



SUSTAINABILITY FOCUS

JANUARY 2014

CHILD LABOUR DUE DILIGENCE IN LABOUR INTENSIVE INDUSTRIES

SECTORS OF INTEREST/ UNDER SCRUTINY

Mining; Food; Tobacco;
Specialised retail

COMPANIES HIGHLIGHTED

Alliance One International;
Archer Daniels Midland;
British American Tobacco; Glencore;
Katanga Mining Company; Nestlé;
Nike; Philip Morris International;
Universal Corporation

KEY TAKEAWAYS

Exposure to child labour is concentrated in the supply chain and not in the direct company workplace.

Lack of clarity on company versus supplier responsibility—an unreliable justification for inaction.

Lack of sustained pressure on the topic and lack of in-house child rights expertise exposes the topic to under attention; making it possible hidden risk.

AUTHORS

Anne Rutten: anne.rutten@vigeo.com

Keeran Gwilliam-Beeharee:
keeran.gwilliam-beeharee@vigeo.com

BACKGROUND

Children under the age of eighteen make up almost a third of the global population and represent one of the most vulnerable stakeholder group in many respects¹. They typically have little influence in how decisions are made in their communities and in the national and international political process. The International Labour Organisation brings child labour to the global agenda through its Minimum Age convention (No. 138) and the Elimination of the Worst Forms of Child Labour Convention (No 182)². In addition, there is the explicit call by ISO 26000, the recently established global standard on social responsibility, for all organisations, including companies, to respect children's rights as enshrined in international instruments such as the Convention on the Rights of the Child. In addition, the Institute for Human Rights and Business, identified in early 2012 "Children's rights" among the Top 10 emerging business and human rights issues³ for that coming year. In March 2012, this was further highlighted by the launch of the "The Children's Rights and Business Principles", a joint initiative of UNICEF, Save the Children and the UN Global Compact⁴.



The Principles called on companies everywhere to respect children’s rights through their core business actions, but also through **policy commitments, due diligence and remediation measures**. In March 2013, one year after the launch of the ‘Children’s Rights and Business Principles’ UNICEF’s own research indicated that corporate approaches to this issue were still generally lacking in substance⁵. These conclusions were supported by a joint study conducted in cooperation with Vigeo on how the CAC 40 companies integrated these principles⁶. It appeared that children’s rights were most commonly dealt with in the company’s local community programs and charity (or philanthropic) initiative with a focus on education & health. Besides, images and pictures of children were widely used by the companies as marketing tool to symbolize ethical behaviour in their business strategies. It has to be noted however that Children’s rights are not limited to the respect for the minimum age for admission to employment. To demonstrate the ongoing gravity of the situation, in June 2013, the International Labour Organisation⁷(ILO) reported that an estimated **10.5 million children worldwide** continued to fall under the label of a ‘Child labourer’⁸ the majority of them being girls. Given the slow global progress on addressing this topic as well as the vulnerability of these stakeholders to psychological, physical and even sexual harm, the issue of child labour continues to be of concern for part of the responsible investment communities. Vigeo has produced this sustainability focus to draw attention specifically to how companies in selected sectors that are highly exposed to this issue are seeking to address this ongoing challenge.

VIGEO FINDINGS

When analyzing the sectors (potentially) exposed to child labour, we observed that the exposure (vulnerability of stakeholders) to child labour is most often concentrated in the supply chain and not in the direct company workplace⁹. While the latter is assessed in the Human Rights domain, Vigeo analyses companies’ commitments and measures relative to addressing Child Labour in the supply chain in the sustainability driver ‘Integration of social factors in the supply chain’. Companies are considered to have multiple responsibilities in this respect and thus Child Labour is only one of the issues analysed in the sustainability driver. Vigeo also analyses how companies address the issues of forced labour, union busting, decent wages, health and safety, non discrimination and more within their supply chains.

Vigeo identified four sectors (Mining, Food, Tobacco and Specialised Retail) that are more exposed to child labour issues than

others due their high labour intensity, complex supply chains and their frequent presence weak governance zones¹⁰.

According to Vigeo’s latest sector surveys among the three regions, findings demonstrated that:

- **The sector** disclosing the most visible policies towards child labour was the Retail sector where 89% of the companies have a policy in place to integrate social issues in their supply chain, explicitly addressing child labour. Tobacco companies follow with 75% while Food and Mining companies fall behind with 37% and 32,4% respectively.

When comparing commitments across different regions, European companies appear to cooperate more often with external stakeholders in defining their policies, while companies in Asia Pacific were the least transparent on their commitments towards integrating social issues in their supply chain.



For the Tobacco Industry, it is worth mentioning that five out of eight companies are member of the ‘Eliminating Child Labour in Tobacco Foundation’¹¹.

