
2023

Food & Beverage

Benchmark

INVESTOR BRIEF



Foreword

Emerging Human Rights Due Diligence legislation in the EU and globally means that investors need more and better data from investee companies on how they are addressing forced labour risks and promoting decent work, including fair pay throughout supply chains. These data not only provide confidence that they are meeting legal requirements, but also making progress towards the Sustainable Development Goals.

The latest KnowTheChain benchmark provides stark evidence that despite over 10 years of the UNGP framework, human rights due diligence and reporting is still nascent among most F&B sector companies accessed. This should serve as a call to action for investors to challenge existing practice and use their leverage to dis-incentivise business actions that lead to worker exploitation and abuse. This is what Achmea Investment Management does in its engagement with companies in the sector.



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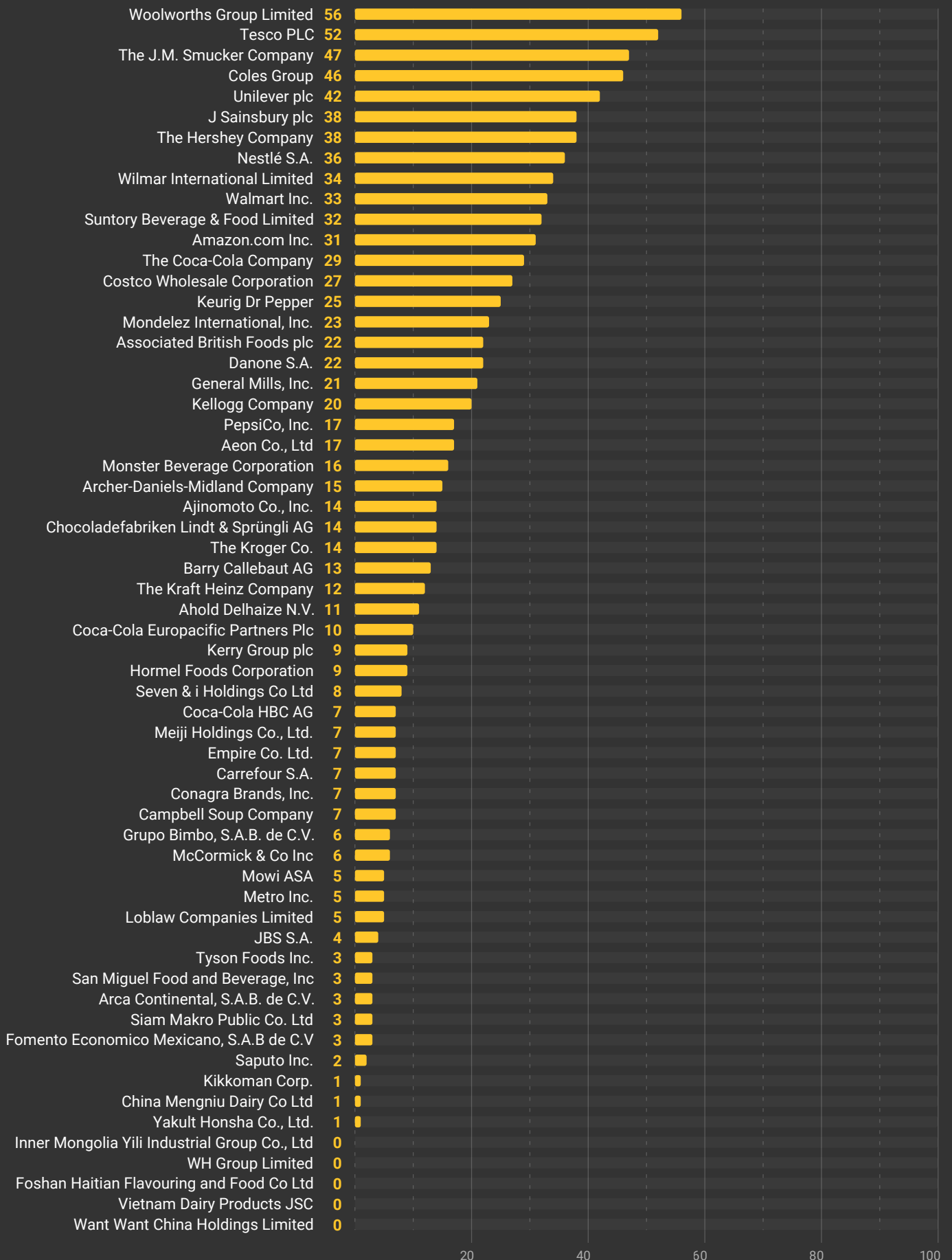
Companies in the food system are failing to implement effective human rights due diligence

