Assessing Forced Labor Risks in the ICT Sector as COVID-19 Raises Risks

KnowTheChain 2020 ICT Benchmark

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Our Speakers

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KnowTheChain is a resource for companies and investors to understand and address forced labor risks within their global supply chains.

Benchmarks corporate practices in three high-risk sectors:
- Information and Communications Technology
- Food & Beverage
- Apparel & Footwear
FORCED LABOR RISKS IN THE ICT SECTOR

One study linked the supply chains of more than one quarter of benchmarked companies (14 out of 49) to sourcing from factories employing forced labor in China.

Benchmark included allegations regarding 14 companies – up from 3 in 2018.

Electronics workers in Malaysia reported paying 4-5 months wages (approximately US$1000) in fees.
**HEIGHTENED RISKS DUE TO COVID-19**

<table>
<thead>
<tr>
<th>Reported labor conditions:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• loss of wages (where production stops)</td>
</tr>
<tr>
<td>• restriction of movement (inability to return home and/or to leave internships)</td>
</tr>
<tr>
<td>• request to return to work despite health and safety risks</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Responsible Business Alliance factory survey:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only 35% of factories are paying workers who have not returned to work</td>
</tr>
</tbody>
</table>

Worker in electronics factory in Vietnam:

“Some enterprises have to close … and offer workers to take off without salary payment from 1-3 months… Workers cannot return to their hometowns due to social distancing and [have to call] for their families to send rice and food.”
WHAT DOES A HIGH SCORE MEAN?

Strong efforts made to address forced labor risks in its supply chains – NOT a slavery-free supply chain

The benchmarks operate under the assumption that forced labor is likely present in all large global supply chains – this is why we assess allegations of forced labor, but also ask companies for which no allegations were identified to provide examples of remedy outcomes for supply chain workers.

<table>
<thead>
<tr>
<th>Formal Engagement</th>
<th>Informal Engagement</th>
<th>No Engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>50% (38% provided additional disclosure)</td>
<td>27%</td>
<td>23%</td>
</tr>
</tbody>
</table>
KnowTheChain 2020 ICT Benchmark

Strong correlation with CHRB findings – 0.89
SCORES PER THEME

COMMITMENT & GOVERNANCE: 54/100
TRACEABILITY & RISK ASSESSMENT: 36/100
PURCHASING PRACTICES: 21/100
RECRUITMENT: 27/100

WORKER VOICE: 12/100
MONITORING: 31/100
REMEDIY: 30/100
IMPLEMENTATION GAP

14 Companies with Allegations

<table>
<thead>
<tr>
<th>Implementation Gap</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy includes employer pays principle</td>
<td>63%</td>
</tr>
<tr>
<td>Adopts responsible purchasing practices</td>
<td>16%</td>
</tr>
<tr>
<td>Integrates employer pays principle into purchasing practices</td>
<td>0%</td>
</tr>
</tbody>
</table>

GRIEVANCE MECHANISM

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Available to Suppliers’ Workers (35/49)</th>
<th>Communicated to Suppliers’ Workers (7/49)</th>
<th>Evidence Mechanism is Used (5/49)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engage with Affected Stakeholders</td>
<td>1/14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Report Outcomes of Remedy</td>
<td>3/14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Report if Remedy was Satisfactory to Victims</td>
<td>1/14</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### THE AVERAGE COMPANY

<table>
<thead>
<tr>
<th>Is likely to disclose:</th>
<th>Typically does not disclose:</th>
</tr>
</thead>
<tbody>
<tr>
<td>A <strong>Supplier Code of Conduct</strong> that prohibits forced labor</td>
<td>A supplier code addressing all four ILO core labor standards, incl. the right to <strong>freedom of association and collective bargaining</strong></td>
</tr>
<tr>
<td>Training for procurement staff and suppliers on forced labor policies</td>
<td>Training for procurement staff on the Employer Pays Principle and its implementation</td>
</tr>
<tr>
<td>A supplier code that <strong>prohibits worker-paid recruitment fees</strong> in its supply chains.</td>
<td>Evidence of <strong>implementation</strong> of a no-fee policy</td>
</tr>
<tr>
<td>A grievance mechanism for suppliers’ workers.</td>
<td>Evidence that grievance mechanism is communicated to and used by supply chain workers</td>
</tr>
<tr>
<td>An <strong>audit process</strong> to assesses suppliers for incidences of forced labor.</td>
<td>Use of <strong>worker-driven</strong> monitoring and/or action taken beyond social auditing (engaging with workers)</td>
</tr>
</tbody>
</table>
REGIONAL SCORES

