top three countries of origin for ALDI coffee suppliers. In addition, Brazil was selected because of the diversity of its production base – including both large plantations, and a significant smallholder sector. This allowed for a broad selection of rightsholders to be included in the assessment.

This public report has been produced by ALDI and summarises the research and results of Ergon Associates' extensive HRIA work.

The aim of the HRIA was to provide:

- An understanding of where and how specific supply chain relationships and activities have the potential to impact internationally recognised human rights.
- Expanded information on key risks, including any root causes.
- Engagement with relevant rightsholders and incorporation of their views related to actual or potential impacts.
- Recommendations for concrete actions to mitigate, prevent and/or remedy identified adverse impacts, as well as generate more positive impacts.

METHODOLOGY

ALDI recognises the importance of working with trusted partners with significant Human Rights Impact Assessment expertise. This coffee HRIA was managed by Ergon Associates, an independent consultancy firm with specialist expertise in business and human rights and extensive experience in carrying out Human Rights Impact Assessments on complex international supply chains. To carry out this study, Ergon partnered with P&A, a Brazilian consultancy organisation with expertise in Brazilian agribusiness. P&A were selected for their knowledge and experience in relation to the coffee sector (social and labour issues), and extensive network of contacts within the sector. P&A provided an initial in-depth overview of key facts and issues related to the coffee sector – including production trends, demographics of coffee workers and producers, and salient social issues and trends. P&A also provided expert input to the stakeholder mapping/identification process. In addition, in consultation with Ergon, P&A conducted interviews with most of the national stakeholders engaged during the remote stakeholder engagement phase of the project.

Human Rights Impact Assessments are a specialist study designed to support an organisation's due diligence efforts in relation to international standards and frameworks including the UN Guiding Principles on Business and Human Rights and the OECD Guidelines on Multinational Enterprises. The methodology used was designed to identify actual and potential human rights impacts[1] arising from specific business activities and relationships and evaluate them to determine saliency. Based on engagement with rightsholders and a review of ALDI's functions and capacities, appropriate mitigation or remediation actions have been identified.

1) ALDI understands a potential human rights impact to be a risk of an adverse impact on the enjoyment of rights (e.g. forced labour), or the possibility of a positive impact. This is distinct from an actual human rights impact, which refers to situations where human rights impacts have already occurred, and in the case of adverse impacts require intervention and remediation (see e.g. German Global Compact, 2016).

A systematic assessment process was used to identify and rank salient impacts on specific rights categories across each of the supply chain activities in scope. This process considered factors such as the likelihood of an impact occurring in relation to a given activity, whether the impact was positive or negative, and its severity/significance and scale if it did occur.

The HRIA was based on the following steps:

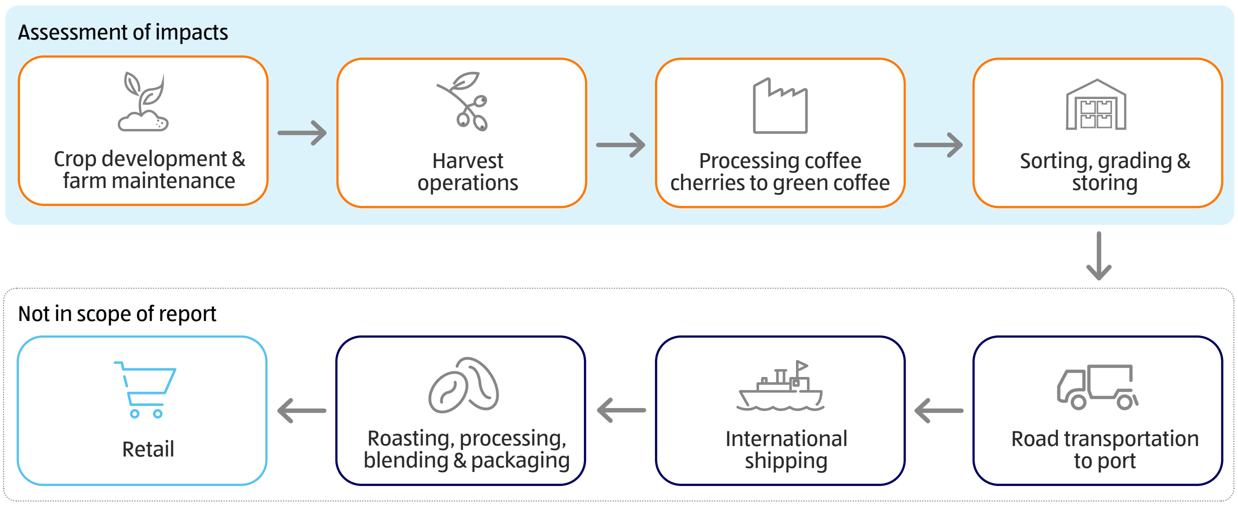
Review of activities & processes	• Review of relevant business and supply chain activities and relationships • Interviews with internal ALDI stakeholders (Buying, Corporate Responsibility) • Interviews with external stakeholders (suppliers, traders)
Partner with local experts	• Contracting of Brazilian organisations with sectoral expertise to provide insight on the value chain context and conduct stakeholder interviews
Scope of impacted human rights	• Identification of a shortlist of potential rights impacted according to each business activity • Determination of a structure for impact assessment
Baseline analysis	• Desktop review of the legal framework and existing situation in Brazil • Identification of underlying factors affecting enjoyment of rights
Stakeholder engagement	• Mapping of key stakeholders – including those representing potentially impacted workers and communities • Interviews with selected stakeholders (led by a local partner)
Impact assessment	• Application of a methodology to determine saliency • Root cause analysis and determination of ALDI linkage • Identification of highest saliency impacts and ALDI leverage to address them
Recommendations	• Determination of appropriate actions to address impacts • Development of recommendations for Human Rights Action Plan

REVIEW OF BUSINESS ACTIVITIES

ALDI's policies, governance documents and procedures related to procurement and supply chain management were reviewed. This included human rights standards and due diligence processes, along with information and plans related specifically to Brazilian coffee.

Desktop research and engagement with supply chain actors identified the key supply chain activities for coffee sourced from Brazil. The detailed impact assessment focused primarily on the core activities related to primary production and processing: production and processing on smallholder farms, and farm maintenance and crop development, harvesting operations and processing on larger farms[2]. These activities were prioritised after initial assessment of the full supply chain identified primary production and processing as highest risk in terms of actual and potential human rights impacts. Although there are known risks associated with several other mid-and downstream activities – such as international shipping and logistics and distribution in destination markets – these are not considered specific or unique to the coffee supply chain and are better assessed through wider sectoral or business activity assessments.

The key supply chain activities in scope were identified as:



SCOPING POTENTIALLY IMPACTED RIGHTS AND RIGHTSHOLDERS

Following the determination of key supply chain activities relevant for this HRIA, a scoping process was conducted to identify salient human rights issues for each supply chain activity. The purpose of this exercise was to produce a shortlist of rights to focus in the subsequent phases of the HRIA. This identification process was based on International Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights, and included considerations with regards to the vulnerabilities of specific groups provided by several other key UN human rights.

2) Smallholder production incorporates farm maintenance & crop development, harvest operations and processing – activities usually carried out by the farmer / family, while for larger farms, these activities are separated for the purposes of this assessment, due to the distinct workforce composition and profile of potential impacts for each.

Specific human rights were identified as being "in scope" for assessment in the HRIA when:

- Sufficient evidence of the rights impact was identified through desktop research – credible and consistent reports indicating actual impacts or the likelihood of such impacts.
- Knowledge of the production, sector, or geographic context that indicates potential rights impacts.
- Related directly or indirectly to the supply chain activities in scope for analysis.

Impacts on a single right may be identified in relation to more than one supply chain activity. Similarly, different rightsholders may be affected by the same rights impact associated with the same or a different supply chain activity.

As in the case of rights categories, the shortlist of rightsholders in scope was updated as appropriate through the development of the HRIA. Overall, rightsholders are considered to be in scope for this HRIA when:

- Sufficient evidence of actual rights impacts on specific rightsholders was identified through desktop research – with reports indicating actual impacts, or the possibility of such impacts, on specific rightsholders (e.g. workers, communities).
- Knowledge of the production context, sectoral or geographic context indicated potential rights impacts on specific rightsholders.

Few categories of rightsholders are fully distinct and there may be some overlap between different categories, for example women/migrant workers. It is also important to note that different categories of rightsholders might be impacted by the same activity in different ways.

Rightsholders in scope

External stakeholder mapping

Key external stakeholders were identified and prioritised through desktop research and expert input from P&A. The methodology prioritised engagement with stakeholder organisations such as civil society organisations, including those advocating on behalf of rural workers; trade unions; employers' organisations and research organisations with knowledge and expertise of issues affecting rightsholders across the sector, and in particular in Minas Gerais, which produces around 50% of Brazil's coffee. Organisations and individual experts with relevant knowledge and expertise provided valuable input on wider issues affecting rightsholders in the coffee supply chain in Brazil.

THE IMPACT OF COVID-19: REMOTE STAKEHOLDER ENGAGEMENT

Due to international and national restrictions on travel in the context of the COVID-19 pandemic, and to safeguard the health and wellbeing of all stakeholders and the research team – especially in light of Brazil's high infection and death rate – the research team made the decision to conduct remote stakeholder engagement only with representative bodies and experts.

Worker and community voices were sought through a range of organisations, including trade unions and advocacy groups working in the main coffee producing regions. These representative organisations have a deep understanding of the relevant issues and challenges faced by the groups they represent, and engaging with these organisations helped to mitigate the challenge of a lack of direct engagement with rightsholders. ALDI considers this approach to have deepened its understanding of issues on the ground sufficient to inform meaningful action, however acknowledges that a limitation of the format of remote engagement without first-hand engagement with impacted workers or communities (for the reasons noted above) and the scale and diversity of Brazil's coffee sector is that there may be localised impacts which are not covered in this analysis.