KnowTheChain's 2023 food and beverage benchmark provides up-to-date analysis for investors regarding companies' readiness for the shifting regulatory environment – from human rights due diligence adumbrated in the European Corporate Sustainability Due Diligence [Directive](#), the [US Tariff Act](#) and [Canada's Modern Slavery Act](#) to value chain reporting under the EU's [Corporate Sustainability Reporting Directive](#) (CSRD) – and its implications for investor reporting in line with [Sustainable Finance Disclosure Regulation](#) (SFDR). This Investor Guide is complementary to the [benchmark report](#) and seeks to both highlight gaps and provide insights on corporate practice for public equity investors committed to tackling forced labour in their investments.

The 2023 KnowTheChain Food & Beverage Benchmark concludes that **despite pervasive risks** to human rights across the food value chain, companies in the sector **are failing to conduct and disclose even basic due diligence steps** to address these inherent supply chain risks. With an average score of just 16/100, findings highlight stagnating progress and a widening gap between [sector profit margins](#) and the working conditions of those who make them possible.

KnowTheChain's 2023 [revised methodology](#) prioritises policy and process implementation in assessing whether companies' actions to address forced labour risks in their supply chains result in meaningful improvements for workers. While most companies demonstrate policy commitments to address forced labour in their supply chains, they consistently overlook the power of preventative measures, including supporting freedom of association and access to effective grievances mechanisms. This, coupled with a lack of evidence on remedy outcomes for workers, indicates the existence of policies alone is insufficient to address forced labour risks. **This failure should serve as a call to action for investors to push companies to demonstrate impact and develop time-bound targets and KPIs on which to report progress**, lest they themselves fail to meet their due diligence obligations.

Food & Beverage Benchmark: 2023 ranking



Key findings

Companies fail on basic due diligence steps:

Despite widespread sourcing of commodities at high risk of forced labour, the majority of companies (55%) did not disclose details of forced labour risks identified in their supply chains.

Migrant workers face unchecked exploitation:

Migrant workers are highly susceptible to forced labour and are relied upon across the food value chain, yet most companies failed to disclose due diligence efforts to mitigate risks to this vulnerable cohort, scoring on average 13/100 on their responsible recruitment practices.

Complacency at the top: With the shift in KnowTheChain's methodology to emphasise outcomes and impact, companies benchmarked since 2016 including **Danone, Kellogg, Nestlé, PepsiCo** and **Unilever** see largest score drops, suggesting that companies which once led the sector have failed to keep up with evolving best practice.

Asian companies lag: Five companies provided no relevant information whatsoever on how they were addressing forced labour in their supply chains: **Foshan Haitian** (China's largest soy sauce manufacturer), **Inner Mongolia Yili Industrial Group** (Asia's largest dairy company), **Vietnam Dairy Products** (Vietnam's largest dairy company), **Want Want China Holdings Limited** and **WH Group Limited** (the world's largest pork producer).

Key drivers of forced labour in food & beverage supply chains

The food and beverage industry sits at the intersection of human, environmental and global security and health. A leading contributor to climate change, the world's agri-food systems generate 31% of human-caused GHG emissions. The agricultural supply chain is also disproportionately affected by climate change, absorbing the bulk of the financial losses, as much as US\$110 billion, wrought by disasters which have grown in frequency and intensity in the last 10 years.¹

Climate change impacts affect food supply, but the impacts are also shouldered by food and farm workers left vulnerable to forced labour through collapse of livelihoods. According to the International Labour Organisation (ILO), there are currently 27.6 million people in situations of forced labour in the world, and agriculture accounts for the fourth largest share of forced labour by sector globally.

Migrant farm workers, seafarers, factory workers, and those who distribute goods experience increasingly precarious conditions of work. The lack of adequate labour legislation or inconsistencies in its enforcement expose many workers to exploitative practices in both high- and low-income countries – as recent allegations of forced labour of blueberry growers in the US, migrant workers on Mexican and UK fruit farms, and Moroccan workers in the Spanish agricultural sector make plain.

