FORCED LABOR RISKS IN FOOD & BEVERAGE SUPPLY CHAINS:

WHAT RISKS ARE INVESTORS EXPOSED TO AND HOW CAN THEY BE ADDRESSED?

The Covid-19 pandemic brings into sharp focus the importance of food supply chains. It also exposes and exacerbates pre-existing power inequalities and exploitative working conditions in the food and beverage sector. Deemed "essential" around the world, many food workers are reportedly forced to work in unsafe conditions without social distancing. They are also faced with threats of termination if they call in sick, non-payment of wages, excessive working hours, and violent attacks when they protest.[1]

WHAT IS FORCED LABOR?

Forced labour can be understood as work that is performed involuntarily and under the menace of any penalty. It refers to 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.

International Labour Organization[2]

Risk Exposure—Deep Dive Into the Largest Global Companies in the Sector

In its third benchmark on the sector, KnowTheChain finds that most of the 43 largest global food and beverage companies fail to address forced labor risks in their supply chains (the average score is 28/100, with a score range from 0/100 to 65/100):

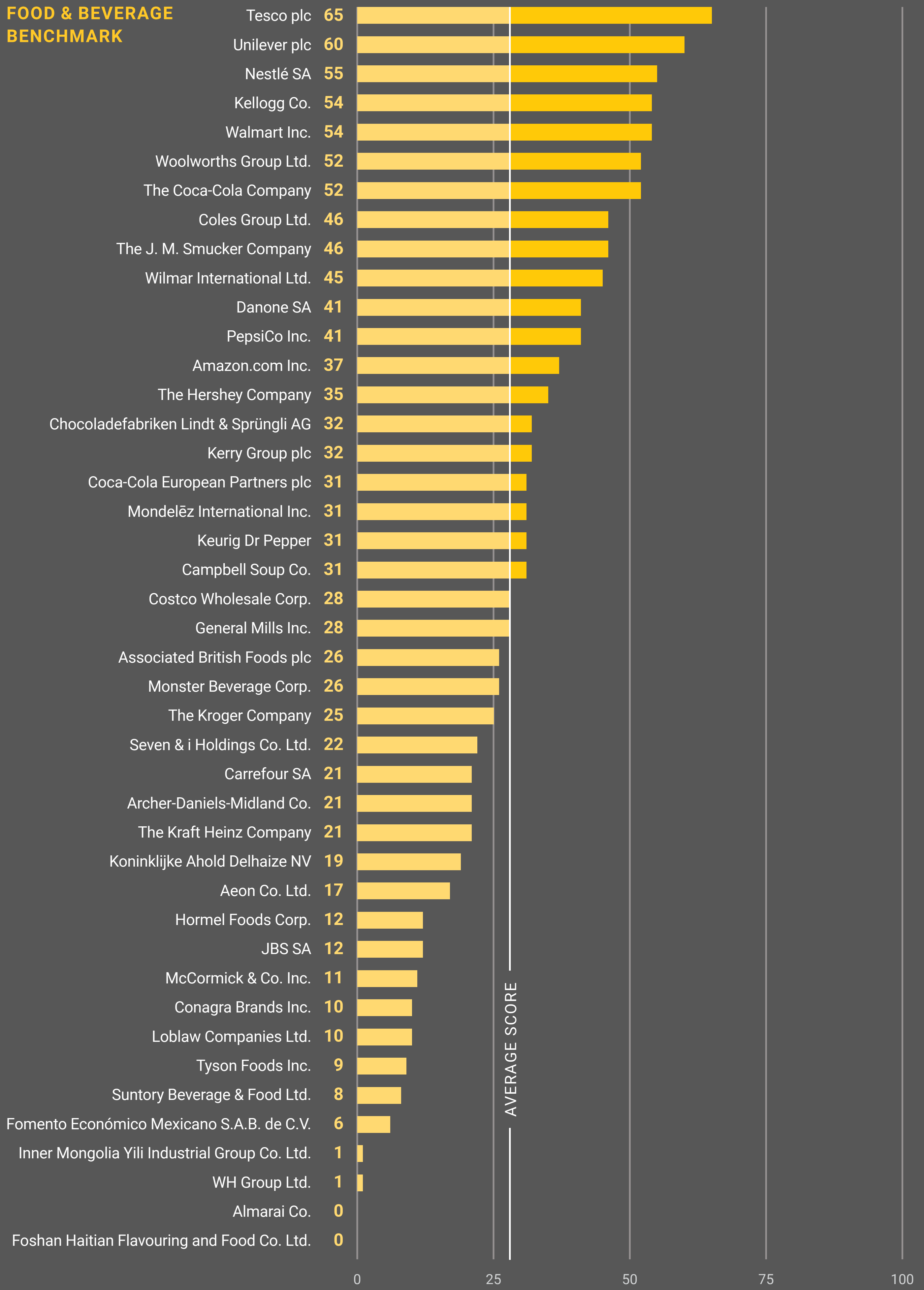
Companies score lowest on the themes of **Purchasing Practices** (17/100) and **Worker Voice** (16/100). This is a dangerous pairing, particularly as suppliers may be driven to cut corners and workers are left without a means of collectively voicing their concerns. Low scores in these critical areas indicate that companies are ill-equipped to protect workers during the Covid-19 crisis and to contribute to a just recovery.

