

Investor statement on modern slavery, human trafficking and labour exploitation issues

We, a coalition of 20 investors¹ with AU\$4.9 tn in assets under management, are calling on companies to pursue real action to combat modern slavery, human trafficking and labour exploitation. This is particularly important in the current Covid-19 environment where the risk of the vulnerability and potential for workers to be exploited is increasing. The International Labour Organization and Walk Free have estimated that there are over 40 million people² living in conditions of modern slavery globally and the current pandemic is likely going to increase that number.

As investors, we see modern slavery, human trafficking and labour exploitation as something that goes beyond ethics. Business models and value chains that rely on underpaid workers, weak regulation or illegal activities such as forced labour and other forms of modern slavery drive unsustainable earnings. Companies are exposed to significant compliance and brand risk, which can be costly and time-consuming to address.

Markets and regulators throughout the Asia Pacific are paying growing attention to these risks. Access has recently been denied in EU and US markets for goods thought to be manufactured with forced labour. Some stock exchanges have increased their attention to reporting on social risks, including forced labour and human trafficking. In addition, anti-money laundering regulators have imposed fines for handling financial transactions related to forced labour and human trafficking, including in Australia. In Australia, the Modern Slavery Act 2018 requires large organisations to report on the risks of modern slavery in their operations and supply chains, and the actions they are taking to address those risks (as set out in the [Australian Government's Guidance for Reporting Entities](#)).

As investors we expect companies to meet their reporting and compliance obligations and in doing so encourage companies to examine broader risks of labour exploitation as a leading indicator of modern slavery.

We are particularly concerned about industries and supply chains where there is a significant use of vulnerable workers (e.g. migrant labour, base skilled labour), complex supply chains with many intermediaries, supply chains where oligopolistic buyers exert significant pricing power over suppliers and supply chains where there is significant pressure on lead times.

We believe a detailed risk-based mapping exercise of the supply chain is a useful way for companies to achieve better visibility of the supply chain. We encourage companies to progressively expand that exercise further down the supply chain, beyond first tier suppliers. In addition, companies are encouraged to take a number of actions to mitigate the risk of modern slavery and other exploitative conditions in their value chains and business relationships, where applicable and practicable, by considering the following in the months and years ahead:

- Build strong relationships with suppliers through consolidation of supply chains, sourcing more from fewer suppliers in order to improve alignment and practices, increase visibility and reduce complexity of supply chains.
- Reward suppliers that comply with a company's responsible sourcing policy with more business and cultivate long-term relationships with suppliers. Overly transactional relationships can lead

¹ Including an investor group

² ILO and Walk Free, Global Estimates of Modern Slavery, 2017

to subcontracting and suppliers cutting corners on labour standards to meet onerous pricing or lead time demands.

- Incentivise suppliers to monitor conditions at the next tier in the supply chain.
- Price goods and services in a way that a living wage can possibly be achieved throughout the supply chain.
- Set up a systematic process to monitor modern slavery and labour rights in the supply chain. Increase direct physical presence at supplier level (to the extent that is relevant and possible, particularly in the current Covid-19 environment) as opposed to an over-reliance on social audit. Increased transparency will provide insights to investors regarding the robustness of the companies oversight.
- Align key performance indicators between the ethical sourcing team and the procurement team to avoid conflicts of interests for suppliers (where these teams are separate).
- To avoid the risk of debt bondage (the most common form of forced labour), adopt a “zero fees” or “employer pays” recruitment policy and work with suppliers and other business partners to ensure that no workers in the value chain are required to pay recruitment fees or other costs in order to secure work.
- Develop strategies for remedy and make grievance mechanisms accessible for workers at supplier level.
- Actively engage internal and external stakeholders when developing modern slavery, human trafficking and labour exploitation policies and due diligence processes, collaborate with peers and participate in industry-focused initiatives.
- Ensure there is board oversight of modern slavery policies and processes and clear responsibility for implementation within the company.

These actions will not guarantee an end to modern slavery. Nor do we expect companies to be able to implement these steps immediately. Nevertheless, we do believe these steps will help to combat modern slavery, human trafficking and labour exploitation in a meaningful way. We further encourage companies to demonstrate their ambition and commitment through transparency of the actions it is taking.

We recognise the immense challenges that industries are undergoing right now in light of the current pandemic and we look forward to working with you to re-build the economy to one that meets the needs of workers, customers, and stakeholders and to create shareholder value.

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