
ACTING ON SLAVERY:
OUR ENGAGEMENT 2017-2019

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“We cannot ignore the fact that there is as much slavery in the world today as there was before, or perhaps more.”

POPE FRANCIS

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FOREWORD

Modern slavery is a ‘deep wound in the flesh of humanity’. These words of Pope Francis convey something of the drama of slavery in our world today: it cuts deeply, it is far reaching, it is in our midst, wherever we live.

Many efforts are being made to eradicate this scourge in our world. Some focus directly on its victims: their rescue and rehabilitation; others focus on the arresting of the criminals who operate this enormously profitable criminal activity; others focus on the struggle against regional poverty which makes millions of people vulnerable to exploitation; others focus on educating us to recognise the signs of modern slavery in our midst. In each of these areas partnerships are developing, all including the action of committed Christians, for whom a wound in the flesh of humanity is a wound in the Body of Christ.

I welcome this report from the Church Investors Group and CCLA which focusses, with rigour, on the presence of modern slavery in contemporary businesses and on the duty of investors to play their part in the struggle against this slavery. Many people, far and wide, will likewise welcome this report both for the achievements it lists and for the challenge it presents.

I welcome the undertaking it gives that ‘as investors we aim to support the companies in which we invest’ in this struggle. I welcome the four-part engagement plan it presents, covering the responsibilities of companies to develop better practices for identifying and combatting modern slavery; for tackling head on the scourge of ‘debt bondage’; for increasing awareness among all stakeholders and calling for stronger global legislation and regulation.

This initiative responds directly to the inclusion of the eradication of modern slavery in the UN Sustainable Development Goals (8.7). It is to the immense credit of the Church Investors Group and CCLA that they are giving such a clear priority to this work. Without efforts such of these, the Goals will remain purely aspirational and millions of people around the world will remain in slavery. That is unacceptable. This work is to be highly commended.

+ Vincent Nichols
CARDINAL ARCHBISHOP OF WESTMINSTER

INTRODUCTION

Despite widespread attention, growing regulation, and high-profile campaigns modern slavery continues to be a global problem. Today, around 25 million people, the same as the population of Australia, live in a state of forced or compulsory labour, servitude or have been traffickedⁱ. Addressing this human tragedy continues to be a priority for global governments and law enforcement.

Slavery is an issue for business. In the UK, alone, we import over \$18bn dollars' worth of goods every year that are very likely to have incorporated slave labour in their productionⁱⁱ. This is not, however, just an overseas problem. From potato fields to bed factories, modern slavery has been uncovered in many areas of the UK. Given the breadth of examples that have been uncovered globally and the complexity of supplier arrangements it is clear that slavery exists in nearly every companies' supply chain.

For this reason, addressing slavery is also an issue for investors; the ultimate owners of these companies. Whilst very few investors have made addressing slavery a priority issue this report details the progress achieved by two, the Church Investors Group and CCLA, in their efforts to contribute to the fight against slavery.

ABOUT MODERN SLAVERY AND BUSINESS

Modern slavery is the process of holding a person in forced service. The UK's Modern Slavery Act (2015) identifies this as being comprised of four, related areas: slavery, servitude, forced compulsory labour and human trafficking.

The most recent estimate from the International Labour Organization is that 24.9 million people in the world are in a condition of forced labourⁱⁱⁱ. Many of these people appear in the supply chains of the companies listed on the capital markets. Research conducted with leading UK brands found that 77% of companies, when interviewed anonymously, thought it likely that modern slavery occurred in their supply chains^{iv}. Evidence, collected by charities and academics, would suggest that this is likely to be far more widespread.

Labour can be exploited in a number of ways but one particularly common method, accounting for about half of the 24.9 million mentioned above, is through debt bondage^v. This situation arises when workers are exploited and subject to extremely poor labour conditions because they must repay a debt. Migrant workers are extremely vulnerable through the payment of recruitment fees, a predominant practice in the ‘economic south’, to access employment.

WHAT HAVE INVESTORS BEEN DOING?

In 2016 CCLA, acting on behalf of the Church Investors Group, wrote to 265 of the UK’s largest companies. The aim of this letter was to inform them of the requirements laid down by the UK Modern Slavery Act and to learn more about the approaches that they had taken to address slavery.

Through this work it became clear that, whilst there were a small number of companies who were at the forefront of best practice, most UK-listed businesses were yet to take adequate steps to address the risk of modern slavery being present in their supply chain^{vi}.

For this reason, the Church Investors Group and CCLA, developed a four-part engagement plan. This aimed to:

- Encourage companies to develop better policies, processes and procedures for identifying and then addressing modern slavery.
- Tackle one of the main causes of modern slavery, debt bondage, by calling on companies to adopt the ‘Employer Pays Principle’. This is a provision which prohibits employers from charging recruitment fees.
- Increase awareness of modern slavery amongst stakeholders.
- Call for increased global legislation and regulation aimed specifically at tackling modern slavery.

