



# **Executive** summary

The UK Modern Slavery Act 2015 (Act) was established nearly six years ago and was hailed as a landmark piece of legislation. Its aim was to encourage business to take action to eradicate modern slavery from its operations and supply chains. Fundamental to this was Section 54, the Transparency in Supply <u>Chains</u> provision (TISC), that requires companies to publish

a statement of the steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not taking place"

in its operations or supply chains. The intention was for the TISC provision to create a race to the top by encouraging businesses to be transparent about their efforts to tackle modern slavery risks, thus increasing competition to drive up standards for appropriate and effective response to modern slavery.

Business & Human Rights Resource Centre (BHRRC) has hosted the only public repository of statements – the Modern Slavery Registry – and assessed compliance of over 16,000 modern slavery statements of some of the largest global companies over the past five years and the jury is in: It is clear the UK Modern Slavery Act has failed in its stated intentions.

The provisions of the UK Act itself, based on a requirement to submit a trifling level of reporting which has not been monitored or enforced, has failed to drive systemic corporate action to expunge forced labour, even in high-risk sectors. The Act has raised awareness of the prevalence of modern slavery and encouraged a cluster of leading companies and investors to do more. But ultimately, our analysis of five years' worth of statements in the Modern Slavery Registry has revealed no significant improvements in the vast majority of companies' policies, practice or performance.

Despite six years of persistent non-compliance by two in five (40%) of companies, <u>not one injunction</u> or administrative penalty (such as exclusion from lucrative public procurement contracts) has been applied to a company for failing to report. This stands in stark contrast to more robust approaches, such as the Section 307 of the Tariff Act in the



**16,000** 

modern slavery statements over the past five years



**40**%

company non-compliance over the past six years



🐴 Zero

injunctions / penalties have been applied to companies for failing to report over the past six years



**60**%

of in-scope companies are reporting under the law



USA where goods suspected of being produced with forced labour have been banned from being imported, leading to rapid and multi-million dollar repayment of recruitment fees by suppliers to this lucrative market.

The Act has not resulted in informative disclosure from most companies because it simply suggests (rather than requires) that a company's modern slavery and human trafficking statement include information about the company policies, due diligence processes, training initiatives and indicators to measure effectiveness in ensuring that slavery and human trafficking are not taking place in its operations or supply chains.

This flexibility has not driven greater voluntary transparency. Instead, lack of enforcement of the reporting requirement itself and lack of mandatory reporting criteria has led to dismal results. Only around three in five of in-scope companies are reporting under the law, and a majority of those companies are publishing general statements that do not achieve the intention of the law. Research has also shown that multinational companies linked to high-risk sectors or materials and commodities fail to disclose wellknown risks in their modern slavery statements.

Critically, the Act has not driven significant improvement in corporate practice to eliminate modern slavery because it does not place any legally binding standards on companies to undertake efforts to effectively address risks of labour exploitation in their business operations. In fact, the Act explicitly states a company may publish a statement that says it has taken no steps to address modern slavery risks during the financial year and still be compliant with the law.

Finally, the narrow focus of the law treats modern slavery as distinct from other forms of labour abuse and disclosure requirements exclude the spectrum of labour abuse risks that could lead to or are a clear indication of modern slavery. Labour abuse occurs on a continuum in which all types of exploitation intersect with socio-economic factors, such as immigration status, employment status, or gender, and increase worker vulnerability to even worse exploitation - including modern slavery. Similarly,

an affected individual may move between modern slavery and other forms of labour exploitation as conditions continually change.

The inadequacy of the Act to protect the estimated 25 million victims of forced labour around the world has been highlighted during the COVID-19 pandemic, which has further increased the risk to workers of forced labour. The pandemic has demonstrated how systemic the causes of labour exploitation are, and the urgent need for legally binding obligations on companies - properly and forcefully implemented that go beyond hollow reporting requirements.

The UK Modern Slavery Act has been an important experiment in 'nudge' strategies to encourage voluntary corporate transparency to drive systemic change in company operations and supply chains. All the evidence now points to the fact that this fails: transparency is necessary but relying on voluntary disclosure is insufficient to prevent even the worst forms of labour abuse.

This experiment, however, has delivered vital insights which have paved the way for leading businesses, investors and politicians across many regions to think differently. There are alternative legal frameworks, such as mandatory human rights due diligence and import bans linked to trade regulations, which should be implemented and enforced if governments genuinely seek to end the scourge of forced labour and other egregious labour abuses of vulnerable workers. Responsible companies now want a level playing field, preventing unscrupulous companies from under-cutting them, harmonisation of standards for human rights and legal certainty. BHRRC recommends three new policy options that together would more effectively tackle modern slavery alongside a commitment from the UK Government to adequately enforce these laws:

- A new piece of legislation to impose legal liability on all companies in all sectors for a failure to prevent human rights abuses in their businesses;
- (5) The introduction of import bans for goods suspected of being produced with forced labour;
- The application of these laws to public procurement.



# Five years of reporting under the Modern Slavery Act

Over the past five years, BHRRC has monitored company reporting under the Act and published several reports assessing the quality of modern slavery statements produced by FTSE100 companies. While recognising disclosure in these statements may not reflect the totality of a company's efforts to prevent modern slavery (relevant practices and policies may not be included), transparency is essential to demonstrating whether a company understands its risks and is making efforts to mitigate, remediate and prevent them from reoccurring.

Over the years, a small number of companies describe efforts to improve governance, policies and practices related to modern slavery, but they remain a minority. BHRRC assessed the modern slavery reporting of the FTSE 100 companies against 54 indicators, related to steps companies should take to address modern slavery under each of the six suggested reporting criteria in the Act. Out of a maximum score of 100, the average score in that analysis was just 31. However companies such as Marks & Spencer demonstrated that it was possible to remain profitable while also investing in anti-slavery efforts with a far higher score of 78.

Yet despite identifying improvements in reporting over the years, what is included in statements has had little bearing on company practice in effectively mitigating the risk of modern slavery or addressing the systemic causes of labour exploitation.

- → Improved monitoring of companies that are reporting: In operating the Modern Slavery Registry, BHRRC observed there has been a year-on-year increase in the number of statements that explicitly name the parent and subsidiary entities covered by the disclosure following Home Office guidance.
- → Increased compliance with minimum requirements: More companies are meeting the minimum requirements of the TISC provision (board approval, director sign-off and access to statement from homepage of company website) with compliance increasing from 19% to 30% between 2018 and 2020.
- → Improved disclosure among some companies: Among the FTSE100 companies featured in BHRRC analysis, some improved disclosure from 2017 to 2018 in line with our recommendations and guidance including disclosing risks or instances of modern slavery identified.





## **Shortcomings of TISC:**

#### weak requirements, a limited scope & failure to enforce

Modern slavery statements published by companies pursuant to the TISC provision of Act must fulfil three minimum requirements:

- **Statements must be published on the company's website**, if it has one, and a link to the statement must be placed in a prominent place on the website's homepage.
- **③ Statements must be approved by the board of directors** (or equivalent management body).
- **Statements must be signed by a director** (or equivalent).

Statements should describe the steps the company is taking to address modern slavery, however, it is left to companies to decide what to include. A company can adopt a tick-box approach and only provide general information under the six suggested criteria, or state it has taken no steps at all, and still be compliant with the Act if it meets the minimum requirements.

For example, Aramark is one of the largest facilities management companies in the world, providing various services to both private and public sector clients, including the UK Government. It has 270,000 employees in 19 countries and recorded annual profits of over £12 billion in 2019. Its most recent modern slavery statement fails to describe efforts to identify and address modern slavery risks. Instead, the statement largely discusses, in general terms, the company's use of the audit platform Sedex. However the statement meets the three minimum requirements and is thus compliant with the Act.

According to estimates by the International Labour Organization, 25 million people are victims of forced labour in a year. Overwhelmingly, those affected are women and girls. Over a 5-year period, across the globe, a staggering 89 million people have experienced some form of modern slavery. The UK Government committed to ending the scourge of modern slavery. But the failure of the government to use the mechanisms available to it under the law to compel companies to meet even the most basic compliance requirements completely undermines demands on those same companies to take the necessary action to fulfil that commitment.

It is estimated that around two in five in-scope companies are not complying with the Act, yet the government has never used its power to seek an injunction through the courts to compel a company to publish a statement. The government has indicated consumers, investors and civil society should engage or apply pressure to companies that fail to comply or have not taken sufficient steps to address risks. It has also sent letters to businesses to inform them that non-compliance will not be tolerated, but no further action has been observed.

The need for enforcement to drive even basic compliance – and increase company reporting up from the current level of just three in five - has been a focus of efforts by stakeholders to strengthen the TISC provision. One of the recommendations by the independent review was the imposition of financial penalties for companies which fail to report, however, the government pushed back on the idea, stating penalties could potentially be imposed by a yet-to-be created Single Enforcement Body. Meanwhile, the government continues to use the promise of penalties to give the appearance it is responding to modern slavery more genuinely.



In response to the allegations of serious human rights abuses of the Uyghur Muslims in Xinjiang, China, the UK Government announced measures in January 2021 to ensure British companies are not complicit in, nor profiting from, these human rights violations in Xinjiang. The government reiterated its intention to introduce financial penalties for organisations that fail to publish a statement under the Act, although details on when the measure will be implemented have not been provided. The threat of a fine for not publishing a brief statement is a wholly ineffective measure to address the human rights abuses such as those being perpetrated against the Uyghur people or indeed other victims of forced labour around the world. Nor can it be said the measure is intended to address the specific situation of the Uyghur as it did not target companies that source goods linked to that abuse; rather it was a restatement of a blanket measure that would apply to all companies which fail to publish an annual statement.

The Act's narrow focus has meant there are gaps in disclosure related to identification, prevention and remediation of the full spectrum of labour rights abuse. This is problematic because abuses prevalent in supply chains like low wages, poor working conditions or union suppression that do not amount to modern slavery are excluded from disclosure. Yet they are important in providing a full picture of a company's risks because they contribute to, or increase, the vulnerability of workers, leaving them exposed to exploitation. Attempts to address modern slavery, without considering the types of exploitation which precede and create it, would be akin to applying a plaster to systemic and structural issues - such as fragmented supply chains, the low presence of union representation, and barriers affecting marginalised workers - that create risk of labour exploitation.

#### Even the government recognises,

66 There is a spectrum of abuse and it is not always clear at what point...poor working practices...seep into instances of human trafficking, slavery or forced labour in a work environment. However, businesses have a responsibility to ensure that workers are not being exploited...and human rights laws and international standards are adhered to...[and] have a legal duty to drive out poor labour practices in their business, and a moral duty to influence and incentivise continuous improvements in supply chains."

Despite this, the TISC provision of the Act does not require disclosure on key contributors to labour exploitation such as discriminatory hiring policies, misclassification of workers that lead to precarious work, and exploitative purchasing practices which have a direct impact on working conditions.

Of the companies which do report, most are not transparent about their risks and how they are addressed. Companies are required to describe the steps it has taken to address modern slavery, yet the reporting criteria are not mandatory and any disclosure is done voluntarily. In practice, many companies have been reluctant to disclose information beyond the bare minimum. Furthermore, the government did not establish a central registry of statements which, with thousands of companies required to report every year, would have helped ensure efficient monitoring of whether companies were meeting reporting required, while also increasing transparency and ease of access to information for stakeholders. BHRRC stepped in to fill that gap and created the Modern Slavery Registry in 2016.

For example, companies may include information on 'the parts of its business and supply chains where there is a risk of slavery and human trafficking taking place, and the steps it has taken to assess and manage that risk'. Government reporting guidance says companies should consider risks related to country, sector and business partnerships. BHRRC analysis of the FTSE 100 companies in 2018 found that less than half the companies assessed provided some information about geographies, commodities or workforce at risk in supply chains. Even fewer disclosed the modern slavery risks they identified - the primary disclosure stakeholders would expect to find in a modern slavery statement. The Act does not suggest that risks be disclosed.



When the Act came into force, it was anticipated companies would report in alignment with the UN Guiding Principles on Business and Human Rights (UNGPs) and use their annual reports as an opportunity to demonstrate yearly progress on their efforts to combat modern slavery. Reporting alone was not intended to fulfil this expectation in isolation of these other efforts. But the Act only requires a company to publish a statement that may or may not include efforts taken to address modern slavery risks. It is not surprising this has resulted in many companies simply relying on publishing a generic statement to meet their obligations under the law – in creating policy to combat modern slavery and other human rights abuses, the legal requirement must be the floor, not the ceiling of expected action.

