



Are the largest Apparel and
Footwear companies in
the world doing enough to
eradicate forced labor from
their supply chains?

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(2017), "International Migration Report 2017. Highlights."

In this follow-up to its 2016 benchmark, KnowTheChain assessed 43 of the largest global apparel and footwear companies on their efforts, finding that:

- The average score overall remains low, at **37 out of 100**. Company scores range from 0/100 to 92/100; however, less than a third of the companies (15 out of 43) score over 50/100, and policies and practices are lacking on the theme of recruitment—the area with the most direct impact on workers' lives.
- Adidas (92/100) remains the top-scoring company in the benchmark, while Lululemon (89/100) overtook
  Gap Inc. (75/100) to secure second place. Adidas and Lululemon achieve a significantly higher score
  than their peers due to their strong approaches to addressing risks associated with recruitment and
  migrant workers as well as risks in lower tiers of their supply chains. They are the only companies to
  disclose evidence that workers below the first tier of their supply chains have access to and have used
  their grievance mechanisms.
- Those scoring below 15/100 include companies across subsectors and regions, including Asian retailers such as Zhejiang Semir Garment (0/100), the owner of China's largest specialty children's apparel brand,<sup>4</sup> and Shimamura (0/100), the second-largest apparel retailer in Japan;<sup>5</sup> US footwear companies such as Foot Locker (12/100) and Skechers (7/100); and European luxury brands such as LVMH (14/100) and Prada (5/100).
- Despite disclosure of some leading practices, recruitment remains the lowest scoring theme, at 18/100. Only four companies provide evidence that they have reimbursed recruitment fees to workers in their supply chains (Adidas, Lululemon, Primark, and Ralph Lauren), and only seven companies provide evidence of how they support ethical recruitment in their supply chains. Eighteen out of the 43 companies in the benchmark received a score of zero for their lack of action on recruitment. Inaction on tackling recruitment practices that render migrant workers at risk of exploitation shows that companies are not paying adequate attention to one of the most vulnerable groups of workers in the sector.
- On the other hand, the subset of 19 companies that were benchmarked in both 2016 and 2018 show significant improvements. The average score of companies benchmarked in both years increased from 49/100 to 56/100. While all of the 19 companies benchmarked in both years improved, notably, eight companies (Adidas, Hugo Boss, Kering, Lululemon, Nike, PVH, Ralph Lauren, and VF) increased their scores by more than 10 points.<sup>6</sup>

<sup>&</sup>lt;sup>4</sup> Market Watch (20 March 2018), "The Children's Place announces license agreement with China's largest children's apparel retailer, Zhejaing Semir Garmet Co. Ltd." Accessed 18 October 2018.

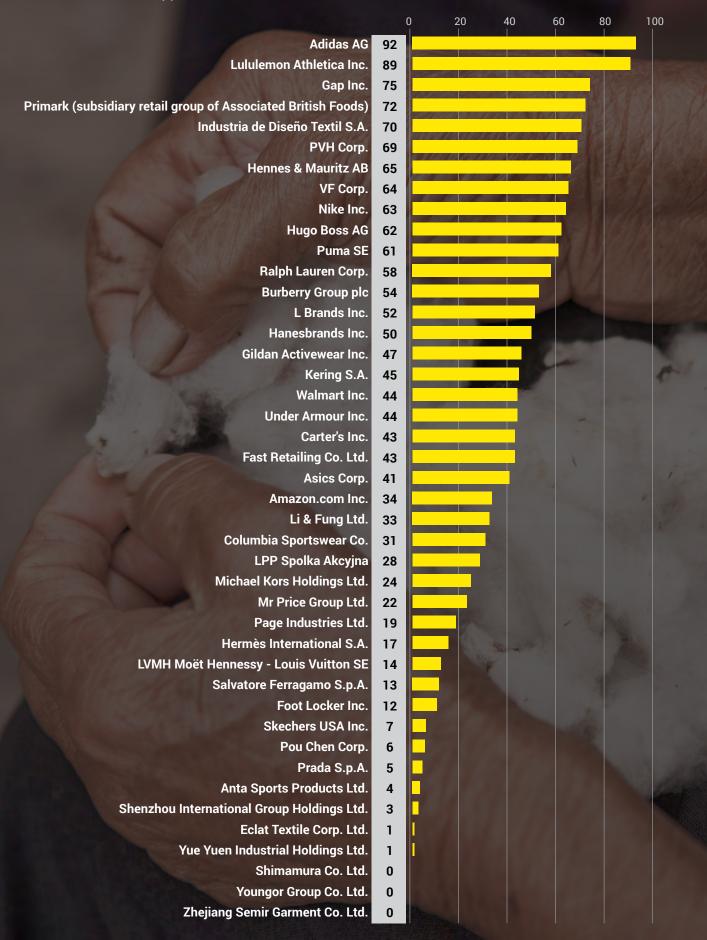
<sup>&</sup>lt;sup>5</sup> Business of Fashion (20 November 2016), "At Shimamura, Japanese find no-fills fashion beyond Uniqlo." Accessed 18 October 2018.

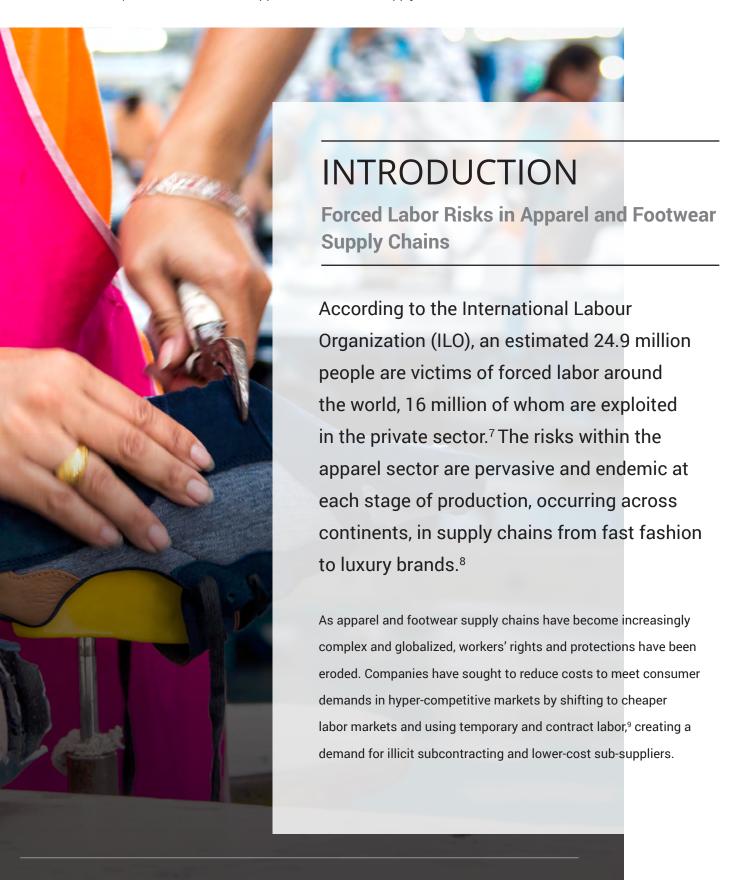
<sup>&</sup>lt;sup>6</sup> These improvements are significant as a revised methodology makes it harder to achieve the same score. If a company did not improve, its score would typically decrease by 8 to 10 points.

This report evaluates companies' disclosure and performance against seven benchmark themes and provides good practice examples and recommendations for companies. It also evaluates corporate commitments and compliance with relevant regulations and provides considerations for investor action.

KnowTheChain's research highlights the need for stronger action from apparel and footwear brands, particularly on the issue of recruitment, one of the themes that most directly impacts workers' lives. Companies lagging behind need to learn from their peers and, with good practice examples available, should strive to progress quickly. Leading companies need to remain vigilant and address evolving risks but also play a role in leading the industry forward. Likewise, investors should engage with investee companies and ensure those in their portfolio commit to time-bound and measurable improvements. For the apparel and footwear sector, forced labor is real, and the impact on worker lives is too important to ignore.







<sup>&</sup>lt;sup>7</sup> International Labour Organization, "<u>Forced labour, modern slavery and human trafficking</u>." Accessed 1 August 2018.

<sup>8</sup> Reuters (7 June 2018), "Southeast Europe targets luxury brands' fast fashion catchup." Accessed 27 September 2018.

<sup>&</sup>lt;sup>9</sup> "Textiles and Apparel." Verité "<u>Responsible Sourcing Tool</u>." Accessed 26 September 2018.

Workers have been found to be at risk of forced labor in the picking of cotton, harvesting of rubber, on cattle ranches used for the production of leather, in the farming of silk cocoons, the spinning of yarn, and in the manufacturing of apparel and footwear. 10 As one of the largest sectors at risk of forced labor, with products imported by G20 countries at a value of US\$127 billion, it is critical that the private sector engage more deeply and significantly throughout supply chains. 11

Increasingly, the apparel supply chain workforce is made up of women and migrants who are more vulnerable to exploitation, due to their social status. Today, an average of 68% of the global workforce in the apparel sector is female. <sup>12</sup> In Bangalore, for example, one of India's garment hotpots, 80% of garment workers are women. <sup>13</sup> These women are often low-skilled workers from rural areas, who may not know their rights or may be socially marginalized due to the country's caste system. Women in the sector are more vulnerable to exploitation as work often takes place in countries with high levels of gender discrimination. They are likely to be subject to sexual harassment and abuse and may not be able to access their workplace rights. <sup>14</sup> In addition, it may be more difficult for women to voice grievances or allegations of abuse due to social or cultural barriers that prevent them from reporting abuses and low levels of unionization among women. <sup>15</sup> This combination of factors exacerbates women's vulnerability to situations of forced labor.

Similarly, the migrant workforce is susceptible to exploitation. The apparel industry is increasingly reliant on migrant workers, and companies must pay attention to the risks posed to these workers in countries where their supply chains reach. For example, migrant workers make up as much as 77% of the Jordanian apparel workforce<sup>16</sup> and 44% of the Mauritius apparel workforce.<sup>17</sup>

<sup>&</sup>lt;sup>10</sup> US Department of Labor (2018), "<u>List of Goods Produced by Child Labor or Forced Labor</u>," pp. 8-14; "Textiles and Apparel." Verité "<u>Responsible Sourcing Tool</u>."

<sup>&</sup>lt;sup>11</sup> Walk Free Foundation (2018), "The Global Slavery Index 2018," p. 6.

<sup>12</sup> International Labour Organization (2014), "Wages and Working Hours in the Textiles, Clothing, Leather, and Footwear Industries," p. 12.

<sup>&</sup>lt;sup>13</sup> The World Bank (7 February 2017), "In Bangladesh, Empowering and Employing Women in the Garments Sector." Accessed 18 October 2018. India Committee of the Netherlands, Garment Labour Union, Clean Clothes Campaign (26 January 2018), "Labour without Liberty Female Migrant Workers in Bangalore's Garment Industry." p. 4.

<sup>&</sup>lt;sup>14</sup> Sourcing Journal (29 November 2016), "Garment production: the female face of modern slavery." Accessed 26 October 2018.

<sup>&</sup>lt;sup>15</sup> Fair Wear Foundation (2016), "India country study 2016," p. 22.

<sup>&</sup>lt;sup>16</sup> Better Work (2018), "Better Work Jordan Annual Report 2018: An Industry And Compliance Review," p. 11.

<sup>&</sup>lt;sup>17</sup> Statistics Mauritius (2018), "<u>Digest of Labor Statistics 2017</u>," pp. 12, 99. This survey was conducted on "large establishments" in the apparel sector.

# Why are workers in apparel and footwear supply chains vulnerable to exploitation?

- The sector increasingly relies on migrant workers who may not know the cultural norms and language of the country in which they're working, which limits their ability to understand their rights in the host country and how to report grievances.
- Factories often use recruitment or employment agencies to hire their workforce. This exposes workers to the risk of exorbitant recruitment fees, rendering them vulnerable to situations of debt. This is further compounded by low wages in the sector.
- Work often takes place informally. Workers may not have employment contracts in place, and therefore lack legal protection.
- There are low levels of unionization within the sector, making it more difficult for workers to voice concerns or allegations of abuses.
- The majority of workers in the sector are women, who are often lowskilled workers from rural areas and more vulnerable to exploitation, as work often takes place in countries with high levels of gender discrimination.



"Textiles and Apparel." Verité "Responsible Sourcing Tool."
Malcolm Sargeant & Eric Tucker (2009), "Layers of Vulnerability in Occupational Safety and Health for Migrant Workers: Case Studies from Canada And The UK, Policy and Practice in Health and Safety." 5:2, pp. 1-23.
Clean Clothes Campaign (2014), "Stitched up: Poverty wages in the garment industry in Eastern Europe and Turkey," p. 21.
Sourcing Journal (2016), "Garment production: the female face of modern slavery."

Audit outcomes reported by companies demonstrate how such risks manifest in practice. One apparel company found that recruitment agents in Taiwan charged migrant workers up to US\$7,000 for jobs in fabric mills. 18 When auditing lower-tier suppliers that employ migrant workers, another

<sup>18</sup> Interfaith Center on Corporate Responsibility (2017), "Best Practice Guidance on Ethical Recruitment of Migrant Workers," p. 24.

company in the sector<sup>19</sup> found that 82% withheld passports and 86% required mandatory savings.<sup>20</sup> Exploitation of migrant workers through labor brokers<sup>21</sup> is also found across sectors in Malaysia.<sup>22</sup> In Turkey, Syrian refugees are estimated to comprise 10% of the apparel workforce,<sup>23</sup> and many of them face exploitative working conditions.<sup>24</sup>

Companies must consider the impact of changing migration flows on apparel supply chains and be proactive and vigilant in ensuring that vulnerable workers are not exploited. Migrant laborers may be deceived about the conditions of their work by recruitment agents and labor brokers and may find themselves trapped in situations of debt:

"She has been at the factory for six months, and has not received a wage slip yet. ... She had been promised INR 7,000-8,000 [approximately US\$96-110] by the agent who recruited her, but received only INR 3,300 [approximately US\$45] in the first month. [The agent] had assured her that the accommodation and food would be free of cost, but after arriving in Bangalore, she found that this was not the case." [Report of a female worker in an apparel factory, India)

Work being done in apparel and footwear supply chains is characterized by weak rule of law, the prohibition of, or limitations on, unionization and collective bargaining, informal home work, illicit subcontracting, low wages, and forced overtime.<sup>26</sup> A highly vulnerable workforce, coupled with poor

<sup>19</sup> Business & Human Rights Resource Centre, "KnowTheChain: Apparel and footwear company disclosure." Accessed 17 October 2018.

<sup>&</sup>lt;sup>20</sup> Forced or compulsory savings refers to a practice where employers deduct up to 30 percent of a foreign worker's salary and place it in a bank account that is in the worker's name, but which workers cannot access until they return home and which employers, in some cases, also use to cover the worker's airfare. The savings therefore act as a "runaway insurance." See Verité (2010), "Vulnerability to Broker-Related Forced Labor among Migrant Workers in Information Technology Manufacturing in Taiwan and Malaysia," p. 30.

<sup>&</sup>lt;sup>21</sup> Labor brokers are agents who provide companies with lower-skilled and immediately available workers.

