

Human Rights Insights: Addressing Modern Slavery in Supply Chains

Holly Fetter

Assistant Vice President, Asset Stewardship

Vidhyaa K

Senior Associate, Asset Stewardship

Key Takeaways

- Modern slavery risks can vary across sectors and geographies. Factors like size of the business, nature of operations and complexity of supply chains can determine the types of risks a company is exposed to. Most of the companies we spoke to identify geographic regions, industries, resources, or types of workforce where the risk of modern slavery is the greatest.
- Conducting due diligence beyond the first tier of the supply chain is the biggest challenge that companies we spoke to face when it comes to identifying modern slavery risks.
- Coordination of different functions including procurement, human resources, external affairs, ethics and compliance, and sales and marketing is essential when it comes to establishing strong standards and monitoring compliance.
- Companies must work in collaboration with stakeholders, civil society, and human rights groups to identify salient risks, ensure alignment with evolving regulation, and understand the expectations of customers, investors, and other stakeholders.
- Employees are the first line of defense in identifying signs of modern slavery. Implementing a training program for workers that is specifically geared towards detecting signs of slavery or trafficking will empower them to identify and mitigate risks. Companies should establish mechanisms to enable employees to share concerns about modern slavery with management without fear of retaliation.

Background

The International Labor Organization (ILO) estimates that 40 million people are victims of modern slavery worldwide.¹ Modern slavery constitutes a number of human rights violations including servitude, forced or compulsory labor, child labor, and human trafficking.² Companies across sectors are facing increased pressure to address the potential operational, financial and reputational risks associated with modern slavery in their operations and supply chains. In recent years, the development and implementation of more stringent regulations regarding the management and disclosure of modern slavery risk — including Australia, the United Kingdom, the European Union, the US and Canada — has created heightened regulatory risks for companies.

Engagement Campaign

Modern slavery is an emerging area of focus for the State Street Global Advisors' Asset Stewardship program. In 2021, we initiated a series of targeted engagements to learn more about this important dimension of ESG risk. We relied on existing frameworks including those from the Sustainability Accounting Standards Board (SASB),³ the Global Slavery Index,⁴ and the International Labour Organization⁵ to identify high-risk sectors, and reached out to 17 of our largest holdings across those sectors to request in-depth engagements. We also reached out to 12 of our largest holdings in Australia from high-risk sectors, given the heightened regulatory and reputational risk related to modern slavery in that market. (Please see the Appendix for a list of companies engaged and priority sectors.)

We conducted 24 engagements as part of this campaign, and our conversations with companies centered on topics including:

- risk assessment and management;
- supplier due-diligence;
- remediation;
- the role of workers' voices in risk management;
- the shifting regulatory context; and
- board oversight of modern slavery-related risks.

In addition to the companies in our portfolios, we also engaged with external experts including the Australasian Centre for Corporate Responsibility (ACCR) and Investor Advocates for Social Justice (IASJ) to understand their perspectives on managing risks related to modern slavery.

Engagement Insights

As a result of our engagements, we identified the key challenges that companies face and some potential best practices they have adopted to address modern slavery risks in their supply chain.

Identifying and Mitigating Risks Beyond the First Tier of Supply Chain

It is important for companies to have visibility into the procurement policies and practices of their suppliers. Conducting due diligence by using tools like Supplier Assessment Questionnaires, analytics software and regular audits, and sharing audit results across the different layers of the supply chain is one way to improve visibility. We encourage companies to adopt multiple systems like efficient grievance raising mechanisms for employees, input from local sources of expertise (e.g., labor unions and human rights stakeholders), and engagement with different stakeholders in addition to regular audits to identify issues related to modern slavery in their supply chain.

Our engagements with companies illuminated best practices in managing risks throughout the supply chain.

Supplier Categorization Supplier categorization can help companies focus their due diligence efforts and prioritize action. During our engagement with **Rio Tinto**, the Anglo-Australian metals and mining company, we learned that, among other factors, the company considers the country the supplier operates in and vulnerability of the workforce (construction, PPE, transport etc.) to arrive at the risk categorization for suppliers.

Supplier Engagement **Wesfarmers**, the Australian retailer, has various divisions, and each of them has complex multi-tiered supply chains that span across different countries. During our engagement with the company we learnt that **Wesfarmers** regularly engages with suppliers to clearly communicate that the company is concerned about the supply chain as a whole, and where its suppliers source from (tier 2 or tier 3 suppliers). The company discloses findings from the ethical sourcing audits in the modern slavery statement⁶ along with case studies detailing actions taken to address identified modern slavery risks.