There a number of relevant areas for companies to disclose but which are largely missing from reporting because they are not included as suggested criteria or the statutory reporting guidance. These include:

- **Worker engagement:** Direct engagement with workers, trade unions or worker representatives is crucial to identifying and effectively remedying modern slavery risks. However, in the MSR 2018 FTSE 100 analysis, fewer than one in seven (15%) of FTSE 100 companies reported having engaged directly with workers or trade unions. According to MSR data only 792 modern slavery statement (out of over 16,000 statements collected over five years) contain the phrase 'trade union'. This was a top-level search and did not assess the context within which the word was used. Many companies continue to rely heavily on social audits, which are inadequate to identify serious labour abuse, or voluntary certification schemes related to high-risk commodities (e.g., tea and coffee), which were found to have no impact on labour standards.
- **Onsideration of business practices & incentives:** The TISC provision suggests companies report on the effectiveness of anti-slavery efforts as measured against key performance indicators (KPIs) including whether they make their business and supply chain vulnerable to modern slavery. Statutory guidance states particular performance incentives, such as encouraging purchasing at lowest cost or increased production or shipment "turn-around" times, may influence and create a modern slavery risk. Disclosure does not show that companies consider how their own practices and incentive schemes cause or contribute to risks as part of their risk assessment. In the BHRRC 2018 FTSE 100 analysis, effectiveness was the lowest scored reporting area, averaging a shockingly low 17%.
- **Remedy:** Companies should have corrective action plans developed and ready to be deployed, and details about plans should be disclosed in reporting regardless of whether risks have been identified. Yet few companies mention remediation plans in their reporting. According to our data only 2,676 modern slavery statements (out of over 16,000 statements collected over five years) contain the phrase 'remedy'. This gap in reporting might be because many companies have not, according to disclosure, identified any risks or instances of modern slavery. As noted in our 2018 FTSE 100 analysis,
  - About 75% of companies reported having grievance mechanisms...However, no company reported having received a modern slavery-related complaint, via such mechanisms."



#### **Beyond Transparency:**

## a more effective legal framework to prevent labour abuses

The shortcomings of the Act were highlighted in an independent review that published a set of recommendations to strengthen the law. The role of the Independent Anti-Slavery Commissioner has also played a key role in highlighting shortcomings of the Act and demanding stronger enforcement measures, for example seeking answers from the CEOs of companies linked to one of the largest modern slavery cases in the UK.

In response to the call to address shortcomings, the UK Government has announced amendments to the TISC provision to be enacted when parliamentary time allows. It committed to the following:

- The government will launch a registry where companies will be required to submit their statements.
- (a) A single reporting deadline will be implemented, rather than linking reporting deadlines to a company's financial year end.
- The public sector will be required to report under the TISC provision.
- Reporting criteria will be mandatory.
- Delayed consideration of sanctions, including financial penalties, for non-compliance to when a Single Enforcement Body has been created.

While critiques from diverse stakeholders have led the UK Government to commit to strengthening the Act, these amendments, while welcome, are unlikely to be sufficiently transformative to drive the change needed - an issue thrown into stark relief during the pandemic. Global lockdowns have disrupted supply chain production in an unprecedented way, leaving millions of workers without wages and facing destitution – with women and migrant workers disproportionately affected. Yet the structure of supply chains has allowed companies to minimise financial risk and pass the risk down the supply chain onto workers, dodging any responsibility for workers, and causing huge swathes of workers to slide down the spectrum of labour exploitation towards modern slavery.

The government must move beyond transparency and address its enforcement failures. This means eliminating forced labour from supply chains and enacting legally binding and enforceable standards that more broadly guarantee corporate human rights due diligence is undertaken to mitigate the breadth of risk that leads to forced labour conditions. These legal standards, and how they are enforced, should be designed in such a way to address the shortcomings of the Act, as identified by the independent review and the Parliamentary Joint Committee on Human Rights. There are various existing legal frameworks that can be used to address labour rights abuse in supply chains. The UK must keep up with these legislative developments to ensure a level playing field for companies.

For example, Section 307 of the Tariff Act in the US is a trade regulation used to withhold the release of whole categories of products from specific source countries into the internal market where there is a reasonable evidence of forced or child labour. Companies are then required to demonstrate through due diligence that the goods they import are not produced with forced labour. During the COVID-19 pandemic, the US imposed bans on rubber gloves produced by two subsidiaries of Top Glove, based on suspicions workers in Malaysia were in debt bondage. Bans have also increasingly been placed on various products from the Uyghur region in China such as cotton, tomatoes and hair products. These bans, as well as those recently imposed on tobacco and cocoa products, demonstrate how a trade law can be used as a tool to help move the needle on exploitative labour practices in high-risk sectors. However, laws such as the Tariff Act do not impose human



rights obligations or duties on companies. Rather, where goods are held on suspicion of being manufactured with forced labour, companies must provide proof they were not, for example by demonstrating adequate due diligence was undertaken. The action is taken after the exploitation has occurred rather than working as a tool to mitigate the risks of the exploitation in the first instance.

The most significant steps towards lifting the floor on the responsibility of companies for human rights abuses in their businesses and supply chains has been the movement towards legislating to ensure companies must undertake sufficient human rights due diligence to mitigate the risk of abuse and be held accountable when those abuses occur. The EU has already committed to introduce mandatory human rights and environmental due diligence legislation in 2021. The EU law is expected to apply directly to all companies operating in the single market, which would also include UK businesses. A similar law, the Duty of Vigilance law, already exists in France (and cases against Total, Teleperformance and others have now been brought in French courts). A number of other European countries have also since seen legislative developments to hold companies accountable for human rights abuses.

In the UK, stakeholders have proposed a 'failure to prevent' human rights and environmental harms law, which could be modelled on existing laws in the UK. It would provide a stronger, overarching approach to tackling irresponsible business conduct across all human rights and environmental risks, that would complement and go beyond sectoral or issue-specific approaches. The proposed law would hold companies to account (with civil and criminal liability) for failing to prevent harmful human rights or environmental impacts – it would impose a duty to prevent harm, rather than simply expect a level of human rights due diligence. The development and implementation of reasonable and appropriate due diligence procedures to prove companies acted with due care to prevent harms could form a defence against liability for damage or loss. Like the French Loi de Vigilance, companies would be required to publish a due diligence plan every year that sets out these efforts and plans for the upcoming year.

Enforcement of such a law could be undertaken by an independent business and human rights regulator (BHR Regulator) empowered to, among other things, monitor human rights due diligence, investigate allegations of failure to prevent adverse human rights impacts and impose civil penalties where the harm is proven. A potential game changer would be power to conduct market investigations: in-depth investigations of a whole market sector that could apply to high-risk sectors in which human and labour rights abuses have become endemic. Market investigations could pre-emptively address structural risks and systemic failures to prevent further abuse.

There is support for a failure to prevent law across stakeholders. BHRRC collected signatures of support from large responsible businesses which say the law would provide greater legal certainty, create a level the playing field and facilitate leverage with suppliers. The Parliamentary Joint Committee on Human Rights recommended a law to impose a duty on all companies to undertake human rights due diligence on subsidiaries and supply chain to prevent human rights abuses. Investors have called on governments to enact a human rights due diligence law.

Any law which expects companies to undertake due diligence procedures must emphasise the importance of respect for core labour standards including workers' right to freedom of association and collective bargaining. These rights help prevent and mitigate labour abuse, and are also key for workers to learn about their employment rights so they can improve their working conditions and try to secure decent work for themselves. The most vulnerable workers, who often do not enjoy these rights, are at most risk of being pushed into precarious work situations and suffer further exploitation, including modern slavery.

#### Labour abuse in public sector contracts

A failure to prevent law must apply to the public sector. In the UK, public procurement spend on goods and services from the private sector in the UK is more than £280 billion – a third of the government budget – and as such have immense leverage to push better labour standards as part of its public contracts. A failure to prevent law that mandates human rights due diligence would help to address the inconsistency within existing public procurement frameworks which places primacy on value for money (often interpreted as lowest cost) and more adequately address labour abuse that occurs in the delivery of public contracts.