Following the completion of the first phase of this project, we are pleased to be able to report back on its progress.

PROMOTING BETTER POLICIES AND PROCEDURES

There are very few legal obligations on a company when they produce a modern slavery statement; the Act only requires that a company’s statement is approved by the board, signed by a director and linked to from the homepage of their website. There is, however, a variety of guidance, including from the Home Office^{vii} and civil society organisations^{viii}, on what is best practice for companies to report on.

Moving on from our initial engagement we wanted to find a way to identify companies with particularly poor statements and measure year on year progress. As such we were supportive of efforts by the Business and Human Rights Resource Centre (BHRRC) to assess statements against a methodology detailing best practice. We used

their first full ranking of FTSE 100 companies^{ix} to identify those with particularly poor statements. Engagement was conducted with twelve companies on behalf of Church Investors Group members in partnership with international faith investors with the goal of seeing the companies improve their practices.

A similar approach was taken with CCLA portfolio companies by using three sectoral benchmarks to identify companies for engagement. Know the Chain (KTC)^x have produced a benchmark covering international companies across three sectors: information & communications technology; apparel & footwear; and food & beverage. These measure each company's approach to the management of modern slavery in their supply chains. CCLA committed to engage with any holdings in the lower half of any of the three KTC benchmarks.

The 2016 KTC benchmarks each contained 20 companies. Of these CCLA invested in one company in the lower half throughout the period of the engagement: Keyence – a Japanese manufacturer of machine sensors. The KTC benchmarks have recently been updated and expanded to cover a total of 121 companies. Whilst we were pleased to see Keyence make some progress in the updated benchmark there are still many ways in which they can improve their practice.

EXAMPLE OF PROGRESS

BHRRC's assessment in October 2017 rated the first modern slavery statement produced by Pearson, a company based in the education sector, as being one of the five worst in the FTSE 100^{xi}. Following engagement, Pearson's next statement released was much improved^{xii}. There was greater detail on their risk assessment process; specific supply chains they are involved in (print and paper); and the training they provide staff. Pearson rated 20th overall in the FTSE 100 in the follow up report from BHRRC released in October 2018^{xiii}. The transparency of their risk assessment process specifically was rated amongst the five best companies.

DEBT BONDAGE

Our experience from conducting market wide engagement in 2016 led us to focus on the causes of slavery. Reviewing the first modern slavery statements from such a large group of companies (265) highlighted a tendency towards bland, procedural statements that lacked detail. With few exceptions they did not engage with the realities of modern slavery as described in the research reports we read. As such we decided that a part of our work should focus on how the policies companies were describing interacted with the largest cause of modern slavery: debt bondage, particularly that caused by the levying of high recruitment fees on migrant workers.

We decided to support the 'Employer Pays Principle'^{xiv}. This states that the costs of recruitment should be met by the employer and not by the worker. In 2017/8 we engaged with nine consumer goods companies and three hospitality companies about their approach to recruitment fees, how their policies were implemented in practice in their supply chains and the ways in which they collaborate on this issue with their peers.

One example of engagement was a call we had with Reckitt Benckiser on their involvement in collaborative work on recruitment practices particularly through their membership of the AIM-PROGRESS forum. On the back of this they have begun working with their suppliers on this issue; their 2017 Modern Slavery Act Statement notes: “Reckitt Benckiser co-sponsored an AIM-Progress supplier workshop in Dubai focused on the challenges associated with recruiting and managing migrant labour”^{xv}.

COLLABORATION IS KEY

Collaboration amongst companies is key to addressing modern slavery. Sometimes a single company’s orders might only form a fraction of a supplier’s business. As such they will hold little leverage. Similarly, the regulatory frameworks in some countries can limit the success of individual companies being able to change practices in their supply chain.

Several of the companies we engaged with around the ‘Employer Pays Principle’ were involved in hosting roundtables of brands, suppliers, recruitment agencies, international organisations and civil society in both Malaysia and Thailand during 2018^{xvi}. These meetings allowed discussion of the problems they collectively faced regarding implementing the Employer Pays Principle within the supply chain and constructive actions that they could take. Collaborating allowed clear and consistent messages to be provided to suppliers and recruitment agencies. The groups also met with the Government of both countries to discuss policy responses.

INCREASING AWARENESS

Modern slavery is a systemic problem. Whilst our engagement with companies is a necessary intervention, the nature of the problem means that it will not be solved by this engagement alone. In recognition of this we have also supported efforts to raise awareness of modern slavery amongst our stakeholders as well as to influence public policy (the latter of which is discussed in the next section of this report).

