



HOW ARE 49 OF THE WORLD'S LARGEST ICT COMPANIES ADDRESSING FORCED LABOR RISKS IN THEIR SUPPLY CHAINS?

Information Communications and Technology (ICT) companies are some of the most profitable in the world, yet Covid-19 demonstrates the fragility of the sector. The virus is putting supply chains under a severe stress test, and delays and factory shutdowns1 have resulted in a loss of wages or entire livelihoods for workers.2 Investors increasingly recognize that upholding their ESG commitments is essential to their reputation and resilience, and this crisis demonstrates a new urgency to put the S in ESG at the forefront (the recovery from the pandemic will require the same commitment to social issues). Excessive overtime, poor and hazardous working and living conditions, wage withholding, and the abuse of workers who lack alternative livelihood options—all indicators of forced labor3 can and have exacerbated the spread of the virus and prolonged its negative impact.4 It is vital for investors to understand to what extent portfolio companies use effective due diligence to understand and address workforce-related risks in their supply chains and provide remedy where abuse is found.

What is forced labor?

"Forced labour can be understood as work that is performed involuntarily and under the menace of any penalty. It refers to situations in which persons are coerced to work through the use of violence or intimidation, or by more subtle means such as manipulated debt, retention of identity papers or threats of denunciation to immigration authorities." (ILO)6

I even have had to pay them money at the end of the month instead of getting money.

Batsa, a 25-year-old Nepalese worker in an electronics factory in Malaysia, had almost 50% of his salary (around US\$1,800) deducted over 18 months, allegedly to fund a new work permit.⁵

KnowTheChain evaluated the 49 largest ICT companies globally on their efforts to address forced labor in their supply chains.⁷ The majority of ICT companies remain negligent in their efforts to address forced labor and are failing workers like Batsa. They lack the essential policies and tools to tackle, let alone eliminate, these most egregious forms of abuse.

- Only 11 companies score above 50% in the KnowTheChain benchmark. Three-quarters score below 50/100, and the sector average is low, at 30/100.
- Following benchmarks in both 2016 and 2018, companies continue to score weakest on the
 themes that are arguably the most powerful to make progress: Recruitment and Worker Voice.
 These are the very themes that most impact workers' lives. Every company scored zero on its
 efforts to ensure that supply chain workers are free to organize and collectively bargain for better
 working conditions, one of the most effective ways of preventing abuse of migrant workers.8
- No one should have to pay for a job. Yet, this is the reality faced by many workers in global supply chains, which is not yet addressed by many benchmarked companies. Only eight companies (16%) scored over 50/100 on Recruitment; 12 scored zero. 36 out of 49 companies (73%) have a policy prohibiting worker-paid recruitment fees in their supply chains—but no company sets out a comprehensive process to prevent these fees from being charged to workers in the first place.

WHO IS BEHIND THE LOWEST AND HIGHEST SCORES IN THE BENCHMARK?

- The three lowest-scoring companies include the world's largest surveillance equipment manufacturer,⁹ Hikvision, and Largan Precision, which manufactures lenses for electronic devices and is a supplier to Amazon and Apple. Xiaomi, the world's fourth-largest smartphone manufacturer, is the only company to score zero in the benchmark.¹⁰ Companies scoring 10/100 and below include the US semiconductor company Broadcom (10/100), the German semiconductor manufacturer Infineon Technologies (9/100), and the Swedish tech group Hexagon (8/100).
- Hewlett Packard Enterprise (70/100) tops the benchmark in 2020, closely followed by HP (69/100), Samsung (69/100), Intel (68/100), and Apple (68/100). These five companies score the highest in the benchmark on Recruitment, and they all disclose repayment of fees to workers in their supply chains, as well as some steps to better understand (and thus ultimately prevent) fees from being charged to workers. While they take some steps to address forced labor risks in the lower tiers of their supply chains, they all source from suppliers scoring below average, i.e., who have not yet addressed major risks in their own supply chains (indicating that risks persist at suppliers in the second tier of companies' supply chains).



WHY SHOULD INVESTORS BE CONCERNED ABOUT FORCED LABOR RISKS IN THE ICT SECTOR?