<sup>&</sup>lt;sup>22</sup> Verité (2015), "The Cost of a Job: Systematic Forced Labor in Asia and What Companies Can Do to Eliminate It," p. 2.

<sup>&</sup>lt;sup>23</sup> Fair Wear Foundation (2017), "FWF Guidance for Members: risks related to Turkish garment factories employing Syrian refugees."

<sup>&</sup>lt;sup>24</sup> Business & Human Rights Resource Centre (2017), "What's changed for Syrian refugees in Turkish garment supply chains?", p. 1.

<sup>&</sup>lt;sup>25</sup> India Committee of the Netherlands, Clean Clothes Campaign, and Garment Labour Union (2018), "<u>Labour without Liberty: Female Migrant Workers in Bangalore's Garment Industry</u>," p. 20.

<sup>&</sup>lt;sup>26</sup> "Textiles and Apparel." Verité "Responsible Sourcing Tool." See also Aljazeera (18 May 2015), "No action as Argentina's illegal sweatshops flourish." Accessed 20 August 2018; India Committee of the Netherlands et al. (2018), "Labour without Liberty," p. 5; Financial Times (2 May 2018), "Garment workers still toil for low pay in Bangladesh." Accessed 18 October 2018; The New York Times (20 September 2018), "Inside Italy's Shadow Economy." Accessed 26 September 2018; Clean Clothes Campaign (2014), "Stitched up: Poverty wages in the garment industry in Eastern Europe and Turkey," p. 53.

and unstable working conditions, make the sector particularly prone to forced labor risks. Whether it's at the final stage of production or deep down a company's long and opaque supply chain, forced labor and egregious abuses manifest in a multitude of ways for companies in the apparel and footwear sector. Risk areas will continue to adapt and change as the industry shifts to lower-cost labor markets where rule of law is frequently weak, and as migrant workers seek better opportunities for their families, who also often fall victim to unscrupulous labor brokers.



## An industry plagued by forced labor risks.

#### Manufacturing



- Various production countries around the globe, including Argentina, Brazil, China, India, Malaysia, Thailand, and Vietnam, are at risk of forced labor.<sup>27</sup>
- Workers in Europe are not immune to the risk of forced labor; in Italy, Chinese laborers have been found
  in situations of forced labor in textile factories.<sup>28</sup>
- In countries including Bulgaria, Macedonia, Moldova, Romania, and Turkey, workers have been denied time off and have had to work overtime beyond legal limits, for "staggeringly low wages."<sup>29</sup>

#### **Below first tier**



- India's Tamil Nadu region accounts for 35-40% of the country's yarn production.<sup>30</sup> These spinners are often hired by employment agencies and promised a lump sum payment at the end of their contract, which can last from three to six years. Such a practice bonds them to their work.<sup>31</sup>
- Some spinning mills source silk threads and fabrics produced using bonded child labor in India.32

#### Raw materials



- Forced labor in cotton picking in countries such as Uzbekistan, Kazakhstan, Tajikistan, Turkmenistan, Benin, Burkina Faso, China, and Pakistan has been identified by the US Department of Labor and Verité.<sup>33</sup>
- In some countries, such as China, Turkmenistan, and Uzbekistan, mandatory cotton picking is still state-sanctioned.<sup>34</sup>
- Migrant workers on rubber plantations in Myanmar, Liberia, and Côte d'Ivoire have been found to be without contracts and have had their passports held by their employers.<sup>35</sup>
- Silk cocoons are cultivated using forced labor in Uzbekistan.<sup>36</sup>
- Workers on cattle ranches are at risk in Bolivia, Brazil, Niger, Paraguay, and South Sudan.<sup>37</sup>

<sup>&</sup>lt;sup>27</sup> Walk Free Foundation (2018), p. 103.

<sup>&</sup>lt;sup>28</sup> US Department of Labor (2018), "Trafficking in Persons Report," pp. 242, 394.

<sup>&</sup>lt;sup>29</sup> Clean Clothes Campaign (2014), pp. 12, 50.

<sup>30</sup> India Committee of the Netherlands (2016), "Fabric of slavery. large-scale forced (child) labour in South India's spinning mills."

<sup>&</sup>lt;sup>31</sup> Deutsche Welle (18 July 2018), "India: Walmart, H&M in spotlight after string of textile workers deaths." Accessed 20 August 2018.

<sup>32</sup> Verité "Responsible Sourcing Tool: Silk."

<sup>33</sup> US Department of Labor (2018), "List of Goods Produced by Child Labor or Forced Labor," pp. 8-14; Verité "Responsible Sourcing Tool: Cotton."

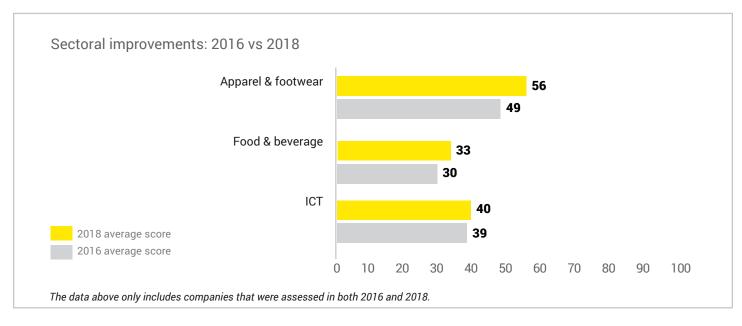
<sup>&</sup>lt;sup>34</sup> Walk Free Foundation (2018), p. 102.

<sup>&</sup>lt;sup>35</sup> Verité "Responsible Sourcing Tool: Rubber." See also Fair Rubber Association (2016), "Low Prices Drive Natural Rubber Producers into Poverty: An overview of sustainability issues and solutions in the rubber sector," p. 15.

<sup>&</sup>lt;sup>36</sup> US Department of Labor (2018), "List of Goods Produced by Child Labor or Forced Labor," pp. 8-14.

<sup>&</sup>lt;sup>37</sup> Ibid. See also The Guardian (18 September 2018), "Forced labour in Paraguay: the darkness at the bottom of the global supply chain." Accessed 18 October 2018.





## Action taken to protect migrant workers from exploitative recruitment practices

Adidas (92/100) and Lululemon (89/100) score significantly higher than others. They are the only companies that score above 75/100 and distinguish themselves in part by their approaches to recruitment and migrant worker protections. For example, Adidas discloses it has conducted training on ethical employment practices for almost 100 second-tier suppliers in Vietnam, Indonesia, China, and Taiwan. Lululemon discloses remedial outcomes for workers in the second tier of its supply chains by ensuring that their identification documents were returned to them. Adidas and Lululemon are the only companies that disclose information on recruitment agencies and require the direct employment of workers in their supply chains, eliminating the risk of exploitation through employment agencies. Both companies also demonstrate stronger action in the lower tiers of their supply chains compared to their peers, disclosing that they audit below the first tier and report on audit outcomes for their second-tier suppliers. They are the only companies to provide evidence that their grievance

It should be noted that KnowTheChain largely focuses on corporate disclosure, which gives an indication of the policies and processes that companies have established. The methodology includes some indicators designed to capture the impact of such policies and processes; however. the benchmark is not reflective of all labor rights issues occurring within apparel and footwear supply chains and should be read alongside other information on the sector, such as allegations with regards to labor and other human rights issues collected by the Business & Human Rights Resource Centre.39

<sup>&</sup>lt;sup>39</sup> See: Appendix 2: Benchmark Methodology, Methodology Changes, and Scoring for more information.

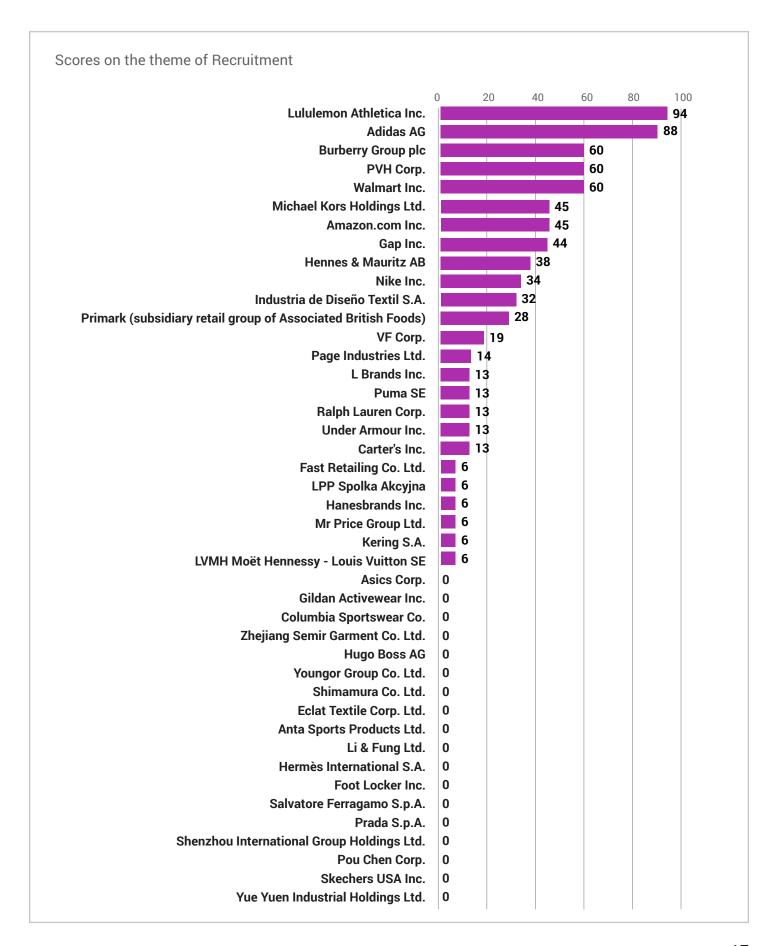
mechanism is accessible to and used by workers in the second tier of their supply chains.

Despite leading practices from companies such as **Adidas** or **Lululemon**, the average score of the benchmark is low, at **37 out of 100**. A key factor is the limited action disclosed on the theme of recruitment. While companies in the apparel and footwear sector may have been working to address labor-related or health and safety issues for some time, action to address the exploitation of migrant workers remains limited. Recruitment is the lowest scoring theme of the benchmark, with an average score of 18/100.

Only four companies provide evidence that they have reimbursed recruitment fees to workers in their supply chains (Adidas, Lululemon, Primark, and Ralph Lauren), and only seven companies provide

"...action to address the exploitation of migrant workers remains limited. Recruitment is the lowest scoring theme of the benchmark, with an average score of 18/100."

It is notable that, in late October 2018, after the research period for this benchmark, the American Apparel & Footwear Association and the Fair Labor Association, on behalf of 123 of their members, published a commitment to responsible recruitment. This is a strong indication that recruitment issues are acknowledged by the industry to be a severe risk. As companies start to integrate this commitment into their policies and practices, we expect more disclosure on this issue.



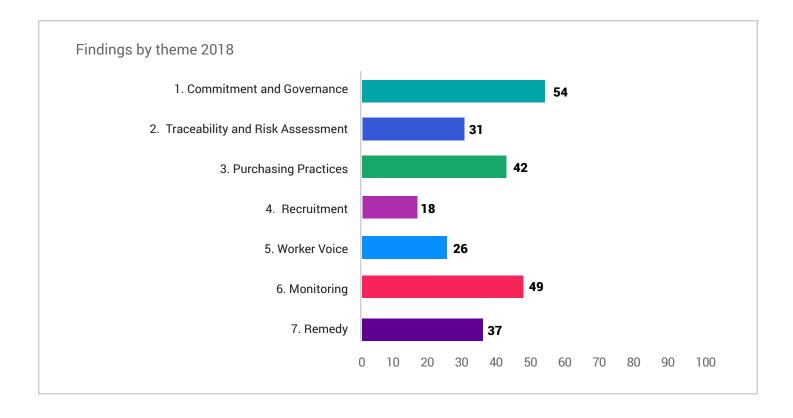
evidence of how they support ethical recruitment in their supply chains, such as by training suppliers on risks related to recruitment agencies or by working with peers to map migrant worker corridors. Companies across subsectors score poorly on recruitment: a total of 18 companies score zero (42% of the companies evaluated in the benchmark), and only five companies score above 50 (Adidas, Burberry, Lululemon, PVH, and Walmart).

Furthermore, although some apparel-producing countries such as Mauritius, Jordan, and Turkey rely on a migrant workforce, 40 benchmarked companies appear to be taking very limited action to address risks for migrant workers in such countries. 41 Only one company references the issue of migrant workers in Mauritius (Puma); two companies disclose action taken to address migrant worker and recruitment risks in Jordan (Adidas and Ralph Lauren), including a risk assessment undertaken specifically on migrant workers in Jordan (Ralph Lauren). An additional four companies (Columbia, Hanesbrands, Puma, and PVH) disclose participation in Better Work in Jordan, an initiative which works toward improving working conditions, including for migrant workers. Six companies disclose how they seek to address risks associated with Syrian refugees in Turkey.

 $<sup>^{\</sup>mbox{\tiny 40}}$  See Introduction: Forced Labor Risks in Apparel and Footwear Supply Chains.

<sup>&</sup>lt;sup>41</sup> Due to the limited disclosure of suppliers and their location by benchmarked companies, it is not possible to determine how many of the 43 companies in the benchmark have supply chain operations based in countries such as Mauritius, Jordan, and Turkey.

## Companies' policies and processes were assessed against seven themes:



- Commitment and Governance: This was the highest scoring theme of the benchmark. The
  majority of companies (33 out of 43) disclose a supply chain standard that addresses forced
  labor. However, only ten companies disclose how they engage with local stakeholders in their
  supply chains on the issue of forced labor.
- Traceability and Risk Assessment:<sup>42</sup> Disclosure on both first-tier supplier lists and sourcing
  countries of raw materials is limited. Moreover, only half of the companies disclose conducting a
  human rights risk assessment on their supply chains. Seven companies disclose risks of forced
  labor identified in different tiers of their supply chains.

<sup>&</sup>lt;sup>42</sup> Risk assessment is defined as a process for assessing a company's potential for complicity in forced labor by virtue of who its suppliers are and where they are located. Risk assessment can be undertaken on a global, national, or local level. Assessments may use information from different sources, including supplier audit results, third-party information on supply chain risks, and risks associated with specific raw materials, countries, or vulnerable groups of workers. Risk assessment should occur in addition to and separately from monitoring and auditing of suppliers.

