Investor Advocates for Social Justice

THE SHIFTING GEARS REPORT:

An Assessment of Human Rights Risks & Due Diligence in the Automotive Industry

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Research & Company Profiles
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Full company profiles, analysis of human rights risks in the automotive industry, and history of human rights violations is included in the full report, available at www.iasj.org.

EXECUTIVE SUMMARY

The automotive industry has a history of innovation, revolutionizing transportation, and securing its role in daily lives. The complex logistics, supplier relationships, safety checks, and manufacturing operations that come together to bring consumers a shiny new vehicle significantly impact the dignity and rights of employees, stakeholders, and communities. As the industry stands at the brink of disruption – adaptation for climate change and electrification, the future of mobility, and dawn of autonomous vehicles – it is also contributing to exploitation of human rights. Extensive research documents human rights risks in the supply chains for commodities that go into a car, from leather to mica to rubber. Many workers, including children, are vulnerable in the extensive global supply chain, in which automotive brands and their "Tier 1" suppliers hold significant buying power. This system contributes to downward pressure throughout the supply chain to cut prices, often at the expense of wages and protections for workers.

The shareholder advocacy initiative, *Shifting Gears*, led by Investor Advocates for Social Justice (IASJ), started with one simple question to companies: *How do you know your business is not contributing to forced labor or child labor?* The companies IASJ engages have been unable to answer this question in dialogue or their disclosures with certainty. This is a problem.

The automotive industry has adapted its disclosures to respond to the emergence of corporate social responsibility and increasing expectations from investors, customers, and regulators. However, the core business model, supplier relationships, and the way things are done systemically have not shifted. As this report shows, evidence is absent across the automotive industry that corporations are effectively embedding commitments to ensure respect for human rights. This is reinforced by the prevalence of vague language in company policies that fails to bind a company and its suppliers to any specific actions or requirements. Therefore, investors and stakeholders have legitimate uncertainty about the level of rigor and authenticity of companies' efforts to address human rights risks. More importantly, it is unclear whether any company in the sector has effective systems in place to meet their human rights responsibilities.

After extensive sector analysis, investor engagement, and the independent research commis-

Key Findings of Research

1. **Governance and management systems** for human rights is the weakest area for all companies. Only 3 companies (BMW, Ford, VW) have at least limited disclosure of their human rights governance and management systems.
2. The second-weakest scores overall occur in the area of **embedding respect for human rights across the business**.
3. **Traceability and supply chain transparency** is the third weakest area assessed and is lacking across all companies surveyed, with limited exceptions for conflict minerals.
4. Even the stronger performing companies have only limited **monitoring** of human rights commitments among suppliers.
5. Access to **grievance** mechanisms is weak, constituting only hotlines, and disclosure on **remedy** is absent.

sioned for this report, IASJ concludes that the automotive industry is failing to demonstrate respect for human rights. Stronger governance from companies' board and senior leadership is needed to set the tone at the top and embed it through the lowest tier of the supply chain. Companies do not generally allocate sufficient resources, staff time, or incentives towards improving human rights due diligence, the systems outlined by the UN Guiding Principles on Business and Human Rights. Cost pressures, coupled with the absence of strong regulatory and legal frameworks for holding corporations accountable, contribute to lack of prioritization of human rights within the business.

The most severe human rights risks are in the supply chain. Yet there is inadequate supply chain transparency or oversight to monitor even direct suppliers. Enforceable commitments that are cascaded from one supplier to the next through the supply chain either do not exist or are not monitored. Most companies do not conduct human rights risk assessments that would enable them to identify salient risks and prioritize efforts. They lack plans to develop mitigation strategies and evaluate the efficacy of their systems. Few companies have robust management systems that enable them to embed human rights criteria into business functions like assessing suppliers before entering contracts, incorporating human rights into purchasing decisions, and monitoring compliance with human rights criteria in contracts.

Still, certain areas of hope emerge - European companies in the sector generally have stronger commitments, more resources allocated to human rights due diligence, and stronger performance compared to American and Japanese companies. While this is likely due to more robust European regulatory requirements and investor expectations, these companies demonstrate what is possible.

