

Supply Chain Management

Supplier audit and support for farmers in Japan

Coca-Cola (Japan) Company, Limited



Improve the working conditions of suppliers through audits

Headquartered in the United States, the Coca-Cola Company has been promoting sustainable procurement globally since the early 2000s. Coca-Cola's business in Japan consists of Coca-Cola Japan, which engages in supplying concentrate, planning and development of products, and marketing activities; and five Bottler companies responsible for production and sales of products. In terms of procurement, Coca-Cola Japan procures tea leaves within Japan; the Bottler companies procure sugars and bottles; and coffee beans and fruit juice are procured through their global framework.

Coca-Cola Japan, in its domestic procurement, complies with its Supplier Guiding Principle (SGP), which is based on the Coca-Cola Company's human rights policy. In the SGP, ten principles of action are presented, including the elimination of child labour and forced labour, wages, workplace safety, and environmental considerations. At the start of a transaction with a supplier, Coca-Cola Japan examines whether suppliers are complying with the SGP, and thereafter conducts audits periodically. In addition, Coca-Cola Japan asks its suppliers on major agricultural raw materials to comply with the Sustainable Agricultural Guiding Principles

(SAGP), which include human rights and labour rights. The SAGP also includes a unique certification system regarding farms involving third party auditors; 100% of the tea farmers in Japan have obtained this certification.

The SGP audit system is carried out mainly by the Technical and Supply Chain Division, which is responsible for quality, occupational health and safety, and environmental governance in Japan. Approximately 300 suppliers in Japan are selected for audit. These include agricultural raw materials, sugars and carbon gas for the manufacturing plants with a manufacturing licensing agreement; and suppliers of bottling materials and vending machines. The selection criteria are annual transactions of \$60,000 or more and potential risk of brand damage.

Audits are conducted by auditing companies with expertise and at the expense of the auditee. The number of interviewees is determined by the number of workers in the factory. Onsite workers employed by third-party service providers, such as cleaning and canteen workers, are also interviewed. Coca-Cola Japan requires the suppliers to improve on audit findings, and mandates follow-up audits to ensure improvement. Since the results of the audit determine the frequency of subsequent audits, suppliers have incentives to improve.

However, while the primary purpose of audits is to encourage continuous improvement, in the past, there have been cases where child labour (a zero-tolerance issue) was discovered and the contract was terminated at a manufacturing licensed plant producing promotional goods for the World Cup.

In order to reduce the audit burden on suppliers, Coca-Cola Japan is working to make the audits compatible with other companies and other auditing mechanisms. To support suppliers, Coca-Cola Japan holds workshops every year, to inform details on the processes and evaluation criteria of audits as part of "The SGP guide for implementation", and shares updates of audit findings and regulations as well as good practices of suppliers. Some 60 to 70 suppliers voluntarily participate, and the workshop has become a valuable forum (especially for small and medium-sized suppliers) to learn the latest developments, including updates in regulations as well as to exchange information such as how to raise awareness among employees within each company.



More than 80% of audit findings pertain to working hours, such as overtime and holiday work and the payment of additional wages associated with overtime. Based on this outcome, we are raising awareness of the appropriate operation and implementation of working hours and overtime pay, including

information regarding the Article 36 Agreement (on overtime) as well as the overtime payment and break time to help suppliers improve the situation. In addition, Coca-Cola Japan is working with first tier suppliers to improve the conditions of workers sent from second-tier suppliers, given that the audit findings include many issues involving second-tier suppliers who work in the first-tier suppliers' factories.

Support for producers to promote sustainable agriculture

The Coca-Cola Company is driving "5 by 20", a program to support 5 million women worldwide by 2020. This global initiative promotes skills development and enhances female producers' employment opportunities in the company's supply chain. Coca-Cola Japan is supporting the activities of female producers in Japan by providing skills training for tea leaf production and dairy farming, providing opportunities for information exchange among producers, and giving lectures for high school students to enhance their interests in farming. In addition, Coca-Cola Japan, 25% of whose sales consists of tea products, has launched a certification program for "SAGP" for tea leaf farmers to promote sustainable initiatives related to workers' rights, environment and farm management. The company invested almost two years in building a relationship of trust with farmers that led nearly 3,000 farmers to obtain certification, which represents 10% of total tea farmland in Japan. Through these initiatives, Coca-Cola Japan continues to promote sustainable agriculture for all producers, business partners, and consumers. The Coca-Cola Company is actively engaged in eradicating child labour in El Salvador, Central America, and is a participating in the Child Labour Platform (see CLP, page 35).

NOTE

MNE Declaration par.10, par.11, par.30 Related SDGs Goal 2, 5, 8