– When it comes to **allocating means to ensure compliance**, Retail companies demonstrate clear leadership, with 79% reporting one or more measures implemented towards this end. They are closely followed by Tobacco companies with 75.5% while for Food and Mining sectors this is 52% and 51 % respectively. There is no remarkable difference between European or North American sectors, whilst overall Asia Pacific companies again score less due to a lower disclosure level. A range of measures are often adopted, varying from awareness raising of employees in charge of purchasing, sending supplier questionnaires, providing suppliers with support through training and technical assistance, and the integration of social issues in contractual clauses, which is the most commonly done. Another way of supporting compliance is to audit suppliers. However, only eight out of the 37 mining companies (21,6%) state to carry out **social audits** throughout their supply chain, against 39% of the Food Companies, 62.5% of the Tobacco companies and 79% of the Retail sector. Across those sectors, the European companies appear more likely to conduct audits than companies in North America or Asia Pacific. Of note, only 10 to 12% of companies reported on corrective measures introduced following the identification of problems related to the security or civil liberties of employees to their suppliers¹².

– Vigeo’s analysis of the Mining, Retail, Food and Tobacco sectors across Europe, North America and Asia Pacific has recorded

multiple controversies regarding child labour in the supply chain further highlighting the importance of this topic. On September 14th, 2011 the Guardian released an article on the continuing problems of child labour in tobacco production in Malawi called “Child Labour : the tobacco industry’s smoking gun”¹³. The article concluded that more than 90% of Malawi's tobacco is bought by two US-based leaf buyers, Universal Corporation and Alliance One International, whose main clients include **British American Tobacco, Imperial Tobacco and Philip Morris International**. Also in the mining industry an investigation in 2012 by the British Broadcasting Corporation (BBC) revealed instances of child labour at the Tilwezembe mine in Democratic Republic of Congo (DRC), owned by the Katanga Mining Company, which is owned by 75.5% by **Glencore**¹⁴. In a further twist to the story, copper ores mined by child labourers at Tilwezembe, were then linked by the investigative unit to other Glencore affiliated operations in the DRC and Zambia. The prevalence of artisanal miners on the sites is indicative of both a lack of alternative employment opportunities and an adequate plan for mine closure, for which Glencore bears partial responsibility. Before Glencore merged with Xstrata in May 2013, it had no visible commitment nor did Glencore report on measures related to the management of social factors within its supply chain.



BUSINESS RISKS

Regardless its exposure, even the indirect involvement of companies tarnishes a company's brand name and represents first and foremost a reputational risk which can be followed by public boycott campaigns. Aside from the pure **reputational** damage, social allegations that appear in the supply chain or among contractors can be disruptive for the company's **operations**. For example, they may lead to investigations, could force (temporary) shutdowns of sites and lead to higher operational costs if

corrective measures have to be adopted. Being linked to such allegations also represents a **legal risk**¹⁵, for instance Nestlé continues to be involved in a lawsuit filed by International Rights Advocates on behalf of Malian children who were allegedly trafficked to work on cocoa farms in Ivory Coast, also Archer Daniels Midland, Hershey and Cargill are being sued over claims that they are involved in trafficking, torture and / or forced labour of Children on cocoa farms in the Ivory Coast and/or Ghana.

CHALLENGES OF IMPLEMENTATION

Child labour illustrates perfectly the challenges companies face in implementing critical policies in challenging zones. Since companies are more likely to encounter child labour in different tiers of their supply chains rather than their own operations, this raises important questions on **company versus supplier responsibility** or even **state responsibility**. Related to this, addressing issues such as poverty and education directly (often a root cause of child labour) is traditionally been seen as beyond the remit of business. The risk for stakeholders is that corporations use this idea of a complex supply chain as a **justification for inaction on this issue**.

Child labour continues to fall in and out of the spotlight and as such, **businesses do not face sustained pressure to address this topic**. Given the fact that within most companies, there is a **lack of child rights expertise**, partnerships with external stakeholders has an important role to play in providing the guidance that businesses need. Companies however, display little evidence that children and the impact of their activities on them formulate parts of top level management risk assessments.

BEST PRACTICES

Given the complex social and economic context in which child labour occurs, there is not *one* best practice but rather a range of tools that can be considered as best practices.

- A clear **policy on addressing Child Labour within a complex supply chain** should be in place.
- This should be supported by a clearly defined structure with **representation and support on the ground in the at risk area(s)**.

- Companies should **map their entire supply chain along with its associated risks and affected stakeholders**¹⁶. Food companies for example should have a clear view of how labour standards are managed from farms, to traders, to processing industries, to transportation, to second traders, retailers and finally the consumer.



