

END OF THE MONITORING OF THE MICHELIN SPECIFIC INSTANCE IN INDIA

APPENDIX TO THE NCP'S STATEMENT OF 29 FEBRUARY 2016

Compliance with the NCP's recommendations by the Michelin Group

♦ 1 / Michelin's obligation to use its influence to ensure that the local authorities grant land compensation to the Thervoy villagers

On 16 September 2009, the Madras High Court ruled that the transfer of land to SIPCOT and the change of land use were legal. The Court nevertheless noted that "70% of shrubs and trees have been removed" by SIPCOT which had failed to comply with its decision of 27 May 2009 that had authorised it to "clear the bushes and grasses" on the site "but as per the understanding that there will not be felling of trees".

Under the decision of 16 September 2009:

- The Court **authorised SIPCOT to fence off the site's perimeter** to demarcate it
- The Court held that SIPCOT had failed to comply with the 2006 Indian regulation on environmental authorisations and **should therefore apply for adequate environmental clearance** under EIA (Environmental Impact Assessment) legislation from the Ministry of Environment and Forests before continuing with its work in light of the nature of the planned manufacturing activity. SIPCOT filed its application for environmental clearance on 6 June 2010 and it was granted on 9 August 2010 on the basis of an impact study. The complainants appealed against this decision before the National Green Tribunal which rejected their application on the grounds that the action was time-barred.
- **The Court ordered that the 15 families of encroachers who were occupying the site be rehoused near to Thervoy** within six months at the latest. The families were ultimately rehoused in 2013.
- **Lastly, the Court granted land compensation to the Thervoy villagers. The Tamil Nadu Revenue Department and District Collector, and SIPCOT, were to, on one hand, set aside 100 acres¹ of land on the site for growing animal feed (40.46 hectares) and, on the other, provide the villagers with an additional 241.86 acres (97 hectares) within three years, i.e. by September 2012.**

On 8 March 2010, the Supreme Court of India dismissed SANGAM's appeal against the decision of the Madras High Court of 16 September 2009.

As part of the NCP's monitoring process, the Group kept it apprised of the efforts it was making vis-à-vis its Indian partners to underscore its commitment to full compliance with the measures handed down under the decision from the Madras High Court. It informed the NCP of the progress of the administrative land compensation procedures between Indian government departments. In 2015, it advised the NCP that SIPCOT no longer wished to be accountable to the Group for the measures taken to implement the Madras High Court's judgment.

According to information available to the NCP, in May 2014, 100 acres had been identified on the industrial park to grow animal feed. This land had been transferred by SIPCOT to the department responsible for breeding. It is thought that SIPCOT funded the production of animal feed by a local firm. The granting of additional pastureland was delayed for a significant amount of time owing to local administrative procedures (identification of plots, acquisition of the plots by SIPCOT, transfer to the department responsible for breeding). During 2014, it would appear that 943 hectares had been

¹ 1 acre = 0.404689 hectare; the 100 acres represent 40.40 hectares

identified in three separate locations (including 36 hectares in Thervoy) and all that remained to be done was to negotiate the prices of the land acquisition by SIPCOT and to transfer it to the competent department.

In December 2015, the Group informed the NCP that, according to SIPCOT, all the compensation measures under the 2009 judgment had been implemented. In spite of repeated requests from the Group, of which the NCP was aware, it has been unable to receive written confirmation from the Indian authorities. To date, neither the Group nor the NCP have been advised of any unsettled disputes concerning the land compensation in Thervoy.

Conclusion as to Michelin's obligation to use its influence vis-à-vis its business relationship:

⇒ *Following the referral, the Group rolled out due diligence measures vis-à-vis its business relationship that was directly responsible for implementing the land compensation measures for the Thervoy villagers as ordered by the Indian courts. It has fulfilled its commitment vis-à-vis the NCP and has complied with the Guidelines.*

♦ 2 / The impact assessment studies and communication with the stakeholders are central to the Group's integration in the Thervoy ecosystem

♦ Conducting a human rights impact assessment (HRIA) study was a core issue of the referral

The NCP was consulted to confirm that the HRIA study's terms of reference complied with the OECD's CSR Guidelines. A specialist independent firm carried out the study in 2014 with 300 interviews being conducted.

