
Supplier CSR audit report: CP Foods, Saraburi



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1. Executive Summary

Itochu Corporation (hereafter “Itochu”) commissioned Lloyd’s Register Japan KK (hereafter “LRJ”) to undertake focused CSR audit on one of their key suppliers Charoen Pokphand Foods Public Co., Ltd. (hereafter “CP Foods”) 's current practices and existing processes. The objective of the assessment was to identify any shortcomings and opportunities for further improvements with a thorough focus on migrant workers’ rights. On-site audit was conducted during the period of 16-17 October 2018.

The audit found no legal non-compliance issues or immediate threat to Cambodian workers. This has not come as a surprise because CP Foods had put a lot of efforts to promote CSR activities throughout the company and its supply chain. Key management staffs looked proud and motivated. Top management commitment was evident by attendance of a senior managing director (EHS) during Day 2 activity.

Continuation of current practice could ensure that the worst form of human rights violation such as human trafficking & slavery may never occur within the organisation. And it was perceived CP Foods was moving towards the right direction. There were some recommendations made for further improvement. Auditor is certain that CP Foods will take appropriate actions because all responsible staffs know CP Foods cannot afford to be fully content with being legally compliant.

2. Introduction & Background

CP Foods operates as an agro-industrial business and food conglomerate across 16 countries with net annual sales of more than 500 Billion Baht as of 2017 and has more than 110,000 employees worldwide. It operates multiple businesses including feed production, farming, food processing and retail & food outlets located across Asia, Europe, and America. Through the business alliance and capital participation, the CP Group – >50% shareholder of the CP Foods – has become a major shareholder of Itochu, holding 4.7% of its stock as of March 2016. At the same time, Itochu has acquired 25% of the shares of CP Pokphand Co., Ltd. (CPP), a core company in the CP Group that has animal feed, livestock, aquatic products, and food processing businesses in China and Vietnam.

Thailand's chicken meat exports were estimated to grow sharply to 770,000t in 2017 and were forecast to further increase to 800,000t in 2018 in anticipation of continued growth in exports to Japan and other non-EU markets. Japan has been and will continue to be by far the greatest contributor with current export share of almost 50%. And CP Foods has been widely recognised as among the top providers and market leaders in Thailand over years.

In the meantime, there had been expressed concerns from NGOs and international organisations over harsh labour conditions and possible human trafficking practices at “high-risk” workplaces in Thailand. Arguably among the most notorious are of sugarcane farms, garment factories, shrimp and fish processing facilities, pig farms, and poultry farms. The critical vulnerability of migrant workers in such Thailand's labour intensive sectors has been widely recognised through international reports over recent years.

CP Foods is no exception in that it has inevitably been watched through such suspicious eyes. SwedWatch report 2015 was probably the most notable one. Although revelation in such report indicated relatively good practices by CP Foods amongst others, subsequent Human Rights Now report 2018 which heavily criticised CP Foods' competitor as well as its Japanese buyers has made Itochu take a proactive step to investigate its business partner to ensure sound labour practices and effective management to underpin them are in place. Amongst several CP Foods plants in Thailand, Itochu selected Saraburi factory for the maiden CSR audit taking its business impact into account.

3. Methodology

3.1. Audit approach

A standard social audit approach was employed to meet the objective. Combination of documentation review, on-site observation and interviews with management as well as workers. Pre-audit meeting was held at Itochu's HQ office to confirm rough audit schedule and sites to be visited. Then intensive desk-top review was conducted prior to on-site visit and interview question list developed.

While on site, to overcome language barriers, two interpreters (Japanese to Thai, throughout; Thai to Cambodian, workers interview) were arranged by the auditee during the visit. Interviewees were selected during the on-site inspection rather than from a roster.

Day 1 focused on compliance check while Day 2 on policy and procedures in place.

3.2. Audit schedule

On-site audit proceeded as follows.

Day 1 @Saraburi factory

- 09:15 – 09:30 Opening meeting
- 09:30 – 10:30 Company & facility introduction, interview with managers
- 10:45 – 12:00 On-site inspection of Food Processing Plant 2 (venue #1)
- 13:00 – 13:45 Dormitory inspection for both Cambodian (#2) and Thai (#3) workers
- 13:45 – 14:45 On-site inspection of Slaughter House (#4)
- 14:50 – 16:30 Interview with 5 Cambodian workers
- 16:45 – 17:00 Wrap-up meeting

Actual location can be referred to the following page

Day 2 @CP Tower 2 Bangkok

- 09:15 – 11:30 Corporate-level CSR practices, clarification of- and response to- SwedWatch report 2015
- 11:30 – 11:45 Closing meeting



Saraburi site layout

3.3. Audit team

The audit was conducted by Principal CSR Auditor of Lloyd's Register Japan. He has >10 years' experience in sustainability fields and has conducted >100 CSR audits so far. He is a registered auditor of APSCA (Association of Professional Social Compliance Auditors) and had successfully completed the SA8000 Advanced Auditor Course .

4. Observations / collected information from each activity

4.1. Facility profile

Saraburi factory is located in some 100km north-northeast (ca 1.5 hours' drive) of Bangkok, along the busy Mittraphab Road. Its postal address is 150 Moo.7 Tandiew, Kaengkhoi, Saraburi, Thailand and lies in 14°34'27.1"N, 100°59'18.2"E in geographical coordinates. Established in 1989, it currently holds 7350 workers with 3400 (46%) Cambodians among them. The factory has been in charge of “processing” and “adding value” functions in CP Food’s fully integrated operation structure, where one large slaughter house and 3 further processing plants were in action. This facility has been certified with OHSAS 18001 and “TLS 8001-2553” – Thai local version of SA8000. Welfare Committee currently consists of 15 workers, among which 6 (40%) are Cambodians. CP Foods tied up with Labour Rights Promotion Network (LPN) in Nov 2017 to set up its grievance channel – Labour Voices Hotline and it was rolled out to Saraburi workers from Dec 2017. Since its launch, no complaints have been lodged from Saraburi workers.

4.2. Further processing plant 2 (FPP2)

Located in the furthest back within the site and production capacity the greatest among other 2 processing plants. Very labour intensive especially for skewing process. But sufficient room was spared for evacuation in the event of emergency and exit signage with Thai and Cambodian translation was found everywhere. Site tour came across only one case where warning sign (electrical shock), attached to a dust collector, was written in English and Thai – Cambodian missing (OFI 1). The said sign was prepared by the manufacturer. Evacuation map clearly exhibited viewer’s position, evacuation route, assembly point etc in both languages too. Plant manager explained that evacuation drill conducted in both day and night shifts on a same day with ca 60% participation rate. Remaining 40% had no chance, and had to wait and see until next year if they can join (OFI 2). GHS pictogram attached to any chemicals used. Almost all workers work in a standing position and breaks provided in turn. Workers need to report to her/his supervisor in case of unscheduled bio-break because supervisors need to know if (s)he is in good shape (i.e. carries no disease) to avoid negative impact on products. Supervisor confirmed that there is no toilet ticket or alike and workers never disallowed to going there. Wet floor at times but was not felt slippery. Material storage area did not look disorganised aside from rather precarious stacking practice of 50kg flour bags (OFI 3).

4.3. Dormitory for Cambodians and Thais

Both located just across the Mittraphab Road. Thanks to the pedestrian bridge right in front of the factory main gate, workers do not need to rely on transport means – they can commute on foot. Both premises were sturdily built with concrete.

Auditor was first invited to Room G103 in Cambodian residential zone. 2 couples lived together in the same room – one couple work under day shift whilst the other under night one. A washing basin, a toilet and a shower – all looked hygienic – were equipped to each room of this 2 storey building. Air circulator, fanlight and artificial lighting were also equipped while secure storage for personal valuables (e.g. passports) was not. Residents sleep on the floor instead of in bed. Drinking water was available near the entrance gate for free. Dormitory manager explained that CP Foods bear the cost of up to 3 m³ and 25 kWh for tap water and electricity usage respectively. Besides, the property itself was rent for free. Payslip review confirmed this. Laundry vending machine was placed at each building. At the time of visit, 2 residents (i.e. one couple) possessed an original copy of their passport.

The next stop was Room 2204 in Thai residential premise. The room was occupied by no residents at the time of visit. Equipped items were almost the same as Cambodian’s with some exception of 2 beds and ceiling fan. The

room was a bit smaller than Cambodian's but larger personal space secured due to smaller number of occupants. Security lock was in place at the entrance. So was mobile phone top-up machine. CP Foods' living cost coverage was exactly the same as the case of Cambodians. Dormitory manager explained that Cambodian can also reside in Thai property if they wish but tend not to choose because they prefer living with fellow Cambodians and sleeping on the floor.

4.4. Slaughter house

Located just beyond the main entrance gate. A large complex with adjacent canteen currently under renovation. Another labour intensive workplace with a large proportion of workers holding knives. First aid kit boxes were situated at every entrance and workers were trained to head to doctors' room straight away in the event of cut/injury. Original plan of visiting doctors' room during the visit was given up due to time constraints. Same level of chemical management and emergency preparedness was observed as FPP2. Despite seemingly dense population in a large room, plant manager explained that number of workers was controlled to ensure at least 1 toilet or privy seat is allocated to every 37 workers. Also claimed was that they all can evacuate from the room within 5 minutes in the event of emergency thanks to repeated drill practice. Almost all workers work in a standing position and breaks provided in turn. Due to religious reasons, non-Buddhist (chiefly Thai Muslims) workers were deployed in the beheading workshop and manager explained that one hour break has been provided to those workers after one hour continuous work in light of tough working environment.

4.5. Workers interview

5 workers were selected during the site tour – 3 from FPP2 and 2 from Slaughter House. Male and female, single and married, age ranges from 21 to 29, work experience at CP Foods from 3 months up to 3 years. A secure room was provided by CP Foods and all interviews conducted solo.

Interview questions covered a wide range of topics including personal identity document control, freedom of movement, resignation procedure, communication with supervisor, working hours, wage & benefit, social security provision, labour contract, debt bondage, sick leaves, life in dormitory, workplace safety, difference with Thai workers, welfare committee, grievance mechanism etc. By and large, positive comments were heard during the interview. Auditor paid closer attentions to issues having been pointed out in the SwedWatch 2015 report – i.e. delay in returning passports, recruitment cost, partial social security provision, harsh treatment by supervisors, welfare committee function and no recurrence was observed. Of the only discouragement was that awareness level of newly launched Labour Voices Hotline was not as high as of Welfare Committee (OFI 4). One worker stated he never heard of it, while the other confessed he was not sure how it works.

4.6. Corporate-level CSR practices

CP Foods has put a lot of efforts on CSR issues. A wide range of policies were formalised and made available on the website. To eradicate bonded labour issues, CP Foods made clear that it will hire migrant workers directly, who had been recruited by authorised labour agencies under the MOU. Foreign dispatched workers from labour brokers no longer accepted. Managers confirmed that CP Foods was currently working with up to 4 labour agencies from Cambodia and Myanmar and those agencies were subjected to annual appraisal by CP Foods. CSR auditing programme against critical Tier 1 suppliers from raw materials, food ingredients and packaging sectors was also ongoing. Medium risk suppliers are instead monitored by means of on-line self-assessment tool, which was at a pilot stage at the time of visit. Managers stressed that CP Foods seeks for “engaging” approach rather than “policing” that is often seen in supplier audits by Western companies because they respect each other's culture and

want to work together to improve. The idea of tying up with Thai local NGO (LPN) in establishing the grievance channel came out of the same ground. Any complaints communicated through Labour Voice Hotline are registered by LPN and managers explained that workers can report it anonymously. Those logs are then communicated to CP Foods and CP Foods posts on the notice board its responses/feedbacks anonymously regardless of workers willing to disclose her/his name or not at the time of grievance lodging.

5. Evaluation against common violation risks of migrant workers' rights

The following 12 items were selected as focus areas during the audit, which had been internationally recognised as common problems around migrant workers.

5.1. Substandard wages

CP Food was up to the latest minimum wage regulation, which had been revised in April 2018 and resulted in its increase up to 320 baht per day as far as Saraburi region is concerned. Payslip review of an interviewed worker in recent fortnights indicated daily rate of 320. Workers stated the same during the interview.

5.2. Forced overtime without correct compensation

No such claim was made by any of the interviewees. Weekly overtime (OT) has been contained up to 12 hours in contrast of Thai legal limit of 36. Reviewed payslip (paid and issued fortnightly) indicated that recent OT by an interviewed worker was 22.

5.3. Confiscated ID documents and work permits

Managers explained that CP Foods had abandoned the practice of collecting migrant workers passports every three months for the sake of reporting to the immigration authorities on their behalf. Instead, workers do it on their own in their free time. This way, workers can keep their passport in hand almost all the time. Interviewed workers stated that they possess their original passport and so were dormitory residents.

5.4. Dangerous working conditions with no security

Site tour did not come across the case that workers were under imminent threat. No such workplaces were observed as workers need to work at height, in extremely high/low temperature, with large noise level, to handle hazardous chemical etc. Moderate level of OT hours (c.f. 5.2) with 1 day off in a week. Interviewees' testimony was the same.

This may be more applicable for workers at chicken raising farm where, according to Human Rights Now report 2018, a worker was forced to look after tens of thousands of chickens and to monitor water/power supply system continuously for a prolonged time. Auditor decided not to include CP Foods' Ban That Farm (upstream location for Saraburi factory) in the on-site inspection venue because managers confirmed it has no foreigners at work and thus of less importance in light of the audit objective.

5.5. Illegal deductions of salary

Interviewees said they know why they get paid that much. Reviewed payslips contained 4 items only – base wage (+ve), OT allowance (+ve), performance related incentive (+ve) and social security (SSO) (-ve). SSO deduction is not illegal.

5.6. Financial extortion by police

Investigating the issue through this audit was deemed impracticable and inappropriate by the auditor.

5.7. No social security insurance covered by employer

Details of monthly official payment to the Social Security Office were made available for review and auditor was able to cross-check the value deducted from workers wage. Correct amount was paid to SSO. Interviewees stated that they got SSO covered.

5.8. No paid sick leave

An interviewee stated that he became ill and absent from work before. And he was allowed to take sick leaves and still was paid.

5.9. Physical and verbal abuse by employer

No such case was heard from interviewees. Cambodian did not necessarily seem to feel discriminated. They look in good terms with Thai supervisors. No grievances lodged since its launch. Harassment or discrimination may happen any time anywhere but auditor perceived that violence or bullying is not a norm here.

5.10. No contracts of employment

Interviewees stated that they possessed a copy of labour contract and they've heard what the job is like by labour agent before coming over to Thailand.

5.11. Child labour

No suspected case was found during the audit. No child labour was declared in the Employment and Labour Management Policy.

5.12. Unfair or no compensation for work related accidents

Same as 5.8. Actual case suggested that workers were treated fairly in the event of accidents.

6. Appraisal against expectations from international communities

Auditor also looked into actions and steps having been taken by CP Foods in response to SwedWatch’s recommendations outlined in the 2015 report. Below table summarises auditor’s evaluation based on available information as of yet.

Expectations	Auditor’s evaluation	Comments
<p>Ensure that immediate action is taken to address the shortcomings identified in the report.</p> <p>On the short term, all companies should make sure that their businesses are conducted in accordance with Thai labour legislation.</p> <p>The long term goal should be to improve the working conditions in their factories to meet international standards.</p>	good	<p>No legal non-compliances were revealed in the 2015 report. Neither was this audit.</p> <p>To achieve sustained good practice, CP Foods took further steps to formalise policies and procedures, introduce various training programme, develop supplier evaluation scheme through self-assessment or audit, launch grievance channel tying up with local expert etc.</p>
<p>Ensure that all forms of unlawful recruitment fees are stopped and ensure that brokers are not charging migrant workers costs leading to debt bondage.</p>	good	<p>CP Foods already discontinued using brokers in hiring migrant workers. Performance of currently engaged labour agents has been monitored.</p>
<p>Take action to solve problems related to the workers’ welfare.</p> <p>Workers who have been unlawfully charged for health insurance should have their money returned.</p>	good	<p>Workers awareness level has been improved thanks to CP Foods’ training programme. No interviewee claimed that SSO fund is “unlawfully charged”.</p>
<p>Ensure that all workers are holding their own personal documents.</p> <p>Any form of confiscation of travel documents, passports or work permits must stop immediately.</p>	good	<p>Change in immigration reporting practice enabled workers to have their passport in hand almost all the time and anxiety diminished.</p>
<p>Ensure that workers are not subjected to any forms of abuse, discrimination or violence from brokers or supervisors.</p>	good	<p>No such testimony was observed. CP Foods made their stance clear in the Discrimination and Harassment Policy.</p>
<p>Ensure that membership in welfare committees is open to migrant workers.</p>	good	<p>6 out of 15 committee members are Cambodian. Proportion (40%) represents current composition of the total workforce in Saraburi factory and was deemed fair.</p>
<p>Ensure that migrant workers are informed about their rights in their own languages and put in place effective grievance mechanisms.</p>	good	<p>Well-trained labour agents seem to have informed migrant workers of their rights in a good manner. Auditor would have liked to see Foreign Labour Hiring Policy translated into Cambodian (and Burmese) too. Two phone lines available for Cambodians in the existing Labour Voices Hotline.</p>

7. Conclusions & Recommendations

7.1. List of findings

No legal non-compliances were identified through this investigation. However, there were some minor issues which may be addressed for further improvement. Those are summarised below.

Non-compliances/conformances

ID	issues	rationale
	none identified	

Opportunity for improvement

ID	issues	rationale
OFI 1	Cambodian language translation missing in a warning sign (see photo in Appendix 10)	Considering very limited linguistic skills by Cambodian workers, provision of warning messages in English and Thai is not deemed good enough. It was evident through emergency exit signs and evacuation maps that the facility takes hazard communication seriously and a bit more attention should be paid to machinery related safety.
OFI 2	Some workers unable to participate in annual emergency evacuation drill	Current participation rate of ca 60% is better than government's recommendation. But remaining 40% inevitably miss out the chance and never know if (s)he can join in the following year. Every single worker has a right to practice to protect themselves in the event of emergency and encouraged is to plan back-up session(s) to cover those who were absent from work on the day. Beware that workers new to the facility are one of the most vulnerable.
OFI 3	Precarious stacking of bagged materials (see photo in Appendix 10)	50kg flour bags were piled up to well over 2m high. Perceived risk of them falling down and hitting workers passing by. It was of manufacturer's guidance that use of hook is not ideal. Bearing this in mind, recommended is risk assessment implementation and in-house rule development as to how many (or tall) those bags may be stored in the designated location.
OFI 4	Still a room for awareness promotion with regard to grievance channels	Not all interviewees were fully aware of the presence and/or functionality of the Labour Voice Hotline. No grievances lodged so far may be a good indication provided that the mechanism is fully understood and trusted among workers. Thus CP Foods should not rest on their laurels.

It has to be mentioned that there were a certain degree of limitations in this audit especially in the area of records review and interviewing. Social auditors usually spend more time working on these topics at a facility of this population size. Communication relay (Cambodian → Thai → Japanese) during workers interview may have resulted in some misunderstanding or overlooking of key indications by interviewees. Speaking to labour agents or members of welfare committee was not possible due to time constraints. It was of auditor's expectation that CP Foods' internal audit process be able to compensate for it and to uncover if any problems exist.

7.2. Disclaimer

This report has been prepared solely for informing Itochu of the audit outcome and in no way is intended to provide assurance to CP Foods. LRJ's responsibility is only to Itochu. LRJ assumes no responsibility and shall not be liable to any person for any loss, damage or expense caused by reliance on the information or advice in this report or howsoever provided.

8. List of interviewees

Date	Name	Topic
16 Oct 2018	Mr XXXXXXXXXXXXXXXX (Vice President of Saraburi plant)	Welcoming and greeting
16 Oct 2018	Mr XXXXXXXXXXXXXXXX (Assistance Vice President, HR Dept of Bangkok office) Ms XXXXXXXXXXXXXXXX (HR Compliance Unit of Bangkok office)	Labour agency management, grievance mechanism, social insurance payment, etc
16 Oct 2018	Mr XXXXXXXXXXXXX (HR General Manager of Saraburi plant)	General facility introduction, Labour contracts, worker clock in/out, payslips, work shifts, passport & work permit handlings, welfare committee, etc
16 Oct 2018	Further processing plant 2 (FPP2) manager	Production flow, emergency exit and evacuation plan, safety practices, bio-break provisions,
16 Oct 2018	Dormitory manager	Room equipment, access to drinking water, common practice by residents, fees charged to workers, etc
16 Oct 2018	Slaughter house manager	Production flow, emergency exit and evacuation plan, safety practices, bio-break provisions, noise & illumination monitoring
16-17 Oct 2018	Ms XXXXXXXXXXXXXXXX	Interpreting
17 Oct 2018	Dr XXXXXXXXXXXXXXXXXXXX (Policy & Strategy Dept Manager, CSR & SD) Ms XXXXXXXXXXXXXXXXXXXX (Consumer Insight Manager, Overseas Marketing of Bangkok office)	Corporate vision, Company CSR activity
17 Oct 2018	Mr XXXXXXXXXXXXXXXX (Assistance Vice President, HR Dept of Bangkok office) Ms XXXXXXXXXXXXX (HR Compliance Unit of Bangkok office)	Labour agency management, grievance mechanism, social insurance payment, supplier CSR self-evaluation and audit programme, etc

In order to protect privacy, information identifying an individual such as a name is hidden with XXXX.

9. References

- SwedWatch (2015) Trapped in the Kitchen of the World
- Human Rights Now (2018) Written Statement submitted to 38th Human Rights Council session “Serious and Widespread Human Rights Violations Reported in Thailand’s Poultry Sector”
- CP Foods (2017) Annual Report 2017
- CP Foods (2013) Code of Conduct
- CP Foods (2017) Statement on Slavery and Human Trafficking
- CP Foods (2017) Foreign Labour Hiring Policy
- CP Foods (2017) Employment and Labour Management Policy
- CP Foods (2017) Discrimination and Harassment Policy
- Sakchai Preechajarn (2017) Thailand Poultry and Products Annual 2017
- Trafficking in Person Report (2018) US Department of State
- International Finance Corporation & European Bank for Reconstruction and Development (2009) Workers’ accommodation: processes and standards
- Facility introduction material
- Social security payment record – Jul, Aug & Sep 2018
- Payslips of an interviewed worker
- Thai PBS “Minimum wage to rise 5 to 22 baht, effective April 1” <http://englishnews.thaipbs.or.th/minimum-wage-rise-5-22-baht-effective-april-1/>

10. Appendix

Site tour photos



OFI 1:

Warning message “CAUTION RISK OF ELECTRIC SHOCK” translated into Thai only.

Could have been better to exhibit Cambodian translation too, as had been observed for emergency exit signs etc.



OFI 3:

50kg bags piled up in a rather uncontrolled manner. Collapse risk present.

Would have been better to set up a rule as to how tall such materials may be stacked and to regularly check if such rule has been observed.