ASIA

LOWEST SCORE 18 AVERAGE SCORE 69 HIGHEST SCORE 100

EUROPE

LOWEST SCORE 30 AVERAGE SCORE 58 HIGHEST SCORE 100

NORTH AMERICA

LOWEST SCORE 40 AVERAGE SCORE 70 HIGHEST SCORE 100
CHANGES SINCE 2018

If methodology had not been strengthened, some improvements could be seen across themes and average score would have improved from 32/100 to 36/100

Despite methodology changes, improvements on recruitment

But: Pace of change remains slow, and all companies still score zero on freedom of association
GOOD PRACTICE EXAMPLES: RECRUITMENT

• Intel discloses remediation of fees to workers in the second and third tier of its supply chains – first time we have seen remediation in lower tiers in the sector.

• HPE discloses that in collaboration with Verite it mapped the legal regulations and financial costs of recruitment along a number of common recruitment corridors and in collaboration with peers developed guidance on remediating recruitment fees.

• Apple discloses the cumulative amount of fees that have been repaid to workers since 2008 (US$30.9 million) as well as the process it uses to calculate reimbursement amounts.

• HP discloses that it worked with suppliers to improve their forecasting ability on how to track working hours more accurately. Suppliers have implemented new IT systems to improve the management of shifts. Workers are now assigned eight hour instead of 12-hour shifts. HP also discloses outcomes for migrant workers: 450 workers received training on their rights, and temporary workers were transitioned to be hired directly.
Worker Engagement: Dell reports that training was provided to 50,000 workers on their labor rights and measured the improvement in workers’ understanding – on recruitment fee policies, this increased from 87% to 93%.

Grievance Mechanism: Microsoft reports the number of supply chain workers who received training on how to use its worker voice hotline, and also discloses data on the hotline. It states that it received 152 reports in 2019.

Supplier code: Hewlett Packard Enterprise updated its supplier code of conduct to remove a restriction on freedom of association, which required suppliers to conform to local law only.
Annual, company-wide risk assessment aligned with United Nations (UN) Universal Declaration of Human Rights (UDHR), the UN Guiding Principles on Business and Human Rights, and the UN Global Compact:

- embedding responsible business conduct,
- ceasing, preventing, or remedying the impact,
- reporting on implementation and results.
SUPPLY CHAIN RESPONSIBILITY PROGRAM

Partnerships
- Industry collaboration, supplier flagship programs

Capability Building
- Supplier training, education, on-boarding

Risk and supplier performance management
- Risk evaluation, audits, targeted assessments,
  Key Performance Indicators (KPIs), corrective action

Business integration
- Expectations setting and contractual agreement,
  supplier performance scorecard, procurement goals

Management system, goal setting, public disclosure / annual reporting, stakeholder engagement
PARTNERSHIPS
Thank you.
ADAM KANZER

HEAD OF STEWARDSHIP - AMERICAS, BNP PARIBAS ASSET MANAGEMENT
Q & A session
RESOURCES FOR INVESTORS

Visit: https://knowthechain.org/resources/investors/

• Investor Briefs on ICT, Construction, and Forestry Sectors
• KnowTheChain Investor Statement – supported by 140+ global investors with US$5.8trillion
• Quarterly Investor Newsletter
• ICT Benchmark findings, incl. company specific scorecards

Some resources available in Japanese, simplified and traditional Chinese, French, Spanish, Arabic, German

Contact: Felicitas Weber, at: weber@business-humanrights.org
COMPANY SCORECARD EXAMPLE

STMicroelectronics NV

<table>
<thead>
<tr>
<th>TICKER</th>
<th>PAR: STM</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARKET CAPITALIZATION</td>
<td>US$21 billion</td>
</tr>
<tr>
<td>HEADQUARTERS</td>
<td>Switzerland</td>
</tr>
</tbody>
</table>

