

FORCED LABOUR AND SLAVERY CASES IN THE THAI SHRIMP INDUSTRY

**Sustainalytics Special Alert
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**Laurence Loubières, Senior Analyst
Jennifer Penikett, Associate Analyst
Larysa Metanchuk, Analyst
Research Products
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JUNE 16, 2014 | FOOD PRODUCERS AND RETAILERS



Category 4:

S.2.3 Social Supply Chain

Downgraded from Category 0 to Category 4

Charoen Pokphand Foods Public Co. Ltd. – Forced Labour in Shrimp Suppliers

Ticker Symbol	SET:CPF
Main Sedol	B4V9B00
Main ISIN	TH0101A10Z01
Sector	Consumer Staples
Peer Group	Food Beverage & Tobacco
Country	Thailand



Category 3:

S.2.3 Social Supply Chain

Downgraded to Category 3

	Wm. Morrison Supermarkets plc	Carrefour SA	Costco Wholesale Corp.	Tesco Plc
Ticker Symbol	LSE:MRW	ENXTPA:CA	NasdaqGS:COST	LSE:TSCO
Main Sedol	0604316	5641567	4372697	0884709
Main ISIN	GB0006043169	FR0000120172	US22160K1051	GB0008847096
Sector	Consumer Staples	Consumer Staples	Consumer Staples	Consumer Staples
Peer Group	Food & Staples Retailing	Food & Staples Retailing	Food & Staples Retailing	Food & Staples Retailing
Country	United Kingdom	France	United States	United Kingdom

A number of companies in the food industry have been downgraded for the Social Supply Chain indicator (S.2.3) as a consequence of increased impact on stakeholders and business risks associated with allegations of human trafficking and forced labour within the Thai shrimp industry. The most significant change occurred for Charoen Pokphand Foods Public Co. Ltd, which was downgraded to Category 4, as it directly sources from fishing boats that are implicated in the human rights abuses. The ratings for Wm. Morrison Supermarkets Plc, Carrefour SA, Costco Wholesale Corporation and Tesco Plc, were also downgraded to Category 3. Wal-Mart Stores maintained its previous Category 4 assessment. The downgrades were based on the severity of the accusations, the companies' level of influence over the supplier, the companies' prior knowledge of human rights abuses, the limited preparedness of the companies involved, the short-term reputational and operational risks, and the potential financial implications of the incident. See attached appendices for more details of the rating changes.

Overview

On June 10, 2014, U.K. newspaper *The Guardian* published the results of a six-month long investigation in an article and an associated video¹ evidencing the use of forced labour in the supply chain of Thailand's shrimp industry. *The*

Guardian highlighted the implication of Thai food company **Charoen Pokphand Foods Public Co. Ltd.** (CP Foods), a listed subsidiary of **Charoen Pokphand Group**, which is a major Thai conglomerate with divisions in agribusiness and food, retail and telecommunications. The group's revenues in 2013 totalled USD 46.5 billion, of which USD 12 billion (26%) was from CP Foods' 2013 revenues generated by livestock and aquaculture. CP Foods is the largest shrimp aquaculture company in the world, supplying shrimp products to large food retailers around the globe. Major retailers such as **Wal-Mart Stores, Costco, Tesco, Carrefour**, and **Wm. Morrison** reportedly sourced shrimp from CP Foods.

The slavery cases reportedly happened on boats producing fishmeal used as food for farmed shrimp. According to the report, CP Foods buys fishmeal from suppliers that "own, operate or buy from fishing boats" that employ slave labour. The article reported how men are routinely trafficked and sold, held against their will on fishing boats, sold again and transferred from boat to boat. The workers, thus, remain at sea for several years, are sometimes drugged and submitted to 20-hour work shifts without pay. The worst cases of abuse involve "beatings, torture and execution-like killings".² These men are typically migrants from poorer neighbouring countries such as Burma, who are lured by labour brokers into the promise of jobs in Thailand. They often have to pay a fee to get a job and/or are forced to work without wages to repay the debt.

A Systemic Issue

The use of slave labour was triggered by the rapid growth of the shrimp aquaculture industry, which led to labour shortages in Thailand. The Sustainable Trade Initiative (IDH) estimates that 90% of the industry's workforce are migrant labourers who are potentially more vulnerable than local labourers. Human trafficking and slavery in the shrimp industry have been known for a long time, although abuses are hard to detect as these activities often occur in international waters, far from any monitoring or oversight. Abuses reportedly occur throughout the supply chain of the Thai fishing industry, implicating labour traders, middlemen, trawlers, cargo boats, fishmeal factories and shrimp factories. These abuses occur in the context of widespread corruption and collusion among boat owners, companies, police officials, and government officials benefitting from the wide-scale trafficking.