In 2020 the UK Government published its own modern slavery statement and identified service staff such as cleaning services as the areas of highest risk for modern slavery. A majority of cleaners in the UK are female migrants who face specific and intersecting risk factors. Research undertaken by FLEX found cleaners in the UK experience frequently face issues with pay, inability to take time off when ill, dangerous working conditions and high levels of sexual harassment. Low levels of unionisation among cleaners leaves them without the means or support to report abuses at work. This can be exacerbated by precarious employment and immigration status. Outsourcing is a key driver of risk for workers, with pressure from public entities to cut costs leading downward pressure on wages and conditions. Because the government is not a direct employer of outsourced cleaners, it has no legal liability for wages or working conditions.

BHRRC assessed the modern slavery reporting by the 10 suppliers which have received the most public contracts for cleaning services (by value) from 2012-2020, worth approximately £2.1 billion. The assessment identified gaps in disclosure related to vulnerable workers who are outsourced to public sector entities to provide cleaning services. The assessment found that none of the 10 companies disclosed they engage directly with trade unions, workers, or their representatives in the process of identifying and addressing risks; provide support to workers to have access to trades unions or other forms of representation; identified women and/or migrants as particularly vulnerable to exploitation; identified cleaning operations as high-risk for exploitation.

The analysis provides a clear example of how the limitations of the reporting requirement drive weak disclosure. It also demonstrates the inadequacy of the Act to strengthen public procurement processes to address widespread labour abuse that occurs within government premises and ultimately prevent modern slavery. A duty to undertake human rights due diligence under a 'duty to prevent' law could push the government to include provisions in tenders and contracts that obligate companies to provide better terms and conditions of work. It would also remove the ability of the government to keep itself at arm's length from the labour exploitation of cleaners, and other outsourced staff.



## **Conclusion and** recommendations

The Modern Slavery Act is not fit for purpose. This is glaringly obvious when its potential impact on the most vulnerable workers, like the Uyghur, is considered. The publication of a modern slavery statement will not by itself prevent the egregious abuse being inflicted on victims of modern slavery. The weak reporting requirements result in poor disclosure and the lack of enforcement fails to ensure companies report at all, signalling it is simply not a priority for government.

Six years in, the government has the responsibility and opportunity to learn from the failures of the Modern Slavery Act and enact a law that will better address the scourge of labour exploitation and modern slavery in supply chains of British companies. There is a pressing need to better protect the most vulnerable workers in global supply chains disproportionately affected by disruptions and instability caused by all manner of crises - not least as we have seen with the COVID-19 pandemic.

A 'failure to prevent' law will enforce corporate accountability for all human and labour rights abuse and will not isolate modern slavery from other labour abuse, dismantling the notion that 'lesser' labour abuse is an acceptable part of doing business that does not require urgent attention. The many laggard UK companies that operate in Europe will soon be caught out by mandatory human rights due diligence legislation, so must change practices now. A failure to prevent law in the UK will not be a silver bullet, but it will better achieve what the Act set out to do, and it has the potential to go beyond tackling modern slavery and pave the way to providing decent work and fair(er) treatment for all workers.

#### **Key recommendations:**

The government has a range of policy options that together would begin to more effectively tackle modern slavery, although each of these options would require a commitment from the UK Government to adequately enforce:

- New UK legislation: A failure to prevent law that imposes legal liability on all companies in all sectors which fail to prevent human and labour rights harms from occurring in their business operations. Companies would have to show reasonable and appropriate human rights due diligence practices as a defence to legal liability.
- Import bans: The government should also consider laws that allow for import bans on products linked to severe human and labour rights violations including forced and child labour, to complement the failure to prevent law. Such a law could be linked to trade regulations as in the USA or through other mechanisms, such as foreign policy or internal market mechanisms, like that being considered in the European Parliament.
- Public procurement: The above legal frameworks must cover public sector procurement given the staggering spending power- public procurement spend amounts to a third of the UK budget annually at £280 billion and globally amounts to 12% of the global GDP. This would provide government leverage during public contract tendering processes and incentivise companies to improve their human rights due diligence.