Climate change also has ramifications for workers in the fishing sector as shifting fish migration and exhausted fish stocks mean vessels remain at sea longer and often fish illegally in other nations' territorial waters – just to bring in diminishing catches. A black hole in terms of human rights conditions, operators are using forced and bonded labour to crew their vessels to cut costs and grow margins.

Food insecurity and forced displacement are at unprecedented levels as inflation hits historic highs and this is reflected in energy and food prices. This has been brought about by the conflation of many events, including the Russian invasion of Ukraine, increased frequency and harm of natural disasters and economic volatility, including developing country currency depreciations against a strong dollar. A lack of access to formal employment, legal status and social protection means that human rights violations and forced labour among migrant workers can thrive.

Forced labour is defined by the ILO as "situations in which persons are coerced to work through the use of violence or intimidation, or by more subtle means such as manipulated debt, retention of identity papers or threats of denunciation to immigration authorities."

¹ Between 2008-2028, Asia was the most hard-hit region, with overall economic losses adding up to a staggering \$49 billion, followed by Africa at \$30 billion, and Latin America and Caribbean at \$29 billion.

Material forced labour risks along the food supply chain

Risks associated with lack of supply chain transparency and due diligence have become increasingly material. They are set to grow exponentially for laggard companies in the next five years. Since Q4 2022, the US Customs and Border Protection (CBP), under the Uyghur Forced Labor Prevention Act (UFLPA), has issued the inspection of 220 shipments of agriculture and prepared products worth over US\$15 million from China, 8% of which have been denied.

This creates operational and reputational risks for companies. In the aftermath of an import ban on Sime Darby plantation products – a supplier to **General Mills** and **Wilmar** – issued in 2020, shares in the company fell 3.5%, while Reuters reports that several buyers including **General Mills** sought to block Sime Darby and FGV Holdings from their supply chains, issuing global ‘no buy orders’ following the ban on products from the two palm oil producers.² **JBS** also reportedly banned two suppliers when they were added to Brazil’s “dirty list” for forced labour violations.

² In February 2023 the CBP lifted a year-long import ban on Sime Darby Plantation products, based on satisfactory evidence that it and its subsidiaries and joint ventures no longer produce palm oil and its derivative products using forced labour.

Legal risks increasing

Civil suits brought by victims against parent companies are also proliferating. **Barry Callebaut**, **Cargill Hershey**, **Mondelez** and **Nestle** spent a number of years embroiled in a recently-dismissed class action lawsuit brought by eight citizens of Mali who sought to hold the companies liable for child slavery on Ivory Coast cocoa farms. In March 2021, it was announced that seven workers were suing James Finlay tea estate at the All-Scotland Sheriff Personal Injury Court seeking UK£15,000 each in damages. In May, the US Department of Labor recovered US\$167,179 in back wages and liquidated damages for 43 workers employed by an Oregon agricultural grower and manufacturer that failed to pay overtime to the workers, some of whom worked as many as 75 hours per week.

Recruitment fee remediation to workers who have wrongly paid for a job can also amount to substantial financial liabilities for companies. **Woolworths Group** disclosed that approx. AU\$1 million (US\$674,250) repayments have been or are being made to 990 workers by suppliers in 2022. **Tesco** disclosed that through its work with the Issara Institute, US\$442,672 in identified recruitment fees had been reimbursed to workers by suppliers in Thailand and Malaysia. **Wilmar** disclosed an instance in 2022 in which its supplier, **Sime Darby Plantation Berhad**, repaid RM82.02 million (US\$17.78 million) in fees that had been paid by foreign/migrant workers and set up a committee to oversee the reimbursement process.



Benchmark analysis

The following sections outline KnowTheChain's key findings on company performance across three key areas:

- Human rights due diligence: Board accountability, supply chain tracing and risk assessment
- Responsible recruitment of migrant workers; and
- Remedy: Access to remedy and remedy outcomes

Human rights due diligence

STRONG MANAGEMENT LEADS TO STRONG ACCOUNTABILITY (BUT IS TOO OFTEN LACKING)

Board oversight of human rights risks, including those related to forced labour in supply chains, is an essential component for effective human rights due diligence. Making it a mandated concern of corporate board directors has been shown to correlate with improved human rights performance. KnowTheChain findings consistently bear this out: benchmarked companies with a robust management structure and board oversight of supply chain forced labour risks tended to disclose a stronger supplier code and capacity building efforts, risk assessment and recruitment fee prevention.

