Responsible Investment Association Australasia

HUMAN RIGHTS IN GLOBAL VALUE CHAINS

INVESTOR TOOLKIT

The investment rationale and a practical guide, for better practice management of human rights in value chains

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CONTENTS

ABOUT THIS TOOLKIT

Purpose and scope

This toolkit is designed to help investors engage constructively with companies to encourage good practice, thereby supporting investors to better manage and influence a reduction in investment-related human rights risks in value chains. This is the third edition of the toolkit, which was first produced in 2018 and updated in 2021. This toolkit does not focus on any one specific issue and does not seek to outline all the various human rights issues that companies are facing in their operations, supply chains and broader value chains. Further, it does not seek to outline in detail the international conventions and laws on the subject, nor does it seek to make any ethical judgements. Neither does this toolkit serve as prescriptive guidance on what investors should and should not do. Rather, this toolkit focuses on points of practical engagement for asset owners and asset managers who wish to engage with companies, based on good practice and with a business rationale.

How to use the toolkit

Each section of the toolkit includes a brief description of the issue, including why it is relevant from an investor lens. Each section also includes a discussion on what the authors believe represent good practice, followed by known examples of such practices by companies. Those examples can be combined with suggested questions or used in their own right to encourage other companies to improve their practices, which will reduce risk.

Please see the Glossary for further explanations of a number of terms frequently used in this toolkit.

Context

Human rights issues in supply chains and across wider business value chains are complex and frequently occur beyond the visibility of investee companies, sometimes despite the best intentions of companies to manage them. This results in a number of risks to investors.

Because human rights issues are often systemic in nature, adopting diversification as the sole means to mitigate those risks is unlikely to lead to a significant reduction in risk. Rather, because of the typically systemic nature of the risks, investors can play a key role through encouraging companies to identify, disclose, and mitigate human rights risks, and ensuring companies are not unduly punished for identifying and reporting on incidents.

This is particularly important in the context of the Australian Modern Slavery Act (MSA) for example, which was introduced in late 2018 (shortly after the publication of the first edition of this toolkit). Without engagement by investors and other key stakeholders, there is a risk that some companies will take a mainly legalistic view on human rights rather than seeing modern slavery reporting as a conduit for better management of business risks and ultimately for positive change; both outcomes can lower investment risks and lead to greater earnings sustainability.

While this toolkit provides ideas for engagement on modern slavery issues, this third edition maintains the same scope as previous editions and continues to assess human rights issues in the context of supply chains and broader value chains of businesses.

Typically, modern slavery does not emerge in isolation from other malpractice, but is often intertwined with other underlying labour rights or human rights issues. As a result, investors have an incentive to consider wider human rights issues. Also, human rights issues that lead to investment risks can occur outside the supply chain and across the value chain.

At the time of publication of the first toolkit, the International Labour Organisation (ILO) estimated that there were more than 40 million people trapped in modern slavery conditions in the world.[1] However, at the time of drafting this third version, the latest global estimates indicate that 50 million people were living in modern slavery in 2021.[2]

The increase is driven by a number of factors. For example, the political and socio-economic landscape as well as the institutional, legal and normative landscape have changed. Also, we have seen an increase in threats which have impacted on the prevalence of modern slavery risk for workers. Notably, the COVID-19 pandemic made workers in many countries even more vulnerable, due to increased job insecurity, restrictions on movement and indebtedness. In addition, the pandemic made it more difficult for companies to audit factories. Further, since the first toolkit there have been updated and improved methodologies by Walk Free and the ILO, meaning estimates are now more accurate.[3]

Despite decades of corporate awareness and interventions, usually focused on regular social audits of factories, modern slavery and labour rights abuse remain widespread. As a result, improved practices to reduce instances of modern slavery are needed in addition to traditional methods. While there is no panacea, a number of practices and principles can collectively help reduce the risk of modern slavery and human rights abuses in value chains. This is the focus of this toolkit.

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FOREWORD

Investors and stewards of capital have a unique opportunity to influence meaningful change in how businesses approach human rights across their value chains. It is my pleasure to introduce the third edition of the Responsible Investment Association Australasia's Investor Toolkit: Human Rights in Global Value Chains, a resource crafted to empower investors to better manage and influence a reduction in, investment-related human rights risks in value chains.

Despite the introduction of legislation such as the Australian Modern Slavery Act, progress in addressing human rights violations in global value chains has been disappointingly slow. This limited advancement stems from a range of issues, including a focus on reporting compliance rather than meaningful change.

The complexity of global value chains presents another significant challenge, with many companies failing to engage with stakeholders beyond first tier suppliers. Furthermore, corporate initiatives can often represent superficial solutions that fail to address underlying systemic issues. Investors have a key role to play in helping to push companies beyond the status quo.

As the world increasingly moves beyond transparency reporting, and toward meaningful human rights due diligence, it is timely to consider how investors can support corporate behaviour change. The shortcomings evident in modern slavery reporting mirror broader environmental and social governance reporting failings, with many organisations prioritising box-ticking and producing polished reports over substantive stakeholder engagement and harm remediation.

This approach fundamentally misunderstands the purpose of human rights due diligence – to identify, prevent and mitigate adverse impacts on people.

Here again, investors can drive corporate behaviour change by moving beyond compliance monitoring to actively evaluate the quality of companies' human rights practices, including deeper engagement with affected stakeholders and transparent reporting on outcomes. Additionally, as this guide explains, investors can use their influence to encourage companies to implement robust grievance mechanisms and remediation processes that provide genuine access to remedy.

The reality we face is that, while we are making significant efforts, human rights risks persist across global value chains.

We cannot ease up; we cannot let down our guard.

Addressing these complex issues requires a concerted and comprehensive multi-stakeholder approach that tackles systemic vulnerabilities, centres affected communities, and addresses the economic pressures that lead to exploitation. As investors, businesses, governments and consumers, we all share responsibility for challenging harmful practices and creating conditions where rights are respected throughout global commerce.

This toolkit provides tangible actions for investors to take on that challenge, offering practical guidance to respect human rights through their investment activities and encourage better business practice. I am confident that by working together, we can create a more just and equitable global economy that delivers value for all stakeholders.

Chris Evans
Australian Anti-Slavery Commissioner

EXECUTIVE SUMMARY

With a focus on points of practical engagement with companies, the table below sets out a summary of key good practices identified throughout this toolkit and offers suggestions on how good practice activities can be implemented by companies most effectively. These are discussed in more detail in the main body of this toolkit.

Table 1: Good practices and related considerations

	KEY GOOD PRACTICES IDENTIFIED	GUIDANCE TO SUPPORT EFFECTIVE IMPLEMENTATION
Identifying the issues	Sanctions lists as a starting point	• Consider sanctions lists and implement a framework that assesses political stability, governance quality, legal systems, social factors, and human rights performance at sovereign level • Prioritise due diligence in high-risk countries, evaluate supplier vulnerability, and engage with local stakeholders to gain insights into human rights challenges and manage supply chain resilience
	Social audits as part of a wider suite of approaches to identify the issues	• Adopt a risk-based approach • Seek to avoid audit duplication by participating in collaborative audit programs • Prioritise semi-announced or unannounced supplier visits and audits over scheduled audits • Leverage existing initiatives for workers to raise concerns and questions (such as hotlines or committees) • Consider alternative real-time solutions such as worker voice initiatives and worker focus groups and group discussions with workers • Be mindful of the limitations and risks of each option, and ensure workers are not negatively impacted by their involvement in audits and reviews
	The importance of trustworthy grievance mechanisms	• Establish trust and raise awareness with workers • Ensure mechanisms are multilingual and confidential • Consider third-party operation by trusted NGOs
	Using forensic technology and certifications to improve value chain traceability and visibility	• Consider forensic traceability (if applicable) to ascertain geographic origins of components and raw materials • Consider blockchain applications for traceability • Consider trusted certification/third-party verification schemes
	Transparency to enable risk identification and risk mapping beyond tier 1	• Map the supply chain as far down as practicable, particularly in higher risk industries • Seek visibility and offer transparency across the entire value chain, such as publication of supplier lists (tier 1 and beyond)
	Making use of existing data and collaboration with peers / industry	• Consider widely available human rights risk indices as a starting point • Consider sanctions lists • Consider collaborative initiatives including sector-based collaborations
	Taking a wider human rights lens and a wider value chain perspective	• Consider human rights impacts at customer level, which can also lead to reputational and legal risks
Preventative actions	Evidencing that risk assessment leads to tangible follow-up actions	• Consider risk assessment as the first necessary step but ensure this is followed by tangible actions seeking to manage identified risks
	Understanding how buying behaviours can impact supplier conditions	• Consider how payment terms and order turnaround requirements impact working conditions for suppliers • Collect regular feedback from value chain partners • Consider the role of longer-term supplier relationships and commitments, particularly with strategic and critical suppliers • Integrate ethical sourcing and procurement activities and teams, including through alignment of KPIs
	Human rights due diligence (HRDD) – mandatory or voluntary	• Proactively prepare for future regulatory change • Map out and implement due diligence process and policy, assess risk, prevent and mitigate impacts, monitor effectiveness and public reporting • Collaboration across departments to define goals and build a roadmap as well as collaboration with business partners

	Participation and / or collaboration on policy advocacy	• Consider initiating / supporting policy advocacy to address systemic risks more holistically
	Consolidating value chains to get better visibility and leverage	• Consider opportunities to source more from fewer suppliers, to enhance visibility and seek to incentivise suppliers to comply with the ethical sourcing standards • Build stronger supplier partnerships
	Collaborating with other stakeholders	• Consider a wide suite of information sources and industry collaboration for better risk management, preferably multi-stakeholder ones • Promote freedom of association where applicable
	Capacity building in the value chain	• Seek opportunities to derive mutual benefit from capacity building programs, especially where multiple sourcing objectives can be promoted (quality, timeliness, communication and ethical sourcing)
Remediation	Remediation by preventative actions collaboration with external parties	• Seek to take proactive actions, such as those above, as preventative actions
	Remediation through external expertise (once issues have been identified)	• Ensure appropriate skills and experience by partnering with external experts focused on remediation • Follow a structured process, informed by good practice
Interconnectedness	Living wages	• Seek to understand and address living wage gaps that exist in higher risk areas of your operations or supply chains, either using existing data points or third-party resources, and understand where non-financial factors or sourcing practices may help or harm efforts to implement living wages • Consider implementation of living wages, which can be a gradual / phased approach • Seek, participate in and share your learnings with collaborative initiatives or partnerships founded to calculate and embed living wages, especially those actively engaging with workers
	Freedom of association	• Gather evidence of workers' access to freedom of association and collective bargaining as part of human rights due diligence of business operations and value chains • Encourage freedom of association / collective bargaining at supplier level, when appropriate, in order to reduce the risk of supply chain disruption • Demonstrate support for freedom of association and collective bargaining in operations and value chains, beyond commitment to policies
	Circular economy	• Identify areas where circular activities have higher risks of modern slavery, i.e., jobs that are labour-intensive or those residing in emerging markets and developing economies
	Gender inequality	• Include gender specific human rights issues in policies, programs and assessments of companies and supply chains • Advocate for gender equality and initiatives
	Armed conflict	Where companies operate in conflict-affected high-risk areas (CAHRA), good practice includes to: • Adopt a framework grounded in international human rights law and international humanitarian law (IHL), governing their approach • Establish a human rights due diligence (HRDD) – or, where necessary, a heightened human rights due diligence (hHRDD) – process that is revisited on an ongoing basis • Maintain transparency around the (h)HRDD process, how their framework is being applied, and any outcomes • Ensure their approach applies both prior to, during and after an armed conflict has broken out
	Climate and just transition	• Identify areas where physical climate changes may lead to increased inequality through forced migration and displacement, as well as regions where climate mitigation efforts may impact workers in supply chains • Do heightened human rights due diligence in well-known hot spots for modern slavery within the renewable energy supply chain. • Support climate strategies that consider both the physical and transitional impacts on all stakeholders and that will promote a just transition

INTRODUCTION

Since the 1990s, companies and their investors have been operating in an international landscape of a high degree of economic interconnectedness and geopolitical predictability.

Over this period, more integrated economies and workforces supported just-in-time supply chains and geopolitics rarely figured directly in corporate and investment strategies.

However, the global outlook geopolitically, environmentally, economically, technologically and socially is increasingly fractured. As summarised by the World Economic Forum's Global Risks Report 2025 report,[4] the outlook both near and longer term is now much more challenging.

Since the early 2020s and COVID-19, generally weaker economic conditions in many regions and elevated inflation and debt levels have fuelled inequality.

Inequality has been further exacerbated by a host of other major developments, including more extreme weather events (amplified by climate change) and growing geopolitical conflicts.

Reflecting this, societies are more fragile and less stable.[5] They are becoming more polarised and involuntary population migrations or displacements have increased.

Insecurity, environmental degradation, inequality, weak governance and deteriorating economic outlook all provide more fertile grounds for adverse impacts on human rights.

With regulatory and legislative controls tightening, and shareholders being more active in holding companies to account for adverse human rights impacts in value chains, better managing human rights risks is important to avoid legal issues, reputational damage and business disruptions.

This toolkit is designed to explore ideas for better practices that can lead to better outcomes both from an investor and human rights perspective.

Financial materiality

Companies that do not manage human rights issues across their value chains can be impacted in numerous ways. From an investor perspective, some of the key financial impacts include brand damage, which can lead to loss of sales, and reputational issues, which can be hard to quantify. Given that market value is increasingly made up of intangible drivers, including brand and customer / supplier relationships, human rights issues can be material and therefore impact valuation multiples.

- Reputational issues can be a distraction to management and impact staff engagement, as well as business-to-business customer relationships.
- Failure to understand the value chain also leaves the company vulnerable to external shocks and unforeseen events unrelated to labour rights or human rights, such as geopolitical events, environmental catastrophes and epidemic outbreaks.
- Ultimately, a company with value chains that rely on exploited or underpaid labour, weak regulation or even illegal activities such as modern slavery are unlikely to produce sustainable earnings, particularly in a world with increased regulation, including import bans by some jurisdictions on goods made by forced labour.
- There are also systemic risks posed to investors by the prevalence of human rights exploitation across geographies and industries, and the flow-on effects of this across businesses and society. The scope of this toolkit centres around corporate value chains and investor engagement with companies; systemic issues and solutions are not addressed. This toolkit focuses instead on pragmatic risk reduction and management practices available to corporates within their value chains, and the interests and influence of investors in this regard.

The evolving regulatory landscape

Regulation has evolved and continues to evolve globally, and includes:

- voluntary frameworks
- transparency laws, such as the UK and Australian Modern Slavery Acts
- import bans, for example,, Mexico, the US, Canada and in the future, the EU) and
- mandatory human rights due diligence, which is in place in some individual EU states already and potentially taking effect more broadly in future years under the EU's Corporate Sustainability Due Diligence Directive (CSDDD), depending on the Omnibus proposal (see below).

While much of the legislation has focused on the most extreme form of human rights violations - i.e. modern slavery - regulatory change goes beyond that.

Companies can get caught up in mandatory human rights due diligence (MHRDD) regimes, even if they don't operate in that jurisdiction via export into jurisdictions that have MHRDD. In other words, forward-looking companies should prepare for future expansion of MHRDD regimes.

Regions/Countries	Current regulatory landscape
European Union (EU)	The EU CSDDD, which was introduced in 2024, includes mandatory reporting on human rights and environmental due diligence and the CSDDD is likely to be transposed into national law by individual states (the nature of which, including fines, will depend on individual member states). It is expected that many companies will be indirectly impacted through the value chain where any upstream supplier could be caught. It also means some companies downstream could be impacted. This reinforces the notion that companies need to consider their entire value chains, not just suppliers at the tier 1 level. In 2025, the European Commission launched the Omnibus sustainability rules simplification package, which aims to reduce administrative and reporting burdens. This includes some proposed changes to the EU CSDDD, such as changing from due diligence of the value chain to direct suppliers unless there is a credible NGO / media report about poor practices below tier 1), a review only every 5 years (not as an ongoing obligation) and companies would no longer be obligated to terminate a business relationship with whom have failed to address an identified adverse impact.[6] While this is significantly different to the original framework, the EU CSDDD is still arguably a milestone regulatory development in the human rights space. Importantly, in addition to the EU CSDDD, a number of regulatory frameworks have existed in individual member states for many years, such as the French Duty of Vigilance and the German Supply Chain Act. The French Duty of Vigilance Law requires companies above a certain size to establish effective measures to identify risks and prevent severe impacts on human rights and the environment, including risk mapping, actions to mitigate risks or prevent severe impacts and monitor the effectiveness of these.[7] The German Supply Chain Act from 2023 regulates the responsibility of German companies to respect human rights in global supply chains.[8] The core elements of the due diligence obligations include the establishment of a risk management system to identify, prevent or minimise the risks of human rights violations and damage to the environment.
Canada	In Canada, companies listed or undertaking business activities in the country must report annually and answer questions on how they ensure there is no child or forced labour in their organisations and supply chains, with potential fines for non-compliance.
United States of America	Import bans also represent a risk of supply chain disruption to companies that have poor visibility over their supply chains. In the US, under the Uyghur Forced Labor Prevention Act (UFLPA) (2022), which is focused on products from the Xinjiang region of China (cotton and polysilicon), there is no reporting element, but due diligence is required. In this example, companies exporting into the US and / or Canada might therefore be impacted by this regulation. As of July 2024, the UFLPA had caught shipments of goods worth US$3.5bn.[9] These shipments did not just come from China, but also from Vietnam, Malaysia, Thailand and Mexico. Companies therefore need to understand their entire value chains, not just the geographic location of their suppliers at the tier 1 level. To that end, good practice is to map out where they source from, map out the legal requirements, have due diligence processes and policies in place, collaborate across departments to define goals and collaborate with business partners.
Australia and Aotearoa New Zealand	In Australia and New Zealand, the following has taken place in the local regulatory landscape since the last edition of this toolkit: • In Australia, New South Wales has appointed an Anti-Slavery Commissioner. • The Australian Federal Government has appointed an Anti-Slavery Commissioner. • The Australian Modern Slavery Act has undergone a statutory review, resulting in 30 recommendations. The Federal Government has responded to the recommendations, including seeking consultation on a number of topics (at the time of writing, the Government had agreed in full, in part or in-principle to 25 of 30 recommendations). While the recommendation about mandatory human rights due diligence was not accepted there will likely continue to be discussions about the topic, as well as import bans. • In New Zealand, initial discussions about strengthening the modern slavery legislation stalled but at the time of writing, the prospect is again under consideration with a potential modern slavery bill being discussed.

What this means for companies (and their investors)

It's useful to consider share price impacts from general supply chain disruption as an indication of the ripple effects of jurisdiction-specific human rights-related regulations out into the global web of value chains, and the potential impact on company performance. Human rights issues, whether alleged or substantiated, can have major impacts on share prices although it can be difficult to isolate the share price impact from single events. One older study found that the average abnormal stock returns of firms that experienced disruptions was nearly -40% (with much of this underperformance observed in the year before the announcement, the day of the announcement, and the year after the announcement).[10]

The list below provides some stark examples in listed companies of human rights issues materialising as tangible investment risk:

- **Top Glove** (Malaysia): On 15 July 2020, listed Malaysian glove manufacturer Top Glove was temporarily stopped from exporting to the US by the US Customs and Border Protection (CBP), due to allegations of forced labour issues in Malaysia (related to alleged debt bondage, excessive overtime, abusive working and living conditions and retention of identity documents).[11] Following a rally in the share price due to the demand for rubber gloves during the COVID-19 pandemic, the share price collapsed. Other companies that were also banned / temporarily banned from exporting to the US due to allegations of forced labour since the end of 2019 include WRP Asia Pacific Sdn Bhd, Supermax Glove Manufacturing, Maxter Glove Manufacturing Sdn Bhd, Brightway Group, Smart Group Bhd and YTY Industry Holdings Sdn Bhd. As of March 2022, the MARGMA (the Malaysian Rubber Glove Manufacturers Association) estimated an accumulated loss of RM3.6 billion (approximately A$1.2 billion) for a group of companies that were affected by the ban. The export ban on Top Glove was subsequently lifted on 10 September 2021, following a statement by the CBP that Top Glove had addressed all indicators of forced labour.
- **Boohoo** (UK): In 2020, Boohoo was subject to allegations of poor and illegal labour standards in its supplier base in Leicester, off the back of reports by the NGO Labour Behind the Label and the Sunday Times. Retailers including Amazon, ASOS and Zalando suspended sales of the brand, resulting in the company's share price plunging. In addition, a group of institutional investors sued the company, alleging it had made misleading statements and failed to disclose information about the issue. In March 2021, the company published a list of its suppliers, after cutting ties with hundreds of suppliers over labour rights concerns. At the same time, US Customs and Border Protection launched an investigation into Boohoo and considered an import ban following a complaint filed by campaign group Liberty Shared.[12]
- **ATA IMS** (Malaysia): In December 2021, ATA IMS in Malaysia was charged with four labour law violations, including allegations of poor working conditions, forced overtime, and minimum standards violations for worker accommodation. In the same month, Dyson terminated its manufacturing contract with ATA IMS after an independent audit of the company's labour practices, while ATA IMS denied the allegations.[13] The announcement sent the ATA IMS share price tumbling.
- **Nike**: In September 2024, Nike faced a proposal from a group of investors to consider whether a worker-driven model and binding worker rights agreement would improve its ability to address human rights issues when sourcing from high-risk countries.[14] The two shareholder resolutions (S0412 and SO423) received 13.2% and 12.3% of shareholder support, respectively.[15]

Where to from here?