No workers should pay for a job. Yet, in Malaysia, some workers had to pay **4-5 month's wages (ca. US\$1,000)** in recruitment fees.¹¹



Suppliers to one electronics company reportedly **reimbursed up to US\$30 million** to workers for fees paid for recruitment.¹²



One single study linked the supply chains of more than 4 of the benchmarked companies (14 out of 49, or 28%) to sourcing from factories employing forced labor, namely workers from an ethnic minority forced to work in factories across China. 13

The global ICT sector includes some of the most powerful and wealthy companies in the world. The nearly US\$1 trillion of combined profits of the 49 largest companies stand in stark contrast to workers' wages. ¹⁴ In Malaysia for example, as of 2020, the legal minimum monthly wage is US\$280, or an hourly rate of US\$1.36. ¹⁵

FORCED LABOR IS UBIQUITOUS IN ELECTRONICS SUPPLY CHAINS

It is highly likely that all electronics companies—directly or indirectly—source from high-risk countries where electronics products may be produced with forced labor, such as China and Malaysia. ¹⁶ Malaysia is among the world's leading exporters of computer chips, and such chips are used in most, if not all, electronic devices. ¹⁷ Malaysia's high proportion of migrant labor from Myanmar, Bangladesh, Indonesia, and Nepal is particularly vulnerable to the risks of forced labor through the recruitment process, where they are often charged extortionate fees in order to get a job. ¹⁹ China remains a main production country. ²⁰

Risk Assessment Is Neglected:

It is concerning that less than half of companies (45%) disclose conducting a human rights risk assessment on their supply chains, despite the fact that this is a key part of companies' due diligence processes. Only 19 companies (38%) disclose risks of forced labor identified in their supply chains. This stands in stark contrast to the fact that all benchmarked companies that disclose a supplier list or some information on their sourcing countries disclose sourcing from Malaysia and/or China (59% of companies), the two countries listed by the US Department of Labor as at risk for forced labor in electronics.

Forced labor risks are pervasive in the country, and documented cases include the exploitation of student workers,²¹ the use of prison labor, and the forced labor of ethnic minorities transferred from Xinjiang to electronics and other factories across provinces in China.²²

Trends show that the US tariffs on products from China have caused some companies to move parts of their supply chains to countries such as Thailand, Malaysia, Vietnam, India, and the **Philippines**.²³ Forced labor risks exist in all these countries, however, as manufacturing is the third-highest sector at risk of forced labor.24 In addition, electronics manufacturing locations such as India, Thailand, Taiwan, Vietnam, and **Singapore** already rely on significant internal or external migrant labor,25 groups that are particularly vulnerable to exploitative working conditions and forced labor. Moreover, factors that render workers such as migrant workers and women workers more vulnerable to forced labor are on the rise-including unemployment, informal employment, a lack of protections for workers who organize and bargain collectively, increased migration due to conditions such as income inequality and climate change, production standstills because of pandemics such as Covid-19, and increased competition for existing jobs owing to the automation of manufacturing work.26

REGULATORY RISKS

A large number of ICT companies are headquartered in the USA. Yet, in the context of rising "trade wars," the USA is increasingly clamping down on imports of products that have been produced with forced labor. In October 2019, the US Customs and Border Protection agency detained minerals produced with forced labor as well as products manufactured in Malaysia and China, two key sourcing countries for the sector.²⁷ As of March 2020, US lawmakers were also considering banning imports from Xinjiang, China.²⁸ A single report identified that factories in this region make electronic products using forced labor and supply more than a



quarter of the companies in the benchmark (14 out of 49).²⁹

Reporting legislations in jurisdictions around the world require companies to disclose the steps they take to address forced labor risks. The UK Modern Slavery Act alone requires the vast majority of large global ICT companies (including 46 of the 49 benchmarked companies [94%]) to report such information on an annual basis. In Europe, the Non-Financial Reporting Directive will be revised³⁰ to strengthen reporting requirements after disappointing results, which found that only 12% of technology and communications companies described action on forced labor.31 Additionally, a move toward mandatory human rights due diligence is on the rise in Europe. France and the Netherlands have already implemented such legislation; Germany, Switzerland, and Finland are considering it; and the European Commissioner for Justice committed to introducing such legislation at the EU level in 2021.32

The recovery from the Covid-19 pandemic will see major corporate bailouts. There is a rising global chorus for recipient companies to demonstrate human rights due diligence and emissions-reduction targets.³³ Companies that anticipate and act on these issues will be both more resilient and better able to demonstrate their early qualification for government bailouts.

