



Modern Slavery Act 2015 Committee

Corrected oral evidence: The Modern Slavery Act 2015

Monday 22 April 2024

4.40 pm

Watch the meeting

Members present: Baroness O'Grady of Upper Holloway (The Chair); Baroness Barker; Baroness Butler-Sloss; Baroness Hamwee; Lord Hope of Craighead; Lord Kempson; Baroness Shephard of Northwold; Lord Smith of Hindhead; Lord Watson of Invergowrie; Lord Watts; Lord Whitty.

Evidence Session No. 13

Heard in Public

Questions 154 - 159

Witnesses

I: Weronika Dorociak, Programme Manager for Sustainability, techUK; Dr Martin Buttle, Better Work Lead, Churches, Charities and Local Authorities (CCLA) Investment Management.

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Weronika Dorociak and Dr Martin Buttle.

Q154 **The Chair:** Welcome back to the second evidence session this afternoon for the House of Lords Committee on the Modern Slavery Act. My name is Frances O'Grady. I chair the committee. There is always a possibility that we may be interrupted by votes. If we are, I will suspend proceedings and, hopefully, get us back up and running as soon as possible.

I am very pleased to welcome to this second session our witnesses Weronika Dorociak, the programme manager for sustainability at techUK, and Dr Martin Buttle, the better work lead at Churches, Authorities and Local Authorities Investment Management. You are both very welcome.

I will kick off with the first question. Responsibility for improving supply chain management is often divided between companies, Governments and the voluntary sector. What do you see as the role of business in that? To give you a flavour of where I am heading, should directors be made liable for failures to address modern slavery in the supply chain?

Dr Martin Buttle: Following the UN guiding principles on business and human rights and the OECD guidelines on multinational enterprises, business responsibility is to respect human rights. Practically, that means undertaking human rights due diligence on its operations, supply chains and downstream business relationships, including ongoing consultations with rights holders and their representatives, establishing grievance mechanisms, committing to support remedy when human rights harms are identified, and being transparent on the risks and actions that they have taken.

Where cases of systemic forced labour are identified, as in child labour in west Africa and the cocoa sector for instance, companies should work together with other businesses, Governments, trade unions and NGOs to create a sector-wide commensurate response. Cutting and running from cases of forced labour should be a last resort. It is better to work with suppliers and all involved to provide remedy. Only in cases of state-imposed forced labour, such as in the Uyghur region of China, should companies cut and run, since they cannot use leverage to remedy these situations.

Last year in November, CCLA published a benchmark on the top 100 public companies' approach to modern slavery and the degree to which they were disclosing finding, fixing and preventing modern slavery. We noted that companies have developed human rights in conformance with the UN guiding principles. We saw fewer disclosures on actions to find, fix and prevent modern slavery. Only a quarter reported finding modern slavery and only nine reported the outcomes of remedy for victims of slavery. In general, we believe that companies should be taking more active steps to tackle modern slavery in their operations and supply chains.

You mentioned directors' liabilities, Chair. There is a widespread feeling that greater enforcement is needed and the current requirements are not sufficient. Making directors liable for a failure to prevent would certainly increase business action on modern slavery. However, given that modern slavery is often hidden and can often occur several tiers down a supply chain, it can be systemic, and in some cases it can be state-imposed forced labour. Any liabilities should be based on the strength and nature of the connection between the company and the human rights harm.

I would suggest using the UN guiding principles again as a framework to understand that and to understand that the penalties should therefore be harsher for companies that have caused forced labour and lower for companies that have contributed to or are just linked to forced labour. At CCLA, we believe that liabilities should be capped, because unlimited liabilities could lead to prison time. Given the complexity of supply chains, that is probably overstepping it. Thank you.

The Chair: Thank you. Weronika.

Weronika Dorociak: First, thank you so much for giving techUK the opportunity to represent the sector's views on this. I would like to start by setting the scene and explaining tech supply chains, which are incredibly complex. To put things into perspective, we are dealing with, in some instances, 10 tiers of the supply chain. We have very little visibility of anything beyond tier 2. Inevitably, that exposes us to many modern slavery risks.