- Purchasing Practices: Less than half (20 out of 43) of the companies disclose their approach
  to sourcing sourcing raw materials, such as cotton, responsibly (e.g., by using a certification
  scheme that covers forced labor). Notably, companies disclose strong practices relating to how
  they incentivize good labor practices. Twenty-seven companies have a process for assessing
  potential suppliers against the risks of forced labor and 29 disclose how they address the risks of
  subcontracting.
- Recruitment: This was the lowest scoring theme. Only four companies provide evidence that
  they have reimbursed fees to workers in their supply chains, and only seven companies provide
  evidence of how they support ethical recruitment in their supply chains.
- Worker Voice:<sup>43</sup> This was the second-lowest scoring theme of the benchmark. Companies
  demonstrate little effort to promote freedom of association in their supply chains, and, while 27
  companies disclose that they have a grievance mechanism in place available to their suppliers'
  workers, only 13 explain how they communicate the mechanism to those workers.
- Monitoring: The majority of companies (36 out of 43) disclose a supplier audit process. It is
  encouraging to see that 20 out of 43 companies disclose that they conducted some audits below
  the first tier of their supply chains.
- Remedy: Companies generally have corrective action processes in place outlining how they
  work with their suppliers to correct non-compliances identified during audits and to prevent
  them from happening again in the future. However, only five companies disclose how they
  respond to grievances from their suppliers' workers or reports of violations of standards by
  worker representatives. While disclosure on such remedy processes is limited, 15 companies do
  disclose outcomes of remedy for workers in their supply chains.

<sup>&</sup>lt;sup>43</sup> For the purpose of the KnowTheChain's benchmark, "worker voice" refers to how a company engages with workers in its supply chains, enables freedom of association, and ensures access to effective and trusted grievance mechanisms.

## What does the average company look like?

The average company in the benchmark gets a score of 37/100 and it is likely to disclose:

- A supplier code of conduct that incorporates international standards prohibiting forced labor.
- Employee training on forced labor.
- · A policy prohibiting unauthorized subcontracting in its supply chains.
- · An audit process to assess suppliers for incidences of forced labor.

To strengthen its efforts to address forced labor in its supply chains, the average company should:

- Work toward responsible recruitment practices, such as monitoring of recruitment agencies to ensure its suppliers' workers do not have to pay fees.
- Establish a policy prohibiting worker-paid recruitment fees in its supply chains (which includes the <u>Employer</u>
   Pays Principle) and disclose evidence that the fees are reimbursed.
- · Support and empower its suppliers' workers to understand and enforce their rights.
- · Provide evidence that a grievance mechanism is communicated to and used by its suppliers' workers.

## Strong disparities within subsectors

The benchmark shows significant disparities in scores, ranging from 0/100 to 92/100. While the average score is 37/100, few companies scored near the average, with only three companies scoring between 30/100 and 40/100.

These discrepancies are also visible when looking at subsectors:

- Footwear: Companies that derive a significant amount of revenue from footwear tend to either achieve significantly higher-than-average scores (such as Adidas [92/100], Puma [61/100], and Nike [63/100]) or score low (such as Skechers [7/100] or Anta Sports [4/100]).
- Luxury brands: While three luxury companies score above 50/100 (Hugo Boss<sup>44</sup> [62/100], Ralph Lauren [58/100], and Burberry [54/100]), three companies score below 15/100: LVMH (14/100), Salvatore Ferragamo (13/100), and Prada (5/100). Similarly, while Burberry and Michael Kors disclose relatively strong policies on recruitment, six out of nine luxury companies score below 7/100 on recruitment (Kering, LVMH, Hugo Boss, Hermès, Salvatore Ferragamo, and Prada).
- Retailers: Retailers have the most disparity between scores, achieving among the highest scores (such as Lululemon [89/100] or Gap Inc. [75/100]) and the lowest score of 0/100 (Zhejiang, Youngor, and Shimamura).

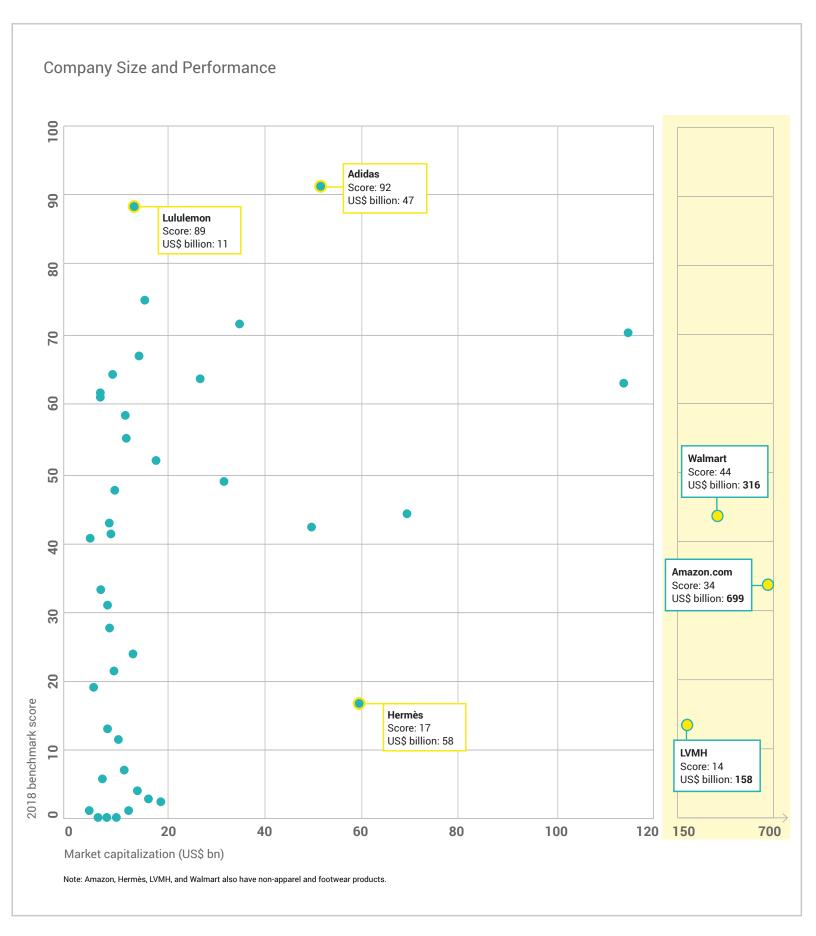
### Size may not have an impact...

There appears to be no correlation between the market capitalization of a company and its ranking. This suggests that, for these 43 assessed companies, market capitalization does not necessarily impact a company's ability to invest in approaches to address forced labor in its supply chains.

## ...But geography does

Regionally, companies in the benchmark based in North America (49/100) and Europe (44/100)

<sup>44</sup> Note: The company describes itself as an "upper premium apparel brand."



achieve significantly higher scores than companies based in Asia (13/100). However, Asian companies in the benchmark are making progress. Both Asian companies included in 2016 and 2018 (Fast Retailing and Shenzhou International) have improved their scores. Five out of the nine Asian companies included in 2018 engaged with KnowTheChain and provided links or additional disclosure about their efforts to address forced labor in their supply chains. That said, particularly in China, the apparel industry will likely grow significantly. Since China replaced its one-child policy with a two-child policy in 2016, the children's apparel industry has become one of the country's fastest growing categories. Demand for luxury apparel in China is growing equally fast. Ghina is expected to become the world's largest apparel market in 2019. With strong demand from Chinese consumers for domestic brands, companies in Asia should take action to ensure that profits are not made by exploiting the workers who make those clothes. Reports also suggest that Chinese brands seek to align with the production standards of European companies and such brands should also seek to align on sustainability standards.

## Action taken in the lower tiers of supply chains

Companies disclose actions taken in the lower tiers of their supply chains to varying degrees—for instance, while only four out of 43 companies disclose a grievance mechanism that is available to workers below the first tier of their supply chains, 20 companies in the benchmark report that they are auditing suppliers below the first tier. Five companies disclose second-tier supplier lists, and six companies disclose that they have conducted training on forced labor for suppliers beyond the first tier of their supply chains. **Ralph Lauren** requires suppliers in its first, second, and third tiers to sign its supply chain standards on forced labor.

Information on companies' supply chains at the raw material level is very limited. Although 20 companies disclose how they are sourcing raw materials such as cotton responsibly, only 11 companies disclose their raw materials sourcing countries. Moreover, only **Adidas** and **Kering** 

<sup>&</sup>lt;sup>45</sup> Market Watch (20 March 2018), "The Children's Place announces license agreement with China's largest children's apparel retailer, Zhejaing Semir Garment Co. Ltd." Accessed 18 October 2018.

<sup>&</sup>lt;sup>46</sup> Bloomberg (26 July 2018), "Kering shares tumble as torrid Gucci demand isn't enough." Accessed 18 October 2018.

<sup>&</sup>lt;sup>47</sup> Shenglu Fashion (28 August 2015), "China to become the world's largest apparel market in 2019." Accessed 18 October 2018.

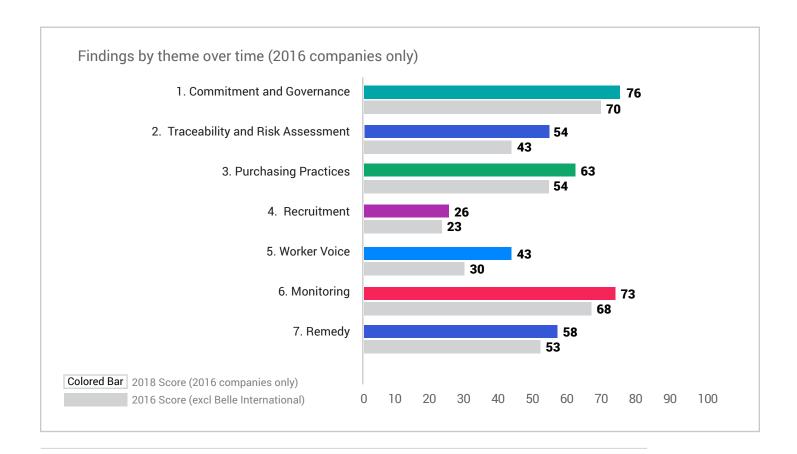
<sup>&</sup>lt;sup>48</sup> Trends show that domestic brands are dominant in the Chinese market, suggesting increasing consumer demand for Chinese-made clothing. EU SME Centre (2017), "Business Opportunities and Challenges in the Textile and Apparel Market in China," p. 14.

<sup>&</sup>lt;sup>49</sup> EU SME Centre (2017), p. 15.

disclose the sourcing countries of the materials at risk of forced labor, such as cotton and rubber. A number of the companies in the benchmark are suppliers to other benchmarked companies. It is concerning that the suppliers score poorly because suppliers such as **Yue Yuen** (1/100), **Eclat Textile** (1/100), and **Shenzhou International** (3/100) supply to many of the largest apparel companies. Even **Li & Fung** (33/100), the highest scoring supplier in the benchmark, scores zero on the theme of recruitment, as do the other five suppliers evaluated in the benchmark. The low scores of the suppliers in the benchmark indicate the need for more effort by brands to cascade their standards effectively beyond the first tier of their supply chains.

## Changes in the benchmark scores since 2016

The average score of the 19 companies assessed in both 2016 and 2018 increased from 49/100 to 56/100.<sup>50</sup> Notably, companies benchmarked in both years achieved higher average scores across all themes:



<sup>&</sup>lt;sup>50</sup> Excluding Belle International, which was included in the 2016 benchmark but not the 2018 benchmark as it was subsequently privatized.

## Improvements since KnowTheChain's 2016 benchmark include the following:

#### **Commitment & Governance**

- Nine companies strengthened the training provided to internal staff and/or suppliers. For example, H&M provided modern slavery training to staff in Cambodia and Vietnam, and Gap Inc. discloses that it conducted training sessions for its suppliers to provide them with an understanding of recruitment issues. Primark launched a mandatory modern slavery training, which was completed by 95% of its suppliers in 2017.
- Ten companies provided more information on stakeholder engagement. For example, Kering
  discloses that it regularly participates in meetings of the Mekong Club, an industry initiative
  focused on addressing modern slavery, and also takes part in the Global Business Coalition
  against Human Trafficking. Further, a number of companies reported engaging with the Turkish
  government or local NGOs to address the risks of exploitation of Syrian refugees in Turkey.

#### **Traceability & Risk Assessment**

- Gap Inc., Hugo Boss, L Brands, Primark, PVH, and VF published supplier lists which include the
  names and addresses of their first-tier suppliers. Three further companies (Fast Retailing,
  Hanesbrands, and Under Armour) disclosed a list of names and addresses for the majority
  of their suppliers. While these companies do not disclose the full list of first-tier suppliers, it
  is notable that an Asian company, Fast Retailing, is among them despite this practice being rare
  in the region. Notably, Nike published a list of the names and addresses of its second-tier
  suppliers.
- Inditex, Kering, Under Armour, and VF have established and disclosed risk assessments on their supply chains that include forced labor.

#### **Purchasing Practices**

- Adidas and Fast Retailing developed responsible purchasing policies.
- Kering integrated its code of conduct into its supplier contracts, and Lululemon and Primark
  disclose the language used to incorporate forced labor provisions into their supplier contracts.

#### Recruitment

- Companies provided more details on recruitment fees: PVH made public its supplier guidelines,
  which prohibit recruitment fees and include provisions regarding migrant workers. Lululemon
  included the Employer Pays Principle in its revised foreign migrant worker standard. Gap Inc.
  discloses that it requires and verifies that workers are reimbursed and that it conducted
  outreach to foreign migrant workers "to get a better understanding of the costs incurred by them
  to attain employment."
- Whereas in 2016, Ralph Lauren was the only company that provided an example of reimbursement of recruitment fees, since then, Adidas, Lululemon, and Primark have also disclosed evidence of reimbursement by disclosing the amount of fees reimbursed to workers.

#### **Worker Voice**

Fast Retailing, Lululemon, and Under Armour established hotlines for their suppliers' workers to
contact the company directly, and Inditex reports that it has set up a hotline for workers in Brazil
as a way to address the risk of exploitation of migrant workers.

#### Monitoring

Nine companies disclose more information on audit outcomes. For example, Adidas discloses
that, in 2017, 46% of audits were unannounced, compared to 26% in 2016. Lululemon discloses
audit outcomes for its second-tier suppliers.

## Remedy

- Four companies disclose more information on their corrective action plan processes.
- Inditex, Lululemon, Primark, and Ralph Lauren disclose one or more example of remedy
  outcomes for workers in their supply chains. Ralph Lauren discloses that it reimbursed fees
  charged to 33 Bangladeshi workers at one of its suppliers in Jordan.

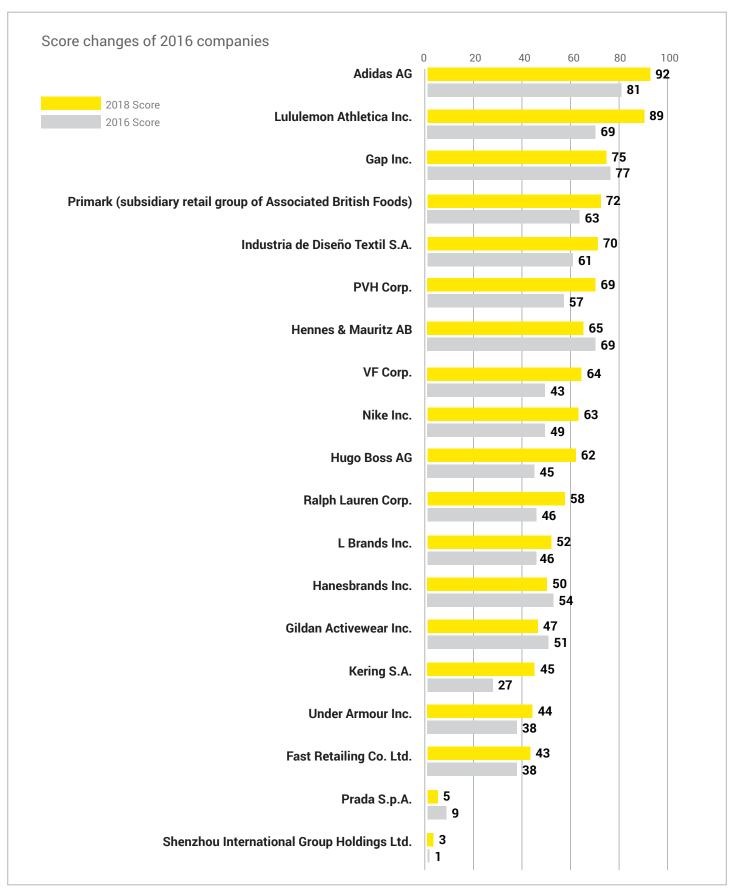
Adidas (92/100) remains the top-scoring company in the benchmark, while **Lululemon** (89/100) overtook **Gap Inc.** (75/100) to secure second place.