As society faces uncertainty from the coronavirus pandemic and the climate crisis, the automotive industry must center human rights in its response to crises and standard business activities. Many individuals impacted throughout the supply chain face vulnerabilities - both to their health and economic resilience. It is important that companies identify and address these vulnerabilities.

Effective governance, oversight, strategic planning, and implementation of human rights responsibilities is essential to prevent harm and protect the companies from risks. There are many human rights, legal, financial, business continuity, consumer trust, and reputational risks that will persist in the face of weak human rights due diligence. Investors should engage companies, encouraging them to strengthen governance and oversight of human rights, publish disclosure that will enable investors to more rigorously assess corporate practices, and evaluate the effectiveness of their corporate human rights due diligence. Investors should encourage regulators and policymakers to establish stronger legal requirements, including mandatory human rights due diligence. Efforts to strengthen company policies and practices can drive systemic change.

Taking on these daunting issues will require informed and committed leadership, and more sustainable and just business models. Investors, companies, and governments must address the root causes that contribute to poverty, forced labor, and poor working conditions in the supply chain. To achieve these outcomes, investors must increase pressure on the industry as a whole and encourage individual companies to meet higher expectations for human rights outcomes.

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Key Trends Across Company Assessments

While many automotive companies have established human rights policies with varying degrees of rigor, the sector in general provides almost no evidence these policies are being implemented. Considering the various scandals that have undermined automotive companies' reliability in recent years, investors may be less inclined to trust that policy implementation is as rigorous as companies' aspirational disclosures suggest.

Board level oversight of human rights is generally lacking, with no evidence.

While a few companies in the research universe indicate they have a board member with human rights qualifications, they failed to substantiate this. The sustainability committees referenced did not describe how they address human rights. Companies generally pointed to enterprise risk management without any specific mention of human rights.

Governance and management systems for human rights is the weakest area for all companies. Only **3** companies (**BMW**, **Ford**, and **VW**) have at least limited disclosure of their human rights governance and management systems.

There is a lack of board oversight of human rights. Only **2** companies have a board member with human rights expertise (**VW**, **Continental**), while only **Ford** references human rights in a board committee charter (Sustainability and Innovation Committee).

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Companies provide almost no evidence of implementation.

While some companies have robust human rights policies in place, there is little evidence these are being implemented across the research universe. For instance, few provide detailed disclosure on supplier audits and their results. Still fewer disclose clear, specific details of remedial action they have taken to remedy human rights problems uncovered in their supply chains. This report illustrates that automotive sector companies are highly likely to be exposed to such problems, and yet a detailed and meaningful accounting of remedial action is hard to find among them. To demonstrate genuine results, reporting will have to become more explicit and specific.

The second-weakest scores overall occur in the area of **embedding respect for human rights across the business**.

10 companies conduct some auditing with human rights criteria, the strongest being **BMW**, **Ford**, **Groupe PSA**, and **VW**. Only **Groupe PSA** discloses the percentage of supplier base that is audited, albeit a small percentage. Only **3** companies provide partial disclosure about percentage audited. **BMW**, **Ford**, and **Groupe PSA** provide information about remedial action to address issues identified in the audit. All companies conduct announced audits, rather than unannounced.

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Companies continue to largely avoid binding or clear commitments about human rights in their value chains.

As a general rule, the companies in the research universe engage in verbal gymnastics when it comes to their human rights commitments, particularly when referencing international frameworks or conventions. The Corporate Human Rights Benchmark addresses this problem in its discussion on the wording of policy commitments, aptly noting that researchers should look for an explicit commitment instead of vague or weak wording. Companies in this research universe tended toward the latter, and often used language that was internally inconsistent from one public disclosure to the next. In many cases, sifting through scores and even hundreds of pages of corporate jargon showed that a company's approach boiled down to achieving the bare minimum of legal compliance.

The highest-scoring human rights policies belong to European companies: **BASF**, **BMW**, **Volkswagen**, and **Groupe PSA**. As of the time of the writing, **4** companies had no comprehensive human rights policy, (**PPG**, **Genuine Parts**, **Honda**, and **Tesla**) while **1** company had a very weak "policy" (**Goodyear**). **2** companies had statements, that do not amount to a full policy and do not meet all the criteria assessed (**Lear** and **Denso**).