WHAT ACTION SHOULD INVESTORS TAKE?

To reach the United Nations' Sustainable
Development Goals Target 8.7 and eradicate
forced labor by 2030, the number of affected
people must be reduced by around 10,000
individuals per day.³⁴ Institutional investors have
a key role to play in achieving this target.

Investor action can send strong signals to current and future portfolio companies (including those based in the Global North) on the importance of respecting human rights, including those of migrant workers and other workers in vulnerable conditions. In January 2020, MP Pension, a Danish pension fund, decided to follow the decision of the Norwegian Government Pension Fund Global, the world's largest sovereign wealth fund, to divest from G4S, a British security company, over concerns about its treatment of migrant workers in the Middle East.³⁵

More than 130 global investors committed to integrating indicators of forced labor into investment decision-making as well as active ownership practices, resulting in a number of shareholder resolutions and engagement initiatives. For example, investors engaged with the two ICT companies that improved most in the KnowTheChain benchmarks:³⁶

Corning, an electronics component supplier to companies such as Apple and Samsung, improved its score from 6/100 to 37/100. As You Sow, in collaboration with Amalgamated Bank, engaged with Corning to improve its practices in relation to worker-paid recruitment fees and retention of workers' passports.

While still weak for a company of its scale and market position, **Amazon**, the world's largest retailer,³⁷ increased its score from 32/100 to 43/100. In 2019, Amazon faced a range of human rights-related shareholder resolutions, and "following an investor letter organized by the [Investor Alliance for Human Rights, it] updated its supply chain policy to include ... human rights standards."

Investors should take steps to ensure that portfolio companies in the ICT sector, and in sectors sourcing from the ICT sector (such as the <u>automotive sector</u>), undertake human rights due diligence in line with the <u>UN Guiding Principles on Business and Human Rights</u>.

Engagement: As all global ICT companies are exposed to forced labor risks in at least part of their supply chains (see above), forced labor should be part of all engagement dialogues. For companies benchmarked by KnowTheChain,³⁸ investors may wish to consult the company scorecards. Investors may wish to probe other companies in the sector on the elements outlined on the following page.



	The Average Company, with a Score of 30/100		
	typically has in place	typically lacks	Engagement Questions for Investors
COMMITMENT & GOVERNANCE	A supplier code of conduct prohibiting forced labor	A supplier code that covers all ILO core labor standards, in particular, the right to freedom of association and collective bargaining	Does the company have a public commitment to respect workers' rights (those listed in the ILO's core labor standards, which include the elimination of forced labor), and has it adopted the Employer Pays Principle? Does it require its suppliers to adhere to the same standards and include these expectations in supplier contracts?
	Training for procurement staff and suppliers on policies addressing forced labor	Training of procurement staff on the Employer Pays Principle and integration of the costs of recruitment into purchasing practices	What steps has the company taken to implement responsible purchasing practices, such as planning and forecasting, and provide procurement incentives to suppliers to encourage or reward good labor practices (such as price premiums or increased orders)?
DUE DILIGENCE	A policy prohibiting worker- paid recruitment fees in its supply chains	Evidence of implementation of such a no-fee policy	What steps does the company take to ensure workers do not have to pay recruitment fees ³⁹ (such as understanding recruitment channels, mapping recruitment costs, undertaking specialized audits, and integrating the Employer Pays Principle into purchasing practices)?
	An audit process for monitoring labor conditions at suppliers	Use of worker-driven monitoring (i.e., monitoring undertaken by independent organizations such as local worker-led organizations, unions, or local civil society partners) and/or action taken beyond social auditing (e.g., worker engagement)	What steps does the company take to ensure that supply chain workers, including workers in vulnerable conditions, are able to understand and exercise their rights? [Conditions that render workers vulnerable may include social factors such as ethnicity or gender and other factors such as legal status or language barriers.]
REMEDY	A grievance mechanism for its suppliers' workers	Evidence that the mechanism is communicated to workers in the supply chains, as well as evidence that it has been used by workers (i.e., demonstration that the mechanism is trusted and effective)	How does the company ensure that workers—including migrant workers in its supply chains—have access to effective grievance mechanisms? ⁴⁰ What labor-related grievances have the company, its suppliers, or labor agents received in the past year?
	A corrective action process for addressing non- compliances at suppliers	Outcomes of remedy for impacted workers	What examples can the company provide of remedy provided to workers, including to migrant workers (such as repayment of recruitment fees or return of passports)?

