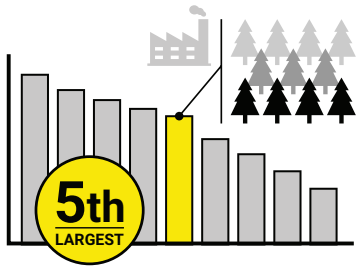
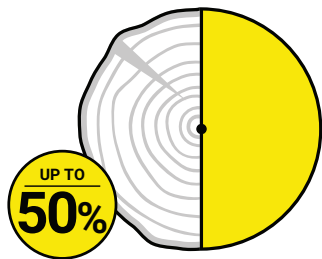


Forced Labor in Forestry (incl. Paper & Forest Products)

The Food and Agriculture Organization of the United Nations estimates that the formal forestry sector employs 13 million workers globally and that another 41 million workers are employed in the informal forestry sector.¹



Timber is the **fifth-largest** product by value at risk of forced labor imported to the US.²



Up to 50% of illegal logging globally¹ is dependent on forced labor.³ The value of illegal logging operations is estimated to be between US\$30-100 billion, or 10-30% of the global timber trade.⁴



880 workers in the timber industry in Brazil were rescued from forced labor between 2011 and 2017. The total number is likely to be higher due to the challenges of finding workers in large forest areas working for loggers who are well-versed in evading inspection.⁵

What is forced labor?

"Forced labour can be understood as work that is performed involuntarily and under the menace of any penalty. It refers to situations in which persons are coerced to work through the use of violence or intimidation, or by more subtle means such as manipulated debt, retention of identity papers or threats of denunciation to immigration authorities." (ILO)⁶

"At the end of the year, if you have a lot of money to receive, they won't pay you. They'll have you killed. They might owe R\$10,000 or 15,000 [US\$2,400 or 3,600] to a worker. But a gunman will cost only R\$3,000 [US\$700]"

– Forestry worker in the Amazon⁷

¹ Illegal logging occurs "when timber is harvested, transported, processed, bought or sold in violation of national or sub-national laws," for example, when logging takes in protected areas or beyond allowed quotas. WWF, "Illegal logging." Accessed 1 October 2019.

Why Should Investors Be Concerned About Forced Labor Risks?

Institutional investment in forestry has grown significantly "from an estimated US\$10-15 billion in the early 2000s to over US\$100 billion today."⁸ While risks related to deforestation and climate change receive significant attention from investors, forced labor risks in the forestry sector are rarely on the agenda, even though companies are taking very little, if any, action to address them (see below).⁹

HIGH-RISK SECTOR:

Risks of forced labor are present in both developed and developing countries. The US Department of Labor lists North Korea and Peru and two of the largest timber-producing countries globally, Brazil and Russia, as countries in which timber may be produced with forced labor.¹⁰ Further, it has been reported that forestry workers, and in particular migrant workers, in the Czech Republic and Estonia have been subjected to forced labor, often by being compelled to work to pay off debt to their employers.¹¹ Forced labor can occur in logging, and may include threats, violence, poor living and working conditions, a lack of formal contracts, and non-payment of wages. It also may occur in sawmills, where workers may have to work excessive and unpaid overtime while having their documents retained and movement restricted.¹²

ILLEGAL LOGGING AND FORCED LABOR:

Forced labor is most likely to arise in sectors where regulatory oversight is weak.¹³ Much of the output of the forestry sector originates from remote areas where labor regulations are more easily disregarded by businesses.

In producing countries in the Amazon basin, Central Africa, and Southeast Asia, it is estimated that 50-90% of forestry activity is carried out illegally.¹⁴ Globally, estimates indicate that up to half of illegal logging is dependent on forced labor.¹⁵

3 out of 4 large timber companies sourcing from Brazil, which were surveyed on their practices to prevent forced labor, noted that they had previously found forced labor in their supply chains.¹⁶

EXPLOITATIVE WORKING CONDITIONS:

Workers in the forestry sector are often migrants, some of whom are forced to pay recruitment fees or have their travel documents withheld.¹⁷ Workers are rarely formally hired, and work takes place in isolated areas, making unionization and labor inspections challenging.¹⁸ In addition to the hazardous nature of logging activities, exploitative conditions may include threats, poor living and working conditions, excessive working hours, non-payment of wages, and debt-based coercion.¹⁹

What Steps Are the Companies Taking to Address Forced Labor Risks

KnowTheChain assessed 39 of the largest publicly listed companies in the paper and forestry and home furnishing retail sectors on their efforts to address forced labor risks in their supply chains, based on publicly disclosed information. The findings show a stark lack of action.