5 companies commit to respect international human rights standards (**BASF**, **BMW**, **Groupe PSA**, **VW**, and **Renault**), while **5** do not reference international standards at all (**Goodyear**, **Tesla**, **PPG**, **Genuine Parts**, **Honda**), and the remainder have a reference to international standards, but it appears non-binding (i.e. the companies will consider, are informed by, or strive to).

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Company policies are almost entirely reactionary.

There is very little evidence in the research universe of strategy development that begins with a risk assessment and analysis of salient and material human rights issues. Across the board, the companies evaluated in this report appear to have developed what policies they have in place in response to negative media reports that posed reputational risks. This raises the possibility that human rights problems that have not yet attracted media attention may be going unaddressed.

In identifying human rights risks, **Ford** stands out as the only automotive company that has conducted a human rights saliency assessment to identify its human rights priorities. **14** of the companies include no information on their processes to identify human rights risks; while assessment and prioritization of human rights is even weaker, with **17** companies providing no information.

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Legal requirements provide a glimpse of the possible.

Required reporting by companies operating in the United States about conflict minerals exposure[1], put in place by the Dodd-Frank Act, demonstrates what companies can do when pressed. Further examples appear in reporting requirements under the UK Modern Slavery Act and the California Transparency in Supply Chains Act. Furthermore, the European Union is slated to enact a conflict minerals rule in 2020. (The Glossary of Terms and Resource List, p. 111, provides details about these regulations.)

Existing reporting under these legal frameworks provides a preliminary model for broader reporting. Some companies in the research universe have acknowledged this, and are beginning to apply their conflict minerals framework to other parts of their supply chains, particularly cobalt. Specifically, some companies are conducting detailed mapping of their cobalt supply chains, and some are disclosing their cobalt smelters. While every supply chain is different and presents unique challenges, this still provides a proof of concept. It is possible to pursue greater supply chain visibility and to report publicly on it.

Supplier monitoring has missing teeth.

Few companies appear to have a robust mechanism for dealing with human rights violations in their supply chain. Most "reserve the right" to terminate a supplier relationship, but no company in the research universe indicates that it has actually ended supplier relationships over human rights violations; none report any significant penalties or strong remedial requirements. Thus, while there is ample evidence that the sector at large is exposed to significant human rights violations, not a single company provides clear acknowledgment that it has found and rooted out such problems within its own supply chain.

Noting the many tiers in the supply chain, cascading expectations is especially important to ensure implementation to the areas of greatest risk. However, only **VW** requires it, while **6** companies encourage it and **14** companies have no requirement for cascading to sub-tier suppliers.

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1 Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires publicly traded companies to report annually on the presence of conflict minerals (such as tin, tungsten, tantalum and gold) originating in the Democratic Republic of the Condo or adjoining countries in the products the companies manufacture or contract to manufacture if the conflict minerals are necessary to the functionality or production of a product.

Grievance mechanisms are limited.

Most companies in the research universe have limited grievance mechanisms for human rights violations. While many appear to have no mechanism at all, Tesla highlights the deficits even more than those companies that disclose nothing. By instructing a nebulous "you" to write a letter to its corporate secretary in the case of human rights concerns, the company lays bare the inadequacy of the broader sector's reporting. Available evidence shows most firms have hotlines but not how grievances are addressed after calls come in. Notable exceptions are VW's ombudspersons and Continental's reporting of actual problems uncovered and subsequent remediation efforts.

9 companies have a grievance hotline available, but there is only limited information about access to remedy at any of the companies. 6 companies (**Tesla**, **PPG**, **Genuine Parts**, **Nissan**, **Honda**, **Denso**) have no information about grievance mechanisms or remedy.

