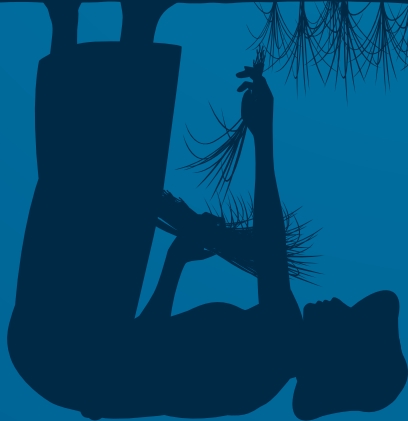


# AP7 Theme Report

## Working Conditions in Food Supply Chains



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## AP7 IN BRIEF

AP7 is a public agency tasked with managing premium pension funds for the Swedish population. Over five million Swedes invest their premium pension in the state default option, AP7 Sâfa. The total value of assets is approximately SEK 720 billion, making management a major responsibility. AP7's asset management is exclusively aimed at securing the interests of the pension savers, both current pensioners and those in the future.

AP7 is a universal owner. With investments in over 3,000 companies around the world, we can act as owners on a broad front and over a long term, with the entire market's interests in mind. By being an active universal owner, AP7 is securing the financial interests of both current and future savers.

AP7's corporate governance is primarily aimed at ensuring a positive effect on the long-term return for the entire market rather than for individual companies.

**Value of managed assets:** approx. SEK 720 billion

**Number of savers:** over 5 million

**Investment portfolio:** more than 3,000 companies around the world

As of 31 December 2020

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# How can asset owners influence conditions in food supply chains?

Supply chains in the food industry are complex, and many countries in which food production takes place are associated with high risk in terms of human rights and working conditions. In the theme Working Conditions in Food Supply Chains, AP7 has tried to identify how investors, through their corporate governance, can promote better working conditions, and has also examined how food and food retail companies can work to bring about genuine improvement in this area.

## Why did AP7 choose this theme for 2018–2020?

Human rights is one of AP7's main issues, and child labour and forced labour are some of the most serious violations. Problems largely occur in food supply chains, mainly within agriculture, which is why we chose to focus on this industry. Violations and poor working conditions in food supply chains have escalated during the pandemic, so the theme became increasingly urgent towards the end of the period. Applicable legislation is about to become more stringent, for example in the EU, which has made the theme even more relevant.

## Investors have been focusing on these issues for decades. Has your theme added anything new?

These issues have indeed been in focus for a long time, and we asked ourselves why the problems remain. That was the background to us initiating a pre-study on the subject. We didn't want to repeat what others have done, so our ambition was to build further on earlier work and go beyond corporate governance and processes. At the same time, we wanted to develop our approach, to promote real change, and also to spread knowledge and experiences between companies in different sectors.

## You examined the roles of both investors and the food companies. Why was this?

As investors, there are limitations to what we can achieve at farm or factory level, where the problems often occur. Here, the food companies have greater capability to exert influence, because they have a relationship with the producers and can make demands, for example when buying products. However, as owners, we can also exert influence over the food companies and, by collaborating with them, we can boost our engagement and find new ways to bring about improvements.

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**At the same time, we wanted to develop our approach, to promote real change, and also to spread knowledge and experiences between companies in different sectors.**

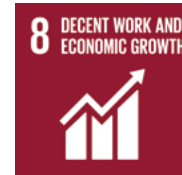
### **In what way is the area relevant for AP7 and other investors?**

A minimum requirement for AP7, and for many other investors, is that the companies in which we invest respect international norms regarding human rights, the environment, working conditions, and anti-corruption. But it is also relevant from the perspective of returns. Companies that keep a close eye on their supply chains and manage them efficiently can save money and ensure more reliable supplies. At the same time, the companies are avoiding other commercial risks, such as brand damage, which can be very costly. Legislation in the area is becoming more stringent, so the legal risks for companies that violate legislation are also increasing.

### **What are the most important findings from the work?**

We concluded that there is still a long way to go to ensure that the food we eat has been produced with respect for human rights. As investors we can contribute by raising specific requirements in our dialogue with portfolio companies, and spread experiences between the companies we own. The companies are often interested in working with the issues, and a basic requirement is to get them to draw up guidelines and analyse risks in the supply chain. But more is needed to make a difference on the ground, and much greater commitment and expertise is required that is not always available in-house. Here, collaboration with other actors is an invaluable tool, and a way to scale up initiatives and bring about genuine improvements on the ground.

An insufficient income is the main reason for poor conditions in food supply chains – the problems can only be resolved if farmers can live on their incomes. One crucial aspect is that companies' sustainability and purchasing departments must collaborate and give a signal when a price is unreasonably low, and they must demand sustainability in procurements.



**Working conditions in food supply chains are linked to the UN Sustainable Development Goal 8, 'Decent work and economic growth', but also to the goals of no poverty and no hunger. See page 29.**



**A minimum requirement for AP7, and for many other investors, is that the companies in which we invest respect international norms regarding human rights, the environment, working conditions, and anti-corruption.**



# AP7's themes

For a number of years, AP7 has been supplementing its corporate governance work with themed activities. Working in specific themes deepens and interlinks AP7's current working methods in selected and particularly urgent areas.

Focusing on a few themes at a time enables in-depth examination and reflection in a complex area relevant to our investments. Every year, a new theme is launched that runs over three years.

Private Equity 2014–2016

Climate 2015–2017

Fresh Water 2016–2018

Corporate Climate Lobbying 2017–2019

Working Conditions in Food Supply Chains 2018–2020

Sustainable Impact Measurement 2019–2021

Climate Transition 2020–2022

Deforestation 2021–2023

## Current themes

AP7 currently has three themes running:

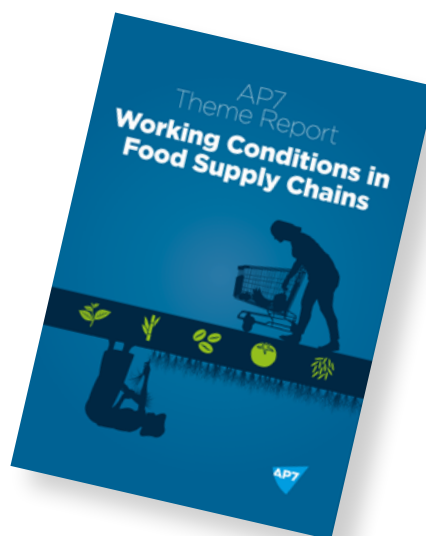
### Sustainable Impact Measurement, 2019–2021.

Although demand from stakeholders and investors is great, knowledge about the effects of different actions on sustainable societal development is inadequate, and recognised measurement methods are lacking.

Some key criteria are applied when choosing a theme: the theme must be relevant in terms of AP7's holdings and asset classes, AP7 must be able to make a reasonable difference in a resource-effective way, and there must be suitable expert partners for collaboration.

A theme guides AP7's prioritisations in many ways during its duration, and this has consequences for the work with engagement dialogues and general meetings. It also brings greater collaboration with other actors on developing standards and norms within the area.

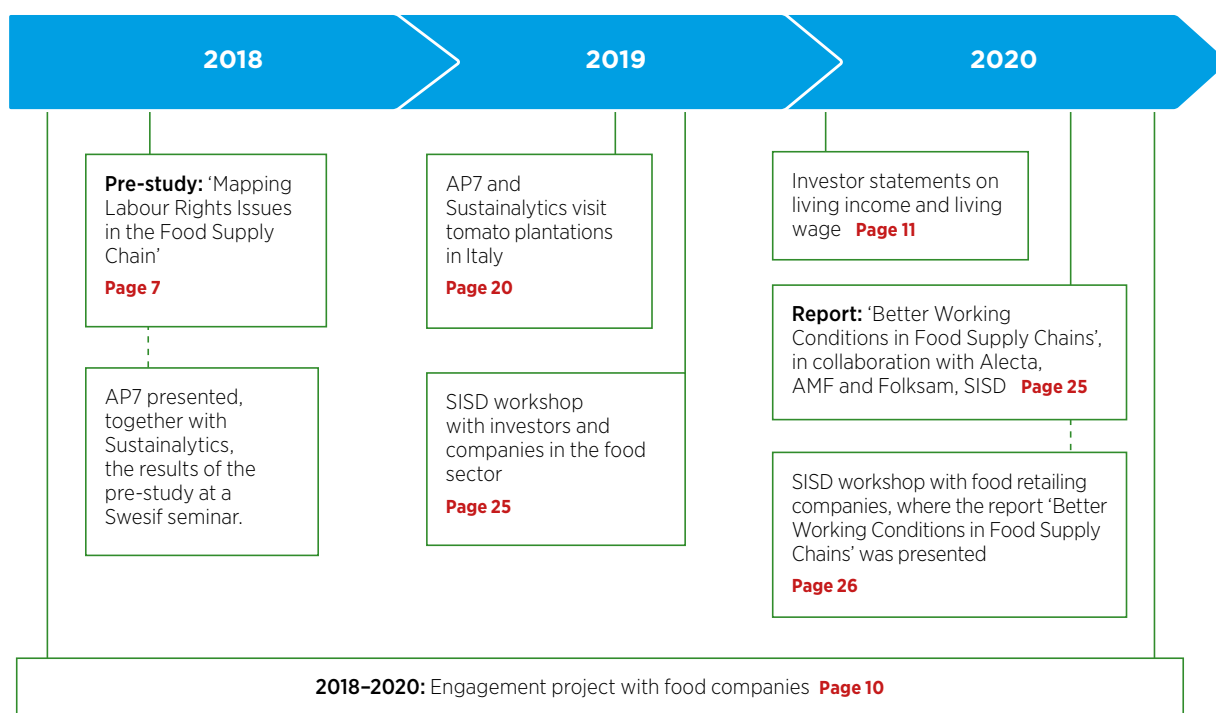
The main findings from our themes are summarised (in Swedish) on the web page [www.ap7.se/hallbarhet/temaarbete](http://www.ap7.se/hallbarhet/temaarbete)



**Climate Transition, 2020–2022.** AP7's owner influence enables us to exert pressure on companies to make responsible decisions, and thereby help to accelerate the transition to a fossil-free society.

