2022 Information and Communications Technology Benchmark INVESTOR BRIEF
Foreword

The risk of forced labour in global supply chains remains a significant human rights issue for companies and their investors. The ICT sector is a sector highly exposed to these issues – and should be a significant concern for investors looking to the sector to support the development of technology and infrastructure central to our daily lives.

The latest KnowtheChain benchmark is another critical reminder of how much more the ICT sector needs to do in order to meet regulatory requirements and remove forced labour from its supply chains. Tackling this challenge requires unprecedented collaboration between companies, investors, policy makers and civil society. Companies, and fellow investors, must make use of these data and insights to challenge existing practices, including by focusing on ensuring effective stakeholder dialogue and access to remedy given these remain key gaps in company practices.

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The largest global information communications and technology (ICT) companies have posted a record US$4 trillion in combined annual revenue during 2022, up from about US$3 trillion in 2021. But as the sector has grown, so too has its capacity for forced labour and labour rights abuses within its vast global supply chains.

The 2022 KnowTheChain benchmark of 60 of the largest ICT companies makes clear that, with a median score of just 14/100, most companies fail to demonstrate sufficient due diligence to identify forced labour risks and impacts in their supply chains or take adequate steps to address them. While scores ranged widely – with the highest-scoring company, Hewlett Packard Enterprise (HPE), scoring 63/100 – these findings warrant increased scrutiny by investors, who have long relied on tech companies as the backbone of their ESG strategies.

In practice, active interrogation by investors of labour rights risks and impacts along the supply chains of investee companies – and, crucially, ensuring issues are addressed – is core to sustainable investment: that is, achieving financial returns while promoting long-term social value. With regulatory efforts and development of ESG standards on the rise around the globe, investors have increasing legal obligations to undertake and demonstrate this approach, or face financial penalties. For the ICT sector, such efforts are critical; findings for this benchmark reveal generally low levels of disclosure of forced labour risks (22%) and forced labour violations (32%). Rather than suggesting an absence of such risks in their supply chains, these low numbers instead point to a failure to look for them: nearly half the companies included in the benchmark also failed to disclose undertaking human rights risk assessments in their supply chains at all – the foundation of basic human rights due diligence.

There are further red flags for investors. This year’s ICT benchmark, which employed a revised methodology and adjusted weighting to focus on companies’ implementation of policies and outcomes for workers, found only 6% of companies scored over 50/100 in demonstrating how they are preventing and remediating forced labour issues. At the very bottom of the list, three companies provided no relevant information on how they are working to identify and mitigate these forced labour risks in their supply chains: BOE Technology Group (supplier to Apple, Dell, HP and Samsung), Hikvision (the “world’s largest surveillance company” and “supplier to the UK government”), and NAURA (“China’s top semiconductor equipment maker”).

As changes to the global regulatory framework demand increased accountability from investors with regards to human and labour rights issues of their investee companies – and with that significant material risks, investors have a duty to seek both better practice and disclosure from companies on how they are addressing forced labour.
Forced labour risks are increasing

As conflict, trade tensions, political instability and inflation contribute to a global cost-of-living crisis, soaring food and energy prices have already caused an additional 71 million people in developing countries to sink into poverty. Against this background, combined with the consequences of climate change, a recent report by Verisk Maplecroft shows exposure of vulnerable workers to forced labour risks is increasing globally. More than half of all forced labour occurs in either upper-middle income or high-income countries, with Europe and the US top destination countries for people, many of them women and children, fleeing climate disaster, economic hardship and conflict.¹

The private sector is home to 86% of forced labour. In the aftermath of the pandemic, labour laws in a range of producing jurisdictions, such as India, Cambodia and Indonesia have been weakened in a bid to reboot economies. The erosion of foundational rights to freedom of association and collective bargaining has worsened conditions for workers in terms of their health and safety, working hours, wages and freedom of movement – and still further increased the risk of forced labour.

At the same time, a suite of new legislative efforts moves forward, including the Uyghur Forced Labour Prevention Act (UFLPA), the EU’s Directive on Due Diligence and developments globally including in Canada, France, Germany, Norway, Japan, New Zealand and the UK, with the potential to turn labour rights risks to workers into more tangible operational and financial risks to the company.