I will quickly provide some background on the bottom of the supply chain, because the challenges there are unique to us. Any piece of electronic equipment contains multiple different components, and these components are made of chemical elements, which we more commonly refer to as critical minerals. Most people will be familiar with lithium, for example, which is used for rechargeable batteries. Lithium can be sourced from many different places, including possibly the UK in Cornwall. But the mineral that I would like to speak about a little more is cobalt, which is also used in rechargeable batteries, so it is critical to the green transition and to digital transformation in general. That one is a bit trickier, because 70% of the global supply occurs in the Democratic Republic of the Congo, where industrial mines usually source the cobalt responsibly, but there are also artisanal miners. Artisanal mining is an informal sector and an incredibly dangerous one. It is important to note that a significant proportion of the DRC's population relies on it for work. That is essentially where we see most instances of modern slavery and child labour.

Going back to the original question about the responsibility of businesses, obviously we are many steps removed from the mining stage, but tech companies believe that they do not want to facilitate modern slavery at all, directly or indirectly, in any way, shape or form, so we are taking different measures to implement policies. We work with different companies as well, across the board. We do not want to have a situation

where products that land in consumers' hands are connected to human rights abuses.

As I said, we are committed to minimising instances of modern slavery, while delivering essential products and services. At techUK, what we see quite frequently is companies of many different sizes voluntarily complying with the UN Guiding Principles and OECD Due Diligence Guidance for Responsible Business Conduct. They have developed strict corporate governance procedures, and due diligence usually consists of five to six steps, including independent audit of supply chains and suppliers. Regarding procurement policies, we ban recruitment fees, and implement codes of conduct in agreements with suppliers. We work with the Responsible Business Alliance, which has its own code of conduct that is often embedded into supplier policies.

Many of our members participate in the RBA and its branches. One of them is the Responsible Minerals Initiative and another is the Responsible Labour Initiative. Those are a little more practical in nature. For example, the RMI provides a white list of smelters and refiners. They have different templates that help companies track their supply deeper in supply chains and make sure that they source minerals from responsible sources. They also provide training, and have their own platforms with different courses. Another initiative that techUK members are involved in is KnowTheChain. It has a benchmarking system on its website. Aside from that, we conduct a lot of activities on the ground, where we source. That includes spot checks. Obviously, that is a bit trickier in areas that are destabilised. During Covid, that activity went down but now it is picking up.

We have members funding organisations that basically help to make sure that artisanal mining becomes a formalised sector. That includes Better Mining, for instance. Essentially, it specialises in engaging with artisanal miners and retraining them, pointing them to safer sectors. There is a lot of industry collaboration, including at techUK, where we have a Responsible Business Conduct Group. We organise educational webinars and help members to understand best practice and regulation. There is a lot going on. One aspect that often gets overlooked is the tech sector's role in developing tools that will help detect modern slavery and provide support to victims. All in all, we believe that we have an enormous responsibility. A lot is happening already, but we would obviously like to do more.

To answer your second question, about civil liability and liability for directors, we would not support it for two reasons. I suppose it does not come as a surprise. We were thinking about it and felt that if directors were made liable it would lead to a higher rate of termination of contracts, because it is just a safer option for them to go for. That would not be good for communities that rely on that work. We believe that corrective action plans are better, for example. You might terminate a contract and then modern slavery will disappear from your supply chain, but it will just contribute to wider issues.

The second reason is that if you go for civil liability, you inevitably, by default, support more prescriptive approaches. We would prefer the approach to stay flexible. We believe that part of the success of the Modern Slavery Act is the fact that it provides a safe space for companies to talk about what they do on modern slavery. If you take that away, there is a risk that directors will disengage or disengage early and do the bare minimum to comply with the regulations. Apologies for a monologue.

The Chair: Thank you.

Lord Watts: You have identified materials that are high risk for exploitation and said that you are actively involved in those. Why is it still happening if you have an effective organisation that is committed to changing things? If it is still going on, is that not a reason to make directors responsible in a way that they are not now? Perhaps that would make them a bit keener to make sure that the sources they get their materials from meet basic standards.

Weronika Dorociak: The phrase “moving mountains” comes to mind. In this case, it would be moving mines. We are dealing with resources that are available in a particular part of the world, and, as I said, some regions are very destabilised. If we wanted to solve the problem completely, we would have to convince certain governments to change their ways. That is why we believe that responsibility should not be placed entirely on businesses. We should recognise that these issues are very complex and tricky.