However, companies performed poorly in this year's benchmark in this respect, with only 38% disclosing board oversight of supply chain forced labour issues, and just 17% providing detail on how this works in practice. It is concerning that eight European companies disclosed no relevant information on board oversight of forced labour or human rights issues within the supply chain, including **Ahold Delhaize, Carrefour, Coca-Cola HBC, Kerry** and **Lindt & Sprüngli**.

SUPPLY CHAIN TRANSPARENCY REMAINS POOR

The tracing of – and transparency around – suppliers is an essential first step in the due diligence process, helping companies to identify and screen out business risks. It is also increasingly a market access requirement in jurisdictions like the U.S., under the Tariff Act, and soon the EU, with the incoming import ban.

Despite this, disclosure of supplier lists is poor with just 18% of companies disclosing some information on their first-tier suppliers, while only two companies (**Tesco** and **Sainsbury's**) disclose a full list including supplier names and addresses. Despite upcoming legislation in Canada, requiring companies to report on their supply chain structure and due diligence process, the Canadian companies assessed in the benchmark – **Loblaws, Metro, Empire** and **Saputo** – seem ill-prepared, with **none disclosing any relevant supplier information, or robust commodity tracing efforts in its supply chain**.

This absence of transparency indicates either a lack of willingness to be transparent about suppliers or a lack of knowledge about who and where they are. This indicates poor visibility over where risks may exist in supply chains.

COMPANIES FAIL TO IDENTIFY AND DISCLOSE RISKS DESPITE HIGH-RISK SOURCING

At the core of human rights due diligence is the process of understanding and identifying human rights risk present in business operations. These risks are inherent to every business, and heightened when operating in countries where there is weak rule of law, poor labour rights, conflict and economic turbulence. It is concerning then, that:

Despite **all companies sourcing at least one commodity at high risk of forced labour**, including palm oil, cocoa, coffee and soya, **only 63% of companies disclosed conducting a risk assessment that includes forced labour risks**.

The majority of companies (55%) did not disclose details of forced labour risks identified in their supply chains. **Hormel Foods, Saputo** and **Tyson Foods**, which source at least nine high-risk commodities collectively (cattle, corn, fish, palm oil, soy, sugarcane and peanuts), provided no information on their risk assessment process. Only 12% of companies clearly described how **stakeholders such as workers, unions and civil society organisations** were engaged as part of a human rights risk assessment process and provided detail on the sources used to identify human rights risks.

PepsiCo, which sources 13 high-risk commodities, identifies “forced labour” as a salient human rights risk to which several groups of “vulnerable workers” are at higher risk. However, it did not disclose information specific to its own supply chain, which would enable a proper evaluation of its due diligence process. The lack of disclosure is concerning as **PepsiCo** is linked to two reported forced labour allegations in its palm oil and pepper supply chains. Neither Malaysia nor Xinjiang, from which it allegedly sources those ingredients, are identified in this context. **Kerry**, which discloses sourcing six high-risk commodities, states that “human rights as a whole have not been identified as a principal risk for the group to date”.

An unwillingness to disclose risks and instances of forced labour signal weak monitoring processes, and a profound misunderstanding of the purpose of due diligence, which is designed to identify risks and impacts. An assessment indicating that no human rights risks exist likely highlights flawed or limited due diligence rather than the absence of those risks – and should be interrogated by investors. Lack of disclosure also prevents scrutiny by civil society and investors, a key lever in driving accountability on these issues.

At the other end of the spectrum, five companies (**Ajinomoto, Coles, Hershey, Unilever** and **Woolworths Group**) lead in this category with particularly strong risk assessment processes. They also demonstrated evidence of reporting on the outcomes of these processes by disclosing detail on the forced labour risks identified across the tiers of their supply chains.

Woolworths Group reported identifying extreme risks of forced labour in Malaysia and in relation to domestic migrant workers in China and Vietnam, increased risks in Thailand and Vietnam, and high forced labour risks in Bangladesh and India. As well as reporting on high-risk supply chain locations, it disclosed higher-risk commodities including Australian horticulture (berries, cherries, grapes, stone fruit, citrus, tomatoes, cucumber and brassica) and highlighted where risks are higher at raw material level – including seafood and “bulk dry commodities such as rice, cocoa, and dried fruit and nuts”.



Outsourced oversight: The pitfalls of reliance on social auditing

Continuous monitoring, evaluation and lesson learning relating to human rights and labour practices across the supply chain is vital to preventing and addressing abuse, and despite well-founded concerns regarding the efficacy of social auditing as a sole arbiter, it is still the most frequently-used mechanism to monitor supplier compliance. One reason for concern is the lack of universal standards, alongside a lack of information on specific audit methodology used by companies.

