MANAGEMENT BRIEFING: ETHICAL TRADE & HUMAN RIGHTS – SEPTEMBER 2015

Innovation Forum
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Transforming supply chains for responsible business

ETHICAL TRADE & HUMAN RIGHTS TRENDS

Innovative ethical tools

Below: new benchmark scheme for human rights.
Next page: new legislation's implications and the benefits of collaboration

New corporate human rights benchmark

Assessing just how seriously companies are taking human rights issues is about to get a bit more scientific thanks to a new benchmark mechanism being developed by a coalition of organisations, including the investment firms Calvert and Aviva.

The corporate human rights benchmark is currently out for consultation with key stakeholders to establish a formal methodology for developing its stakeholder consultation processes and evaluation criteria going forward. The final methodology will be released in June 2016.

The benchmark was announced in December 2014 and seeks to rank corporations according to their publicly-available human rights policies and performances. In its first iteration, the initiative will focus on 500 of the top global companies in the agricultural, ICT, apparel and extractive industries.

The ranking mirrors efforts by UK charity Oxfam in the food and beverage sector. The anti-poverty charity's Behind the Brands index rates ten of the sector's largest corporations according to seven criteria. These include the elimination of land grabs, enhancing the status of women in their supply chains and the promotion of workers' and farmers' rights.

Oxfam's latest ranking in March 2015 places Anglo-Dutch consumer goods firm Unilever in top place, followed by Swiss food giant Nestlé.

Produced in partnership with

Ethical Trading Initiative
Respect for workers worldwide

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Innovation Forum is a London-based company focusing on sustainable business analysis and debate around the world via events, research, advisory services and publishing.

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The lowest performers are France's Danone, US-based General Mills and the UK's Associated British Foods.

Whether these types of comparison tools will succeed in enabling market-driven performance enhancement, time will tell. Aviva's head of sustainability research and engagement, Steve Waygood, hopes that the corporate human rights benchmark will help make using the UN guiding principles on business and human rights "routine corporate practice". "[The benchmark] will introduce a positive competitive environment as companies try to race to the top of the annual ranking," he says.

Action on forced labour and slavery

Hot on the heels of California's Transparency in Supply Chains Act, demanding explicit information from manufacturers and retailers doing business in the US state, incoming UK legislation is set to keep even more companies on their toes. From October 2015, large businesses are required to publish a statement on what, if any, anti-slavery and human trafficking precautions they have in place as part of the Modern Slavery Act.

Non-compliance will no doubt see big businesses targeted by NGOs and government bodies. And it is hoped that the new laws will make companies renew, or create from new, more stringently-enforced policies to guard against issues such as forced labour at any point in their supply chain.

Some businesses are already ahead of the game, particularly in sectors most at risk. In the electronics industry, Apple has announced plans to take on the responsibility of paying the fees that workers disburse to recruiters to begin employment – said to be a key element in bonded labour. In its 2015 progress report, the tech giant reported that, thanks to the 633 supplier audits it carried out in 2014, more than $3.96m was repaid to foreign contract workers for excessive recruitment fees charged by labour brokers.

Meanwhile, in late 2014, HP set out a series of policy changes on labour practices. Most notably, it has become the first US ICT firm to stop the common use of recruitment agencies to hire foreign migrant workers among its suppliers.

92% of electronics workers in Malaysia said they paid recruitment fees in order to get their jobs

The practices of recruitment agencies, which often hire poor workers in one country for employment in another, are being more heavily scrutinised over their role in facilitating forced labour and slavery, consciously or otherwise. HP's new foreign migrant standard "sets a new bar", according to the NGO Verité, whose study, Forced Labor in the Production of Electronic Goods in Malaysia reveals that 92% of workers questioned said they paid recruitment fees in order to get their jobs.

(For more detail on the Californian and UK legislation see p4.)