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COMPANY ASSESSMENT RESULTS

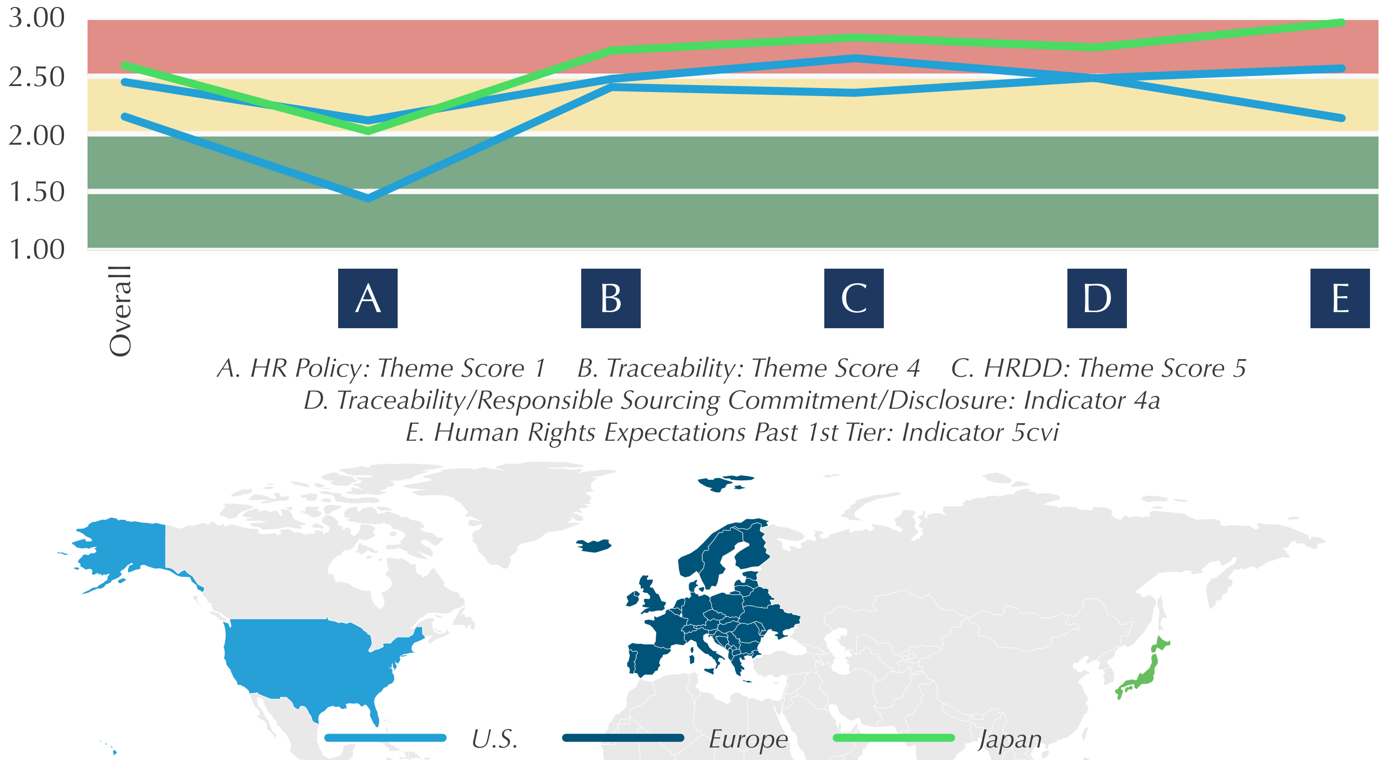
Si2 compiled available evidence for each of the indicators set forth in the assessment methodology at the end of this report, then translated the qualitative findings into a numerical assessment that ranged from 1 (strongest) to 3 (weakest) for each point. The results are summarized below, showing that three companies—**BMW, Ford Motor and VW**—stand out in their overall performance, with two companies—**Denso and Honda**—having the weakest showing.