With increased regulation in the last few years, a key question is why the world has not progressed further on combatting at least the most extreme forms of human rights issues across value chains?

- It is likely partly to do with a legalistic compliance mindset that many organisations take.
- Another challenge is the complexity of global value chains. Few companies that report against the Australian Modern Slavery Act go into any meaningful discussion on suppliers below the first tier.
- Another challenge is that efforts by organisations are often band-aid solutions that don't address root causes.
- A third challenge is the role that consumers and other stakeholders play in holding companies accountable and demanding ethically sourced goods and services.

While much of the regulation has focused on modern slavery, the risk is that stakeholders, including investors, take a narrow view and miss other types of exploitation. The impacts of financial materiality (brand damage, reputational issues, external shocks and earnings sustainability) can be similar regardless of whether an issue is categorised as modern slavery from a legal perspective or not. Moreover, modern slavery rarely happens in isolation; it's often the culmination and compounding of prolonged exploitation in other forms. If investors take a narrow view and only focus on modern slavery as per the legal definition, they may miss out on important insights and early signals.

SECTION 1: IDENTIFYING THE ISSUES

1.1 Sanctions lists as a starting point

The issue

As some jurisdictions have imposed import bans in relation to goods made by forced labour, governments have generated sanctions lists related to those bans. These publicly available lists can be a strong starting point for both companies and investors to identify high-risk goods, companies and source countries that have been linked to human rights abuses.

List of Goods Produced by Child Labor or Forced Labor: The US Bureau of International Labor Affairs (ILAB) maintains a list of goods and their source countries which it has reason to believe are produced by child labour or forced labour in violation of international standards. The List of Goods Produced by Child Labor or Forced Labor comprises 204 goods from 82 countries and areas, as of September 5, 2024.[16] This resource is more of a general nature than specific companies. (NB as of publication, the US Department of Labor has eliminated funding for ILAB, investors should therefore verify the ongoing status of the list.)[17]

- **The US Sanctions Tracker:** This list includes sanctions under the Global Magnitsky Act against companies and individuals as well as import bans under the Customs and Border Protection (CBP), Department of Homeland Security in the US as well as companies listed under export bans.[18] This list can be particularly useful for companies doing due diligence on suppliers in the cotton and renewable energy sectors.
- **The UFLPA Entity List:** This is a list of companies that the US government publishes in relation to the Uyghur Forced Labor Prevention Act.[19]
- **The Australian Consolidated List:** The Consolidated List is a list of all persons and entities listed under Australian sanctions laws. Listed persons and entities are subject to targeted financial sanctions.[20]

Sanctions lists are a good starting point, but many countries not on sanction lists can also have significant human rights issues. These human rights abuses, particularly modern slavery, are systemic issues, which can pose significant risks within global value chains, impacting companies, investors, and ultimately, potentially the stability and sustainability of international markets.[21] A country's political stability and the strength of its legal system directly impact the prevalence of modern slavery. Countries with weak governance, corruption, and ineffective law enforcement are more likely to harbour exploitative labour practices within their value chains.[22]

Investor relevance

Not complying with sanctions lists can lead to fines for the entity and/or individuals, plus the risk of imprisonment for individuals in addition to reputational risks. Using readily available sanctions lists can be cost-effective and reduce duplication in risk mapping. Sourcing from countries with systemic human rights abuses can also lead to significant reputational risk as well as other risks, such as supply chain disruption, which can lead to longer lead times. In addition, at a macro level, political instability, social unrest, and regulatory changes can affect the availability and cost of labour, transportation, and other essential resources.

Good practice

In addition to consulting sanctions lists to avoid sourcing from companies / countries with an established recorded human rights abuse history, assessment of sovereign risk (a country-based risk approach) can allow companies to make informed decisions about supply chain diversification and resilience.

Good practice can involve systematically integrating human rights due diligence into sovereign risk assessment. Good practice could be for companies (and investors) to consider a framework for assessing sovereign risks related to human rights and modern slavery that includes:

- **Political stability and governance:** Assess the stability of the political system, the level of corruption, and the effectiveness of governance structures. Refer to sources like the World Bank's Worldwide Governance Indicators.[23]
- **Legal and regulatory environment:** Evaluate the strength of the legal system a country, the enforcement of labour laws and the presence of anti-trafficking legislation.
- **Treatment of human rights and frontline defenders:** Assess how human rights defenders and frontline workers are treated in the country.[24]
- **Social and economic factors:** Consider social and economic factors such as poverty, inequality, and migration patterns, which can contribute to vulnerability to modern slavery.
- **Human rights performance:** Assess the country's overall human rights record, including its efforts to protect vulnerable populations and combat modern slavery. Investors can utilise the Walk Free Foundation's Global Slavery Index, the US State Department Trafficking in Persons Report, and reports from human rights organisations like Amnesty International and Human Rights Watch.[25] Investors

can use these tools to benchmark countries' risk levels, analyse trends (looking at which countries scores have changed in recent years) and map risk.

- **Integrating sovereign risk into value chain analysis:** Incorporate the sovereign risk assessment into the broader value chain risk analysis with regard to:
  - **Identifying high-risk countries:** Prioritise due diligence efforts in countries with high sovereign risk scores related to human rights and modern slavery.
  - **Assessing supplier vulnerability:** Evaluate the vulnerability of suppliers operating in high-risk countries, considering factors such as their reliance on migrant labour, their exposure to corruption, and their compliance with labour laws.
- **Engaging with local stakeholders:** Including government officials, civil society organisations and labour unions to gain a deeper understanding of the human rights landscape and identify potential risks.

Examples

- **Wesfarmers** considers lists of companies sanctioned by the US government as a screen for a company's activities,[26] although as the company notes, many of the more egregious issues are hidden in the parallel / secondary supply chain.
- **Macquarie Group** screens new customers and identified related parties during the establishment of new business relationships to identify sanctioned persons, entities or prohibited activity.[27] This screening captures sanctions related to human rights and is conducted over names and payments.

Suggested engagement questions

- Has the company consulted readily available sanctions lists in its supply chain risk mapping?
- Has the company mapped its supply chain exposure to high-risk countries using sovereign risk indicators such as the Walk Free Global Slavery Index, US State Department Trafficking in Persons Report, or World Bank Governance Indicators?
- To what extent does the company rely on suppliers in countries with known weak governance and labour protections? What measures are in place to manage this exposure?
- Does the company collaborate with other investors, NGOs, or international organisations to advocate for stronger human rights protections in high-risk jurisdictions?
- Does the company engage with local stakeholders (for example, civil society organisations, trade unions, or governance agencies) to gain deeper insights into human rights risks in sourcing countries?

1.2 Social audits as part of a wider suite to identify issues

The issue

Third-party social audits are designed to gain visibility over and access to worker conditions at a production site or facility. In practice, supply chain visibility is often poor, with many companies only having access to the financial or domicile details of their supplier organisations, as opposed to the production sites, resulting in much attention being on tier 1 of a supply chain.[28]

Alongside self-assessment questionnaires (SAQs), social audits have been a primary tool that companies have used to identify issues at the tier 1 supplier level. However, social audits, whilst well-intended, are not always used in an effective way. One of the biggest challenges is that unauthorised subcontracting audits may be conducted at a site that is not a production facility, or not the supply chain tier with workers most at-risk, including unauthorised subcontracting. Anecdotally, it has been estimated by supply chain experts (who want to remain anonymous) that the authors have spoken to that ~50% of orders going to China are not made in the supplier factories that are the subject of initial audits, but are subcontracted to other locations, typically with worse conditions.

Other challenges with audits include:

- **Scope:** Audits can be limited and thus blind to interrelated issues (for example, while an audit might detect OH&S issues or excessive overtime, sexual harassment may not be in scope or harder to detect in a limited timeframe). The independence of the auditor is not always prioritised, with some companies utilising second-party (internal) auditors as opposed to third-party (independent) auditors that are certified according to quality schemes.
- **Quality:** Corruption and bribery remain risks. Social auditors have in some instances accepted bribes from supplier factories for falsified audit reports or certification documents. Further, most social audits are announced, giving facilities time to "clean up" or obfuscate important wage or payment details prior to the visit.
- **Use:** Audits are widely acknowledged by the audit industry as providing only a snapshot in time, and as a means to uncover issues and poor practices. Audits are not in and of themselves a method of managing or reducing risk. To realise improvement, the audited facility and audit reviewer must pursue improvement and corrective action building off audit findings.

While audits may play an important role, they can be complemented by other measures which are more directly linked to workers. For example, worker voice applications, which is the practice of directly gathering feedback and concerns from workers within a supply chain. When trusted by workers and available in worker languages and anonymous formats, these can provide a company with more accurate and real-time data as opposed to "point in time" spot checks. Worker voice applications can also help companies detect issues further down the supply chain, improving efficiency, cost effectiveness, and scalability. Worker voice applications can reach more workers than a regular supplier audit program and can cover topics that are challenging for traditional social audits to address, like harassment or coerced overtime. Encouragingly, worker voice tools are increasingly used by companies.

While worker voice and similar technology can be part of the solution, like social audits they only work if applied appropriately. A 2023 report by the Mekong Club and the United Nations University Institute in Macau surveyed social auditors working in 16 Asian countries.[29] The report exposed flaws in interview methods used across mobile apps, including time constraints during factory visits, lack of privacy during interviews, workers not feeling safe to speak out, communication and language barriers and a lack of consistent worker voice analysis methods and more, resulting in an overall lack of frequency, privacy, confidentiality and consistency in workers' interviews during social audits. The report concludes that "technology must be developed and implemented with caution, with preassessments of existing capacity and respect for current ecologies of communication among the communities where it is implemented."[30]

Investor relevance

If portfolio companies implement social auditing programs that are ineffective, this exposes companies to reputational and brand damage, as well as potential unforeseen legal risks. In addition, the company's suppliers can suffer from audit fatigue. Ultimately, the costs absorbed by the supplier may impact the supplier's ability to pay proper wages and provide a safe workplace, therefore exacerbating both the human impact as well as the reputational and legal risks that the audits originally intended to avoid.

Good practice

Leading practice is to consider numerous, complimentary tools (rather than solely focus on social audits) with a focus on effective insights and strong transparency with the findings and insights identified. It can be difficult for companies to gain approval to transparently disclose where issues are identified; however, investors should focus on this transparency as a marker of effectiveness and not a cause for alarm. Investors and companies can improve the effectiveness of social audits in a number of ways, including:

- **Scope:** Ensuring a social auditing program or framework has been carefully scoped, where: audited sites are those of high-risk and relevance (see section on risk assessment); suppliers are appropriately informed of the purpose and goal of audits; the audit scheme used assesses the issues of highest relevance (such as those based on the International Labour Organisation Fundamental Principles on Rights at Work[31] and the Ethical Trading Initiative base code[32]); and the company has a mutual recognition scheme to accept previously conducted social audits and reduce audit duplication (such as Origin Energy's Social Audit Protocol).[33]
- **Quality:** Using additional checks and balances to improve accuracy and quality through, for example: the Association of Professional Social Compliance Auditors (APSCA) auditor accreditation;[34] use of reputable third-party audit firms;[35] using semi-announced or unannounced audits for facilities with no findings (noting the supplier should be made aware this is a possibility to avoid denial of entry); equipping auditors to conduct worker interviews or focus groups in the languages spoken by the workers or to be accompanied by translators (in secure location or offsite); considering using second-party audits or internal visits to supplement auditing schedules (such as ALDI's Social Assessments[36]); and establishing local social compliance and auditing teams in high-risk sourcing countries, and using limited-scope follow-up audits to monitor closure of difficult or critical non-conformances (such as those used in the Sedex Members Ethical Trade Audits (SMETA) methodology[37]).
- **Use/disclosure:** Insights gained through auditing can be used for both remedy and disclosure improvement. For example, through: determining and responding to non-conformances; collaborating with suppliers for remediation and constant improvement; working with suppliers to share learnings; considering whether audits are considered in contract costing; and ensuring that publicly disclosed indicators and statistics reflect effectiveness factors. Such factors can include a percentage of high-risk sites audited, numbers of non-conformances identified and remediated and other insightful year on year trends relevant to site industry or geography.
- **Monitoring:** Proactively supporting suppliers to address non-conformances and proactively monitoring their closure.

To avoid costly audit duplication, a number of shared platforms and tools can be used. Although cheaper than conducting an audit, accessing these platforms may still come at a cost to the company. Examples include:

- **Sedex** provides supply chain services, including SMETA (Sedex's social audit) and has a community of 85,000 businesses and 104,000 supply chain sites of employment / work across 180 countries and 35 sectors globally.[38] The Sedex platform is a central hub for supply chain sustainability data capture, storing, analysis and sharing. This can potentially avoid audit duplication.
- **EcoVadis** is a large sustainability ratings provider with scores on over 100,000 companies in 175 countries, which derive from the EcoVadis assessment process that includes environmental impacts, but also labour and human rights practices (including health & safety, working conditions and diversity) as well as business ethics and sustainable procurement.[39]

Examples of worker voice tools:

- **Ulula**[40] has field-tested questionnaires, grievance mechanisms that include: anonymous incident reporting tools that can spark meaningful remediation through real-time case management; training and resources; broadcast & alerts (the platform crafts message alerts in any language tailored to the local context and schedules send times to automatically send messages to any stakeholder, regardless of where they are located or what device they are using); and more. Ulula uses WhatsApp, e-mail, SMS, voice calls, Facebook and more to reach workers and also provides a country-wide grievance mechanism through Amfori.
- **MillionMakers**[41] is a human rights due diligence platform based on the worker voice framework. Workers opt in through a secure website, where MillionMakers set up a survey and work with local NGOs (or directly with companies), followed by workers sharing the invitation to peers. Workers then complete a daily survey for a short time period, with questions based on the ILO Forced Labour Indicators, which provide high volume data on working conditions at the time. Workers are compensated for their participation through direct payments to their mobile wallet.[42] The workers own the data collected from them while the company owns the report.
- **LRQA** has a worker voice tool that aims to capture insights from workers and to enable businesses to enhance operational transparency and manage labour related risks more proactively.[43]

In addition, **worker focus groups** can be independently commissioned and used to detect issues and qualitative data beyond the scope of social audits. For instance, the BetterWork program by the ILO and International Finance Corporation (IFC) collected data through semi-structured interviews with individuals and in focus group discussions with managers, supervisors, union representatives and workers in four countries (Indonesia, Jordan, Nicaragua and Vietnam) to assess the prevalence of sexual harassment in the garment industry.[44] Care conducted a similar study through focused group discussion (FGDs) in relation to factory workers in Vietnam.[45] Key for success in worker focus groups or focused group discussions is to ascertain that workers trust the organisation carrying out the exercise and that they're willing to speak up in a group setting.

There is the risk that factories may attempt to bribe the auditor to ensure their factory is not rated poorly. These issues can be addressed through numerous methods including use of reputable audit firms and standards, sufficient oversight of auditors, and education for those involved, including and especially the supplier and factory site. The commissioner of the audit can also incentivise suppliers not to hide issues by committing to support suppliers in closing out issues and improving practices when issues are identified, rather than ceasing relationships immediately. This may also be an opportunity to open up dialogue with the company and build trust to collaborate and work together on any other issues.

Examples

On the ground presence:

A number of companies have established on-the-ground social compliance teams in sourcing locations: **H&M** reportedly has approximately 400 people in Bangladesh to enable frequent factory visitation;[46] **Kmart Group** (Wesfarmers) has also invested in people on the ground in Bangladesh, India, Indonesia and other key sourcing locations;[47] and **ALDI South Group** has social compliance teams in Hong Kong and Bangladesh.[48]

Worker voice applications:

- **Ulula** has been used by a number of companies, such as VF Corporation, PepsiCo, Marks & Spencer and Wilmar. Ulula has also been used by **Gildan** to create a grievance mechanism that works for workers in its Honduras, Nicaragua, Bangladesh and Dominican Republic supply chains.[49] Another example is a leading global cosmetic brand that used Ulula to deploy mobile worker voice surveys.[50]
- **Telstra** operates a worker voice survey, seeking feedback directly from workers in relation to grievance mechanisms availability, environment / health / safety, wages and working conditions, gender equality, prevalence of harassment and job satisfaction.[51] The worker voice is based on an online mobile phone survey, provided and managed by a third party, testing whether workers' working conditions meet Telstra's expectations as set out in the Supplier Code of Conduct. Importantly, the worker voice survey is anonymous and offers insights on topics that can otherwise be difficult to identify, such as harassment. Telstra publishes the results of their worker voice surveys.
- **Chorus Limited** has a Worker Welfare program that was implemented following the identification of issues involving the mistreatment of migrant workers in its subcontracted field workforce during FY19.[52] This program monitors Chorus Limited's contractor and subcontractor field workforce. Chorus conducts Ethical Voice surveys reaching out to technicians and sub-contractors for feedback on health and safety and employment conditions. These have led to action plans to improve conditions and communications. This has been established as an ongoing tool for continuous improvement in their Field Service Provider supply chain. Chorus' proportion of field workforce on migrant visas steadily reduced from approximately 43% in FY20 to approximately 20% in FY24.[53]

Worker focus groups:

- **Impactt** is an example of an employee-owned consultancy that specialises in ethical trade and human rights, which has run targeted worker focus groups, including in China.[54]

Unannounced spot checks:

- **Scentre Group** undertakes unscheduled checks after hours in shopping centres, engaging directly with cleaning and security team members who work overnight, on topics such as work and employment conditions, training and grievances.[55]

Managing auditor corruption:

- **Wesfarmers** has reported instances of attempted bribery of auditors and in those cases, the supplier or site was immediately exited and disqualified from registration in the ethical sourcing program.[56]
- **Premier Investments** had an incident in FY23 involving an allegation of a factory manager attempting to bribe an LRQA auditor.[57] The matter was escalated to the company within 24 hours of it occurring. The Ethical Sourcing team engaged with the supplier to explain the breach of Premier's Code and the unethical nature of attempted bribery. The supplier agreed to resolve and remediate the matter by the management team of the supplier and factory undertaking Anti-Bribery and Business Ethics training delivered by LRQA. This training included a baseline assessment of current policies and procedures and business ethics training. The company developed a business ethics training program for the wider workforce and created a structure to ensure an annual review is complete.

CASE STUDY 1: WOOLWORTHS GROUP (AUSTRALIA)

Woolworths Group (Australia) was the first large company to identify and report cases of actual modern slavery issues in its annual reporting under the Australian Modern Slavery Act. While the issues were identified through a traditional social audit, Woolworths employ a wide range of complementary identification tools.

In 2022-23, Woolworths reported cases of modern slavery in its Malaysian supply chain and described its remediation approach. In the 2023 statement, Woolworths reported that ~A$734,000 was returned to 230 migrant workers from Nepal, Bangladesh and Myanmar to remediate a situation of forced labour.[58] While these cases were identified through a traditional social audit, Woolworths is not solely reliant on this process; rather, Woolworths is trying to triangulate as much as possible, including social audits, worker voice, engagements with unions and other means. Using as many channels as possible, allows Woolworths to bring the rest of the industry with it and further the company has also noted an increase in the number of non-conformances.

Woolworths is exploring the use of worker focus groups and is also spending resources to train its internal team to be better equipped to go out straight to the sites and speak directly to the workers in the company's supply chain, particularly in the Australian horticultural industry, which remains a high-risk sector for labour rights issues.[59]

Suggested engagement questions

- If the company does conduct or commission social audits:
  - What part / percentage of the company's supply chain is covered by the audit?
  - How does it decide which suppliers to audit?
  - Are audits announced, semi-announced or unannounced?
  - Are audits conducted internally or using recognised audit schemes through an external or third- party?
  - How is the auditor or firm vetted for reliability and experience (for instance, do they have independent certification, such as through the APSCA scheme[60])?
  - Has the company determined other audit formats it may accept to reduce duplication?
  - Has the company determined the validity period of audits, cadence for repeat audits, and communicated supplier expectations for remediation activity?
  - Do these audits include direct interviews with workers where workers remain anonymous and protected from reprisal?
- How has the company considered downward pricing or costing pressures for the supplier when arranging social audits or implementing supplier expectations?
- If the company uses intermediary agents in the supply chain to facilitate finding or managing suppliers, to what extent does the agent monitor human rights conditions at supplier and site level?
- How does the company get confidence that social audits are the best suited option to identify potential human rights issues?
- Has the company considered worker voice tools as a complementary way to identify issues?
- Does the company track or disclose the number of issues identified in audits, and support and monitor the timely closing out of issues?
- Does the audit program consider if and how suppliers are using temporary labour providers, and are such labour providers fully captured in the audit program or in other monitoring tools?
- Are results and insights from social audits used to inform: cadence of ongoing audits, potential spot checks, or ongoing understanding of sectoral or geographic risk?
- What processes or ongoing reviews are in place to regularly monitor the effectiveness of social audit and worker voice program scope and methods?
- Does the company ban subcontracting (to avoid third party labour) without prior agreement?