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Collective action that leads to solutions

The growing realisation that many of today's most pressing human rights challenges, particularly across global supply chains, cannot be solved by any one organisation is encouraging more and more companies to consider collaborative working.

It is an approach wholly aligned with the UN Guiding Principles, which state that "if the business enterprise has leverage to prevent or mitigate the adverse impact, it should exercise it. And if it lacks leverage there may be ways for the enterprise to increase it. Leverage may be increased by, for example, offering capacity-building or other incentives to the related entity, or collaborating with other actors."

In a new briefing paper from the Ethical Trading Initiative (ETI) – Living Wages in Global Supply Chains: a new agenda for business – the organisation acknowledges that while there is no quick-fix solution to the problem of tackling low wages in their supply chains, there is plenty that can be achieved by companies working in collaboration and taking a sector-wide approach to wage improvements. "By aggregating their buying power, companies can act – without fear of breaching competition law – to send a strong signal to suppliers and governments that the market will respond positively to improved wages," the ETI argues.

The report highlights a series of initiatives where new forms of partnership are creating innovative solutions. For example, the partnership between 14 garment brands and retailers under the Action Collaboration Transformation (ACT) banner has brought about a commitment to develop, with suppliers, some core enabling principles for living wages in the sector.

Meanwhile, the work initiated in the tea sector by the Ethical Tea Partnership (ETP), Oxfam and the Sustainable Trade Initiative, has catalysed a sector-wide response to wage issues in the Malawian tea industry.

These examples, the ETP says, point to the fact that "doing nothing on wages is not an option for any party and that urgent, credible action is required". ★

RESEARCH

Ethical trade and human rights data digest

Innovation Forum's guide to recent research and analysis

Fashion brands and living wages

The Clean Clothes Campaign is calling on consumers to send back garments to fashion brands because of an alleged living wage "defect". The Europe-wide coalition states that garment workers in the global fashion industry earn 20-30% of a living wage.

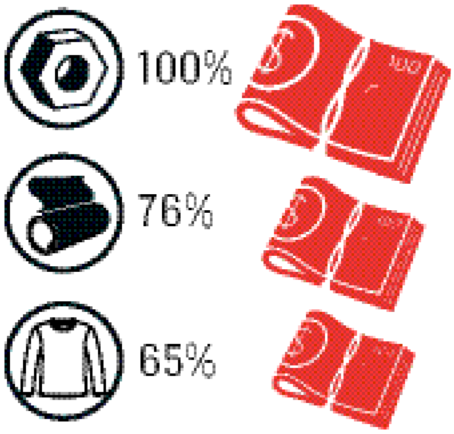
Clean Clothes intends to hand over a petition to major fashion brands – the petition has so far garnered over 110,000 signatures across the EU.

The Amsterdam-based Clean Clothes Campaign declines to give a figure for what constitutes a "living wage", arguing that it varies from country to country. However, the organisation states that a wage for a standard working week (no more than 48 hours) should enable garment workers to cover the costs of their food, housing, healthcare, clothing, transportation and education costs, as well as generating a small amount of savings for any unexpected events.

According to the United Nations Industrial Development Organisation, global average wages in the clothing and textile industries are 35% and 24% lower respectively than average wages in the manufacturing sector.

Luxembourg currently has the highest statutory minimum wage of $12.40 per hour (purchasing power parity), according to the most up-to-date OECD figures. Next comes France ($11.50) and Australia ($10.80). The lowest statutory wages in the OECD are to be found in Estonia ($3.60), Chile ($3.40) and Mexico ($1.00). Eight OECD countries do not have a minimum wage, including Italy, Switzerland and the Nordic countries. However, a large part of the workforce is covered by sector-level agreements in these cases.

Currently, 52 states are signatories to ILO Convention 131, which requires governments to establish a minimum wage. Roughly half of the 150 countries recently surveyed by the ILO set a minimum wage in the light of consultation with a specialised body. The ILO notes that many workers only achieve minimum wage salaries overall by working very long hours. ★



Average wages in the clothing and textile industries are much lower than in the manufacturing sector

Long hours and poor pay typical for garment workers

Do national plans on business and human rights work?