1.8	BMW	1.9	Ford	1.9	VW
2.2	BASF We create chemistry	2.2	Bridgestone	2.2	PSA Groupe
2.2	Continental	2.3	GM	2.3	Goodyear
2.3	Groupe Renault	2.4	FCA Fiat Chrysler Automobiles	2.5	Axalta
2.5	Toyota	2.6	Nucor	2.6	Tesla
2.6	PPG	2.6	Lear	2.7	GPC
2.7	Nissan	2.8	Honda The Power of Dreams	2.9	Denso Crafting the Core

		1	2	3
	Overall	Policy	Governance	Supplier Code
BMW	1.848	1.17	2.43	2.50
Ford	1.945	1.79	2.29	3.00
Volkswagen Group	1.999	1.36	2.43	1.00
BASF	2.205	1.33	3.00	2.50
Bridgestone	2.251	1.64	2.57	2.00
Groupe PSA	2.269	1.36	2.86	1.50
Continental	2.293	1.88	2.57	2.00
General Motors	2.309	1.83	2.71	2.00
Goodyear	2.382	2.40	3.00	2.00
Renault	2.390	1.52	2.86	2.50
Fiat Chrysler Automobile	2.430	1.86	3.00	3.00
Axalta Coating Systems	2.579	1.79	3.00	2.50
Toyota	2.579	1.93	2.86	2.50
Nucor	2.600	1.64	2.86	2.50
Tesla	2.603	2.57	3.00	2.50
PPG	2.627	2.79	3.00	2.50
Lear Corporation	2.649	2.13	2.86	2.50
Genuine Parts Company	2.747	2.57	3.00	2.00
Nissan	2.748	1.98	3.00	2.50
Honda	2.783	2.51	3.00	3.00
Denso Corporation	2.906	2.12	3.00	3.00

	4 Traceability/ Supply chain	5 Due Diligence	6 Remedies & Grievances	7 Multi-stakeholder Initiatives
BMW	2.00	1.96	2	1
Ford	1.75	1.96	2	1
Volkswagen Group	2.00	2.40	2	2
BASF	2.50	2.24	2	2
Bridgestone	2.25	2.60	2	2
Groupe PSA	3.00	2.16	2	3
Continental	2.75	2.66	1	2
General Motors	2.25	2.68	2	2
Goodyear	2.25	2.64	2	2
Renault	2.50	2.84	2	2
Fiat Chrysler Automobile	2.50	2.48	2	2
Axalta Coating Systems	3.00	3.00	2	2
Toyota	3.00	3.00	2	2
Nucor	2.75	3.00	2	3
Tesla	2.50	2.82	3	2
PPG	2.75	2.66	3	2
Lear Corporation	2.75	3.00	2	3
Genuine Parts Company	2.75	2.80	3	3
Nissan	2.75	3.00	3	3
Honda	2.75	2.94	3	2
Denso Corporation	3.00	2.98	3	3

Regional Average Scores on Relevant Themes & Indicators



OEMS vs. Suppliers

OEMS AVERAGE OVERALL SCORE

2.35

SUPPLIERS AVERAGE OVERALL SCORE

2.50

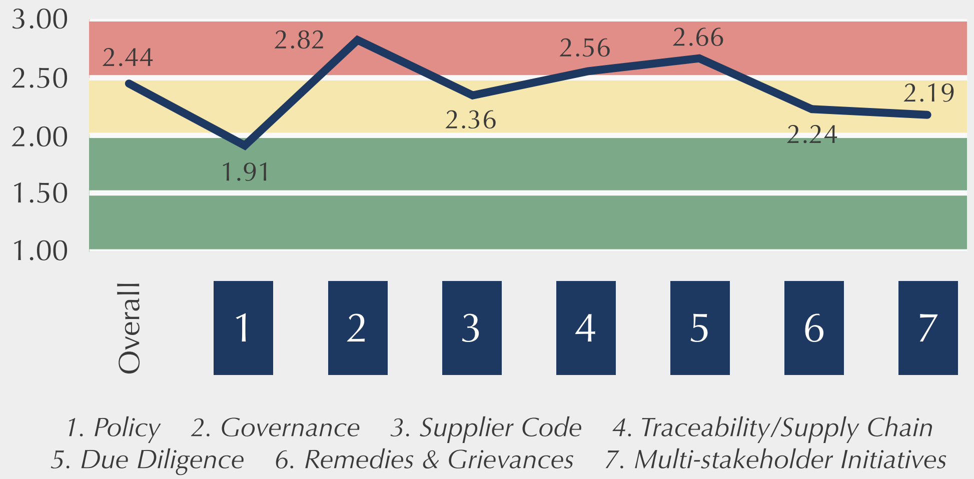
Areas of Greatest Weakness

All companies assessed scored a 3 (lowest possible score) on the following elements:

REPORTING
(indicator 5e)

HUMAN RIGHTS COMPETENCY
(indicator 2f)

Average Scores



KEY POINTS FROM COMPANY PROFILES

Detailed Company Profiles are available in the Full Report, available on www.iasj.org. Highlights for each company in the research universe are provided below.