As meat companies come under the spotlight across the world for poor working conditions and spreading the Covid-19 virus,[3] meat industry giants **WH Group** (1/100), **Tyson** (9/100), **Hormel** (12/100), and **JBS** (12/100) show little effort to address forced labor risks in their supply chains.

Tesco (65/100) leads the benchmark, overtaking **Unilever** (60/100). **Tesco** reports implementing responsible purchasing practices such as prompt payment and integration of labor performance into its tender process with suppliers. It is the highest-scoring company on the theme of Worker Voice, thanks to working with unions and NGOs across its supply chains on worker education, ensuring the right to freedom of association, and improving working conditions and wages.

JBS' and **Tyson**'s scores have continually decreased since measurement started in 2016, failing to demonstrate progress. A shareholder resolution at Tyson on human rights due diligence gained the support of 23% of independent shareholders in 2019, which increased to 60% in February 2020 when the proposal was supported by proxy advisors ISS and Glass Lewis.[4] The resolution has been refiled for 2021,[5] and support may further increase, as the Covid-19 pandemic brings the S in ESG to the forefront of investor attention.[6]

FOOD & BEVERAGE BENCHMARK



Risk Exposure—The Sector at Large: Forced Labor Risks Are Omnipresent in Food & Beverage Supply Chains

11% of global forced labor cases take place in agriculture and fishing[7]

20+ commodities classified at risk of forced labor, including staples such as wheat, rice, and corn[8]

US$575K penalty faced by an importer of stevia (a sweetener used in health foods and soft drinks) for importing goods made with forced labor into the US[9]

A quarter of the world's population is employed in agriculture.[10] Workers who harvest, pick, process, and pack food and beverage products are subjected to **highly exploitative and abusive working conditions**.[11]

Precarious Employment Conditions. Agricultural work is seasonal, and the work is frequently informal or temporary, which means that workers are often excluded from legal protection.[12]

Poor Working and Living Conditions. Migrant workers at a coffee farm in Brazil were found to be working 17-hour shifts, often without the mandatory day off and living in "unhygienic [accommodations] lacking proper toilets."[13]

Low Wages. For example, in Italy, it is reported that "the going rate is €3.50 [US$4.16] to fill a chest with 300kg of tomatoes."[14] During the pandemic, 25,000 tea workers in India allegedly faced hardship and hunger due to unpaid wages.[15] The pandemic has led to a significant increase in food prices in the US,[16] and it increases the risk of worldwide price hikes, which would disproportionately hit the poorest, including farmworkers.[17]

In Summer 2018, 18-year-old Yudha was recruited for a fishing job by a labor broker on Facebook. He was promised US$450 per month plus bonuses on a two-year contract. Only after he left his village in Indonesia did he find out that his salary would be only US$300 and that he was required to pay a US$900 "security deposit" and a US$750 administration fee. Yudha said his passport was confiscated once aboard the vessel and that shifts lasted for 18 hours a day: "There was no break, except for eating and only five minutes," said Yudha … "Sometimes, if a tuna came off a hook and the captain was angry at the missed catch, the crew would not eat at all." While Yudha, unlike many of his colleagues, did not pay with this life, his pay for ten months at sea amounted to only US$638.[18]

Regulatory Risks: Are Companies Prepared?

The US Customs and Border Protection agency includes various commodities such as palm oil, peeled garlic, and tea on its list of products that, when made by companies it has identified as using forced labor, will be stopped from being imported into the US.[19] In August 2020, the agency issued an order to detain seafood[20] and levied a penalty of US$575,000 on a stevia importer.[21] Both actions were related to products allegedly made with forced labor.

The European Commissioner for Justice has committed to introducing mandatory human rights due diligence legislation in 2021.[22] While European companies score the highest on average in the benchmark, with an average score of 38/100, the majority nevertheless appear ill-prepared to avoid elevated litigation risk.