Lord Watts: Market forces would mean that if someone was able to meet those criteria and, within the industry, there was a ready market, they would be successful and the people who had not met the same standards would not be successful. Is that not the case?

Weronika Dorociak: I am not sure I would agree with that, to be honest, simply because if you decide to move certain activities to parts of the world that are safer for workers, you are dealing with enormous costs. We are talking of tens of millions of pounds for each organisation. That would be the most that they could do. Those costs inevitably would be passed on to consumers. There would be R&D costs and dealing with capacity issues.

Baroness Butler-Sloss: I am interested in your use of the word “flexibility” and that you are opposed to anything more than that. Does that not allow a number of companies to do absolutely nothing? There is a lot of evidence that the good companies, such as Primark, would like to have a level playing field. I remember talking to Primark directors who work extremely hard to try to see what is happening in their supply chains. Other companies are doing nothing. While you continue to have flexibility, will that not be the situation?

Weronika Dorociak: To clarify what I mean by flexibility, we are completely in favour of removing Section 54(4)(b). We do not want

companies to be able to say that they have not done anything on modern slavery risks. What I was referring to when I said flexibility is that we do not want it to be a tick-box exercise. We do not think that companies should be allowed to say that they have not done anything. We would like to see a provision that would prevent them doing that. When it comes to reporting timelines, for example, we think that companies should be able to align them with their own preferences, with their own business operations. When we were consulting members on this, they said that some of them report January to January. Some of them do April to April. Some of them would align with the CSRD, if it applied to them. That is what I meant by flexibility. I think that Section 54(4)(b) should be removed.

Baroness Butler-Sloss: I am delighted to hear that, but what about enforcement?

Weronika Dorociak: We support enforcement of companies and financial penalties, perhaps preferably in a phased-in approach. That is something we are absolutely not opposed to. We support enforcement, but not of directors specifically.

Lord Smith of Hindhead: Would it not help industry if it found an alternative to cobalt? It is in everything. It is in our phones, laptops, computers, and the electric cars that we are all being encouraged to use. All of us are guilty of being involved in the modern slavery trade, every one of us in all the developed countries around the world. I sometimes think these coalitions are intensely well-intentioned when they say that company directors should be prosecuted for this, that and the other. I would be happy if that happened, but only if it applied to government procurement officers and civil servants as well. That would be interesting, would it not? Perhaps if the industry could spend some time finding an alternative to these precious minerals, 70% of which or 80% of which can only be found in a part of the world that is about as unstable as you could get, that would really help, would it not? Is any work being done on that?

Weronika Dorociak: I am not sure exactly what sort of activities are going on. We always feel that members are constantly looking for alternatives. Obviously, the alternatives tend to be a bit more expensive, unfortunately. I am sure that a lot of resource is being allocated to R&D and looking for alternatives that could be used instead of cobalt in safer parts of the world. Yes, we are happy to look into it further and perhaps provide a response in writing after consulting colleagues.

Lord Smith of Hindhead: To take Lord Watts's point, if it was a bit more expensive, a lot of people would be prepared to pay for that because that is the market, is it not? That is the choice we all have, as Sir Keith Joseph taught us many years ago. We can have that choice and, if we are concerned about modern slavery, we can pay a little bit extra to have our phones, laptops, computers and electric cars. It would be interesting to see what level of care there really is about digging out cobalt in the middle of Congo.

Weronika Dorociak: It is difficult to comment on how much consumers care in general. One insight we have from members is that, when they look at the website and the number of clicks on modern slavery statements, there are not that many.

Lord Smith of Hindhead: No, of course.

Weronika Dorociak: That is a tangible way of measuring it and, unfortunately, that engagement is not there. They see that consumers still do not engage to a very high degree, but they engage with sustainability reports and sections on modern slavery. I am not exactly sure what the level of care from consumers is in this area.

Lord Smith of Hindhead: Like most things, it is intensely well intentioned, but when it comes to it, one wonders.

The Chair: Thank you.

Q155 **Lord Hope of Craighead:** I am very sorry not to be able to speak to you in person. I have been listening with great interest to the very detailed answers you have been giving to the previous questions.