US development agency USAID says it should establish human rights grievance mechanisms to correspond with its field mission activities at a national or regional level. In a submission to the US secretary of state, USAID has also pledged to create a mechanism at its headquarters to address complaints associated with programmes and projects implemented from Washington DC.

However, the agency believes it is not necessary for its private-sector contractors to provide similar access-to-remedy to address human rights grievances.

The commitments emerge from the US government's consultation for a national plan on business and human rights, launched by the White House in September 2014. The goal of the consultation, which closed in April 2015, is to "promote and incentivise" company conduct in line with the UN guiding principles on business and human rights.

Other recommendations include Amnesty International's call for a specialised government agency to be set up to monitor and enforce corporate human rights due diligence and disclosure requirements. The US Chamber of Commerce, meanwhile, cautioned against the adoption of new laws relating to human rights. It also objected to the premise that companies only take account of human rights if and when a mandatory regulatory system is in place.

Only Denmark, the Netherlands and the UK have national action plans to implement the UN guiding principles on business and human rights

The UN Human Rights Council adopted the guiding principles in 2011. They represent the first global framework addressing the responsibility of corporations for human rights impacts. To date, only Denmark, the Netherlands and the UK have national action plans to implement the principles.

In July, the Council of the European Union urged member states to include national action plans on implementing the guiding principles in their national "CSR strategies". It also called on members to share experience and best practice in development of such plans. As yet, the US government has not published a date for the release of its proposed national plan. ★

New slavery laws heralded

The Ethical Trading Initiative (ETI) says it is "delighted" that the UK government has set the revenue bar for companies subject to the new UK Modern Slavery Act at £36m. The act, which was passed in July 2015, coming into force in October 2015, obliges all companies over the £36m threshold to produce an annual statement on their strategies to combat modern-day slavery in their supply chains. The ETI, which represents 88 companies with a combined turnover of over £166bn, says the legislation comprises a "game-changer".

UK companies with a turnover of more than £36m are now subject to the UK Modern Slavery Act

The UK legislation follows the California Transparency in Supply Chains Act (SB-657), which was introduced in 2010 and came into effect in January 2012. The law requires manufacturers and retailers doing business in California to provide explicit information on their websites regarding efforts to address slavery, child labour and human trafficking in their supply chains. In late July, two members of the US House of Representatives (from New Jersey and New York, respectively) submitted a similar bill designed to encompass all US firms with revenues of over $100m. The proposed Business Supply Chain Transparency on Trafficking and Slavery Act of 2015 is expected to be heard shortly by the house committee on education and the workforce.

According to the International Labour Organization, 21 million people are victims of forced labour. The charity Walk Free estimates that most modern day slaves (78%) are in forced, bonded or other types of obligatory labour, while around one-fifth (22%) find themselves in sex slavery.

Over half (55%) of slavery victims are female and around one in four (26%) are children. India has the highest number of estimated slaves, at 14 million. Free the Slaves defines slavery as "being forced to work without pay, under the threat of violence, and being unable to walk away".

The 193 member states of the UN have provisionally agreed to include a pledge to eradicate slavery and forced labour in the new sustainable development goals. ★

ANALYSIS

Fair pay's supply chain challenges

By Tom Idle

While paying a living wage to staff is good for business, making sure workers further along the supply chain also receive improved pay is becoming an increasingly important, if complex, challenge

When the Swedish furniture chain Ikea announced that it would pay its UK workers a living wage, it was widely heralded as a major breakthrough by campaigners that had been calling on large corporates to help bridge the gap between take-home pay and the cost of living.

As the first major company in the UK to make such a move – agreeing to give more than 4,500 of its staff a pay rise from April 2016 – the chances are good that others will follow suit, despite the oft-heard objection that tackling low wages is virtually impossible in the retail sector.