1.3 The importance of trustworthy grievance mechanisms

The issue

In addition to the complementary tools to social audits described in section 1.2, many companies have hotlines to report grievances. In many cases, they are described to be available to staff, suppliers and other stakeholders. However, in many cases, such hotlines do not appear to generate any reported issues.

Effective grievance channels in supply chains have become essential components of supply chain management. Further, due diligence legislation can be evidenced across the globe including the German Supply Chain Act, the French Duty of Vigilance Law, the UK Modern Slavery Act, the US Uyghur Forced Labor Prevention Act, and the EU Corporate Sustainability Due Diligence Directive (CSDDD). The UN Guiding Principles have outlined effectiveness criteria as the guiding standard for grievance channels.[61]

Good practice

Hotlines can be managed either externally or internally; the key issue is to ensure people are comfortable in reporting issues. To that end, it's more likely that workers feel comfortable if it is operated by an external, trustworthy partner. There are also cases where such hotlines are operated by an NGO, such as the Amader Kotha Helpline in Bangladesh (please see case study below). Good practice is also to be transparent on the number of complaints and reportable breaches and how these have been dealt with. Where buyers require hotlines to be in place, it may be beneficial to identify a single, mutually acceptable third-party hotline, rather than multiple hotlines required by different clients. This reduces duplication and may help trends and patterns of exploitation to be identified more quickly.

Examples

- **BlueScope Steel** has identified and reported actual cases of modern slavery under the Australian Modern Slavery Act and uses a variety of channels and grievance mechanisms to identify issues including both internal grievance mechanisms such as: worker surveys; meetings between workers and management; suggestion boxes; a speak-up/ethics line; targeted social dialogue; and an open door policy. It also has external grievance mechanisms such as: a speak-up / whistleblower hotline; facilitated dialogues; audits with worker interviews; third -party worker surveys; phone/app/web-based helplines; and a third- party grievance line for contractors.[62]
- **Chorus Limited** receives complaints through various internal grievance mechanisms, including direct to staff, Field Service Providers and an independent whistleblower hotline. Foreign language support and translators are provided to assist complaints where necessary. In FY24, 13 complaints were made about mistreatment of workers. Chorus investigated all complaints, resulting in four companies working for Chorus being terminated.[63] In addition, three companies were subject to remedial action for minor matters and are being monitored closely to ensure breaches to their Supplier Code of Practice do not recur. Chorus publishes reportable breaches giving investors insights into changes year on year.
- **ANZ** launched a human rights grievance mechanism in 2021, available to stakeholders whose human rights might have been impacted by ANZ's institutional or corporate lending customers.[64] ANZ developed a framework to resolve these complaints and receives insights to strengthen its due diligence processes. This mechanism promotes dialogue between the affected party, ANZ and its customer, enabling ANZ to consider its links to human rights impacts and any contributions to remedy.

CASE STUDY 2: OUTLAND DENIM

Outland Denim, in collaboration with Precision Solutions Group (IT services), Bossa Denim (Turkish textiles), and Nudie Jeans (Swedish denim brand) founded the Supply Network Intelligence System (Sag Salim) in 2020, establishing a grievance program for cotton farmers in Turkey.[68] The collaborative initiative between fashion industry stakeholders and local communication networks acts to connect workers to the program, aiming to identify instances of labour rights violations within the supply chain and facilitate remediation. Partnerships with local organisations allows the program to communicate with workers in their local language and develop targeted solutions. In the first year, 300 workers were provided with protective equipment as a direct response to hotline reports. The program also increased supplier awareness of labour rights violations and inspired implementation of social auditing at the farm level.

CASE STUDY 3: THE AMADER KOTHA HELPLINE

The Amader Kotha ("our voice") Helpline was established to provide workers with a mechanism to report and resolve safety and other concerns in the ready-made garment industry in Bangladesh. It originated from the Alliance for Bangladesh Worker Safety and in 2018 it became an independent initiative available to all garment workers with the support of factories and brands.[65] As of December 2024, Amader Kotha Worker Helpline reported 9,637 monthly calls and 3,032 factories calls on 600 issues. The Amader Kotha Helpline has stated that over 1,000 factories have been trained, almost 1.5 million workers have access to it and that 80% of the reported issues have been resolved.[66]

Amader Kotha is a collaboration among three project partners: Clear Voice, a project of The Cahn Group that operates hotlines and builds effective grievance mechanisms in supply chains (runs the secretariat and communications for Amader Kotha); Phulki, an NGO working to improve the lives of workers and their families in Bangladesh (responsible for the operator management and worker training); and LRQA, a global assurance company.

The helpline is a reporting channel that provides workers with an accessible and timely avenue to raise safety and other concerns without fear of reprisal. It has been designed to be reliable, confidential, and scalable across various sectors in Bangladesh. The helpline takes live calls from 6am to 10pm. Once the calls have been recorded by Phulki staff, there is a designated escalation pathway and response, with the notification period to the brand company depending on the urgency as well as, a response / suggested action timeframe.[67] As an example, a newly hired sewing operator called the helpline to get support in getting her wages after her employment was terminated. The helpline assisted in the worker receiving full payment by liaising with the factory.

While the helpline maintains worker confidentiality, in Q3 2024, Amader Kotha Helpline reported that 23% of workers were willing to share their name with their factories when reporting grievances to the helpline and 97% of workers were happy to share their name with the helpline itself, illustrating the level of trust the workers had with the process after many years in operation.

Call data is published online, illustrating the number of substantive issues reported to the hotline as well as the nature and severity of the issues, classified as high (safety) such as in relation to fire safety, medium (labour and safety), such as delayed wages, potential violations on agreed ethics, unsafe or poorly maintained machinery, and low (labour and safety), such as leave and wage-related issues or unhealthy / unhygienic working environments. For instance, in Q3 22024, the hotline received 2,078 substantive issues reported, implying that it is a hotline that is trusted by workers.

Key to its success has been ensuring workers are aware of the helpline, ensuring workers trust the helpline and ensuring issues are remediated. The initiative claims to have managed to avoid potentially deadly factory fires and has enabled evaluation of structural cracks in buildings as well as investigating and resolving instances of withheld pay or abuse by managers.

Suggested engagement questions

- How does the company ascertain that the grievance mechanisms in place are known and trusted by those who it was created for?
  - Does the company assess its mechanism according to the UNGP effectiveness criteria?
- What steps has the company taken to overcome barriers to reporting (such as language support, digital access, illiteracy and fear of retaliation), and to ensure the grievance mechanism is as accessible as possible to all workers?
- What is the governance process around acting on issues raised in the grievance mechanism?
- What governance structure oversees the investigation and resolution of grievances?
- Has the company considered using a third party to operate the grievance mechanism?
- Has the company considered joining a place-based or sector-based grievance mechanism?

1.4 Using technology and certifications to improve value chain traceability and visibility

The issue

While much company reporting focuses on tier 1 suppliers, some of the worst human rights issues are found deep down at the raw material or processing tiers of supply chains, and there can also be major issues across the wider value chain. While companies might have the right intentions to identify these risks, there are sometimes constraining issues.

One example is in the cotton industry. While there are regions with very strong allegations of forced labour, it can be difficult for companies to achieve visibility and trace products to their original source. Companies run the risk of importing goods, unknowingly, made by components or raw materials made by forced labour. Cotton has a long supply chain where cotton fibres are often mixed and there is little transparency between different stages of the supply chain because the certain cotton mixes are seen as intellectual property. In other cases, certain parties in the supply chain might not want to disclose where they have sourced from, from fear of retribution of the regime that runs the forced labour scheme.

Companies can overcome some of these barriers through use of technology and certifications.

Investor relevance

Given the increased regulatory focus on import bans on goods made by forced labour, this issue is more than just a reputational risk. For instance, under the Customs Border Protection and the Uyghur Forced Labor Prevention Act in the US, many shipments of products have been confiscated. With other jurisdictions having adopted (and others potentially enacting) similar legislation, there is a clear financial risk to companies.

Good practice

Existing supply chain data

One of the easiest and most cost-effective methods for companies to obtain traceability and map high-risk raw materials is to investigate what data is already available across different stages of sourcing and procurement processes.

For food-goods and perishable product supply chains, regulation around quality, safety and labelling standards already requires compulsory collection and tracing of ingredients sourced for these products. This information may be kept in separate company databases to the supplier spend and purchasing data used to understand company supply chains and therefore overlooked by teams seeking to map their supply chains. This information may be held in individual documents for testing product compliance, safety and quality with technical teams. Where possible this information should be combined or aggregated into centralised company databases to support further traceability initiatives. **Bega Group** shared that the company was able to use product information and product specification data to map ingredients beyond that of previous assessments.[69]

This may be slightly more challenging with limited labelling regulations in hard-goods supply chains; however, quality and technical specifications may still provide avenue for understanding component manufacturing sites or origins. “Bill of materials” documentation may be requested from suppliers and any quality certifications such as ISO safety labels require site-level documentation and assessment which can be used to investigate origins. Similarly, environmental certifications can be leveraged to request traceability data where available.

For any type of supplier sourcing arrangement, the expectation for suppliers to map and disclose origins can be communicated during tender or contracting processes. Specifying that origins must be known, traced and disclosed to the purchasing company can be an effective way to obtain further understanding with a limited budget.

Technology solutions

While often expensive, there are forensic technology solutions that can be used on a small-scale basis and there are also emerging technologies, which have often come from the apparel industry originally. For instance, **Oritain** uses forensic science tests the product or raw material itself, for example in the cotton industry, to identify the location of origin – to verify that a product is authentic to an ethical and responsible sourcing origin.[70] Another example is **Source Certain**,[71] which uses stable isotope ratio analysis (SIRA) to trace elements analysis to accurately verify where products are originating from. This technology is used by companies that want to ensure legal compliance (e.g. in relation to boycott / bans of products from Russia, cotton from Xinjiang) but also to verify certification (such as MSC, FSC and others). It’s also a way to improve traceability below tier 1. **Source Certain** focuses on industries such as seafood, forestry, diamonds and horticulture, including coffee and cocoa. It should be noted, however, that forensic traceability solutions are limited to ascertaining the geographical source.

Identifying the product origin can ascertain if it comes from a geographical hotspot for severe human rights issues. This should be used as a prompt for deeper investigation rather than an indictment as the SIRA process cannot identify definitively if workers were subject to exploitative conditions. The converse is also true - just because the elements of a product does not originate from a geographical hotspot it does not then follow that it would be immune to severe human rights issues. Despite these limitations, forensic technology solutions can be part of the mix and may function as a starting point, or as a useful tool for assurance of existing supplier expectations.

Another potentially helpful technology for transparency purposes is blockchain-linked responsible sourcing, utilising the technology’s ability to provide secure storage of information via decentralised control that can promote trust and safeguard against corruption. In addition, it can lower cost by reducing the need for social audits, traceability exercises and paper usage.

For instance, **Hyperledge Sawtooth** is an enterprise blockchain platform that can be used for supply chain management, by tracking the provenance of goods throughout the supply chain, for example, ensuring authenticity by recording each step in the supply chain, including manufacturing, transportation and distribution.

Some technology solutions for traceability also extends to consumers. **tex.tracer** gives brand owners insights but can also be used by consumers through scanning a QR code on a garment, to trace the garment’s history. The data is verified using mobile geolocation, time stamps and digital handshakes, certification, and automated checks. If anomalies are detected, the system will not accept the data entry. tex.tracer generates digital product passports which can assist companies in fulfilling their regulatory requirements.[72]

Other technology solutions for supply chain traceability include:

- **Tilkal**, which combines a B2B blockchain network with analytics and scoring algorithms, to create an end-to-end, real-time representation of the supply chain.[73]
- **Sourcemap** is a platform for supply chain mapping and transparency, enabling tracking and tracing products from raw materials to final product.[74] This includes global forced labour due diligence to comply with regulation in North America, Europe and Australasia. The company claims to have ERP-integrated supply chain mapping platform able to automatically dispatch traceability requests, collect upstream transaction documentation, and validate every supplier using continuous watchlist monitoring.
- **Minespider**, which uses blockchain technology and provides a digital product passport, tracing the provenance of products and minerals within them with particular focus on the battery industry.[75]
- **TraceX** is focused on food and agricultural supply chains, connecting multiple participants across the supply chain with securely exchange verifiable and auditable data.[76] It has been used in the supply chain for coffee, dairy and water industries.

There are a number of instances of companies leveraging tech solutions to enhance traceability.

Forensic technology solutions:

- In 2023, **Fortescue** partnered with a (unnamed) third party to pilot forensic traceability technology, to test organic trace elements to determine the source origin of products against the third party's global sample database.[77] Fortescue used the results to guide further investigation of the supply chain below tier 1 with the aim of identifying corrective actions or areas for improvements to be co-designed between the company and suppliers.
- While **Oritain** originated for food safety reasons, it can also be used to ascertain whether goods have been produced in an area of high forced labour risk.[78] Oritain has been used by **A2 Milk, Country Road, Primark, Lacoste, Marks & Spencer** and **Patagonia**.
- **Source Certain** provides a number of case studies on its website,[79] which includes **Tasmanian Oyster Co**.[80]

Blockchain solutions:

- **Apple** is using blockchain to trace the origin of minerals as part of its responsible sourcing process[81] and **Nestle** applies blockchain (using the IBM Food Trust blockchain platform) to allow for traceability of Nestle coffee back to the origins; Nestle has partnered with the Rainforest Alliance to independently provide reliable data (the Rainforest Alliance provides its own certification information, guaranteeing the traceability of the coffee).[82] **Fujitsu** has been globally active in blockchain technology since 2015 when it was an early member of the Hyperledger project[83] and uses tex.tracer.

Other:

- **Tilkal** is used by **Daher, Intertek** and **Savencia Gourmet**.[84]
- **Sourcemap** has been used by **Hershey, Breitling, BMW, Deckers** and **Ferrero Australia**.[85]
- **Minespider** is used by such companies as e-bus provider **TEMSA** and tin-mining company **Minsur**.
- **TraceX** is used by companies like **Organic India** and **Nesso**.[86]

Certifications

Certification, when credible, can also be a useful measure and can be applied at a company, product, service, or ingredient/fibre level to various degrees and may include site-level assessments and traceability requirements, depending on the standard. Rights CoLab has developed a beta "certifications red flags" tool for investors to assess and determine the effectiveness of certification schemes.[87] Ingredient-level certifications are available for some higher-risk raw materials and ingredients such as cocoa, coffee, tea, cotton, palm oil, bananas, seafood, sugar and gold. When relying on these it is important for companies not to overstate the level of assurance or traceability provided by the certification and continually assess their effectiveness and potential improvements. Some certification schemes include:

- The **Cotton Made in Africa (CMIA), Global Organic Textile Standard (GOTS) and Fairtrade cotton** are examples of certification initiatives.
- **Fair Hiring "On the Level" certification** is a private recruitment and employment agency certification / recognition program, supported by a comprehensive framework of cross-border recruitment principles and standards.[88]
- **B-Lab's B Corp certification scheme** has also human rights elements that aim to align with the UN Guiding Principles on Business & Human Rights and human rights due diligence legislation, through four topics (justice, equity, diversity & inclusion), which have links with both human rights and workplace culture. The Fair Wages topic also addresses human rights.[89] B-Lab also provides guidance to companies that are new to human rights.
- **Labour hire certification schemes, such as StaffSure,**[90] can be particularly useful in the Australian fresh food supply chain, which is a high-risk area for labour rights issues due to the prevalence of migrant workers who often are unaware of their rights. While there is no federal-level labour hire scheme, some individual states have regulation to increase accountability and reduce risks of bonded labour (due to excessive labour hire fees), forced labour and other key labour rights issues.

Examples

- **Better Cotton** has a large number of members globally, including over 20 Australian members, such as **Big W** (Woolworths), **Coles, Kmart** and **Officeworks** (Wesfarmers) and the **Just Group** (Premier Investments).[91]
- **Woolworths** has in its addendum “Requirements for Labour Providers in our Australian Horticulture Supply Chain” stated that using Sedex and Fair Farms **is a** requirement of meeting the company’s Responsible Sourcing Standards and that requirements for labour providers are in addition to the Responsible Sourcing Standards and obligations to ensure labour providers in Woolworths’ horticulture supply chain meet certain criteria.[92]

Suggested engagement questions

- How does the company identify (and ultimately manage human rights risks beyond the first tier of suppliers for the higher-risk commodities?
- Has the company investigated where existing data sources can be leveraged to conduct supply chain mapping?
- Has the company explored opportunities for different technology or certification options for traceability (particularly for below the first supplier tier), as opposed to relying on self-assessment questionnaires for tier 1 suppliers?
- Has the company explored technology solutions that have been used in other industries?
- Where companies are using high proportions of contingent or temporary labour, is the company considering certification or vetting of labour hire providers?

1.5 Transparency, risk identification and risk mapping beyond tier 1

The issue

As noted earlier in the toolkit, many ASX-listed companies have not investigated value chains beyond tier 1 suppliers. However, most egregious issues are found further down the supply chain. Pushing for enhanced transparency beyond tier 1 enables companies and investors to make better informed investment decisions and paves the way for healthy relationships with other stakeholders such as NGOs. It may also unearth opportunities to pursue cost savings in the supply chain by identifying inefficiencies across the value chain, such as unnecessary use of agents. In turn, this shortening of the supply chain might result in freed-up capital, which can be used to pay for higher wages throughout the supply chain, and / or boost profitability.

Some technology platforms and risk assessment providers offer the ability to conduct supply chain mapping or traceability to extensive supply chain tiers, where data is used to make assumptions on the likely origins and their associated risks. This has resulted in tier-based risk assessment and supply chain traceability and mapping becoming somewhat conflated in many company processes or disclosures. Assumed or likely supply origins can be used as risk indicators to inform further traceability efforts and activities, but do not replace them. The end-goal of traceability is to reduce risks to both people and companies by vetting and improving the conditions for workers in very high-risk industries, which cannot be done through proxy data on likelihood.

Good practice

Good practice constitutes a) mapping out the high-risk supply chain as far down as possible and b) being as clear as possible about the location and details. Some companies have selectively chosen to deep dive into certain high-risk tier 2 supplier categories to start with.

Examples

- **Ramsay Healthcare** has begun risk mapping that includes tier 2.[93] The company aims to map deeper into the supply chain, particularly for the medical and pharmaceutical component of their spend. Ramsay notes that as it progressively maps through the supply chain, the company is able to engage beyond tier 1 suppliers, through direct access to tier 2 suppliers and the CSR assessment of tier 2 to four suppliers, which provides visibility at the manufacturing level as well as assessment outcomes and corrective actions taken by those suppliers. The company has stated that if the reviews identify concerns, the company will seek to address these with tier 1, 2 and 3 suppliers directly.
- **Beach Energy** are in the process of understanding their tier 2 suppliers based on tier 1 supplier questionnaire and reviewed their KPIs to support modern slavery risk management for 2nd tier suppliers.[94]
- **Downer** has conducted a deep dive on global manufacturing (tier 2 supplier) as the company used 57,000 pairs of gloves in FY23 sourced from several suppliers. Downer has engaged one major manufacturer, implemented an audit program with the supply partner including SMETA audit and unannounced audits, working on increasing labour standards including recruitment fee reimbursements, ensuring workers union representation, covered by collective bargaining agreements and access to an independent grievance mechanism.[95]
- **Viva Energy** received further clarity from the Thai contractor representatives of its tier 2 supply chain partners who are assisting Thai contractors in delivering a project there. The key focus has been on labour hire and piping fabricators transparency by first knowing who they are to start with and will further assess.[96]

- **Premier Investments** sources fabrics and trims from tier 2 factories. However, the company does not have a direct relationship with them and instead a tier 1 supplier owns the relationship. On tier 3, the company recognises high inherent risk, and the approach has been to actively partner with certification bodies that have established relationships, high levels of expertise and sufficient scale to deliver programs that improve labour rights in the sector.[97]

Suggested engagement questions

- Has the company considered following leading examples, by disclosing their tier 1 suppliers by name and location?
- Has the company undergone the exercise of mapping the supply chain below the first tier and if so, would the company consider disclosing those suppliers publicly?
  - If so, has this been via proxy risk assessment tools, or through documented and individual supply chain mapping activity?
- How can the company incentivise its tier 1 suppliers to monitor and manage human rights issues further down in the supply chain into tier 2 and 3?
- To what extent could the company combine environmental and social due diligence in its supply chain?

1.6 Making use of existing data and collaboration with peers / industry

The issue

A key issue, related to the compliance mindset referred to above, is that while many companies conduct some form of risk identification, they don't necessarily follow up on those risk assessments with tangible action. Also, mapping a value chain for human rights risk can be both costly and time consuming. While many larger organisations have dedicated staff with expertise in responsible sourcing, including risk identification, management and remediation, this is not always the case. For the latter, they can also in-source such expertise and / or collaborate with peers.

Investor relevance

Many of the issues are systemic in nature, not company-specific, while the impact on individual investments can be company-specific. Companies that collaborate and share information can be better placed to identify the issues on an industry/sector/geographical level, allowing for more efficient and less costly management of risks through pooled action and self-regulation.

Good practice

There is a wide range of options available for companies, both for risk identification and for collaboration with other buyers / peers. In terms of the latter, while there are a number of industry-led initiatives, multi-stakeholder frameworks potentially benefit from better information quality.

In some cases, collaboration frameworks are industry-specific, while others are more thematic and industry agnostic. For instance, the garment industry has a long history of both scandals and activist campaigns against brand companies, but it also has a number of initiatives and innovations that other industries can take inspiration from. In the aftermath of the Rana Plaza Building collapse in Bangladesh in 2013, a multi-stakeholder framework called the Accord on Fire and Building Safety in Bangladesh was introduced and resulted in a five-year binding agreement between brands, retailers and trade unions to improve some of the most egregious issues in the Bangladeshi ready-made garment sector. Importantly, this was a multi-stakeholder initiative and something that could also be applied to other sectors.

While it is true that it can be costly for companies to build up their internal human rights expertise, it may be cost efficient and also more effective to participate in joint / collaborative initiatives.

Examples of collaborative initiatives:

- **Property:** The **Property Council of Australia's Supplier Pre-Selection Platform**, prepared by an external consultant. The method uses five social risk categories: labour rights and decent work, health and safety, human rights, governance and community infrastructure to prepare a social hot spot database to indicate the likelihood of an issue occurring in different industries and countries. The supplier portal of the Property Council of Australia allows members to request high-risk suppliers to complete a questionnaire to gain insights and transparency.
- **Banking:** The **Australian Banking Association** has established a modern slavery working group that builds on individual banks' anti-money laundering and financial intelligence processes, with the aim to develop common understanding of modern slavery risks and how to spot red flags.
- **Investors:** Examples include **RIAA's Human Rights Working Group** and **IAST-APAC** (Investors Against Slavery & Trafficking) where investors collaboratively engage with companies on modern slavery, encouraging companies to adopt good practice and participating in policy advocacy on an ad-hoc basis.
- **Telecommunications:** The **Industry Impact Hub**[98] is an initiative of the **Telco Together Foundation** which was formed to help the industry collectively address complex social challenges such as modern slavery (as well as domestic and family violence). Together Foundation had its first Modern Slavery Round Table in June 2019 and all members recognise the need to drive both operational and cultural change

to reduce instances of modern slavery throughout the telco supply chain network. Monthly member meetings are hosted to discuss modern slavery. In addition, the Join Audit Cooperation (JAC) allows telecommunication operators to join as members that look at a broader range of areas (not just human rights/modern slavery) but conduct supplier audits that have resulted to corrective actions addressing health and safety, working hours, environment, wages and compensation.

- **Infrastructure:** The **Infrastructure Sustainability Council** has a Modern Slavery Coalition,[99] established in 2019 to support industry participants of the infrastructure supply chain. **Ventia** has highlighted in its modern slavery statement that this coalition is mapping the bitumen supply chain in Australia and identifying areas of potential concern.
- **Travel and tourism:** In 2023, **Flight Centre** and **Intrepid Travel** co-founded a new travel consortium, the first major collaboration aimed at measuring and addressing modern slavery supply chain risks the travel industry. The new consortium has been established through the Informed365 platform and will engage with tier 1 suppliers via an annual assessment.
- **Energy and resources:** The Australian **Human Rights Resources and Energy Collaborative (HRREc)** facilitates collaboration peers in this industry to share knowledge and develop practical tools to identify and address human rights, including modern slavery and labour exploitation in supply chains. HRREc developed and launched with **Walk Free** a Modern Slavery Response and Remedy Framework, designed to provide practical guidance to assist companies with their response to modern slavery or related exploitation in their supply chains or operations. It also developed guidance on social auditing in supply chains, designed to promote a "beyond audit" mindset and avoid the pitfalls of auditing seen in apparel and fast-moving goods industries.[100] Other collaborative initiatives include **Minerals Council of Australia Modern Slavery Taskforce.**

In terms of leveraging existing data, there are several commercial human rights-focused data providers that are available for companies to use for risk assessments. However, there are also free resources. Examples include:

- The **Global Slavery Index** (GSI) by **Walk Free**, which is often quoted and used by companies in modern slavery statements under the Australian Modern Slavery Act. The GSI provides detailed risk analysis in relation to modern slavery by geography and industry.[101]
- Modern slavery issues but also wider human rights issues are often correlated with corruption. To that end, **Transparency International's Corruption Perceptions Index** can be a useful resource.[102]
- In addition, several general human rights indices exist, such as the **Universal Human Rights Index**,[103] the **Human Freedom Index**,[104] the **Global Rights Index**,[105] the **Wageindicator Foundation**[106] and the **Labour Rights Index**.[107]

Suggested engagement questions

- If the company is assessing risk by industry / geography at a high level, what is the company's plans to follow up with supplier-specific risk assessment?
- Is the company actively collaborating with peers about good practice / is the company part of an industry group focused on collaboration around human rights issues? Is the company collaborating with companies outside its own industry to learn about good practice?
- Has the company considered any industry-specific or general multi-stakeholder collaborative working groups?
- Does the company consider sanctions lists as part of its supplier risk assessment?

1.7 Taking a wider human rights lens and a wider value chain perspective

The issue

While increased regulation in recent years has increased awareness of human rights issues, in some cases, the regulation solely focuses on modern slavery. As discussed above, sometimes there can be a fine line between what's technically defined as modern slavery versus what is not but is still a major human rights issue. This compliance mindset is also related to the scope issue; most regulation tends to focus on the *supply* chain, as opposed to the wider *value* chain; for instance, the Australian Modern Slavery Act specifically focuses on operations and supply chains, but risks also exist at the customer level.

Investor relevance

In relation to wider human rights issues, while regulation tends to focus on modern slavery modern slavery other types of human rights issues, whether or not it legally qualifies as modern slavery. might also come into the remit of investment-related human rights risks in value chains. In other words, brand damage does not necessarily distinguish between modern slavery from a legal perspective and other serious human rights issues. Also, while regulation tends to focus on the supply chain, companies can also be impacted legally, now or in the future, or reputationally for issues at the customer level. For instance, an issue like modern slavery is often linked to money laundering, which means deposit taking by banks and cash payments in gaming venues can have a strong link, which in turn means it is also linked to regulatory risk.

Good practice

Good practice is to consider the risks across the entire value chain to avoid brand / reputational and potential legal risks.

Examples

- In addition to analysing risks in its supply chain, in its 2023 modern slavery statement, **ANZ** also called out institutional customers in Asia in high-risk sectors, for example, manufacturing, construction, SMEs in ANZ and retail and commercial customers with risk of money laundering and terrorism financing.[108]
- **Commonwealth Bank** has delivered an interactive training module to every branch in Australia, designed to continue to build knowledge and awareness in its customer service teams on methods to detect, and deter, human trafficking and modern slavery related activity in Australia.[109]
- **National Australia Bank (NAB)** reports on exposures to modern slavery risk from customer relationships with four indicators of human impact (behavioural, demographic, transactional and jurisdictional). In 2023, NAB identified the following potentially high-risk industry sectors in its customer base: agriculture and fishing, domestic and cleaning services, contract labour, adult & personal services, hospitality, textiles, mining, construction, ICT, renewable energy (including solar, batteries and wind turbines).[110] Also in 2023, NAB commenced a deep-dive of modern slavery risk in the renewable energy sector, engaging with a number of relevant customers and referred to external guidance, such as the Clean Energy Council and other international renewable energy industry bodies. The bank aims to update banker guidance as a next step.
- **Westpac** also acknowledges the risk of modern slavery tied to customer vulnerability and customers misusing the bank's products, such as through the laundering of profits from modern slavery or through direct transactions to share or pay for child sexual abuse materials.[111] Westpac employs a number of ways to manage the issue, such as: adverse media screening; customer verification and screening; payments screening; transaction monitoring (which includes modern slavery and child sexual exploitation detections scenarios); and investigations into suspicious account activity including those that may relate to human trafficking and child sexual exploitation. Westpac also acknowledges that customers' vulnerability to modern slavery may also be increased through their banking decisions, financial security or hardship, or fraud and scams, leading to disadvantage, vulnerability or loss of wealth.
- **Macquarie Group** includes grant partners in their risk overview as well as their customers and clients.[112] **Westpac** also acknowledges the risk that grants, and charitable donations support organisations could potentially be connected to modern slavery and the bank says they're continuing their focus on manage the risks through its Financial Crime Risk Management Framework as well as its Charitable Donations Policy.[113]
- In 2023, **Rio Tinto** stated that 177 third-party due diligence (TPDD) reports were escalated by our Third-Party Risk Management (TPRM) team to its in-house Human Rights team for specialist review.[114] The reports included direct suppliers, sub-contractors, joint venture partners and customers.

CASE STUDY 4: SEEK'S FAIR HIRING PROGRAM

SEEK's Fair Hiring program aims to identify and remove job ads posted on its websites where the job is linked to exploitative behaviours, such as modern slavery. SEEK combines both artificial intelligence / automation as well as a manual overlay to identify such risks. This is also important from a legal perspective as SEEK might one day be held legally accountable for the content on their website.

The Fair Hiring program of work monitors platform vulnerabilities that could be exploited by unscrupulous parties and continues to build capability to screen and block deceptive or discriminatory job ads. Fair hiring controls and processes have been implemented across SEEK's employment platforms. Through collaboration with others, SEEK aims to leverage its market position to improve hiring practices across the ANZ/Asia region.

SEEK's modern slavery statement gives further details, including outcomes and actual cases. For instance, in mid-2022, SEEK identified a potential instance of modern slavery when an individual used JobStreet Malaysia to respond to a job ad that appeared legitimate and accepted the job in Cambodia. The hirer was removed from the platform due to its high-risk nature. JobStreet communicated with the individual and warned other jobseekers who accessed the job ad and other job ads in Cambodia. As a result, in late 2022, SEEK enacted new policies including the blocking of overseas job ads to countries deemed high risk for human trafficking. Those processes have been further improved in FY2023 to allow job ads in some high-risk countries, where enhanced due diligence of the hirer is performed. SEEK continues to review its processes with a focus on due diligence to increase the safety and legitimacy of the platform.

SEEK verified that the hirer had been a customer of JobStreet but had not used the platform since mid-2022. Following SEEK becoming aware of the allegations, an internal investigation classified the hirer as high risk from a fair hiring perspective and the account was suspended. SEEK continues to monitor the conclusion of the case for any required actions.

CASE STUDY 5: TELSTRA AND THE COMMONWEALTH BANK TACKLING CYBER SCAMS AND INDIRECTLY TACKLING TRAFFICKING

The growing reliance on the internet for shopping, banking and communication has fuelled the rise of cyber frauds and scams. Alarmingly, an emerging hotspot for modern slavery is human trafficking, where victims are coerced into working in cyber scam call centres. These operations have proliferated across Southeast Asia, but an ongoing investigation by the International Criminal Police Organization (INTERPOL) has revealed their spread to other regions, including South America and the Middle East.[115] Victims are often deceived by fake job advertisements, only to be forced into scam call centres where they face extortion and exploitation.[116]

While law enforcement agencies actively investigate these crimes, the corporate sector also has a crucial role to play. Companies can indirectly combat modern slavery by tackling scams at their source before they reach consumers. This approach is demonstrated by the collaboration between Commonwealth Bank and Telstra, which focuses on blocking scams through advanced technological solutions.

Cyber scams are a growing challenge for banks, with increasing customer expectations for better protection measures. The escalating frequency and scale of these scams are drawing attention, raising the likelihood of government intervention if industries don't try to tackle the issue themselves. In response to this, Commonwealth Bank and Telstra collaborated on anti-scam technology called Scam Indicator which leverages machine learning to detect and prevent scams for their customers.[117] This builds on the Cleaner Pipes initiative by Telstra which actively blocks large volumes of scams and unwanted communications to customers.

When innovative technology using AI, machine learning and data are used appropriately, they undermine the profitability of scam networks and disrupt the modern slavery operations behind these call centres. Even though the Commonwealth Bank and Telstra are not legally required to take on this responsibility, they recognise the broader implications if they do not try to address it now, such as reputational and brand damage.

We further explore the intersection of modern slavery and human rights with artificial intelligence specifically, including ways that investors can engage with corporates, in a toolkit published in 2024 by RIAA - the Artificial Intelligence and Human Rights Investor Toolkit.[118]

? Suggested engagement questions

- Has the company gone through the exercise of identifying potential human rights risk exposures in the wider value chain, i.e. over and beyond the supply chain, including assessing how this might translate to legal, financial or reputational risks?
  - If so, has the company considered a strategy for how to manage such risks?
- Would the company consider sharing anonymised data collected on cyber scams to help law enforcement in identifying trafficking patterns?

SECTION 2: PREVENTATIVE ACTIONS

2.1 Evidence that risk assessment leads to tangible follow-up actions

The issue

As previously discussed, while there are examples of companies that progressively use the initial risk analysis to take action, many other companies take no discernible tangible action from the risk assessment; while a risk assessment is a necessary first step in a risk-based approach, it does not – in itself – lead to any improvements. It must be followed by tangible action to respond to the risks identified.

Investor relevance

If increased transparency and reporting does not lead to any real improvements to practices, it does little to safeguard capital; rather, shareholder funds are used only for compliance reasons. Companies that proactively integrate follow up actions, such as targeted audits, corrective action plans, and supplier engagement demonstrate strong risk management. This not only enhances resilience against human rights violations but also contributes to long-term value creation.

Good practice

Risk assessment leads to tangible follow-up actions to reduce and manage the risks identified.

Examples

- **BlueScope Steel** demonstrates a risk-based approach with follow-up actions that stem directly from the risk assessment. In 2024, BSL had three social impact audits (focused on modern slavery risks) conducted at operations, including Thailand, China and Mexico, as well as targeted training of local managers.[119]
- **Woolworths Group (Australia)** takes a risk-based approach with prioritised audit follow-ups with identified moderate and priority risk sites with critical non-conformances. This can include proactive monitoring of non-conformances, co-developing corrective action plans and site visits for capability building and issues monitoring. The company reports on the number of moderate and priority risk sites with critical non-conformances as well as how many have been closed and validated via scheme follow-up.[120]
- **Adidas** takes a risk-based due diligence approach, which includes regular monitoring activities and performance measurements as well as designing and delivering targeted training and capacity building.[121]

Suggested engagement questions

- How does the risk identification inform and guide follow-up actions / what are the next steps?
- What governance structures are in place to track follow-up actions and ensure accountability for remediation efforts?
- What mechanisms are in place to validate whether actions taken have effectively mitigated the identified risks?
- Does the company publicly report on how risk assessments translate into concrete actions, including audit follow-ups, remediations, and capacity-building initiatives?

2.2 Understanding how buying behaviours can impact supplier conditions

The issue

While much of the focus in this toolkit (and previous editions) have focused on good practice in terms of encouraging suppliers to change behaviour, it is equally important to understand how companies' own purchasing behaviours might result in certain supplier behaviours. Even for companies with the right intentions to apply sound responsible sourcing standards, their own behaviours can – often unintentionally – cause harm to human rights. Examples include:

- **Poor planning or unrealistic timeframes:** For instance, due to increased pressure on shorter lead times, a buying company not giving sufficient time for the supplier to finish the goods may leading to the supplier taking short cuts on worker conditions (including excessive overtime).
- **Challenging payment terms:** When the timeframe for payment is too long, it might lead to cash flow problems for supplier companies, which can translate into delayed wage payments and the supplier taking short cuts on labour.
- **Conflicting KPIs:** Anecdotally in the Bangladeshi garment industry, there are cases where a supplier may incur costs to improve working conditions to secure an order, only to experience pressure to reduce prices, in tension with the costs incurred to improve conditions. For example, a buying company first audits a factory and issues a corrective action plan before the supplier is approved. However, once the factory has invested in improvements and the buying company is satisfied, procurement teams,

sometimes only incentivised on price, demand price discounts. The risk is that the supplier, having invested in improvements, still takes the order but needs to subcontract to another factory (perhaps with less favourable conditions) to manage cashflow and recover cost.

Investor relevance

Companies' buying behaviours have direct implications for supply chain resilience, operational efficiency and reputational risk. When poor procurement practices, such as unrealistic lead times, restrictive payments, and misaligned KPIs, create undue pressure on suppliers, the likelihood of non-compliance with labour standards increases. This exposes investors to financial, legal, and reputational risks, including supply chain disruptions, regulatory scrutiny and potential loss of consumer trust.

Good practice

Good practice includes clearly defining and sticking to order quantities, ensuring adequate lead time, clear communication and a robust buyer code of conduct. The more robust the buying company's planning when it comes to purchase orders, the less likely that orders will cause additional pressures on suppliers. This practice is challenged when it comes to pressure to shorten lead times and predicting product demand. Healthy long-term supplier relationships reduce the risk of suppliers taking short cuts on labour rights. Suppliers that can invest in factory improvements with confidence are more likely to adhere to the buying company's responsible sourcing standards. Good practice is to offer reasonable payment terms, ensuring that the responsible sourcing and procurement teams have aligned KPIs or that responsible sourcing is truly integrated with procurement, which can be achieved in various ways. Good practice also includes integrating this into contractual arrangements, to make them legally binding. A useful resource for responsible contracting is the Responsible Contracting Project (RCP) toolkit, which includes templates for due diligence aligned contracting aligned with the United Nations Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.[122]

Another suggested practice is encouraging buying companies to monitor and collect feedback from suppliers on buying practices. The **Better Buying Institute** collects data from suppliers to provide actionable insights to improve purchasing practices and supplier relationships.[123] The aim is to improve purchasing practices that drive profitability while protecting workers and the environment. A key output is the Better Buying Purchasing Practices Index. One of the key findings was that buyers should accept recently completed audits instead of requiring their own (in order to reduce duplication) and that buyers should formalise long-term relationships with suppliers through multi-year contracts in order to enable better capacity planning and sustainability investments. Collaborative cost negotiations, taking into account inflation and rising expenses, are essential for healthier, sustainable buyer-supplier partnerships.[124]

ACT (Action, Collaboration, Transformation), which is discussed in more detail in section 4.2, includes a memorandum of understanding between members and IndustriALL Global Union that commits corporates to ensure their respective purchasing practices support long-term partnerships with manufacturers, including the ACT Global Purchasing Practices commitments.[125]

Examples

- **Macquarie Group** acknowledges the role that its own behaviour can play, which has led the company to focus on the timeliness of supplier payments with the view that the way suppliers are paid can impact the risk of human rights breaches, (particularly for small or medium-sized enterprises).[126] Macquarie Group states in its modern slavery statement that they consistently pay suppliers within 20 days and that Macquarie Group has an ongoing focus to ensure small business suppliers' payments are prioritised, which has resulted in average payment time of below 8 days for its Australia small business suppliers.[127]
- Case studies for the **Better Buying Institute** include **Target Corporation, the Birger Christensen Collective, SanMar** and a number of anonymised cases[128] as well as a guest blog by **Under Armour**'s Chief Sustainability Officer outlining how the company uses the Institute as a "supplier voice".
- **Danone** has shifted from a push-based (anticipated demand) to a pull-based (actual demand) system to better align with consumer demands, aiming to increase its responsiveness. This involves increased focus on demand planning, supply planning and factory location decisions, with the goal to ensure supply chain interruptions don't lead to product shortages. To that end, Danone puts emphasis on analysing risks at tier 1, 2 and 3 supplier level.[129]

Suggested engagement questions

- Does the company actively ask for feedback from suppliers to assess risks caused by the company? If so, how is the information gathered and how is it used?
- Has the company assessed opportunities to streamline its purchasing activities to achieve more accurate demand predictions?
- Has the company reviewed how its payment terms and lead-time requirements might contribute to labour rights issues at supplier level / below the tier 1 supplier level?

2.3 Human rights due diligence – mandatory or voluntary

The issue

As discussed above, the EU is implementing mandatory human rights due diligence through the EU CSDDD by 2027, which directly applies to very large organisations, but, notwithstanding the Omnibus proposal (see above) and the changes to the original proposal, it may also have certain indirect ripple effects on smaller companies too.[130] In addition some individual EU member states have their own laws around human rights due diligence. In Australia and New Zealand, there is currently no equivalent regulation in place. The Australian Modern Slavery Act (MSA) is a transparency act, with the premise that readers of modern slavery statements, including investors, would hold companies accountable. The success of that has been mixed. However, the guidance material for the MSA specifically makes reference to the UN Guiding Principles on Business and Human Rights, which calls for human rights due diligence, it could be argued that the MSA has laid the foundation for, yet not implemented, human rights due diligence. Arguably, some form of mandatory human rights due diligence can be seen as the next logical step. In the meantime, it is worth considering how due diligence applies to other regulatory areas; for instance, anti-money laundering has been addressed through due diligence requirements and it's doubtful that a transparency act (such as the equivalent of a MSA but for anti-money laundering) would have been as effective. The same could be said for management of occupational health and safety.

However, human rights due diligence is not just about regulatory requirements and compliance. It can be pursued on a voluntary basis, as a mechanism to identify and prioritise human rights risks in a way that is aligned with the UN Guiding Principles (UNGPs).