ICT sector companies, with global supply chains traversing conflict-affected areas, a history of dependency on vulnerable workers and hardball purchasing practices, are highly exposed to forced labour risks and impacts. However, findings from KnowTheChain’s 2022 ICT benchmark suggest companies, and in turn, the market, are overlooking their exposure to forced labour, allowing abuse to persist and contributing to wider supply chain and societal vulnerability, with substantial associated material risks.

A failure of due diligence poses material risks

Where risks to human rights are greatest, there is a strong convergence with risk to business, including reputational, operational and financial risks. The UK government estimates forced labour exploitation came at a societal cost of UK£259.1 million in 2016/17 in the UK alone, while the ILO estimates the annual cost to the global economy of work-related illness and death is a staggering US$1.25 trillion, or some 4% of annual GDP.

The presence of forced labour indicators, in particular abuse of vulnerability, deception, restriction of movement, intimidation and threats, and abusive working and living conditions, can pose significant material risks. The Covid-19 pandemic highlighted the inadequate health and safety provisions in many ICT factories, among others, which led to work related illness and deaths, as well as costs to business. Examples include: STMicroelectronics Malaysia (supplier to Apple, Cisco, and HP), where over a period of months, 19 workers died from Covid-19, due in part to unventilated conditions.

At Foxconn’s iPhone City in Zhengzhou, production ground to a halt in November 2022 after an outbreak of Covid-19, which spread rapidly among workers sharing dormitories in ’unhygienic conditions’. Political and supply chain instability and China’s Zero-Covid strategy have also caused tech companies to shift sourcing to other contexts where they can benefit from weak labour laws, such as India and Vietnam – increasing the risks of labour rights violations, but also disruptions to production due to inadequate health and safety and high worker turnover, and issues with product quality. For example, in Delhi, a deadly fire in a factory manufacturing CCTV hardware killed 27 people and injured 12.

According to local trade unions, the factory had been operating beyond the one-third capacity mandated by the government, and workers were also... told that they would not receive wages for May if they did not report to work... [creating] a situation where they were forced to return to work.”

Tenaganita monitoring partner of Electronics Watch

¹ Europe could receive up to a million migrants per year by 2050, with around 20% of undocumented entries coming from sub-Saharan Africa.
These reports are likely just the tip of the iceberg, as forced labour cases and work-related illness and deaths are significantly underreported.²

As legislation and societal expectations increase corporate supply chain transparency and accountability, the findings of the 2022 benchmark – which indicate companies are falling short of these requirements and their human rights commitments – should serve as a call to action for investors.

Almost two thirds of benchmarked companies (62%) disclose sourcing from both China and Malaysia, which are listed by the US Department of Labor as particularly at risk of forced labour. Indeed, in the electronics sector it is unlikely any company benchmarked by KnowTheChain is immune from forced labour risks.³ Despite this, 45% of benchmarked companies still do not disclose carrying out a human rights risk assessment, and of those that did, only 13% disclose engaging with stakeholders as part of their efforts to understand risks.⁴

Hewlett Packard Enterprise, for example, reports that it engages with non-governmental organisations (NGOs) on forced labour topics to research and better understand risk.

Systematically integrating stakeholder engagement into due diligence processes is not only part of a company's responsibility under the UN Guiding Principles – and increasingly hard law – but it can also help with the early detection of negative impacts, improve impact mitigation and the efficacy of grievance mechanisms and build trust and reduce costs in the longer term. The EU's proposed Due Diligence Directive mandates published assessments of companies' supply chain human rights, and associated risks, and stakeholder consultation with respect to identifying, preventing and ending impacts. The failure to do so can be met by fines, compliance orders and civil liability.

Out of the 19 allegations of abuses in supply chains identified by KnowTheChain, 18 relate to reports of the transfers of Uyghur and other ethnic minority Muslims from Xinjiang to work in factories around China. Companies implicated include Amazon, Cisco, Dell, Apple, BOE Technology, Hitachi and Foxconn. While some of these companies disclose carrying out audits in response to the allegations – and finding no instances of forced labour – it must be noted that the reliability of audits and the adequacy of due diligence in the region has been called into question by civil society groups, governments, and auditors themselves.

Importantly, the inadequacy of company responses to allegations garnered all companies a score of zero in the benchmark. But despite a dramatic drop in the value of goods exported by companies from the Xinjiang region to the US in September, exports are still three times as high as the same time last year. This suggests that, as yet, the risk of penalties falls short of incentivising better practice and/or encouraging responsible exit in situations where due diligence is not possible.