Fourteen out of 19 companies benchmarked in 2018 have improved their score since 2016, despite methodology changes which make it more difficult to achieve a higher score. The strongest improvements can be seen from VF, Lululemon, Kering, Hugo Boss, Nike, PVH, and Ralph Lauren, which achieved score increases ranging between 12 to 22 points.

While five companies show limited improvements in their practices since 2016, it is encouraging that all 19 companies improved. By comparison, two companies in KnowTheChain's <a href="ICT benchmark">ICT benchmark</a> and two companies in the <a href="food and beverage benchmark">food and beverage benchmark</a> did not seem to have strengthened their performance and disclosure at all.

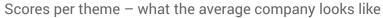
Further, it is encouraging that, regardless of a company's score in 2016, there are examples of improved practices, including:

- Lululemon (69/100 to 89/100) improved, in part, by revising its foreign migrant worker standard to include the Employer Pays Principle and now requires its suppliers to audit recruitment agencies. The company also shared ethical recruitment tools with its suppliers and engaged them on migrant worker rights topics, while disclosing examples of remedy provided to workers. Lululemon further adopted several practices with regards to its second-tier suppliers, including supplier training, supplier agreements to cascade standards, supplier monitoring, and disclosure of audit outcomes. In addition to requiring its suppliers to put in place a grievance mechanism, Lululemon developed its own grievance mechanism and demonstrated that this mechanism is used by workers in the first and second tier of its supply chains.
- VF (43/100 to 64/100) improved its performance and disclosure by working with the Mekong Club, an industry association focused on fighting modern slavery, to educate its suppliers' workers on the risks related to brokers and to identify occurrences of forced labor in its supply chains in Vietnam and China. Further, the company published a supplier list, undertook a human rights risk assessment and unannounced audits, and disclosed examples of remedy outcomes for its suppliers' workers.
- Kering (27/100 to 45/100) improved by disclosing its internal capacity on supply chain labor standards, participating in relevant industry initiatives, undertaking a human rights risk assessment, integrating its standards into its supplier contracts, and verifying implementation



In 2017, KnowTheChain strengthened its methodology, making it more difficult for companies to achieve the same score. If a company did not improve, their score would drop by 8-10 points. All of the above companies improved; a limited drop in score merely indicates that a company improved less strongly than those whose score increased.







## 1. Commitment and Governance

This theme evaluates a company's commitment to addressing forced labor, whether it discloses supply chain standards, and to what extent it has management processes and board oversight, training programs, and engagement with stakeholders<sup>51</sup> on forced labor in place.

Average company score

54/100

Companies' disclosure on the theme of Commitment & Governance is relatively strong. Companies that were benchmarked in both 2016 and 2018 have a significantly higher average score of 76/100 for this theme, showing meaningful improvements since the 2016 benchmark. However, there is little disclosure on how companies engage with stakeholders on the issue of forced labor, in particular with local stakeholders in countries where suppliers operate.

## Commitment and supply chain standards

Twenty-nine out of 43 companies disclose a commitment to addressing forced labor in their supply chains. More than three-quarters of the companies (33 out of 43) disclose a supply chain standard that prohibits forced labor. Thirty-one companies disclose information on how they communicate that standard to their suppliers. **Nike** discloses that it communicates any updates to its standards to both first- and second-tier suppliers. Ten companies do not publicly disclose a supply chain standard.

## **Management and Accountability**

More than half of the companies (28 out of 43) disclose a team, program, or officer with responsibility for human rights in their supply chains, with 23 disclosing that this responsibility extends to overseeing their supply chain standard which covers forced labor. **Walmart**, for instance, reports that

<sup>&</sup>lt;sup>51</sup> This includes engagement with policy makers, non-governmental organizations, workers' rights organizations, other relevant stakeholders, and multi-stakeholder initiatives on the issue of forced labor. Engagement with suppliers alone is not credited under this theme, but is included in other themes throughout the benchmark such as Recruitment and Worker Voice.

it has 190 associates around the world working with suppliers to enforce its supply chain standards. **Columbia Sportswear** discloses that it has manufacturing liaison offices in eight Asian countries, staffed by its direct employees, which, it states, allows it to oversee production as well as monitor its suppliers' compliance with labor standards. Fewer companies reported on accountability at the board level, with 13 companies disclosing detail on board oversight of their supply chain standards on forced labor.

## **Training**

Thirty-one companies disclose that they deliver training to their employees on forced labor, although only 22 make clear that this training is delivered to procurement and sourcing staff. Half of the companies (22 out of 43) disclose that they train their suppliers on their forced labor policies and risks. Further, 13 companies disclose that such trainings are provided for suppliers in different countries or in different tiers. Six companies (Adidas, Asics, Burberry, H&M, L Brands, and Lululemon) disclose training delivered beyond their first-tier suppliers to their second- or third-tier suppliers. L Brands discloses training delivered to it first-, second-, and third-tier suppliers in China, Vietnam, Hong Kong, and Sri Lanka. Since 2016, companies have also strengthened their training programs for both their own staff and their suppliers. Nine companies (Adidas, Gap Inc., Fast Retailing, Hugo Boss, H&M, L Brands, Lululemon, Nike, and Primark) strengthened the training provided to their internal staff or suppliers. For example, H&M provided modern slavery training to its local sustainability staff in Cambodia and Vietnam, and Gap Inc. discloses that it conducted training sessions for its suppliers to provide them with an understanding of recruitment issues. Primark launched a mandatory modern slavery training, which was completed by 95% of its suppliers in 2017.

## Stakeholder Engagement

Disclosure on how companies engage with stakeholders on the issue of forced labor is poor.

More than half of the companies (27 out of 43) provide some information on engagement with stakeholders. However, only ten companies give examples of working with stakeholders on forced labor in local supply chain contexts, and only seven disclose more than one example of doing so.

Nike, for example, discloses that it has engaged with the US embassy in Malaysia, the Malaysian Ministry of Human Resources, and the ILO Malaysia office to learn more about government policies

and ILO initiatives which focus on migrant workers. Adidas discloses that it engaged with local and global NGOs and industry coalitions, as well as meat processors, traders, and apparel brands in Brazil to understand the risk of forced labor in leather sourcing from Brazil and Paraguay.

Companies benchmarked in both years show improvements in their engagements with stakeholders: six companies provided more information on how they have worked with stakeholders, a number of which reported engaging with the Turkish government or local NGOs to address the risks of exploitation of Syrian refugees.

Twenty-seven companies disclose membership in multi-stakeholder initiatives that focus on eradicating forced labor, but only 14 provide detail on how they actively participate in such memberships. This includes initiatives such as the Fair Labor Association, Better Work, and the Mekong Club. VF discloses that it is a member of the Mekong Club and, through its membership, has been educating workers in factories on the risks associated with using labor brokers. It states it is also working with the Mekong Club to ensure it has a program in place to identify instances of forced labor in its Vietnamese and Chinese supply chains.

## **Notable Company Action**

#### **TRAINING**

Adidas discloses that it delivers modern slavery training for its second-tier suppliers from countries at high risk of forced labor. It reports that it has conducted training on ethical employment practices for almost 100 second-tier suppliers, including knitters, spinners, tanneries, dye-houses, and fabric mills in Vietnam, Indonesia, China, and Taiwan.

#### STAKEHOLDER ENGAGEMENT

**Inditex** discloses that, as part of the Global Framework Agreement with IndustriALL Global Union, it has set up dialogue forums in 12 countries in which its suppliers operate, through which it engages with local unions, NGOs, workers associations, and governments to improve its engagement with suppliers. The company discloses that one focus area is forced labor and ensuring that its labor standards are applied locally.

## **Recommended Company Action**

**Stakeholder Engagement:** Engage with local stakeholders such as unions, policy makers, or workers' rights organizations on the issue of forced labor in countries in which suppliers operate.

**Training:** Ensure suppliers across sourcing countries and tiers are trained on forced labor risks, indicators, and relevant standards.

## 2. Traceability and Risk Assessment

This theme measures the extent to which a company demonstrates an understanding of its suppliers and their workforce by disclosing relevant information (such as supplier names or sourcing countries) and assesses and discloses forced labor risks across its supply chains.

Average company score

31/100

Traceability and risk assessment is among the lower-scoring themes of the benchmark. Disclosure on traceability is limited, showing a lack of both first-tier supplier lists and information on sourcing countries of raw materials. Less than half of the companies disclose conducting a human rights risk assessment on their supply chains. However, companies benchmarked in both 2016 and 2018 score an average of 54/100 (increasing from 43/100 in 2016), demonstrating that they have improved their performance on this theme.

## **Traceability**

Thirteen out of 43 companies disclose a supplier list comprising the names and addresses of their first-tier suppliers. While this number remains low overall, it marks a significant improvement since 2016. Since KnowTheChain's 2016 benchmark, **Gap Inc.**, **Hugo Boss**, **L Brands**, **Primark**, **PVH**, and **VF** have published supplier lists which include the names and addresses of their first-tier suppliers.

Since KnowTheChain's 2016 benchmark, Gap Inc., Hugo Boss, L Brands, Primark, PVH, and VF have published supplier lists.

Five companies disclose second-tier supplier lists (Adidas, Inditex, H&M, Nike, and Puma). H&M discloses the names and addresses of some second-tier suppliers, namely fabric and yarn mills. Seven companies disclose the countries in which their lower-tier suppliers are based, such as fabric and yarn mills and wet process suppliers. Encouragingly, 18 out of 43 companies disclose some information on their suppliers' workforce, showing some understanding of the demographics of the workers in their supply chains. Companies most commonly report on the number of workers per supplier, or a range of the number of workers per factory. Lululemon discloses estimations of the number of workers per supply chain tier (including finished goods, fabric mills, and second-tier subcontractors), the gender distribution of workers, and the number of migrant workers. Notably, Nike reports the number of workers per supplier, including the percentage of both women and migrant workers employed.

Only a quarter of the companies (11 out of 43) disclosed information on the sourcing countries of raw materials at risk of forced labor in their supply chains. The information provided tended to be very limited. Moreover, **Adidas** and **Kering** were the only two companies to give detail on where they source their materials. **Adidas** discloses the sourcing countries of 90% of its leather, all of its natural rubber, and its cotton. **Kering** discloses the sourcing countries of leather (both bovine and lamb leather) and cotton.

## Less than half of the companies (21 out of 43) disclose that they conduct a human rights risk assessment on their supply chains.

#### **Risk Assessment**

Less than half of the companies (21 out of 43) disclose that they conduct a human rights risk assessment on their supply chains. This is disappointing, as risk assessments are essential to both understanding and addressing forced labor risks posed to workers in a company's supply chains. However, since the 2016 benchmark, Inditex, Kering, Under Armour, and VF have established and disclosed a risk assessment on their supply chains that includes forced labor. Seventeen companies make clear that they assess forced labor risks as part of a risk assessment and ten companies provide detail on the process, for example by disclosing the sources they use or particular indicators included. Primark, for example, discloses that it assesses forced labor risks in its supply chains using four sources: external reports, audit findings, consultation with stakeholders, and consultation with workers in its supply chains. Ralph Lauren discloses risk assessments focused on specific issues in its supply chains, including migrant workers in Jordan and Sumangali schemes<sup>52</sup> in India.

Seventeen out of 43 companies disclose risks of forced labor that they have identified in their supply chains. However, only seven companies name forced labor risks that exist in different tiers of their supply chains, demonstrating a more comprehensive understanding of the risks posed to their suppliers' workers. **Gap Inc.**, for example, discloses forced labor risks identified in cotton from Brazil, silk and cotton from Uzbekistan, and leather from Bangladesh. It additionally states that it has identified Syrian refugees as an at-risk population, as well as workers in the garment industry in Tamil Nadu in India. The company more broadly highlights the risks of unauthorized subcontracting and the hiring of foreign contract workers in the Middle East, Asia, and Southeast Asia. **Adidas** points to forced labor risks in leather tanneries in China, Indonesia, and Vietnam and risks in raw material sourcing including with cotton, natural rubber, and leather. The variety of different risks identified by disclosing companies illustrates the endemic nature of forced labor throughout the sector's supply chains.

<sup>&</sup>lt;sup>52</sup> The Sumangali scheme is a form of bonded labor whereby young girls are entered into contract with labor brokers to work in factories. Wages are typically very low and working hours are long. The girls may be promised a lump sum at the end of their contract. See Fair Wear Foundation (2010), "Sumangali scheme and bonded labour in India."

#### **Notable Company Action**

#### **TRACEABILITY**

Adidas discloses lists of suppliers of apparel and footwear products that it has used for specific events, including the 2018 FIFA World Cup Russia, the 2016 UEFA European Championship, the 2014 FIFA World Cup Brazil, and the 2012 London Olympic Games. The lists indicate whether trade unions or worker representation was in place at each factory.

#### **RISK ASSESSMENT**

**Inditex** discloses that it conducts a human rights risk assessment on its global supply chains by engaging with local communities to evaluate risks. It states that it takes geographical and socio-cultural factors into account, including gender, migrant labor, and young workers.

#### **Recommended Company Action**

**Traceability**: Disclose a full list of sourcing countries for each commodity and information on the supply chain workforce (such as the number of workers or a gender or migrant worker breakdown).

**Risk Assessment:** Undertake human rights risk assessments which evaluate supply chains for forced labor risks, for example, on specific raw materials, regions, and/or groups of workers.

#### 3. Purchasing Practices

This theme assesses to what extent a company adopts responsible purchasing practices and integrates supply chain standards into supplier selection and supplier contracts. It also evaluates whether a company cascades its standards down its supply chains and addresses forced labor risks related to subcontracting.

Average company score

42/100

Purchasing practices is among the higher-scoring themes of the benchmark. However, less than half of the companies disclose how they are implementing responsible purchasing practices and sourcing raw materials responsibly (i.e., mitigating the risks of forced labor and human trafficking at the raw materials level), and less than half have a policy that requires standards to be cascaded beyond the first tier of their supply chains.