Stronger business

But there is good reason for taking such a decision, says Greg Priest, Ikea's head of sustainability policy. "We have always worked with the belief that what is good for people will strengthen our business," he says, claiming that the company's approach to assessing what constitutes a fair wage – and paying it – is improving staff retention and loyalty.

But companies paying a living wage to employees in internal operations in the developed world is one thing. Ensuring workers throughout their supply base are paid fairly is another altogether more complex matter.

However, this is where corporates are now being closely scrutinised for their actions – and where they must focus their efforts. Many people in emerging economies making the products consumed in the west struggle to survive on pay that is often not enough to cover the daily basics, such as food and water.

So, are companies doing enough to improve the situation, with strong supplier policies or codes of conduct that reinforce the need to increase pay where necessary?

"Not yet," says Alistair Smith from Banana Link, which campaigns for, among other things, better wages for banana growers throughout the world. "The retailers are fearful of extra costs. They worry that better wages being paid throughout the supply chain will affect prices – but that's not always the case.

Ensuring that workers throughout a supply chain are paid fairly is a complex matter

"Take a commodity like tea. You could have zero change to the retail price by re-engineering the distribution of value along the chain and achieve a living wage for workers quite easily."

A big question for corporates trying to solve the living wage conundrum is: how much is a fair amount to pay? What is the right level?

Ikea is currently working with the Fair Wage Network to assess what a fair wage is in a number of its supplier locations in Turkey and Bangladesh – a wage that "enables families to thrive, not just survive", says Priest.

"We have always worked with the belief that what is good for people will strengthen our business" *Greg Priest, Ikea*

Benchmarking benefits

For the Coca-Cola Company, where workers are unionised it engages in collective bargaining, taking into account the cost of living and local market conditions to determine the right level of pay. "Where our workers are not unionised, we do comparative assessment against our peers, because we want to retain and attract talent," says Brent Wilton, the company's global director for human rights.

But benchmarking wages, while an important first step, is only part of the solution, according to the Ethical Trading Initiative (ETI).

"While coming up with a living wage 'number' may provide a useful rallying point, the real problem is not how much to pay, but how to ensure that wage setting systems are fair for workers and employers alike and keep wages in line with inflation," says Sabita Banerji, the ETI's knowledge and learning advisor – a point explored in the ETI's latest briefing paper, Living Wages in Global Supply Chains: a new agenda for business. ★

ACTIVISTS & CAMPAIGNING

Who is being targeted by whom – and why?

By Tom Idle

Conflict minerals in the electronics sector

Spurred by the conflict minerals provision in the Dodd-Frank Wall Street Reform and Consumer Protection Act, and growing consumer interest, a spotlight continues to be shone on the electronics sector.

Since 2010, activist group Raise Hope for Congo's rankings of conflict minerals companies has been ranking those performing best when it comes to eradicating conflict minerals in their products and supply chains – and highlighting the "laggards" performing worst.

Now, a complementary campaign from the group, the Conflict-Free Campus Initiative, aims to tap into the perceived power of student activism – and its reach and influence across social media – to continue to raise the profile of what is happening in the Democratic Republic of Congo (DRC), and what corporates might do to effect positive change.

CFCI CONFLICT-FREE CAMPUS INITIATIVE

Tapping student activist power

Initially, the campaign focused on encouraging university decision-makers to shift their procurement practices in favour of the electronics companies that had the best record on conflict-free minerals. But it has since targeted city officials to enact new policies on purchasing contracts to ensure that new cellular or telecoms devices are "conflict-free". Portland, Oregon is the latest city convinced by the initiative to adopt a new procurement policy, following in the footsteps of five other cities, and two US states.

While Raise Hope for Congo applauds the majority of electronics companies for improving their traceability, auditing and certification of their suppliers, it is urging companies to make sure that conflict free does not mean "Congo-free" as they instruct suppliers to boycott DRC altogether, leaving mining communities behind.

