

Exercising Responsibility for the Supply Chain and Human Rights

Sustainability isn't just about reducing your environmental footprint anymore. In 2013, a manufacturing plaza in Dhaka, Bangladesh, collapsed, killing over 1,100 people. That tragedy reinforced the fact that providing a safe work environment, and respecting the human rights of employees, remains elusive in many parts of the global supply chain. Sustainable manufacturing is now increasingly expected to address issues including human trafficking, conflict minerals, and human rights.

Major multinational companies in the apparel, electronics, and other sectors have been working for many years to address worker abuse and poor environmental practices in the supply chain. Institutions like the Institute for Sustainable Communities, with support from companies like Walmart, Apple, and GE, provide critical training in China, India, and other growth markets to raise environmental performance.

But regulators globally, as well as NGOs and other stakeholders, are now expanding their expectations "up and outside the chain," beyond the traditional, relatively fixed world of manufacturing facilities to the use of materials and work conditions of entities not in our direct control.

The Sarbanes-Oxley legislation, for example, directed the SEC to issue rules to restrict the use of minerals that are helping to fund the conflict in the Democratic Republic of Congo. Companies that use tin, tantalum, tungsten, and gold must now conduct appropriate country-of-origin inquiries and due diligence with respect to their suppliers.

In 2012, California enacted the California Supply Chain Transparency Act. This law requires large manufacturers doing business in California to disclose their efforts to eradicate slavery

and human trafficking from their supply chain, including their actions in five specific areas: verification, audits, certification, internal accountability, and training. The United Kingdom is following suit, with legislation that requires businesses to report on progress, or lack thereof, to ensure there are no slavery or human trafficking offenses within their business or supply chains. France is considering similar legislation.

The U.S. government has issued comprehensive new regulations applicable to all government contractors that prohibit a broad range of human trafficking activities, imposing liability on a company both for its employees and those of its vendors up the supply chain. Government contractors will have to certify compliance subject to penalties under the False Claims Act.

These new and expanded requirements relating to human trafficking are challenging, especially insofar as they impose accountability and liability for the misconduct of a company's suppliers.

But there are lessons that can be drawn from the efforts that companies have undertaken

over the past decade and more in monitoring the safety culture, environmental compliance, and sustainability practices of production suppliers across the developing world. These lessons can help business and regulators together.

First, we are most effective when we leverage best practices. This is one reason why GE and others are working with the Institute for Human Rights and Business (which drafted the Dhaka Principles, establishing reasonable goals concerning migrant worker human rights) to help develop appropriate guidelines for the business role in addressing human trafficking.

Second, we must recognize that different industry sectors will often have different risk profiles. For example,



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certain manufacturing sectors may face a greater risk of child or forced labor, while the hospitality industry may be more likely to be a forum for sexual exploitation. One-size solutions will fail if they don't address the underlying industry characteristics that force workers into a vulnerable position.

Third, we must take into consideration a company's actual ability to effect change across the global supply chain. A company can demand compliance with human trafficking prohibitions, but its only enforcement mechanism is termination of the supplier. In some sectors or regions, this may be a very weak and slow tool, especially when applied beyond the first-tier suppliers. Government action against abuses of human rights in the global supply chain is essential.

Finally, we must be prepared to assess the results of our collective work. The U.S. conflict minerals rules offer an important test case. Early reports indicated the SEC rules exacerbated conditions on the ground for artisanal miners. While we have built material-tracking systems, it remains unclear whether the rules have actually reduced the level of conflict. There is at least some evidence now that some mining activities are traceable. At the same time, there are significant concerns that the parties fueling the conflict are now exploiting other regions and sectors. A fair and objective analysis should be undertaken to ensure that the U.S. approach is, in fact, achieving its stated objective before extending the model. •