How realistic is it, if you are frank, to expect companies to undertake more meaningful action in managing their supply chains? This breaks itself down into two questions, at least as I see it, one about money and the other about the system of reporting. Could we explore the money aspect first? Dr Buttle, could you tell us a little about how you see the financial impact of taking all possible steps to eradicate modern slavery in supply chains in your sector?

Dr Martin Buttle: Thank you. I believe that companies should be doing more to tackle forced labour, but it will be driven only by strong regulation and legislation. In terms of the financial cost, we are an investment management firm, so we believe that the greatest risk will not be in the supply chain but downstream in the companies in which we invest. The expectation for an investment management firm and, indeed, for all the financial sector would be that they would be doing due diligence on their investment and, with banks, know your customer. There is a slightly different set of relationships with the financial sector.

I can speak for CCLA. I do not think I can speak for other companies in the financial sector. We have quite a small group of equities that we invest in. It would be reasonable to expect us to do due diligence across other asset classes. If we just look at equities, we invest in a relatively tight number of equities. Doing due diligence on those equities is feasible and possible, as is engagement with companies and pushing them to do more on modern slavery. Indeed, that is something we have been doing.

We are an active investor, and other investors take other investment strategies. If you are a passive investor, you could be invested in almost every company in the world. That would mean doing due diligence on all those companies, and the cost would be significant. CCLA supports any

future modern slavery Act including the financial sector, but I can understand that others in my sector may disagree with that point of view.

Lord Hope of Craighead: Are you able to put any figures on the cost of due diligence? I suppose it depends on the particular sector you are looking at. In an area where choices have to be made, are you able to say how big the impact may be on the undertaking itself?

Dr Martin Buttle: It is incredibly difficult to come up with a single figure. It will vary tremendously depending on the sectors in which you are investing. The tech sector will be different from the garment sector, which will be different from the food sector. It will depend on companies' exposure to the different types of forced labour, where it occurs in their supply chain, the extent of those issues and how much leverage they have to address them. It is incredibly difficult to put a figure on how much it would cost. If there was a smart mix of regulation plus business action, you might well see that there would be synergies in that, which would gradually push forced labour out. I do not think I could give you a single figure.

Lord Hope of Craighead: Thank you for that. I understand the point you make. This is an area where choices have to be made and profitability is obviously vital to sustaining the business. I come back to the question: is it realistic to expect companies to spend more than they currently do in managing their supply chains?

Dr Martin Buttle: Obviously, across different sectors there are different levels of maturity in their approach. I referred to the report that we published in November. We looked at all the top 100 listed companies and saw a big difference between those that are consumer facing—consumer durables and consumer discretionary companies that are doing quite a lot on tackling forced labour and labour exploitation in their supply chains—and other sectors that really are not. You are not looking at a level playing field, but they are the ones that have the greatest exposure, so you would expect them to be doing more.

Lord Hope of Craighead: Thank you. Can I turn to you, Weronika, and the sector in which you operate? Can you give us some guidance on this question?

Weronika Dorociak: In terms of meaningful action, we feel that a lot is being done already. Obviously, we strive to do more. I went through a couple of examples at the start of the session. We provide training for internal employees and for suppliers. There is funding for personal development in the supply chains, not only internally. We implement worker voice apps, where workers can get trained on modern slavery and on their rights and can voice any types of concerns. I mentioned the charity Better Mining, for example. Other meaningful action that is being explored is recycling of minerals. To answer the question about meaningful action, that is how we see it.

On the costs of due diligence, a lot of the big players already conduct due diligence and are big advocates for it. It depends on what you want to do in terms of scope. We definitely would not throw SMEs into the mix, at least not immediately, because the costs would be enormous for them. It would not be a concern for big players because they are already doing it. It depends on what you want to do. I am not able to provide a specific figure. We have consulted members on how much it would cost to eradicate completely or minimise modern slavery. They responded with eight figures, so it would be tens of millions. In terms of the costs of due diligence, I am unfortunately not able to answer that. I am happy to try to collect that statistic, although it would probably be difficult. I am happy to try to do that and follow up in writing.