Cases during the pandemic have demonstrated the financial implications of exploiting supply chain workers. From June to July 2020, the UK fast fashion brand Boohoo saw its share price drop by almost 50% following allegations that workers at a UK supplier were being paid as little as £3.50 (US$4.65) per hour and that workers sick with Covid-19 were told to continue coming to work.[23] On the flipside, US firms with strong ESG performance outperformed their peers both in the years ahead of and during the crisis.[24] The same can be observed at the global level: The Financial Times reports that "BlackRock calculates that 88 percent of 'a globally-representative selection' of sustainable indices outperformed their non-sustainable peers" over the first four months of 2020. The paper highlights better supply chain management as one reason behind the success and resilience of ESG funds.[25]

How Can Investors Address Forced Labor Risks in Their Portfolios?

To reach the United Nations Sustainable Development Goals Target 8.7 and eradicate forced labor by 2030, the number of people in forced labor must be reduced by around 10,000 individuals per day.[26] In fact, the number of people in forced labor is likely increasing during the pandemic,[27] as more people are in vulnerable conditions at a time when monitoring efforts are impeded. Institutional investors have a key role to play in ensuring decent working conditions during the crisis and in contributing to a just recovery, for example through:

EXAMPLE OF INVESTOR ACTION

The US energy drinks company **Monster Beverage** increased its score from 0/100 in 2016 to 26/100 in 2020, following shareholder action in 2018.[28] The company has since published information on its supply chain forced labor policies and disclosed internal and board-level oversight and training on those policies.

Selection and/or Monitoring Processes of Investment Managers. Asset owners may enquire as to how potential or current investment managers assess and address forced labor risks in the proposed/selected funds.

Voting. Investors may ask questions at annual general meetings and exercise voting rights (e.g., by filing or supporting human rights-related resolutions). Investors relying on proxy advisory firms may wish to engage these firms to understand if and how they take forced labor risks into consideration.

Engagement. As part of individual or collaborative engagement dialogues, investors may wish to use the questions below to probe how investee companies address forced labor risks and press for better practices.

ENGAGEMENT QUESTIONS FOR INVESTORS	WHY IS IT IMPORTANT?
Governance (incl. preparedness for regulatory risk) Who at the board level is responsible for overseeing supply chain policies covering forced labor? What has been discussed at the board level, and what are the outcomes? What steps is the company taking to understand and adequately respond to increasing regulatory risk?	Only 26% of companies disclose details on how their board oversees forced labor supply chain policies. This is in spite of the UK Modern Slavery Act requiring many large global companies to produce an annual board-approved modern slavery statement. Similar legislations are in place and/or being developed in other jurisdictions; such legislations increasingly not only mandate that companies disclose their activities, but that they also undertake human rights due diligence.[29]
Risk Assessment and Due Diligence How does the company assess and address forced labor risks in its supply chains, including risks related to migrant and women workers? What risks has the company identified?	Despite high risks, only 42% of companies provide details on how they assess forced labor risks in their supply chains, and only 19% disclose risks identified in different tiers.
Purchasing Practices What responsible purchasing practices, such as prompt payment, has the company adopted? How does it incentivize good labor practices (e.g., through price premiums)?	With an average score of only 17/100, Purchasing Practices is the second-lowest theme in the benchmark. Practices like prompt supplier payment are of heightened importance during the Covid-19 pandemic.
Worker Voice How does the company support freedom of association in its supply chains and address increased suppression of this right during the pandemic? How does the company involve workers in the design, implementation, and monitoring of its supply chain labor rights programs?	Worker Voice is the lowest-scoring theme in the benchmark. Only two out of 43 companies were able to report examples of how they improved freedom of association for supply chain workers, and only one company discloses having an enforceable labor rights agreement with worker organizations in place.
Remedy What examples can the company give of remedy provided to workers (such as repayment of recruitment fees or wages)?	KnowTheChain identified specific allegations regarding 13 companies and forced labor risks across sourcing countries and commodities. Yet only three of the 43 benchmarked companies (7%) disclose remedy outcomes for supply chain workers.

Tools for Investors[30]

KnowTheChain provides a range of tools to support investors in their active ownership and investment decision-making practices:

KNOWTHECHAIN INVESTOR STATEMENT

Developed with co-sponsor the Investor Alliance for Human Rights and with support from the Principles for Responsible Investment and others, this statement allows investors to demonstrate public support for Sustainable Development Goal 8.7.

It also calls on companies to address forced labor risks. As such, it can be used as an engagement tool, reinforcing the collective ask, which to date is supported by more than

160 global investors with US$6 trillion assets under management.

COMPANY SCORECARDS

A company scorecard for each food and beverage company assessed in the benchmark explains how each company performs compared to its peers, gives recognition for better practices, and points to company-specific suggestions for improvement.