² The ILO, for example estimates that some 2.3 million women and men around the world succumb to work-related accidents or diseases every year; this corresponds to over 6000 deaths every single day.

³ Evidence from KnowTheChain ICT benchmark 2022. Individual scorecards can be consulted for companies' disclosure of high-risk sourcing locations.

⁴ Since KnowTheChain's previous assessment in 2020, 13 more companies have disclosed carrying out a human rights risk assessment on their supply chains, suggesting an increased focus on ensuring baseline due diligence.
More than three-quarters (78%) of companies don't disclose detail on the type of forced labour risks discovered as part of their risk assessment process such as the countries, raw materials or supply chain tiers at higher risk of forced labour. Additionally, over two-thirds (68%) of companies do not disclose the findings of monitoring reports, including details regarding any violations revealed in relation to forced labour.

**Best Buy**, for example, scored zero on this indicator. It reported its audit results found 75% compliance with labour practices, but did not disclose further detail to substantiate this claim.

**Kyocera** stated, "regarding suppliers, there are currently no human rights issues." It otherwise discloses only high-level findings for its 'CSR survey' which it says includes human rights – a particularly bold claim since it does not disclose any detail on monitoring process.

It is also troubling that, despite higher levels of reporting on conflict minerals sourcing, **four in five (80%) of companies have yet to disclose a first-tier supplier list**. This suggests an unwillingness to be transparent about suppliers, often premised on commercial sensitivity. But making a supplier list publicly available can yield benefits, such as identifying unauthorised subcontracting. **Amazon, Dell, Hewlett Packard Enterprise** and **HP**, which all provide relatively granular detail on their suppliers, including names and addresses and demographic composition of workforce, prove that more disclosure is viable and appear to undermine any argument against it on the basis of "commercial risk".

In fact a failure to do so could leave companies open to legal risk. In jurisdictions like Norway and Germany, supply chain transparency legislation requires companies to map and catalogue all direct suppliers and business partners, including their locations, the nature of their businesses, and the nature of their workers. To promote transparency, companies must publish all due diligence efforts on corporate websites, or face fines and injunctions for a failure to comply.

An unwillingness to disclose risks and instances of forced labour signal weak monitoring processes, while stating no human rights issues exist signals a profound misunderstanding of the purpose of due diligence, which is designed to identify risks and impacts – something all companies will have. An assessment stating no risks or impacts exist likely highlights flawed or limited due diligence rather than the absence of risk – and should be interrogated by investors. Lack of disclosure also prevents scrutiny by civil society and investors, a key lever in driving accountability on these issues.

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5 The US Dodd-Frank Act mandates reporting on smelters and refiners and the sourcing countries of so-called “conflict minerals” (tin, tungsten, tantalum and gold).
Recommendations

The changing global regulatory environment brings new obligations – and opportunities – for investors to adopt both collaborative and carrot and stick approaches to incentivise investee companies’ performance on forced labour issues. These actions contribute not only to the sustainable financial returns of companies and the protection of workers, but to the integrity and stability of global markets:

Develop a human rights policy that commits the investor to fundamental rights stated in the ILO Declaration on Fundamental Principles and Rights at Work including Convention 29 and acknowledges responsibility under the UNGPs and the OECD Guidelines for Multinational Enterprises. The policy should also outline how the investor conducts human rights due diligence to identify potential and actual adverse impacts it is linked to or to which it contributes (in its own supply chain and with respect to investee companies), and the process for responding to labour rights complaints.

Integrate respect for fundamental labour rights as an engagement priority to hold investee companies accountable to their responsibilities under international norms and frameworks and commit to escalation in the absence of progress (see Appendix of “Forced Labour Risk, Remedy and Remediation” briefing for standard engagement questions).

Adopt a stewardship policy and voting guidelines which specifically mention respect for labour rights, as defined by ILO conventions. Engagement priorities should include expectations on improved disclosure and better performance, particularly related to workers voice, supplier transparency and supply chain traceability, and the effectiveness of grievance mechanisms.

Maximise leverage by joining investor coalitions and collaborative engagements on the topic of forced labour like those of the ICCR and CCLA’s “Find it, Fix it, Prevent it”.

While engaging with companies is key, the role of governments is key. Investors should strengthen public policy functions to publicly support the development of regulatory regimes that improve financial market transparency, and facilitate responsible growth of capital markets, while mitigating financial market participant harm to society and environment.