Remote engagement (e.g. video conference) with relevant rightsholders was carefully considered, but ultimately not deemed feasible or desirable. Ensuring the anonymity and security of participating workers, and that participation was undertaken voluntarily and free from management supervision, would not have been possible under such circumstances, potentially compromising both the quality of the findings, and the wellbeing of participants. Moreover, limited connectivity in many producing regions and low technological know-how among many farmers and workers precluded successful engagement of a sample of stakeholders representative of the overall coffee supply chain (and ALDI's specifically). The challenge of ensuring a representative sample of stakeholders via remote engagement was exacerbated by the diversity of the coffee production context, and limited traceability within the supply chain.

External stakeholders engaged[3]

SUPPLIERS

TRADERS

NATIONAL STAKEHOLDERS

- Sectoral experts
- Non-profit organisations
- Associations (exporters, sectoral, employers, smallholders)
- Trade unions/workers' organisations
- Public institutions
- Exporter

OTHER

- International organisation
- Industry expert
- Certiciation organisation and multi-stakeholder initiative on coffee

3) Due to the small scale of the sector, to ensure stakeholder confidentiality, ALDI followed the recommendation of Ergon to not publish any names of or references to individual stakeholders that have been engaged.

Ensuring meaningful engagement

Several measures were taken to ensure meaningful stakeholder engagement:

- Issues and priorities for engagement were tailored to the stakeholders and rightsholders. Topics for consultation and the resulting interview questions for remote stakeholder engagement were tailored for each organisation based on their knowledge areas and experience.
- Measures were taken to create safe spaces for stakeholders to express their views. The confidentiality of the engagement process was explicitly communicated to all participating stakeholders.
- Steps were taken to secure informed participation of all participating stakeholders. All prospective stakeholders received a Portuguese language introduction letter that outlined the HRIA process and its objectives, as well as the objectives of stakeholder engagement.
- Data collection and stakeholder engagement aimed to ensure an effective capture of diverse views and experiences. Targeted engagement with civil society organisations and experts specialising in gender issues strengthened the application of a gender lens throughout the impact assessment.
- The HRIA findings will be communicated to all participating stakeholders. ALDI will be available to respond to any questions concerning the HRIA or next steps to be taken.

As part of ALDI's preparation for the Human Rights Action Plan (HRAP), the HRIA findings will be communicated and reviewed with involved stakeholders, and all interviewed stakeholders will receive a Portuguese top line summary of the HRIA and its findings.

IMPACT ASSESSMENT

A systematic assessment process was used to identify and rank salient impacts on specific rights categories across each of the supply chain activities in scope. This process considered factors such as the likelihood of an impact occurring in relation to a given activity, whether the impact was positive or negative, and its severity/significance and scale if it was indicated.

COFFEE FROM BRAZIL: COUNTRY AND VALUE CHAIN CONTEXT

KEY POINTS

- Brazil produces more than one third of the world's coffee (ICO, 2021), and the sector is key to Brazil's rural economy – sustaining livelihoods for millions of people. The relative professionalisation and productivity of the Brazilian coffee sector, as compared to many other producing countries, enables conditions that support higher earnings and working conditions for many.
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SECTOR AND SUPPLY CHAIN OVERVIEW

KEY FACTS & FIGURES

WORLD TRADE STATUS & GLOBAL CONTEXT

- Brazil produces more than 30% of the world's total supply of coffee (ICO, 2021).
- Productivity of Brazilian coffee farms is among the highest in the world – second only to Vietnam (c. 1.5 metric tonnes per hectare (t/ha) compared to 2.5t/ha in Vietnam) (Perfect Daily Grind, 2020; Reuters, 2019).

ECONOMIC IMPORTANCE & PRODUCTION VOLUME

- In 2019, coffee was Brazil's 5th most exported agricultural commodity (in volume), after soy bean, sugar, chicken and beef (MDIC, 2020).
- In 2020, a record total of 44.5 million bags of coffee were exported from Brazil.
- Arabica coffee comprises around 70% of Brazil's coffee production (and is the dominant variety globally) (CONAB, 2020).

SOCIAL IMPORTANCE

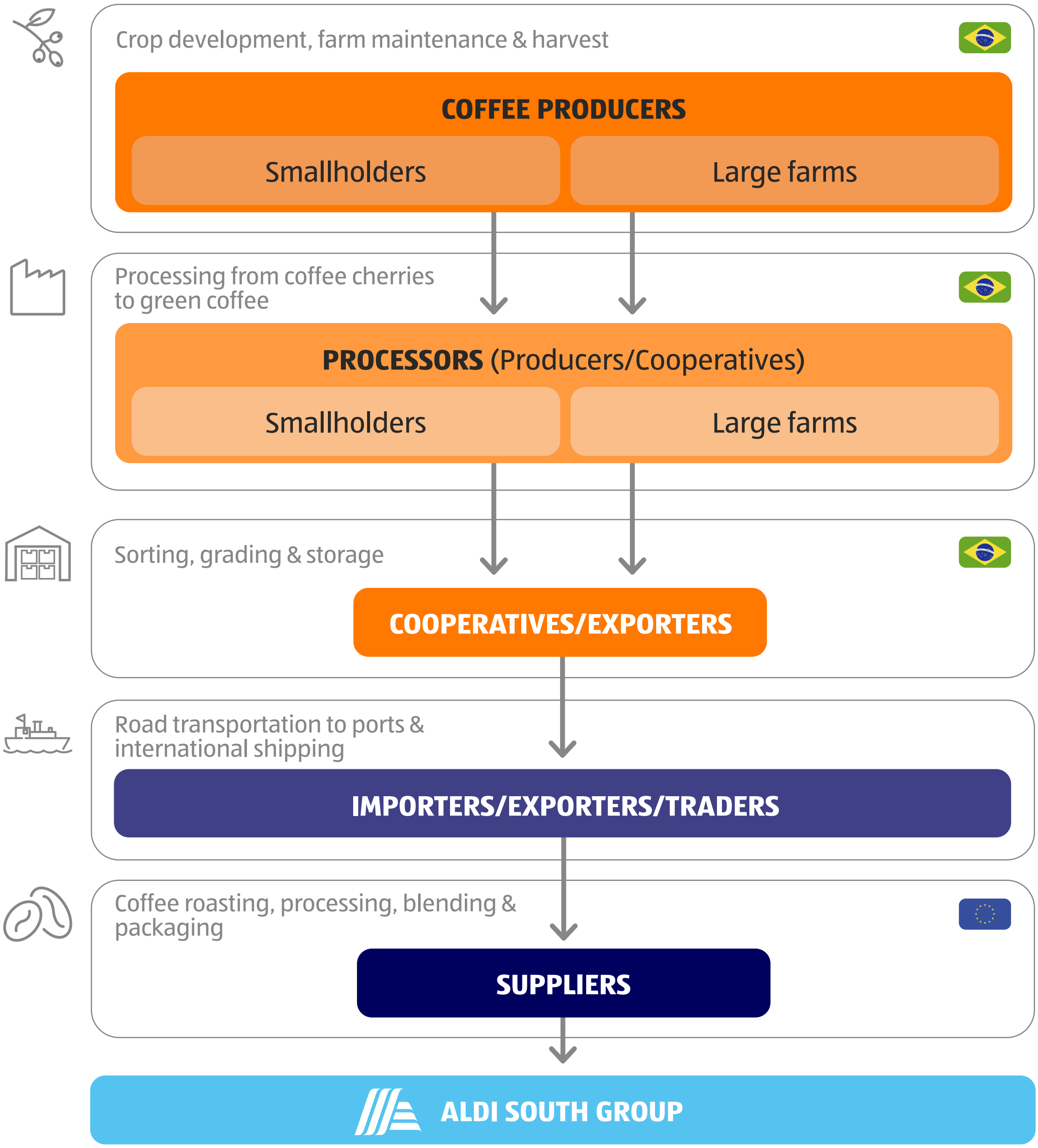
- According to official statistics, more than 8.4 million workers are engaged in the Brazilian coffee sector directly and indirectly. Smallholder, family production accounts for 48% of the total value of coffee production and around 54% of all coffee farms (IBGE, 2017).

MARKETING & DEMAND

- The USA is the main destination market of (green) coffee from Brazil, with over 8 million bags exported to the American market in 2020; Germany was second largest destination with 7.6 million bags, Belgium was third, with 3.7 million bags, Italy was fourth, with 3 million bags, Japan was fifth (2.3 million bags) (Cecafé, 2020).

ALDI'S COFFEE SUPPLY CHAIN FROM BRAZIL

Overview of the supply chain of coffee from Brazil, illustrating the role of the different stakeholders involved.



Supply chain activity: Smallholder production and processing

Smallholder production includes year round activities related to crop development and farm maintenance, harvest operations and coffee processing. Impacts assessed under this activity relate both to the workers on smallholder farms, and smallholders as rightsholders themselves (for example, in relation to livelihoods).

Supply chain activity: Crop development and farm maintenance (large farms)

This activity includes tasks related to coffee production that are carried out on a year round, ongoing (as opposed to seasonal) basis. This includes planting and crop maintenance – for example pesticide application, weeding, pruning and fertilisation – as well as cleaning and building maintenance.

Supply chain activity: Harvest operations (large farms)

Harvesting occurs once per year and lasts about three months – usually between late May and September for Arabica coffee and June – October for Robusta. Harvesting can be done manually, with the use of small hand-held machines, or fully mechanised (though coffee trees must be manually harvested for the first two years). Harvested coffee cherries are gathered in 60 kg sacks.