Abuses in the Thai fish and shrimp industry have repeatedly been criticised by NGOs and international agencies. In a 2009 survey by the UN inter-agency project on human trafficking (UNIAP), 59% of migrants who had been trafficked onto Thai fishing boats said they had seen the murder of a fellow worker. More recently, NGO reports by the Environmental Justice Foundation³ and World Vision International⁴ also documented the issue. The International Labour Organization (ILO) released in September 2013 specific guidelines about the issue of forced labour in Thai fisheries.⁵

Inadequate Government Response

The Thai government's efforts to enforce anti-trafficking laws have been limited. It continues to allow labourers to remain unregistered and, therefore, unprotected against labour brokers, boat captains and boat owners. With labour shortages, lax labour laws and enforcement, and increasing demand from the western world for seafood, the industry lends itself to extreme human rights abuses.

Sustainability Impact

Sustainalytics considers the impact of the controversy to be high for the following reasons:

- The abuses reported involve the worst forms of human rights abuses and impact thousands of trafficked workers, resulting in a significant number of deaths, suicides, and physical and psychological injuries.
- The misconduct has gone on for many years despite criticism by numerous credible organisations.
- Although the food industry is highly exposed to forced labour issues, it is rare that companies and their suppliers are directly associated with the practices. The allegations against CP Foods are, therefore, above industry

average as the evidence is considered irrefutable. The number of CP Foods' suppliers that use forced labour is unknown, but evidence points to an endemic problem.

Risks

Sustainalytics assesses the risks faced by companies implicated in this controversy as follows:

- **Reputational risks:** CP Foods and the retailers cited by the report face high reputational risks. *The Guardian* report revived criticism of the shrimp industry and prompted calls by NGOs for consumers to boycott CP Foods' products. Additionally, the credibility of retailers' supply chain policies and management systems is being questioned as reports suggest that the industry was aware of conditions in the Thai fishing industry but failed to act. Retailers face renewed criticism of profiting from human rights abuses that they fail to intercept. Some environmental and human rights organisations⁶ are encouraging consumers to question retailers and stop purchasing shrimp and other imported seafood if supermarkets cannot guarantee that goods have been sourced ethically.⁷
- **Financial risks:** Carrefour released a statement that it would no longer source shrimp from CP Foods and simultaneously suspended its direct or indirect purchases.⁸ While Carrefour's withdrawal may not significantly affect CP Foods' revenue stream, if other retailers follow suit, CP Foods could face increased market risks as it may be unable to find retailers willing to sell its products. This could lead to a drop in shrimp prices, threatening CP's core business. Other major customers have already called on CP Foods to strengthen its supply chain monitoring.
- **Regulatory risks:** The U.S., and U.K., as well as the EU and ILO are all in the process of strengthening human trafficking laws and regulation. Companies will likely be required to report on actions to eradicate forced labour in their operations and in their supply chains. Companies that are not able to provide verification results, risk assessments and remediation plans, might have difficulty selling their products in certain regions (see Appendix 1 for an overview of regulatory changes).

Management

The overall level of preparedness in managing labour abuses in the supply chain is low for CP Foods and weak across the food retail industry, particularly when the abuses occur beyond the first-tier supplier.

- At the industry level, supply chain monitoring tends to focus on direct Tier 1 suppliers, with limited oversight further down the supply chain. Companies have the most influence over their direct suppliers, and as such, concentrate their monitoring operations at this level.
- Audit schemes commonly used in the industry have, in many cases, proven inadequate to detect the major issues at stake, often because their scope fails to address the systemic causes of abuses, do not apply to lower tier suppliers, or because the circumstances in which the audits take place do not reflect actual practices.
- CP Foods has stated its awareness of slavery as a common practice within Thailand's fishing industry. It demonstrated awareness by signing the declaration of intent to "Stop Illegal Labour in the Fishery Industrial Chain," signed by the Thai Fishery Producers Coalition, and makes reference in its corporate social responsibility report to the ILO-based "Good Labour Practices Program for Thailand's fishing sector."⁹
- Despite acknowledging the occurrence of slave labour in the Thai fishing industry, CP Foods has not disclosed the relevant policies and programmes to mitigate forced labour in its supply chain. Contrary to best practice, it has neither disclosed a policy on human rights, nor procedures for monitoring its suppliers for human rights abuses.
- The company noted that it has an audit programme that applies to suppliers. However, the results of this programme are not publicly available, hence, the effectiveness, scope and reach of the programme cannot be assessed.