Worker conditions – McDonald's and Wal-Mart

After two years of campaigning by trade unions, companies, multistakeholder initiatives and NGOs, victims of the 2013 Rana Plaza building collapse will benefit from $30m in compensation. Among the NGOs that worked tirelessly to ensure that apparel brands and retailers whose clothes were produced at the factory paid proper compensation to the injured survivors and families of those that died was the International Labor Rights Forum.

But the NGO is not resting on its laurels and workers' conditions within companies at the end of large corporate supply chains are still very much on the radar.

Rana Plaza victims now getting some compensation

Most recently, the "biggest and baddest" as the ILRF describes them – McDonald's and Wal-Mart – have been criticised in two new reports claiming to uncover how the two companies are failing to protect workers along their supply chains, despite their power to influence best practice.

One report tells the story of workers at Taylor Farms – a supplier to McDonald's – who called on the fast food giant to intervene when their employer was said to be violating a number of provisions set out in the McDonald's supplier code of conduct, not least suppressing the right to freedom of association. They claim that, rather than helping them out, the burger chain failed to use its leverage and pulled its orders after carrying out a secretive factory audit – a story widely picked up by the media, including the Huffington Post.

The other report, developed in partnership with the Food Chain Workers

Alliance, looks at the labour conditions of those working within Wal-Mart's food supply chain. It claims the retail giant has "routinely violated" its own code of ethics on labour standards – accusations Wal-Mart has yet to respond to.

Both reports demonstrate, of course, that whatever good work big companies may be doing in some areas, the activist community will keep a close eye on what's going on throughout their supply chains, and highlight what they may regard as poor practice wherever they see it.

Child labour exposed – agriculture, mining and construction

The recent World Day Against Child Labour presented the perfect excuse to focus on the all-too prevalent practice of child labour, defined by the International Labour Organisation (ILO) as work that "deprives children of their childhood, their potential and their dignity, and that is harmful to physical and mental development".

The ILO used the occasion to explode some of the myths surrounding child labour, including the assumption that it most often occurs in factories and so-called sweatshops. According to its own estimates, 58% of child labourers aged between five and 17 actually work in agriculture, while 7.2% work in the industrial sector, including mining, manufacturing and construction.

Children need childhood

Meanwhile, Human Rights Watch (HRW) has been targeting the international gold refiners that source gold from Ghana. In a new report – Precious Metal, Cheap Labor: Child Labor and Corporate Responsibility in Ghana's Artisanal Gold Mines – the NGO explores the use of child labour in the country's artisanal, or unlicensed, gold mines, where 15 to 17 year olds pull the gold ore out of shafts, carry and crush loads of ore, and process it with toxic mercury.

Crucially, the organisation calls into question the due diligence being carried out by some of the leading refiners, such as Metalor, Kaloti Jewellery International, Emirates Gold and Kundan – alleging a lack of control over their supply chains and a failure to report publicly on what measures they have in place to effectively monitor instances of child labour.

"These companies should exert control over their whole supply chain to make sure they're not benefiting from child labour," according to HRW's Juliane Kippenberg.

Do Fifa sponsors deserve a red card?

Poor working conditions for construction workers building football World Cup facilities in Qatar have been well documented. But, what to do about it? Target those with close commercial links with world football governing body Fifa? Is this the only approach?

In fact, World Cup sponsors – paying millions for the privilege – have protested that their level of influence to affect working conditions at the 2022 World Cup building sites in Qatar has been over-stated.

They might have a point, but that hasn't stopped campaign groups – backed by a general public generally bemused by the internal workings of football's world governing body – targeting the commercial supporters for perceivably sitting back and doing nothing while hundreds of construction workers have either died or suffered injuries due to unsafe working practices in Qatar.