Supply chain activity: Processing operations (large farms)

This includes the initial stages of processing ("wet" processing). Wet processing turns the coffee cherries into dried beans (green coffee), which are cleaned, husked and sorted during the dry processing phase. Both of these stages are carried out on site.

Production of Brazilian coffee

PROFILE OF COFFEE FARMERS AND WORKERS IN BRAZIL

- Approx. 264,000 coffee farms in total, 143,078 are smallholder farms (<10 ha) and 30,766 are large plantations (> 50 ha) (IBGE, 2017).
- Smallholder farms account for 48% of the value of production and around 54% of total farms (IBGE, 2017).
- Women comprise an estimated 13% of farm owners (Globorural, 2021).
- On women run farms, women comprise an estimated 43% of the workforce, on average, compared to 24% on male run farms (reliable gender disaggregated data across the sector is limited).
- Internal migrants estimated to be 30% of coffee pickers in 2016 (but proportion reducing) (Danwatch, 2016; CRS, 2016).

Cooperatives play a key role in the Brazilian coffee sector. Key activities include disseminating information to smaller growers and supporting them with technical assistance and training. Larger cooperatives also offer support for member farmers in areas like acquisition of inputs (fertilisers, machinery, and equipment), access to rural credit, coffee quality labs, storage, dry processing and commercialisation of coffee. Some cooperatives also have an export function.

AREAS OF CULTIVATION

50% **Minas Gerais** (1.033.000 ha)
- Diverse soil, climate conditions, grower types & producing models.
- Sol de Minas is Brazil's largest Arabica producing area.
- Professional/mechanised medium sized producers and smaller family farms.

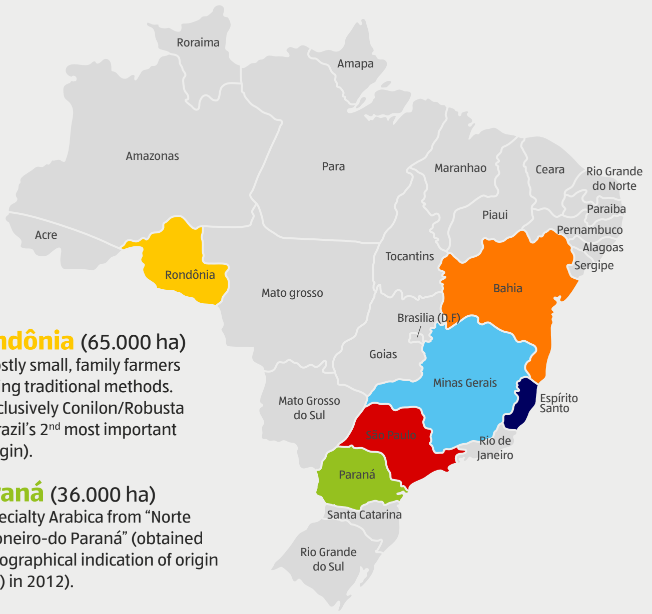
20% **Espírito Santo** (400.000 ha)
- Largest Conlion/Robusta producing state (also Arabica).
- >70% family farming (average 8 ha).
- Coffee is the main agricultural activity.

10% **São Paulo** (206.000 ha)
- Exclusively Arabica (2nd largest Arabica producing state) in medium and Alta Mogiana, Avere-Piraju and Garca-Marilla.

4% **Rondônia** (65.000 ha)
- Mostly small, family farmers using traditional methods.
- Exclusively Conilon/Robusta (Brazil's 2nd most important origin).

8% **Bahia** (108.000 ha)
- Diverse environmental conditions, grower types and levels of mechanisation.
- Medium to large professional coffee farms in Cerrado (fully mechanised and irrigated), small, family owned farmers in Pianalto.

2% **Paraná** (36.000 ha)
- Specialty Arabica from "Norte Pioneiro-do Paraná" (obtained geographical indication of origin (GI) in 2012).

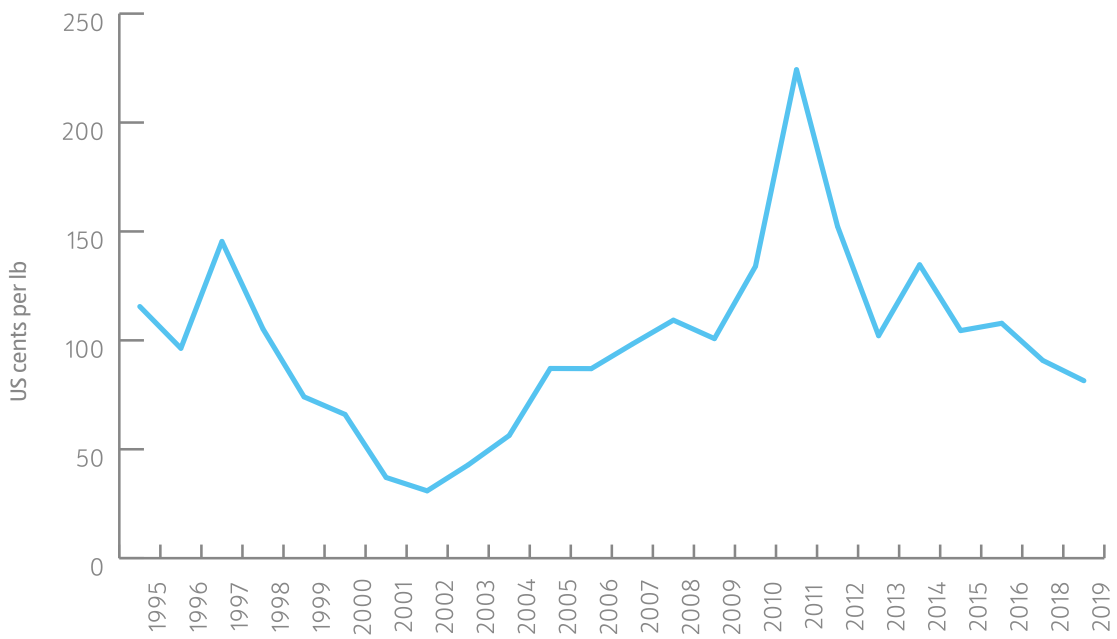


Grading, sales and export: a sector perspective

PRICING AND DEMAND

Coffee is a commodity crop, meaning base coffee prices are generally determined by global commodity exchanges in London and New York. The Futures Market does not represent a physical exchange of money/ product, but rather guarantees the price of the commodity in the moment the contract is negotiated. In the context of an unpredictable market, this can either protect the coffee grower from possible and unexpected price fluctuations or, conversely, enable traders to speculate, in order to gain higher profits based on price variations from contracts.

The price should be determined by supply and demand, but in reality, the price is largely determined by speculation (based on short-term projections), often removed from real market conditions. This is illustrated by the fact that average long-term prices have barely changed for nearly 25 years. This leads to a constant reduction in farmers' purchasing power in relation to rising costs of production (and living).



(Source: International Coffee Organisation)

In addition to low base prices, the global coffee market is volatile, and producers are vulnerable to external factors over which they have no control. Currency exchange rates, and the relative strength/weakness of the Brazilian Real against the dollar is particularly important. Other factors include weather patterns in other coffee producing countries, which may lead to over/under supply in the global market.

IMPACT OF COVID-19 PANDEMIC ON THE SECTOR

The pandemic has had limited impact at production level in the smallholder sector, which overwhelmingly relies on family labour. In the non-smallholder sector, it was reported that travel and transportation restrictions had some impact on the availability of labour, and that health and safety regulations related to the pandemic (i.e. social distancing measures) brought additional costs for employers.

Overall, demand for Brazilian coffee was not affected by the pandemic (while consumption decreased in coffee shops, it increased at home). It was even reported that the sector has benefited from COVID-19, with increasing interest, especially in organic and quality production.

The main challenge reported in relation to COVID-19 in the coffee sector was related to delivery delays due to disruption to global shipping and a shortage of containers.

AN INDUSTRY PERSPECTIVE: KEY ISSUES FACING THE SECTOR

Price volatility

- Low prices and the volatility of the market are key challenges for the industry in general and for producers.
- Producers have little leverage to negotiate on prices and are vulnerable to the impacts of economic and geopolitical factors well outside of their control.
- For most growers, coffee is the main crop, meaning producers cannot generally compensate for low prices or fluctuations in the market with other income streams.

Climate change and environmental challenges

- Coffee trees require specific weather conditions to thrive.
- Climate change can also contribute to increasing prevalence of diseases such as coffee leaf rust, which further impact yields.

Labour shortages

- There is an ongoing increase in migration from rural to urban areas.
- Coffee harvesting is reportedly seen as physically challenging and therefore undesirable – despite the potential for higher wages.
- Training provided to workers does not keep pace with new technologies, which means it can be difficult to find workers with the required skills.

Challenges for smallholder/family farms

- The smallholder coffee farmer population demographic is ageing with fewer young people joining the industry and many have low educational levels, which can lead to resistance to adoption of new methods and technologies.
- Lack of know-how and equipment also means that smallholders are especially vulnerable to the impacts of external factors such as climate change.

Labour law reform

- The 2017 reform to the labour law has had a mixed reception in the industry. It has been linked to:
  - A reduction in union membership and collective bargaining agreements.
  - Increased informality and vulnerability of rural workers.
- Some industry stakeholders have welcomed the amendments to certain regulations relating to occupational health and safety – arguing that simplifying a complex regulatory framework will enhance employer compliance with necessary standards and support good practices.

HOW ALDI BUYS COFFEE

AREA	DESCRIPTION
Buying practices	
Organisation	• ALDI buys a wide range of coffee products, including ground coffee, instant coffee, and other soluble coffee products, such as sachets, as well as pods and capsules for coffee machines.
Suppliers	• ALDI has a stable coffee supplier base and fosters long-term relationships with suppliers. Most current supplier relationships across all countries have been in place for several years.
Tendering	• Tenders are issued to existing suppliers and selected additional suppliers, requesting price, estimated volume, certification requirements (if any) and a product specification based on a pre-determined profile. • Origin is also specified in the case of single-origin products. Otherwise, coffee is bought as a blend.