#### **Purchasing Practices**

Twenty out of the 43 companies disclose the steps they are taking toward the responsible sourcing of raw materials. Responsible raw material sourcing may be undertaken by engaging with initiatives that conduct due diligence at the raw material level, engaging with farmers at the raw material level, or by sourcing raw materials through certifications which include forced labor criteria. Eleven companies disclose that they source cotton through the Better Cotton Initiative (BCI), a certification which requires farms to adhere to a set of standards that includes the promotion of decent work according to the ILO core conventions. Some of these companies disclose the percentage of cotton sourced through this initiative, such as H&M, which reports that, in 2017, it sourced 47% of its cotton through BCI. Thirteen retail brands and two luxury brands state that they have banned cotton sourcing from Uzbekistan, either independently or through signing the Responsible Sourcing Network's Pledge. 53 A few companies make reference to responsible sourcing of other raw materials

<sup>&</sup>lt;sup>53</sup> For more information, see Cotton Campaign, "Uzbekistan's Forced Labor problem." Accessed 25 October 2018.

such as leather and rubber. **Adidas** discloses that it requires its leather suppliers in Brazil to ensure that cattle farms used for its leather meet the requirements of the National Pact on the Eradication of Slave Labor. Additionally, it states it will suspend any suppliers listed on the Brazilian government's "dirty list," which catalogs companies found to be using forced labor.

Less than half of the companies (21 out of 43) disclose some information on responsible purchasing practices for the first tier of their supply chains. Ten of these companies provide detail on their approach to responsible purchasing practices and how it is implemented. Nike discloses that it engages with Better Buying, an initiative that works with suppliers to examine how the purchasing practices of buyers may impact their financial, social, and environmental sustainability. The company invited its first-tier suppliers to take part in Better Buying's survey on buyers' purchasing practices.

Primark discloses that it trains its buyers on responsible purchasing practices and how their purchasing decisions can have commercial and human rights impact. Primark is also a member of the standard-setting Prompt Payment Code, which requires signatories to pay their suppliers on time and discloses that it pays all suppliers within 30 days.

Notably, 12 companies disclose details on how they reward their suppliers' good labor practices. While this number is low, it is significantly higher than companies benchmarked in the ICT and food and beverage sectors. Several companies state that they use a rating system that evaluates suppliers on their compliance with their standards, including those on forced labor. They disclose that this analysis is used in their purchasing decisions. For example, **H&M** states that it rewards suppliers who perform well against its standards with more orders, training opportunities, and long-term contracts. **Gap Inc.** reports using assessments to identify or select preferred suppliers that receive preferential treatment and consistent orders over two to three years. **Inditex** discloses that suppliers with the highest ratings on social audits account for 95% of its purchasing in 2016, showing that its purchasing practices directly correlate to suppliers with the highest degree of compliance with its standards. It states that its buyers use supplier audit ratings when deciding where to place orders.

#### **Supplier Selection**

More than half of the companies (27 out of 43) report that they assess potential suppliers for risks of forced labor before entering into a contract with them. However, only 11 companies provide detail on this process or report on the outcomes of such audits. For example, **Gildan** discloses that, in

2017, it assessed 23 potential suppliers, of which 14 were unable to demonstrate compliance with the company's standards and were therefore excluded from the selection process. As part of its assessment process, it discloses that it interviews workers to detect any indicators of forced labor or underage employees.

Twenty-nine out of 43 companies disclose a policy prohibiting unauthorized subcontracting in their supply chains. Twelve companies give detail on how they enforce this policy. Since this practice is commonplace in the apparel and footwear sector, it is disappointing that so few companies disclose details on how they implement this policy and prevent unauthorized subcontracting. **Inditex's** supply chain policy requires suppliers to declare all facilities and processes used to make each garment. To verify that production occurred onsite, the company conducts traceability audits, assessing the information provided by the supplier, comparing the audit to their production capacity and the time it took to complete the order. The company reports that it blacklisted nine suppliers for failing to comply with its requirements, demonstrating that it implements this policy to address unauthorized subcontracting.

#### **Integration into Contracts and Cascading of Standards**

The number of companies disclosing how they enforce their supply chain standards on forced labor is low. Half of the companies (23 out of 43) state that they integrate their supply chain standards on forced labor into contracts. However, only four companies (Gap Inc., Lululemon, Primark, and PVH) disclose the language used in such contracts. Nineteen companies disclose a supply chain standard that requires their first-tier suppliers to cascade standards to lower-tier suppliers. An additional ten companies state that they require, or that they encourage, their suppliers to cascade standards, but do not disclose the means by which they do so. Lululemon's supplier agreements require that its first- and second-tier suppliers ensure that their own suppliers implement standards aligned with its supply chain standard. Apart from conducting on-site assessments on second-tier suppliers, the company monitors the compliance of high-risk subcontractors through audits.

#### **Notable Company Action**

#### **PURCHASING PRACTICES**

Adidas discloses that it scores its suppliers' factories each year on their compliance with its supply chain standards. It states that this includes a review of the suppliers' management systems, communication, training, compliance, audit performance, leadership in collecting worker feedback, and remediation. The scores are used by the company's sourcing managers to determine the number of audits the factory should receive in the future.

**Puma** discloses that it partnered with the International Finance Corporation to create a financing program for its suppliers to incentivize them to improve social and other standards. Through this program, it states it will offer working capital to suppliers that achieve higher sustainability standards.

**PVH** discloses that it launched a Responsible Business Practices program in 2017 aimed at ensuring that it is not inadvertently putting its suppliers under undue pressure that may lead to violations of its code of conduct, such as excessive overtime hours. It reports that it collaborated with one of its suppliers to develop training on purchasing practices and a case study to highlight the effects of forecast accuracy on worker pay and factory utilization. It states that participants in the training had to conduct a root cause analysis of the case study to explore how improved forecasting and clear order projections can enable suppliers to plan production effectively and improve working conditions.

#### **Recommended Company Action**

**Purchasing practices**: Take steps to mitigate the risks resulting from purchasing practices, such as lack of provision of purchasing forecasts to suppliers, and incentivize good labor practices, for example through longer-term contracts, increased orders, or financial incentives.

**Cascading standards**: Require first-tier suppliers to ensure that their own suppliers implement standards that are in-line with the company's standards addressing forced labor and take steps to ensure that standards are cascaded down.

#### 4. Recruitment

This theme measures a company's approach to reducing the risk of exploitation of supply chain workers by recruitment agencies, eliminating workers' payment of fees during recruitment processes throughout its supply chains, and protecting the rights of migrant workers.

Average company score

18/100

Recruitment is the lowest scoring theme of the benchmark. Although some leading companies demonstrate stronger practices in relation to recruitment, no company achieved a full score under this theme.

#### **Recruitment Approach**

Adidas and Lululemon are the only companies that disclose a policy requiring the direct employment of workers in their supply chains, thereby eliminating the risks associated with the use of employment agencies. Nike and Burberry have provisions that encourage suppliers to employ workers directly, but they do not require this practice. Generally, benchmarked companies do not disclose information on the recruitment agencies used by their suppliers, though six companies do describe mapping processes that they have in place to ascertain where such agencies are based. Similarly, only three companies (Adidas, Amazon, and Page Industries) disclose policies which clearly require both employment and recruitment agencies in their supply chains to comply with their supply chain standards or policies on forced labor. An additional five companies have policies which require either employment or recruitment agencies to comply with their standards.

#### **Recruitment Fees**

Of the 43 companies evaluated, only ten disclose a policy that prohibits worker-paid recruitment fees in their supply chains. These policies include the <u>Employer Pays Principle</u>, which specifies that the costs of recruitment should be borne by the employer, not the worker. This is an unacceptably

low number, given the clear risks associated with recruitment fees and their potential to render workers vulnerable to bonded labor. While 11 companies disclose that they require such fees to be reimbursed to workers, only four companies (Adidas, Lululemon, Primark, and Ralph Lauren) disclose evidence that recruitment fees have been reimbursed to workers. Adidas reports that it reimbursed unlawful fees to Burmese workers at a supplier factory in Malaysia. The fees had been deducted from workers' wages for transportation, forced savings, and illegal termination. It discloses that it worked with the factory in question to reimburse RMB4,500 (approximately USD\$650) to each worker and reinstated the workers' employment. Other companies describe the means by which they seek to ensure that fees are repaid to workers. Gap Inc. reports that it verifies that fees are reimbursed when it discovers that fees have been paid by workers in its supply chains. The company also reports that it conducts outreach to foreign migrant workers "to get a better understanding of the costs incurred by them to attain employment" and uses this information to estimate the amount that it requires employers to reimburse to workers.

#### **Ethical Recruitment**

Thirteen companies disclose some provisions to ensure the monitoring of recruitment and employment agencies used by their suppliers. However, only four provide evidence that such monitoring has taken place. For example, **Lululemon** discloses that recruitment agencies used by ten out of 19 suppliers known to use foreign migrant workers have been reviewed by Verité.

Only seven companies describe how they support ethical recruitment in their supply chains, such as by training suppliers on ethical recruitment or implementing a screening process for recruitment agencies. Lululemon discloses that it has launched a plan to achieve "no fees" paid by workers in Taiwan by the end of 2019. It discloses supplier training on ethical recruitment delivered in Taiwan, China, and Vietnam, and notes that it provided suppliers with tools and guidance to achieve ethical recruitment. These tools include a recruitment agency screening, an evaluation and selection tool, a sample "no fees" approach and implementation plan, and direct and indirect hiring cost comparison tools. The company also participates in the Foreign Migrant Worker Brand Collaborative, a group of six apparel and footwear companies collaborating on the monitoring and remediation of forced labor issues in shared facilities. Only one company, Walmart, discloses membership in the Leadership Group for Responsible Recruitment. As a member of this group, Walmart is required to map supply

chains for recruitment risk, offer guidance and training for hiring managers on the Employer Pays Principle, share tools and guidance, and promote the Employer Pays Principle among its peers.

#### **Migrant Workers' Rights**

Only three companies (Adidas, H&M, and Lululemon) provide evidence of how they work with their suppliers to ensure that migrant workers' rights are respected, beyond providing training or policy commitments. Lululemon discloses that its suppliers were involved in the development of its Foreign Migrant Worker policy and the Implementation Roadmap for this policy.

A disappointing number of companies have provisions in place for addressing common indicators that can lead to situations of forced labor only 12 companies have policies that require suppliers to take steps to ensure that workers understand the terms and conditions of their employment and labor rights. Only five describe how they ensure that migrant workers are not discriminated nor retaliated against when raising grievances. Twenty companies disclose policies that prohibit passport retention, which is often used to restrict workers' freedom of movement.

#### **Notable Company Action**

#### **RECRUITMENT FEES**

**Lululemon** discloses that it discovered, in 2017, that a supplier was not reimbursing airfare costs to workers, as had been agreed in labor contracts. It states that it partnered with another brand to engage with the supplier and ensure that costs were reimbursed to workers.

#### **ETHICAL RECRUITMENT**

Adidas discloses that, as part of its partnership with the Mekong Club's Apparel and Footwear Working Group, it is developing a migrant corridor mapping tool. Brands that are participating agree to share data on migration corridors and recruitment fees in their supply chains. This information is used to map labor supply chains from a sending-and-receiving country perspective.

#### **Recommended Company Action**

**Recruitment Fees:** Ensure that no fees are charged to workers in supply chains and incorporate the Employer Pays Principle into policies to ensure that the costs of recruitment are borne by the employer and not the worker. Require fees to be repaid when charged and publish evidence that these policies are being implemented.

**Ethical Recruitment:** Support ethical recruitment in supply chains, for example by collaborating with peers to share findings on recruitment issues, such as the cost of recruitment between two countries or information on recruitment corridors or working with suppliers to provide capacity-building for recruiters.

#### 5. Worker Voice

This theme measures the extent to which a company engages with workers in its supply chains on labor rights, enables freedom of association, and ensures access to effective and trusted grievance mechanisms.

Average company score

26/100

Worker voice is among the lowest scoring themes of the benchmark. Less than half of the companies disclose a grievance mechanism accessible to their suppliers' workers and other stakeholders. There is a lack of disclosure by companies on how they are attempting to improve freedom of association for workers in their supply chains.

#### **Worker Voice**

Eighteen companies disclose efforts taken to engage directly with workers in their supply chains. Eleven make clear that such efforts are focused on labor rights, and seven companies are able to provide multiple examples of worker empowerment in different supply chain contexts. For example, **L Brands** discloses that it is engaged with the NGO Pacific Links as part of the Factory Awareness to Counter Trafficking program, which includes workshops on human trafficking for workers, managers, and factory owners in its supply chains, and helps "to establish ethical practices in worker recruitment and retention." The company reports that it has enabled more than 10,000 workers and managers to access this training. **Asics** discloses that, through its engagement with Better Work, it works with its suppliers to provide training to workers in its supply chains on their labor rights. It has delivered such training to factories in Sri Lanka.

Primark is the only company to disclose a worker-to-worker education initiative in its supply chains; it has partnered with the NGO SAVE to introduce Worker Education Groups in Tirupur to make inter-state migrants in southern India aware of relevant local laws and their workplace rights. Four companies disclose evidence of the positive impact of engaging with their suppliers' workers. Gap Inc. discloses that surveys have provided feedback that workers whom it engaged with—in partnership with Better Work—now feel more comfortable reporting concerns and believe that workplace grievances are being resolved more effectively than before. The company also discloses data from worker surveys which show that its suppliers' workers' feelings of value and engagement and their rating of management practices have largely increased since it began its worker-engagement program.

#### Freedom of Association

Companies in the sector do not typically engage with suppliers or unions on the issue of freedom of association in their supply chains. However, it is clear that apparel and footwear companies are taking more action on this theme than companies evaluated in the ICT and food and beverage benchmarks, where fewer than five companies disclose working with suppliers to support freedom of

association in their supply chains.

Some leading apparel and footwear companies demonstrate good practices relating to freedom of association. Ten companies report that they work with their suppliers to improve their practices regarding freedom of association, and six companies provide evidence that they have improved freedom of association for their suppliers' workers by disclosing examples of actions taken in different supply chain contexts. Adidas reports that, in countries where independent trade unions are able to form, more than 80% of its suppliers have unions. It states that, in Indonesia, 90% of its suppliers are unionized and 80% have collective bargaining agreements in place; additionally, 100% of its Brazilian suppliers are unionized and have individual, collective bargaining agreements in place. The company also discloses several remedial actions taken in relation to freedom of association in response to complaints submitted through its grievance mechanism. For example, the company reports that one of its Cambodian suppliers agreed to reinstate union leaders who appeared to have been demoted due to their union membership to their previous positions and to pay back deducted wages and benefits.

Li & Fung discloses an industrial relations project developed in collaboration with the NGO Just Solutions for its Bangladeshi suppliers. The project includes training for middle management on topics including freedom of association, participation committees, and grievance mechanisms. The project has been piloted in 232 factories, and the company has committed to expanding it in 2018. Twelve companies work with local or global trade unions to support freedom of association in their supply chains. H&M reports that it met with IndustriALL in Bangkok to discuss the progress and challenges of the Global Framework Agreement, which the company first signed in 2015. The company discloses that it has set up National Monitoring Committees in its production countries to implement the Global Framework Agreement, composed of local IndustriALL trade union representatives and H&M representatives. Only six companies (Adidas, Burberry, Gap Inc., H&M, Inditex, and Ralph Lauren) provide information on how they ensure alternative forms of organizing in locations where freedom of association is constrained or prohibited.