This concern is justified by KnowTheChain findings. Just half (53%) of companies disclose some detail on their audit methodology for supply chain labour issues, the most common standards for are SEDEX's SMETA, SA8000 and amfori BSCI. Company disclosure around the frequency of audits, the expertise of auditors, their duration, and the proportion of the supply chain audited to this standard is lacking. Poor disclosure on audit findings relating to forced labour – with only 18% of companies disclosing detail on the types of non-compliance discovered – further limits investor and stakeholder understanding of the efficacy of audits and remediation actions of the company.

Foshan Haitian Flavouring and Food, Grupo Bimbo, WH Group, Inner Mongolia Yili Industrial Group and Vietnam Dairy Products provide no information at all on how they are monitoring their supply chain for forced labour risks.

Hormel Foods states it does not routinely conduct independent, unannounced audits of suppliers, but may do so if “we have cause to believe they are not in compliance”. Furthermore, it states that suppliers should self-report any significant regulatory non-compliances or significant news events that may negatively affect public or governmental views of the company or jeopardise its legal compliance.

Only four companies (**ABF, Nestle, Tesco and Walmart**) disclose the use of worker-driven monitoring, which involves working with independent partners and is guided by workers’ rights and priorities. Partner organisations include the Fair Food Program (FFP), the Issara Institute and Care International.

Walmart, is a member of the FFP. Workers employed at FFP farms learn about their rights through multiple educational mechanisms, including interactive sessions led by the Coalition of Immokalee Workers’ Worker Education Committee, whose members are former and current farmworkers themselves and are paid for participation. The training equips workers to identify and safely report abuses and dangers in the workplace. The FFP provides farm workers with access to a complaint mechanism, which includes investigation and resolution by the Fair Food Standard Council. Where possible, resolution includes an educational component, so all farm workers can see that complaints are resolved without retaliation.



Responsible recruitment of migrant workers

COMPANIES IDENTIFY MIGRANT WORKER RISKS BUT FAIL TO ACT

The charging of recruitment-related fees to migrant and seasonal workers in order to secure a job is endemic in food supply chains, putting workers at increased risk of **debt bondage**. This practice also poses operational and reputational risks for companies who rely heavily on seasonal workers to meet demand.³ In the first six months of 2023 the Business & Human Rights Resource Centre tracked at least 47 alleged abuses of migrant workers in agri-food supply chains. The sector accounts for over one-third of all abuse allegations related to migrant workers – the majority linked to farms in Europe and the US.

Despite the widespread charging of fees, only 28% of this year's benchmarked companies disclosed a policy prohibiting worker-paid recruitment fees, while only 10% of companies disclosed remediation of worker-paid fees in practice. This highlights an ongoing implementation gap and calls into question the efficacy of top-down policies and due diligence processes in general.

The findings bear this out. While 38% of benchmarked companies identified migrant workers as at risk of forced labour in their supply chains, very few companies demonstrated that they are actively working to mitigate these risks in practice, e.g. by disclosing steps taken to trace labour agencies used by their suppliers (12%), or the number of migrant workers present in the first tier (7%).

Remedy

GAP BETWEEN POLICY AND PRACTICE REMAINS

Access to effective remedy is a core component of the UN Guiding Principles on Business and Human Rights (UNGPs). The position adopted by the European Parliament on the EU Corporate Sustainability Due Diligence Directive also codifies that the design and operation of grievance mechanisms must be informed by workers, their representatives and those most vulnerable to harm.

While 72% of companies disclose a grievance mechanism which is open to supply chain workers, only 11 companies (18%) disclose data about the practical operation of the mechanism, such as the number of grievances filed, addressed, and resolved. Rather than indicating an absence of human rights issues, the lack of disclosure signals that categorisation and disclosure of data is still the exception, calling into question the legitimacy of grievance mechanisms. Only one company, **Walmart**, disclosed that workers are included in the design and implementation of a grievance mechanism, which is a result of its FFP membership. However, this information pertains to one supply chain context only.

Legitimate grievance mechanisms are vital for the effective functioning of supply chain operations. Failing to establish and integrate these mechanisms can result in workers turning to litigation or public protest to air and resolve their grievances, which can result in a company losing its social licence to operate.