While 59% of the companies disclose a supplier code of conduct that includes provisions on forced labor, only 5% disclose having a remedy process in place for workers who are found to have been subjected to

forced labor or other labor rights abuses.

Similar disparities between policy and practice become

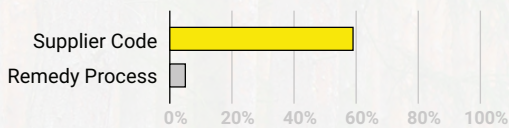
apparent when looking at grievance mechanisms: 23% of companies report that a grievance mechanism is available to workers in their supply chains, yet only 5% report on outcomes, such as the number of grievances received (thus making clear that supply chain workers are aware of, know how to use, and trust the mechanism).

It is concerning that no company assessed by KnowTheChain

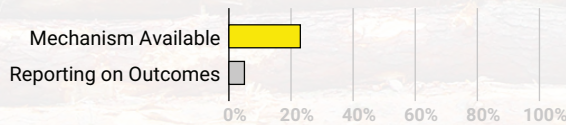
discloses engaging with local stakeholders such as worker organizations on forced labor. Similarly, none of the companies assessed report working with trade unions to support freedom of association in their supply chains.

Please [see here](#) for further details and initial steps some of the companies have taken.

Supplier Code vs Remedy Process



Grievance Mechanism



CERTIFICATIONS:

The Forest Stewardship Council (FSC), one of the largest certification bodies in the sector,²⁰ focuses on environmental issues; it recently started to integrate forced labor into its frameworks.²¹

PEFC, the Programme for the Endorsement of Forest Certification, which describes itself as the world's largest forest certification system,²² includes references to the ILO core conventions, including forced labor, in its standards.²³

However, there are no publicly available details from either organization on how forced labor risks are assessed and what the outcomes are.

Further, even certifications and audits that have a stronger focus on labor rights often fail to detect forced labor. For example, forced labor was detected in 2018 in factories of Top Glove, a Malaysian rubber factory, despite 28 audits undertaken in 2017 and 2018 by different audit firms.²⁴

What Action Should Investors Take?

Investors – including those invested in listed equity, private equity, and real assets (especially forestry and property²⁵) – should undertake due diligence, both before investing in forestry companies and companies sourcing from the forestry sector (such as paper or furniture companies) and during investment.

Investors should take steps to ensure that portfolio companies in the forestry sector, and those sourcing from the forestry sector, **undertake human rights due diligence in-line with the [UN Guiding Principles on Business and Human Rights](#) and disclose their efforts.** Investors may wish to probe companies in the sector on the following aspects:

COMMITMENT

Does the company have a public commitment to respect workers' rights? (These rights are listed in the [ILO's core labor standards](#).) Does it require its suppliers to adhere to the same standards, and include these expectations in supplier contracts?

GOVERNANCE

Has the company established clear responsibilities and accountability for the implementation of responsible labor and recruitment practices, including in its supply chains?

STAKEHOLDER AND WORKER ENGAGEMENT

What steps does the company take to engage with stakeholders such as unions, and ensure that **workers**,

including migrant workers, subcontracted workers, and supply chain workers, **understand and are able to exercise their rights?**

DUE DILIGENCE

- How does the company **assess and address forced labor risks**, including risks related to informal employment and migrant labor?
- How does the company remove barriers to decent work for all workers, including **migrant workers**, and ensure that workers receive full payment of wages?

GRIEVANCE MECHANISMS AND REMEDY

- How does the company ensure that workers—including migrant workers and supply chain workers, and those working in isolation—have access to effective grievance mechanisms? (Effectiveness criteria are [outlined in Principle 31 of the UN Guiding Principles on Business and Human Rights](#).) Which labor-related grievances has the company, or its suppliers, received in the past year? How have the grievances been dealt with?
- What examples can the company supply of remedy being provided to workers, including to migrant workers (such as repayment of wages)?

An investor that is not directly managing the investment could include the above considerations in the selection and/or monitoring processes of its investment managers.

Red Flags for Investors

- **Lack of Clear Expectations with Regard to Labor Rights:** When a company does not disclose a supplier code of conduct covering internationally recognized labor rights, or if it even notes that such a policy is not necessary because it has other “procedural safeguards” in place, it raises questions about the company’s understanding of the potential risks in its supply chains.
- **Lack of Implementation:** A company’s disclosure reveals a disparity between policy and process. For example, while 23% of the 39 companies analyzed disclosed a grievance mechanism in place that may be accessed by their suppliers’ workers, only 5% of the companies disclosed that stakeholders such as their suppliers’ workers had used the mechanism. Where a company has a policy in place, it should be able to report on its outcomes and its effectiveness.
- **Lack of Due Diligence on High-Risk Countries:** When a company sources forest products from high-risk countries, such as Brazil or Russia, but has not undertaken due diligence in these contexts, this may indicate a lack of risk management. Equally, when a company does not (fully) disclose where it is sourcing from, this raises concerns, as it does not allow investors and other stakeholders to understand the company’s risk profile in full.
- **No Violations Identified:** Most larger companies have supply chains that reach into a variety of sourcing countries. At the same time, labor rights violations continue to be documented in both developed and developing countries. When companies state that self-assessments of all of their suppliers did not detect forced labor and also failed to detect any labor-related risks (including minor non-compliances), it may indicate that the process is not fully effective.

Resources

Business and Human Rights Resource Centre, "[Brazil-UK: Forced labour, due diligence & beef and timber supply chains research results, includes outreach to companies.](#)"

KnowTheChain (2019), "[Appendix: Assessing Corporate Efforts to Address Forced Labor Risks in in the Supply Chains of the Paper and Forestry and Home Furnishing Retail Sectors.](#)"

Modern Slavery Registry: Includes statements from 49 companies in the Paper & Forest Products sector under the UK Modern Slavery Act and California Transparency Supply Chain Act. This includes companies from the UK and the USA, and also from Finland, Sweden, and Canada.

Repórter Brazil (2018), "[Timber Industry: Modern Slavery and the British Market.](#)"

Repórter Brazil, "[Wood and Slavery.](#)"

Verité, "Exploratory Studies on Trafficking Risk in the Timber Sectors of Myanmar, Mexico, and Mozambique." (Forthcoming January 2020)

1. **FAO**, "[Decent Rural Employment: Forestry.](#)" Accessed 27 August 2019.
2. **Global Slavery Index** (2018), "[2018-Findings-Country Studies-United States.](#)"
3. **Global Slavery Index** (2016), "[Global Slavery Index 2016.](#)" p. 16.
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5. **Repórter Brazil** (2018), "[Timber Industry: Modern Slavery and the British Market.](#)" p. 5.
6. **ILO**, "[What is forced labour, modern slavery and human trafficking.](#)" Accessed 13 August 2019.
7. **Repórter Brazil** (2018), p. 6
8. **PRI** (May 2019), "[An introduction to responsible investment in forestry.](#)"
9. An [investor statement on deforestation and forest fires in the Amazon](#) received support from over 240 global investors. The [Sector profile: Forestry and plantations](#) of [CDC Group's ESG Toolkit](#) is one of the few sources highlighting forced labor and other labor risks in the forestry sector. Accessed 8 October 2019.
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12. **Repórter Brazil** (2018), pp. 2-9.
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14. **Congressional Research Service** (26 February 2019), "[International Illegal Logging: Background and Issues.](#)"
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16. **Business & Human Rights Resource Centre** (2018), "[Summary of outreach to Brazilian beef and timber companies on forced labour.](#)" Accessed 13 September 2019. Note: outreach was undertaken with five companies, but one company did not respond.
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18. **FAO**, "[Decent Rural Employment: Forestry.](#)"
19. **Repórter Brazil** (2018), pp. 6, 9, and 10. **US Department of State** (June 2019), p. 171. **Earthworm Foundation** (12 October 2018). **The Freedom Fund** (28 March 2017), "[Timber Industry Loots Brazilian Amazon Using Slave Labour.](#)" Accessed 13 September 2019.
20. As of 3 December 2019, FSC issued 35,772 Global FSC chain of custody certificates to companies in 123 countries. **Forest Stewardship Council** (2019), "[FSC Annual Report 2018.](#)" p. 55.
21. **Forest Stewardship Council**, "[FSC and the Modern Slavery Act.](#)" Accessed 18 September 2019. The ILO core labor standards have been integrated into FSC's Forest Management Certification. However, the process of integrating them into national standards is ongoing, and as a result, implementation has typically not yet started. FSC is also in the process of integrating the ILO core labor standards into its Chain of Custody Certification.
22. **PEFC**, "[What is certification?](#)" Accessed 1 October 2019.
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