Lord Hope of Craighead: Thank you for taking us as far as you have been able to do. The other aspect is reporting, where the problem is that reporting may be missing out things that ought to be said. Should companies be allowed to distinguish in their reports between what they can do to eradicate the problem and what they cannot do and, in particular, to be frank about situations where they are not able to deal with the problem for reasons they may or may not be able to give us? Perhaps we could come back to you, Dr Buttle, to say one or two things about that aspect.

Dr Martin Buttle: I would refer to the UN guiding principles again. That is a well-established framework, which breaks down the relationship between the company and the human rights harm. In some contexts, the forced labour will be very close to their operations or in the first tier of their supply chain, in which case, it would be very much in the orbit of the company and within its sphere of influence. There should be an expectation that companies should be able to tackle forced labour in those circumstances. As you get further down the supply chain, obviously the leverage becomes harder and there is less visibility. It becomes more difficult to be able to drive out modern slavery and forced labour in those circumstances. In reporting, companies should say where forced labour occurs in their supply chains, where the risk is and how much leverage and ability they have to address those harms.

In general, as investors, we think that most companies are not providing the disclosures that investors need to be able to assess the effectiveness of their programmes. We would very much support greater reporting because we believe that investors would then be able to assess whether companies were indeed making effective steps to eliminate modern slavery and were looking at the cost implications of doing so. At the moment, the disclosures we see are very general and they do not have specificity on the financial implications of addressing forced labour, as your question earlier tried to get us to expand on.

Lord Hope of Craighead: You would favour greater transparency and frankness about areas where they have not been able to resolve the issue, but perhaps would require guidance or assistance to enable them to do so.

Dr Martin Buttle: Exactly. Yes.

Lord Hope of Craighead: Thank you indeed. What is your position, Weronika, in your sector?

Weronika Dorociak: We definitely agree. As I said, our supply chains are extremely complex and we have zero control over what happens at the bottom of the supply chain. We feel that many members already try to make that clear to the people reading the reports, but it would definitely be of benefit if companies could look at things in terms of what they can and cannot control. At the same time, we do not feel that it should be possible for anyone to say, "Everything is out of our control". There should be measures preventing that, because we do not want another Section 54(4)(b) situation.

Lord Hope of Craighead: Thank you both. That is very helpful.

Q156 **Lord Watts:** You have already dealt with this, but I want to try to tease out how much flexibility you are looking for. We have heard that many companies want flexibility. What do you think that flexibility should look like? For example, do you think it should require a report that is not annual? Do you think we need to do metrics of success to give it some flexibility that is not there?

Once you start to be as transparent as we have heard, the reputational damage done by the client, or the department, whether a phone company or something like that, may well change the dial. What do you think about that? It seems to me that if Vodafone was found to have been involved in modern slavery, that could have a dramatic effect on the company and its share price.

Dr Martin Buttle: Yes. As I said before, we support greater transparency and more reporting disclosures. We think that the framework should give companies flexibility to be able to report on the issues that are material, and those that are salient—salient human rights risks to the rights holder. Again using the UN guiding principles, if an issue is salient and material to the business, it should report on it. The regulatory framework should have the flexibility to allow companies to make that determination in dialogue with their stakeholders and when they do their human rights due diligence.

On the frequency of reporting, if you are asking for a more sophisticated report, the reporting burden of producing a good modern slavery statement is quite significant. The top-scoring company in our benchmark was a fast-moving consumer goods company that told us that it spent an enormous amount of time reporting when it could have been doing work to address some of the human rights harms, so there is a trade-off. There is a lot of good, evergreen stuff in a modern slavery statement: policy commitments, governance procedures and a lot of the policies and processes will not change year to year. Some of the activities to address forced labour and modern slavery may change, so if you were going to have more expectations on companies to report, perhaps it would be fair to lessen the frequency of reporting. Australia's review of its Modern

Slavery Act suggests that reporting should be every three years. We think that that is probably too infrequent, but we would be open to making it less than annual.

Your point about businesses causing their own reputational harm if they are to report on cases of forced labour in their supply chain is an issue. In engagements with companies, we hear often that they are very reluctant to disclose cases of forced labour. We had a number of construction companies in our offices on Thursday. They talked about cases of forced labour in the construction industry in the UK, but they were very reluctant to report on it publicly. There are concerns about legal liabilities, triggering controversies and the reputational risk that creates. We would say that it is partly about how the ESG data providers operate. They provide services for investors, assessing companies' approach to ESG matters, including human rights and forced labour, and a lot of them work on the basis of controversy. If a company has a controversy it gets flagged in the system, which affects the share price.

I am part of an investor group that has been engaging with the big data providers to say that, in the light of the European legislation—the corporate social due diligence directive—that approach to assessing corporate performance on human rights is detrimental to driving better performance in human rights. I cannot generalise, but some of the data providers recognise that argument and are trying to address their approach. It is early days. Creating reputational risk is a real issue, but we need to work collectively to normalise the idea that disclosing cases and risk, and being open about it, is the only way we will collectively address these issues.

Weronika Dorociak: I will refer first to the question about frequency. We see that companies are generally used to annual reporting. Obviously, that has some benefits, including easier comparisons, I suppose. At the same time, in a year you cannot really see much change in policies and risks. It is also harder to demonstrate progress, so we do not really have a view on that. We would like to see the same length of time for each entity and for them to be able to report on that flexibly and not necessarily with deadlines, but we do not have a view on what length of time that should be.

To touch on your point about reputational risks, when we at techUK speak to members, we can tell that no business intentionally employs or chooses a supplier that has found modern slavery risks present in their operations, because that would result in reputational damage and potential loss of revenue. The issue for the tech sector is that scrutiny comes at us from left, right and centre, and we feel that we have been pretty transparent in our modern slavery statements. Businesses talk a lot about what they are doing around forced labour and they publicly endorse forced labour regulation, but still the scrutiny does not go down. I am not sure that I agree, simply looking at the practicalities and what we see in the media and so on.

Lord Watson of Invergowrie: I am quite struck by the approach you

have both taken—that we have to be careful not to damage companies and not put directors in the firing line, as it were. It seems to me that if reputational risk is an issue, the best way of avoiding it is ensuring, before it comes to light, that modern slavery in supply chains is either weeded out or otherwise ended. I do not think that a company having reputational risk is in itself an excuse. To say, “This could be damaging to the company. Let’s not go there”, is effectively saying—unless I have misunderstood what you have both been alluding to—that companies are aware that it is there but they do not want to say anything about it in case it damages them. Surely the emphasis should be on ensuring that, in some way or other, the abuses of modern slavery in that supply chain are ended.

Weronika Dorociak: I will make a remark about metrics and high incidences of modern slavery being reported. When someone says, “We haven’t found any modern slavery in our supply chains”, they are either lying or not looking hard enough. In a similar way, when a company reports a high incidence of modern slavery, that might mean that they have good due diligence processes or that they have massive problems. It is hard to address that; it is a difficult one. I suppose it is a balancing act. You have to make sure that you can continue to prosper and operate as a business and make sure that the reputational risks are minimised. It is a difficult question.

Dr Martin Buttle: To add to that, there was an assumption in my answer that 50 million people around the world are trapped in forced labour¹, and the numbers are going up, not down, so it is a reality. The world is a complex place; there are failed states and authoritarian regimes, and that is a reality that businesses have to face. We think that they should be more transparent about the risks. We absolutely support driving out forced labour and modern slavery, but we recognise that the world is a complex place.

Weronika Dorociak: To add to the point about reporting on the number of instances of modern slavery, we would probably lean more towards numbers such as the percentage of suppliers onboarded with training, the number of questions asked during procurement processes, the number of employees trained or engagement with worker voice apps. They are easier to navigate. We are not even sure whether the 50 million figure is correct, so it is difficult to look at just the modern slavery incidence.

Lord Kempself: I want to come in on the point about the complexity of global supply chains and different Governments and economies. Thinking about the world’s biggest manufacturers, 30% of global manufacturing is from China, and in the top five are countries such as India. In tech, 80% of laptop manufacturing is in China. I think I am right in saying that even though the United States is the second-largest tech manufacturer, none of the major smartphone producers, for example, makes a single product in the United States.

¹ 50 million people around the world are trapped in modern slavery, of which 27 million are in forced labour.

Thinking about the realistic approach that we can take with directors of UK companies, how easy is it for them and what methods are available to them to interrogate the second, third and fourth-order supply chains inside countries such as China? I do not want to single out China—I do not have a particular animus against any country—but, thinking about the complexity of global manufacturing, how is it possible for a UK company director to truly interrogate the integrity of a supply chain inside China, for example?

Weronika Dorociak: To put things in perspective, some of the biggest companies have around 10,000 direct suppliers—tier 1—in over 100 countries. It is very difficult to get beyond that and underneath tier 2. I will be very careful with what I say about China, but it is essentially a black box. It is very difficult to obtain data because of regulations there. That is definitely an obstacle. It is difficult to penetrate supply chains there. Moving the activities elsewhere would result in higher costs, and it would be difficult to generate the same amount of capacity.

Lord Kempsell: Yet the majority of the world's consumer goods are manufactured in China, so if we want to interrogate supply chains, that is a very large slice of the pie that we are asking UK company directors to consider, many of whom will be doing business with suppliers from China. I am not isolating China as a particular example; it will be true for lots of countries with different Governments and approaches, some of which will be more or less democratic or economically developed, depending on your viewpoint. Is it not an example of how difficult it might be to produce an accurate report if, for example, a large percentage of your tier 2 or 3 suppliers are in a country that does not have a transparent corporate regime at all, even on straightforward matters such as company registration, let alone on supply chains?

Dr Martin Buttle: They should disclose that as a human rights risk to their business model so that investors can assess whether the risk is legitimate. I am sure members of the committee are aware that the US has instigated the Uyghur Forced Labor Prevention Act and impounded about £30 billion of imports into the US as a result of a rebuttable assumption that those products were made with forced labour. At CCLA, we have investments in a US utilities firm that had very large investments in solar panels, which, in December 2022, were impounded by the US. That company has had to completely re-engineer its entire supply chain to onshore, nearshore or friendshore its entire solar supply chain. It is planning to do so by the end of 2024. Obviously, the US has decided that it has various geopolitical considerations in doing that, but if you want to deal with some of the black box, perhaps some of that approach is required.

Lord Kempsell: That is federal legislation, rather than a duty on US company directors.

Dr Martin Buttle: Exactly.

Weronika Dorociak: Yes. If I may, I will point the committee to the forced labour regulation that the EU is planning to introduce, as perhaps that would be the right document to look at when it is produced. These issues are not specific to the tech sector; they happen with every product, so perhaps it would be worth looking into banning products made with forced labour from entering the UK.

Q157 **Baroness Hamwee:** You have told us how difficult this all is and have been very clear about the complexity. One of the issues we have been made aware of is that it is much easier to look at things horizontally than vertically. Is there anything you would like to add to that? I also have a couple of questions from what has come out this afternoon.

Dr Martin Buttle: Sorry, can you expand on what you mean by horizontally?

Baroness Hamwee: Looking at the horizontal process—not being able to dig down or up. You have talked about it, so I wondered whether there was anything else to say.

Dr Martin Buttle: I do not think so.

Weronika Dorociak: Are you referring to direct suppliers?

Baroness Hamwee: Yes.

Weronika Dorociak: Our members engage with direct suppliers. I do not think any of them do not. A lot of work is being done here and closer to the main entity. I am not really sure that I have anything else to add, but that is already happening. When it comes to cascading and passing best practice on to suppliers, it definitely works best with direct suppliers, and then that control might be lost to a certain extent. It also depends on what measure we are looking at. Practical training probably works better than, for example, small changes in codes of conduct or just requiring someone to do training on a website. It depends on how you look at it, but engagement with direct suppliers is 100% there.

Baroness Hamwee: What sort of training could be given?

Weronika Dorociak: It is standard training on how to detect modern slavery and how to make sure that your employees are aware of their rights, et cetera.

Baroness Hamwee: Do companies that contract supplies from the next one down the line include terms relating to slavery? Let us say that company A is contracting with company B. In its contract, will A say to B, “With your contracts with C1, C2 and so on, you should include terms that relate to slavery”?

Weronika Dorociak: The short answer is yes, that is how it works. I am not sure about the specifics, but that is basically what happens.

Baroness Hamwee: Enforceability is presumably difficult.

Weronika Dorociak: There are checks and audits, obviously, but it is a little more difficult the deeper you go into the supply chain.

