

## KnowTheChain Food & Beverage Benchmark Methodology Version 2 (December 2017)

*This document includes further relevant information to indicators in the KnowTheChain Food & Beverage Benchmark where we believe we meet the requirements for those indicators. For full details on our approach to managing forced labor and other human rights issues in our supply chain, please visit [PepsiCo's website](#), particularly our [2017 Statement on Forced Labor and Human Trafficking](#), our [Supplier Code of Conduct \[link\]](#), and our [Human Rights](#) disclosure*

### SCORED DISCLOSURE

#### THEME 1 COMMITMENT AND GOVERNANCE

##### 1.1 Commitment

The company:

(1) has publicly demonstrated its commitment to addressing human trafficking and forced labor.

##### 1.2 Supply Chain Standards

The company's supply chain standard:

(1) requires suppliers to uphold workers' fundamental rights and freedoms (those articulated in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work), including the elimination of forced labor;

**(2) has been approved by a senior executive;**

- *PepsiCo's Supplier Code of Conduct [link] (SCoC) is reviewed and approved by senior executives across our business, including our Executive Vice President, Global Operations (see <http://www.pepsico.com/About/Leadership>)*

(3) is easily accessible from the company's website;

**(4) is updated regularly, following internal review and input from external stakeholders; and**

- *Our [Global Supplier Code of Conduct \(SCoC\)](#) and other relevant policies and statements related to forced labor such as our [Human Rights and Salient Issues Statement](#) (updated June 2017), and our [Global Policy on Sustainable Palm Oil](#) (updated June 2018) are reviewed on a regular basis to reflect changes in our business and the external environment and feedback from stakeholders. Our [SCoC](#) was updated in June 2018. The previous version was updated in January 2013.*

(5) is communicated to the company's suppliers.

##### 1.3 Management and Accountability

The company:

(1) has a committee, team, program, or officer responsible for the implementation of its supply chain policies and standards that addresses human trafficking and forced labor; and

**(2) has tasked a board member or board committee with oversight of its supply chain policies and standards that address human trafficking and forced labor.**

- *The Public Policy and Sustainability Committee assists the Board in providing more focused oversight of the Company's policies, programs and related risks that concern key public policy and sustainability matters, including the management, policies and standards relating to human rights and forced labor in our supply chain, such as through our Supplier Code of Conduct and our Sustainable Sourcing Program.*

#### 1.4 Training

The company undertakes programs which include:

**(1) the training of all relevant decision-makers within the company on risks, policies, and standards related to human trafficking and forced labor; and**

- *Our [Human Rights disclosure](#) describes specific training on forced labor for procurement colleagues: "In 2017, we piloted targeted human rights training with associates in the most relevant functions (i.e., Human Resources, Global Procurement, Legal, and Compliance), with 95% of associates completing the training. The training was designed to raise awareness of potential forced labor and human trafficking issues and strengthen employee ability to identify and prevent potential impacts across our supply chain. We anticipate rolling out follow-up training in 2018 to reinforce these learnings."*

(2) the training and capacity-building of suppliers on risks, policies, and standards related to human trafficking and forced labor, covering key supply chain contexts.

#### 1.5 Stakeholder Engagement

In the last three years, the company has engaged relevant stakeholders by:

**(1) providing at least two examples of engagements on forced labor and human trafficking with policy makers, worker rights organisations, local NGOs, or other relevant stakeholders in countries in which its suppliers operate, covering different supply chain contexts; and**

- *We regularly engage a wide range of external stakeholders and human rights experts on our approach, salient issues, and specific concerns. For example, following feedback from several stakeholders including the Interfaith Center on Corporate Responsibility (ICCR), we are taking an active role in the Consumer Goods Forum's initiative to fight forced labor through the Priority Industry Principles. The initiative seeks to establish common standards amongst its large retail and consumer goods company members to tackle forced labor through key issues such as ensuring freedom of movement for workers, no document retention, and no fees paid by workers for our own operations and our value chains.*

(2) actively participating in one or more multi-stakeholder or industry initiatives focused on eradicating forced labor and human trafficking across the industry.

## THEME 2 TRACEABILITY AND RISK ASSESSMENT

### 2.1 Traceability

The company discloses:

**(1) the names and addresses of its first-tier suppliers;**

- *A full list of our palm oil suppliers can be found at:*  
[http://www.pepsico.com/docs/album/policies-doc/pepsico-2018-direct-palm-oil-supplier-list\\_vf.pdf](http://www.pepsico.com/docs/album/policies-doc/pepsico-2018-direct-palm-oil-supplier-list_vf.pdf)

(2) the countries of below first-tier suppliers (this does not include raw material suppliers);

(3) the sourcing countries of raw materials at high risk of forced labor and human trafficking; and

(4) some information on its suppliers' workforce.