- In its response to *The Guardian* article, CP Foods stated that 72% of its suppliers were certified but did not specify the standard. It also acknowledged that a part of its supply chain may be involved in forced labour.¹⁰
- The company committed to audit its operations, including an independent spot check coordinated system to ensure a slavery-free food chain. It aims to buy fishmeal only from certified suppliers by 2015.
- The retailers' level of preparedness is also weak in that supply chain management programmes only apply to Tier 1 suppliers (see Appendix 2 for more details). Carrefour noted that while it conducted an audit of CP Foods, it did not check CP's suppliers.¹¹

Outlook

Sustainalytics' outlook for the ratings of all companies implicated is assessed as Neutral due to the following reasons:

- Thailand's involvement in human trafficking and forced labour is not expected to improve in the short to medium term, resulting in continued risk for aquaculture producers and food retailers that are sourcing product from this region. As the largest shrimp aquaculture producer in the world, CP Foods will continue to be exposed to potential human rights abuses in the industry.
- CP Foods' failure to disclose standards to mitigate labour risks continues to raise concerns that it is ill-prepared to manage social issues in its supply chain.
- Company-specific programmes among food retailers fail to adequately address the human rights abuses throughout their supply chains.
- The labour situation in the shrimp industry is, nonetheless, unlikely to deteriorate further. With increased scrutiny from the international community and the move by all companies involved to strengthen supply chain management programmes, there is likely to be expanded oversight and monitoring of the labour abuses off Thailand's coast.

Investor Action

Responsible investors can play a key role in addressing the human rights violations in the food industry supply chain through the following actions:

- Require CP Foods to disclose relevant policies and programmes for supply chain management. Specific to *The Guardian* report, require the company to disclose a clear action plan with time-bound goals and report on progress over time.
- Require food producers and retailers to report on supply chain risks and initiatives especially in sensitive countries.
- Encourage retailers to publicly disclose the location of their suppliers, particularly for high-risk commodities.
- Engage with food producers and retailers on the content and scope of their supply chain and human rights policies and programmes, ensuring that there is external monitoring and auditing beyond the Tier 1 supplier.
- Stimulate the use of certification schemes so that raw materials are produced in a sustainable manner.
- Engage with certification organisations to further strengthen the effectiveness and credibility of audits and related reports. Support stricter regulatory standards to prevent and eliminate forced labour and other unacceptable forms of work from occurring within supply chains.

Appendix 1

Overview of Regulatory Changes

Country / Jurisdiction	Initiative / Proposed Initiative	Date Passed / Filed / Expected	Summary
U.S.	California Transparency in Supply Chains Act (SB 657)	Took effect 1 January 2012	<ul style="list-style-type: none"> • Applies to all manufacturers and retailers doing business in California. • Requires companies to report on specific actions taken to eradicate slavery and human trafficking in their supply chains.
U.S.	The Business Supply Chain Transparency on Trafficking and Slavery Act of 2014 (H.R.4842)	Introduced 11 June 2014	<ul style="list-style-type: none"> • Applies to major U.S. companies (those with over USD 100 million in global gross receipts). • Requires companies to publicly disclose measures they are taking to prevent forced labour, child labour, slave labour and human trafficking in their supply chains.
U.K.	Modern Slavery Bill	Introduced 10 June 2014	<ul style="list-style-type: none"> • Does not require companies to report on how they are mitigating forced labour within supply chains. • Would provide law enforcement with stronger tools to stamp out modern slavery, ensure slave drivers can receive suitably severe punishments and enhance protection of and support for victims.
International	ILO Convention 29 on Forced Labour	Adopted in 1930, new protocol adopted 11 June 2014	<ul style="list-style-type: none"> • Legally binding protocol to strengthen efforts to eliminate forced labour; must be ratified. • Requires governments to take measures to better protect workers from labour abuses.

Appendix 2

Company Involvement and Preparedness

Company (Ticker)	Supplier Relationship	Level of Preparedness	Previous Assessment	New Assessment
			Assessment Levels: 1 = Low 2 = Moderate 3 = Significant 4 = High 5 = Severe	
Charoen Pokphand Foods Public Co. Ltd (SET:CPF)	Tier 1 ¹²	<ul style="list-style-type: none"> Supply chain standards are relatively broad in scope. Commits to comply with the Thai Labour Standard 8001-2010, which addresses among other labour issues: the elimination of forced labour, fair remuneration, working hours, non-discrimination in the workplace, occupational safety and health in the workplace, and employee welfare. Joined the declaration of intent to “Stop Illegal Labor in the Fishery Industrial Chain” led by Thai Chamber of Commerce and Thai Fishery Producers Coalition (TFPC). Participates in the Good Labor Practices (GLP) programme for Thailand’s Fishing Sector. Member of The Marine Ingredients Organisation (IFFO); however, the IFFO Responsible Supply Standard does not address social issues. Governing member of the Global Aquaculture Alliance, and has achieved Best Aquaculture Practices certification; however, these standards are focused on the farm level and do not address social risks within the supply chain. No formal monitoring and auditing programmes are publicly disclosed. Responded that it has started an audit of its entire operations.¹³ 	0	4
Carrefour SA (ENXTPA:CA)	Tier 2	<ul style="list-style-type: none"> Supply chain standards are very broad in scope, and based on the Universal Declaration of Human Rights and the ILO principles. Social standards also apply to the subcontractors of the company’s suppliers. Social audits are conducted for own-brand suppliers, including monitoring activities, follow-up audits, as well as training and awareness programmes. Makes use of Global Social Compliance Programme. Carrefour suspended prawn sourcing from CP Foods until “light has been shed on the situation.” 	1	3