Sustainability/ certification standards	• The main sustainability requirement applied during the contracting process is certification according to recognised standards: Rainforest Alliance, Fairtrade, and Organic. More than 50% of all coffee ALDI sources is certified.
	• In addition to certification, all ALDI suppliers are required to comply with:
	  • ALDI's Code of Conduct and ALDI's Social Standards in Production.
	  • Relevant policies and position papers, such as the International Policy Statement for Human Rights and ALDI's Child Labour Policy.
	• ALDI expects direct suppliers to cascade these standards to sub-suppliers.

Pricing	• The price paid by retailers is generally determined by:
	  • the global market reference price,
	  • local price variations ("differentials") determined by local factors such as harvest quality and volumes,
	  • freight and container rates,
	  • packaging costs,
	  • currency exchange rates.
	• While the basic price range therefore is reasonably transparent to coffee market participants, the specific price paid in-country is not. The current exception is Fairtrade certified coffee (only if the price falls below the Fairtrade minimum).

Supplier practices	
Supplier profile	• ALDI's direct supplier base is made up predominantly of coffee roasters and instant/soluble coffee processing companies.
Supplier sourcing	• Suppliers largely buy from intermediary traders. • Some suppliers also buy coffee further downstream in the supply chain – from exporters, in-country processors and producer cooperatives.
Purchasing practices	• Most suppliers have stable supply bases, with some fostering long-term strategic partnerships. • Some suppliers are subsidiaries of larger companies, through which they source most of their coffee. These larger companies have their own supplier standards/codes of conduct and in some cases their own plantations and/or advanced farmer support programmes as part of their supply chain resilience and sustainability strategies.

AREA	DESCRIPTION
Sustainability requirements	• ALDI expects its suppliers to cascade its standards down the supply chain. • Generally, suppliers rely on third party certification schemes such as Rainforest Alliance and Fairtrade to support traceability/sustainability requirements. • Most suppliers also require their own suppliers to sign and adhere to a code of conduct (e.g. based on the ETI base code), sometimes with a requirement that this is cascaded to sub-suppliers. • Several suppliers carry out country-level risk assessments and visits to production sites in Brazil as well as regular on-site audits of direct suppliers, including cooperatives and traders.

Certification: The benefits of certified coffee reported by stakeholders include higher rates of compliance with legislation and social standards and more frequent workplace inspections and audits. In addition, the potential for higher prices for producers was highlighted as a benefit. Stakeholders reported that the Fairtrade premium had contributed to some “great projects” in education and healthcare, and that the Fairtrade minimum price system can make a huge difference for small producers, especially when prices are low.

However, a key limitation relates to access to market: currently only a small share of the possible Fairtrade production volume is sold as Fairtrade due to lack of demand.

BRAZILIAN COFFEE: IMPACT FINDINGS

For the purposes of the impact assessment the identified categories of rightsholders were grouped into four main categories:

1. Workers
2. Women (including women workers)
3. Smallholder farmers
4. Communities

The impact assessment has established which human rights impacts affect which broad category of rightsholders. A category of rightsholders is considered to be affected when the impact affects them specifically as a category – for example GBVH affects women specifically, while labour rights violations affect workers specifically. As noted in the methodology section, categories may overlap (e.g. women/workers). Therefore, categories are not fully distinct, but rather function as a way to present where accumulated impacts are highest.

The results are explained in part by the lower number of rights in scope for some rightsholders compared to others, e.g. smallholders as compared to workers. This is in part due to the larger number of rights that come under the bracket of "labour rights" and therefore apply to the latter group but not the former, as well as the way that the assessment has been structured, e.g. separating harvesting and year round activities on larger farms but not for smallholder production.

Legal definition of forced labour[4] in Brazil: Brazil's legal definition of forced labour is broader than that of the generally applied international standard defined by the International Labour Organization (ILO). According to the Criminal Code, it is illegal to subject a person to "conditions analogous to slavery". These conditions include work characterised by excessive working hours, physical and mental violence, long workdays, debt bondage and degrading or unsafe living and working conditions.

In line with the methodological approach described earlier in this report, the following impacts have been identified and ranked according to their significance (categorised by value chain step).

The tables below summarise the most salient human rights impacts identified for each key supply chain activity. Adverse impacts appear yellow to red according to the saliency of the impact (righthand column).

Where both a positive and negative impact associated with an activity was identified, the negative impact prevailed. For example, the positive impact of the coffee sector in supporting rural economies was outweighed by the negative impact of farmer incomes being too low to sustain a decent standard of living (as reported occasionally from the sector). As a result, no positive impacts are recorded in the impact assessment findings, but evidence of, or potential for, positive impacts does inform the Human Rights Action Plan developed by ALDI in response to the findings of this HRIA.

4) For the purposes of this HRIA, the international standard has been applied – with some conditions that might be classed as "forced labour" under Brazilian law assessed in the context of "working conditions" instead.

Labour Rights | Civil & Political Rights | Economic & Social Rights | Cross-Category Rights

Negative impacts | No impact | Positive impacts

RIGHTS ISSUE	RIGHTS-HOLDER(S)	IMPACT	IMPACT RATING
Smallholder production			
Right to health	• Smallholder farmers • Communities	Low awareness among farmers – as well as weak regulation and oversight – are key factors underlying a generally reported lack of protective measures during application of agrochemicals and inadequate facilities for their storage. Pesticide spraying on Brazilian coffee farms can have negative health impacts (though as symptoms may take years to manifest, it is hard to prove a direct, causal link).	
Adequate standard of living (livelihoods)	• Smallholder farmers • Communities	Coffee prices on the global market are historically low, and bear little relation to rising costs of production, and living. The market is also volatile and unpredictable, with farmers impacted by fluctuations in demand. Farmers' yields are increasingly unpredictable due to the change in weather patterns caused by climate change.	
Discrimination (access to land)	• Women	Women are taking an increasing role in coffee production, including in the smallholder sector, but traditional mindsets can be a barrier, leading to discrimination and resistance.	
Health & safety	• Workers	There are moderate risks to the health and safety of hired workers on smallholder farms, in the context of widespread informality and low awareness - and consequent mitigation - of risks by farmers.	
Child labour	• Children	There is no indication of organised recruitment of child labour (beyond family labour) on smallholder farms. In the context of smallholder production, child labour usually involves children assisting on family farms. Limited school transport in rural areas, and absence of state oversight in remote areas are risk drivers.	
Gender-based violence & harassment	• Women • Workers	No reports, but informality, remoteness and lack of enforcement/oversight and access to judicial recourse/remedy combined with traditional gender norms indicate a moderate risk of GBVH.	
Freedom of/ access to information	• Smallholder farmers	Lack of access to information and technology create challenges for smallholder farmers. There is some evidence of positive impact from intervention by actors in the sector – e.g. Cecafé's "Informed Grower Program" – as potential mitigation, though the impact of such interventions are likely to be localised, rather than sector-wide.	
Adequate standard of living (housing, food and water)	• Communities	Wastewater from processing can pollute waterways in surrounding communities. Pollution of soil and water from pesticides used across the agricultural sector is a nationwide issue.	

Labour Rights | Civil & Political Rights | Economic & Social Rights | Cross-Category Rights

Negative impacts | No impact | Positive impacts

RIGHTS ISSUE	RIGHTS-HOLDER(S)	IMPACT	IMPACT RATING
Crop development and farm maintenance (large farms)			
Health & safety	• Workers	Pesticide spraying on Brazilian coffee farms is generally suspected to lead to negative health impacts (though as symptoms may take years to manifest, it is hard to prove a direct, causal link).	
Adequate standard of living (housing, food and water)	• Communities • Workers	The standard of living can be impacted by the contamination of food sources and water from pesticide spraying and substandard housing. Poor housing provision and lack of access to drinking water and toilets amounts to the "degrading living and working conditions" considered forced labour under Brazilian law. This more commonly affects harvest workers but residence of permanent workers on farms in some areas indicates a risk to this workforce too. A lack of gender segregated housing can be a safety issue for women.	
Right to health	• Communities	Pesticide spraying on Brazilian coffee farms can have negative health impacts (though as symptoms may take years to manifest, it is hard to prove a direct, causal link).	
Child labour	• Workers • Children	Child labour is not thought to be prevalent on larger farms but does occur occasionally. Mostly, this is in the form of children accompanying parents to work for lack of other options.	
Non-discrimination & equal opportunity	• Women • Workers	Men's real average income in Brazilian coffee production is 16.2% higher than women's, despite significantly higher educational levels among these women (Oxfam International, 2021). This is due both to direct pay discrimination and women lacking access to higher paid roles.	
Gender-based violence & harassment	• Women • Workers	There are sector-wide reports of harassment of women by employers and colleagues at work, in transport to and from work and in workplace accommodation. These risks may be enhanced by a lack of separate facilities for men and women (including housing).	
Availability & accessibility of workplace-level grievance mechanism	• Workers	It is generally reported that farms do not have grievance mechanisms in place. High levels of unionisation among the formal workforce is a mitigating factor – implying some representation/avenue for remedy is likely.	
Working conditions	• Workers	The industry may involve long hours (above the legal maximum). Non-compliance with the labour law regarding paid leave and wages and wages below a living wage (even for the salaried, formal workforce) are a sectoral issue.	
Freedom of association & collective bargaining	• Workers	The 2017 labour law reform has reportedly led to a reduction in collective bargaining agreements (CBAs) and a reduction in union membership country-wide, including in the coffee sector. Some farm owners have reportedly undertaken a deliberate strategy to encourage workers to cancel their union membership.	