DATABASE OF GOOD PRACTICES

KnowTheChain's 2019 Cross-Sector Findings Report highlights good practice examples for each indicator of the KnowTheChain benchmark methodology from three different sectors, including the food and beverage sector. KnowTheChain's 2020 Food and Beverage Benchmark Report highlights good practice examples for each of the seven benchmark themes. Translations of the benchmark methodology, as well as other resources, are available in seven languages.

Endnotes

1 Business & Human Rights Resource Centre, "COVID-19: Food and beverage supply chain workers." Accessed 29 July 2020.

2 International Labour Organization, "What is forced labour, modern slavery, and human trafficking." Accessed 17 August 2020.

3 The Guardian (22 June 2020), "Poor conditions in meat plants fuel Covid-19 outbreaks, say unions." See also, COVID-19 and Food and Beverage Supply Chains: Impacts on Workers and Company Responses in KnowTheChain (October 2020), "2020 Food and Beverage Benchmark Report."

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6 Bloomberg (26 March 2020), "Coronavirus Is Shifting the Focus of Leading ESG Investors."

7 International Labour Organization (2017), "Global Estimates of Modern Slavery," p. 11.

8 US Department of Labor (2018), "U.S. Department of Labor's 2018 List of Goods Produced by Child Labor or Forced Labor," pp. 11-14.

9 US Customs and Border Protection (13 August 2020), "CBP Collects $575,000 from Pure Circle U.S.A. for Stevia Imports Made with Forced Labor."

10 Estimation from The World Bank (June 2020), "Employment in agriculture (% of total employment) (modeled ILO estimate)."

11 For more detail, see KnowTheChain (October 2020), "2020 Food and Beverage Benchmark Report."

12 "Agriculture." Verité, "Responsible Sourcing Tool." Accessed 29 July 2020.

13 Repórter Brasil (3 May 2019), "Slave labor found at second Starbucks-certified Brazilian coffee farm."

14 The Guardian (20 June 2019), "Are your tinned tomatoes picked by slave labour?"

15 Business & Human Rights Resource Centre, "India: Thousands of tea workers protest over unpaid wages during COVID-19 lockdown." Accessed 19 August 2020.

16 US Department of Agriculture (28 May 2020), "Another Look at Availability and Prices of Food Amid the COVID-19 Pandemic."

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19 Withhold Release Orders active as of 19 August 2020. US Customs and Border Protection, "Withhold Release Orders and Findings." Accessed 19 August 2020.

20 US Customs and Border Protection (18 August 2020), "CBP Issues Detention Order on Seafood Harvested with Forced Labor."

21 US Customs and Border Protection (13 August 2020), "CBP Collects $575,000 from Pure Circle U.S.A. for Stevia Imports Made with Forced Labor."

22 Business & Human Rights Resource Centre, "EU Commissioner for Justice commits to legislation on mandatory due diligence for companies." Accessed 12 August 2020.

23 Labour Behind the Label (June 2020), "Boohoo & COVID-19: The people behind the profits," pp. 3 and 7. See also Forbes (9 July 2020), "Allegations of Worker Exploitation Strike a Blow to the Fortune of Boohoo Fashion Line's Founder."

24 Just Capital (20 August 2020), "Chart of the Week: JUST Companies Continue to Outperform Their Competition."

25 Financial Times (8 July 2020), "Why ESG investing makes fund managers more money."

26 Fast Initiative (Sep 2019), "A Blueprint for Mobilizing Finance Against Slavery and Trafficking," pp. 1-2

27 International Labour Organization (May 2020), "COVID-19 impact on child labour and forced labour: The response of the IPEC+ Flagship Programme," p. 4. United Nations University (2 April 2020), "The Impact of COVID-19 on Modern Slavery."

28 As You Sow (4 June 2019), "Monster Beverage Corporation — A Case Study in Shifting from Laggard to Leader on Slavery in Supply Chain."

29 Reporting legislation on modern slavery has also been enacted in California and Australia, and legislation for a similar bill in the US has been introduced in the Senate in 2020. France and the Netherlands have implemented mandatory due diligence legislation, and the EU has committed to introducing such legislation in 2021. Time (2 December 2019), "Slavery Still Exists All Around the World. Here's How Some Countries Are Trying to Change That." Business & Human Rights Resource Centre, "Mandatory Due Diligence." Accessed 27 August 2020. The National Law Review (24 July 2020), "Senator Hawley Introduces Slave-Free Business Certification Act."

30 For additional tools on how investors can exercise their responsibilities regarding human rights, see Investor Alliance for Human Rights (May 2020), "Investor Toolkit on Human Rights." OECD (2017), "Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises."