



Fiona Reynolds, Managing Director
Principles for Responsible Investment,
25 Camperdown Street, London, E1 8DZ, UK

Dear Committee Secretary,

Re: PRI submission to the inquiry into establishing a Modern Slavery Act in Australia

About the PRI

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI represents 1700 signatories globally with \$83 trillion AUD assets under management. In Australia, 120 signatories have signed the Principles.

Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors, and the long-term health and stability of the market as a whole. It is driven by a growing recognition in the financial community that evaluation of ESG issues is a fundamental part of assessing portfolio value and investment performance.

There are two key areas of work undertaken by the PRI which inform our response to the Inquiry into establishing a Modern Slavery Act in Australia:

1. A collaborative investor-company engagement on supply chain labour coordinated by the PRI to improve investors' understanding of risks, and encourage improved labour practices by investee companies. The engagement outcomes are captured in the PRI report [From Poor Working Conditions to Forced Labour: What's Hidden in Your Portfolio?](#) and PRI's [investor expectations on labour practices in agricultural supply chains](#).
2. The PRI is galvanising signatories in support of the establishment of a Modern Slavery Act through an investor statement (please see appendix).

Background

On 15 February 2017, the Attorney-General, Senator to the Hon George Brandis QC, asked the Committee on Foreign Affairs, Defence and Trade to inquire into and report on Establishing a Modern Slavery Act in Australia. The Committee plans to examine the state of modern slavery in Australia and globally, particularly the presence in global and domestic supply chains. It also aims to identify international best practices, looking to the UK 2015 Modern Slavery Act as one example. Finally, it will determine whether a Modern Slavery Act should be introduced in Australia.

Recommendations

The PRI along with a group of investors, would welcome the introduction of a Modern Slavery Act in Australia. We urge the Committee to include the following attributes in the Act:

- The Act should require statements to be authorised by the board, and signed in a manner which binds the organisation in accordance with Australian corporate law.
 - **Rationale:** This is a requirement for reporting in the UK, and has helped to drive board level discussion and understanding of the risks related to forced labour and

poor working conditions among UK-listed companies. In our view, and based on dialogues with companies as part of the collaborative engagement on supply chain labour, board level oversight of labour practices is important for the protection of long-term shareholder value.

- The Act should include an annual public reporting requirement, allowing investors to make year-on-year comparisons of companies' efforts and progress.
 - **Rationale:** This is also a requirement for reporting in the UK, and enables regular monitoring of progress.
- The Act should call for disclosure of companies' efforts to map supply chains and to undertake due diligence.
 - **Rationale:** The reporting driven by the UK shows a gap in this area. However, this is a critical indicator of the company's understanding of its risk exposure. While this recommendation could be implemented in different ways, the objective should be for companies to provide an indication of the extent to which they are assessing their supply chain and related risks.
- A central repository to which companies submit their statements should be established alongside the Act.
 - **Rationale:** The UK does not have a central repository, leaving civil society to compile all statements in one place to make the reporting useful to audiences such as investors that want to compare companies' responses against sector peers. It is also more difficult to monitor which companies should report but have not done so without a central repository.

Please see the following Investor Statement in Support of Establishing a Modern Slavery Act in Australia for more information.

Evidence for PRI's conclusions

Precedent exists in many markets as well as international frameworks for human rights and sustainable development

Freedom from slavery and forced servitude is a fundamental human right. Despite this, the International Labour Organization estimates that nearly 21 million people are victims of modern slavery globally.¹ However, legislators are increasingly holding companies accountable for ensuring their products and services are not supported by forced labour.

In addition to the UK Modern Slavery Act (2015) noted above, several other markets have adopted similar legislation. The California Transparency in Supply Chains Act (2010) requires companies to disclose on their websites the extent of engagement and auditing of suppliers to address risks of human trafficking and slavery, as well as procedures for non compliance, and training offered to employees.² Just this year (2017), France adopted a Corporate Duty of Vigilance law which requires its largest companies to assess and address adverse impacts on people and the planet, both in direct operations and throughout the supply chain. Failure to do so can result in fines up to €30 million.³

¹ Reference

² <https://www.dol.gov/ilab/child-forced-labor/California-Transparency-in-Supply-Chains-Act.htm>

³ <http://corporatejustice.org/news/393-france-adopts-corporate-duty-of-vigilance-law-a-first-historic-step-towards-better-human-rights-and-environmental-protection>

Beyond national legislation, there exist international frameworks for best practice in human rights, including labour practices. The UN Guiding Principles for Business and Human Rights address the state duty to protect, as well as the corporate responsibility to respect human rights. The foundational principle for the former is to “protect against human rights abuse within their territory [...] including business enterprises.”⁴ Lastly, section IV of the OECD Guidelines for Multinational Enterprises explicitly states that enterprises should “contribute to the elimination of all forms of forced or compulsory labour.” By ratifying a Modern Slavery Act, the Australian government would be fulfilling this duty for forced labour and bringing domestic companies in line with international best practice.

Finally, forced labour and modern slavery are addressed within the UN Sustainable Development Goals, specifically goal 8: Decent work and economic growth. This goal includes a target to “Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour...” Australia has committed to the implementation of the Sustainable Development Goals, and the introduction of a Modern Slavery Act could be an important step as part of meeting the target on forced labour.

There is a business case for ending forced labour

Not only are sound labour practices the right thing to do, they are the smart thing to do. The PRI finds a number of upside opportunities to sound management of labour risks in companies’ operations and supply chains. These include:

- alignment with emerging international best practice. Several Australian companies with operations in other markets already report on these issues;
- access to government contracts, as many governments (including the US) require contractors and sub-contracts to prevent human trafficking in the provision of government goods and services;
- access to trade markets given certain governments prohibit imports provided through forced labour;
- protection or enhancement of market share, customer loyalty and, in some cases, availability of a price premium.

Downside risks include harming brand reputation, loss of sales or contracts, loss of license to operate and disturbance of supply chains.

By ratifying a Modern Slavery Act, the Australian parliament would help ensure domestic companies access the benefits above, reduce the downside risks of poor practice, and improve transparency on how companies operating in Australia are managing modern slavery risks. This will enable investors to make informed investment decisions and engage with companies to mitigate these risks.

If you would like to receive more information about our work on this issue or discuss it in further detail, we would be happy to arrange a meeting at a time convenient for you.

Yours sincerely,

Fiona Reynolds
Managing Director, Principles for Responsible Investment

⁴ http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf page 4

APPENDIX

INVESTOR STATEMENT IN SUPPORT OF ESTABLISHING A MODERN SLAVERY ACT IN AUSTRALIA

The undersigned global investors with US\$2.13 trillion assets under management are writing to welcome the inquiry into establishing a Modern Slavery Act in Australia by the Joint Standing Committee on Foreign Affairs, Defence and Trade of the Parliament of Australia. As investors, we believe human rights issues can present potential financial impacts through reputation damage and operational risks to our portfolio companies. We therefore welcome a Modern Slavery Act which would improve transparency on how companies operating in Australia are managing modern slavery risks in their operations and supply chains.

The International Labour Organization estimates almost 21 million people are victims of modern slavery globally. In Australia, migrant workers are found in forced labour in sectors such as agriculture, construction, and hospitality, and Australian companies may be implicated in using forced labour in their supply chains through sourcing goods and services domestically and internationally. The discovery of forced labour in companies' operations and supply chains can present risks including supply chain disruption, damage to brands and may harm companies' license to operate. As investors, we believe these risks may impact long term returns, and we support efforts to encourage companies to improve disclosure on how they are managing these risks. Meaningful disclosure of human rights performance can play a significant role in reducing a company's human rights risks, contribute to a company's competitive advantage, and strengthen its long-term financial stability.

While we recognise that some large Australian companies are making efforts to provide good quality human rights disclosure, on the whole investors have limited information on Australian companies' efforts to address risks related to forced labour. Voluntary efforts of Australian companies to address human rights in the supply chain are limited and only some Australian companies are covered by foreign modern slavery due diligence and transparency efforts. An Australian Modern Slavery Act would create a level playing field, improving the amount of information available. This would help investors to make informed investment decisions and to engage with companies to mitigate these risks.

An Australian Modern Slavery Act would also complement recent legislation on human rights due diligence, such as the California Transparency in Supply Chains Act, the UK Modern Slavery Act, the EU Non-Financial Reporting Directive and the French Corporate Duty of Vigilance law and would build on international soft law, such as the UN Guiding Principles for Business and Human Rights, the ILO core labour standards, and the OECD Guidelines for Multinational Enterprises. Early evidence shows that both the California and the UK legislation are improving availability of

information for investors, while increasing senior level corporate engagement, transparency and action on modern slavery. An Australian Act would complement these efforts.

Finally, we urge the Committee to ensure that an Australian Modern Slavery Act includes the following attributes, which we consider will enhance its effectiveness:

- The Act should include a requirement that modern slavery statements are authorised by the board, and signed in a manner that binds the organisation in accordance with Australian corporate law, as a means to ensure board-level discussion of these risks. This is consistent with the Modern Slavery Act in the UK.
- The Act should include an annual public reporting requirement, allowing investors to make year-on-year comparisons of companies' efforts and progress. This is also consistent with the Modern Slavery Act in the UK.
- The Act should call for disclosure of companies' efforts to map supply chains and to undertake due diligence. Our dialogues with companies have shown that these are often good indicators of companies' efforts and provide investors with meaningful information.
- Finally, to enable investors and other stakeholders to easily access and compare companies' disclosures, we recommend that an Australian Modern Slavery Act include a central repository to which companies are requested to submit their statements.

This statement is supported by the following signatories:

Alphinity Investment Management



Ausbil Investment Management Limited



Australian Ethical Investment



AustralianSuper



Aviva Investors



Bankhaus Schelhammer & Schattera AG



BMO Global Asset Management



Boston Common Asset Management



BT Financial Group



Candriam Investors Group



CBUS



Christian Super



Church of Sweden



Church Investors Group



Colonial First State Global Asset Management



Domini Impact Investments LLC



Ethos Foundation Switzerland



Financial Services Council



First State Super



HESTA



Hermes Investment Management



Members of the Interfaith Center on
Corporate Responsibility (ICCR)*



IFM Investors



Local Government Super



Nordea Wealth Management



Pacific Equity Partners



Pax World Management LLC



PGGM



Rathbone Brothers PLC



Robeco



Solaris Investment Management



Sunsuper



UCA Funds Management



UniSuper



WaveStone Capital



*Participating members of ICCR include: Adrian Dominican Sisters Portfolio Advisory Board, Aquinas Associates, Christian Brothers Investment Services, Dana Investment Advisors, Dominican Sisters Grand Rapids (MI), Franciscan Sisters of Allegany NY, Maryknoll Sisters, Mercy Investment Services, Inc., Miller/Howard Investments, Inc., NorthStar Asset Management, Inc., Northwest Coalition for Responsible Investment, Presbyterian Church U.S.A., Responsible Sourcing Network, Seventh Generation Interfaith Coalition for Responsible Investment, Sisters of Charity of New York, Sisters of Charity, Halifax, Sisters of the Presentation of the BVM, Aberdeen SD, Trinity Health, Zevin Asset Management