Investor relevance

From an investor perspective, human rights due diligence can help to proactively identify issues before any incidents occur, and to prioritise issues based on saliency,[131] as recommended by the UNGPs. To that end, it can be positive for more stable and predictable earnings sustainability.

Good practice

Whether or not Australia and / or New Zealand go down the same path as the EU / individual EU member states by introducing some form of mandatory human rights due diligence remains to be seen, but in the meantime, it makes sense for companies to prepare for such a future and it would also align with the UNGPs. Companies with ties to the European market will be part of a greater value chain that will likely be caught up by the EU CSDDD. Leading companies already do human rights due diligence on a voluntary basis.

Leading practice involves: mapping and implementing due diligence process and policy, including assessing risk; preventing and mitigating impacts; and prioritising human rights issues based on saliency, monitoring the effectiveness of these activities, developing complaint procedures and remediation, and providing public reporting. Good practice involves collaboration across departments to define goals and build a roadmap as well as collaboration with business partners.

Examples

- In 2023, **BHP** launched a new due diligence tool that combines modern slavery, corruption and sanctions risk assessments for suppliers. BHP's legal focus on corruption and sanctions naturally feeds into its modern slavery risk management too.[132]
- **Brambles** has a Human Rights Working Group (HRWG), which is comprised of members from its Human Resources, Procurement, Legal and Compliance, and Sustainability functions, to assess Brambles' potential to cause, contribute to or be directly linked to Modern Slavery through its operations or its supply chains. Brambles has introduced enhanced due diligence on transport suppliers (flagged as high risk in Brambles' risk assessment).[133]
- In 2023, **Rio Tinto** piloted an artificial intelligence-powered platform to enable a more data-driven, real-time understanding of financial and non-financial risks within the direct and indirect tiers of the supply chain. The company deepened its understanding of risks beyond tier 1 supplier relationships and conducted due diligence on raw material components in cobalt chemistry batteries, wind turbines and solar panels. In addition, Rio Tinto continues to undertake due diligence on dry docking business partners.[134]
- In December 2023, **Kwang Li industry**, a Malaysian supplier to a large Japanese cycling parts manufacturer, Shimano, was alleged to engage in practices associated with forced labour including physical abuse, recruitment fees and unlawful salary deductions.[135] In response to the allegations, Shimano demanded Kwang Li Industry investigate and address this matter. Shimano established an internal investigation team headed by an executive, and engaged with the relevant parties to investigate directly, including Kwang Li Industry, recruitment agencies and migrant workers.[136]

Suggested engagement questions

- What framework does the company's due diligence framework (if one exists) follow?
- Has the company obtained external feedback on its due diligence framework?

2.4 Participation and / or collaboration on policy advocacy

The issue

Many companies refer to local legal compliance in their responsible sourcing codes of practice. However, in some cases, that can be a low benchmark and local laws in supplier countries can be in direct conflict with local laws in the country where the buying company is domiciled. For instance, while labour hire fees are legal in some South-East Asian countries, and in New Zealand, they are illegal in Australia and excessive labour hire fees can lead to bonded labour, which in turn is included in the definition of modern slavery under the Australian MSA.

In some cases, companies get directly involved in policy advocacy. For instance, in 2023, **H&M** urged Bangladesh's government to increase the country's minimum wage and install annual wage reviews in the country's textile industry to add stability.[137] However, many companies (and investors) are small organisations and therefore might have limited ability to impact the policy landscape. That said, there are opportunities to collaborate, not just on shared supplier standards, but also directly on policy advocacy.

Investor relevance

While voluntary measures by companies can be productive in terms of protecting labour rights, and therefore protect a company's brand and earnings sustainability, if the starting point is that local legal frameworks are too weak, legal compliance might not be sufficient. As a result, policy advocacy to legislate better protection of human rights can be relatively more effective. Companies and economies might also benefit from a level playing field and more harmonised legal frameworks globally.

Good practice

In general, legal compliance is a low benchmark in many sourcing countries; leading companies recognise this and aim to go beyond legal compliance. One such example is on living wages versus legal minimum wage, which can be very different. Another example is freedom of association. See the sections on living wages and freedom of association elsewhere in this toolkit.

Examples

- In September 2024, 50 global brands, some of whom were signatories to the Commitment to Responsible Recruitment, organised by the American Apparel & Footwear Association and the Fair Labor Association, wrote a joint letter to the Minister of Economic Affairs and the Minister of Labor in Taiwan urging the government to prohibit brokers from charging recruitment fees and associated costs to workers.[138] **IKEA** is a founding member of the leadership group.
- **Inter IKEA Group** has stated that the company "supports well-designed, harmonised legislation on human rights and environmental due diligence to protect people and the planet." In FY21, in other words, years before the EU's CSDDD legislation was approved, Inter IKEA Group and 11 other member companies of the Nordic Business Network for Human Rights (NBNHR) signed a statement supporting and encouraging (EU) legislation on mandatory human rights due diligence for all businesses operating in the EU. Their argument was that good regulation can support companies in integrating respect for human rights into their business and improve human rights throughout global value chains.[139]
- **Tesco** argued at UK Parliamentary hearings that UK legislation should be strengthened so that the UK does not become a dumping ground for goods made with forced labour.[140]

Suggested engagement questions

- What policy changes would the company like to see and has the company assessed the opportunities to promote those ideas to relevant policy makers, either through its own submissions or through an industry association?
- Do the company's desires for policy change align with those of its industry associations, including submissions made to policy makers?
- Does the company have a public stance on living wages, recruitment fees, or other key labour rights issues?
- Does the company participate in multi-stakeholder initiatives or collaborations to push for stronger labour protections?

2.5 Consolidating supply chains to get better visibility and leverage

The issue

Increased direct sourcing in recent years by many companies have led to various supply chain efficiencies. However, research by Deloitte has noted that global supply chains are complex and not easily understood and that nearly half of executives identify this as the primary roadblock to building more responsible supply chains.[141] Long and complex supply chains are more challenging to manage and have less visibility. In turn, a lack of visibility and transparency in supply chains can increase the risk of suppliers subcontracting work to suppliers / factories with worse working conditions, which makes it harder for companies that aim to address root causes. Supply chain expansion can also lead to higher costs, mismanaged supplier relationships and more. Transactional relationships with suppliers can reduce the incentive for suppliers to comply with ethical sourcing requirements.

Investor relevance

While there is a financial argument for supply chain flexibility and diversification, in the event of a supply chain shock, a consolidated supply chain gives better visibility and more leverage and therefore also incentivises suppliers to comply with ethical sourcing standards. Consolidation can also reduce purchasing and shipping costs and improve supplier relationships, reducing the risk of suppliers cutting corners on working conditions, which could lead to brand damage.

Good practice

Leading practice is to source more from fewer suppliers. Consolidation of the supply chain can increase purchasing power and more influence over working conditions at supplier level as well as reducing transactional costs. It can cut out inefficiencies in the supply chain / improve productivity as well as more streamlined procurement processes. From an ESG perspective, consolidation of supply chains can also improve visibility, thereby reducing risk, and could also nurture better relationships with suppliers and incentivise suppliers who comply with ethical sourcing standards; the best incentive for suppliers to comply is by giving them more business. Finally, supply chain consolidation could also have a positive impact on forecasting accuracy.

Examples

- As of 2023, **Adidas** worked with 357 independent supplier facilities vs 424 in 2022, in line with Adidas' strategy to form long-term relationships with its core manufacturing partners.[142] Adidas' primary focus was on maintaining partnerships with its existing manufacturing partners rather than onboarding new ones.[143]
- **SunSweet** embarked on a supply chain reinvention program to reduce inefficiencies in forecasting and planning as well as reduce inflating end-to-end supply chain expenditure.[144]
- **a2 Milk Company** has deep dived into employment standards for brand ambassadors based in China. The company agreed with distributors to hire full-time brand ambassadors to become formal employees, rather than employing through a third-party service provider which they had originally been doing. This allows the company to manage its overall risk exposure to sub-contractor workers in China.[145]
- **Reece Limited's** procurement team actively worked on consolidating non-stock suppliers. Reece conducted its first comprehensive consolidation project by focusing on the high-risk category suppliers, and through this process, ensured that selected suppliers had appropriate controls in place to minimise the risk of modern slavery in the supply chain.[146]

Suggested engagement questions

- How does the company ascertain that it is in a position to have influence over its direct suppliers?
- Has the company assessed the number of suppliers used and whether there is scope to consolidate the number of suppliers?
- What proportion of the company's supply chain spending is concentrated among its core suppliers, and does this give the company leverage to enforce ethical sourcing requirements?
- How frequently does the company review and reassess its supplier base to identify risks and opportunities for consolidation?

2.6 Collaborating with other stakeholders

The issue

While there is a lot to learn from collaboration with industry peers and from other industries, collaboration with other stakeholders can also be very beneficial. Unions, NGOs and other stakeholders can play a vital role in detecting issues as well as managing issues. For instance, a common denominator in the Bangladeshi garment industry is that all factory disasters have happened in factories without union representation. Even so, in 2023, based on anecdotes from an ESG research field trip, only about 5% of factories in Bangladesh has union representation.

Investor relevance

Brand and regulatory risks can sometimes be averted by early risk identification, which in turn can be facilitated by input from other stakeholders, such as unions and NGOs. Having good relationships with these stakeholders can avoid supply chain disruption.

Good practice

A wide suite of information sources can enable better information gathering in risk identification. In addition, in terms of risk management, while industry-led (peers) initiatives can be part of the solution, a multistakeholder framework takes multiple views and interest into account.

For instance, as mentioned in a previous section, the **Accord on Fire and Building Safety in Bangladesh** included brands, retailers and trade unions. Another example is the **Seafood Task Force**, which includes seafood processors, feed producers, merchants, retailers, suppliers and NGOs, where NGOs have been appointed to an external stakeholder advisory group,[147] the **Forest Stewardship Initiative, the Better Cotton Initiative** and **Responsible Business Alliance (RBA),** which is a multi-industry, multi-stakeholder initiative focused on workers' rights.[148] The jury is still out on the effectiveness of many multistakeholder initiatives and it is beyond scope of this toolkit to advise on individual initiatives, but at least in theory, they can take a wider range of interests into account than peer-only initiatives.

In addition to these voluntary initiatives, companies and investors can also consult the **codes of practice published by the NSW Anti-Slavery Commissioner** office.[149] The purpose of the codes of practice is to guide organisations in identifying modern slavery taking place within their operations and supply chains and taking steps to remediate or monitor these identified risks. This includes a code of practice related to the renewable energy sector.

Examples

Companies engaging with other stakeholders:

- **GPT Group** has engaged Australian Red Cross to conduct worker engagement sessions with Retail and Office cleaning and security contractors, to inform recommendations to enhance the effectiveness of GPT's modern slavery response mechanisms.[150]
- In FY24, **Telstra** collaborated with a charity supporting survivors of modern slavery to refine their "addressing modern slavery training" and incorporate insights from those working with survivors, to move towards a survivor-centric approach.
- **Marks & Spencer** are active members of a number of multi-stakeholder initiatives and partnerships which take a collaborative approach to tackling industry issues, including: Sedex, Ethical Trading Initiative, Consumer Goods Forum, Food Network for Ethical Trade, Stronger Together, Unseen, Institute for Human Rights and Business Leadership Group, Issara Institute, Foros Comercio Etico, Better Work, International Accord, End Uyghur Forced Labour, British Retail Consortium, BSR and Sustainable Apparel Coalition.
- **Decathlon** offers another example of collaboration with a non-profit to investigate instances of modern slavery. In 2019 the company worked with Verité, which carried out an assessment at a supplier's site in Thailand that identified several instances of recruitment fees. These findings supported Decathlon in developing a long-term corrective plan with the supplier.[151]

Members of industry collaborations:

- Members of the RBA include 250 electronics, retail, auto and toy companies.[152] The RBA and its Responsible Minerals, Labor and Factory Initiatives have more than 600 members. The RBA has four membership categories: Full, Regular, Affiliate, and Supporter. Full members include **ASUS, Qualcomm** and **Powertech Technology Inc**.
- Members of Action, Collaboration, Transformation (**ACT**) include **ASOS, C&A, Cotton On Group, Esprit, H&M, Inditex, Kmart, Tesco** and **Primark**.[153]
- Members of the **Seafood Task Force** include the **Freedom Fund, Walmart, Thai Union**, and **Costco**.[154]

Suggested engagement questions

- Is there a risk that the company duplicates initiatives that could be achieved through collaboration with peers instead?
- Has the company examined opportunities for collaboration with companies / industry groups outside its own industry?
- If the company is involved in collaborative activities, has the company considered collaboration with multi-stakeholder initiatives to ensure diverse views and aspects have been considered?

2.7 Capacity building in the value chain

The issue

Sometimes labour rights in different parts of the value chain are challenged by cultural issues or legal issues, or both. For instance, while labour hire fees are illegal in Australia, they may be legal in parts of south-east Asia where an Australian company's main sourcing activities occur or in the country of origin of migrant workers arriving in Australia or New Zealand. These cultural and / or legal differences can create different expectations, a general disconnect and unintended consequences.

Investor relevance

Companies that do not understand or acknowledge cultural or legal differences might, despite best effort to comply with local regulations, expose themselves to both reputational and/or legal issues. Even when companies comply with local regulations, gaps in understanding can lead to unintended consequences such as complicity in exploitative labour practices or failure to meeting evolving stakeholder expectations. Therefore, investors should assess whether a company's responsible sourcing commitments translate into proactive capacity-building within the value chain.

Good practice

We believe good practice constitutes building long-term and close relationships with suppliers. By doing so, suppliers and other value chain partners are also incentivised to monitor conditions in other parts of the value chain, for example, deeper down in the supply chain where the worst issues tend to occur.

Companies that have close relationships with value chain partners can train their partners and encourage their partners to develop their own responsible practices. When suppliers understand responsible sourcing, they can create business strategies that are geared toward this goal, while addressing their capacities and needs. Good practice is to educate value chain partners of the commercial benefits of more responsible practices (as opposed to termination of suppliers who don't comply). For instance, better workplace practices can have a positive impact on productivity and safeguard the brand from reputational damage.

Examples

- **BlueScope Steel** hosts learning and knowledge sharing events to suppliers to increase their understanding of the company's requirements, responsible sourcing, supply chain sustainability and human rights.[155] Moreover, BlueScope's procurement teams engage with BlueScope suppliers to understand and discuss improvement opportunities. For instance, in 2024, NS BlueScope Malaysia hosted a supplier conference with senior managers, representatives from the Australian High Commission, the Malaysia Australia Business Council and 12 strategic suppliers, with focus on responsible sourcing, fair labour practices and sustainability within the supply chain.[156]
- **Coles** is focused on working with tier 1 suppliers to build capacity and strengthen their ethical sourcing approaches, with the view that this can generate sustainable changes across Coles' supply chain.[157] For instance, Coles has worked with Elevate (now LRQA) to support a number of tier 1 suppliers based on China, selecting three suppliers that manage the largest number of in-scope tier 2 suppliers in China, to participate in a multi-step capability-building program. The one-to-one engagement aims to identify and address the root causes of ethical sourcing performance gaps by demonstrating the link between business processes and social performance. This was followed up with tailored training based on needs / gaps identified as well as tailored post-training action plans.[158]
- **Goodman Group** has developed a comprehensive worker accommodation guide, which acts as a resource for general contractors, providing them with clear expectations and standards regarding worker accommodation on site. The guide is being integrated into Goodman Group's Tender/RFP and general contractor contract template, which will require the company's general contractors to comply with the guide as a contractual term and will assess their ability to do so before awarding a contract.[159]
- **Woolworths Group (Australia)** commits the company to long term relationships with suppliers to find "workable solutions and uplift capacity where required". However, if a supplier is unwilling to work with the company to address compliance issues or additional audit requirements, Woolworths reserves the right to review the relationship, including exploring the options to cease or suspend the supplier relationship.[160]

Suggested engagement questions

- How does the company ensure the supplier is aligned with the company's responsible sourcing requirements on a sustainable basis?
- Does the company offer structured training or capacity-building programs to help suppliers improve ethical sourcing practices?
- How does the company measure the long-term impact of its supplier engagement and training efforts?
- Is there an escalation process when issues have been identified but there is lack of progress on corrective actions?
- What would trigger the company to exit a business relationship on human rights grounds?

2.8 Pricing in responsible sourcing

The issue

A pricing model that cannot theoretically cater for a living wage throughout any stage of the supply chain will always be at risk of labour exploitation with concomitant reputational damages that could impact sales. In 2016, it was estimated that A$100 (full-price) for jeans should be the rule-of-thumb minimum between the likely ethically problematic and the potentially humane.[161] A price that covers a living wage throughout the entire supply chain is even higher. In 2019, a study by the Impact Institute and ABN AMRO, using the "true price method" (based on incorporation of environmental and social costs in prices) suggested the true price of a pair of jeans was EUR33 above the retail price, on average.[162]

In some cases, there can also be conflicting messages or trade-offs between the E and the S in ESG. For instance, a brand company that sets out to improve social conditions in tier 1 supplier factories whilst also pushing decarbonisation of those facilities by encouraging the factory owners to install solar panels, poses a major challenge to the factory owners. Anecdotally, based on ESG field research by one of the co-authors, such practices can lead to the factory owner accepting the order but subsequently sub-contracting the order to a different supplier factory with worse working conditions in order the meet the capital expenditure requirements for decarbonisation.

The considerations above must also be balanced with the need for employment; a complete revamp of global price setting at a wholesale level for a particular industry could lead to significant supply / demand imbalances or systemic shocks, ultimately resulting in job losses in global supply chains, which can lead to other types of reputational risks for the brand companies.

Investor relevance

Ultimately, consumer demand decides prices but if a final consumer goods price is not pricing in the true cost of labour (and / or the environment) in a world of increased ESG-related regulation, there is a risk of brand damage and even fines linked to future regulation.

Examples

- **Outland Denim** is built on four pillars: living wages, opportunity, training and education. The company notes:

  > *"At the Outland Denim facility, all employees start on a living wage, irrespective of their skill set, or lack of. The company has an income ladder, which is based on a set of criteria that includes punctuality, work ethic and skills. As the women progress, they move up the income scale too."*

- According to the company, part of Outland Denim's methodology is to equip its employees with the financial and practical tools necessary to live meaningful, independent lives.[163]

Suggested engagement questions

- Has the company assessed the living wage requirements at tier 1 supplier level? Has the company assessed the living wage requirements below tier 1?
  - If so, does the current end price theoretically allow for such living wages to be paid throughout the supply chain?
- How does the company assess living wages? Does it use the Anker methodology or another widely accepted formula or does it interview workers to assess the specific living wage requirements by location?
- Would the company be willing to make a commitment, with a specified timeframe, for living wages at tier 1 supplier level?

SECTION 3: REMEDIATING THE ISSUES

As companies' risk management approaches have evolved, many have improved their ability to identify cases and remediate proven incidents. This allows scope for this toolkit to analyse case studies related to both a) actual cases of remediation of situations where issues have been identified and b) cases where companies have adopted a more sophisticated approach to remediation, in preparation for when situations emerge. For example:

- **Woolworths Group (Australia):** The company has reported in its modern slavery statements in 2022 and 2023 about its remediation efforts in Malaysia.[164] In 2022, Woolworths agreed a plan with a Malaysian supplier to remediate the first identified case of modern slavery found in the company's supply chain. In 2023, Woolworths reported that ~$734,000 was returned to 230 migrant workers from Nepal, Bangladesh and Myanmar to remediate a situation of forced labour. Also, the company reported that a remaining ~$3,300 was donated to a Malaysian NGO partner after three repatriated workers could not be located.[165] This process was verified by an independent third party. Further, in 2023, Woolworths partnered with the Fair Hiring Initiative to commence a proof of concept to verify the practices of five labour hire providers in Nepal, in an attempt to begin to address one of the root causes of debt bondage. Following Woolworths' engagement with a Malaysian supplier to facilitate addressing and remediating a recruitment fees incident, the supplier established controls to prevent such instances in the future, including an assessment checklist for recruitment agencies, a recruitment policy stating that workers should not be charged any recruitment or related fees, and a grievance procedure translated into languages of migrant workers.[166]
- **BlueScope Steel:** As reported in the company's 2023 Modern Slavery Statement, after identifying a number of forced labour indicators affecting some third-party contract workers in the NS BlueScope Malaysian business, a swift response followed. Immediate actions were undertaken to roll out a remediation plan together with an approach to rectify the supplier gaps.[167] At the heart of the remediation plan was to keep the affected parties safe and care for their wellbeing. During every point in the remediation plan's staged approach, the affected parties were consulted, and an independent and confidential grievance mechanism was established to strengthen safety precautions. Since the initial triage, further governance controls and better working practices have been implemented, including worker health checks, contract and policy translations, enhanced responsible recruitment processes and controls, regular wage reviews and social impact training.
- In October 2024, **IKEA** pledged to pay six million euros to a hardship fund for victims of the East German dictatorship after admitting some of its suppliers used political prisoners as forced labourers. IKEA admitted some of its suppliers had used political prisoners in East Germany as forced labourers in the late 1970s and early 1980s, following an independent investigation in 2012.[168]
- **Coles:** The company's Ethical Sourcing – Child Labour Remediation Requirements state:

> "If child labour is identified, our policy requires that the supplier immediately remove the child labourer from the workplace and give them a viable alternative activity and location that is safe and in the best interests of the child. The child must be given access to schooling, paid an ongoing wage and benefits, and guaranteed a job at the workplace on reaching the appropriate age."