#### **Grievance Mechanisms**

Twenty-seven out of 43 companies disclose a grievance mechanism which is available to their

suppliers' workers. However, only 17 companies disclose a grievance mechanism which is accessible to suppliers' workers and also to other stakeholders, such as unions or local NGOs. This includes hotlines which allow complainants to contact the company directly, a requirement for suppliers to have such hotlines in place, and mechanisms operated by external third parties. Since 2016, **Fast Retailing**, **Lululemon**, and **Under Armour** have established hotlines for their suppliers' workers to contact the company directly. Only 13 companies disclose how they communicate the mechanism to their suppliers' workers. **H&M** distributes its contact details to local trade unions, which can then provide the details to its suppliers' workers. It states that any grievances are followed up on by local teams in the country, often in collaboration with IndustriALL.

Some leading companies disclose grievance mechanisms which they have set up with a view to addressing specific risks in their supply chains. **Burberry** discloses that it has introduced confidential, NGO-run hotlines in southern China since access to grievance mechanisms is a particular challenge for workers in the region. It states that the hotline provides a means of submitting complaints as well as offering emotional support and information on labor rights. Since 2016, **Inditex** reports that it has set up a hotline for workers in Brazil to address the risk of exploitation of migrant workers. Disclosure of data on grievances and the operation of the mechanism is poor, with only seven companies reporting on the type and number of grievances filed. **Puma** discloses that, in 2017, it received 81 complaints from its suppliers' workers, which included issues related to fair compensation (43%), employment relationship (35%), and excessive working hours (7%). It further discloses it received ten grievances from third-party organizations, focusing on freedom of association (46%) and fair compensation (18%) in its supply chains. Disclosing such information allows stakeholders to understand whether a company's grievance mechanism is effective and used by workers in its supply chains.

Only four companies (Adidas, Lululemon, Under Armour, and VF) show that their grievance mechanisms are available to and used by workers below the first tier of their supply chains.

#### **Communication of Policies**

Less than half of companies (20 out of 43) disclose that their supply chain standard addressing forced labor is available in the languages of their suppliers' workers, and only ten publish the policy

in those languages on their websites. Twenty-four companies provide some information on how they ensure their supply chain policies are communicated to workers in their supply chains, such as by displaying posters within supplier facilities. **Primark**, for example, discloses that it has worked with local NGOs in China, Bangladesh, and India to develop posters for factories which visualize the principles of its supply chain standard.

#### **Notable Company Action**

#### **FREEDOM OF ASSOCIATION**

**Nike** discloses that it advocates for legislative reform on freedom of association in Mexico with a view to achieving full protection for workers' rights. It states that it has engaged in dialogue with the national government in collaboration with the Fair Labor Association and other brands and retailers.

#### **GRIEVANCE MECHANISM**

Adidas discloses that it partnered with Labor Voice to provide a grievance mechanism for second-tier suppliers, available in both Turkish and Arabic, as part of its efforts to address forced labor risks associated with Syrian refugees. It also discloses that, for third-tier suppliers at farm-level production, workers have access to Better Cotton Initiative's complaint mechanism in the countries in which the Initiative operates.

#### **Recommended Company Action**

**Grievance Mechanism:** Ensure grievance mechanisms are in place and communicated to both suppliers' workers and external stakeholders such as local NGOs. Demonstrate their effectiveness by disclosing data on the operation and use of the mechanism by suppliers' workers or their representatives.

**Worker Voice:** Work with stakeholders to engage with workers in supply chains to ensure they understand and are able to exercise their labor rights. Engagement could be undertaken in collaboration with suppliers, local labor NGOs, and/or unions. When using technologies such as mobile phone apps to engage suppliers' workers, companies may wish to consider following the <u>WEST Principles</u> to ensure meaningful engagement.

#### 6. Monitoring

This theme evaluates a company's process for auditing suppliers, including whether audits include non-scheduled visits, review relevant documents such as wage slips or contracts, interview workers, and audit lower-tier suppliers and provide disclosure on the outcomes of supplier audits.

Average company score

49/100

Most companies in the benchmark disclose an audit process for their suppliers that includes labor standards. However, company disclosure tends to focus on reporting on the audit process rather than disclosing outcomes of the audits and how they work in practice. It is encouraging that 20 out of 43 companies disclose that some audits have been conducted on suppliers below the first tier.

20 out of 43 companies disclose that some audits have been conducted on suppliers below the first tier.

#### **Auditing Process**

The majority of the companies (36 out of 43) disclose a supplier audit process that includes assessment against social standards, such as labor rights. However, fewer companies report on the detail of such processes. Eighteen companies describe what documents they review as part of audits and 20 report that audits include assessments of worker housing or dormitories when visiting site facilities. For example, **Michael Kors** discloses that it will review records of all migrant workers at a facility, including contract terms, copies of employment agreements, employment history, anticipated and actual date of return, any recruitment fees that have been paid, and agreements with agencies or brokers. **Puma** discloses detailed requirements for break areas, canteens, changing rooms,

dormitories, and other welfare facilities. It reports that it inspects dormitories, shower and toilet facilities, kitchen and dining areas, and any facilities outside of the factory premises during audits. Twenty-nine companies disclose that they conduct interviews with workers as part of their audits. Burberry, for example, conducts confidential interviews with workers selected at random, but it states that those interviewed must include union and worker representatives and migrant workers. Ralph Lauren reports that, where it audits a supplier that employs foreign migrant workers, it expands the scope of its audit to ensure that there is a proportionate number of migrant workers included in both document reviews and worker interviews. It further states that, as part of its audits, it conducts worker interviews in the workers' language, individually and with a group.

Unannounced audits appear to be commonly used in the sector, with 25 out of 43 companies disclosing that they conduct unannounced audits. Notably, 20 companies disclose that they audit some suppliers beyond the first tier of their supply chains. **VF** discloses that it audits some strategic second-tier suppliers, including cutting facilities, sewing plants, screen printers, embroiderers, laundries, licensee factories, and key fabric mills.

#### **Audit Disclosure**

There is a pattern in company disclosure across themes which shows that, while companies often report on the policies or processes they have in place, there is a lack of detail disclosed on how such processes work in practice. Only 17 companies disclose the percentage of suppliers audited annually; 11 companies report the number or percentage of workers interviewed during audits and 11 disclose the percentage of unannounced audits. For example, **Adidas** discloses that, in 2017, 46% of audits were unannounced, compared to 26% in 2016.

More than half of the companies (23 out of 43) report on the quality of their auditors, disclosing information on the expertise of their auditors in relation to forced labor and human rights. **Lululemon** discloses that its in-house auditors have a minimum of ten years' experience with combined qualifications including the Social Accountability International SA8000 Standard, Responsible Business Alliance (RBA), and Worldwide Responsible Accredited Production (WRAP); the auditors receive training annually and have also undertaken forced labor-specific training.

Eighteen companies disclose a summary of their audit findings, including detail on any violations discovered during supplier audits. **Gap Inc.**, for example, states that it found 0.4% of violations were related to forced labor across 855 supplier facilities in 2017. It also discloses audit findings relating to an absence of contracts for migrant workers and workers that did not have the required travel or employment documentation. Since 2016, nine companies have disclosed more information on audit outcomes, including **Lululemon** which has disclosed audit outcomes for its second-tier suppliers.

#### **Notable Company Action**

#### **AUDIT PROCESS**

Puma discloses that it audits some second-tier and third-tier suppliers, including leather tanneries.

**Ralph Lauren** states that 70% of its audits were unannounced and that the percentage of workers interviewed during each audit is based on the size of the factory, and should be 5% or more (i.e., 25 interviews at a factory with 500 workers).

#### **Recommended Company Action**

Audit Process: Undertake unannounced audits and audit suppliers below the first tier.

**Audit Disclosure:** Disclose the number or percentage of suppliers audited and workers interviewed as part of those audits, thus demonstrating that workers form an integral part of audits, increasing their effectiveness. Publish a summary of audit findings, including the number and type of violations per category.

#### 7. Remedy

This theme measures the extent to which a company has corrective action plans and processes for non-compliant suppliers and ensures remedy is provided to workers in its supply chains who are victims of forced labor. Publicly available allegations of forced labor in a company's supply chains that occurred in the past three years, and how a company has responded to and addressed those allegations, are also assessed as part of this theme.

Average company score

37/100

Companies typically disclose a corrective action process and outline some steps they take when their suppliers fail to implement corrective actions. However, disclosure on a remedy process and outcomes of remedy for their suppliers' workers is poor, with the majority of companies failing to provide any information on how they respond to allegations of labor rights violations in their supply chains.<sup>54</sup>

#### **Corrective Actions**

The majority of companies (32 out of 43) disclose a corrective action process that is used to remediate supplier non-compliances identified during audits. Twenty-nine companies describe how they verify that corrective action plans are being effectively implemented, such as through follow-up audits. Twenty-six companies disclose consequences for suppliers that fail to implement corrective actions, the majority of which refer to the termination of business with the supplier. Li & Fung discloses further detail, reporting that, when it ends business with suppliers that fail to implement corrective actions, it agrees on "responsible exit plans" with those suppliers. It states that it discontinued relationships with 2% of its suppliers in 2017.

<sup>&</sup>lt;sup>54</sup> It should be noted that, while allegations of forced labor were identified in the supply chains of benchmarked companies, none were included in this assessment as they did not meet the KnowTheChain threshold for forced labor; i.e., the allegations did not meet several ILO indicators of forced labor. Please see Appendix 2: Benchmark Methodology, Methodology Changes, and Scoring for more information.

Ten companies provide a summary or an example of their corrective action process in practice. **Ralph Lauren** discloses that it found that a supplier was using monetary fines as a disciplinary practice. As such, it recommended that management adopt controls to prevent the use of fines as disciplinary action. It states that the factory committed to issuing warning notices and educating its staff on the issue. The company verified that fines had stopped in a follow-up audit.

#### Remedy

Far fewer companies disclose information on their remedy process for responding to and addressing grievances or allegations of labor rights violations in their supply chains, such as identifying responsible parties, approval procedures, timelines for dealing with allegations, and how they engage with affected stakeholders. Only five companies (Adidas, Hanesbrands, Lululemon, VF Corp, and Walmart) provide some information on this process. Hanesbrands reports that its grievance mechanism is initially managed by a third-party service, Navex Global, which immediately notifies the company if there is a grievance filed. A small team of trained personnel will receive these grievances and prioritize them. Cases are then assigned to trained investigators; typically there is a code of conduct officer assigned by the company in every country where it has operations. It discloses that each issue is "fully investigated" and reported back to headquarters with a recommendation for next steps, and reviewed again by the headquarters team before disciplinary measures are taken. For issues of particular severity, especially those that may be considered material to the organization, the senior management team will be engaged throughout the process. Hanesbrands discloses that the typical investigation lasts 14-30 days, and the complaining party is often contacted multiple times during the process, always in their local language, to provide additional information if necessary. The complainant is also appropriately informed of the outcome.

Fifteen companies disclose remedial outcomes for workers in their supply chains, although only nine gave two or more examples. For example, **Lululemon** discloses that, during second-tier supplier assessments, it discovered that workers' passports were being withheld. It subsequently ensured that the supplier created safe spaces for workers to store and access their passports and all documents were returned to workers. **VF** discloses that canteen staff at one of its suppliers were

provided with back wages and opportunities for proper employment after they were found to be working in conditions of forced labor. Since 2016, **Inditex**, **Lululemon**, **Primark**, and **Ralph Lauren** disclosed one or more examples of remedy outcomes for workers in their supply chains. **Ralph Lauren** has disclosed that it reimbursed fees charged to 33 Bangladeshi workers at one of its suppliers in Jordan.

#### **Notable Company Action**

#### **CORRECTIVE ACTIONS**

L Brands discloses that it has been engaged with two suppliers in China over 12 months to ensure that the factories are appropriately managing their working hours and paying overtime wages to workers. It states that consultants have visited the suppliers on a monthly basis to offer advice and training, and that the suppliers have now implemented appropriate overtime wage payments and are able to assess productivity levels and working hours correctly.

#### REMEDY

**Primark** discloses remedial action that it implemented upon reports from two Romanian workers that deductions had been made from their salary for recruitment fees, transportation, and accommodation. The company states that it investigated the claims with the supplier and labor provider. It reports that it worked with the supplier and the subcontractors to develop a policy and process for using agency labor in the supplier's supply chain. Full compensation was paid to the workers involved.

#### **Recommended Company Action**

**Remedy Process:** Establish a process for responding to grievances and allegations regarding supply chain labor rights with clear responsibilities, engagement with affected stakeholders, and timeframes.

**Remedy Outcomes:** Disclose examples of outcomes of remedy for suppliers' workers and evidence that remedial actions taken are satisfactory for affected workers.

## COMMITMENTS AND COMPLIANCE

with Regulatory Transparency Requirements

This section looks at whether companies make specific, time-bound commitments to address forced labor in their supply chains, including, where relevant, whether they comply with the minimum requirements of the UK Modern Slavery Act and the California Transparency in Supply Chains Act.

This assessment was not taken into account in the benchmark scores. However, this information is intended to provide context for what additional steps a company plans to take and the degree to which the company is complying with relevant laws.

Twenty-five companies in the benchmark make commitments to undertake specific actions to address forced labor in their supply chains, of which 20 are time-bound – a significantly higher number than KnowTheChain identified in the ICT and food and beverage benchmark sectors.<sup>55</sup>



<sup>55</sup> Fourteen <u>ICT companies</u> disclosed a commitment, nine of which were time-bound, and 14 <u>food and beverage</u> <u>companies</u> disclosed a commitment, ten of which were time-bound.

Primark makes a series of commitments, including that it will develop its training modules for suppliers on indicators of modern slavery, including in recruitment practices; add a statement to its supply chain standard prohibiting worker-paid recruitment fees and requiring its suppliers to implement grievance mechanisms at factories; and launch its Worker Empowerment Programme in south India, which seeks to address risks by helping management and human resources staff understand and identify forced labor risks in recruitment and hiring practices. PVH commits to revising its supply chain standard in 2018 to include stronger provisions on migrant workers' rights and accommodations and by conducting webinars with its suppliers to ensure they understand its requirements. The company also commits to expanding its audit program to lower-tier suppliers in 2018, with a goal of including 100 mills. Lululemon discloses commitments to achieving "no fees" in Taiwan by 2019 and integrating trim suppliers into its audit scope by 2019. Disclosure of time-bound commitments allows stakeholders to get a better sense of whether companies are moving in the right direction and enables stakeholders to hold companies accountable.

As part of assessing company disclosure, KnowTheChain determined whether companies are required to report under the UK Modern Slavery Act and/or the California Transparency in Supply Chains Act. Both pieces of legislation require companies to publish a statement outlining the steps they are taking to address slavery and human trafficking in their supply chains.

#### The UK Modern Slavery Act

The UK Modern Slavery Act has three minimum requirements:

- · A link on the company's homepage.
- A director's signature.
- Board approval.