Qatar's rapid construction projects carry a heavy cost

The International Trade Union Confederation (ITUC) has led calls for sponsors – including Coca-Cola, Adidas, Visa, McDonald's, Gazprom and Budweiser – to exert their financial muscle by threatening to pull out of the tournament if Fifa does not take action to enforce better working conditions for builders, described by the ITUC as "simply slavery".

Letters sent to eight of the biggest sponsors prompted a series of media statements, with Coca-Cola calling for Fifa to establish an independent commission to help make the necessary reforms and "build back the trust it has lost".

Elsewhere, a set of much-shared "anti-logos", collated by Bored Panda, take aim at the sponsors by reimagining their brands and mission statements with Qatar in mind. One Reddit user that created an alternative Coca-Cola logo with the curved white logo forming two handcuffed arms, wrote: "Coke's slogan is 'Share Happiness', so I made an ad to remind them of the kind of happiness they're sharing in Qatar". ★

Q&A

Coke's compliance culture

By Tom Idle, with Brent Wilton, Coca-Cola

With a long history of working in multiple locations with varying social challenges across the globe, Coca-Cola continues to work hard in driving positive human rights practices across its complex operations, as Brent Wilton tells Tom Idle

For more detail about Coca-Cola's policies on collective bargaining, including what happens when workers are unionised and when they are not see p5.

"THE BIG ISSUE IS HOW THE UN GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS CAN CASCADE DOWN TO COMPANIES OF ALL SHAPES AND SIZES"

With such a sprawling supply chain, how does Coca-Cola ensure that it maintains a stringent approach to human rights and ethics?

Our supplier guiding principles instruct our suppliers and our independent bottlers on our expectations regarding human rights and ethics. We have a huge outreach programme, and we use an ethics and human rights compliance system to measure and assess their applicable local laws.

But it's an ongoing challenge. We are a complex business with about 250 bottling partners and an extensive supply chain – so there is a lot of outreach and conversation required.

How tough do you have to get with suppliers or bottlers that don't stick to your policies?

Well, the audit process has corrective actions to deal with any problems, and we work with suppliers in a collaborative way, rather than getting heavy with them initially. We do reserve the right to end our contracts if needed, but we would rather see improvements made than walk away from the issues. We are striving for a 98% rate of compliance by the bottlers that we own or have a majority equity interest in by 2020.

What's the biggest challenge for Coca-Cola in staying on top of your human rights record – maintaining your licence to operate, while making sure you keep that trust and loyalty among your customer base?

We have found that engaging with stakeholders is the best way to build the kind of relationships that result in trust and loyalty. We engage with stakeholders continuously and find great value in listening to their comments and concerns. Our land rights policy was a result of that type of engagement.

Outside of Coca-Cola, what do you see as the biggest challenge for corporate ethics or human rights abuses right now?

The big issue is how the UN guiding principles on business and human rights can cascade down to companies of all shapes and sizes. Despite their best intentions, large businesses do not have the means to get into all parts of their supply chains. Our supply chain is huge and is continually morphing and changing.

Human rights needs to be embedded as a part of everyday culture for companies of all sizes. People need to understand that how they do (or don't do) their job impacts upon our human rights profile. We have to treat people how we'd want to be treated ourselves. We must address issues before they become problems.

How do you build an internal case for doing the right thing? Has it always been straightforward within Coca-Cola?

We have always had a global view of societies due to the nature of the business. We are on the ground and operate locally. All of that experience has filtered into our thinking and the senior management is wholly supportive of our human rights policy.

Commercial pressures are commercial pressures – in all businesses. So, in this job you have to talk about how human and workplace rights are going to help the company meet its commercial goals. But we are all here to do the same thing: to continue to build the support for our brands and meet the expectations of our consumers and stakeholders. ★

Brent Wilton is global director, workplace rights and human rights, at the Coca-Cola Company.
He will be participating at the Ethical Trade and Human Rights Forum, 19th-20th October in London.