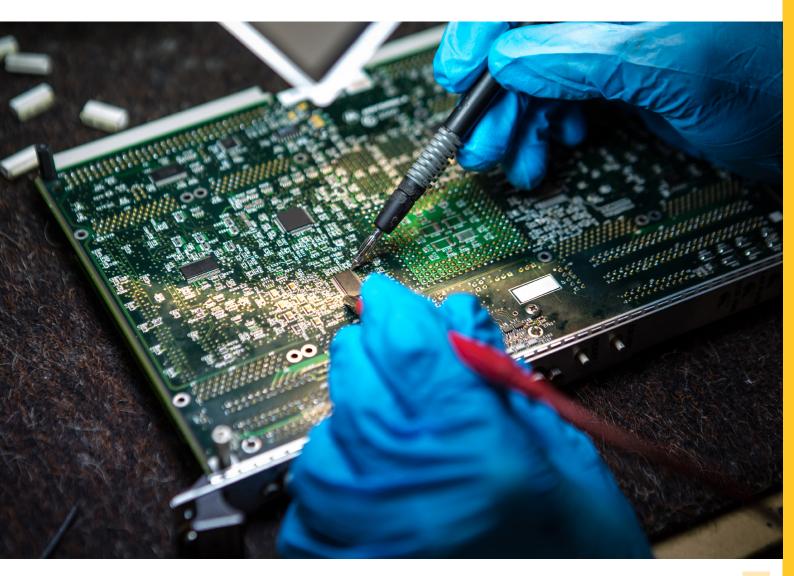
An investor that is not directly managing the investment could include the above questions in its selection and/or monitoring processes of its investment managers.

Voting: One way of using leverage as a shareholder is to ask relevant questions at annual general meetings and exercise voting rights. Some investors publicly announced their use of voting rights where investee companies have not taken sufficient action to undertake human rights due diligence, including addressing forced labor risks.⁴¹ Investors relying on proxy advisory firms may wish to engage these firms to understand if and how they take forced labor risks into consideration.

TOOLS FOR INVESTORS

KnowTheChain provides a range of tools to support investors in their active ownership and investment decision-making practices:⁴²

- KnowTheChain Investor Statement: Co-sponsored by the Investor Alliance for Human Rights and developed with support from the Principles for Responsible Investment and others, this statement allows investors to demonstrate public support for Sustainable Development Goal 8.7. It also calls on companies to address forced labor risks; as such, it can be used as an engagement tool, reinforcing this collective ask, which to date is supported by more than 130 global investors representing US\$5 trillion in assets under management.
- Company Scorecards: A company scorecard for each ICT company assessed in the benchmark explains how each company performs compared to its peers, gives recognition for better practices, and points to company-specific suggestions for improvement.
- Database of Good Practices: KnowTheChain's 2019 Cross-Sector Findings Report highlights good
 practice examples for each indicator of the KnowTheChain benchmark methodology from three
 different sectors, including the ICT sector. KnowTheChain's 2020 ICT Benchmark findings report
 highlights good practice examples for each of the seven benchmark themes. <u>Translations</u> of the
 benchmark methodology, as well as other resources, are available in seven languages.