- Coles requires their suppliers to prioritise the welfare of the child and put a remediation plan in place, including plans to prevent re-occurrence.[169]

The rest of this section will explore how companies can take a proactive approach to remediation with an eye to reduce future risk of recurrence.

3.1 Remediation by preventative actions

The issue

Many companies have mapped their supply chain risk and / or established risk identification processes. However, relatively few cases of confirmed modern slavery issues have been identified, and a minority of companies report cases of non-conformances against their responsible sourcing requirements. It is possible that there is under reporting due to companies being unprepared for associated remediation activities. In turn, that might relate to inexperience and lack of in-house capabilities to remediate human rights issues. This presents clear risk to company performance as well as compliance / legal risk.

Investor relevance

Underreporting of issues can lead to brand and reputational issues if such issues are identified by third parties. Identifying actual cases of non-conformances by companies can act as validation to a company's risk identification / due diligence activities.

Good practice

Remediation can occur on a preventative basis, during or after an event. Generally speaking, being proactive and preventative is the best way to deal with remediation. These intersect with a number of issues discussed above, in section 1 but in particular in section 2. For instance, it intersects with grievance mechanisms, transparency and collaboration, both internally and with external stakeholders, such as the suppliers themselves and third parties. In a similar vein, consultation with affected stakeholders is considered good practice in the development of grievance mechanisms, as this would seem to build greater trust and accessibility, in the resulting mechanism and process.

One such third party is the **FAIR Hiring Initiative (TFHI),** a Philippines-registered non-profit organisation that develops, tests, and promotes global ethical recruitment models and technologies. The organisation also addresses issues of forced labour, debt bondage, and human trafficking in labour migration through training, applied research, and technical advice.[170] The work by TFHI is of particular interest to companies that are subject to issues related to labour hire companies, which, as discussed above, can be subject to different regulation in the source countries to those of the country of the importer.

Examples

- **Super Retail Group:** In FY22, the company identified non-conformances at one factory uncovered during an independent audit by external partner LRQA. The audit findings included passport retention, debt bondage in the form of recruitment fees, deceptive recruitment, withholding of wages (deposits and deductions) and abuse of vulnerability. Super Retail identified that they were directly linked through their business relationship with the trade partner through procuring products from the factory. LRQA was re-engaged in FY23 to conduct a detailed onsite investigation including off-site interviews with the migrant worker population. Super Retail Group have worked with the trade partner and LRQA to provide factory workers with an independent external grievance line, including training in four languages, and following up on the correct action plans to address the non-conformances.[171] They also engaged LRQA again in June 2023 for another independent verification audit to check progress on implementation.

CASE STUDY 6: COLES' THREE STEP APPROACH

Coles has a three-step approach to grievance management including *Grievances Reported to Coles, Investigation and Remediation*.

In the first step, grievances mechanisms are accessible to all potential affected stakeholders such as team members and their dependents, contractors, officers, suppliers' workers and affected communities via STOPline. The hotline service is run by an independent third party and is available at any time. Additionally, there are other grievance channels including Coles Wages and Conditions Hotline and Email for workers in Coles' extended supply chain to report unfair labour practices of their employment, Coles Protected Disclosure Officers, and Worker Interviews.

In the second step, *Investigation*, the framework clearly specifies the roles and responsibilities of the Affected worker(s), Coles, Supplier and Independent Verifier. In the final step, *Remediation*, Coles has also developed specific guidance on Child Labour Remediation Requirements, Forced/Bonded Labour Remediation Requirements, and Wages and Benefits Remediation Requirements. In 2023 Modern Slavery Statement, Coles reported conducting worker interviews and a worker survey, and engaging with suppliers to investigate the issue of potential recruitment fees identified by supplier ethical audits on several sites in Asia.

Coles' investigation uncovered recruitment fees being charged and required remediation. Coles planned to work through a remediation pathway with suppliers to repay fees to workers and to prevent similar conduct from reoccurring. Coles organised a webinar with suppliers on recruitment practices. Coles also reported working with tier 1 suppliers on remediation of underpayments to ensure all underpayments are back paid with payslips and bank transactions provided as evidence. Coles' investigation and remediation of underpayments and recruitment fees for suppliers' workers illustrates how the framework and process have guided company practices.[172]

Suggested engagement questions

- What remediation mechanisms does the company have in place for different types of human rights violations (for example, child labour, forced labour, underpayments)?
- Does the company require suppliers to remediate issues, or does it simply terminate relationships when violations are found?

3.2 Remediation using external expertise

The issue

Once a company has identified labour rights abuses in its value chain, management must decide whether to manage remediation using internal resources or outsource to an external expert.

Remediation activities might be better outsourced to a party with specific expertise in remediation services where companies do not have the required in-house expertise to provide remediation or where such actions might distract management/staff focus and/or come at an opportunity cost.

Investor relevance

Understanding the trade-offs of internal versus external management of remediation will allow investors to better judge if the cost of hiring an external expert is offset by the efficiency and efficacy of the solution.

Good practice

When it comes to remediating identified human rights abuses, good practice is for the buying company to work with the supplier to address those issues. That said, in cases when suppliers are unwilling to co-operate, termination might be the only remaining option. This issue also ties back to the leading practice of developing long-term partnerships with suppliers; remediation of victims of labour rights abuse would be easier in a situation where there is close-knit interdependency between a buyer and supplier, as opposed to a transactional relationship where the buyer has little or no leverage, but is just one of many buyers that represent a small proportion of the order volume.

Where companies determine gaps in their ability to effectively remediate labour rights issues in person, good practice would be collaboration and consultation with organisations that have that specific expertise. Two examples in Australia include:

- **Domus 8.7:** An independent modern slavery remediation service, comprising social and community services professionals who manage identification, assessment, welfare and support for workers with concerns. The remediation services are designed to be flexible and collaboratively whilst ensuring that each party maintains its independent and confidential approach.[173]
- **Freedom Hub:** A member of the Australian Trafficking Response Network, Freedom Hub assists organisations with remediation processes for victims of slavery.[174]
- **The Australian Red Cross:** A volunteer-based organisation that exists to reduce human suffering. This includes, amongst other things, providing holistic casework support to help survivors of modern slavery.[175]

Examples

- **Tesco:** Responding to reports of worker rights violations in the Spanish agricultural sector in 2023, Tesco cooperated with growers, suppliers and the Ethical Trade Forum (ETI) to improve standards within its supply chain and the wider industry. Tesco provided additional financial support to the Spanish Ethical Trade Forums to establish an enhanced grievance mechanism project. It is also participating in the ETI's recently established Grievance Mechanism in Agriculture working group, which focuses on the Southern Mediterranean.[176]
- **Domus 8.7 and Freedom Hub:** First Sentier Investors supports the Freedom Hub[177] and Ausbil Investment Management Limited[178] supports Domus 8.7.
- **Target (US):** In 2018, when informed by NGO Transparentem of forced labour at Target's former Malaysian supplier, Target collaborated with the supplier's other customers and an independent expert to investigate the claims. Target also developed and implemented corrective action.[179]

Suggested engagement questions

- How prepared is the company for remediation of issues, should the company identify issues that require remediation?
- Has the company assessed the availability of external providers of remediation services in preparation for potential issues that could be identified?

SECTION 4: INTERCONNECTED ISSUES

Human rights issues, including modern slavery, also interact with and are exacerbated by other interconnected issues such as living wages, freedom of association, the circular economy, armed conflict and climate change. These intersections can create compounding risks, which in turn can directly impact an investee company's financial performance, regulatory exposure, and social license to operate. By understanding how human rights risks interact with other environmental, social and governance issues, investors can enhance their risk assessment, identify material financial implications and engage proactively with companies to drive long-term value creation and resilience.

4.1 Living wages

The issue

A living wage, sometimes termed as a fair, liveable or decent wage, is defined as remuneration paid to a worker which meets the average workers' financial needs. It is typically higher than regulated minimum wages.[180] The implementation of living wage as outlined by the International Bill of Human Rights, aligns with a worker's rights to a fair wage and decent work.[181] Decent work is an umbrella term for work that promotes and supports workers' rights to fair pay, food, water, health, adequate housing, education, and family life. These are enabled by freedom of association, collective bargaining and freedom from discrimination. For vulnerable groups, which in some contexts can include women, people with disability, Indigenous peoples and migrant workers, a living wage supports the realisation of rights to equal participation and non-discrimination.

Lack of living wages can also be directly linked to and contribute to child labour; where parents are not earning enough to sustain a living wage, children may be required to work. Child labour can take many forms including the worst forms of child labour as defined by the ILO and the worst forms of child labour constitutes modern slavery under the Australian Modern Slavery Act.[182]

Despite this, in 2023, an estimated 241 million workers globally were living in extreme poverty, with the working poverty rate of approximately seven percent.[183] According to the UN Guiding Principles (UNGPs), businesses have a responsibility to consider and mitigate the risks of working poverty within their value chains, particularly those arising from low wages.[184]

Investor relevance

The living wage gap exposes investors to a broad range of reputational, financial and human rights risks. Conversely, implementing living wages across assets and portfolios can mitigate these risks while delivering a range of quantitative and qualitative benefits:

- **Earnings sustainability:** A business model that relies on weak labour practices and underpaid workers due to inadequate wage regulations or weak enforcement is inherently unsustainable. Companies that engage in these practices and fail to proactively address living wage gaps may be subject to sudden and unexpected cost increases, which in turn give rise to operational, financial and reputational risks.[185] Recognising and encouraging living wages is therefore a key opportunity for investors to bolster the sustainability, longevity and returns of their portfolios, alongside supporting impacted workers.[186]
- **Living wage as an assurance metric and preventative action:** Companies that fail to provide a living wage may face social unrest, industrial action, supply chain disruptions, and high employee turnover, which in turn can lead to operational instability and financial losses. Living wages can function as a due-diligence tool, living wages can mitigate and prevent harms such as modern slavery, child labour and other discouraged practices like excessive overtime.[187]
- **Living wages promote interconnected benefits for workers and value-chains, such as productivity increases:** Implementation of a living wage has the potential for interconnected benefits for companies and their investors through: greater employee retention; improved productivity; reduced instances of excessive overtime or child labour; improved employee wellbeing; improved supply chain resilience; greater transparency; improved reputation; and stronger community relations.[188]
- **Living wages have the potential to "make or break" brand value:** Brands' reputations have been tarnished by revelations of underpayment, which can be costly and time-consuming to restore. Brand damage can result in loss of sales, weakened supplier trust and reduced ability to win contracts. But supporting and strengthening living wage practices can support and bolster a brand image that reflects respect for people in a company's value chain.

Good practice

As living wages are interconnected with many factors, bolstering and building capability for living wages can happen at many levels.

UNDERSTAND LIVING WAGE GAPS

Utilise existing data points to understand or calculate the living wage gap, starting with highest risk workforces. Existing data may be used to hone in on areas of work or supply where there is risk, such as third-party audit reports which often record the average or minimum wage at a site. Ensure this also factors in the financial impacts to vulnerable groups like disabled people, migrant workers, and women. This is calculated specific to geographic location, and can be done for employees or for supply chains.

COMMITMENTS

Disclose commitments and intentions to understand living wage gaps within operational workforces and in key high-risk value chains, and progressive implementation of living wages.

RESPONSBLE SOURCING PRACTICES

Factor living wages into budgets for products or services, establish responsible sourcing training for purchasers, include labour intensity details in tenders, and conduct risk assessments to understand where goods or services are labour-intensive or have been historically costed below production value (such as coffee or cocoa).

WAGE AND CONTRACT REVIEWS

Use existing wage and contract review cycles to implement changes based on living wage gaps identified. Ensure ongoing consideration of inflation or consumer prices chages, as this may impact the lowest paid workers.

NON-FINANCIAL SUPPORTS

Review and bolster the non-financial supports to relieve cost of living for employees including leave entitlements (sick, personal, cultural, carers and reproductive health), flexible working arrangements, healthcare, on-site food, travel budgets, and the proximity of social or health infrastructure to worker accommodation or workplaces.

PARTNERSHIPS

Develop partnerships with NGOs and worker organisations to improve and support understanding and implementation of living wages, whilst sharing challenges and wins to promote broader development of solutions.

- **Don't let perfect be the enemy of the good.** Complete coverage of living wages in your investments, operations or supply chains is an outcome that requires systemic change. To avoid inaction and overwhelm, any company can begin with one or two of the steps shown in the chart, on the left.
- **Learn from companies that have initiated the process, but ensure workers remain a central focus throughout.** Support or participate in collaborative or pilot efforts to calculate and publish living wages, which may also benefit developing internal capability and external partnerships. These partnerships will be essential for both calculation and implementation of living wages but note going straight to the source or working with worker representatives can increase efficacy and save time. For investors, this may mean engaging with or using materials published by the Platform for Living Wage Financials (PFLW) alliance.

Several living wage resources have been collated and included in the endnotes, including methodologies, databases and research for investors.[189]

Examples

- **IKEA (Ingka Group)** and its franchisees have established a Responsible Wage Practices (RWP) program focusing on equality, pay, competence, dialogue and a living wage. So far, IKEA has conducted a baseline assessment across all 31 of its retail markets, with franchisees planning subsequent and ongoing assessments. IKEA has been working with the Fair Wage Network and Wage Indicator Foundation to gather and share learnings to encourage broader adoption.[190]
- **Intrepid Travel** joined the UN Global Compact's Forward Faster Initiative in 2023, committing to a target that "100 per cent of employees across the organization earn a living wage by 2030" which was achieved by December 2023. The company conducted a review of global living wages across its 2,909 global staff and trip leaders. This resulted in remediation provided to 10 workers across 4 countries in 2023.[191]

CASE STUDY 7: LORNA JANE AND THE ANKER METHODOLOGY

The Anker Methodology allows estimation and comparison of living wages across different countries, providing an approach that considers local factors in determining the costs associated with a basic but decent standard of living.[192]

Lorna Jane worked in partnership with its key tier 1 supplier, Active Apparel Group (AAG), using the Anker Methodology to define a living wage benchmark for the factory and perform a comprehensive review of wage practices for the Ningbo Longson Garment Factory in 2023.[193] Through this process, Bureau Veritas was engaged to conduct an independent audit in order to benchmark wage practices against this living wage standard. The findings of this audit identified a small gap between the factory's current wages and the living wage benchmark, such that adjustments would be required to align fully with the living wage standard.

Lorna Jane collaborated with AAG to implement a back-pay initiative, providing retroactive wage adjustments for 2023 to ensure all workers of the Ningbo Longson Garment Factory received wages at or above the living wage benchmark amount. A formal annual process to review wages against the living wage benchmark was subsequently implemented, alongside protective measures guaranteeing the payment of living wages to all of the factory's employees under a commitment to sustainable wages across all operations of the supplier.

Oxfam has recognised Lorna Jane's progress towards achieving payment of a living wage in its supply chain, with Oxfam Australia performing additional due diligence processes to verify the integrity of the wage gap analysis performed.[194] The success of Lorna Jane's assessment demonstrates the strengths of partnering closely with key suppliers to drive faster progress on systemic issues.

Suggested engagement questions

- Has the company conducted an in-house living wage baseline for your employees and contractors?
- Has the company conducted a scan to assess high-risk supply chains or services for a living wage benchmark?
- Has the company determined or found the calculations for living wage in key sourcing regions?
  - If so, what steps have been taken by the company towards implementation?
- How does the company's purchasing and procurement systems utilise or consider reasonable pricing and labour-intensity into:
  - tenders and pricing processes; or
  - contract management, review and negotiation cycles?
- Has the company established any external partnerships for research, training, or implementation of living wages (through NGOs, collaborative initiatives or unions)?

4.2 Freedom of association

The issue

Freedom of association is the right to join and form trade unions free from harassment, discrimination, and intimidation. It can be crucial for addressing the root causes of modern slavery, ensuring worker voice and improving working conditions in a company's operations and value chains.

Workers' ability to organise collectively and have a meaningful worker voice can be essential for addressing human rights violations such as modern slavery and interconnected risks such as obstruction of freedom of association and worker exploitation.[195] This is particularly pertinent for vulnerable workers in high-risk sectors or geographies. A lack of freedom of association undermines workers' ability to raise grievances and to take collective action to improve working conditions.[196]

Lack of freedom of association is closely associated with other human rights issues and is often a key obstacle to progress on human rights at the supplier level. The issue can have cultural roots (such as in Bangladesh) or be prevented by law (e.g. in China where there is only one major workers' union). Modern slavery practices can be accompanied by worker exploitation with root causes including denial of human and labour rights through state suppression, a lack of enforcement of human rights including freedom of association, and weak or no protection of human rights from companies.[197] Several countries have not ratified or otherwise embedded in local law the international standards set out in fundamental ILO Conventions.

Investor relevance

Lack of freedom of association in value chains can lead to major business risks such as supply chain disruption due to poorer worker conditions. Freedom of association can result in lower risk of reputational and brand damage. For example, many of the factory disasters seen in the garment supply chains have had one thing in common: the lack of union representation at factory level.

Assessing workers' access to freedom of association and collective bargaining is a key component of human rights due diligence in operations and value chains.[198] This helps investors better understand modern slavery risks in the companies they invest in and the actions that investee companies are taking to mitigate such risks.

Good practice

Supporting freedom of association and building relationships with legitimate worker representatives within the value chain can be essential to avoid some of the risks discussed above and to cater for sustainable and stable business growth. Good practice includes working with independent unions to enable freedom of association in value chains. This goes beyond a company demonstrating that it has robust policies in place supporting freedom of association. Actual engagement with worker representatives can assist companies to understand modern slavery, freedom of association and other labour-related risks in the value chain from a worker perspective and the company's role in using leverage to resolve these issues.[199]

Indicators of good practice include:[200]

- Disclosure of the percentage of the workforce and value chains covered by collective bargaining agreements;
- Disclosure of engagement with independent unions and/or other legitimate worker representatives to improve freedom of association in the value chain;
- Disclosure of the number of direct or hosted employees who are on temporary work visas, country of origin and evidence that the employees were not subject to deceptive recruitment or have not entered into debt bondage arrangements as part of the recruitment process;
- The presence of a grievance mechanism designed in collaboration with unions to enable workers in company operations and supply chains to lodge grievances;
- Mapping of value chains (beyond tier 1), to include freedom of association and labour-related modern slavery risks. These may be informed by the presence of collective bargaining agreements, use of grievance mechanisms, whistleblower complaints, meetings with independent unions, and meetings with worker representatives and other stakeholders;
- Collaboration with unions to identify and address modern slavery and labour-related risks, including union involvement in social audits; and
- Disclosure of instances of sub-standard or unsafe work practices identified, in addition to modern slavery indicators, and the steps taken to remediate them.

Examples

Union involvement in social audits:

Ethical Clothing Australia (ECA) is a joint industry and union initiative that works with textile, clothing and footwear (TCF) businesses to protect and uphold the rights of Australian TCF workers. ECA works towards a more transparent industry whereby supply chain management and adhering to workplace laws is the TCF industry standard. To be ECA accredited, a business' manufacturing operations are audited annually by the TCF Union team, including outsourced locations in the supply chain, to ensure workers are paid appropriately, receive all their legal entitlements and work in safe conditions.

Labour rights agreements with unions:

- In 2022, **H&M** signed the Dindigul Agreement with the Tamil Nadu Textile and Common Labour Union aimed at addressing gender-based violence and harassment of female workers at the brand's supplier Eastman Exports in India. The agreement includes a program to train workers, supervisors and managers, an independent grievance mechanism, and for shop floor monitors to report gender-based violence and harassment.[201]
- In 2024, **H&M Group** signed an updated global framework agreement (GFA), with IndustriALL Global Union and Swedish trade union, IF Metall, to protect the interests of more than one million garment workers. The GFA includes national monitoring committees with union representatives which monitor for workplace issues and are an avenue for workers to raise grievances.[202]
- In 2017, **ASOS** signed a GFA with IndustriALL Global Union to strengthen the implementation of international labour standards across its value chain. The GFA recognises the role that freedom of association and collective bargaining play in developing well-functioning industrial relations.[203] ASOS has a partnership with the Fashion Workers Advice Bureau (FAB-L), a community-run initiative, funded by brands including ASOS and trade unions. FAB-L offers free worker support, including on workers' rights.[204]

Industry initiatives:

- **ACT (Action, Collaboration, Transformation)** is a coalition between global brands, manufacturers and IndustriALL global union. ACT aims to improve wages and working conditions in the garment and textile industry by establishing industry collective bargaining and promoting freedom of association (see case study at section 2.5 above).[205] Among other things, all member brands must agree on principles around workers being able to exercise their rights to bargain collectively and ACT members commit to design strategies on how to proactively promote freedom of association. This can include union representation at factory level, to mitigate against supply chain disruption.