		The company also reports that it conducted social audits of CP Foods in 2013; however, no violations were found.		
Costco Wholesale Corporation (NasdaqGS:COST)	Tier 2	<ul style="list-style-type: none"> • Scope of Costco's social supply chain standards is very broad, and while it does not explicitly refer to the ILO Conventions, the code clearly prohibits involuntary labour and any kind of worker abuse. • Costco states that it reserves the right to audit all supplier factories without notice; however, this do not apply beyond direct suppliers and the frequency of audits is not disclosed. 	2	3
Tesco PLC (LSE:TSCO)	Tier 2	<ul style="list-style-type: none"> • Tesco's social supply chain standards are very broad in scope and are based on the ILO Conventions. • Not disclosed if monitoring and auditing conditions are applicable beyond first-tier suppliers. • Makes use of Global Social Compliance Programme. • Member of the Sustainable Fisheries Partnership; however, this initiative focuses on environmental impacts and depleted fish stocks. • Has launched supply chain impact assessments in Thailand; however, scope is unknown. 	2	3
Wal-Mart	Tier 2	<ul style="list-style-type: none"> • Scope of Wal-Mart's social supply chain standards is very broad and addresses forced labour. • Conducts third-party audits but there is no evidence that social standards are applicable beyond first-tier suppliers. • Makes use of Global Social Compliance Programme. • Member of the Sustainable Fisheries Partnership; however, this initiative focuses on environmental impacts and depleted fish stocks. 	4	4
Wm. Morrison	Tier 2	<ul style="list-style-type: none"> • Scope of Morrison's social supply chain standards is very broad and addresses forced labour. • Conducts third-party audits but there is no evidence that compliance is obligatory for second-tier suppliers. 	0	3

¹ Kate Hodal, Chris Kelly and Felicity Lawrence, "Revealed: Asian slave labour producing prawns for supermarkets in US, UK," *The Guardian*, 10 June 2014, <http://www.theguardian.com/global-development/2014/jun/10/supermarket-prawns-thailand-produced-slave-labour>.

² Ibid.

³ Environmental Justice Foundation (2014), *Slavery at Sea: The Continued Plight of Trafficked Migrants in Thailand's Fishing Industry*, <http://ejfoundation.org/oceans/slaveryatsea>.

⁴ World Vision International (2013), *Tackling human trafficking in the Greater Mekong Sub-region*, <http://www.wvi.org/asia-pacific/publication/tackling-human-trafficking-greater-mekong-sub-region>.

⁵ International Labour Organization (2013), *Good Labour Practices programme addressing child labour and forced labour in Thai fisheries industry*, http://www.ilo.org/asia/WCMS_221455/lang--en/index.htm.

⁶ Organisations calling on consumers to question the source of imported seafood are Marine Conservation Society, Greenpeace, Compassion in World Farming, War on Want.

⁷ Rebecca Smithers, "Slavery in prawn trade: consumers urged to check source of seafood," *The Guardian*, 11 June 2014, <http://www.theguardian.com/world/2014/jun/11/slavery-prawn-shoppers-boycott-unethical-seafood-greenpeace>

⁸ "Carrefour suspends all purchases from CP Foods", *Undercurrent News*, 13 June 2014, <http://www.undercurrentnews.com/2014/06/13/carrefour-suspends-all-purchases-from-cp-foods/>.

⁹ "CP clarifies Guardian slavery report," *Bangkok Post*, 11 June 2014, <http://www.bangkokpost.com/news/local/414779/cp-clarifies-guardian-slavery-report>.

¹⁰ Ibid.

¹¹ "Walmart, Tesco condemn slavery uncovered in their supply chains", *Undercurrent News*, 10 June 2014, <http://www.undercurrentnews.com/2014/06/10/walmart-tesco-condemn-slavery-uncovered-in-their-supply-chains/>.

¹² "Supplier Relationship" refers to the relationship of the suppliers alleged to be using forced labour to the companies covered by Sustainalytics. Thus, in a Tier 1 relationship the supplier purchased directly from the boats implicated in forced labour practices.

¹³ Announcement on Charoen Pokphand Foods website.

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