### 2.2 Risk Assessment

The company discloses:

(1) details on how it conducts human rights supply chain risk or impact assessments that include forced labor risks or assessments that focus specifically on forced labor risks; and

(2) details on forced labor risks identified in different tiers of its supply chain.

## THEME 3: PURCHASING PRACTICES

### 3.1 Purchasing Practices

Purchasing practices and pricing may both positively impact labor standards in the company's supply chain, and increase risks of forced labor and human trafficking. The company:

(1) is taking steps towards responsible raw materials sourcing;

(2) is adopting responsible purchasing practices in the first tier of its supply chain; and

(3) provides procurement incentives to first-tier suppliers to encourage or reward good labor practices (such as price premiums, increased orders, and longer-term contracts).

### 3.2 Supplier Selection

The company:

(1) assesses risks of forced labor at potential suppliers prior to entering into any contracts with them.

### 3.3 Integration into Supplier Contracts

The company:

**(1) integrates supply chain standards addressing forced labor and human trafficking into supplier contracts.**

- *Our SCoC sets out the expectations we have of our suppliers in the areas of business integrity, labor practices, health and safety, and environmental management. It is based on recognized international human rights standards and explicitly prohibits all forms of forced labor. Compliance with our SCoC is a condition of PepsiCo's supplier contracts. Please refer to Principle 6 in our [Global Supplier Code of Conduct](#) for the specific terms of our forced labor provision.*

### **3.4 Cascading Standards through the Supply Chain**

The company:

**(1) requires its first-tier suppliers to take steps to ensure that their own suppliers implement standards that are in-line with the company's supply chain standards addressing forced labor and human trafficking.**

- *Suppliers are required to apply our Supplier Code of Conduct including the provisions on forced labor throughout their supply chain. Our [SCoC](#) published in June 2018, states that: "Suppliers are also expected to communicate and apply the Supplier Code and relevant policies throughout their supply chain."*

## **THEME 4: RECRUITMENT**

### **4.1 Recruitment Approach**

(1) has a policy that requires direct employment in its supply chain;

**(2) requires employment and recruitment agencies in its supply chain to uphold workers' fundamental rights and freedoms (those articulated in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work), including the elimination of forced labor; and**

- *Page 2 of our [SCoC](#) sets out our requirements around forced labor and states that"... suppliers shall ensure that any third-party recruitment agencies comply with these principles."*

(3) discloses information on the recruitment agencies used by its suppliers.

### **4.2 Recruitment Fees**

The company:

**(1) requires that no worker in its supply chain pay for a job—the costs of recruitment should be borne not by the worker but by the employer ("Employer Pays Principle"); and**

- *Our commitment to the "Employer Pays Principle" is set out in page 3 of our [2017 Statement on Modern Slavery and Human Trafficking](#): "... we aligned our SCoC with the Consumer Goods Forum Priority Industry Principles and the Employer Pays Principle to help ensure that:*

*Every worker has freedom of movement, No worker has to pay for a job, and No worker is indebted or coerced to work”*

*This is reflected on page 2 of our SCoC [link]: “...workers must not be required to pay recruitment or other similar fees to obtain or retain their employment and suppliers shall ensure that any third-party recruitment agencies comply with these principles.”*

(2) takes steps to ensure that such fees are reimbursed to the workers, in the event that it discovers that fees have been paid by workers in its supply chain.

#### **4.3 Monitoring and Ethical Recruitment**

The company:

(1) takes steps to ensure employment and/or recruitment agencies used in its supply chain are monitored to assess and address risks of forced labor and human trafficking; and

(2) provides details of how it supports ethical recruitment in its supply chain.

#### **4.4 Migrant Worker Rights**

The company:

(1) takes steps to ensure migrant workers understand the terms and conditions of their recruitment and employment, and also understand their rights;

**(2) takes steps to ensure its suppliers refrain from restricting workers’ movement, including through the retention of passports or other personal documents against workers’ will;**

- Our [Supplier Code of Conduct](#) requires suppliers to ensure that workers’ movement is not restricted: “Employment contracts must clearly state the terms of employment and must not restrict worker movement through the retention of identity papers, holding of deposits, or other actions aimed to prevent worker termination of their employment.”

(3) takes steps to ensure migrant workers are not discriminated against, and not retaliated against, when they raise grievances; and

(4) provides evidence of how it works with suppliers to ensure migrant workers' rights are respected.