ENDNOTES

- 1 Financial Times (9 March 2020), "Companies' supply chains vulnerable to coronavirus shocks." Business Insider (7 March 2020), "Coronavirus is worrying electronics manufacturers, and everyday shoppers could end up seeing 'spot shortages' for certain gadgets if the situation worsens."
- 2 Quartz (27 February 2020), "Coronavirus is drying up the supply chains of Southeast Asia's factories." Business & Human Rights Resource Centre, "COVID-19 (Coronavirus) Outbreak: Supply chain workers." Accessed 22 March 2020.
- 3 International Labour Organization (2012), "Indicators of Forced Labor." Accessed 13 March 2020.
- 4 The Economist (15 February 2020), "The new coronavirus could have a lasting impact on global supply chains." Amnesty International (20 March 2020), "Qatar: Migrant workers in labour camps at grave risk amid COVID-19 crisis." Arab News (5 April 2020), "Revealed: How coronavirus outbreak is shining a light on violations inside Qatar's labor camps."
- 5 The amount deducted from Batsa's salary is "equivalent to eight months of his basic wages and is evident from his payslips." Batsa reported that "deductions for work permits, accommodation and other purposes sometimes exceeded the actual wages being paid when the factory could not offer a full week's work and overtime hours." Danwatch (28 June 2019), "Forced labour behind European electronics."
- 6 International Labour Organization, "What is forced labour, modern slavery and human trafficking." Accessed 13 March 2020.
- 7 For further details on the research please see KnowTheChain (June 2020), "2020 KTC ICT Benchmark Report" and KnowTheChain, "2020 KTC ICT Benchmark Data Set." Accessed 30 April 2020. 8 Anti-Trafficking Review, No 5. (29 September 2015), "Policy and Practice: The Role of Trade Unions in Reducing Migrant Workers' Vulnerability to Forced Labour and Human Trafficking in the Greater Mekong Subregion."
- 9 Reuters (28 August 2019), "Hikvision, a surveillance powerhouse, walks U.S.-China tightrope."

 10 As of Q4 2019, Xiaomi was recorded as having the fourth-largest smartphone market share.

 Counterpoint (18 February 2020), "Global smartphone market share by quarter." See also TechCrunch (13 August 2019), "Xiaomi tops Indian smartphone market for eighth quarter straight."
- 11 Danwatch (28 June 2019), "<u>The labour supply chain: how foreign workers end up indebted in Malaysia</u>."
- 12 As publicly reported by companies in the benchmark.
- 13 Australian Strategic Policy Institute (March 2020), "<u>Uyghurs for sale: Re-education, forced labour and surveillance beyond Xinjiang.</u>"
- 14 Refers to gross profits reported by companies for financial year 2019. The average annual profit is US\$20 billion.
- 15 ASEAN Briefing notes that: "The minimum wage is now 1,200 ringgits (US\$283) per month, an increase of 100 ringgits (US\$23) from 2019. The rate for employees earning an hourly rate has been increased to 5.77 ringgits (US\$1.36) from 5.29 ringgits (US\$1.25)." ASEAN Briefing (26 February 2020), "Malaysia increases minimum wage." The actual wages for migrant workers are likely lower, as excessive working hours as well non-payment and underpayment for such workers are common. The wages also contrast with the living wage, which would be around US\$620. Ethical Trading Initiative (2019), "Human Rights Due Diligence in Malaysia's Manufacturing Sector," p. 22-24. Danwatch (28 June 2019), "The labour supply chain: how foreign workers end up indebted in Malaysia."
- 16 US Department of Labor (2018), "<u>U.S. Department of Labor's 2018 List of Goods Produced by Child Labor or Forced Labor</u>," pp. 8-9.
- 17 Danwatch found that "most of the internationally best-selling electronics brands are in one way or

the other sourcing from Malaysia." Danwatch (28 June 2019), "Where do Malaysian electronics end up?" See also Danwatch (28 June 2019), "How the global electronics industry came to rely on forced labour and debt bondage."