Labour Rights | Civil & Political Rights | Economic & Social Rights | Cross-Category Rights

Negative impacts — No impact — Positive impacts

RIGHTS ISSUE	RIGHTS-HOLDER(S)	IMPACT	IMPACT RATING
Forced labour	• Workers	Forced labour according to the ILO definition is an occasional issue in Brazilian coffee production but largely in relation to harvest operations rather than year round activities.	
Freedom of/ access to information	• Workers	Access to technology and technological know-how are limited – potentially compounded by poor communications infrastructure (especially in the remotest areas).	
Harvest operations (large farms)			
Health & safety	• Workers	There are general reports of poor health and safety due to a lack of protective equipment (e.g. gloves, boots, leg protectors to prevent snake bites). Road accidents – due to poorly maintained and overcrowded vehicles – are reportedly common in transportation of harvest workers to coffee farms.	
Adequate standard of living (housing, food and water)	• Workers	Poor housing provision and lack of access to drinking water and toilets are found at large operations across the sector. It has also been noted that the lack of gender segregated housing can be a safety issue for women.	
Working conditions	• Workers	Informality is widespread and many workers do not have contracts – data from 2017 found that harvest workers had contracts lasting the duration of the harvest. Long hours (above the legal maximum) and abuse of the harvest piece rate system by employers are generally reported from the industry.	
Freedom of association & collective bargaining	• Workers	The 2017 labour law has led to a reduction in collective bargaining agreements and union membership country-wide, including in the coffee sector. Higher rates of informality among harvest workers, related to union registration of migrant workers, mean the harvest workforce is less likely to be unionised than the permanent workforce.	
Forced labour	• Workers	Forced labour is occasionally reported in Brazilian coffee production. This may take the form of debt bondage, related to exploitative recruitment practices by labour intermediaries ("gatos"). Harvest workers are particularly vulnerable due to the seasonal and often informal nature of their employment, and the significant migrant population in this workforce.	
Non-discrimination & equal opportunity	• Women • Workers	Gender pay gap and discrimination in hiring is a sectoral issue. Men's real average income in Brazilian coffee production is 16.2% higher than women's.	
Gender-based violence & harassment	• Women • Workers	There are general reports of harassment of women by employers and colleagues in the workplace, during travel to and from work and in workplace accommodation.	

Labour Rights | Civil & Political Rights | Economic & Social Rights | Cross-Category Rights

Negative impacts | No impact | Positive impacts

RIGHTS ISSUE	RIGHTS-HOLDER(S)	IMPACT	IMPACT RATING
Availability & accessibility of workplace-level grievance mechanism	• Workers	It is generally reported that farms do not have grievance mechanisms in place. High levels of informality among the harvest workforce may exacerbate the impact.	
Child labour	• Workers • Children	Child labour is not thought to be prevalent on larger (professionalised) farms. Primarily where it does occur it is in the form of children accompanying parents to work for lack of other options.	
Freedom of/ access to information	• Workers	Limited access to technology and poor communications infrastructure/remoteness of coffee farms may impede workers' access to information.	
Processing operations			
Adequate standard of living (housing, food and water)	• Communities	Wastewater from processing may have an impact on food systems and surrounding communities – wastewater from coffee processing contains large amounts of organic matter which can affect the chemical balance and therefore aquatic life of surrounding water bodies.	

UNDERSTANDING ROOT CAUSES AND ALDI LINKAGE

ROOT CAUSES

The root causes for every salient impact, both negative and positive were identified. Understanding root causes is important for the development of recommendations to mitigate, prevent and/or remedy impacts. Root causes for the different impacts were found to be multiple and overlapping: an impact typically has more than one root cause, and one root cause can contribute to or drive various impacts.

The root causes of identified rights impacts occurring in the coffee sector fall into three key groups:

GROUP	ROOT CAUSE
Sectoral & commercial drivers	1. Lack of traceability due to supply chain length and complexity. 2. Limited producer capacity or willingness to implement standards and good practice. 3. Long-term low price/short-term price volatility. 4. High levels of informality in the rural labour market. 5. Seasonal nature of work.

Description:

1. Complex supply chain with many actors/intermediaries and difficulty of tracing coffee to farm level contributes to lack of accountability within the supply chain, and difficulties to implement standards and monitoring conditions.
2. Inadequate human resource capacity or commitment to enforcing standards has an impact on multiple rights including: working conditions, wages, health and safety (especially through inadequate training/provision of PPE), freedom of association.
3. Historically low base coffee prices or price fluctuations, which bear no relation to costs of production or living income create inconsistent farm incomes, undermine planning and investment and impact on farmer livelihoods, worker wages, labour rights and working conditions.
4. Informal employment is common in the Brazilian agricultural sector, and reportedly increasing following the 2017 labour law reform. Informality contributes to impacts related to labour rights and working conditions, as informal workers are more vulnerable to abuses on the part of employers.
5. Coffee production has uneven demands for labour, with high demands during harvest periods and reduced demand at other times. This results in temporary and seasonal employment that is precarious. This contributes to multiple potential human rights impacts associated with precarious employment, including negative impacts on labour rights and working conditions.

<table>
<tr><th>GROUP</th><th>ROOT CAUSE</th></tr>
<tr><td>Legal and institutional framework</td><td>1. Inadequate enforcement of labour law & insufficient penalties for violations.
2. Underfunding of prevention efforts.
3. Official corruption.
4. Recent reform of labour and other laws and regulations.</td></tr>
<tr><td colspan="2">Description:
1. Labour legislation is robust, but there is a lack – and declining levels – of enforcement. Underfunding and lack of capacity of the labour inspectorate limits its reach, especially in more remote areas. This contributes to multiple impacts on labour rights, working conditions, wages, forced labour and child labour.
2. Programmes to prevent or remediate issues such as forced labour and gender-based violence are reportedly underfunded.
3. In addition to backlogs/lack of capacity, courts are sometimes subject to corruption, political influence and indirect intimidation which may impede access to judicial remedy for workers and communities.
4. The 2017 labour law reform eliminated mandatory union fees and collective bargaining requirements – leading to a drop in unionisation, collective bargaining agreements, and an overall weakening of unions and loss of rights for rural workers.</td></tr>
<tr><td>Contextual drivers</td><td>1. Climate change.
2. Remoteness of some farms.
3. Societal gender norms.
4. Lack of childcare facilities.
5. High levels of inequality and social vulnerability.
6. Lack of education/low awareness of rights and technological know-how.
7. Lack of economic opportunities in poorer states.</td></tr>
<tr><td colspan="2">Description:
1. Erratic weather patterns linked to climate change are having a negative impact on coffee production and consequently negatively impacting farmer incomes and livelihoods.
2. Some coffee production takes place in remote areas, where the state is less present. The absence of the state could contribute to a sense of impunity among employers, making impacts related to working conditions/labour rights more likely.
3. Women typically assume a disproportionate share of care and household work, reducing time for paid employment and leading to an over-representation among temporary/informal workers. Traditional patterns of land tenure mean there are few smaller farms owned or run by women.
4. A lack of childcare facilities nationwide is a key driver of child labour. Most child labour on larger farms takes the form of children accompanying their parents to work due to lack of alternative options.
5. Economic disparity between employers and workers, and high overall levels of poverty and social vulnerability may leave poor rural workers vulnerable to exploitation, contributing to impacts on a range of labour rights/working conditions, and limit access to remedy.
6. Low education levels among the harvest workforce in particular means many workers are not aware of their rights, and may accept exploitative conditions as “normal” – contributing to forced labour, impacts on working conditions and labour rights.
7. Lack of economic opportunities drives many workers to migrate to coffee producing states for harvest season. This leaves workers vulnerable to exploitation and there is a risk of debt bondage, forced labour negative impacts on labour rights more broadly.</td></tr>
</table>

LINKAGE TO ALDI

The UNGPs and the OECD Due Diligence Guidance for Responsible Business Conduct discuss categories of attribution to impacts in terms of those that an enterprise:

1. can cause
2. can contribute to
3. can be directly linked to

As ALDI has no direct contractual or investment relationships to the lower tier supply chain activities in Brazil where the most salient human rights impacts have been identified, ALDI was not found to cause or contribute to the impacts.

These root causes are connected to three categories of ALDI activity, which were used to help identify ALDI linkage. These are:

- **Supplier selection and requirements:** The types of suppliers ALDI selects and especially the requirements ALDI places on its suppliers and their sub-suppliers, such as those relating to certification, human rights due diligence and other social standards, can all potentially impact on rightsholders. Monitoring of the implementation of requirements is also key.
- **Purchasing practices:** Frequency, volumes and timings of supermarket orders may influence working conditions, including hours, overtime and safety, as well as wages. Purchasing practices can provide certainty and stability.
- **Pricing:** Prices paid by ALDI are passed down the supply chain through negotiations and can impact producers and other stakeholders.

The principal exceptions (where impacts are not linked to ALDI) concern impacts related to broader contextual/ structural factors: for example, limitations of standards and requirements cascaded down the supply chain to prevent or mitigate GBVH on a smallholder farm, or the limitations of the Brazilian justice system to provide effective remedy to communities affected by pesticide spraying.

Relation between linkage and leverage

Within a supply chain context, the concept of linkage has close ties to the concept of leverage. For root causes and impacts to which ALDI is linked, ALDI generally has greater leverage to bring about change because there is a direct (albeit often complex and multidimensional) pathway connecting ALDI practices with the root cause or impact in question. For example, if ALDI is linked to a root cause of an impact through its supplier selection and requirements, then more rigorous supplier evaluations or enhanced supply chain monitoring may be an appropriate course of action. Where ALDI is not linked directly to a principal root cause of an impact (for example, weak trade unions that lead to adverse impacts on freedom of association), more collaborative and proactive initiatives may be more appropriate (for example, active participation in sector initiatives to promote social dialogue).