Baroness Hamwee: Is any competition developing between companies, such as, “We do investigation and checking—the due diligence—better than others”? We have seen some very good practices, but do price and quality trump everything else?

Dr Martin Buttle: There is a lot of collaboration across different sectors, because certainly in the first tier, and indeed further down, companies may well share suppliers. One supplier might supply Marks & Spencer, Tesco and the other supermarkets, so there is collaboration between those supermarkets when they find they need to address a case.

Weronika Dorociak: I agree. I would not necessarily say that there is competition. We see collaboration; the white list, for example, prepared by the Responsible Minerals Initiative, includes smelters and refiners. I agree with the point that a lot of companies might share the same suppliers. There is more collaboration than competition.

Q158 **Lord Smith of Hindhead:** We have established that anybody who has a mobile phone, tablet, laptop or electric car is probably involved in the modern slavery world. Sitting there having a fairtrade coffee, looking at their laptop, it is likely that they do not have more moral high ground than the rest of us. That is quite a useful position to start from.

We have established how fundamentally difficult it would be to introduce some form of legislation whereby company directors could be made liable for prosecution, unless it could be proved that they were deliberately sourcing something from a source known to exploit its workers. It would be interesting if any legislation like that were to apply for the first two years solely to government and local government procurement officers, to see how it worked and how they liked to spend a bit of time under that sort of scrutiny. That would be really fascinating to see.

You probably get the general idea that I am one of those people who is concerned about the unintended consequences of all our good intentions. That is my real concern about what we have heard today. You already answered the first part of my question when you answered the point raised by Lord Hope. This is the one point I have left. Do you think that the framing of due diligence within a broader human rights context risks overshadowing modern slavery?

Weronika Dorociak: We believe that human rights should be looked at as a whole; they should not be in competition with each other. Looking at the practices in the industry, a lot of our members adhere to the UN Guiding Principles, for example, which are focused on human rights, and we do not see them not reporting on modern slavery in more detail, so I do not think that is a problem. Obviously, there is some risk that certain aspects of human rights may be overlooked, but, looking at the current practices, we are not very concerned about that.

Dr Martin Buttle: I agree. The European legislation is broader in scope, but forced labour and modern slavery are significant human rights harms and would be covered by broader legislation. Indeed, where forced labour occurs, there can be other forms of human rights harm, such as discrimination or violation of indigenous rights. Indeed, environmental issues can be associated with the same practices.

The Chair: May I follow up quickly on the point about directors' duties, to put a different spin on it? In UK legislation, "reasonable steps" is a phrase that is often used. If there was a director duty to take reasonable steps to prevent modern slavery through the supply chain, would your members live with that?

Weronika Dorociak: Probably. It is hard to say so on the spot without consulting them first, but reasonable steps sounds reasonable.

The Chair: Thank you.

Q159 **Baroness Butler-Sloss:** We are grateful to you for all that you have provided for us up to now. As the last question, could each of you give us one recommendation for how we could improve our Modern Slavery Act?

Dr Martin Buttle: Trying to harmonise with European legislation would be a good idea. In the absence of that harmonisation, there is a risk that, if we have a lower standard, the UK could become an area where forced labour products find their way to the UK market, while the US, and indeed Europe, have stronger legislation.

Weronika Dorociak: We definitely agree with that. We look at divergence as costly, and obviously we want to minimise costs as much as possible so that we can focus on doing the work on the ground. We would definitely look at CS3D for due diligence and CSRD for reporting. We would also look at forced labour regulation, as I mentioned earlier. We definitely need global approaches there. Perhaps this could also be looked at through the UK SDSs—Sustainability Disclosure Standards—that are in the making. From what we have gathered, the target date for endorsement was July 2024, but it looks as though it might fall under the next Government, so perhaps there is some scope to look at due diligence and human rights there.

Baroness Butler-Sloss: Does that mean that it is important that we have due diligence as part of our requirements, in order to be on a level playing field with European companies?

Weronika Dorociak: Yes. The tech sector definitely supports due diligence.

Dr Martin Buttle: Yes, I agree with that.

The Chair: That draws our proceedings to a close. On behalf of the committee, I thank you for your insights, expertise and experience. It has been a really helpful session. That ends the second panel of the Modern Slavery Act Committee.