The impact assessment study was submitted to the NCP in December 2014. It extended to six areas: socio-economic impacts, community relations, business ethics, employment and employability, working conditions for Michelin employees and the employees of its subcontractors and suppliers. The study highlighted a number of positive elements. These included the high-quality standard of health and safety initiatives, the plant's contribution to regional development, the diversity of CSR programmes, skilled HR and CSR teams, the implementation of transparent CSR governance and in-depth communication, and, lastly, the plant's interaction with the surrounding ecosystem and region. The study nevertheless drew attention to a number of issues: the failure of the public surveys conducted upstream by SIPCOT to adequately comply with international standards, causing potentially negative repercussions for Michelin; the rapid transformation of the region with possible impacts in terms of demographics and the industry/agriculture ratio; the local authorities' failure to sufficiently factor in the representation of vulnerable communities; the medium-term ramifications of increased income. The study underscored the fact that the plant is "local" with very few expatriate executives being employed. In addition, there were two other significant issues: firstly, the road traffic due to the plant's operations and, secondly, subcontracting. The study showed that the impact was greatest in eight of the 31 villages adjacent to the site, including Thervoy.

The study backs up the NCP's analysis. It also highlights the limits between the company's responsibility and capacity for influence on one hand, and the responsibility of the host state and local partners for governance and local development on the other.

The Group has assured the NCP that it will use the HRIA study's recommendations to forge a long-term CSR strategy ("Vision 2025") by consulting local public authorities and stakeholders, and it is continuing with its initiatives in favour of employment and employability. All stakeholders who so requested have been provided with a copy of the study.

⇒ *The NCP congratulates the Group as, with this human rights impact assessment (HRIA) study for its plant in Thervoy, it has a suitable roadmap for its integration in Tamil Nadu and robust methodology for its medium- and long-term corporate strategy (2025).*

◆ Implementation of a formal system to allow local communities to express their views

In 2014, Michelin initiated a five-year roadmap to officialise dialogue and bolster information, communication and consultation vis-à-vis local stakeholders. The plan is monitored by in-house teams and by a community consultation consultant.

Following NCP recommendations and the human rights impact assessment study, the plant's multi-party CSR Board took on additional members. Besides the plant's senior management and executives, and the local authorities, it now includes representatives from several national, regional and local NGOs. However, owing to "operational roadblocks", no representatives from the neighbouring villages sit on the Board. Michelin has stated that it is working towards a solution involving inviting representatives of local stakeholders in turn as independent participants. It has advised the NCP that relations with local stakeholders and the CCFD have improved and that the leader of the Indian complainants is not planning to join the CSR Board. Lastly, new Group directives, "Relations with NGOs" (2014) and "Relations with stakeholders" (2015) are in the process of being rolled out in Thervoy and worldwide.

In November 2014, although it had withdrawn the referral, SANGAM sent the NCP a list of requirements for the Michelin Group. These include permanent jobs in the plant with an emphasis on local recruitment, building 1,000 accommodation units, a hospital and a community centre, repairing roads, access to gas and drinking water for all houses, support for agriculture and making education a priority. SANGAM stated that it wanted to work directly with the Michelin Group in Thervoy's interests without the involvement of "other associations" without specifying which ones. The NCP informed the Group of the request and it took due note.

⇒ *The NCP congratulates the Group for having introduced a system for monitoring CSR initiatives and communication with the stakeholders. The system is solid enough to support the site's operations. The NCP recommends that Michelin should decide on the conditions for asking representatives of the eight villages which are most affected by the plants to sit on its CSR Board.*

◆ Conducting the environmental impact assessment study

The NCP was consulted on the study's terms of reference to include the OECD's CSR Guidelines. On the basis of its recommendations, the new impact assessment study was carried out over a full year (March 2015 to February 2016) as the plant began production. The NCP was provided with an interim review. The Group monitors progress of the works by drawing up a monthly report. The NCP has noted that the study is being closely followed up and it will allow the 2015-2025 CSR strategy to be mapped out.

⇒ *The NCP encourages Michelin to take a close look at the results of the study on the environmental impact assessment of its operations on the local ecosystem. The NCP also encourages the Group to analyse the study's recommendations and suggests that it shares the results – whilst upholding confidentiality – with the industrial players operating on the site and with the local authorities.*

◆ 3 / Michelin's CSR strategy at Thervoy

The CSR strategy, which was developed in light of the socio-economic study conducted in 2010, was updated following the human rights impact assessment study of December 2014. The NCP has been advised of the progress made from January 2010 to the end of 2015. The strategy extends for a 5km radius from the plant and takes in 31 villages, 5,774 households in 12 municipalities ("panchayat"), eight healthcare centres and 27 primary schools, middle schools and high schools.