**Deforestation, 2021–2023.** If we are to attain the Paris Agreement target of keeping global warming to well below two degrees, deforestation must be limited, particularly in Amazonia, in view of the forest's importance for the climate.

# Theme: Working Conditions in Food Supply Chains 2018–2020



In 2020, the work on the theme 'Working Conditions in Food Supply Chains' was concluded. The aim was to find new ways in which AP7 and other institutional investors could work to attain the eighth UN Sustainable Development Goal – 'Decent work and economic growth' (SDG 8). As investors, we are situated far from the production and processing stages. Consequently, as part of our work, we have examined the opportunities for food companies to influence conditions in food supply chains.

Together with Sustainalytics, we carried out a pre-study to survey the main risks in the food supply chain. Based on the results of the study, we then initiated an engagement project involving 17 food companies, with a focus on preventive measures to stop violations of human rights in the supply chain and on how to engage with the companies to improve conditions in the area.

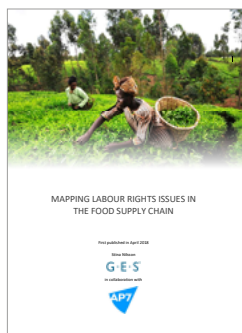
Within the framework of the Sida initiative, 'Swedish Investors for Sustainable Development' (SISD), AP7 has also collaborated with Alecta, AMF and Folksam. The work resulted in the report 'Better Working Conditions in Food Supply Chains', which describes how investors can work to improve conditions, and what reasonable demands we could make of the companies in our portfolio. We arranged two workshops, led by AP7: one in December 2019 and another in December 2020, when the results of the report were presented. We also published a joint debate article in the Aftonbladet newspaper.

AP7 held a presentation on the subject at a Sida conference, and also signed two investor statements in support of improved working conditions.<sup>1,2</sup>

<sup>1</sup> [https://www.actiam.com/49ba81/siteassets/4\\_verantwoord/documenten/en/investor-statement-on-living-income-and-living-wages\\_final.pdf](https://www.actiam.com/49ba81/siteassets/4_verantwoord/documenten/en/investor-statement-on-living-income-and-living-wages_final.pdf)

<sup>2</sup> <https://knowthethechain.org/wp-content/uploads/KnowTheChain-investor-statement.pdf>

# Pre-study: Mapping Labour Rights Issues in the Food Supply Chain



The pre-study was carried out in the first year of this theme, 2018. The aim was to obtain an overview of the main risks regarding labour rights in the food supply chain, and to identify the areas on which investors should focus to achieve the greatest effect. We also wanted to find out how we can engage with companies so that they review the biggest risks for violation of labour rights and improve their management of these risks.

For the report, relevant literature in the field was reviewed, and a number of meetings held with actors familiar with labour rights issues in food supply chains.

## Management of ESG risks crucial

Labour rights issues in the food supply chain are crucial, and the minimum requirement for investing in a company is that it complies with international norms for human rights and national legislation.

Companies that work actively to manage key ESG risks can also increase the likelihood of achieving more long-term, sustainable returns. This also applies to the food sector, which is dependent on agricultural work being attractive in order to retain the workforce and ensure future supplies.



## Main risks in food supply chains

The pre-study identified a number of risks and challenges linked to working conditions in global food supply chains that should be prioritised in investor initiatives. The main risks include the prevalence of child and forced labour, insufficient living income, and commodities associated with especially high risks.

### Child labour and forced labour

The pre-study showed that child labour and forced labour were the most widespread and serious problems associated with labour rights in the food supply chain. Furthermore, the UN's eighth SDG states specifically that child labour and forced labour must be eradicated.

Not all work done by children is defined as child labour, but child labour includes work that is performed by very young children, working long hours, that is harmful to the children's health, or that deprives them of the opportunity to attend school. According to the International Labour Organization (ILO) report on child labour from 2017, the estimated level of child labour globally was 152 million, of which more than 70 percent were found in agriculture.<sup>3</sup>

In the same year, an estimated 25 million people were exploited through forced labour, of which 16 million were in the private sector, including the agriculture and fishing sectors. Geographically, forced labour was most prevalent in the Asia/Pacific Ocean area. Almost one in four victims of forced labour were migrant workers, exploited outside their home country. This group is particularly vulnerable to exploitation because of, for example, language barriers and limited knowledge about local conditions.<sup>4</sup>

<sup>3</sup> ILO, 2017. Global Estimates of Child Labor. [http://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms\\_575499.pdf](http://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms_575499.pdf)

<sup>4</sup> ILO, 2017. Global Estimates of Modern Slavery. [http://www.ilo.org/global/publications/books/WCMS\\_575479/lang--en/index.htm](http://www.ilo.org/global/publications/books/WCMS_575479/lang--en/index.htm)





#### Living income and living wage

One of the main causes of the prevalence of child labour and forced labour is that smallholders and waged farm workers earn an insufficient income or wage to support their family. Farmers and farm workers receiving a living income (i.e. enough to care for basic needs of themselves and their family) are more likely to send their children to school, secure a long-term food supply for their families, and avoid poverty. This in turn helps reduce income differences on both national and global levels.

The link between a living income or wage and several of the UN SDGs, such as goals regarding poverty, hunger, and education, makes the issue particularly important, and payment of higher prices to farmers is the main solution. However, the pre-study also identified challenges,

such as individual companies finding it difficult to pay a higher price for goods, as it can affect the company's competitiveness, and anti-trust legislation if companies collaborate on raising the prices.

#### Five particularly high-risk commodity supply chains

Five commodities were identified as having especially elevated risks relating to labour conditions – coffee, rice, sugar, tea, and tomatoes. These products were also deemed significant in terms of sales volume, labour force, and number of countries in which the commodities are grown, and therefore became the focus of the subsequent initiative on engagement dialogue with food and food retailing companies.



### Main findings of the pre-study

The work in the pre-study and the dialogues held with different actors with experience in the area gave a number of findings and insights, including:

- *Spread good practices applied in existing corporate initiatives on labour rights:* There are several initiatives and platforms in human rights and working conditions, run by for example the International Labour Organization, ILO, and the UN Global Compact. Investors can encourage companies to participate in such activities to learn from examples of good practice and increase their knowledge on the subject. See the example from the cocoa industry on this page.
- *Industry collaborations play a key role in tackling structural issues:* When companies in the same sector issue joint statements, actions can be addressed at a structural/national level. Investors can therefore encourage companies to join such initiatives.
- *Make use of existing stakeholder momentum on living income:* The UN Global Compact emphasises the root causes of violations of human rights, where living wage stands out as an important factor. The issue should be observed in investors' work and dialogues with portfolio companies.
- *The importance of impacts on the ground:* From previous work Sustainalytics has drawn the conclusion that investors should work to ensure that portfolio companies not only have policies and management systems in place, but should also work with practical initiatives on the ground, such as better wages, and include this work in their reporting.
- *Show understanding and commitment to the issues and industry:* To increase credibility and effect in the dialogue with portfolio companies, it is important that investors have knowledge about and understanding for industry-specific conditions and local context.
- *Public benchmarking of companies is an effective engagement tool:* Benchmarking of companies makes it possible to identify specific key processes and methods of working in relation to working conditions in supply chains. It is also an effective way to engage with companies that perform poorly in the comparisons and encourage them to improve their practices.

### Proposed new investor initiative

The conclusions from the pre-study led to a new project aimed at improving the companies' contingency for preventing and managing risks for child labour and forced labour in the supply chain. Read more about the engagement project on pages 10–13.

### Programmes to combat child labour in the cocoa industry

There are a number of good examples of corporate initiatives focusing on human rights. One example is the Child Labour Monitoring and Remediation System (CLMRS) used in the cocoa industry. This programme for monitoring and mitigating child labour, led by the International Cocoa Initiative (ICI), is based on continual work rather than annual audits. The focus lies, for example, on increasing accessibility to schools and the opportunity for farmers to increase their revenues through side incomes or diversification of crops. The CLMRS has been adopted as practice by large cocoa and chocolate companies. As investors we can encourage companies to join such initiatives, to enable collaboration with other actors on the eradication of child labour.

Read more about the programme here:  
<https://cocoainitiative.org/get-involved/become-a-contributing-partner/>

#### FACTS

#### Living income

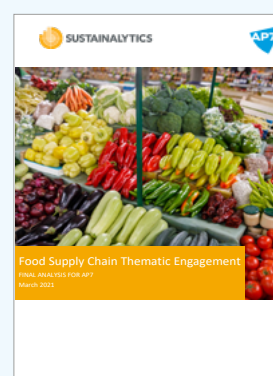
Living income or living wage is defined as the payment or wage that farmers or employees receive, and that makes it possible for them to support themselves and their families. There may be a big difference between a country's minimum wage and a reasonable living wage.

# Engagement project with food companies: **Food Supply Chain Engagement**

**How can food companies and food retailing companies improve their contingency for and management of risks relating to violations of human rights in their supply chains? In collaboration with Sustainalytics, AP7 and a group of global investors have engaged with companies, and worked to exert influence on them to improve their work in the area.**

## **The engagement project shows that, for example:**

- The problems with elevated risks involving human rights and labour rights in the agricultural sector were exacerbated during the Covid-19 pandemic, but legislation can improve the prospects.
- Through active corporate governance, investors can engage with portfolio companies on improving their processes and reducing the risk of violation of labour rights in the supply chain.
- It is difficult for individual companies to influence conditions in the supply chain – there is much to be gained through collaboration, spreading examples of good practice, and sharing experiences.
- Continued engagement from both companies and investors in initiatives that cut across sectors and actors is encouraged and recommended.



Read the report here: [www.ap7.se/app/uploads/2021/05/food-supply-chain-thematic-engagement.pdf](http://www.ap7.se/app/uploads/2021/05/food-supply-chain-thematic-engagement.pdf)

The food supply chain is difficult to overview, and suppliers often operate in countries where the risks of violations of human rights are regarded as high. Because the conditions are complex, food companies and food retailing companies are usually in a stronger position than investors when it comes to exerting influence and making requirements regarding the conduct of producers in the supply chain.

## **Aim of the engagement project**

In order to improve understanding of how large food industry actors work with human rights and labour conditions in the supply chain, AP7 worked with Sustainalytics and held dialogue with 17 companies over a period of two-and-a-half years.

The focus of the project was on how the companies work proactively to mitigate violations of human rights, such as child labour and forced labour, and their work to rectify other negative effects on labour rights in their supplier chains. Another aim was to disseminate examples of good practice and effective work methods between different regions and sectors. During the course of the project, the international group of investors and Sustainalytics also tried to engage with the companies on developing their processes for managing risks and incidents in the area.

The conclusions of the project, including descriptions

of the companies' progress and remaining challenges, were presented in a final report in December 2020.

## **Agriculture affected by the pandemic**

Agriculture accounts for 70 percent of all child labour and a high prevalence of forced labour. The engagement project therefore focused on challenges relating to working conditions in the farming stage. The pre-study had identified commodities associated with elevated risks, so the project focused on coffee, rice, sugar, tea, and tomatoes.

The Covid-19 pandemic has been particularly serious for the many people whose livelihood depends on agriculture. According to the International Labour Organization (ILO) and UNICEF, the number of people living in extreme poverty may have increased by between 40 and 60 million in 2020. The organisations also estimate that an increase in poverty by one percentage point leads to an increase of at least 0.7 percentage points in child labour, as child labour is a way for families in poverty to secure their livelihood.<sup>6</sup> This means that child labour globally increased by an estimated 28–42 million children in 2020 alone.

Migrant workers and other vulnerable groups will probably have been hit especially hard by the economic downturn during the pandemic.<sup>7</sup> Consequently, it is more urgent than ever to tackle the issues of working conditions and living wages in agriculture.



### Legislation to support human rights

While problems regarding human rights are thought to have increased, there has been some positive development in terms of legislation. Countries such as the UK, the Netherlands, France, and Australia already have legal requirements for companies to undertake human rights due diligence. Legislation at EU level is expected to come into force in 2021.<sup>5</sup>

Companies and investors have joined forces and expressed support for this type of legislation, and many companies are already adapting their business activities to the forthcoming legislation, an indication that prospects for tackling the situation may improve in the future.

### Focus on living income and living wage

Since living incomes and living wages for smallholders and farm workers were identified as a root cause of poor conditions and violations in supply chains, this was particularly emphasised in the dialogue with the companies. The issue has gained increased focus through some major companies working with specific initiatives in the agricultural supply chains.

The increasing interest is also seen through sector initiatives and development of guidelines. For example, the Bonsucro organisation reviewed its standard for certification of sustainable sugar cane production, and is expected to tighten provisions regarding living income and living wage.



In order to support companies that need to start work on action plans and directed activities relating to living income and living wage, the collaboration group made special efforts to connect like-minded organisations and companies.

### Investor statement

In spring 2020, an investor statement on living income and living wages was drawn up and sent to the CEOs and chairpersons of more than 40 food and beverage companies and food retailers globally, including the 17 companies in the engagement project. The aim was to show that investors are committed and that they support initiatives and development of guidelines on the issue. The statement was signed by 36 institutional investors globally, including AP7.

### Web seminar

A web seminar was held to demonstrate how companies can build a corporate roadmap towards living incomes for smallholders. One challenge raised by the companies was that it must be possible to prove that a commitment from companies on increased payment for commodities really results in a living income for the farmers.

Sustainalytics also arranged a trip for investors and companies to visit Italian food producers, and a virtual roundtable discussion after the trip, at which AP7 was one of the presenters. Read more about the trip on page 20.

### Companies made progress during the project

When selecting the 17 companies for the engagement project, a number of factors were considered, including that the companies buy most of the high-risk commodities identified, as well as the company size and position in relevant sustainability rankings. The companies' progress was measured continually, using a number of key performance indicators (KPIs). For example, the monitoring examined whether the companies had a code of conduct on human rights (KPI 1), labour rights due diligence (KPI 2), processes for mitigation of elevated labour rights risks (KPI 3),<sup>9</sup> measures to manage identified incidents (KPI 4),<sup>10</sup> and whether the companies prioritised collaborations regarding risks to labour rights.

<sup>5</sup> ILO, 2017. Global Estimates of Child Labor. [http://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms\\_575499.pdf](http://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms_575499.pdf)

<sup>6</sup> ILO 2020. Covid-19 and Child Labour: A Time of Crisis, a Time to Act. [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---ipec/documents/publication/wcms\\_747421.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_747421.pdf)

<sup>7</sup> Shift Project, March 2021. Human Rights Due Diligence: the State of Play in Europe. <https://shiftproject.org/resource/mhrdd-europe-map/>

<sup>8</sup> <https://rwi.lu.se/events/on-the-forthcoming-eus-directive-on-human-rights-due-diligence-webinar-series-2021/>  
[https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/659299/EPRS\\_BRI\(2020\)659299\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/659299/EPRS_BRI(2020)659299_EN.pdf)

<sup>9</sup> In order to attain the indicator, the companies needed to demonstrate tangible work to mitigate elevated risks and negative impact in the supply chain. For example, the companies needed to motivate suppliers to work for good working conditions, and show that they are working for a living wage and living income for smallholders and farmworkers.

<sup>10</sup> For some companies, incidents affecting labour rights were identified at the start of the engagement project. These incidents had a satisfactory solution in December 2020 when the project was concluded.

Since the engagement project started in 2018, nearly all the companies have made progress; see diagram on page 13. Above all, progress was seen regarding development of policies and labour rights due diligence in agriculture. The companies that already had work under way at the start had taken further steps to mitigate labour rights risks and to improve the farmers' livelihoods.

Common features for the leading companies in this area

are that they have robust due diligence in place regarding labour rights risks, they work actively to manage the risks identified in the analysis, and they do this in collaboration with other actors.

Some of the companies identified as leading in the report are Nestlé, Axfood, and Tesco. Descriptions of how these companies are working with the issues are presented on pages 14–19.

## FACTS

### Clear company progress during the engagement project 2018–2020

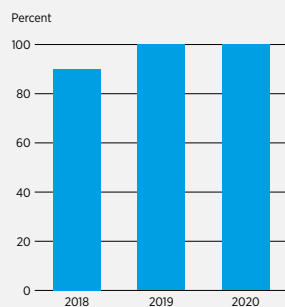
By the time the engagement project ended, all 17 companies had a code of conduct regarding human rights (KPI 1), and the majority had made significant progress regarding labour rights due diligence in the supply chain (KPI 2). Several of the companies had also improved their work on mitigating elevated labour rights risks (KPI 3) and their collaboration with other actors in the area (KPI 5), even if the improvements regarding these indicators were not as clear. In order to fulfil these indicators, significant

actions were required, which can be why they were more difficult to achieve.

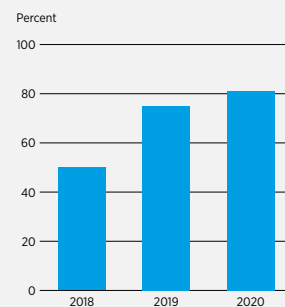
The companies that had reported incidents affecting labour rights at the start of the engagement project had all taken satisfactory measures to manage these incidents by the end of the project (KPI 4). No diagram is shown for this indicator.

The measurements were taken from June 2018 until the project ended in December 2020.

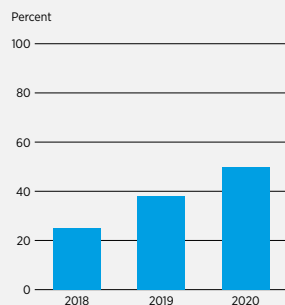
**Code of conduct regarding human rights (KPI 1)**



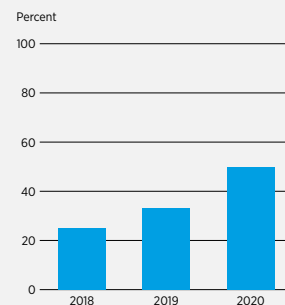
**Labour rights due diligence in the supply chain (KPI 2)**



**Mitigation of elevated labour rights risks (KPI 3)**



**Prioritising collaboration on labour rights risks (KPI 5)**





### Lessons learned from the engagement project: Easy to call for transparency, but change more difficult

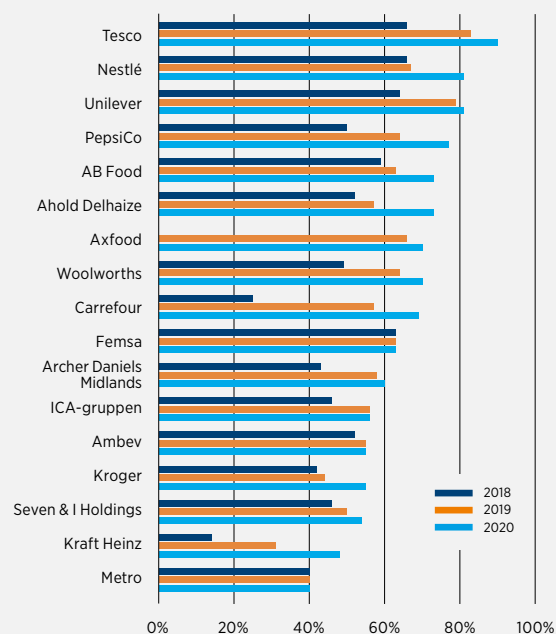
The conclusions from the engagement project are that investors have an important role in highlighting the problems with labour rights, and that active corporate governance can enable investors to engage with companies on improving their processes on the issue. Greater transparency is a simple improvement, enabling companies to show existing initiatives. As investors, we can call for improved reporting and publishing of information.

The results show that the companies made significant progress regarding due diligence of the risks, but did not achieve as much in terms of developing their management of these risks. An individual company usually cannot reduce the risks, as it requires a more comprehensive undertaking and usually engagement on the ground. The large food companies need to collaborate, but this does not occur to a sufficient extent. Here, investors can play a role by encouraging their portfolio companies to look for collaborations, where they can both share their experiences and work together with other actors to bring about change. As investors, we can also contribute by sharing best practices between the companies.

For examples of collaborations for investors and companies, see page 26 in this report.

### Progress of the 17 companies in the engagement project

December 2018 – December 2020



### Step-by-step guides for companies

Together with Sustainalytics, AP7 produced two practical guides for companies that wish to get started with their work on labour rights due diligence and work to improve living income and living wages in agricultural supply chains. The guides describe investor expectations in the areas, and methods of working and examples of good practice, as well as collaborations and initiatives for companies.



# Axfood – Project for sustainable rice cultivation in Punjab



**Rice is a crop whose cultivation is linked with tough working conditions and vulnerability for female workers and child labour. Since 2017, Axfood has been involved in the ‘Project for sustainability and gender-equal rice cultivation in Pakistan’, which has resulted in increased sales volumes and higher payments for rice farmers.**

The project is a close collaboration between Axfood’s rice supplier, the Oxfam aid organisation, and Sida. So far, 2250 rice farmers have joined 25 farmer organisations, thereby strengthening their negotiating position in relation to the rice exporters. Half of the participants are women, and they have an important role as decision-makers in the project.

“We want to offer our consumers fairly traded goods that they can buy and eat with good conscience and that contribute to improved living conditions for the farmers,” says Susanna Wadegård, Quality Manager at Axfood. “The project has been a way for us to learn more about the living conditions of the farmers and the working conditions of the farmworkers, and how we, through our purchasing, can influence and improve the situation for the rice farmers. It has also increased our understanding of pricing mechanisms and the payments that the farmers and workers actually receive.”

Rice cultivation has a great impact on climate, and at the same time it is sensitive to the effects of climate change. Through training and technical support to the farmers, water consumption, chemical use, and carbon dioxide emissions have fallen, while productivity and resistance to climate impact has increased and the quality of the rice

improved. Women have a particularly vulnerable role in Pakistan, and the project has also improved their position.

“Overall, the initiatives have resulted in the women learning more about their rights and receiving better payment. In addition, knowledge about new cultivation methods has led to increases in smallholders’ sales volumes, which has also resulted in higher payment,” explains Susanna Wadegård.

By working more systematically, and monitored in accordance with the certification system for rice, the Sustainable Rice Platform standard (SRP), the farmers can also develop their enterprises in a long-term and sustainable way. SRP-produced rice also gives better payment.

“Through the project, we at Axfood have learnt more about the payment mechanism, and it has led to us switching from talking about a minimum wage to a living wage, that is to say a wage that a family can live on instead of simply survive on. We can also apply what we have learned to other sensitive crops that Axfood buys,” concludes Susanna Wadegård.

**Read more about the project here (in Swedish):**  
<https://www.garantskafferiet.se/reportage/basmatiris/>



# Tesco – Addressing social challenges in tea cultivation



**Tea is an important product for the British company Tesco, the world's third largest food retailer. For many years, Tesco has been addressing social challenges in the tea supply chains, such as low wages and gender discrimination.**

In addition to the Rainforest Alliance certification for its tea, Tesco is working with other actors in the sector and with NGOs that are strategically tackling the root causes of many of the problems. Tesco has also chosen to reduce the number of strategic tea producers and estates they buy from, to establish more long-term and trusted partnerships.

In the Assam region of India, Tesco is working with the Ethical Tea Partnership and UNICEF to fund training about the risks facing girls and young women, such as violence, assault, and exploitation. The project is also aimed at the government and decision-makers at national and district level, to encourage them to review their approach to child protection and the social policies affecting those living in tea communities. The programme also involves health issues and work with adolescent boys, aiming to challenge traditional attitudes about the role of girls and women in society. To date, the programme has directly and indirectly improved the living conditions of an estimated 250,000 women, girls, and boys living in Assam.

In Malawi, Tesco is working with the Malawi Tea 2020 coalition to ensure a living wage for workers on the plantations. The collaboration has supported two collective bargaining agreements ensuring increased wages for workers, and raising awareness of the opportunity to join a trade union.

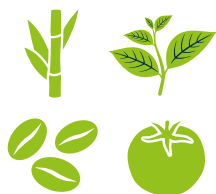
In order to increase value to the employees on the plantations, Tesco also pays a higher price than the market price for its Malawian tea. In addition, 5p from every pack of Tesco Extra Strong tea bought is directly donated to run community projects on the strategic tea estate in Malawi. The funds are mainly used for simple loans to smallholders, enabling them to invest in the tea farm or develop other enterprises that increase their income.

<https://www.tescopl.com/sustainability/people/human-rights/>





# How does Nestlé handle working conditions in the supply chain?



**Nestlé is one of the world's largest food companies, operating in nearly every country in the world. The decisions this giant make can drive change in the food industry worldwide, and affect the supply chains in countries far from its head office in Vevey in Switzerland.**

Yann Wyss is senior manager responsible for social impact across the company's value chain. Together with John Armstrong at Nestlé's Investor Relations, they explained Nestlé's perspectives and actions on working conditions in the supply chain of the food industry.

## **What is your perspective on shareholder or stakeholder risks and values regarding working conditions in the supply chain?**

**Yann Wyss:** "For Nestlé the topic of human rights in the supply chain has been a long process that we accelerated ten years ago, when the UN Guiding Principles for Human Rights (UNGPs) were adopted by the UN Human Rights Council. Back then, we already had human rights integrated into our Corporate Business Principles and a comprehensive risk assessment process in place covering the major human rights risks for the company.

"The UNGPs made companies change their approach to risk assessment. Traditionally, corporate risks have always been assessed based on the impact they can have on the companies themselves, either from an

operational, legal, or reputational perspective. But the notion of salience changed this, encouraging companies to assess the risks to people, from farmers to workers and employees to consumers.

"We moved from a typical risk assessment process to one aligned with the UNGPs and the concept of salience. We had to reverse our minds to try to see what these impacts would be and looked at the scale, severity, and remediability of possible impacts."

As a global company, Nestlé found that the change of scope did not lead to big differences in risk assessment.

"As the largest food and beverage company, we are quite exposed to media and social scrutiny. A negative impact on people's rights in our value chains is very likely to damage our operations or reputation. Therefore, the risks we see today are largely identical to those we had identified when we were only focusing on the risk to the company."

## **What main challenges have you identified?**

**Yann Wyss:** "Overall, we have identified 11 salient human rights issues. Some are specific to working conditions while others are broader human rights issues, such as access to water and sanitation. The most salient issues in our supply chain are child labour, forced labour, living income, as well as health and safety.

"It's important to understand the length and complexity of the food supply chain compared to other industries' supply chains. The risks are all in the upstream supply chain, i.e. at the smallholder farmer level, several tiers away from our own operations."



### **FACTS**

#### **Salient human rights issues**

The human rights at risk of being affected most negatively as a result of a company's activities and business relations.

**“ It’s important to understand the length and complexity of the food supply chain compared to other industries’ supply chains. The risks are all in the upstream supply chain, i.e. at the smallholder farmer level, several tiers away from our own operations.**

#### **How do you handle these issues, considering the length and complexity of the supply chain?**

**Yann Wyss:** “We source our key ingredients from six million farmers. Most of the time we buy ingredients through suppliers but sometimes we buy directly from the farmers as part of our Farmer Connect programme<sup>11</sup>, which is used mainly for coffee, cocoa, and fresh milk.”

With 1,200 agronomists all over the world Nestlé can advise farmers within the programme on how to grow, fertilise, and harvest these key ingredients in a sustainable way.

“But we can’t source all our ingredients directly, so we work with suppliers as well. To make sure they work in the same direction as Nestlé, our Responsible Sourcing Standards<sup>12</sup> set clear criteria on how we expect these suppliers to behave throughout the supply chain.”

#### **What are the benefits of your Farmer Connect programme?**

**Yann Wyss:** “It allows us to have a direct relationship with farmers and we can advise them and hear from them directly through our agronomists. This comes with a cost, but it is also quite rewarding. This direct contact based on trust and loyalty is also very important in the context of our climate change Net Zero Roadmap<sup>13</sup>, since we need to be able to speed up efforts and actions in close collaboration with farmers.

“While interacting with farmers, our agronomists are also called upon to handle non-agricultural issues that

are important to us, such as child labour or deforestation. They are our eyes and ears on the ground and raise awareness among farmers on these issues. Farmer Connect is actually the model we developed more than 150 years ago – when Nestlé was founded – with development of the milk districts in Switzerland.”

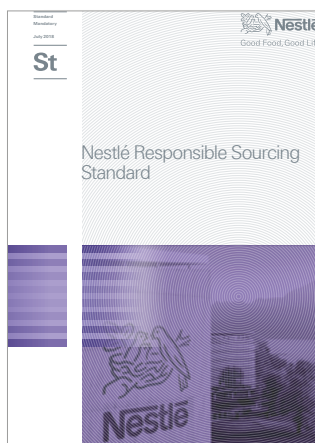
Nestlé works with several partner organisations – including NGOs – to implement its sustainable sourcing programme both in direct and indirect supply chains. By supporting these organisations, Nestlé can leverage their local network, expertise, and capacities to scale up its impact.

Yann Wyss believes that sharing information and collaborating with stakeholders (such as governments and NGOs), business partners, and peers is the key to ending child labour in cocoa communities.

“Partnerships are crucial and will become even more important in the future as sustainability issues increase in number and in importance. More often than not, these issues have the same root causes, such as poverty, when it comes to child labour and deforestation. This is where collective action can make a real difference by bringing different actors around the table and identifying potential solutions to complex issues.”

#### **How important are awareness building activities?**

**Yann Wyss:** “Awareness building is an essential part of our work, as only a minority of the companies in our value chain know precisely what they need to do to



<sup>11</sup> <https://www.nestle.com/csv/impact/rural-livelihoods/farm-economics>

<sup>12</sup> <https://www.nestle.com/sites/default/files/asset-library/documents/library/documents/suppliers/nestle-responsible-sourcing-standard-english.pdf>

<sup>13</sup> <https://www.nestle.com/csv/global-initiatives/zero-environmental-impact/climate-change-net-zero-roadmap>

**“ Awareness building is an essential part of our work, as only a minority of the companies in our value chain know precisely what they need to do to respect human rights.”**

respect human rights. And it can become quite technical when it comes to setting up and implementing effective remediation activities in complex supply chains.”

### **What is your approach to addressing the risk of child labour in your upstream supply chain?**

“Nestlé launched the Cocoa Plan in 2009 with the aim of making cocoa farming more sustainable, improve the lives of farmers, and enhance the quality of their products.<sup>14</sup> In 2012 Nestlé introduced a Child Labour Monitoring and Remediation System (CLMRS).

According to Yann Wyss, the programme and the partnership between Nestlé and the International Cocoa Initiative (ICI) has changed the way the cocoa sector tackles the issue of child labour. Nestlé was the first company to implement a CLMRS in its cocoa supply chain back in 2012, but since then a dozen companies have adopted a similar system.

“In addition to monitoring and remediation activities, awareness raising is an important element of the CLMRS. Since 2012, more than 600,000 cocoa community members have attended one of the awareness-raising sessions organised by ICI on our behalf.”

### **The importance of collaboration**

John Armstrong highlights the Rimba Collective launched in spring 2021<sup>15</sup> as a model for how cross-industry collaboration can evolve in a way that can

increase the scale, scope, and sustainability of company ESG intervention – in this case, specifically within the participating company’s value chain.

Rimba is the largest private-sector forest conservation initiative, developed by Lestari Capital, together with founding partners Nestlé, PepsiCo, Procter & Gamble, and Wilmar. The initiative aims at forest conservation investments, while simultaneously supporting economic development and job creation in the local communities.

“Rimba shows how we can help build a coalition of the willing, think differently about approaches, and set up funding mechanisms that can sustain action so the impact can scale.

“Rimba is a good example of us starting to flip the narrative, to go from a no-deforestation to forest-positive approach. Our new generation of commitments reflects how we are thinking holistically about what we want to achieve as a responsible business and how we want to work with others, often in a pre-collaborative way to address systemic issues.”

### **In Sustainalytics’ survey, you are in the forefront of handling human rights and have made major developments in recent years. What have you done that has been so successful?**

**Yann Wyss:** “I don’t think there’s a magic bullet solution but rather a mix of things that we’ve tried and piloted. Our human rights due diligence programme goes back

<sup>14</sup> <https://www.nestlecocoaplan.com/themes/custom/cocoa/dist/assets/nestle-tackling-child-labor-2019.pdf>

<sup>15</sup> <https://www.nestle.com/media/news/protect-restore-forest-landscapes-southeast-asia-rimba-collective>





## “Yann Wyss identifies three important components to attain good results in human rights: governance, transparency, and common goals and performance indicators throughout the company.”

ten years. This means a decade of experience, testing things that didn't work out and others that did, and then we could scale up.”

Yann Wyss highlights three key ingredients for good performance on human rights: governance, transparency, and alignment on objectives and KPIs throughout the company.

### Importance of governance

“Governance is very important. It has helped us develop human rights capacities at all levels of the company and across geographies.

“At the Board of Directors level, the Sustainability Committee ensures that the company carries out human rights due diligence and reports on its most severe risks to human rights, including how the company is addressing those risks. The responsibility for Human Rights Due Diligence at the Executive Board level lies with the General Counsel, who is also in charge of Corporate Governance and Compliance.

“A Human Rights Community (or working group), gathering all the relevant businesses and functions of the company, meets monthly to drive our human rights agenda, share knowledge, and learn from each other.

“Most companies have either a sustainability department or a human rights committee, but what is special with Nestlé is that we have always tried to integrate human rights in all the relevant sections of the company and build capacity from within. The result is that we now have people with human rights knowledge across Nestlé, understanding what it means for the

company, for their function and for themselves as individuals, and able to take action.”

### Transparency takes courage

The second key ingredient Yann Wyss highlights is transparency.

“It takes courage for a company to talk openly about issues such as child labour or forced labour. Our programme has run for ten years, and more work needs to be done, but we've decided that we would report on the progress that we make, as well as the challenges that we meet, transparently and regularly. A lot of attention is dedicated to what we've done to address the risk of child labour in the cocoa sector, but we follow the same approach for fish and seafood in Thailand, hazelnuts in Turkey, and vanilla in Madagascar.”

### Aligned throughout the company

The third key element is to align on a set of objectives and KPIs throughout the company. In 2011, Nestlé developed a human rights due diligence programme based on eight different pillars. The approach follows the UNGPs, but has been translated into a version that everybody in the company can understand and implement.

“The work we've done on the policy is a good example of how we've tried to translate broad concepts into tangible action. Since 2011, we've mainstreamed human rights into 17 different policies and standards – from our Responsible Sourcing Standard to our Privacy Policy to our Consumer Communication Principles – in order to make them intelligible and actionable for all our employees.”



# Site visit to Italian tomato plantations



**Tomatoes are one of the commodities where the risks of violations of human rights are regarded as especially high. In 2019, AP7 and a group of institutional investors visited Italian tomato plantations to survey the prevalence of forced labour.**

The aim of the visit was to deepen understanding of the situation for farmworkers in Italy, and to increase the opportunity for investors to engage with portfolio companies on strengthening respect for human rights in agriculture and to encourage them to take further measures.

During the trip, AP7 and the other participants collaborated with a number of actors, including representatives of the aid organisation Oxfam, the UN migration organisation, the Italian labour market department, trade unions, and Funky Tomato – a tomato enterprise that collaborates with Oxfam.

## **Downward pressure on prices a root cause**

According to Oxfam, downward pressure on prices is one of the causes of the problems on the plantations. The farms are often small in size, and the smallholders lack a position of strength in their negotiations with distributors. This forces the purchase price down so far that the farmers are forced to lower their workers' wages to below living wage level. The problems are greatest when crops are harvested by hand, when the process is at its most labour intensive.

The trip revealed that most of the people working on the tomato plantations are migrant workers, with or without work permits. Workers without permits are the most vulnerable, and must often accept work without a legal contract or secure employment terms.

## **Lucrative business for the Mafia**

The farmers' difficulty in finding seasonal workers for the harvest has led to the growth of a market for dishonest actors, such as the Mafia. The employees are controlled by the Mafia, and often live in ghetto-like conditions, and the transports to and from the plantations often involve unsafe vehicles. Flora Gaber, AP7's sustainability expert, took part in the trip, and reported on this aspect in a blog post:

“ When the EU changed the terms for agriculture payments in 2008, basing the subsidy on land area instead of production, the Mafia clans started to buy up land and farms on a large scale. The agricultural industry is very lucrative business for the Mafia in Italy, even more rewarding than drug dealing, according to some sources.

## **Encourage engagement**

During the trip, the participants visited tomato plantations, factories, and farming collectives. Mutti and La Doria, two large tomato producers, said that they would like to see distributors become engaged and demand sustainability in the producer stage. Flora Gaber continues:

“ We also talked with the farmers that Funky Tomato collaborates with. Funky Tomato has built up a best-practice model for collaboration between all actors in the chain. The farmers saw that the collaboration led to increased synergies and made the logistics easier, which in turn reduced the risk of disruption in the operation.

After the trip, Sustainalytics invited a number of food companies and food retailers to a virtual roundtable discussion on possible solutions to the challenges relating to labour rights in the Italian agricultural sector. In the engagement project with the 17 companies, attention was drawn to the possibility of joining the Ethical Trading Initiative (ETI) Italian working group that has become engaged in the issue.





# “Collaboration and local support are two success factors”

**ETI Sweden is a collaboration platform that works for good working conditions in supply chains. Managing Director Henrik Lindholm gives his perspective on risks, challenges and opportunities relating to human rights and working conditions in supply chains.**



## **Tell us about ETI Sweden. Who are you and what do you do?**

“ETI is an initiative that gathers companies, trade unions, civil society organisations, and public actors to develop methods and to work together for human rights and good working conditions in global supply chains. At present we have 17 members, and what they have in common is that they see challenges in their supply chains, and want to find new and better ways of working in the area. By gathering companies across different sectors, we can learn from each other’s experiences.”

## **What distinguishes you from other similar initiatives?**

“Within ETI Sweden, it’s the breadth of actors where, above all, trade union organisations stand out. Our approach is not just theoretical – we work in tangible projects to bring about real change. We also arrange training courses and share knowledge and experience with other companies, organisations, and trade unions. Through our initiatives, the members can get on with the practical work.”

## **ETI is also found in other countries. Do you work together in any way?**

“ETI has been established for a long time in the UK, where the Swedish companies Lindex and H&M are members, and it’s also found in Norway and Denmark. The organisations are independent, but

collaborate on disseminating knowledge and on joint projects in what we call JETI – the Joint Ethical Trading Initiative. One example is in the textile industry in Bangladesh, where we’ve been working to promote the social dialogue in the factories – an initiative that resulted in lower staff turnover and greater employee satisfaction. After the military coup in Myanmar we issued a joint statement and drew up recommendations for how companies should act regarding imports from the country.”

## **What are the biggest problems in terms of human rights and working conditions in global supply chains?**

“That depends on whether we’re talking about the most widespread or the most serious. The most common problems are that many people working in global supply chains are forced to live in poverty because the wages they earn are insufficient, or their workplaces are unsafe. Then we have more extreme violations, such as forced labour, or ‘modern slavery,’ and child labour. We see current examples linked with the Xingjian province in China, which is known for forced labour among Uyghurs and other ethnic minorities.”

## **How has Covid-19 affected conditions in supply chains?**

“The pressure to deliver has increased in many industries, at the same time as suppliers have been hit by cancelled orders, which has had a detrimental

**Henrik Lindholm** has worked with issues relating to human rights and working conditions in supply chains since 2003, as CSR Manager at Nudie Jeans, Sustainability and Quality Manager at Sandqvist, with the review of European clothes companies’ supply chains at Fair Wear Foundation in the Netherlands, and has conducted research in the field at KTH. Since August 2020 he has led the operation at ETI Sweden – a dream job, in his view.

effect on working conditions. At the same time, it's become harder, both for us and the companies, to follow up working conditions on the ground. The pandemic has also made the situation worse for groups already at great risk, such as migrants and seasonal workers. Many of them live in cramped environments where physical distancing is impossible and maintaining personal hygiene is difficult. Because of the restrictions, many have found it difficult to get to work or access health services, at the same time as they have not been able to return to their home countries.

#### **What do companies gain from working with their supply chains?**

"A long-term collaboration with the suppliers, working together to improve matters, is often more effective than spending time and resources on switching suppliers to increase margins. If a company has a close eye on its supply chain, and good relations with its suppliers, big gains are possible in the form of reduced risks for everything from delays and production shortages to quality problems or scandals that damage the brand. All these can bring large costs."

#### **What is the current view of corporate responsibility?**

There is great consensus that companies are responsible for their supply chains. For a long time, the focus has been on checks in the first tier, i.e. the supplier with which the company has a relationship and who, in turn, makes demands on their suppliers. Now, more and more companies are taking control over the entire chain. This is a development that goes hand in hand with the forthcoming EU legislation under which companies must apply human rights due diligence."



**If a company has a close eye on its supply chain, and good relations with its suppliers, big gains are possible in the form of reduced risks for everything from delays and production shortages to quality problems or scandals that damage the brand.**

#### **Can you briefly explain what that means?**

"It means that companies must have a process for risk assessment and risk management that considers where in the supply chain the risks for violations of human rights are greatest – where the risks affect many people or where they are of a serious nature. Take the tuna industry, for example, where there can be poor conditions in the canning factories, but if we take another step down in the chain and examine the conditions on the fishing boats, these can be directly life-threatening. Then it's better to direct the resources there first and foremost, and legislation in the area can speed up such a transition."

#### **What are the main challenges linked to the work with the supply chain?**

"I feel there's an interest in and awareness of the problems, so it's not there that it fails. However, there's a big challenge in allocating sufficient time and resources to identify the risks and address the problems. The supply chain in the food industry is very widespread and consists of many tiers, and the further you come from the buyer the more resources the work demands. This is why ETI Sweden works on developing more efficient and smarter ways of working, for example through collaboration between actors or using digitalisation."

#### **Why is collaboration such an important tool?**

"For an individual company, and as one of many customers, the influence you can exercise over a supplier is limited. But of course the influence increases if several companies join forces on purchasing. Many of the problems we see don't just concern an individual factory or plantation, but rather problems that are widespread in an industry or region. Migrant workers in Thailand, for example, often work in different sectors, such as food or electronics, depending on the season. In such cases, there must be a political will in the country to implement changes. Then it's a great benefit if companies in different sectors can work together, and ETI Sweden is a platform for these types of initiatives."

**What other success factors do you see in the work with the supply tier?**

“It’s very important that the improvement work is anchored locally, which requires both expertise and momentum on the ground at the factory or on the farms. It’s not enough to just turn up once a year for an inspection and talk about where the fire extinguishers or emergency exits are, because the problems can return after a couple of months.

“Discrimination and harassment of employees is another problem, and in those cases the employees must be made aware of their rights. This problem too cannot be resolved through the odd visit; instead, local trade unions must be allowed to represent the workers. The issue is a difficult one and, in certain countries, such as China and Vietnam, there are legal restrictions. In other countries, discrimination against people who are active in trade unions is a widespread problem. Here, our members, the trade unions, can contribute with important experiences and contact networks.”

**What can investors like AP7 do to engage with the companies they own?**

“I think that investors should work to encourage companies to build up the systemic and risk-based due diligence work I mentioned earlier, instead of reviewing all suppliers using a standard template. It’s about carrying out an in-depth analysis and focusing resources on where they have most benefit, for example linked to specific commodities, regions, or countries. You can’t check a tomato plantation in Italy using the same template as for a cotton field in China, even if both are agricultural products.”

**Do you mean that it’s better to retain investment in a company and try to engage with it rather than sell the shares?**

“I think that companies should work on long-term relationships with their suppliers, and do everything they can to help improve the working conditions. If they break off the relationship, the risk is that it will affect the workers, and then all you’ve done is exacerbate the situation. For investors, I don’t see the same risk with divesting in a company. Obviously, it’s good if you can establish a constructive dialogue with the companies you own, and propose better ways of working if the will is there. But we all have limited resources and if our words are falling on deaf ears, the resources can be used more effectively by allocating them to actual improvements elsewhere.”

**What is ETI Sweden focusing on in the immediate future?**

“In 2021, the EU is expected to pass legislation on human rights due diligence, and we’ll be working with our members to see how they can best apply the method that, for example, the UN and OECD advocate. We’re also working in tangible areas like the supply chain for batteries, where we’ve identified a number of risks relating to human rights, and we’ll also be examining how companies can work to support the right to join a union in countries where this is under threat or even prohibited.”

**FACTS****Ethical Trading Initiative, ETI**

Ethical Trading Initiative, ETI, is a sector initiative and a platform for improved working conditions in production and supply countries. The members undertake to draw up their own codes of conduct based on internationally recognised UN frameworks and ILO conventions on working conditions. ETI Sweden was founded in 2020 by Ax foundation, Coop Sverige, Fairtrade Sverige, LO, Oxfam Sverige, Systembolaget, Unionen, Union to Union, and Västtrafik.



**I think that companies should work on long-term relationships with their suppliers, and do everything they can to help improve the working conditions. If they break off the relationship, the risk is that it will affect the workers, and then all you’ve done is exacerbate the situation.**

# Conflict between profit and sustainability?

**There is a delicate balance to managing shareholders' expectations on earnings and the responsibility for decent living incomes down the supply chain. John Armstrong, Investor Relations, explains how Nestlé is handling this conflict of interest.**

"There may be tensions, given that different investors operate to different time horizons, and it's important to recognise how stakeholders are differently incentivised. Some investors worry about how sustainability investments impact profitability and margins, particularly over the short term. For others, the focus is on risk mitigation, with expectations more linked to gradual progress. We're encountering more and more investors who understand that creating shared value along a value chain enhances resilience and strengthens a business for the long term.

"For our part, we treat sustainability like any other material investment. There has to be a business case and a return; it's a bit like what we do with R&D. That means the payoff may take time, but if we plan things out, we can move at an appropriate pace and not just manage the

tension, but adapt our approach, learn what works best, and decide where to leverage peer support or technology to make interventions more cost effective. We try to create multiplier effects, so we don't have to resort to expensive quick fixes.

"By working this way, we don't expect to pass on the costs to shareholders and can self-finance through internal efficiencies. In the case of premium products, we can sometimes pass on costs, because here consumers are more inclined to pay more for brands that act on sustainability."

## No corporate philanthropy

In February 2021, Nestlé's CEO, Mark Schneider stated in Fortune magazine<sup>16</sup> that a company like Nestlé does not engage in corporate philanthropy, but must deliver within the expectations of their society. This means delivering both for the environment and for shareholders.

"A viable plan requires pragmatism, as we must balance near-term and long-term expectations. We do this by leading with stretch targets, creating oxygen to invest, getting over the hump of transition costs, and gaining a competitive advantage."

According to John Armstrong, growth and sustainability can go hand in hand.

"We know from market research that consumers are more likely to be loyal to brands if they can demonstrate their sustainability credentials. In some categories and segments, sustainability can be a strong point of differentiation, which means consumers may be more willing to pay a premium, particularly where the product comes bundled with other benefits. In contrast, brands that don't act on sustainability are going to become less relevant with consumers, and that will translate into market share loss."

COMMENTARY • CLIMATE CHANGE

## Nestlé CEO: We don't have to sacrifice shareholders to fight climate change

BY MARK SCHNEIDER

February 17, 2021 12:30 PM GMT+1



Solar panels at the Taygete I energy installation, the site of Nestlé's largest direct investment (by capacity) in a renewable energy project to date. "Nestlé can only deliver on our environmental ambitions if we create the space to invest in these efforts," writes CEO Mark Schneider.

COURTESY OF NESTLÉ

<sup>16</sup> <https://fortune.com/2021/02/17/fighting-climate-change-business-shareholders-investments-nestle-ceo-mark-schneider/>

# Better working conditions in food supply chains

**As institutional investors, we can work to improve working conditions in food supply chains. During the course of this theme, we worked in collaboration with Alecta, AMF, and Folksam to try to answer the question of how investors can make a difference and what demands we can make of the food companies.**

Institutional investors are a long way from the producer and processing tiers in the food supply chain, and therefore have limited opportunities to directly affect conditions in the chain. Within the framework of the Sida initiative, Swedish Investors for Sustainable Development (SISD), AP7 worked with Alecta, Folksam, and AMF to examine how investors can nevertheless work for improvements and contribute to the achievement of the eighth UN Sustainable Development Goal – ‘Decent work and economic growth’.

When the collaboration group started its work, it was noted that the problems of unsatisfactory working conditions and lack of respect for human rights in the food chain are extensive, even though the issue has long been known and many multinational companies are working to improve the conditions. The objective of the investor initiative was to increase understanding of the problems and to form a platform for more intensified work in the area.

The work was based on, for example, dialogue and knowledge exchange with a number of companies and international experts on sustainability and human rights, and concluded in 2020 with the report, ‘Better Working Conditions in Food Supply Chains’.

## Roundtable discussion the launch pad

The collaboration group wanted to hear the companies’ view on how investors can work to influence developments in the work with responsible supply chains, so a roundtable discussion was held in December 2019. Participants included representatives from institutional investors, Sida, and food retailers.

The general conclusion from the discussion was that companies and other actors need to collaborate to

successfully drive the systemic issues, because individual companies have insufficient resources to drive them on their own. Companies emphasised that investors have an important role in drawing attention to the problems, and in making demands on portfolio companies that are lagging in their sustainability work.

## Downward pressure on prices a crucial risk factor

The report describes conditions in food production, with many problems deriving from agriculture characterised

by seasonal work, manual labour, and low margins. There is a great need for cheap labour, causing the significant prevalence of migrant workers. These workers often lack both contracts and work permits, and therefore find it difficult to exert their rights. The risks relating to unreasonable work conditions are also described as being bigger in developing countries, with poor protection for employees or a low proportion of trade union membership, but the problems also occur in the EU (see the report from the investor trip to Italy on page 20).

Downward pressure on prices is described as another cause. Consumers make demands regarding both

price and quality, at the same time as the suppliers are often small and have limited capacity to negotiate against large buyers. This imbalance means that many farmers are unable to pay their employees wages that correspond to a living wage. According to Oxfam, the primary producer’s proportion of the market price of a product can be less than five percent.<sup>17</sup>

The report emphasises that interest in the issues from both investors and consumers has grown, and that both have important roles to play in terms of demanding social sustainability in food supply chains.



In 2020, AP7, AMF, Alecta and Folksam presented the report, ‘Better Conditions in Food Supply Chains’. This is part of our collaboration within the framework of Sida’s investor network, SISD. A long-term approach, clarity and collaboration are success factors for investors who want to work to prevent poor working conditions in food supply chains. [Read the report here \(in Swedish with English summary\): https://bit.ly/3vKm3i2](https://bit.ly/3vKm3i2)

<sup>17</sup> Oxfam: Ripe for Change, Ending Human Suffering in Supermarket’s Supply Chains (2018).



“ Downward pressure on prices is described as another cause. Consumers make demands regarding both price and quality, at the same time as the suppliers are often small and have limited capacity to negotiate against large buyers.

### How investors can engage

The report observes that savers are placing increased value on sustainability, so investors gain from portfolio companies taking the issues seriously. In summary, a long-term approach, clarity, and collaboration are some of the success factors for investors who want to address the problems of poor working conditions and bring about change.

### Active ownership increases possibilities

Filing shareholder resolutions, voting at general meetings, and working to ensure that boards take in people with sustainability expertise are methods that owners can use to engage with companies. But a more effective way to achieve results is to actively help companies and suppliers to develop. Such a collaboration with portfolio companies is based on active dialogue and clarity, with investors stating their expectations and requirements.

Placing concrete requirements is more effective than divesting shares. Examples of requirements are that companies should have processes in place for reviewing and managing problems in the supply chain, that they are transparent with information, and that they report their actions if poor conditions or deviations are detected. By making expectations clear as investors, the companies' management can also be supported when implementing tangible measures.

### Systematic and long-term work

Investors should emphasise the commercial benefit of companies prioritising sustainability and continually reviewing their work. If they are to be able to assess the companies' sustainability work objectively and contribute to improvements, investors need to have their own sustainability expertise in their organisations.

In the work with the report, one aspect particularly highlighted was the relationship between the companies' sustainability departments and purchasing departments, and the conflict of interest that can arise between a downward pressure on prices and progress on sustainability in the value chain. It is especially important to distinguish between a country's minimum wage and a living wage. As investors, we can work to ensure that sustainability and purchasing departments collaborate, and that companies include requirements on working conditions in procurement processes.

### Collaboration increases strength

The ability of individual investors to engage can be limited. In order to increase their influence and engagement regarding companies, investor collaboration could be one way to proceed. Collaboration between investors can improve the efficiency of the work, increase engagement, and keep costs down, for example by avoiding duplication.

Knowledge is necessary in order to place concrete and relevant requirements. There is often a need for more information, and it can be difficult to access information about the working conditions on smaller farms. Collaboration with local actors, such as NGOs and trade unions, is one way to collect information more easily. If many investors request the same information, this also increases the incentive for the companies to produce it.

The results and conclusions from the investor initiative were presented for food retailing companies and food companies at an SISD webinar held together with Sida at the end of 2020. The participants agreed with the report's conclusions, but emphasised that trustful dialogue between companies and investors is the most effective method, while also sending a signal that the work to achieve improvements is in the interests of both parties.



### Debate article in Aftonbladet

On 11 July 2020, AP7 together with Alecta, AMF, and Folksam published a debate article in the Aftonbladet newspaper with the title, 'Stärk arbetsvillkoren inom matproduktion' ('Strengthen working conditions in food production'). In the article, we described the problems in food supply chains and why collaboration is key in addressing the problems, and encouraged more actors to become involved. [Read the article \(in Swedish\) here: https://bit.ly/3yVdyCI](https://bit.ly/3yVdyCI)

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# Conclusions and recommendations

Through the theme ‘Working Conditions in Food Supply Chains’ we have acquired information and drawn conclusions that resulted in a number of recommendations to investors and companies that want to contribute to improved working conditions in food supply chains.

## Broad collaboration between various societal actors crucial

Human rights and labour rights in supply chains are complex issues, and individual investors and companies only have limited opportunities

to improve these conditions, as major commitment and presence on the ground are often needed. We have drawn the conclusion that collaboration is the single most important success factor, and that we as investors should incentivise and engage with companies to work together or join existing networks and initiatives. Collaboration with investors, companies, organisations, and other actors on joint statements and initiatives, increases influence and creates economies of scale. At the same time, duplication of work is avoided, and it becomes possible to use the expertise, experience, and contact networks of different actors, learn from earlier projects, and share examples of best practices. As another example, food companies and food retailing companies can work together and place common requirements when purchasing.

## Focus on measures that are effective

Most companies have codes of conduct in place that are based on international guidelines and principles

regarding the work environment and human rights. In order to achieve real effect, we as investors should shift the focus from corporate governance and work to ensure that companies introduce concrete methods of working. Companies should take action to detect and correct poor conditions, and implement initiatives to improve working conditions on farms and in factories. We should also work to ensure that companies are transparent and open about problems that arise, and report the results of social audits and human rights due diligence.

## Importance of making a difference on the ground

In order to make a difference in working conditions in the supply chain and stop violations, measures are often needed on the ground,

which requires extensive commitments, resources, and knowledge. Even in terms of local initiatives, local support, or information acquisition, collaboration with other actors, such as cross-sector organisations, e.g. ETI Sweden, or local trade unions or NGOs, is one way to go.

## Identify risks in the business operation

It is vital for a company to be aware of its most material risks relating to human rights and labour rights before tangible

measures can be taken and ensure that these rights are not violated. The basis for understanding the business risks is to engage in human rights due diligence. In 2021, EU legislation is expected to come into force regarding corporate respect for human rights and the environment, with a requirement that such due diligence be carried out. Investors can declare their support for such legislation and engage with portfolio companies to adapt the business operation in preparation for the forthcoming legislation, so that their resources are allocated to the areas where they have greatest effect.

## Focus on living income and living wage

Insufficient income is one of the root causes behind violations of human rights, such as child labour and forced labour.

Downward pressure on prices is an underlying cause of wages being reduced to below the level of a living wage. An increasing number of companies have declared interest in the issue, and various sector initiatives are aimed at tightening guidelines relating to living income and living wage. Investors can encourage portfolio companies to become engaged by supporting ongoing initiatives and collaborating with other actors with similar values to make the work more effective. One challenge is to be able to show that higher prices in the retail stage results in higher wages for the employees on the farms.

### Knowledge and long-term approach are success factors for investors

Long-term and active engagement as owners is more effective than divesting shares in a company if the aim is to bring about change. An active and open dialogue

with portfolio companies, in which investors show that they have insight in sustainability issues or specific conditions in a sector or region, increases the possibilities to exert influence. Good knowledge about the issues enables investors to make clear and specific demands of the portfolio companies, such as mapping risks or reporting processes when poor conditions are detected in the supply chain. Discussing such requirements with executives in the portfolio companies ensures that companies are supported when implementing concrete measures.

### Demand that purchasing departments and sustainability departments collaborate

Production of foods in low-wage countries increases the risk for violations of human rights and labour rights. In procurements, conflicts of interest can arise between low prices and improved working

conditions in the supply chain, which exacerbates these risks. Some companies even have incentive programmes that give buyers a bonus for applying an unsustainable downward pressure on price. As investors, we can communicate to the portfolio companies that we have a commercial interest in sustainability, and that too much focus on the price can entail risks for increased costs and for the brand. As investors, we can work to ensure that sustainability and purchasing departments collaborate, and that companies integrate requirements on working conditions in procurement processes.

## Proposals for further engagement

For investors who wish to continue working with the issues, there are a number of initiatives, such as:

### The Platform Living Wage Financials (PLWF)

Alliance of 15 financial institutions that encourage and monitor portfolio companies to address the issue of living wages in the global supply chain.

<https://www.livingwage.nl/>

### Ethical Trading Initiative (ETI)

Leading coalition of companies, trade unions and NGOs that promote employees' rights globally.

<https://www.ethicaltrade.org/>

### Farm Animal Investment Risk and Return (FAIRR)

Network for investors who work with ESG risks in the global food industry.

<https://www.fairr.org/>

### PRI, Principles for Responsible Investment

<https://www.unpri.org/>

## Initiatives for companies

A significant new corporate initiative to prevent forced labour started in December 2020:

**CGF Human Rights Coalition** – a CEO-led initiative where 20 large consumer goods companies have taken a common position against forced labour, and are developing systems for identifying and managing risks regarding human rights in their operations, with a particular focus on forced labour.



## Agenda 2030 • Global Sustainability Goal 8

# Decent work and economic growth



AP7's theme 'Working Conditions in Food Supply Chains' relates to several of the UN Sustainable Development Goals, but particularly to Goal 8, 'Decent work and economic growth - Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all.'

### 8.7 End modern slavery, trafficking and child labour

Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking, and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.

### 8.8 Protect labour rights and promote safe working environments

Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

"Today, more than half of the world's workers find themselves in precarious jobs, often with poor pay and limited access to both education and social security. In addition, over the next 20 years, the global workforce is expected to increase by 800 million people, which requires major efforts to create new jobs that are also sustainable for people and the environment.

Decent working conditions promote sustainable economic growth and are a positive force for the entire planet. We must protect workers' rights and put an end once and for all to modern slavery, trafficking in human beings, and child labour. By creating the right preconditions for innovation and entrepreneurship and ensuring decent working conditions for all, sustainable and inclusive economic growth will be fostered."



Source: <https://www.globalgoals.org/8-decent-work-and-economic-growth>

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# Sources and recommended reading

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## **Shift Project, March 2021. Human Rights Due Diligence: the State of Play in Europe**

<https://shiftproject.org/resource/mhrdd-europe-map/>

## **Living Income Community of Practice (LICO)**

<https://www.living-income.com/>

## **Global Living Wage Coalition**

<https://www.globallivingwage.org>

## **Align Guidance tool on Living Income and Living Wages**

<https://align-tool.com/>

## **The Ethical Tea Partnership (ETP)**

<https://www.ethicalteapartnership.org>

## **Global Coffee Platform**

<https://www.globalcoffeeplatform.org>

## **The Sustainable Rice Platform**

<http://www.sustainableice.org/>

## **The Fair Food program**

<https://www.fairfoodprogram.org>

## **Ethical Trading Initiative (ETI)**

<https://www.ethicaltrade.org/>

## **Rimba Collective**

<https://lestaricapital.com/mechanisms/rimba-collective/>

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## **On The Forthcoming EU's Directive On Human Rights Due Diligence: Webinar Series 2021. Raoul Wallenberg Institute.**

<https://rwi.lu.se/events/on-the-forthcoming-eus-directive-on-human-rights-due-diligence-webinar-series-2021/#>

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Theme Report  
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