KnowTheChain identified 32 out of 43 companies in the benchmark that are required to publish a statement under the UK Modern Slavery Act. Thirty of the 32 companies required to report have published a statement. By our assessment,<sup>56</sup> less than half of the statements (14 out of 29) are compliant with the requirements of the legislation. Most statements are signed by a director. However, the statements frequently do not explicitly show that they have been approved by the board

<sup>&</sup>lt;sup>56</sup> Compliance has been assessed using the methodology of the <u>Modern Slavery Registry</u>, which we believe provides the most faithful methodological interpretation of the UK Modern Slavery Act's requirements.

of the reporting company and are not linked on the homepage of the company's website.<sup>57</sup>

#### The California Transparency in Supply Chains Act

The California legislation requires companies to:

- Place a conspicuous link to the statement on the homepage.
- Cover five areas of disclosure: verification, audits, certification, internal accountability, and training.

KnowTheChain identified 30 out of 43 companies in the benchmark that are required to report under the California Transparency in Supply Chains Act. Only one of the 30 companies has not published a statement under the Act. Twenty statements are fully compliant with the legislation. Among those that were not compliant, most covered all five areas of disclosure—but the majority failed to disclose a link to the statement on their homepage.

#### Reporting requirements and corporate performance

While the benchmarked company sample is small, our findings indicate that there may be a positive correlation between companies that fall under modern slavery reporting requirements and those that have stronger reporting, which in turn may lead to stronger performance in the benchmark. The seven companies scoring below 5/100 in the benchmark are not required to report under the UK Modern Slavery Act or the California Transparency in Supply Chains Act.

Modern Slavery Reporting Requirements	# companies	Average score
Companies that have to report under the UK and/or California	33	46
legislations		
Companies that do NOT have to report under either legislation	10	6

While there is no evidence that reporting requirements alone have a direct impact, the numbers above reflect a potential correlation between a company's requirement to report under the UK or California legislation and the quality and quantity of disclosures produced, which in turn enables KnowTheChain to assess their policies and performance. KnowTheChain will continue to explore the degree to which there may be a connection between reporting requirements and corporate performance.

<sup>&</sup>lt;sup>57</sup> The Modern Slavery Registry methodology requires that such approval be explicitly included in the reporting company's public statement.

## CONSIDERATIONS FOR INVESTOR ACTION

KnowTheChain ranks some of the largest publicly listed apparel and footwear companies across markets on their efforts to address forced labor in their supply chains. Many global investors are invested in these companies or will be presented with these companies as potential investment opportunities.

Where forced labor risks are not addressed, they can result in legal, reputational, or financial repercussions. For example, in 2015, US marine services company Signal International LLC had to pay US\$20 million in compensation to former employees who were victims of human trafficking. The company eventually filed for bankruptcy. Two public pension funds, the Teachers' Retirement System of Alabama and the Employees' Retirement System of Alabama, owned more than 47% of Signal, and lost approximately US\$70 million. 58 Lawsuits on forced labor and human trafficking continue to emerge around the world. 59

<sup>&</sup>lt;sup>59</sup> Business & Human Rights Resource Centre and Liberty Asia, "Legal Case Map." Accessed 2 August 2018.

"Issues such as modern-day slavery ... can be material to the financial performance of these companies and they may risk restricted access to capital due to reputational damage and regulatory backlash." 60

- Steve Waygood, Chief Responsible Investment Officer, Aviva Investors.

To address exposure to these risks and ensure investments are used as an opportunity to support the realization of the Sustainable Development Goals (SDGs), in particular SDG 8.7, investors may wish to integrate KnowTheChain's findings into their investment decision-making and active ownership practices. In particular, investors are encouraged to ask companies about their practices regarding recruitment and worker voice. These themes make the most difference in workers' lives, yet companies have often taken limited, if any, steps on them. Investors should ask companies how they are creating value by reducing business exposure of forced labor. Investors can further ask how companies are working to ensure migrant workers are not exploited, and how they engage with workers in their supply chains to empower them to exercise their labor rights, while ensuring an early warning system is in place for when abuses occur. When engaging with companies, the UN-supported Principles for Responsible Investment suggest investors may wish to look at new technologies to enable worker voice and address forced labor.

Active investors may want to consider integrating KnowTheChain's findings into their investment decision-making. For example, the US investment manager Caravel Management modeled a scenario where the share price for a company that does not address labor risks in its supply chains would fall from US\$100 to US\$49 due to downtime, lost contracts, higher personnel costs, and victim compensation.<sup>62</sup>

**Active investors** can further engage companies or file shareholder resolutions to effect change. The following resources can be used as tools for engagement:

 Understanding company practices: KnowTheChain's company scorecards provide an analysis of each company's disclosure and performance, in comparison to industry peers. It also identifies

<sup>60</sup> Financial Times (14 May 2018), "Human rights activists name and shame giant companies." Accessed 2 August 2018.

<sup>61</sup> PRI (2017), "An investor briefing on the apparel industry: Moving the needle on responsible labour practices," p.16.

<sup>&</sup>lt;sup>62</sup> PRI (2017), "ESG integration: How are social issues influencing investment decisions?," p. 33.

a company's compliance with legislation, as well as its forward-looking commitments. Where a company was also ranked in 2016, the scorecard provides an overview of changes in company practices over time. The scorecard highlights leading practices and provides three company-specific recommendations for improvement.

- Understanding what good looks like: This report provides good practice examples for each theme.
- Defining expectations: KnowTheChain's investor statement has been developed with the support of investors and is co-sponsored by the Investor Alliance for Human Rights. It defines the expectations of global investors representing more than \$3 trillion in assets under management for how companies should address forced labor risks in their supply chains as part of broader human rights due diligence and in-line with international frameworks such as the ILO core labor standards and the UN Guiding Principles on Business and Human Rights. The indicators of KnowTheChain's benchmark methodology provide an overview of the steps that global companies should take to address forced labor risks in their supply chains.

Passive investors may wish to tilt their portfolios toward higher-scoring companies or companies with time-bound and measurable commitments in place. Passive investors that do not track an entire index, but who use a partial replication approach, may further consider excluding companies that continue to score low and that show no signs of improvement.

Finally, both active and passive investors may wish to publicly demonstrate their commitment to address forced labor by <u>signing the KnowTheChain Investor Statement</u>.

For further information, investors can visit <u>KnowTheChain's resource section for investors</u> and <u>sign</u> <u>up for KnowTheChain's quarterly investor newsletter</u>.

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### APPENDIX 1 COMPANY SELECTION

KnowTheChain chose to benchmark the largest publicly traded global companies in several at-risk sectors, as these companies have a large workforce in their supply chains, as well as significant leverage.

The 43 apparel and footwear companies<sup>63</sup> were selected on the basis of their size (market capitalization) and the extent to which they derive revenues from own-branded apparel and footwear products.

Retailers such as **Amazon** and **Walmart** that have a significant amount of revenue from own-branded apparel and footwear products were also added to the benchmark.

Two of the companies evaluated in KnowTheChain's benchmarks have significant revenues from several product types and, hence, are included in more than one sector benchmark (Amazon and Walmart). This is aligned with the Corporate Human Rights Benchmark, which evaluates companies like Associated British Foods and Walmart in both its agricultural and apparel products categories.

<sup>63</sup> Belle International was excluded from the 2018 benchmark, as the company was privatized.

The 2018 apparel and footwear benchmark includes one African company, 12 Asian companies, 14 European companies, and 16 North American companies. KnowTheChain has benchmarked the following companies:

Company	Market Cap in US\$ billion	Headquarters	2016 benchmark	Provided additional disclosure
Adidas AG	47	Germany	Yes	Yes
Amazon.com Inc.	699	United States	No	Sent links
Anta Sports Products Ltd.	13	China	No	Yes
Asics Corp.	3	Japan	No	Yes
Burberry Group plc	9	United Kingdom	No	Yes
Carter's Inc.	6	United States	No	Yes
Columbia Sportswear Co.	5	United States	No	Yes
Eclat Textile Corp. Ltd.	3	Taiwan	No	Yes
Fast Retailing Co. Ltd.	45	Japan	Yes	Yes
Foot Locker Inc.	6	United States	No	No
Gap Inc.	13	United States	Yes	Yes
Gildan Activewear Inc.	7	Canada	Yes	Yes
Hanesbrands Inc.	8	United States	Yes	Yes
Hennes & Mauritz AB	29	Sweden	Yes	No
Hermès International S.A.	58	France	No	Sent links
Hugo Boss AG	6	Germany	Yes	Yes
Industria de Diseño Textil S.A.	112	Spain	Yes	Yes
Kering S.A.	64	France	Yes	Yes
L Brands Inc.	14	United States	Yes	Yes

Company	Market Cap in US\$ billion	Headquarters	2016 benchmark	Provided additional disclosure
Li & Fung Ltd.	4	Hong Kong	No	No
LPP Spolka Akcyjna	5	Poland	No	No
Lululemon Athletica Inc.	11	Canada	Yes	Yes
LVMH Moët Hennessy - Louis Vuitton SE	158	France	No	Yes
Michael Kors Holdings Ltd.	10	United Kingdom	No	No
Mr Price Group Ltd.	6	South Africa	No	Yes
Nike Inc.	111	United States	Yes	Yes
Page Industries Ltd.	4	India	No	No
Pou Chen Corp.	4	Taiwan	No	Sent links
Prada S.p.A.	10	Italy	Yes	No
Primark (subsidiary retail group of Associated British Foods)	31	United Kingdom	Yes	Yes
Puma SE	6	Germany	No	Yes
PVH Corp.	12	United States	Yes	Yes
Ralph Lauren Corp.	9	United States	Yes	Yes
Salvatore Ferragamo S.p.A.	5	Italy	No	No
Shenzhou International Group Holdings Ltd.	16	China	Yes	Yes
Shimamura Co. Ltd.	4	Japan	No	No
Skechers USA. Inc.	7	United States	No	No
Under Armour Inc.	6	United States	Yes	No
VF Corp.	23	United States	Yes	Yes
Walmart Inc.	316	United States	No	Yes

Company	Market Cap in US\$ billion	Headquarters	2016 benchmark	Provided additional disclosure
Youngor Group Co. Ltd.	5	China	No	No
Yue Yuen Industrial Holdings Ltd.	7	Hong Kong	No	Sent links
Zhejiang Semir Garment Co. Ltd.	4	China	No	No

# APPENDIX 2 BENCHMARK METHODOLOGY, METHODOLOGY CHANGES, AND SCORING

KnowTheChain will review, and where relevant, update its methodology ahead of every benchmark to integrate emerging good practices and respond to the dynamic nature of the issue. Further, KnowTheChain is aiming to decrease the reporting burden for companies and increase the objectivity of the benchmark by integrating third-party information in addition to corporate disclosure.

The main revisions of the 2018 apparel and footwear benchmark methodology include:

- 1. Looking deeper into the supply chains and focusing on a systematic integration of processes across supply chains.
- Focusing on performance over policies and process (for example, through the integration of forced labor allegations, and by asking for implementation examples or evidence of impact).
- Aligning with updates of relevant frameworks and initiatives, such as the Corporate Human Rights Benchmark.
- 4. Strengthening the worker voice and recruitment themes.
- 5. Increasing flexibility on what can be reported (for example, a company has to ensure that workers in its supply chains have access to effective grievance mechanisms, but those mechanisms can either be provided by the company itself, by the supplier, by a third party, or a group of companies).



Because of these changes in methodology, comparisons are best made at the individual indicator level, or by looking at the change in a specific company's score. This report, therefore, provides some commentary on changes in company practices since 2016, though the majority of the analysis is concerned with the status of companies' action on forced labor in 2018.

To paint a fuller picture of a company's performance and where it is heading, compliance with the California Transparency in Supply Chains Act and the UK Modern Slavery Act were assessed, along with time-bound commitments to address forced labor. Further, companies were given the option to provide additional information on their business model. This information is provided on a company's scorecard, but not included in a company's benchmark score.

Benchmarked companies were given the opportunity to review the research findings and to disclose additional information. In addition to English language information on each company's own website, 64 KnowTheChain evaluated additional public disclosure that 26 out of 43 companies provided. Companies receive some credit for participating in initiatives which focus on addressing forced labor or address other indicators in the framework, such as freedom of association, and are transparent about their membership requirements. These include the Accord on Fire and Building Safety in Bangladesh, ACT (Action, Collaboration, Transformation), Bali Process, Ethical Trading Initiative, Fair Labor Association, Global Business Coalition against Human Trafficking, ILO Better Work, Leadership Group for Responsible Recruitment, and the Responsible Labor Initiative (Steering Committee membership).

KnowTheChain's analysis is primarily based on corporate disclosure; however, the KnowTheChain benchmarks also include allegations of forced labor as part of the analysis to give some indication of working conditions on the ground. KnowTheChain undertook comprehensive desktop research for such allegations. KnowTheChain also invited selected stakeholders, such as local and global labor NGOs and trade unions, to submit relevant allegations. While KnowTheChain identified 44 allegations in relation to the 43 companies benchmarked, none of the allegations were included in the benchmark, as KnowTheChain only included allegations that met at least the threshold of the

<sup>64</sup> Note: Three of the companies did not have an English language website available. KnowTheChain aimed to support these companies by translating its benchmark methodology into Chinese and Japanese. Additional outreach was conducted to these companies in their native language in an attempt to convey KnowTheChain's expectations of reporting.

Corporate Human Rights Benchmark and several of the forced labor indicators of the International Labour Organization. Allegations identified at the time typically included one or two, but not several, indicators of forced labor. As such, they still demonstrate the high risks in the sector—in both the first tier and in lower tiers of the supply chains. It also should be noted that our research is not indicative of all labor issues occurring within apparel and footwear supply chains. For this reason, KnowTheChain's benchmarks are best read alongside other information on labor practices in the sector.

Each company receives an overall benchmark score, which may range from zero to 100. To determine this score, each of the seven themes is weighted equally (i.e., each theme counts one-seventh toward the highest possible benchmark score of 100). Within each theme, each indicator is weighted equally, and within each indicator, each indicator element is weighted equally. In some cases, a company may receive partial points toward an indicator element.

#### KTC Apparel & Footwear Methodology version 2 (December 2017)

	Indicator Name	Indicator Description	Indicator Elements
		1. Commitment and Governance	ce
1.1	Commitment	The company publicly demonstrates its commitment to addressing human trafficking and forced labor.	The company: (1) has publicly demonstrated its commitment to addressing human trafficking and forced labor.
1.2	Supply Chain Standards	The company has a supply chain standard that requires suppliers throughout its supply chains to uphold workers' fundamental rights and freedoms (as articulated in the ILO Declaration on Fundamental Principles and Rights at Work), including the elimination of forced labor. The standard has been approved by a senior executive, is easily accessible on the company's website, is regularly updated, and is communicated to the company's suppliers.	The company's supply chain standard:  (1) requires suppliers to uphold workers' fundamental rights and freedoms (those articulated in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work), including the elimination of forced labor;  (2) has been approved by a senior executive;  (3) is easily accessible from the company's website;  (4) is updated regularly, following internal review and input from external stakeholders; and  (5) is communicated to the company's suppliers.
1.3	Management and Accountability	The company has established clear responsibilities and accountability for the implementation of its supply chain policies and standards relevant to human trafficking and forced labor, both within the company and at the board level.	The company:  (1) has a committee, team, program, or officer responsible for the implementation of its supply chain policies and standards that address human trafficking and forced labor; and  (2) has tasked a board member or board committee with oversight of its supply chain policies and standards that address human trafficking and forced labor.