### **THEME 5: WORKER VOICE**

#### **5.1 Communication of Policies**

The company takes steps to ensure:

(1) its policies and standards, which include human trafficking and forced labor, are available in the languages of its suppliers' workers; and

(2) its human trafficking and forced labor policies and standards are communicated to workers in its supply chain.

## 5.2 Worker Voice

The company:

- (1) works with relevant stakeholders to engage with and educate workers in its supply chain on their labor rights;
- (2) takes steps to ensure that there are worker-to-worker education initiatives on labor rights in its supply chain;
- (3) provides evidence of the positive impact of worker engagement in its supply chain; and
- (4) provides at least two examples of worker engagement initiatives covering different supply chain contexts.

## 5.3 Freedom of Association

The company:

- (1) describes how it works with suppliers to improve their practices in relation to freedom of association and collective bargaining;

### **(2) works with local or global trade unions to support freedom of association in its supply chain;**

- *In September 2016, International Union of Foodworkers (IUF) alleged that PepsiCo management in our Lahore, Pakistan, snacks plant interfered with efforts by contract workers to unionize. Since then, both global and local PepsiCo leaders have engaged in productive dialogue with IUF and leaders of the local IUF-affiliated union. Although the IUF-affiliated union did not have legal representative status to engage in collective bargaining, PepsiCo still honored their status and informally engaged them in parallel to the legally-recognized union. IUF has expressed satisfaction with our willingness to engage with the leaders of the local IUF-affiliated union, which continues to date. PepsiCo recognizes the rights to freedom of association and collective bargaining, and we will continue our work to ensure that, while complying with local laws, our practices seek to respect recognized international human rights standards.*

- (3) takes steps to ensure workplace environments in which workers are able to pursue alternative forms of organizing (e.g., worker councils or worker-management dialogues) where there are regulatory constraints on freedom of association; and
- (4) provides at least two examples covering different supply chain contexts of how it improved freedom of association for supply chain workers.

## 5.4 Grievance Mechanism

The company:

- (1) takes steps to ensure a formal mechanism to report a grievance to an impartial entity regarding labor conditions in the company's supply chain is available to its suppliers' workers and relevant stakeholders;

**(2) takes steps to ensure that the existence of the mechanism is communicated to its suppliers' workers;**

- *Paragraph 16 of our [SCoC](#) sets out the expectations that suppliers have their own grievance process but also highlights our Speak Up! Hotline as an avenue for workers in our supply chain to be able to report issues anonymously. "PepsiCo expects that suppliers have an effective Grievance Management system in place for grievances raised by workers within their operations or by third parties, which elevate potential violations to management in line with the UN Guiding Principles. Supplier's employees or contractors may also report suspected violations of this Code to the PepsiCo "Speak Up" hotline at 1-866-729-4888 in the United States or to dedicated phone lines in other countries throughout the world. A list of international hotline telephone numbers is attached to this Supplier Code and may be updated from time to time as reflected at <http://www.pepsico.com/Company/Speak-Up.html>. The "Speak Up" hotline is available worldwide on a 24/7 basis. Communications may also be made electronically at "Speak Up" web-line address <http://www.pepsico.com/Company/Speak-Up.html>. All such reports are treated as confidential, whether provided through our Speak Up telephone or web-line, and you may remain anonymous where permitted by law."*

(3) takes steps to ensure that workers or an independent third-party are involved in the design or performance of the mechanism, to ensure that its suppliers' workers trust the mechanism;

**(4) discloses data about the practical operation of the mechanism, such as the number of grievances filed, addressed, and resolved, or an evaluation of the effectiveness of the mechanism; and**

- *Information on the usage of our Speak Up! Mechanism can be found here: [http://www.pepsico.com/docs/album/global-code-doc/2017-transparency-slide-\(2\).pdf](http://www.pepsico.com/docs/album/global-code-doc/2017-transparency-slide-(2).pdf). Information on usage of our agricultural grievance mechanism can be found on page 10 of our [Palm Oil Progress Report](#).*

(5) provides evidence that the mechanism is available and used by workers below tier one in its supply chain, or by relevant stakeholders in key supply chain contexts.

## **THEME 6: MONITORING**

### **6.1 Auditing Process**

The company has a supplier audit process that includes:

- (1) non-scheduled visits;
- (2) a review of relevant documents;
- (3) interviews with workers;
- (4) visits to associated production facilities and related worker housing; and

**(5) supplier audits below the first tier.**

- *We conduct third-party monitored audits for portions beyond the first tier in areas such as palm oil (to RSPO standards) and cane sugar through Bonsucro certified audits.*

## 6.2 Audit Disclosure

The company discloses:

- (1) the percentage of suppliers audited annually;
- (2) the percentage of unannounced audits;
- (3) the number or percentage of workers interviewed during audits;
- (4) information on the qualification of the auditors used; and
- (5) a summary of findings, including details regarding any violations revealed.