◆ Steering arrangements for the CSR strategy

The strategy takes in a number of areas and is steered by the CSR Board chaired by the plant's manager and whose members are representatives of the authorities, NGOs and the plant's executives, and the CSR Steering Committee. The strategy is implemented by operational teams and Indian

NGOs and partners from the private sector. This multi-party approach involves a large number of clearly identified stakeholders (Fifteen government-funded institutions, four institutes, 13 NGOs and private institutions, two primary/middle schools and five contractors).

◆ **CSR projects extend to eight areas and are adjusted depending on results and requirements**

1. Promotion of healthcare for inhabitants with a community health system covering the 31 villages (outreach care centres and ophthalmology consultations) and **a school health system** covering 27 schools (dental care, raising awareness of health, hygiene and environmental issues, training trainers).

2. Employability: Employment and training remain critical issues to which the Group contributes by funding basic courses, short training sessions for professions on the basis of operational requirements (both on and off-site: horticulture, hotel industry, electricity, bakery, telephony, driving, sewing, English, etc.), one-year training courses for senior technicians and operatives, higher education patronage and support for the Chennai French School. Around 70% of those trained have been hired by Michelin, have set up their own business or have found employment in other industries.

3. Child education: Support for early learning, training teachers, awareness-raising, support and guidance for pupils, overhauling the infrastructure of state schools.

4. Natural resource management:

- ◆ **Water and agriculture:** Renovation of a reservoir and wells, rehabilitation of 37km of irrigation channels, support for farmers, water quality control.
- ◆ **Green energy:** 163 families using biogas, 820 families provided with an oven using less wood and generating less smoke.
- ◆ On-site **Green Belt** (refer to the box).

Green Belt

A Green Belt has been created and occupies 33% of Michelin's plot. Trees, herbs and medicinal plants have been planted in accordance with Tamil Nadu standards (400 trees/hectare), and there are areas set aside for birds and butterflies, as well as a nursery. A horticulture consultant and an NGO, Care Earth Trust, are also present. The Green Belt extends over 38 hectares; Michelin's total plot covers 117 hectares. 4,000 trees were planted in 2014 and a further 5,013 are slated to be planted.

5. Support for the disabled (community awareness-raising, training, sundry support schemes).

6. Road safety (awareness-raising, especially in schools, training in road signs, etc.)

7. Sports initiatives in schools.

8. Facilitation Cell: Community support for completing administrative procedures to obtain welfare benefits.

- ⇒ *With the changes made to CSR initiatives following the referral, Michelin's presence in the Thervoy industrial park and its CSR strategy are consistent with recommendations of the OECD, the NCP and the human rights impact assessment study. The Group has a forward-looking mind-set: discussions on extending the catchment area for its CSR policy, designing a long-term strategy for the period 2015-2025, and study into the possibility of bringing salaries for "educational support" staff into line with those of other teachers.*
- ⇒ *The due diligence system is now robust.*

◆ 4/ Guaranteeing employment standards in the Thervoy plant

On several occasions, the Group has repeated, in writing, its commitment to apply its employment standards, along with those of the ILO and OECD to its employees in Tamil Nadu and to the employees of its subcontractors working on a fixed or sporadic basis. In late 2015, it advised the NCP that it was looking into the introduction of unions. Its day-to-day actions focus on worker safety and the position of women in the plant.

Job creation targets in the industrial park, as announced by the local authorities in 2007, have not been met as a number of companies have withdrawn their plans to set up shop there, probably pending the conclusions of the referral but also due to the macro-economic climate. This raises the stakes for Michelin and makes education and training for the purposes of boosting local employability even more important.

- ⇒ *The NCP notes Michelin's repeated commitment to comply with its standards along with those of the ILO and OECD in its professional relations within the plant and encourages it to continue with its work to foster employees' freedom of association.*
- ⇒ *The NCP also notes the effect of the referral on Michelin's business relationship whose implication generated a certain amount of wariness. Other companies have either put on hold or cancelled their plans to set up shop in the industrial park.*
- ⇒ *The case referred to the NCP ultimately highlighted the liability of SIPCOT which was directly implicated in several of the claims made by the complainants to the NCP. This could serve as an example to encourage multinational enterprises and their local partners to comply with the OECD Guidelines for responsible business conduct. This would avoid such disputes and conflicts arising again with communities living around this type of industrial park.*

This appendix to the statement of 29 February 2016 reflects a consensus of the NCP, except for one trade union organisation.

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