CASE STUDY 8: CLEANING ACCOUNTABILITY FRAMEWORK

The **Cleaning Accountability Framework's (CAF)** aims to improve labour practices for cleaners in the commercial and retail property services sector in Australia. CAF's role in preventing worker exploitation was recognised by the UN Special Rapporteur on Contemporary Forms of Slavery in 2024.[206]

CAF works with various stakeholders including cleaners, worker representatives (the United Workers Union), tenants, contractors, property owners, facility managers, regulators and investors across the cleaning value chain to ensure ethical labour practices through its promotion of decent work, ethical procurement and good practice. Together with industry leaders and stakeholders, a due diligence framework was designed and implemented to measure social compliance within the cleaning industry. The CAF Certification framework, which can apply at a building level or whole of property portfolio level, seeks to protect cleaners from exploitation by driving responsible contracting and procurement practices, and a worker-driven compliance model.

Central to CAF's success is that it involves all stakeholders in the cleaning supply chain, including workers and the United Workers Union, with this collaborative model acting to prevent and combat modern slavery. A key differentiator of CAF Certification is its worker voice component in social audits and grievance mechanisms. Cleaners across the value chain are supported by the United Workers Union and CAF representatives to raise issues, which in turn can lead to multi-stakeholder dialogue to design solutions.

Suggested engagement questions

- What is the company's approach to wages and employment conditions, workplace health and safety, freedom of association, collective bargaining and supply chain management, including the eradication of modern slavery?
- How does the company demonstrate support for freedom of association and collective bargaining in its operations and/or its value chain, beyond commitment to policies?
- What evidence does the company disclose of independent union presence and engagement with worker representatives in its operations and/or its value chain?
- What percentage of the workforce and value chains (or a section of the value chain) are covered by collective bargaining agreements? Does the company honour its collective bargaining agreements?
- What evidence does the company disclose of collaboration with unions, worker representatives, migrant worker groups and/or not-for-profit/non-government organisations in their efforts to address modern slavery and labour-related risks in both its operations and value chain? In jurisdictions where trade unions are illegal or are not independent, for example,. a "union" controlled by the employer or by the State, how does the company assess if there is collaboration with legitimate and independent worker representatives who are truly representative of workers? For example, workers have access to elected representatives who act in their interests or there are migrant worker groups or civil society organisations recognised by global trade unions as being independent and representative of the workforce.
- Does a company's ethical sourcing policy capture freedom of association? If yes, how does the company ensure that freedom of association is being followed? For example, is this part of the initial supplier assessment?

4.3 Gender inequality

The issue

Gender discrimination is one of the most common types of human rights breaches in value chains. Women are exposed to multiple risk factors including reduced access to education and health services, poverty and working in the informal economy. This leaves women more exposed to discrimination, violence and sexual harassment.[207]

Walk Free estimated in 2021 that 50 million people were living in situations of modern slavery. It also concluded that the most vulnerable – women, children, and migrants – remain disproportionately affected. More than 12 million of all people in modern slavery are children, and women and girls account for over half of them (54%).[208]

The lack of research or support for women in the workplace can create health and safety issues, both physiological and physical for women. This could be through the stress of dealing with exclusion or bullying in a male dominated workforce or health hazards in industrial settings for pregnant women.[209] Ongoing opacity of wages and conditions of employment support continued gaps in wages and representation of women in the workforce. More serious and often illegal practices include discrimination, sexual assault and forced labour.

Investor relevance

The value of gender equality has both a macroeconomic and a workplace-based answer. At the macroeconomic level when more women work, economies grow. It is estimated that closing the gender gap in formal work could give the global economy a US$7 trillion boost.[210] Empowering women in the workplace or in general will also impact the health and social wellbeing outcomes of families, communities and countries.

International development organisation CARE combats fighting global poverty with a focus on working with women and girls. CARE conducted research in 2017 to highlight the productivity loss from sexual harassment, an issue which is rarely picked up by regular factory audits. Through interviews and focus groups, CARE discovered that nearly one in three female garment factory workers report experiencing sexually harassing behaviours. This also has financial impacts, the estimated productivity cost of sexual harassment in the garment industry in Cambodia is US$89 million per year.[211]

At the company level, companies that have supply chain exposure to the issues discussed above, might face brand and reputational issues, which can impact sales.

Investors can also use gender equality data as a leading indicator of how companies manage wider human rights issues including sexual harassment, debt bondage, coercion or trafficking.

Good practice

Companies focused on gender equality attract talent and foster innovation. Although empirical research struggles to attribute correlation or causation, as a general rule, having more women throughout a corporate structure leads to less gender discrimination in the employment process. Companies focused on gender equality both in the workplace and in their value chains have the added benefit of reducing potential litigation risk.

Companies that are making good progress in addressing gender equality within their supply chains are focusing on a number of areas. This leads to improvement in their processes for identifying, assessing and integrating processes to address gender issues and includes:

- Understanding supply chains and building metrics that support this;
- Developing policies and practices to promote economic inclusion in supply chains underpinned by training and awareness;
- Requiring inclusive policies from suppliers;
- Providing support for women's economic empowerment and practical solutions to facilitate women's inclusion such as access to childcare;
- Advocating for broader gender equality laws and initiatives; and
- Monitoring and measuring impact of programs including regular surveys and audits to gauge impact.[212]

Examples

Patagonia is a clothing company that owns and operate offices in the United States, the Netherlands, Japan, South Korea, Australia, Chile and Argentina. It also operates two distribution centres. Patagonia sources from 55 factories farms and mills across the world with a number in emerging markets and developing economies such as Vietnam, Sri Lanka, Bangladesh, Taiwan and parts of South America. The clothing industry is a high-risk industry in relation to human rights issues with poor standards that can lead to unsafe working conditions, long hours, low pay and job discrimination in a workforce that is predominantly women. Patagonia has embedded a number of programs that support positive outcomes for all workers acknowledging the large percentage of women employed across the company's supply chain.

When considering new or existing factories, social and environmental practices are considered alongside quality standards and business requirements. The Social and Environmental Responsibility (SER) team can veto a decision to work with a new factory. The Sourcing and Supply Planning teams are trained in responsible purchasing practices to minimise any negative impact on the factory workers and the environment that could result from business decisions. Patagonia has also implemented programs to drive improvement in working conditions in its supply chain. These include:

- Living wage – as of 2022 34% of apparel assembly factories are paying living wages with a goal to attaining living wages for all apparel factories by 2025.
- Fair Labour Association – an annual assessment that measures the company's progress against the FLA's Principles of Fair Labor and Responsible Sourcing. This program remains accredited and is recognized for meeting or exceeding the FLA's principles.
- Advocacy - through supply chain tracing, Patagonia uncovered fee payments for workers Patagonia. They reached out to *The Atlantic*[213] with a firsthand account of the issues they uncovered. While the article raised awareness in the industry, it didn't initially result in the level of desired support, and Patagonia continued work on a "No fees by 2020" with five other brands joining the initiative.
- Standards – Patagonia established standards on ethical recruitment and applied this to its global supply chain.[214]

Suggested engagement questions

- What specific policies and programs does the company have in place that target gender discrimination in the company's supply chain? Do these include practical solutions to gender-based issues such as childcare?
- How does the company measure the impact or success of these programs?
- Does the company's supply chain auditor (internal or external) assess gender specific human rights issues in its supply chain, for example, equal pay, sexual harassment?
- Has the company identified instances of gender discrimination in your supply chain and how have you addressed these issues?
- What sector or global initiatives does the company support that target gender-based discrimination and inequality?

4.4 Armed conflict and conflict-affected and high-risk areas

The issue

Whilst only a few key conflicts attract global media attention, armed conflict is widespread, with over 110 armed conflicts being monitored by the Geneva Academy as of the time of writing.[215] Conflict-affected and high-risk areas (CAHRA) refer to situations of armed conflict and a range of other situations of widespread violence. These areas are prone to a complex web of risks and violations leading to the displacement of vulnerable people, human trafficking, forced labour, forced marriage and sexual exploitation, all of which can creep into global supply chains.

As armed conflict unfolds, there are a range of consequences that can exacerbate human rights risks in value chains, including:[216]

- **A deterioration of access to financial resources**, as regular economic activity ceases to exist, individuals search for alternative livelihoods.
- **A weakening of the rule of law**, as criminal justice institutions deteriorate, enabling modern slavery and human rights violations to flourish with little to no accountability for perpetrators. This is further perpetuated in the post-conflict stage as corruption can sustain while systems take time to recover and rebuild.
- **The displacement of individuals** – at the start of 2024, 76 million people globally were living in internal displacement, with nearly 90 per cent – around 68 million individuals – displaced due to conflict and violence.[217] Displacement leaves individuals far more susceptible to forced labour and trafficking in search of food, shelter and employment, further exacerbated by climate change as individuals are forced to seek alternative coping strategies which armed groups and traffickers seek to exploit.[218]
- **Discrimination and marginalisation** on the basis of ethnicity, religion or political views.
- **Exploitation by armed groups**, which strategically weaponise slavery to sustain military operations and generate illicit income. This can include forced labour in industries part of global value chains, for example, forced labour victims in extractive industries in the mines of Russia-occupied Donbas.[219]
- **Child trafficking** – 2024 was one of the worst years on record for children in conflict in UNICEF's history.[220] Factors such as poverty, hunger, lack of access to education and family coercion can lead to children's sexual exploitation, enslavement, recruitment and use in combat.[221] Reintegration has serious, long-lasting impacts and increases children's risk of re-trafficking and vulnerability to forced labour in the future.[222]
- **Supply chain disruptions**, forcing companies to seek alternative suppliers under pressure, potentially compromising due diligence processes, in turn increasing risk of exposure to human rights violations.

These consequences inherently heighten the risk of involvement in grave human rights abuses and violations of International Humanitarian Law (IHL) in conflict-affected contexts, underscoring the importance of thorough human rights due diligence (HRDD).

Investor relevance

The complexity of these interconnected issues poses a challenge for companies that are exposed to or operate in CAHRA, heightening human rights risks and IHL violations. However, CAHRA depend on capital investment to spur economic growth, reduce conflict and bolster human rights protections.[223] An important consideration for investors is the saliency-materiality nexus, which refers to the intersection of salient human rights and material risks, which most often translate into financial impacts in CAHRA.[224] When these human rights impacts are not managed or mitigated, they may erode the value of a company and its investment.[225]

The potential financial materiality of the issues can be illustrated by some case studies:

Financially material risks in CAHRA[226]

Regulatory risk	Operational risk
RATIONALE Governments are increasingly leveraging their regulatory powers to address complicity in conflicts and human rights abuses through sanctions regimes, import restrictions, export controls and unwinding trade agreements with occupying powers.[227] New regulations are being developed to mandate corporate HRDD and enhance accountability for connections to human rights violations.	**RATIONALE** Companies operating in CAHRA face significant operational risks including loss of social license due to community protests, physical damage to assets, and potential seizure of assets by the state. These challenges can be exacerbated by regulatory constraints and government interventions that limit a company's ability to operate, access value chain partners, or maintain revenue-generating activities, making the financial risks particularly acute in such unstable environments.
EXAMPLE BNPP entered a guilty plea in June 2014 for moving over $8.8 billion through the US financial system on behalf of sanctioned entities, the majority of which are in Sudan, which was subject to a US embargo based on the Sudanese Government's role in facilitating terrorism and committing human rights abuses.[228] In the wake of the fine, BNP shares fell 6.1 percent and the company continues to face financial risk including a revived class action lawsuit from Sudanese refugees in the US and a criminal probe in France.[229]	**EXAMPLE** TotalEnergies' $20 billion LNG project in Mozambique has been on hold since 2021, following investigations into the alleged torture and killings of civilians by Mozambican government soldiers on site.[230] TotalEnergies allegedly contracted a Mozambican security unit to defend the plant, despite warnings that some soldiers had allegedly carried out human rights abuses.[231] Victims' families and attack survivors filed a legal complaint accusing the company of failing to protect its subcontractors, provoking investigation for possible involuntary manslaughter in 2024, despite the company firmly rejecting the accusations.[232]
Legal risk	**Reputational risk**
RATIONALE The viability of legal action for human rights abuses in CAHRA hinges on national laws, the integration of international law into claims, and the effectiveness of judicial mechanisms in providing remedies. IHL is also binding on businesses involved in armed conflicts, and failure to comply can result in criminal or civil liability, whereby violations can reap significant legal consequences.	**RATIONALE** Reputational risks occur when a business' association with or response to human rights issues negatively impacts stakeholders' perceptions. These risks are often heightened in CAHRA given media and civil society scrutiny around businesses' roles in armed conflicts.
EXAMPLE In 2022, cement group Lafarge was ordered by a US District Court to pay US$778 million in fines and forfeiture for "aiding and abetting crimes against humanity" through its involvement in Syria's civil war and deals that provided funding to the Islamic State group.[233]	**EXAMPLE** NSO, an Israeli spyware company, has developed intrusion software used by regimes and non-state actors in CAHRA to unlawfully survey citizens and oppress human rights defenders. Advocacy efforts led to government actions, such as the US adding NSO to the Bureau of Industry and Security (BIS) Entity List, and civil lawsuits from companies like WhatsApp and Apple, resulting in significant financial losses, investor withdrawal, and a severe downgrade in the company's valuation.[234]

Refer to pages **13-18** of RIAA's Human Rights and Armed Conflict Toolkit and pages **6-21** of the Saliency Materiality Nexus report for greater detail on global human rights regulation and IHL obligations, as well as regulatory, litigation, investment and reputational risks for investors.

CASE STUDY 9: ZTE AND EXPORT CONTROLS[235]

In 2017, partially state-owned Chinese telecommunications company ZTE entered into a US$661 million settlement agreement with the US Bureau of Industry and Security (BIS) and Department of Justice (DOJ), related to its violation of US export controls. The government discovered ZTE unlawfully built, operated and maintained telecom networks[236] in Iran[237] and North Korea,[238] which had unlawfully surveyed and oppressed citizens, dissidents, marginalised groups and human rights defenders (HRDs). ZTE allegedly sold a surveillance system that included US telecoms equipment to Iran in 2012,[239] thereby contributing to the harms committed through those systems. BIS then discovered ZTE provided false information during the investigation, provoking the US to bar American companies from exporting to ZTE without a license. This prevented ZTE from obtaining 25-30 per cent of its necessary supplies,[240] leading to a credit rating downgrade,[241] a 40 percent fall in analyst price targets, and a US$7 billion loss in market cap[242] by mid-2018. To lift the ban, ZTE agreed to a US$1 billion settlement including new management and probation.[243] ZTE now faces regulatory restrictions[244] in several countries[245] due to ties to Chinese state surveillance programs.

CASE STUDY 10: CATERPILLAR INC[246]

Wespath's HRDD process, with Heartland's support, revealed Caterpillar's exposure to severe human rights risks in various CAHRA, including Belarus, Israel/Occupied Palestinian Territory, Iran, Myanmar, Russia, Syria, Western Sahara, and China (Xinjiang).[247] After unsuccessful engagement, Wespath filed a shareholder resolution at Caterpillar's 2023 AGM, requesting a third-party report on the effectiveness of its due diligence in identifying violations of its Code of Conduct and Human Rights Policy.[248] Wespath sought disclosure on Caterpillar's approach to assessing and addressing human rights risks in CAHRA and whether additional policies are needed, particularly regarding its subsidiaries and distributors in Russia, value chain risks to forced labour, and risks related to the EU's mandatory HRDD laws. Schroders supported the resolution, expressing the need for companies to adapt their policies and enhance due diligence measures regarding conflicted-affected and high-risk contexts.

Caterpillar acknowledged that its operations depend on products from politically and economically unstable regions,[249] posing risks which Schroders concluded an assessment report would help manage. Although the resolution narrowly fell under the support threshold for re-filing, Westpath and Schroders' prioritisation of the most severe and system human rights and material risks demonstrates a strong alignment amongst asset ownership and management, and highlights the need for continued investor education and collaboration on this topic.

Good practice

Given the number of conflicts occurring globally, it can be challenging to identify links to armed conflict, particularly in companies with international footprints and opaque supply chains. It is important to monitor operations for both latent and extant risks of conflict, which can be done through:

- **Company level analysis,** including identifying where a company is domiciled and where its operations or key business relationships and suppliers are located;
- **Sector level analysis,** including identifying key sectors that are exposed to the conflict;
- **Civil society organisations**, such the Business and Human Rights Resource Centre,[250] Human Rights Watch,[251] Ethical Trading Initiative,[252] the Heartland Initiative,[253] or those more specific to a conflict; and
- **Controversy screening**, available from ESG research providers and media coverage.

Company engagement is a key tool for investors to understand and address conflict-related human rights issues in their portfolios. Given the dynamic nature of conflicts and the human rights issues connected to them, investors can adopt different approaches to engaging with companies prior to, during and after an armed conflict has broken out.

Refer to pages 27-40 of RIAA's Human Rights and Armed Conflict Toolkit for greater detail on good practice, including questions to ask investee companies at each stage of the conflict.

Examples of good practice

Companies doing well in this area generally have a robust hHRDD process which acts as an in-depth, ongoing and iterative process to understand and address human rights impacts related to a conflict. A practical framework for decision making which appropriately takes human rights risks into account is also included.

Examples

- **Ericsson:** Ericsson has integrated HRDD into its sales process through its Sensitive Business Framework for the purpose of assessing, preventing, and mitigating potential misuse of Ericsson's technology. Ericsson's response to the Business and Human Rights Resource Centre's questions regarding HRDD related to operations in Russia and Ukraine notes:

> "The Sensitive Business Framework evaluates sales opportunities from a human rights risk perspective. Risks are identified based on the parameters of the Sensitive Business risk methodology (country, customer, product and purpose). As a result of these due diligence measures, Ericsson decides how to proceed with the opportunity and how to mitigate identified risks. The decision can be to approve, with or without conditions, or to reject the sales engagement [...] Ericsson conducts screening on all its customers and suppliers in Russia [...and] use different screening tools when evaluating entities we interact with[...]"[254]

- **Anglo American:** Anglo American is a global mining company that employs over 106,000 people across 15 countries.[255] As part of its broader policy suite in relation to human rights, the company has developed a Social Way Policy which applies globally to employees, contractors and suppliers and sets the company's vision for social performance. To implement this policy, Anglo American has developed a Social Way Toolkit and Social Way Assurance Framework. The Social Way Toolkit includes detailed guidance on (amongst others) proactively addressing potential human rights issues including in relation to cultural heritage, community management and security management.

Refer to pages **33-36** of RIAA's Human Rights and Armed Conflict Toolkit for further examples of companies and investors managing conflicted-related human rights risks.

Suggested engagement questions

- Does the company, its subsidiary, or any value chain partner have exposure to the conflict through its products/services, operations or value chain? Briefly describe the nature, sector, scale, and geographic area of these operations or investments.
- How is the company conducting heightened due diligence to identify, prevent, and mitigate heightened human rights and conflict-related risks and comply with international humanitarian law?
- What measures is the company taking to ensure it relies and acts upon robust monitoring of the situation, including through consultation with workers, human rights defenders, affected communities, human rights groups, and/or humanitarian organisations?
- What steps is the company taking to monitor and address rights-violating behaviour in its value chain beyond sanctions compliance?
- Has the company established specific risk thresholds or 'red lines' to use in deciding when to exit the country/area? If so, please describe.
- What framework does the company use in deciding the tolerance level of human rights issues in a country? Is the framework based only on a sanctions list or is it related to general human rights issues?
- Has the company evaluated the impacts of continuing operations vs exiting?
- In deciding to exit from a conflict area to what extent has the company meaningfully engaged with workers, local civil society groups and other stakeholders to assess negative social consequences?
- Is the company planning to scale-down or suspend operations in the area?
- If so:
  — What steps has the company taken to mitigate any negative impacts on workers and/or communities? To what extent has the company been able to act on potential negative social consequences?
  — Has the company made a plan for resuming operations in the country? If so, please describe the human rights- and conflict-related criteria that would inform such a decision.
- If not:
  — How is the company planning to prevent, mitigate and remediate any human rights impacts and ensure it complies with international humanitarian law?
  — How does the company determine whether products are 'essential' for the market? Are there alternative products that could be provided locally? Could those products be used to support the conflict?
- Does the company have a plan in place to regularly re-evaluate its response?

4.5 Climate and just transition

The issue

The World Bank estimates that by 2050 climate change will force more than 143 million people in sub-Saharan Africa, South Asia and Latin America from their homes.[256] In a just transition it will be these people in situations of vulnerability who need to be at the centre of planning to ensure 'no one is left behind'.[257] The concept of a 'just transition' requires a solution that is equitable and inclusive, and that provides living conditions and decent work opportunities for all. Although the need for a just transition involves more than the energy sector, it is often there that it has been most visible to date.

In the rush to solve one issue (climate change) there is a danger of creating another problem (for example, the treatment of the workforce in some instances within the renewable energy industry). As the NSW Anti-Slavery Commissioner Dr James Cockayne said, "slavery cannot be the price of decarbonisation".[258]

Investors could consider several other important themes as part of the decarbonisation of the global economy. The acceleration of climate change as a global issue and the quest to find cheap renewable energy can create tensions between environmental and social issues for investors. For instance, a significant proportion of polysilicon (for solar energy) is produced in regions subject to widespread allegations of forced labour, such as Xinjiang, China.

