



Practical steps to identify and mitigate labour rights issues in your supply chain

Increasing legal requirements and expectations from consumers, customers, employees and stakeholders mean that businesses need to put in place systems and processes to identify and mitigate labour rights issues in their businesses and supply chains.

In this document you will find initial steps that can be taken to identify and tackle labour rights risks in your business and supply chain.

Why should a business take steps to manage the risk of labour rights issues in their supply chain?

- › **Legal compliance** – Following on from the UK and California, Australia will be implementing a Modern Slavery Act requiring companies to report on the steps they are taking to manage the risks of slavery in their supply chains. The Federal Bill will include a transparency in supply chains provision, requiring all businesses that provide goods or services in Australia with a turnover of \$100 million AUD or more to disclose in an annual slavery and human trafficking statement the steps they have taken to ensure their business and supply chains are slavery free. The statement must be approved by the company's board of directors, signed by a director and published on the organisation's website at the end of each financial year. Legislation similar to the Federal Bill was already introduced by the New South Wales Parliament in June 2018.

It is expected that a large number of New Zealand businesses operating in Australia will be directly affected by the legislation. A larger number of New Zealand businesses who supply to Australian companies will also be impacted as Australian companies look to gain assurance that their supply chain is complaint. An Ernst and Young report estimated that 500 NZ businesses will be affected by the Federal bill¹. The act is expected to be in place within 2018.

- › **Brand protection and meeting customer requirements** – Increasingly customers and procurers are considering the ethical reputation of a business when choosing to purchase a product or services. Businesses especially those that supply to consumer markets, are reliant on the reputation of their brand. They are now facing growing expectations that, as well as their own operations, their supply chain will also comply with sustainability and social and human rights criteria. With company information readily available online and the immediacy of social media, businesses are no longer able to distance themselves from the behaviours of those in their supply chain.

- › **Management of trade and investment risk** – A number of countries that New Zealand exports to have trade regulations that prohibit the production of goods using forced labour. Allegations could result in seizure of the goods by public authorities and cause significant disruption to the continuity of your production process. Investors also recognise the risk that allegations of forced labour and trafficking can have on their return. Cases, even rumour, of labour rights breaches can jeopardise relationships with investors and endanger accessibility of public funds.

Steps that can be taken to identify and tackle labour rights risks in your business and supply chain

1. Create a policy/code of conduct for your own business

A business code of conduct communicates the values an organisation wishes to foster in its leaders and employees and, in doing so, defines desired behaviour. Importantly, code provisions tell employees which behaviours are not acceptable in your organisation, so they can adhere to standards and are empowered to speak up if wrongdoing occurs.

What can/does it look like?

A code of conduct for a business will usually include more than human and labour rights. However, most codes of conduct start with human and labour rights and then add further elements such as environmental standards and business ethics as required.

Some common code of conduct provisions around fair treatment of workers are:

- › **Compliance to national employment standards as a minimum.** These minimums **must** be followed, and if not, there are real risks not only to the non-compliant businesses, but also to those who rely on them. Some industries and procurers have more stringent requirements as a condition for doing business. In New Zealand, [minimum employment standards](#) include holiday entitlements and the minimum wage.

1 [https://www.ey.com/Publication/vwLUAssets/EY-human-rights-and-modern-slavery-policy-update/\\$FILE/EY-human-rights-and-modern-slavery-policy-update.pdf](https://www.ey.com/Publication/vwLUAssets/EY-human-rights-and-modern-slavery-policy-update/$FILE/EY-human-rights-and-modern-slavery-policy-update.pdf)



› **International Labour Organisation (ILO) core convention elements.** E.g. [Ethical Trading Initiative Base Code](#) is founded on the conventions of the ILO and covers the following areas:

1. Employment is freely chosen
2. Freedom of association
3. Working conditions are safe and hygienic
4. Child labour shall not be used
5. Living wages are paid (if a target of your business)
6. Working hours are not excessive
7. No discrimination is practiced
8. Regular employment is provided
9. No harsh or inhumane treatment is allowed

2. Map your supply chain

Benefits of mapping your supply chain

Although you may know your immediate suppliers, do you know who your tier 2 and tier 3 suppliers are? An issue with them could not only be detrimental to the continuation of your own supply chain but also a risk to your brand value. With company information accessible on the internet, it is not hard for the media and consumers to identify links between a supplier with issues and your brand. Mapping and creating visibility of your supply chain can help you to identify potential issues and mitigate risks.

Key areas to consider

It is critical you involve your procurement team, or the part of your business that manages supply chains, when mapping your supply chain as they have knowledge of suppliers, can help identify potential risks and will ultimately own the day to day relationships with suppliers.

You should also work with your suppliers. In order to be successful in mapping your supply chain, you will need to motivate your suppliers to provide the information. Initially, some suppliers may be reluctant to provide information. It will be important to reassure them of the purpose of the mapping and that they have control over the accessibility of the information. For suppliers, a positive from engaging with you is that it will aid them in understanding risks in their own supply chain.

It is likely that most companies will have limited resources to look beyond their primary suppliers. Shiftproject.org note that many companies are using a collaborative approach to mapping their supply chain.

“Many companies have established, or are in the process of establishing, centralized systems for tracking the “moving target” of their supply chains. While these systems can be housed centrally, the inputs into that system must come from a variety of decentralized sources. Company leaders note the need for internal and external buy-in for a collaborative approach to mapping the supply chain. Internally, this means engaging across the different business functions that might interact directly with the supply chain. Externally, this requires the authentic engagement of one’s own suppliers in the mapping exercise. In developing that buy-in, company leaders emphasize the critical importance of spending as much time on the “why” as on the “how” – conveying an underlying rationale for the importance of mapping the supply chain that resonates for key audiences. Specifically, they have found that simply contractually obligating suppliers to disclose their supply chains, while necessary, has proven ineffective and inadequate.”

<https://www.shiftproject.org/resources/publications/respecting-human-rights-global-supply-chains/>

3. Seek commitment to a supplier code of conduct/ethical sourcing policy

Once you have embedded your code of conduct in your own business, it is important to seek commitment from your suppliers. Although a separate company, supplier issues with human rights can create significant risk for your brand.

A supplier code of conduct or ethical sourcing policy provides clarity on the behaviour and values that you expect of your suppliers and those that supply to them. Supplier commitment to this is affirmation that they understand these requirements and will comply with the code of conduct.

Key areas to consider

The code of conduct must be signed off by the suppliers Chief Executive or Senior Manager. This shows that the commitment is from the top of the business.

At a minimum, businesses in your supply chain should agree to comply with national employment standards. For New Zealand businesses, this will include requirements regarding holiday entitlements and the minimum wage. More information on New Zealand’s minimum employment standards can be found [here](#).

The commitment to the code of conduct must be communicated to all employees in the business and down the supply chain. Suppliers are expected to extend the expectations and responsibilities in the policy to their own supply chains.

Include in the code of conduct a requirement for suppliers and partners to act upon the issues they have identified through checks and to communicate where incidences of labour rights issues are found.



Supplier code of conduct examples

Warehouse Group Ethical Sourcing Policy – For Suppliers
<https://docs.twg.co.nz/red/pdfs/suppliers/ethical-sourcing/the-warehouse-group-ethical-sourcing-policy-01.17.pdf>

4. Conduct a risk assessment

Most businesses will not have the resources to complete full checks on all their existing suppliers. If this is the case, your business will need to establish those suppliers that present the most risk and are of greatest importance to you (e.g. suppliers that are essential to the continuation of supply).

An initial high level assessment of your supply chain, including direct and indirect suppliers, labour providers and contractors, is recommended. This assists in identifying low, medium and high risk suppliers and partners.

This should include, (but is not limited to) the identification of suppliers and partners that:

- › you spend the most with
- › are located in high risk countries where labour rights are not protected
- › are in industries which have previously been affected by human and labour rights issues
- › use a high number of migrant, young or elderly workers
- › use unskilled, temporary and/or seasonal labour
- › use subcontractors, temporary staffing agencies and short term contracts.

To gather this type of information many businesses first step is to require their suppliers to complete self-assessment questionnaires.

It is recommended that the following questions are included in your self-assessment. When responding to the questionnaire, it is expected that suppliers provide documentation as evidence.

Does the supplier have an employment code of conduct/policy in place?

Do they already have a supplier code of conduct or policies?

Does the supplier have systems in place to ensure compliance to employment standards?

Does the supplier have other management systems in place?

A **management system** is the framework of policies, processes and procedures used by an organisation to ensure that it can fulfil all the tasks required to achieve its objectives. In some cases a supplier may not have a management system for employment standards compliance in place. However, the presence of management systems can act as an indication that a business is capable of putting systems and processes in place.

Examples of accredited management systems include

- › [ISO 26000 – Guidance on Social Responsibility](#)
- › [ISO 14001 – Environmental Management System](#)
- › [ISO 9001 – International Quality Management System](#)

A business may have informal management systems in place that may not be accredited

Is the supplier affected by overseas anti-slavery legislation?

E.g. Companies that are affected by overseas legislation such as the UK Modern Slavery Act and the California Transparency in Supply Chains Act have to provide a publicly available statement of the steps the organisation has taken during the financial year to ensure that slavery and human trafficking is not taking place.

Has there been any reported non-compliances with legislation?

A list of [employers that have breached minimum employment standards](#) in New Zealand and are currently subject to stand-down periods that affect their ability to recruit migrant labour is available on the [Employment NZ website](#).

Does the supplier undergo assessment for any certifications?

Many businesses have to undergo 3rd party audits to ensure that they are compliant with requirements set by their procurer. Examples of certifications/accreditations that have employment rights criteria

- › [SEDEX SMETA](#)
- › [GLOBALG.A.P. GRASP](#)
- › [Ethical Trade Initiative \(ETI\)](#)

Following the self-assessment, you should consider if the evidence and responses provided is sufficient enough to assure you that suppliers, as a minimum, are complying with your requirements.

If the information is insufficient, it is recommended that you to take further action such as requesting one of the following:

Internal Audit – the supplier conducts an audit of its own business and suppliers

Procurer Audit – the purchasing company conducts an audit of the supplier

3rd Party Audit – A 3rd party auditor conducts an audit of the supplier.