Collaboration with peer companies and engagement with external stakeholders, including governments, are critical in order to gain insight and understanding of the economic and social contexts (family structures, health initiatives, education systems) of the country where the company and its suppliers operate.

- Alongside supply mapping, companies should track **the performance of suppliers** and **actively audit them on site**, particularly in high risk sectors.
- A non-compliance **reporting mechanism** where any affected **stakeholders at risk in exposed areas of the supply chain** (farmers, families, plant operators etc.) can report concerns.
- Another important step is a **formalised grievance mechanism**, complemented with **training of local staff and procurement staff** on how to manage suppliers.
- Finally, **communication** on progress and actions taken is vital.

When searching for Best Practice examples, it is found that these companies have often a history of child labour practices in their supply chain. In response to such allegations they have adopted comprehensive measures and set up a convincing system to address child labour and ensuring transparency throughout their supply chain. Following two examples illustrate how companies adopted correct measures for which they can now be considered as sector leaders in this regard.

Nestlé developed a Supplier Code and has set a specific target to have 50% of suppliers re-audited for Responsible Sourcing every 3 years. In addition, local managers are held accountable and other stakeholders are involved through the International Cocoa Initiative. Furthermore, Nestlé has set up efficient measures to

ensure compliance, some of the measures include revised contract terms, farmer training, social audits and the nomination of a Cooperative Child Labour agent to lead monitoring and remediation activities. On February 29th 2012, Nestlé became the first company in the food industry to partner with the Fair Labor Association (FLA), a non-profit multi-stakeholder initiative that works with major companies to improve working conditions in their supply chains¹⁷. Together with the FLA, the company has developed an action plan covering immediate actions in 2012, medium-term actions in 2013 and longer-term actions up to 2016.

Nike was famously accused in the 1990s of exploiting lapse underage work laws for the production of soccer balls in Pakistan. The case received wide media coverage and consumer boycotts were organised. Consequently, Nike experienced falls in sales and share price. In response, Nike adopted a “risk mitigation” approach, viewing the situation as a reputational problem that needed to be managed through compliance and better communication. Soon after, they created new programs focused on monitoring and began to collaborate with stakeholders, including governments, NGO’s and activists. Transparency and collaboration became competitive advantages¹⁸. They adopted a code of conduct stating “A Nike contractor found employing any worker under our age standards (18 for footwear manufacturing, and 16 for apparel and equipment, or local standards whenever they are higher) must (a) remove the child from the workplace, (b) continue to pay that worker’s basic weekly wage, (c) place that worker in an accredited local school and pay fees to keep them there, and (d) agree to re-hire that worker when reaching the Nike minimum age. Factories that refuse to follow these steps will lose our business¹⁹.”



The compliance assessment is benchmarked against Nike's Management Code Leadership Standards, which includes age verification. Also according to an article published on the Institute for Human Rights and Business' website in November 2010, Nike is among the

companies that had put in place a ban on Uzbek cotton because of the documented use of child slavery in the cotton industry. Nike also audits factories throughout their supply chain to evaluate their compliance. In addition, the company publishes full details of these measures online²⁰.

CONCLUSION

Vigeo's research amongst the highly exposed sectors indicates that there is a **widespread disclosure** of policies explicitly mentioning Child Labour. When considering the implementation of due diligence measures implemented, in most cases there is **no longer a distinction** between child labour and other social rights such as working hours, freedom of association etc. More generally, a variety of measures are often adopted with the most common one to **integrate social issues in contractual clauses**. Overall, **European companies** show more willingness to cooperate with **external stakeholders** and to **conduct supplier audits**. Both **Retail** and **Tobacco sectors** demonstrate on average better performances (in terms of policies and measures disclosed) than Food or Mining sectors. Eradicating child labour is likely to constitute a long journey. The risks are

numerous and when not properly managed, the consequences represent a black mark in a company's history. A **tarnished brand name** takes years to recover, like the example of Nike demonstrated, even when a comprehensive system is put in place to prevent similar practices. However, such systems unfortunately do not guarantee a clean slate. The **challenges** in addressing child labour are paramount reflecting complex supply chains. Like indicated as best practices, there are several ways to minimise the more and more supply chain risks such as **dedicated policies** and **local support**, **supply chain mapping** alongside its **risks** and affected **stakeholders**, **reporting** and **grievance mechanisms** as well as **supplier audits**. These can be considered as critical tools and processes required to implement Child Labour Due Diligence measures throughout a supply chain.

Post-script:

This Sustainability Focus is the second in a two part series focused on the difficulties of implementing critical Human Rights policies in weak governance zones. The previous Sustainability Focus²¹ examined which challenges the Extractive industries analysed by Vigeo face in implementing the Voluntary Principles on Security and Human Rights in Weak Governance Zones.

