Modern Slavery

Biannual Executive Summary – Approved for public disclosure
February 2022

SUSTAINALYTICS
a Morningstar company

EXECUTIVE SUMMARY

The issue at hand

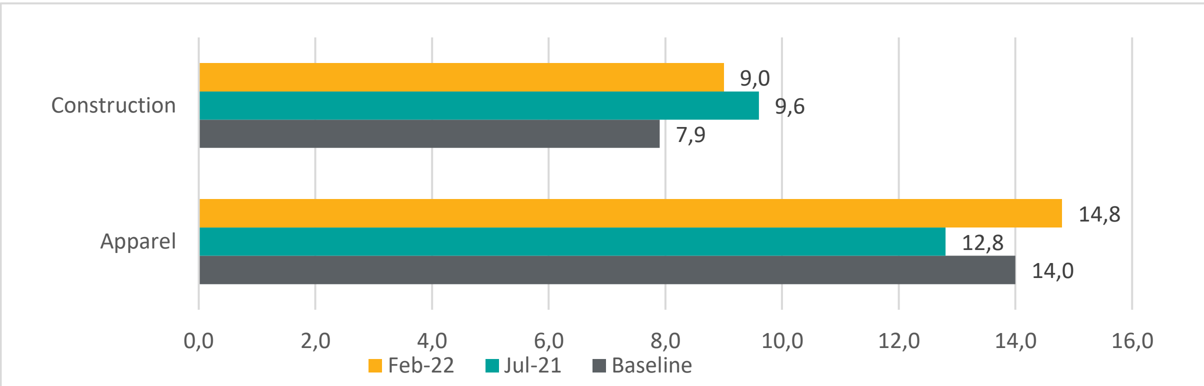
Modern slavery is a systemic risk. Often hidden, it can be difficult to detect and tends to be located deeper in supply chains, although not exclusively so. Forced labour sits at the end of a continuum of labour abuse and is defined by the International Labour Organisation's Forced Labour Convention as '*all work or service which is exacted from any person under the threat of a penalty and for which the person has not offered himself or herself voluntarily*'[1]. It is estimated that there are around 25 million people in forced labour, of which, the majority work in the private economy. Many are potentially connected to major companies through their supply chains.[2]

Developments and engagement efforts August 2021 – January 2022

The second biannual report covers the period between August 2021 to January 2022. Sustainalytics held 23 online meetings over this period, which consisted of 12 engagement calls and 11 introductory meetings. In total, 19 companies are analysed against the KPI framework. Sustainalytics also sent investor letters to six non-responding firms from the original shortlist of 20 companies.

As the engagement is only beginning its second year, more time will be needed before it is likely that meaningful change takes place. Although no company's points have increased since the previous assessment in July 2021, there are signs that companies are listening. Three companies asked for feedback and two invited us to participate in stakeholder forums or surveys. Another company requested benchmarks to assist in its renewed human rights efforts.

Figure 1: Average sector score (maximum possible score is 54).



NB: Differences in average scores over time is mostly because there have been some changes to the group of companies that have been assessed since the baseline.

On the whole, companies are generally not detecting modern slavery violations. Only one company in its most recent sustainability report disclosed it had identified non-compliances related to forced labour[3]. Its supply chain is considerably smaller than that of most other companies in the engagement project.

[1] ILO Forced Labour Convention, 1930 (No.29), Article 2.

[2] Global estimates of modern slavery, forced labour and forced marriage, International Labour Office (ILO), Geneva, 2017, p.55.

[3] One other company disclosed a relevant incident but did not refer to this as forced labour.

Audits are often the main tool used by companies to monitor their sites or supply chains, but audits have inherent limitations. The Ethical Trading Initiative (ETI) has stated *'Audits alone can fail to reveal a full or true picture of what working conditions are like…The worst forms of human rights violations such as child labour or modern slavery are well understood to be 'hidden crimes' and are highly unlikely to be picked up by audits'*.[4] Yet audits, and other similar tools like self-assessments and policies, are often used and relied upon by companies to bring to the surface violations that can be deliberately concealed.

Forced labour is also a form of abuse that sits at the far end of a spectrum of labour rights violations. As explained by a joint report on modern slavery by the ETI and Ergon Associates, '*Poor labour practices…that do not themselves constitute modern slavery, can push workers into conditions of modern slavery if combined with other indicators'*.[5] This is not to exaggerate the presence of modern slavery. Nor is it to conflate poor working conditions, on the one hand, with forced labour, on the other. Rather, it is to highlight that a more fluid state exists between the two.

In the last bi-annual report, we highlighted a perception held by some construction companies that modern slavery is not a concern in developed markets. Studies suggest a different reality. We have spoken to stakeholders to gather their perceptions on this and have found that either a more nuanced view emerges, or this position is not one that is supported.

Where pricing of contracts and bids do not reflect the full cost of labour, and where there is insufficient time afforded to complete orders or projects, companies risk contributing to an environment which could undermine labour rights. The ILO published sobering findings of a global survey on purchasing practices, carried out in 2016. Some 39 per cent of suppliers said they had accepted orders at a price that did not allow them to cover their production costs and 52 per cent of textile and clothing suppliers reported that they sell below costs.[6] This has implications for workers' wages and income. We recognise that commercial pressures are often considerable, but a business-as-usual approach is unlikely to do much to change the reality that 16 million people in forced labour are in the private economy. Better practices and greater integration between commercial objectives and human rights will take time. In the meantime, the report highlights examples of good practice by some companies provided during the engagement period.

Looking ahead

There are two key priorities for the thematic engagement in H1 2022. The first is to enlist the participation of additional companies, which is likely to be a time-consuming process. We also plan to identify companies for which to send investor letters.

The second priority is to organise the stakeholder roundtable, which we aim to deliver by early Q2. To put guardrails around the focus of the discussion, the roundtable will only include the construction sector. Finally, we are looking forward to 2022 and further engagement with companies.

[4] https://www.ethicaltrade.org/audits-and-beyond

[5] Managing risks associated with modern slavery, A good practice note to the private sector, ETI and Ergon Associates, p18.

[6] The report notes '*qualitative studies carried out to complement these results show that orders below cost do not represent the majority of orders, with suppliers trying to compensate losses from certain orders with orders where their profitability is higher. This possibility is however limited among suppliers that have not managed to diversify their clients/buyers.,*' INWORK Issue Briefing No.10, Purchasing practices and working conditions in global supply chains: Global survey results, ILO, p.7

ABOUT SUSTAINALYTICS

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For nearly 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1,200 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

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