The table below summarises all impacts identified through the detailed impact assessment (whereas the tables above describe those identified to be the most salient only). Each coloured cell represents an impact finding in relation to the supply chain activity (columns) and the rights issue (rows). Adverse impacts (accounting for all salient impacts identified during the course of this assessment) are coded yellow to red according to saliency. The figure also provides the overall saliency of impacts by rights category (far right column) and by supply chain activity (bottom row).

Identified impacts with linkage

The table below displays all identified issues from the impact analysis in terms of their saliency. Each mark represents an impact finding in relation to the value chain activity (columns) and the rights category (rows). Positive impacts appear green; negative impacts appear amber, or red. Cells marked with an "X" are those impacts that are linked or potentially linked to ALDI – with one or more ALDI business activity associated with a significant root cause of that impact. The findings of the HRIA show that many of the issues identified are not present in ALDI direct suppliers, but with indirect suppliers.

This categorisation of issues in terms of potential linkage and perceived leverage has been the basis for the development of the Human Rights Action Plan, which will be presented in the final chapter of this report.

☒ ALDI Linkage

Negative impacts — No impact — Positive impacts

		Smallholder production	Crop development & farm maintenance	Harvest operations	Processing operations
Labour rights	Working conditions		X	X	
	Occupational health and safety	X	X	X	
	Freedom of association and collective bargaining		X	X	
	Forced labour		X	X	
	Child labour		X	X	
	Non-discrimination and equal opportunity (labour)		X	X	
	Gender-based violence and harassment (in the workplace)	X	X	X	
	Availability and accessibility of workplace-level grievance mechanism		X	X	
Civil and political rights	Right to life/physical integrity				
	Freedom of/access to information		X	X	
Economic and social rights	Right to adequate standard of living (livelihoods)	X			
	Right to adequate standard of living (housing, food, water)	X	X	X	X
	Right to health	X	X		
	Land rights				
	Discrimination (access to land)				
Cross-category rights	Right to effective remedy				

GENDER ISSUES IN THE BRAZILIAN COFFEE SUPPLY CHAIN

WOMEN IN THE BRAZILIAN COFFEE SECTOR

Traditionally, the coffee sector in Brazil has been male-dominated, both in terms of farmers and workers. This is slowly changing, with women increasingly taking up roles not just in production, but across the sector – in administrative, marketing, quality assessment and communications roles.

According to one stakeholder:

> **"When we have meetings with sustainability teams, it's all women."**

Women are also starting to take a greater role in family farming and tend to be much more receptive to training on new technologies and modernising farms than their male counterparts. However, women remain the minority across the sector – especially in positions of leadership. Just 13% of coffee farms (of all sizes) are owned by women. Gender disaggregated data on the coffee workforce is generally limited – in part a result of widespread informality – though a recent study estimated that on male run farms, women comprise, on average, 24% of the workforce, while on farms owned or managed by women, the share is 43%.

There are contrary reports related to discrimination against women harvest workers. Some state that farms do not contract women due to a perception that they will be less productive, while others report that women are favoured as they are thought to be more reliable and hardworking, and more attentive to quality.

Women can be excluded from permanent jobs on coffee farms, which is backed up by data showing that women are over-represented in informal, lower status jobs. Direct pay discrimination is also reported. Women also face difficulties accessing pensions and benefits as they are often not seen as workers but as helpers to their husbands. These findings are supported by a recent Oxfam study, which found widespread gender inequality in coffee production in Brazil.

INTEGRATION OF GENDER CONSIDERATIONS INTO HRIA METHODOLOGY

Women were scoped in as rightsholders at the outset of the HRIA process. Early desktop research identified sufficient evidence of differentiated rights impacts on women in the sector. Additionally, knowledge of pay gaps and the prevalence of workplace sexual harassment in Brazil indicated potential rights impacts on women in the sector. A key priority of stakeholder engagement was to obtain an understanding of the specific challenges faced by women in the sector. Interviews were conducted with the Brazilian chapter of an international women's coffee organisation as part of the stakeholder engagement. In addition, questions for other stakeholders (e.g. unions) included a focus on understanding gender-specific impacts and challenges, such as discrimination and gender-based violence and harassment.

GENDER-SPECIFIC IMPACTS AND INTER-SECTIONALITY

Impacts on women in the sector were identified to be primarily related to non-discrimination and equal opportunity and GBVH in the workplace. The gender-specific impacts identified per key supply chain activities are:

Labour Rights | Civil & Political Rights | Economic & Social Rights | Cross-Category Rights

Negative impacts — No impact — Positive impacts

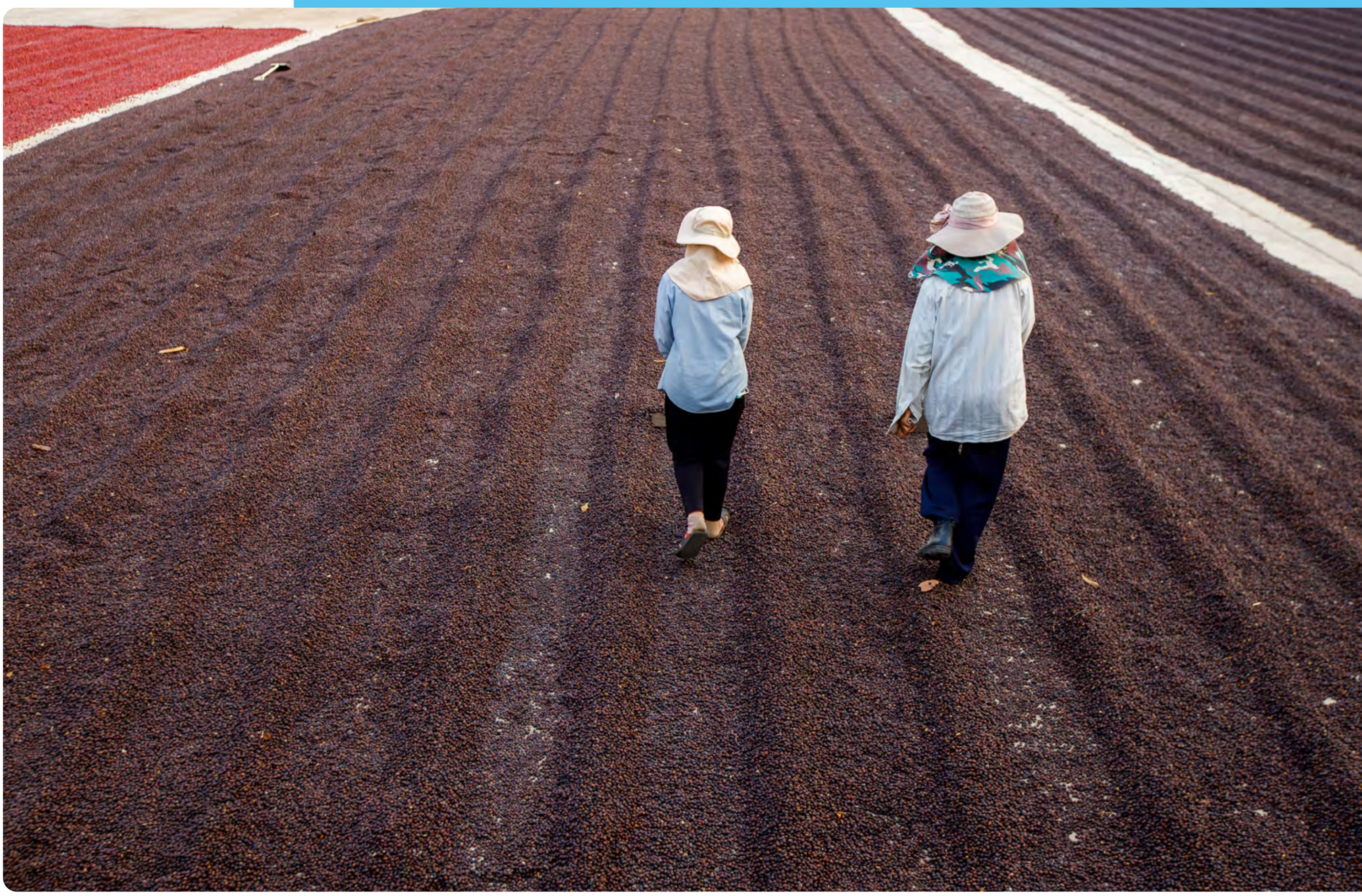
RIGHTS ISSUE	RIGHTS-HOLDER(S)	IMPACT	IMPACT RATING
Smallholder production			
Discrimination (access to land)	• Women	Women are taking an increasing role in coffee production, including in the smallholder sector, favouring discrimination and resistance.	
Gender-based violence & harassment	• Women • Hired labour	No reports but informality, remoteness and lack of enforcement/ oversight and access to judicial recourse/remedy combined with traditional gender norms indicate a moderate risk.	
Crop development and farm maintenance			
Non-discrimination & equal opportunity (labour)	• Women • Workers	Men's real average income in Brazilian coffee production is 16.2% higher than women's, despite significantly higher educational levels among these women. This is due both to direct pay discrimination and women lacking access to higher paid roles.	
Gender-based violence & harassment	• Women • Workers	There are sector-wide reports of harassment of women by employers and colleagues at work, in transport to and from work and in workplace accommodation.	
Harvest operations			
Non-discrimination & equal opportunity (labour)	• Women • Workers	The gender pay gap and discrimination in hiring is a sectoral issue (though according to some stakeholders, some employers prefer women harvesters, due to belief they're more "reliable").	
Gender-based violence & harassment	• Women • Workers	There are sector-wide reports of harassment of women by employers and colleagues at work, in transport to and from work and in workplace accommodation. Informality and greater social vulnerability among harvest workers further may increase the risk.	