	Indicator Name	Indicator Description	Indicator Elements
1.4	Training	The company has training programs in place to ensure that relevant decision-makers within the company and its supply chains are aware of risks related to human trafficking and forced labor and are effectively implementing the company's policies and standards.	The company undertakes programs which include:  (1) the training of all relevant decision-makers within the company on risks, policies, and standards related to human trafficking and forced labor; and  (2) the training and capacity-building of suppliers on risks, policies, and standards related to human trafficking and forced labor, covering key supply chain contexts.
1.5	Stakeholder Engagement	The company engages with relevant stakeholders on human trafficking and forced labor. This includes engagement with policy makers, worker rights organizations, or local NGOs in countries in which its suppliers operate, as well as active participation in one or more multi-stakeholder or industry initiatives.	In the last three years, the company has engaged relevant stakeholders by:  (1) providing at least two examples of engagements on forced labor and human trafficking with policy makers, worker rights organizations, local NGOs, or other relevant stakeholders in countries in whice its suppliers operate, covering different supply chain contexts; and  (2) actively participating in one or more multi-stakeholder or industry initiatives focused on eradicating forced labor and human trafficking across the industry.
		2. Traceability and Risk Assessm	nent
2.1	Traceability	The company demonstrates an understanding of the suppliers and their workers throughout its supply chains; the company publicly discloses the names and addresses of its first-tier suppliers, the countries of belowfirst-tier suppliers, the sourcing countries of raw materials at high risk of forced labor and human trafficking, and some information on its suppliers' workforce.	The company discloses:  (1) the names and addresses of its first-tier suppliers;  (2) the countries of below-first-tier suppliers (this does not include raw material suppliers);  (3) the sourcing countries of raw materials at high risk of forced labor and human trafficking; and

workforce.

(4) some information on its suppliers'

	Indicator Name	Indicator Description	Indicator Elements
		2. Traceability and Risk Assessment	t Cont'd
2.2	Risk Assessment	The company has a process to assess forced labor risks, and it publicly discloses forced labor risks identified in different tiers of its supply chains.	The company discloses:  (1) details on how it conducts human rights supply chain risk or impact assessments that include forced labor risks, or assessments that focus specifically on forced labor risks; and  (2) details on forced labor risks identified in different tiers of its supply chains.
		3. Purchasing Practices	
3.1	Purchasing Practices	The company is taking steps toward responsible raw materials sourcing. It is adopting responsible purchasing practices in the first tier of its supply chains, and provides procurement incentives to first-tier suppliers to encourage or reward good labor practices.	Purchasing practices and pricing may both positively impact labor standards in the company's supply chains, and increase risks of forced labor and human trafficking. The company:  (1) is taking steps toward responsible raw materials sourcing;  (2) is adopting responsible purchasing practices in the first tier of its supply chains; and  (3) provides procurement incentives to first-tier suppliers to encourage or reward good labor practices (such as price premiums, increased orders, and longer-term contracts).
3.2	Supplier Selection	The company assesses risks of forced labor at potential suppliers prior to entering into any contracts with them.	The company: (1) assesses risks of forced labor at potential suppliers prior to entering into any contracts with them.
3.3	Integration into Supplier Contracts	The company integrates supply chain standards addressing forced labor and human trafficking into supplier contracts.	The company: (1) integrates supply chain standards addressing forced labor and human trafficking into supplier contracts.

	Indicator Name	Indicator Description	Indicator Elements
		3. Purchasing Practices Cont	d
3.4	Cascading Standards through the Supply Chain	The company extends its supply chain standards beyond its first tier by requiring that its first-tier suppliers ensure that their own suppliers implement standards that are in-line with the company's standards.	The company:  (1) requires its first-tier suppliers to ensure that their own suppliers implement standards that are in-line with the company's supply chain standards addressing forced labor and human trafficking.
		4. Recruitment	
4.1	Recruitment Approach	The company has a policy that requires direct employment in its supply chains, and requires employment and recruitment agencies in its supply chains to uphold workers' fundamental rights and freedoms. The company discloses information on the recruitment agencies used by its suppliers.	The company:  (1) has a policy that requires direct employment in its supply chains;  (2) requires employment and recruitment agencies in its supply chains to uphold workers' fundamental rights and freedoms (those articulated in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work), including the elimination of forced labor; and  (3) discloses information on the recruitment agencies used by its suppliers.
4.2	Recruitment Fees	In its relevant policies or standards, the company requires that no fees be charged during any recruitment process in its supply chains—the costs of recruitment should be borne not by the worker but by the employer ("Employer Pays Principle"). In the event that it discovers that fees have been paid by workers in its supply chains, the company ensures that such fees are reimbursed to the workers.	The company:  (1) requires that no worker in its supply chains should pay for a job—the costs of recruitment should be borne not by the worker but by the employer ("Employer Pays Principle"); and  (2) ensures that such fees are reimbursed to the workers, in the event that it discovers that fees have been paid by workers in its supply chains.
4.3	Monitoring and Ethical Recruitment	The company ensures employment and/ or recruitment agencies used in its supply chains are monitored to assess and address	The company:  (1) ensures employment and/or recruitment agencies used in its supply chains are monitored to assess and address risks of

	Indicator Name	Indicator Description	Indicator Elements
		4. Recruitment Cont'd	
		risks of forced labor and human trafficking, and provides details of how it supports ethical recruitment in its supply chains.	forced labor and human trafficking; and (2) provides details of how it supports ethical recruitment in its supply chains.
4.4	Migrant Worker Rights	To avoid the exploitation of migrant workers in its supply chains, the company ensures migrant workers understand the terms and conditions of their recruitment and employment, and also understand their rights. It further ensures its suppliers refrain from restricting workers' movement, and that migrant workers are not discriminated against, and not retaliated against, when they raise grievances. The company provides evidence of how it works with suppliers to ensure migrant workers' rights are respected.	The company:  (1) ensures migrant workers understand the terms and conditions of their recruitment and employment, and also understand their rights;  (2) ensures its suppliers refrain from restricting workers' movement, including through the retention of passports or other personal documents against workers' will;  (3) ensures migrant workers are not discriminated against, and not retaliated against, when they raise grievances; and  (4) provides evidence of how it works with suppliers to ensure migrant workers' rights are respected.
		5. Worker Voice	
5.1	Communication of Policies	The company ensures its human trafficking and forced labor policies and standards are available to supply chain workers in their native languages, and that its human trafficking and forced labor policies and standards are communicated to workers in its supply chains.	The company ensures: (1) its policies and standards, which include human trafficking and forced labor, are available in the languages of its suppliers' workers; and (2) its human trafficking and forced labor policies and standards are communicated to workers in its supply chains.
5.2	Worker Voice	The company works with relevant stakeholders to engage with and educate workers in its supply chains on their labor rights. To ensure scalability and effectiveness, the company ensures that there are worker-to-worker education initiatives on labor rights in its supply chains, and it provides evidence of	The company:  (1) works with relevant stakeholders to engage with and educate workers in its supply chains on their labor rights;  (2) ensures that there are worker-to-worker education initiatives on labor rights in its supply chains;

	Indicator Name	Indicator Description	Indicator Elements
		5. Worker Voice Cont'd	
		the positive impact of worker engagement in its supply chains.	<ul><li>(3) provides evidence of the positive impact of worker engagement in its supply chains; and</li><li>(4) provides at least two examples of worker engagement initiatives covering different supply chain contexts.</li></ul>
5.3	Freedom of Association	To support collective worker empowerment, the company works with suppliers to improve their practices in relation to freedom of association and collective bargaining, and with local or global trade unions to support freedom of association in its supply chains. Where there are regulatory constraints on freedom of association, the company ensures workplace environments in which workers are able to pursue alternative forms of organizing.	The company:  (1) describes how it works with suppliers to improve their practices in relation to freedom of association and collective bargaining;  (2) works with local or global trade unions to support freedom of association in its supply chains;  (3) ensures workplace environments in which workers are able to pursue alternative forms of organizing (e.g., worker councils or worker-management dialogues) where there are regulatory constraints on freedom of association; and  (4) provides at least two examples covering different supply chain contexts of how it improved freedom of association for supply chain workers.
5.4	Grievance Mechanism	The company ensures a formal mechanism to report a grievance to an impartial entity regarding labor conditions in the company's supply chains is available to its suppliers' workers and relevant stakeholders. The company ensures that the mechanism is effective across its supply chains.	The company:  (1) ensures a formal mechanism to report a grievance to an impartial entity regarding labor conditions in the company's supply chains is available to its suppliers' workers and relevant stakeholders;  (2) ensures that the existence of the mechanism is communicated to its suppliers' workers;  (3) ensures that workers or an independent third party are involved in the design

	Indicator Name	Indicator Description	Indicator Elements
		5. Worker Voice Cont'd	
			or performance of the mechanism, to ensure that its suppliers' workers trust the mechanism;  (4) discloses data about the practical operation of the mechanism, such as the number of grievances filed, addressed, and resolved, or an evaluation of the effectiveness of the mechanism; and  (5) provides evidence that the mechanism is available and used by workers below tier one in its supply chains, or by relevant stakeholders in key supply chain contexts.
		6. Monitoring	
6.1	Auditing Process	The company audits its suppliers to measure compliance with applicable regulations and with its supply chain standards. The process includes non-scheduled visits, a review of relevant documents, interviews with workers, and visits to associated production facilities and related worker housing. The company also audits suppliers below the first tier.	The company has a supplier audit process that includes: (1) non-scheduled visits; (2) a review of relevant documents; (3) interviews with workers; (4) visits to associated production facilities and related worker housing; and (5) supplier audits below the first tier.
6.2	Audit Disclosure	The company publicly discloses information on the results of its audits. This includes the percentage of suppliers audited annually, the percentage of unannounced audits, the number or percentage of workers interviewed, information on the qualification of the auditors used, and a summary of findings, including details regarding any violations revealed.	The company discloses: (1) the percentage of suppliers audited annually; (2) the percentage of unannounced audits; (3) the number or percentage of workers interviewed during audits; (4) information on the qualification of the auditors used; and (5) a summary of findings, including details regarding any violations revealed.

Indicator Name	e Indicator Description	Indicator Elements
	7. Remedy	
7.1 Corrective Acti	corrective action plans with suppliers found to be in violation of applicable regulations and/or the company's standards, with the goal of improving conditions and achieving compliance. The company's corrective action plans include potential actions taken in case of non-compliance; a means to verify remediation and/or implementation of corrective actions; and potential consequences if corrective actions are not taken.	The company's corrective action plans include:  (1) potential actions taken in case of noncompliance, such as stop-work notices, warning letters, supplementary training, and policy revision;  (2) a means to verify remediation and/or implementation of corrective actions, such as record review, employee interviews, spot checks, or other means;  (3) potential consequences if corrective actions are not taken; and  (4) a summary or an example of its corrective action process in practice.

## 7.2 Remedy Programs and Response to Allegations

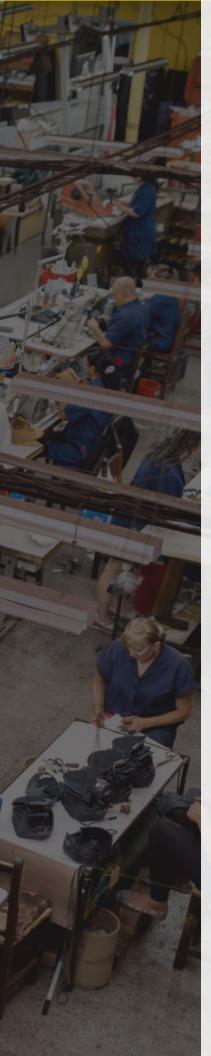
The company has a process to provide remedy to workers in its supply chains in cases of human trafficking and forced labor. If no allegation regarding forced labor in the company's supply chains has been identified in the last three years, the company discloses examples of outcomes for workers of its remedy process.

If one or more allegations regarding forced labor in the company's supply chains have been identified in the last three years, the company discloses a public response to the allegation, and outcomes of the remedy process, including evidence that the remedy or remedies are satisfactory to the victims or groups representing the victims.

- A. If no allegation regarding forced labor in the company's supply chains has been identified in the last three years, the company discloses:
- a process for responding to complaints and/or reported violations of policies and standards; and
- (2) at least two examples of outcomes for workers of its remedy process in practice, covering different supply chain contexts.
- B.1. If one or more allegations regarding forced labor in the company's supply chains have been identified in the last three years, the company discloses:
- a process for responding to the complaints and/or reported violations of policies and standards;
- (2) a public response to the allegation, which covers each aspect of each allegation;
- (3) outcomes of the remedy process in the

Indidcator Name	Indicator Description	Indicator Elements
7. Remedy Cont'd		
		case of the allegation(s); and (4) evidence that the remedy or remedies are satisfactory to the victims or groups representing the victims.
	If one or more allegations regarding forced labor in the company's supply chains have been identified in the last three years, and the company denies the allegation, the company discloses a public response to the allegation, a description of what actions it would take to prevent and remediate the alleged impacts, and that it engages in a dialogue with the stakeholders reportedly affected in the allegation, or requires its supplier(s) to do so.	<ul> <li>B.2. If one or more allegations regarding forced labor in the company's supply chains have been identified in the last three years, and the company denies the allegation, the company discloses:</li> <li>(1) a process for responding to the complaints and/or reported violations of policies and standards;</li> <li>(2) a public response to the allegation, which covers each aspect of each allegation;</li> <li>(3) a description of what actions it would take to prevent and remediate the alleged impacts; and</li> <li>(4) that it engages in a dialogue with the stakeholders reportedly affected in the</li> </ul>

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#### **ABOUT KNOWTHECHAIN**

KnowTheChain—a partnership of Humanity United, the Business & Human Rights Resource Centre, Sustainalytics, Verité, and Thomson Reuters Foundation—is a resource for businesses and investors who need to understand and address forced labor abuses within their supply chains. It benchmarks current corporate practices, develops insights, and provides practical resources that inform investor decisions and enable companies to comply with growing legal obligations while operating more transparently and responsibly.

#### knowthechain.org

trust.org

**Humanity United** is a foundation dedicated to bringing new approaches to global problems that have long been considered intractable. It builds, leads, and supports efforts to change the systems that contribute to problems like human trafficking, mass atrocities, and violent conflict. Humanity United is part of The Omidyar Group, a diverse collection of organizations, each guided by its own approach, but united by a common desire to catalyze social impact. humanityunited.org

**Sustainalytics** is an independent ESG and corporate governance research, ratings, and analysis firm supporting investors around the world with the development and implementation of responsible investment strategies. <a href="mailto:sustainalytics.com">sustainalytics.com</a>

**Business & Human Rights Resource Centre** is a non-profit that tracks the human rights conduct of more than 7,000 companies worldwide. <u>business-humanrights.org</u>

Verité is a global, independent, non-profit organization that provides consulting, training, research, and assessment services with a mission to ensure that people worldwide work under safe, fair, and legal working conditions. As such, it may work with some of the companies covered in this report. Verité was not involved in researching or evaluating company disclosures. <a href="https://example.com/verite-org">verite.org</a>

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