DISCLOSURES
- UK Modern Slavery Act: Not applicable
- California Transparency in Supply Chains Act: Not applicable

TARGETS
- Yes

OVERALL RANKING
- 22 out of 49

OVERALL SCORE
- 30 out of 100

SUMMARY
STMicroelectronics NV (STMicroelectronics), a semiconductor supplier to companies including Amazon and Apple, ranks 22nd out of 49 companies, disclosing about the same amount of information on its forced labor policies and practices as its peers. Its score is based on its slightly higher-than-average performance on the Themes: Traceability & Risk Assessment, Purchasing Practices, Recruitment, and Worker Voice. KnowTheChain identified one allegation of forced labor in the company's supply chains. The company discloses that it collaborated with the Responsible Business Alliance to address the allegation and, notably, that salaries for two months had been paid to impacted workers. However, the company does not disclose engagement with affected stakeholders or further details on remedy outcomes for workers. Additional details the company could take to address forced labor risks in its supply chains include strengthening its disclosure and practices on the themes of Commitment & Governance, Recruitment, and Worker Voice.

THEME-LEVEL SCORES

<table>
<thead>
<tr>
<th>Theme</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment &amp; Governance</td>
<td>92</td>
</tr>
<tr>
<td>Traceability &amp; Risk Assessment</td>
<td>67</td>
</tr>
<tr>
<td>Purchasing Practices</td>
<td>67</td>
</tr>
<tr>
<td>Recruitment</td>
<td>64</td>
</tr>
<tr>
<td>Worker Voice</td>
<td>73</td>
</tr>
<tr>
<td>Monitoring</td>
<td>69</td>
</tr>
<tr>
<td>Remedy</td>
<td>97</td>
</tr>
</tbody>
</table>

NOTABLE FINDINGS
- Supplier Code of Conduct: STMicroelectronics uses the Responsible Business Alliance code (version 6) as its supplier code of conduct. It is easily accessible on the company's website, and it prohibits forced labor and requires suppliers to cascade its content to their next-tier suppliers. The company notes that 93% of its material suppliers and 85% of its equipment and parts suppliers have signed an agreement to comply with this code, which is also integrated into supplier contracts.
- Risk Assessment: STMicroelectronics discloses that it conducted a risk-mapping exercise on its direct suppliers in 2018. The company discloses that forced labor was one of the top five risks identified in its supply chains, based on an analysis of 349 direct suppliers' self-assessment questionnaires. It further states that it has "clamped down on foreign worker recruitment fees."

Recruitment Fees: STMicroelectronics' supplier code includes a provision that workers shall not be required to pay employers' or agents' recruitment fees or other related fees for their employment, and that where paid, such fees shall be reimbursed to the workers. The company discloses the implementation of this policy, noting that it verified the reimbursement of fees to workers at a supplier in Singapore.

OPPORTUNITIES FOR IMPROVEMENT
- Commitment & Governance: The company is encouraged to provide oversight of its supply chain policies that address forced labor at the board level. The company may further consider establishing training programs to ensure that relevant decision-makers within the company and its supply chains are aware of the risks related to forced labor and human trafficking and that they are effectively implementing the company's policies. It is also encouraged to engage in capacity building so that its suppliers can cascade its supply chain policies that address forced labor and human trafficking to their own supply chains and/or train suppliers below the first tier on such policies.
- Recruitment: To avoid the exploitation of migrant workers in its supply chains, the company is encouraged to ensure that employment and recruitment agencies used in its supply chains are monitored. It may also consider providing details of how it supports responsible recruitment in its supply chains (for example, by sharing due diligence findings on recruitment fees with peers or by supporting the development of responsible recruitment schemes).
ANALYSIS AGAINST SUBSET INDICATORS

PERCENTAGE OF COMPANIES PER TIER

- ADVANCED STEPS: 2%
- INTERMEDIATE STEPS: 17%
- SOME STEPS: 18%
- BASIC STEPS: 58%
- NO STEPS: 5%

Correlation using assessment of 49 companies benchmarked against full methodology: 0.98
Thank You to our speakers and participants
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