ROOT CAUSES

A root cause analysis identified societal gender norms to be the primary contributor to the salient negative impacts on non-discrimination and GBVH. Societal gender norms:

- Play a role in the perceptions of women workers by male management figures, which is likely to influence their actions towards women workers and the general working environment.
- Underpin women's vulnerabilities to abuse or exploitation, especially where they intersect with other root causes such as high levels of informality in the rural labour force.

These gender-specific considerations are also embedded in ALDI's Human Rights Action plan. Additionally, findings of this study have also informed the formulation of our group-wide international gender policy, as well as its dedicated Gender Action Plan.



SMALLHOLDERS IN THE BRAZILIAN COFFEE SUPPLY CHAIN

In general, “smallholder” in the context of Brazilian coffee is defined as a grower with less than 10 hectares. The term “small grower” is also used to mean farmers with anything up to 20 hectares. Those with 10 hectares or above are not classed as “smallholders” but this distinction can lead to a lack of clarity and means it is difficult to find reliable data on the exact contribution of smallholder farmers to Brazilian coffee production.

On smallholder farms non-harvest activities are generally undertaken by the farmer or their immediate family, or extended family sometimes engaged for harvest.

Smallholder production tends to be carried out within families. Where hired labour is engaged, it is likely to be informal (in part due to the perceived complexity and administrative burden of registering workers). Informality is generally a risk factor for most adverse impacts relating to labour rights, however, in this context, informality does not necessarily imply the same level of vulnerability as it might among workers on larger farms. In the context of smallholder farms, labourers (who are often neighbours or other acquaintances of the farmer) generally approach farmers for work, on a daily or sometimes seasonal basis, and have the freedom to move on to different farms if wages or conditions do not meet their expectations.

Most smallholder farms rely on manual labour, although they usually employ the use of some machinery for harvest, such as small hand-held machines. The average age of smallholder farmers is increasing (the issue of family succession and the ongoing survival of smallholder farms was reported by several stakeholders). Technical assistance and agronomic services may be provided by cooperatives, but in general this kind of assistance is outdated and expensive in Brazil.

It is reported that the smallholder coffee sector is profitable and professionalised compared to many other crops, and compared to coffee production in other countries. Nevertheless, it is also reported that many smallholders struggle to earn an income sufficient for a decent standard of living for themselves and their families.

INTEGRATION OF CONSIDERATIONS RELATED TO SMALLHOLDERS INTO HRIA METHODOLOGY

Smallholders were scoped in as rightsholders at the outset of the HRIA process. Early desktop research identified sufficient evidence of differentiated rights impacts on smallholders in the sector. Due to significant differences in the structure and workforce on smallholder versus larger farms, these two production sectors were separated for the purposes of impact scoring.

During the stakeholder engagement phase, we interviewed two cooperatives to understand issues facing smallholders, while a range of other organisations – such as industry associations and certification bodies – also provided information on impacts and challenges related to smallholders.

SMALLHOLDER-SPECIFIC IMPACTS

Labour Rights | Civil & Political Rights | Economic & Social Rights | Cross-Category Rights

Negative impacts — No impact — Positive impacts

RIGHTS ISSUE	RIGHTS-HOLDER(S)	IMPACT	IMPACT RATING
Right to health	• Smallholder farmers • Communities	Pesticide spraying on Brazilian coffee farms can have negative health impacts (though as symptoms may take years to manifest, it is hard to prove a direct, causal link).	
Adequate standard of living (livelihoods)	• Farmers • Communities	The global market is volatile, and farmers harvest yields are unpredictable, with changes in weather caused by climate change. Farmers are further impacted by fluctuations in demand for Brazilian coffee on the global marketplace.	
Discrimination (access to land)	• Women	Women are taking an increasing role in coffee production, including in the smallholder sector, favouring discrimination and resistance.	
Child labour	• Children	There is no indication of organised recruitment of child labour (beyond family labour) on smallholder farms. In the context of smallholder production, child labour usually involves children assisting on family farms.	
Gender-based violence & harassment	• Women • Hired labour	No reports, but informality, remoteness and lack of enforcement/oversight and access to judicial recourse/remedy combined with traditional gender norms indicate a moderate risk of GBVH.	
Freedom of/ access to information	• Smallholder farmers	Lack of access to information and technology create challenges for smallholder farmers. (There is some evidence of positive impact from intervention by actors in the sector, e.g. Cecafe's "Informed Grower Program" as potential mitigation).	
Adequate standard of living (housing, food and water)	• Communities	Wastewater from processing can pollute waterways in surrounding communities. Pollution of soil and water from the pesticides used in coffee production is a nationwide issue.	

ROOT CAUSES

Farmer incomes are affected by low global coffee prices, as well as fluctuations in supply and demand on the global market. Yields are increasingly affected by climate change – erratic weather, including droughts and frosts, are making growing conditions more challenging and unpredictable. Climate change is also a contributor to an increase in diseases such as coffee leaf rust, which affects farmer earnings both through reduced yields and the necessity for additional spending by farmers on agrochemicals.

Though employment of workers beyond family/neighbours is not common, where this kind of hired labour is engaged, it is likely to be informal (in part due to the perceived complexity and administrative burden of registering workers). Informality is a risk driver for most adverse impacts relating to labour rights, though no specific impacts in relation to smallholder farming were reported by stakeholders.

These smallholder-specific considerations are also embedded in ALDI's Human Rights Action plan.

SUMMARY & CONCLUDING REMARKS

This HRIA has been developed in response to the global Human Rights Risk Assessment conducted in 2018 which identified coffee as a high-priority raw material with considerable high human rights risks. As a result, ALDI commissioned this project to identify potential impacts and to understand where its leverage lies in mitigating these impacts (or enhancing them, if positive).

Through this project, ALDI was able to gain in-depth knowledge of the coffee supply chain and identify salient impacts potentially linked to ALDI's business activities and where ALDI has leverage to initiate change. The HRIA has been valuable not only to shed light on the supply chain but also to offer country and business perspectives on human rights in the coffee sector. The HRIA findings help to strengthen ALDI standards and due diligence, enabling ALDI to build on its commitment to mitigate, prevent and/or remedy these impacts.

Key learnings/findings from this project include:

1. Coffee production is a highly important sector in Brazil and faces numerous contextual challenges such as price volatility, environmental challenges and labour shortages and informality.
2. Women and smallholders are among the groups most vulnerable to the identified root cause.
3. Results demonstrate that the most negative impacts are felt at the level of crop development and farm maintenance as well as harvesting operations.
4. Impacts were found to have more than one root cause, which can be divided into three key groups: sectoral and commercial drivers; government and regulatory framework drivers, and contextual drivers.
5. ALDI linkage to impacts identified falls under three categories of ALDI activity: supplier selection, purchasing practices and pricing situation. Generally, ALDI has greater leverage to mitigate negative or promote positive impacts to which it is linked.

ALDI's 2030 Vision is to "make sustainability affordable for all its customers" and bring responsibly sourced products into every household. This can only be achieved by seeking to understand the challenges that the workers and rightsholders in its supply chains face and identifying ways to respect their human rights and improve their living and working conditions.

Working in complex supply chains is challenging and collaboration is key. Many of ALDI's future actions will be achieved by improving relationships with existing stakeholders and multi-stakeholder initiatives or developing new relationships.

ALDI is committed to acting not only in areas where linkages to its activities are clear, but also in areas where it can make a difference. The development of a Human Rights Action Plan detailing time bound, strategic measures to mitigate the most salient risks in the supply chain, while acknowledging the prevalence of contextual and regulatory challenges is critical.

The ALDI SOUTH Group would like to thank Ergon Associates LTD, our suppliers and all the other stakeholders and rightsholders who took part in this impact assessment. We would not be able to increase our own knowledge or identify the actions we need without their open and honest contribution.

HUMAN RIGHTS ACTION PLAN

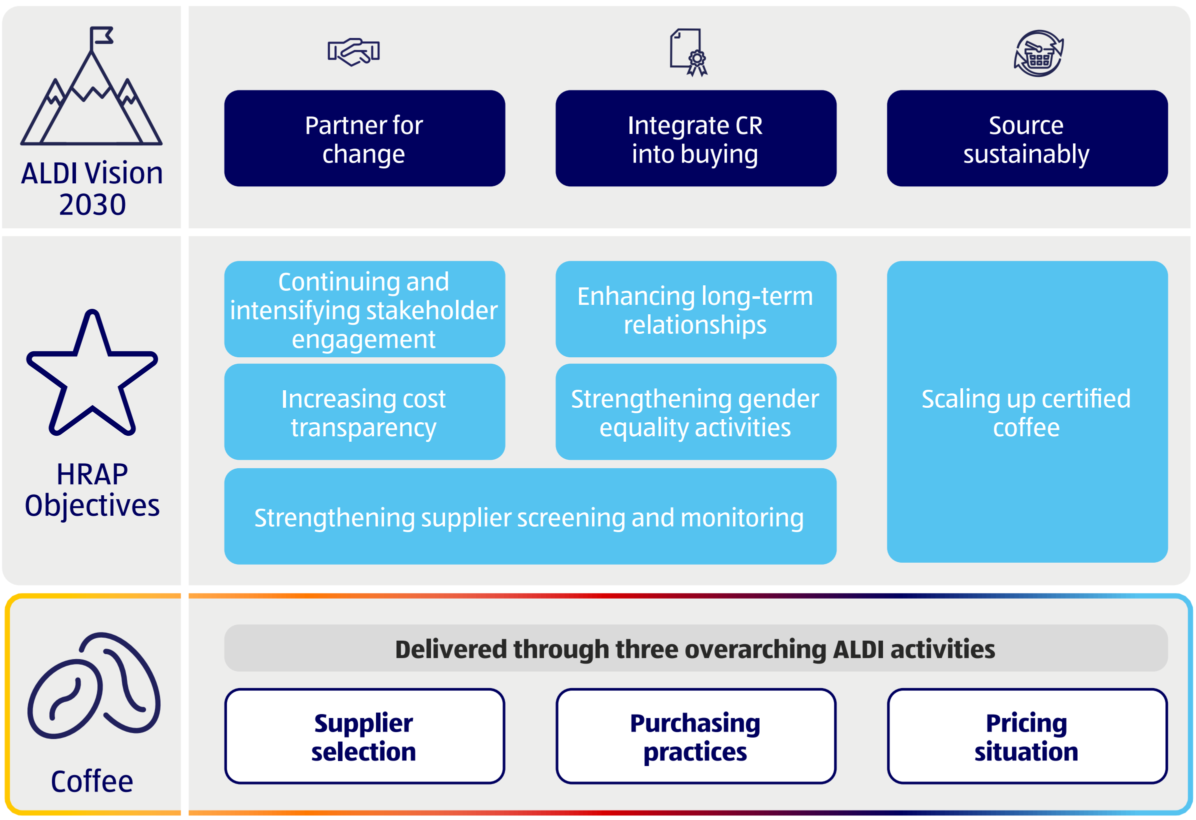
Building on the HRIA's pivotal insights, this section sets out concrete actions, independently developed by ALDI to mitigate and/or prevent the most significant negative impacts and enhance the positive impacts identified within the coffee supply chain. The Human Rights Action Plan (HRAP) is based on Ergon's detailed findings and recommended focus areas:

- Supplier selection.
- Purchasing practices.
- Pricing situation.

For significant and enduring change, it is the identified root causes that should be addressed as far as possible. The outlined objectives focus on tackling root causes linked to ALDI activities, given that these are where ALDI has the greatest leverage, and therefore can act swiftly and unilaterally. This also includes increasing ALDI's sphere of influence, by means of collaborative action, in order to tackle those impacts, and underlying root causes, where its influence as a single-retailer is limited. Each objective in the HRAP thereby addresses a number of root causes determining the impact on different rights categories, as well as rightsholders.

Finally, it is important to note, that ALDI does not see the HRAP as a static set of aspirations. ALDI is committed to evaluate the effectiveness of the measures constantly and amend the action plan in light of new insights and accelerated progress. The key measures presented in the HRAP either adapt existing activities or develop new activities to contribute to risk mitigation or enhance positive impacts down the supply chain.

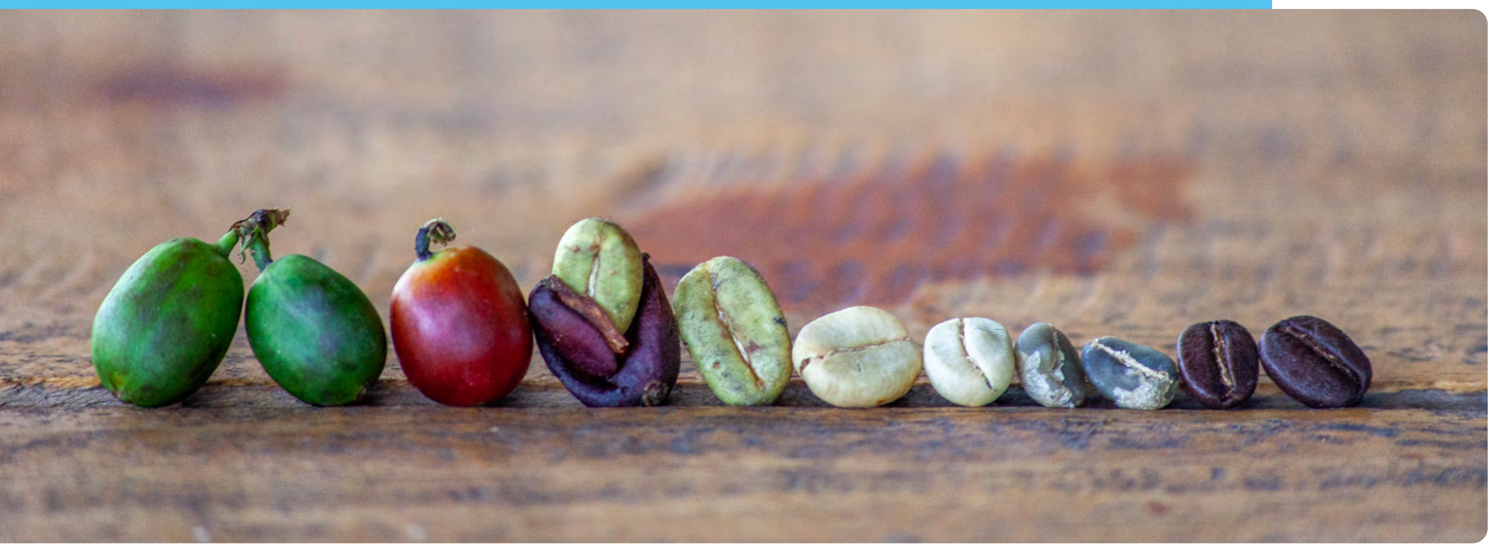
ALDI's International CR Strategy supports the implementation of the Human Rights Action Plan



OBJECTIVE: Continuing and intensifying stakeholder engagement	
Root causes addressed/Rights categories impacted:	
Cross-cutting: • Raising awareness of rights and standards among suppliers and producers. • Ensuring actions are targeted and impactful.	
Key measures:	Timeline:
• Translation of HRIA key findings and Action Plan to Portuguese and share the results with involved stakeholders.	2022
• Collaborative review and refinement of action plan with selected stakeholders.	2022
• Verifying results of in-person field trips to sourcing regions.	2022 (Subject to local public health situation)

OBJECTIVE: Strengthening gender equality activities	
Root causes addressed:	Rights categories impacted:
• Limited social standards and monitoring, including awareness of women's rights and standards. • Societal gender norms.	• Non-discrimination. • Gender-based violence and harassment.

Key measures:	Timeline:
• Publish a gender policy for supply chains, specifically on expectations regarding gender equality, non-discrimination and gender-based violence and harassment.	Accomplished
• Use the International Policy on Gender Equality in ALDI's Supply Chains to raise awareness among suppliers on gender issues, including the coffee supply chain.	2022



<table>
<tr><th colspan="3">OBJECTIVE: Strengthening supplier screening and monitoring</th></tr>
<tr><td>Root causes addressed:</td><td colspan="2">Rights categories impacted:</td></tr>
<tr><td>• Lack of traceability due to supply chain length and complexity.
• Limited producer capacity or willingness to implement standards and good practice.</td><td colspan="2">• Working conditions.
• Living standards.
• Occupational health and safety (OHS).
• Freedom of association.</td></tr>
<tr><td colspan="2">Key measures:</td><td>Timeline:</td></tr>
<tr><td colspan="2">• Explore a concept on how to reflect this HRIA's findings into our CR Supplier Evaluation roadmap as per Action 11 and 12 of our Strategy.</td><td>2022</td></tr>
<tr><th colspan="3">OBJECTIVE: Enhancing long-term relationships</th></tr>
<tr><td>Root causes addressed:</td><td colspan="2">Rights categories impacted:</td></tr>
<tr><td>• Long-term low prices and short-term price volatility.
• Lack of traceability due to supply chain length and complexity.
• Limited producer capacity or willingness to implement standards and good practice.</td><td colspan="2">• Smallholder incomes.
• Working conditions.
• Wages on larger farms.</td></tr>
<tr><td colspan="2">Key measures:</td><td>Timeline:</td></tr>
<tr><td colspan="2">• Reflect findings of this HRIA in Action 10 (sustainable purchasing practices) of our Strategy.</td><td>2022</td></tr>
<tr><th colspan="3">OBJECTIVE: Increasing cost transparency</th></tr>
<tr><td>Root causes addressed:</td><td colspan="2">Rights categories impacted:</td></tr>
<tr><td>• Long-term low prices and short-term price volatility.</td><td colspan="2"><u>Direct:</u>
• Farmer incomes.
<u>Indirect:</u>
• Conditions for better practices.
• Health.
• Working conditions.</td></tr>
<tr><td colspan="2">Key measures:</td><td>Timeline:</td></tr>
<tr><td colspan="2">• Engage in the new Rainforest Alliance living income/living wage component.</td><td>2022</td></tr>
<tr><td colspan="2">• Engage with new RA 2020 standard and establish mechanisms to monitor results of improvements in farmer incomes.</td><td>2023</td></tr>
<tr><td colspan="2">• Identify other opportunities within the sector, through suppliers or multi-stakeholder initiatives, to engage on Living Wage initiatives in coffee – e.g. through SCC, ICO/Sustainable Food Lab taskforce, IDH taskforce.</td><td>2022</td></tr>
</table>

OBJECTIVE: Scaling up certified coffee	
Root causes addressed:	Rights categories impacted:
• Lack of traceability due to supply chain length and complexity. • Limited producer capacity or willingness to implement standards and good practice. • Long-term low prices and short-term price volatility.	• Working conditions. • Living standards. • Occupational health and safety (OHS). • Farmer incomes. • Availability/accessibility of grievance mechanisms. • Freedom of association.
Key measures:	Timeline:
• Benchmarking supplier programmes to assess if they can be accepted in ALDI's sourcing to deliver ALDI's vision 2030.	2021
• Understand barriers to entry for uncertified producers and access to markets for certified producers.	2022
• Continue to increase number of certified coffee products.	2025
• Based on findings of this HRIA, amend certification/programme requirements accordingly and address more contextual root causes through projects related to certification.	2023

ANNEX

SELECTED KEY SOURCES

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