CONTACTS

For further information, please contact:
 Anne Rutten, anne.rutten@vigeo.com
 Keeran Gwilliam-Beeharee, Keeran.gwilliam-beeharee@vigeo.com

DISCLAIMER

All rights reserved. Reproduction and dissemination of material in this report for educational or other non-commercial purposes are authorized without any prior written permission from Vigeo provided the source is fully acknowledged. Reproduction of material in this report for resale or other commercial purposes is strictly prohibited without written permission of Vigeo.



Notes and Sources

- 1) 'Can Business Uphold Human Rights?' – Huffington Post – March 2012.
- 2) ILO Conventions are considered as fundamental norms applicable to every country regardless of their ratification
- 3) "Top 10 Business and Human Rights issues 2012" Consulted on 23 May 2013 on: http://www.ihrb.org/top10/business_human_rights_issues/2012.html
- 4) 'Children Rights and Business Principles", UN Global Compact, Unicef and Save the Children , 2013, Consulted on: http://www.unglobalcompact.org/docs/issues_doc/human_rights/CRBP/Childrens_Rights_and_Business_Principles.pdf
- 5) "Children's rights not a top CSR priority, Unicef research reveals", The Guardian, March 22nd 2013, consulted on: <http://www.theguardian.com/sustainable-business/child-rights-csr-unicef-research> and "Children's Rights and Business Principles: one year on", The Guardian, March 28th 2013, consulted on: <http://www.theguardian.com/sustainable-business/children-rights-business-principles-one-year-on>
- 6) "Integration of UNICEF's Children's Rights and Business Principles by French multinational companies", Vigeo Survey, 2013; <http://www.vigeo.com/csr-rating-agency/en/etude-unicef-102013>
- 7) "Ten million child labourers in domestic work", International Labour Organisation, June 12th 2013, consulted on : http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_215170/lang--en/index.htm
- 8) Child Labour is defined by the ILO as: Work that deprives children of their childhood, their potential and their dignity and that is harmful to physical and mental development. Children are defined as being any person under the age of 18 years old.
- 9) "Integration of UNICEF's Children's Rights and Business Principles by French multinational companies", Vigeo Survey, 2013; <http://www.vigeo.com/csr-rating-agency/en/etude-unicef-102013>
- 10) The Organisation for Economic Cooperation and Development (OECD) defines Weak Governance Zones (WGZs) as "an environment in which government are unable or unwilling to assume their responsibilities. These "Government failures" lead to broader failures in political, economic and civic institutions that, in turn, create the conditions for endemic violence, crime and corruption and that block economic and social development".
- 11) Eliminating Child Labour in Tobacco (ECLT) Foundation is a multi-stakeholder partnership of trade unions, growers and companies with the ILO as advisor. The initiative was launched in 2001 in Geneva and focusses on three main areas of work; supporting field projects, funding independent research and sharing good practices. See more at <http://www.eclt.org/>
- 12) "After Foxconn, the tragedy of Rana Plaza highlights the consequences of dumping on workers' fundamental rights", Vigeo's Article, <http://www.vigeo.com/csr-rating-agency/en/bangladesh-052013>
- 13) "Child Labour : the tobacco industry's smoking gun", The Guardian, September 14th, 2011.
- 14) Confirmation alert "Glencore's failure to secure the integrity of Congolese mine results in disastrous social consequences. UK investigative team also reveals instances of Child Labour in Glencore's supply chain in the DRC and Zambia. », 2012/04a
- 15) National labour legislation prohibiting child labour is primarily guided by the standards evident in three international instruments: the UN Convention on the Rights of the Child (adopted 20 November 1989, entered into force 2 September 1990), ILO Convention No. 182, on the Worst Forms of Child Labour (1999) and ILO Convention No. 138, on the Minimum Age of Admission to Employment (1973).
- 16) "Rapport du PCN sur la mise en Œuvre des principes directeurs de l'OCDE dans la filiere textile-habillement", French NCP OCDE, December 2, 2013
- 17) "Nestlé Action Plan on the Responsible Sourcing of Cocoa from Côte d'Ivoire, Nestlé, June 29th 2012, consulted on: http://www.nestlecooaplan.com/wp-content/uploads/2012/06/Action_Plan_for_FLA_-cocoa_report.pdf
- 18) Corporate Social Responsibility Report, Nike, 2011, Consulted in April 2013 on <http://www.nikeresponsibility.com/report/content/chapter/labor>
- 19) Corporate Social Responsibility Report, Nike, 2001, pg 37
- 20) Corporate Social Responsibility Report, Nike, 2011 on <http://www.nikeresponsibility.com/>
- 21) Please see Vigeo website to consult the article, <http://www.vigeo.com/csr-rating-agency/en/sf-ind-extr-vp-wgzs>