RECRUITMENT-RELATED FEES

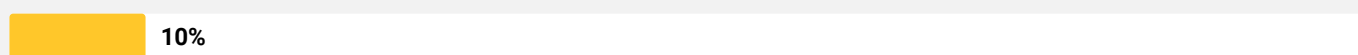
Policy prohibiting recruitment fees in supply chains



Disclosed due diligence steps taken to prevent the charging of fees to supply chain workers



Remediation of fees to supply chain workers



³ KnowTheChain (2023), "2023 Food & Beverage Benchmark Report."

RED FLAG:

WH Group stated that during the reporting period, it “had no records of violations involving employees’ rights and interests”, but does not provide information on: 1) how that data was obtained and whether workers have access to genuine grievance mechanisms to report forced labour rights risks; 2) whether there are records of labour rights violations regarding workers in the supply chain, rather than employees.

Despite the prevalence of human rights harms across supply chains in this sector, the proportion of companies disclosing a detailed process for the provision of remedy and examples of remedy outcomes for workers in practice is alarmingly low. Only a quarter (27%) of companies disclosed relevant information on their process for responding to forced labour-related complaints or reported policy violations. Just five companies (**Tesco, Hershey, Smucker, Wilmar, and Woolworths Group**) disclosed relevant details of remedy outcomes for supply chain workers, relating to the reimbursement of recruitment and other employment-related fees to workers, the return of confiscated passports and the repayment of unpaid wages.

The lack of disclosure of remedy outcomes for workers does not indicate an absence of labour rights violations – particularly considering the sector context. Rather, KnowTheChain’s findings suggest that companies are still operating a top-down and tick box model of due diligence, focused on correcting non-compliances rather than mitigating risks and remediating harms where and when they occur. As human rights due diligence legislation across the globe, as well as regulation like the US Tariff Act, increasingly enforce the repayment of recruitment fees, momentum is gathering for more substantial and more comprehensive remedy in the forced labour arena.



Conclusion

The forced labour risks and impacts overlooked by most companies in the sector require urgent and immediate scrutiny from investors. For investors, a company's failure to adequately understand and disclose information about its supply chain labour practices means they have only partial visibility into that company's salient risks and impacts. It also means that investors themselves cannot meet their

own obligations for due diligence and reporting under current and upcoming legislation and international standards – exposing them to legal and compliance risk and the reputational risk of white-washing. On the other hand, corporate actions to better protect worker rights can reduce investment risks and improve sustainable financial returns, while also positively contributing to the Sustainable Development Goals.

Recommendations for active managers

More action in active ownership

Revise internal due diligence procedures to ensure appropriate human rights risk management in the changing regulatory environment and ensure deep-dive research for high risk areas identified, and where salient and severe abuse appears likely.

Adopt a stewardship policy and voting guidelines which specifically call for respect for labour rights, as defined by ILO conventions with no tolerance of forced labour. Engagement priorities should include expectations on improved disclosure and effective due diligence, particularly related to workers voice, risk assessments, risk mitigation plans, and access to remedy and remedy outcomes for workers. See a list of engagement questions [here](#).

Commit to escalation for persistent non-improvement. This would include: writing to the board, voting against directors, raising shareholder resolutions, leading to divestment after persistent non-engagement or lack of improvement within a reasonable time period.

Maximise leverage by joining investor coalitions and collaborative engagements on the topic of forced labour like those of the [ICCR/KTC](#), CCLA's "[Find it, Fix it, Prevent it](#)", Rathbones' "[Votes against Slavery](#)" and the [FAST Initiative](#).

Over-reliance on ESG data providers can lead to dangerous gaps in knowledge and expertise on labour rights risks and impacts. Insist their methodologies reflect international standards of the UNGPs and the enhanced OECD Guidelines, and use leverage to push for change where social indicators are underweighted. Incorporate alternative data sources on human and labour rights like [KnowTheChain](#), [GRI](#), [WBA-CHRB](#) and [others](#) into stewardship policies.

Publicly support a level playing field

Ensure all lobby and influence is consistent with the international standards of the UNGPs and revised OECD Guidelines. Provide active and public support for mandatory human rights and environmental due diligence and increased sustainability disclosure regulations, and alignment of frameworks.

Take part in public consultations on company reporting requirements, such as the International Sustainability Standards Board (ISSB), [two year work plan](#) to ensure investor support for the prioritisation of human rights within sustainability reporting standards.

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