Addressing Systemic Issues **Nestlé**, the Swiss food processing company, identified priority raw materials that present a higher level of risk and mapped its supply chain to the farm level to conduct risk assessments. During our engagement, the company highlighted the importance of working together with suppliers, peers, governments and NGOs to address systemic issues and find a long-term solution to managing human rights-related risks in its supply chain.

Adopting a Comprehensive, Preventative Approach **Mirvac**, the Australian property group, told us about advice they received from external consultants that robust policies to address issues like health and safety and diversity and inclusion can help prevent modern slavery and other human rights-related risks in an organization.

Certification Schemes During our engagement with **McDonald's**, the American fast food company, we learned that the company's supplier standards are applicable to the entire global supply chain, including franchise restaurants. The company leverages commodity certifications to ensure that products are being sourced through a sustainable value chain. Certification schemes help to provide human rights assurances deeper within the supply chain.

We also encourage companies with high-risk supply chains to disclose the number of modern slavery incidents identified and remediated. For example, the modern slavery statement⁷ of **Woolworths**, the Australian retailer, identifies the number of grievances raised and the number of cases investigated. The company also provides details about remediation mechanisms.

Effectively Engaging on Remediation

After discovering an incident of modern slavery in the supply chain, many companies engage with suppliers to find a solution together. Effective remediation should include key performance indicators (KPIs), time-bound action plans, follow-up audits at the supplier site and clear commitment from the supplier to change their practices. The company might choose to end its relationship with the problematic supplier if there is a fundamental misalignment in values; for example, in cases where the supplier does not allow audits or if the supplier attempts to bribe the auditor.

We identified some companies with best practices regarding effective remediation. For example, the 2020 modern slavery statement⁸ of **Telstra**, the Australian telecom company, includes detailed case studies, audit findings and remediation procedures. The company conducts benchmarking around leading modern slavery statements in the market to ensure adequate disclosure. To increase visibility within the supply chain, **Coles Group**, the Australian retailer, established a framework to review and assess the modern slavery statements of the highest spend suppliers. The company has a remediation framework⁹ to help individuals or groups affected by labor issues.

Establishing Effective Whistleblower Mechanisms

For companies with complex supply chains spread across different countries, language barriers and access to technology can be a challenge when it comes to establishing effective whistleblower mechanisms. Channels to register grievances should be locally available, multilingual and easily accessible. They should also be independent from the company or the supplier, and allow for anonymous reporting. **Marriott International**,¹⁰ the American hotel company, has multiple avenues for employees, associates, and guests to report unethical behavior, harassment, and other human rights concerns, including human trafficking.

Measuring Success

Establishing KPIs that measure the effectiveness of initiatives to combat slavery and trafficking can help companies monitor the impact of the steps they are taking. KPIs can include the number of audits conducted and issues identified, the number of issues remediated, the number of grievances raised, the number of personnel trained, etc. For example, **Archer-Daniels-Midland Company**,¹¹ the American food processing company, identified KPIs and targets to track the progress of initiatives to combat human rights-related risks.

Conclusion

Companies are taking steps to address risks related to modern slavery in their supply chain, but there are a number of challenges they face while identifying and remediating these issues. We will continue to engage with companies to inform our ongoing efforts in this space. Please reach out to our team at GovernanceTeam@ssga.com to request an engagement on this important topic.

To learn more about our perspective on human rights and modern slavery, please see [Guidance on Human Rights Disclosures & Practices](#).

Endnotes

- 1 [wcms_575479.pdf \(ilo.org\)](#).
- 2 These terms are each defined in detail by the UK government in Annex A of "Transparency in Supply Chains etc.: A practical guide."
- 3 [Exploring Materiality — SASB](#).
- 4 [Global Slavery Index](#).
- 5 [Forced labour, modern slavery and human trafficking \(Forced labour, modern slavery and human trafficking\) \(ilo.org\)](#).
- 6 https://wesfarmers.com.au/docs/default-source/sustainability-documents/2108261641-wesfarmers-2021-modern-slavery-statement.pdf?sfvrsn=387a12bb_32.
- 7 [195996_modern-slavery-statement-2021.pdf \(woolworthsgroup.com.au\)](#).
- 8 [2020 Modern Slavery Act Statement \(telstra.com.au\)](#).
- 9 [03.02.03. Ethical Sourcing Remediation Framework.pdf \(colesgroup.com.au\)](#).
- 10 [Marriott International Modern Slavery Statement](#).
- 11 <https://assets.adm.com/Sustainability/2020-Reports/2020-Human-Rights-update.pdf>.