Our church connections led us to work with The Clewer Initiative^{xvii}, a Church of England charity that has been formed to catalyse the development of communities in the wider church network that can detect modern slavery and help provide victim support and care.

To help promote awareness of modern slavery we worked with the Clewer Initiative to provide funding for the development of the Safe Car Wash App. Car washes are amongst the highest risk activities in the UK and the app asked users to report on various indicators of modern slavery. Data from the app is being shared with the National Crime Agency and the Gangmasters & Labour Abuse Authority. An initial report on the data was published by the University of Nottingham Rights Lab^{xviii}.

PUBLIC POLICY

The Transparency in the Supply Chain provision in the UK's Modern Slavery Act (that requires companies to report on modern slavery) is a useful, but imperfect, tool in facilitating engagement with companies about their supply chain practices. For this reason, we submitted written evidence to the 2018 Home Office Select Committee Inquiry into the Act and this evidence was also considered by the government commissioned Independent Review.

Our submission^{xix}, available online, drew upon the experience we gained from the corporate engagement. A large part of our response focused on finding modern slavery. We recognised a disparity between company reporting and research from civil society and academics. This led us to argue that success for a company was to find modern slavery, take appropriate steps to remedy the situation and be transparent about this in their reporting. We also pushed for Government and the Independent Anti-Slavery Commissioner to encourage further collaboration between companies and increase levels of compliance with the Act.

As we are investors in international companies we also decided to support public policy advocacy efforts with foreign governments to promote increased transparency by additional companies globally. We joined a group of international investors in presenting a statement in support of establishing a Modern Slavery Act in Australia^{xx} which was followed by the Australian Government announcing a proposal to create a Modern Slavery in Supply Chains Reporting Requirement. Similarly, in June 2018 we, along with our international faith investor colleagues, were lead signatories to an investor statement asking for supply chain due diligence legislation in Canada^{xxi}.

DIFFICULTIES FOR COMPANIES

As investors we aim to support the companies in which we invest. We recognise that there are many challenges that companies face in identifying and dealing with modern slavery within their supply chains. Firstly, modern slavery is difficult to find. It is often actively hidden from view in supply chains by those who profit from it. Furthermore, debt bondage and contract slavery can be hard to spot due to the use of commonly occurring business mechanisms to hide the enslavement^{xxii}.

Secondly, supply chains can be long and complex with many intermediaries involved in the collection, trading and processing of commodities. Many of the companies that we have spoken with have upwards of 50,000 first tier suppliers with who they deal directly. Additionally, a company may find their suppliers subcontracting to other groups without prior consent.

These difficulties call for a more thorough approach to due diligence by companies. A statement that is particularly noteworthy for the extent of the due diligence is Marks and Spencer's^{xxiii}. They disclose the ways in which they move beyond mainstream ethical audit, describe their proactive research and highlight areas of non-compliance that they have found. We would like to see more companies follow this approach.

CONCLUSION AND NEXT STEPS

The Modern Slavery Act, and our engagement activity around it, has led to improvements in companies' 'modern slavery governance'. Many companies have developed risk assessment, auditing and reporting structures for the first time. This is progress, however there are still areas where companies can do more.

The 2018 BHRRC's analysis of company statements found that the weakest reporting area in company statements was that of effectiveness^{xxiv}; 35% of companies provided little or no disclosure in this area.

BHRRC's assessment of company reporting corresponds with our own. What we have found lacking in modern slavery statements is evidence that people's lives are being improved by company actions. As a consequence, our aim for the next period of modern slavery engagement is to develop and lead a coalition of investors who are seeking to help companies 'find it, fix it, and report it' within their supply chain.

Slavery remains a complex, systemic issue and so we will continue to take a multipronged approach. In depth engagement with companies will be supplemented by continuing our use of the Know the Chain and Business and Human Rights Resource Centre's assessments of company reporting to identify those who are lagging their peers. There is also a need to continue work on public policy. An independent review of the UK's Modern Slavery Act has just been published and Government will be consulting on changes to the act. We will work with partners to seek to improve the Act as well as explore options for improved due diligence by companies.

ABOUT THE CHURCH INVESTORS GROUP AND CCLA

The Church Investors Group is a membership organisation representing the charitable and pension funds of denominations, dioceses, religious orders and Christian based charities. It has a large number of members, predominantly drawn from the UK and Ireland, with combined investment assets of over £21 billion. The Secretariat of the Church Investors Group is provided by CCLA.

CCLA manage investments for charities, religious organisations and the public sector. Founded in 1958, they aim to deliver strong long-term returns and have unmatched experience in providing ethical and responsible investment to charities. CCLA are independently owned by their clients with £9.5 billion of assets under management.

www.churchinvestorsgroup.org.uk

www.ccla.co.uk

END NOTES

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