As identified in earlier editions of this toolkit, a number of reports have highlighted forced labour issues in China related to Uyghurs and other ethnic minorities, alleging hard, manual and forced labour in the province of Xinjiang.[259] The Chinese government denies the claims, insisting that the camps are "vocational training schools" and the factories are part of a massive, and voluntary, "poverty alleviation" scheme.[260] Because of China's dominance in the textiles industry (approximately 91% of China's cotton production comes from Xinjiang[261] and China accounts for approximately 26% of global cotton production),[262] the risk of links to Xinjiang are commonly discussed in the context of the textile industry, but reporting has also linked the production of solar panels in the Xinjiang region to forced labour.[263]

There are examples of action being taken seeking to address this: the United States government has, for many years, been seizing and detaining goods it believes have been made with forced labour from the Xinjiang region, including solar panels. In January 2024, the US Customs and Border Protection Department reported stopping 1,986 shipments valued at more than US$13 million for prohibited importation into the United States.[264]

Another example of human rights issues intersecting with climate change comes from cobalt, a critical element in many lithium-ion battery technologies, used in consumer electronics and electric vehicles. It has been reported that over 70%[265] of the world's mine production of cobalt comes from the Democratic Republic of Congo (DRC), with 15-30% coming from so-called 'artisanal' and 'small-scale' mines[266] where children and adults labour under harsh and dangerous conditions to extract ore by hand. It has been reported that more than three quarters of the world's refined cobalt comes from China.[267]

It is prudent for investors to consider that many of the key commodities that are expected to face significantly higher demand in a decarbonising world, such as copper and lithium, are found in countries with relatively high corruption risk. As modern slavery often occurs in the cash economy, there may often be direct links between the level of corruption in a country and these types of human rights abuses.

In addition, with climate change increasing the frequency and severity of weather events, from heatwaves and bushfires to storms and floods, there is an increase of risk that disproportionately affects already vulnerable populations.

Transitional climate change events may exacerbate inequalities if the energy transition is not a just transition.

Investor relevance

The Paris Agreement on climate change specifically emphasises the "intrinsic relationship that climate change actions, responses and impacts have with equitable access to sustainable development and eradication of poverty."[268]

Investors could be affected if this inequality is allowed to increase through:

- Reputational damage if investment is made with the knowledge of instances of human rights abuses in the company; and
- A poor financial return on investment if the transition is delayed due to negative social implications.

Climate change exacerbates the risk of modern slavery given the overlap between displacement, forced migration and labour exploitation. Investment in climate mitigation can also cause human rights abuses through the use of conflict minerals for production of renewables infrastructure and reliance on so-called artisanal mining to extract critical minerals such as cobalt.

Import bans on goods produced by forced labour can impact companies' decarbonisation strategies (particularly when it comes to solar panels), causing delays or failure to meet stated targets (which in turn, might affect executive remuneration). In addition, it can cause reputational damage and potentially derail the goodwill associated with companies' decarbonisation efforts.

Good practice

Climate change has been termed a stress multiplier as it exacerbates already existing vulnerabilities and inequalities (which are especially experienced by women and children). Effectively addressing the root cause of inequity requires a combination of social protection and climate risk management in a rights-based approach which would ensure the provision of basic needs to all vulnerable populations.[269] This would involve a multigovernmental intervention due to the interconnected nature of climate change.

In other words, this is a systemic issue, but companies can also take action. For instance, in relation to human rights issues in the renewable energy supply chain, as a bare minimum, companies can acknowledge these issues and undertake due diligence as required, given the high-risk nature of this segment. Companies can also take an inclusive approach with local communities. The human rights issues in industries such as renewable energy are complex and practice is expected to improve over time. Below are some examples of progress to date.

Examples

- In relation to human rights risks in renewable energy, a number of companies have started to highlight these issues in recent modern slavery statements, such as **APA Group** adding renewable energy as a as a high-risk category, including solar PVs, batteries / cells and accessories and wind turbines. APA called out "reported links to state-sponsored forced labour". In FY23, APA did a deep-dive into high-risk renewable energy equipment and says further actions would be taken in FY24.[270]
- **Origin Energy** has called out Xinjiang as a potential risk exposure as part of its review of risks in renewable energy, specifically polysilicon, ingot and wafer production in China (China has a 95% market share).[271]
- **Telstra** has also noted that carbon offsets can have high modern slavery risks and that renewable energy projects via power purchase agreements can be of high risk.[272] In 2024, Telstra developed guidance on how to raise modern slavery concerns with solar panel suppliers and how to identify solar panel suppliers and manufacturers with known risks.
- **Northern Star** has stated that it approached the tier 1 supplier responsible for their solar array installation, requesting their support in undertaking a deep dive into their supply chain, representing Northern Star's tier 2 suppliers. This also necessitated the company examining tier 3 suppliers too. Initially, this was via a detailed SAQ process undertaken on a selection of ten suppliers, verified by an independent external consultant.[273]
- International Council on Mining and Metals (ICMM) counts one third of the global metals and mining industry as members. These companies adhere to the Mining Principles which include nine performance expectations under Principle 3: Human Rights.[274] Respecting all stakeholders ensures that vulnerable communities will not be displaced and put at higher risk of being susceptible to forced or bonded labour. Members include sustainable metal producer **Boliden**.[275] who work with Indigenous People and Local Communities (IPLC) to mitigate the effect of the company's mining operations on reindeer grazing.
- **Multiplex** and **Vinci** (operating in Qatar as **QDVC)** are both members of Building Responsibly, an industry group which developed worker welfare principles[8] to serve as good practice for the construction industry globally. Whilst construction is recognised as one of the most hazardous sectors for workers due to the machinery and tools involved, this is exacerbated by a warming climate increasing the risks of heat stress on workers.[276]
- **Aboriginal Clean Energy Partnership**[277] ensures Traditional Owner groups are involved as shareholders (not just stakeholders), in renewable energy projects that are appropriate for their Country and economic independence.
- **Indigenous Carbon Industry Network**[278] is an organisation that aims to enable and empower Indigenous people to benefit from carbon markets through their land and sea management practices.[279] The IPCC recognised that communities should be engaged as partners in resilience building rather than being regarded merely as beneficiaries.[280]

CASE STUDY 11: MAHINDRA & MAHINDRA

Mahindra and Mahindra (M&M) is a broad group of companies in India with the core business operating in autos/vehicles including machinery used in agriculture and is the world's largest tractor manufacturer by volume.[281]

Whilst the 2023-24 crop year in India produced 137 million tonnes of rice, climate change could reduce this by 6-10%,[282] significantly impacting the food security of the country and the earning ability of its farmers. Over 80% of Indian farmers operate on land of less than 2 hectares, making them small and marginal operators dependent on crop yield for their livelihood. With farmers reliant on crop yields for income, the company identified a risk to its value chain that it needed to address.

In response, M&M developed an initiative called Krish-e which could be delivered through a digital app (in 8 local languages) or through physical centres. Krish-e is a way to offer the farmers technical and management skills and financial support.

One solution is personalised support to the farmer for crop planning, seed selection, nutrient management, irrigation planning, disease and pest management, weed planning and other operational aspects. Other information offered includes extreme weather alerts and forecasts on disease and pests. The aim is to increase productivity and help reduce the vulnerability of the farmer to the effects of climate change and so avoid crop damage and loss.

RESULT

Up until June 2022, Krish-e was actively engaging with more than 2 million farmers, with over 3.6 million downloads of its digital app.[283] About 25,000 acres of demonstration plots have been developed with farmers and over 100 physical centres established throughout the country. The company plans to scale up this program across India and increase outreach significantly.[284]

CASE STUDY 12: FORTESCUE

The mining industry poses significant risks of modern slavery and may negatively affect surrounding communities. The extraction and processing of transition minerals in particular is also characterised by high levels of child labour and dangerous conditions.[285]

RISK IDENTIFICATION

Although Fortescue Ltd is headquartered in Perth, Australia and listed on the Australian Securities Exchange, its operations are global. The Metals business comprises iron ore operations in the Pilbara as well as a global pipeline of exploration projects including in Gabon, Latin America and Australia.

Fortescue has committed to providing for, and cooperating in, remediation in alignment with the UNGPs. The company provides a range of mechanisms for employees and external stakeholders such as suppliers and their workers, community members and other stakeholders to raise concerns which includes a combined Speak Up / Whistleblower platform operated by an independent third party.

It was through this whistleblower facility that the company learned of allegations of recruitment fees being charged to candidates. The situation concerned a recruitment agency previously engaged by Fortescue in 2019 for the recruitment of migrant workers from the Philippines for positions at their Pilbara sites.

MANAGEMENT

This disclosure triggered an internal investigation led by the Sustainability team and including human resources and legal teams. The investigation comprised an internal document review, review of publicly available information, and consultations with the recruitment agency and third-party industry experts. Whilst the investigation was ongoing, the recruitment agency was not an active supplier to Fortescue.

RESULT

The investigation was unable to confirm the veracity of the claim due to the placements being cancelled at the onset of the COVID-19 pandemic.

As the proposed candidates were unable to physically travel to the sites, they could not take up the positions. Through engaging with the recruitment agency, Fortescue understood that no individual was charged any fees, although it was unable to verify this independently.

As the individuals never took up employment with the company, they did not get onboarded onto the Fortescue people management system and therefore the company was unable to check the accuracy of this assertion with the proposed candidates themselves.

This instance highlighted to the company areas for further improvement in its processes:

- While the company already has a Sustainable Procurement Standard that sets out the expectation that suppliers, including recruitment agencies, are to ensure no payment of recruitment fees by workers, the company needs to do more to identify and address these specific risks more effectively; and
- Fortescue acknowledges that there are heightened modern slavery risks associated with engaging recruitment agencies, particularly for the recruitment of migrant labour.

The Fortescue Human Rights Steering Group was presented with the findings of the investigation as well as future plans to enhance the company's approach to identifying and addressing modern slavery risks in recruitment practices, especially when utilising recruitment agencies.

These new recruitment guidelines for Australian and international recruitment, along with additional due diligence for recruitment agencies and internal capacity building at Fortescue, show the company is keen to continually improve its processes.

CASE STUDY 13: FIRST SOLAR

First Solar Inc. is a global Photovoltaic (PV) solar energy solutions provider that provides advanced thin film semiconductor technology. It is the largest solar manufacturer in the Western Hemisphere and the world's largest high-value solar panel recycler. According to Walk Free's most recent Global Slavery Index reporting, solar panels have become one of the goods most at risk of using modern slavery.[286] First Solar's employees reside in the United States, Germany, Malaysia, Vietnam, and India.

During a regular audit of operations in Malaysia, the company identified four onsite service providers where foreign migrant workers were subjected to unethical recruitment including the payment of recruitment fees in their home countries, passport retention, and the unlawful retention of wages.

Once discovered, the onsite service providers returned all passports and unlawful wage detentions to the workers, and the company updated site service agreements to prevent future fees. First Solar contracted a third party to investigate and help develop a reimbursement plan. This involves First Solar working with the onsite service providers to ensure the recruitment fees in their home country and fees during their employment in Malaysia are paid back to both current and recently departed workers in accordance with Responsible Business Alliance guidelines and good practices.[287]

RESULT

The company indicates that after discovering the forced labour violations in Malaysia it "has also updated site service agreements to prevent any recurrence of the issue."[288]

First Solar proactively shared the findings with *The New York Times* and gained approval from a leading authority on the use of forced labour in solar value chains, Professor Laura T. Murphy. The professor said "What First Solar has done is the critical due diligence that all companies need to do around the world to ensure they are identifying and remediating forced labour in their supply chains."[289]

Suggested engagement questions

- Has the company mapped its physical climate risk and does it have business continuity plans that consider effect on suppliers/employees?
- Has the company developed a just transition plan that includes human rights? (if applicable to energy sector)
- Does the company have business continuity plans that account for climate-driven displacement and supply chain disruptions?
- How does the company ensure that its transition to renewable energy or other low-carbon technologies does not contribute to human rights abuses, such as forced labour in the extraction of critical minerals?

4.6 The circular economy

The issue

The circular economy is a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing and recycling existing materials and products as long as possible. In this way, the life cycle of products is extended.[290]

The circular economy model seeks to develop a more sustainable and efficient global economy and associated web of value chains. Circular economy initiatives can include value chains with sustainable workplace practices, but the nature of circular economy work presents specific risks.

Circular economy interventions, particularly in areas like waste management, recycling, and remanufacturing, tend to rely on labour-intensive activities, whereby modern slavery is more prevalent.[291] Some jobs are conducted in conditions that can expose workers to hazardous working environments – exposure to toxic materials, little to no social protection, and a lack of stable or living wages, for example.[292] Labour-intensive jobs also typically fall within the informal sector where employment is not highly regulated and often attract sub-contract labour and migrant workers due to the nature of the work.[293]

In wealthier countries, circular economy initiatives are government and business led, typically leveraging technology and innovation to repurpose used material.[294] By contrast, circular economy initiatives in emerging market and developing economies such as Tanzania, Brazil, and India, is found to be powered by the informal sector which includes workers without formal contracts or government regulations.

Workers in emerging markets and developing economies are disproportionally disadvantaged and rely on time, labour and resourcefulness to complete circular economy jobs. These come through as low quality, low paying jobs, and have a higher risk to be exposed to hazardous working conditions that are associated with circular activities like waste management, recycling, repair, and reuse. For example, In India, it is estimated that 1.5 million people are involved in informal waste management.[295]

In a bid to achieve profit-maximisation, materials sourced, and products made as a result of circular economy activity in low-income countries are often destined for higher-income countries, exposing buying companies to these risks. Purchasing these products often reside deeper in the supply chain, making it more challenging for companies to have oversight.

Example of circular jobs which are labour-intensive:

RECYCLING AND WASTE MANAGEMENT

Recycling Operatives: These individuals sort, process, and handle materials at recycling facilities, often involving physical labour and machine operation (like forklift driving).

Reverse Logistics: Workers involved in collecting and sorting materials for recycling or reuse.

Waste Collection: Manual labour in collecting and sorting waste materials for recycling and composting.

REPAIR AND REMANUFACTURING

Repair Services: Individuals who repair electronics, appliances, furniture, or other goods, extending their lifespan and reducing waste.

Remanufacturing: Workers involved in taking apart, repairing, and refurbishing used products or components to restore them to a like-new condition.

Upcycling: Individuals who creatively repurpose discarded materials into new products, such as turning old clothes into new items or furniture.

Investor relevance

Businesses leveraging circular economic activities without appropriate oversight on supply chain practices can expose companies to risks including operational disruptions, reputational damage, legal costs and other financial losses such as fines.

Good practice

Good practice includes having adequate compliance measures and understanding that the risk of human rights abuses can be particularly high where manual labour is involved and especially in emerging markets and developing countries. Good practice could also involve having appropriate oversight into these operations – whether that is through implementing a code of conduct, requiring onboarding supplier due diligence surveys, and conducting regular audits (or other tools identified above in this toolkit).

Examples

- **ResourceCo (Recycling):** ResourceCo has over 30 years of experience of transforming waste that is destined for landfill into valuable products. ResourceCo has proudly been a member of the United Nations Global Compact ("UNGC") since 2021. ResourceCo's FY24 modern slavery statement provides a lot of detail, including information on their supply chain, going beyond direct (including Tier 2 suppliers and raw materials) and uses the Global Slavey Index to visually show where their risk lies along their supply chain. In FY24, ResourceCo established a dedicated international remediation team, responsible for collaborating with internal stakeholders, third-party consultants and supply chain to address and mitigate potential risks identified during due diligence process. ResourceCo include various case studies within its FY24 statement. In fact, in the FY24 modern slavery statement, ResourceCo flagged that during a supplier procurement process, a supplier was flagged as potentially high-risk due to adverse findings related to its parent company during the screening process. Despite having a long-standing relationship with the supplier, a recent merger with the larger organisation raised concerns. ResourceCo outlined key actions completed to address these concerns and the outcomes from this assessment.[296]
- **BINGO Industries (Waste management & Recycling):** BINGO is a waste management and recycling company based in Australia. Each year, BINGO engages a specialist social due diligence auditor to undertake modern slavery compliance audits of those deemed high-risk based on a modern slavery risk matrix developed. BINGO also has several channels for raising grievances, and maintains a network of Site Safety Forums run for and by employees which allows for two-way communication between management and the workforce.[297]
- **WA Return Recycle Renew Limited (WARRRL):** WARRRL is responsible for the governance and administration of the WA Container Deposit Scheme on a day-to-day basis. WARRRL's compliance monitoring regime for contracted entities includes various activities such as site inspections, audits, information requests, and enforcement of annual reporting requirements. These tools feature prompt questions and flags for auditors and inspectors. WARRRL has used these auditing tools to review modern slavery risks with suppliers on a periodic basis as part of this assurance work.[298]
- **BlueScope Steel:** BlueScope recycles steel through its BlueScope Recycling and Materials division. As part of its initiative to combat modern slavery, particularly with recycling of raw materials, the company conducts detailed briefing sessions and consultations occur with local leaders in high-risk locations (e.g., Thailand, China, Mexico, US, Malaysia, and Indonesia) to build local capacity and identify priority risk areas.[299]
- **Cleanaway:** Cleanaway uses a supplier due diligence platform (Informed 365) to manage supplier due diligence, and categorises suppliers by risk level (high, medium, low) based on industry, geography, and spend. It prioritises audits for high-risk suppliers. Cleanaway has committed to developing a formal framework to track the effectiveness of its modern slavery risk management in 2025.[300]

Suggested engagement questions

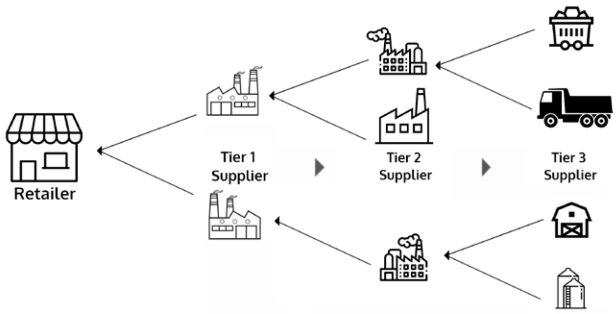
- What systems does the company have in place for recycling and reusing materials? Is it mostly manual labour?
  - If so, what controls does the company have in place to ensure that workers are adequately protected for their human rights?
- How does the company measure and report on its circular economy practices, including efforts to prevent human rights abuses and modern slavery?
- Does the company conduct site audits at its recycling centres? What checks are completed to verify that workers are appropriately being trained and treated?
- Does the company have a worker's voice in place? Particularly in areas of the business where manual labour is a heavy component of work?

GLOSSARY

- **Human rights:** Human rights have been defined in a variety of ways. Simply, they are rights we have because we exist as human beings and are not granted by any state. For further information on the foundation, universality and inalienable nature of them please see the United Nations Human Rights Office of the High Commissioner - https://www.ohchr.org/en/what-are-human-rights
- **Living wage:** The wage required to meet basic needs and a decent life. For more information, please see Oxfam International Policy Paper, 'Steps towards a living wage in global supply chains', accessible through the following link - https://www.oxfam.org/en/research/steps-towards-living-wage-global-supply-chains
- **Modern slavery:** Walk Free has defined modern slavery as covering "a set of specific legal concepts including forced labour, debt bondage, forced marriage, slavery and slavery-like practices, and human trafficking. It refers to situations of exploitation that a person cannot refuse or leave because of threats, violence, coercion, deception, and/or abuse of power."[301] The legal definition may vary depending on the law of the country.
- **Supply chain:** The network of companies, resources, activities, and technologies involved in creating and sale of a product. Traditionally, and in this toolkit, the term supply chain is used to describe only upstream suppliers (those that provide raw materials, components or manufacturing of goods), i.e. it does not include downstream suppliers (the process of getting products or services from the manufacturing to the end consumers); rather, the downstream suppliers are included in the term value chain (see below).

Source: S.R.I. Pires in Osiris Canciglieri Junior et al.[302]

- **Tier 1 suppliers:** a company's direct suppliers, e.g. a retail brand selling furniture sourcing from a factory where the final stages of the furniture production are made.
- **Tier 2 suppliers:** suppliers to a tier 1 supplier, e.g. using the example above, a tier 2 supplier could be, for example, a supplier of finished leather used in furniture production by the tier 1 supplier. Suppliers can also include services providers, such as logistics companies.
- **Tier 3 suppliers (and beyond):** suppliers to tier 2 suppliers, for example, using the same example, these are suppliers to the supplier of finished leather.



Source: Lumatrack[303]

- **Value chain:** This term refers to a company's upstream supply chain (e.g. manufacturing) and downstream supply chain (e.g. getting products or services to the end consumer)
- **Worker voice:** This concept refers to employees' ability to express ideas and concerns about their workplace. This can be done through individual and collective channels, and can be both formal and informal. For further reading about core elements of 'worker voice', please see National Fund for Workforce Solutions, 'What we mean by "worker voice"', accessible through the following link - https://nationalfund.org/our-solutions/equip-workers-for-success/what-we-mean-by-worker-voice/

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