## THEME 7: REMEDY

### 7.1 Corrective Action Plans

The company's corrective action plans include:

**(1) potential actions taken in case of non-compliance, such as stop-work notices, warning letters, supplementary training, and policy revision;**

- *There are a number of actions we might ask companies to take when non-compliances are identified, which depend on the type and severity of the issue. On page 7 of our [2017 Modern Slavery and Human Trafficking statement](#) we set out actions we have taken in two cases of non-compliance, which led to policy revision by the companies in question.*

**(2) a means to verify remediation and/or implementation of corrective actions, such as record review, employee interviews, spot-checks, or other means;**

- *Our approach to verify remediation and implementation is set out on page 7 of our [2017 Modern Slavery and Human Trafficking statement](#). In addition we explain that where corrective action plans are put in place, “verification of closure is conducted through follow-up review by an approved third party auditing firm”. See <http://www.pepsico.com/sustainability/sustainable-sourcing>*

**(3) potential consequences if corrective actions are not taken; and**

**(4) a summary or an example of its corrective action process in practice.**

- *We set out an example of a corrective action plan in practice on page 7 of our [2017 Modern Slavery and Human Trafficking statement](#). “In 2017, we identified two forced labor-related non-compliances in the over 1,000 on-site supplier audits conducted or recognized by our Sustainable Sourcing Program. Both instances involved supplier sites in the UK and concerned the compulsory overtime provisions in their human resources policies. In both instances, the sites reviewed our non-compliance findings, identified the root cause of the issue within their operations, and submitted Corrective Action Plans to PepsiCo outlining the actions they would take to remediate the issue within a set timeframe. In both cases, the policies were revised within the set timeframe and verified to be in place during our follow up audit. Learnings from both instances have been integrated into our updated Supplier Code of Conduct and revised Supplier Code of Conduct training to provide additional guidance to suppliers on forced labor-related risks.”*



## **7.2 Remedy Programs / Response to Allegations**

A. If no allegation regarding forced labor in the company's supply chain has been identified in the last three years, the company discloses:

- (1) a process for responding to the complaints and/or reported violations of policies and standards; and
- (2) at least two examples of outcomes for workers of its remedy process in practice, covering different supply chain contexts.

B.1. If one or more allegations regarding forced labor in the company's supply chain have been identified in the last three years, the company discloses:

- (1) a process for responding to the complaints and/or reported violations of policies and standards;
- (2) a public response to the allegation, which covers each aspect of each allegation;
- (3) outcomes of the remedy process in the case of the allegation(s); and
- (4) evidence that remedy(ies) are satisfactory to the victims or groups representing the victims.

B.2. If one or more allegations regarding forced labor in the company's supply chain have been identified in the last three years, and the company denies the allegation, the company discloses:

- (1) a process for responding to the complaints and/or reported violations of policies and standards;
- (2) a public response to the allegation, which covers each aspect of each allegation;
- (3) a description of what actions it would take to prevent and remediate the alleged impacts; and
- (4) that it engages in a dialogue with the stakeholders reportedly affected in the allegation, or requires its supplier(s) to do so.

### **NON-SCORED DISCLOSURE**

#### **Commitment to address forced labor in the supply chain**

The company has developed measurable and time-bound commitment(s) to address forced labor in the supply chain.

#### **Compliance with Regulatory Transparency Requirements**

##### **UK Modern Slavery Act**

Where applicable, the company discloses annual statements under the Modern Slavery Act which fulfils the three minimum requirements (director signature, board approval, link on homepage).

### **California Transparency in Supply Chains Act**

Where applicable, the company discloses a statement under the California Transparency in Supply Chains Act which fulfils the minimum requirements (conspicuous link on homepage, reporting against five areas).

### **Additional information**

Please note the below information may be displayed on a company's scorecard, or may be used for KnowTheChain's analysis purposes more broadly.

#### **Business model**

To put the KnowTheChain analysis into context, companies are invited to disclose relevant information on their business model, such as sourcing countries, owned versus outsourced production, etc. [Note KnowTheChain reserves the right to edit the information provided]

#### **Addressing forced labour risks related to third-party products**

Where a company--in addition to own branded products--sells third party products, the company discloses how it assesses and addresses forced labor risks related to third party products (relevant for retail companies).