- 18 Danwatch (28 June 2019), "How the global electronics industry came to rely on forced labour and debt bondage."
- 19 Malaysia is estimated to host between two and four million undocumented migrant workers, as well as 2.2 million registered migrants. Danwatch (28 June 2019), "The labour supply chain: how foreign workers end up indebted in Malaysia." It is estimated that migrant workers could comprise up to a third of the country's workforce. VOA (11 October 2019), "US ban on Malaysian glove maker highlights 'systemic' labor abuse."
- 20 Inc. (24 February 2015), "5 things to know about doing business in Shenzhen." See also Forbes (14 July 2016), "A look inside Shenzhen's high-tech empire." The latter article from 2016 notes that an estimated 90% of electronics are produced in China.
- 21 The Guardian (8 August 2019), "Schoolchildren in China work overnight to produce Amazon Alexa devices."
- 22 Australian Strategic Policy Institute (March 2020). See also Reuters (24 December 2019), "<u>Factbox: China's use of prison labour.</u>"
- 23 Forbes (3 February 2020), "Three trends driving electronics manufacturing out of China in 2020." Samsung, for example, has moved smartphone manufacturing out of China. Financial Times (18 October 2019), "Samsung's departure is new blow to Chinese manufacturing."
- 24 International Labour Organization (2017), "Global estimates of modern slavery: forced labour and forced marriage," p. 32.
- 25 The Responsible Business Alliance discloses the countries where its members have undertaken supplier audits. In addition to China and Malaysia, higher numbers of audits were undertaken in Taiwan, Thailand, and India. Responsible Business Alliance, "RBA Annual Report 2018," p. 35. There are an estimated five million migrant workers in Thailand. Reuters (11 December 2019), "Thai electronics firm compensates exploited workers in rare award." India relies on an estimated 139 million workers who migrate internally from rural areas all over the country. See World Economic Forum (1 October 2017), "India has 139 million internal migrants. They must not be forgotten." Similarly, up to five million workers in Vietnam are internal migrants, many of whom are informally employed. Oxfam, "Workers' Rights." Accessed 8 April 2020. Taiwan hosts around 700,000 migrant workers. Equal Times (20 March 2020), "Will Taiwan reform its system of labour brokerage to better protect migrant workers?" As of June 2019, Singapore has more than 1.3 million foreign workers. Government of Singapore: Ministry of Manpower, "Foreign workforce numbers." Accessed 15 April 2020.
- 26 United Nations University (September 2019), "<u>Unlocking potential</u>: a blueprint for mobilizing finance against slavery and human trafficking," pp. 28-29. In relation to Covid-19, see for example: Quartz (27 February 2020), "<u>Coronavirus is drying up the supply chains of Southeast Asia's factories</u>." Business & Human Rights Resource Centre, "<u>COVID-19</u> (<u>Coronavirus</u>) <u>Outbreak: Supply chain workers</u>." Accessed 22 March 2020. Regarding restrictions on the right to freedom of association and collective bargaining, see ITUC (2019), "<u>2019 ITUC Global Rights Index</u>," pp. 42ff.
- 27 U.S. Customs and Border Protection (1 October 2019), "CBP Issues Detention Orders against Companies Suspected of Using Forced Labor."
- 28 The New York Times (11 March 2020), "<u>U.S. Lawmakers Propose Tough Limits on Imports from Xinjiang</u>."
- 29 Australian Strategic Policy Institute (March 2020). See also The Guardian (1 March 2020), "China transferred detained Uighurs to factories used by global brands report."
- 30 European Commission, "Public Consultation. Non-financial reporting by large companies (updated rules)." Accessed 9 April 2020.
- 31 Alliance for Corporate Transparency, "Database. C: Human Rights." Accessed 9 April 2020. Alliance

for Corporate Transparency (2020), "2019 Research Report," p. 78. This analysis covered 1,000 of the largest companies operating in the EU, including 78 companies in the ICT sector.

- 32 Business & Human Rights Resource Centre, "Mandatory Due Diligence." Accessed 9 April 2020.
- 33 Business & Human Rights Resource Centre, "COVID-19: Govts. & financiers increasingly urge companies to use (emergency) funds to support stakeholders not shareholders." Accessed 30 April 2020.
- 34 Fast Initiative (Sep 2019), "A Blueprint for Mobilizing Finance Against Slavery and Trafficking," pp. 1-2.
- 35 IPE (30 January 2020), "MP Pension sheds DKK13m of G4S stock, following Norwegian lead."
- 36 Interfaith Centre for Corporate Accountability (2019), "Catalyzing Corporate Change in 2019," p. 2.
- 37 Forbes (9 January 2020), "Who Are The 10 Biggest Retailers In The World?"
- 38 See here the list of the 60 ICT companies assessed by KnowTheChain in 2020.
- 39 In 2019, the International Labour Organization issued guidance clarifying that workers should not be charged recruitment fees nor related costs. Related costs may include the following: outlays for medical expenses, insurance, skills and qualification tests, training and orientation, travel and lodging, and administrative expenses. See International Labour Organization (2019), "General principles and operational guidelines for fair recruitment and Definition of recruitment fees and related costs," pp. 13 and 29.
- 40 Effectiveness criteria are outlined in Principle 31 of the <u>UN Guiding Principles on Business and Human Rights</u>, pp. 33-34.
- 41 Reuters Business News (10 March 2020), "Church investors warn UK firms of tougher line on diversity, modern slavery." Financial Times (23 March 2020), "Costco, Prada and Starbucks challenged on human rights disclosures."
- 42 Additional reports can be found in the investor resource section of the KnowTheChain website.

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