**Appendix:
Companies Engaged
as Part of Modern
Slavery Engagement
Campaign**

Company Name	Market/Country	Sector
Archer-Daniels-Midland Company	United States	Agricultural Products
BHP Group Limited	Australia	Metals and Mining
Carnival Corporation	United States	Cruise Lines
Coles Group Limited	Australia	Food Retailers and Distributors
Dexus	Australia	Real Estate
Fortescue Metals Group Ltd.	Australia	Iron and Steel Producers
Honeywell International Inc.	United States	Electrical and Electronic Equipment
Hormel Foods Corporation	United States	Meat, Poultry and Dairy
Marriott International, Inc.	United States	Hotels and Lodging
McDonald's Corporation	United States	Restaurants
Mirvac Group	Australia	Real Estate
Nestle SA	Switzerland	Processed Foods
NIKE, Inc.	United States	Apparel, Accessories and Footwear
Northern Star Resources Limited	Australia	Metals and Mining
Nucor Corporation	United States	Iron and Steel Producers
NVIDIA Corporation	United States	Semiconductors
Rio Tinto Limited	Australia	Metals and Mining
Scentre Group	Australia	Real Estate
Stockland	Australia	Real Estate
Telstra Corporation Limited	Australia	Telecommunication Services
Tesla, Inc.	United States	Automobiles
Verizon Communications Inc.	United States	Telecommunication Services
Wesfarmers Limited	Australia	Food Retailers and Distributors
Woolworths Group Limited	Australia	Food Retailers and Distributors

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's fourth-largest asset manager* with US \$3.86 trillion† under our care.

* Pensions & Investments Research Center, as of December 31, 2020.

† This figure is presented as of September 30, 2021 and includes approximately \$59.84 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

ssga.com

State Street Global Advisors Worldwide Entities

Abu Dhabi: State Street Global Advisors Limited, ADGM Branch, Al Khatham Tower, Suite 42801, Level 28, ADGM Square, Al Maryah Island, P.O. Box 76404, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. T: +971 2 245 9000.

Australia: State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services License (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240-7600. F: +612 9240-7611.

Belgium: State Street Global Advisors Belgium, Chaussée de La Hulpe 185, 1170 Brussels, Belgium. T: +32 2 663 2036. State Street Global Advisors Belgium is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934,

authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Canada:** State Street Global Advisors, Ltd., 1981 McGill College Avenue, Suite 500, Montreal, Qc, H3A 3A8, T: +514 282 2400 and 30 Adelaide Street East Suite 800, Toronto, Ontario M5C 3G6. T: +647 775 5900. **France:** State Street Global Advisors Europe Limited, France Branch ("State Street Global Advisors France") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934,

authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors France is registered in France with company number RCS Nanterre 899 183 289, and its office is located at Coeur Défense – Tour A – La Défense 4, 33e étage, 100, Esplanade du Général de Gaulle, 92 931 Paris La Défense Cedex, France. T: +33 1 44 45 41 92. **Germany:** State Street Global Advisors Europe Limited, Branch in Germany, Brienner Strasse 59, D-80333 Munich, Germany ("State Street Global Advisors Germany"). T: +49 (0)89 55878 400. State Street Global Advisors Germany is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934,

authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Hong Kong:** State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103-0288. F: +852 2103-0200. **Ireland:** State Street Global Advisors Europe Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered Number: 49934. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300. **Italy:** State Street Global Advisors Europe Limited, Italy Branch ("State Street Global Advisors Italy") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John

Rogerson's Quay, Dublin 2. State Street Global Advisors Italy is registered in Italy with company number 11871450968 – REA: 2628603 and VAT number 11871450968, and its office is located at Via Ferrante Aporti, 10 - 20125 Milan, Italy. T: +39 02 32066 100. F: +39 02 32066 155.

Japan: State Street Global Advisors (Japan) Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan. T: +81-3-4530-7380. Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association. **Netherlands:** State Street Global Advisors Netherlands, Apollo Building 7th floor, Herikerbergweg 29, 1101 CN Amsterdam, Netherlands. T: +31 20 7181 000. State Street Global Advisors Netherlands is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2.

Singapore: State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826-7555. F: +65 6826-7501. **Switzerland:** State Street Global Advisors AG, Beethovenstr. 19, CH-8027 Zurich. Registered with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16. **United Kingdom:** State Street Global Advisors Limited. Authorised and

regulated by the Financial Conduct Authority. Registered in England. Registered No. 2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000. F: 020 3395 6350. **United States:** State Street Global Advisors, 1 Iron Street, Boston, MA 02210-1641. T: +1 617 786 3000.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without State Street Global Advisors' express written consent.

© 2021 State Street Corporation.
All Rights Reserved.
ID851950-40440531.2.GBL.RTL 1221
Exp. Date: 12/31/2022