Axalta provides limited human rights disclosures and does not appear to have robust procedures in place to address human rights risks. The company does not have mandatory processes in place for suppliers and lacks significant monitoring and enforcement mechanisms for its suppliers. Its approach to human rights issues is generally tepid and indistinct.

BASF has a relatively robust human rights policy with strong alignment with international standards, although its provisions for cascading are weak and ill-defined. The company does not require suppliers to respond to questionnaire "requests," and lacks teeth in its auditing language. BASF's human rights requirements are generally vague and unenforceable. The company lacks any clear efforts at the deep supply chain level.

Human rights is embedded in **BMW's** company-wide compliance system and, to some extent, governance structures. The company conducted a detailed human rights risk assessment across its operations in 2017 and leads its peers in this regard. BMW provides broader disclosure than most of specific raw material risks, and it publishes its cobalt smelters and countries of origin. It also has relatively strong requirements for cascading human rights down the value chain and is the only company in the research universe actively seeking to shorten one of its supply chains for the purposes of human rights compliance. Nevertheless, BMW still lacks detailed, systematic disclosure around human rights policy implementation.

Bridgestone is taking important initial steps toward more thorough management of human rights issues in its supply chain, but the company still has a long way to go. Bridgestone has recently promulgated a sustainable procurement policy and is starting to deal with human rights challenges in its natural rubber supply chain. The company has established some specific functions within its corporate structure that have explicit human rights responsibilities, which is a measure of governance embedding that many of its peers have yet to undertake. Nevertheless, its communication is murky and internally inconsistent, and like so many of its peers, Bridgestone furnishes no evidence of implementation of any of its human rights policies.

Continental has a stronger approach than many of its peers to its natural rubber supply chain, but it does not translate this approach to other parts of its business. The company seems to have no audit structure in place, relying almost entirely on supplier self-assessments. There is no evidence of high-level human rights risk assessment, mitigation and implementation. However, Continental provides more disclosure than most of its peers on the remedial action it has taken in response to grievances it receives through its established channels.

Denso provides some of the most limited human rights disclosure in this research universe. Its so-called human rights policy is not actually about human rights. In general, the company offers only a series of statements of principle, with nothing substantive.

FCA's policies that deal with human rights topics are weakly defined, and its expectations of suppliers are unclear. The company offers no explicit evidence of the implementation of its human rights policies.

Ford provides strong disclosure of supplier audit findings and remedial action compared to others in the research universe, though the company still is not as detailed in its reporting as would be ideal. Noting that companies demonstrate through legal compliance mechanisms (Dodd-Frank, MSA, etc.) that they are capable of more robust disclosure and practices around human rights, Ford's initial foray into including cobalt within its conflict minerals framework appears significant. Ford is unique in having a board committee specifically charged with managing human rights. The company also has stronger policies than most on ethical recruitment, although it lacks evidence of deep implementation. Ford also discloses more thorough policies and practices on high-risk inputs than most of the research universe, although evidence of implementation remains lacking.

While the companies in this research universe generally tend toward unclear wording and semantic gymnastics, **GM** stands apart for its unnecessarily vague human rights policy. It appears almost intentionally constructed to avoid anything that might be construed as a commitment. The company's child labor policy is also notably weak. Despite being exposed to a mica supply chain that uses child labor, the company does not directly address that supply chain in its public disclosures. Indeed, its reporting on child labor in general is thin. Like Ford, GM is expanding its conflict minerals practices to cobalt. This appears to be a step in the right direction, although evidence of implementation will be required to evaluate the efficacy of such efforts. GM has also taken fewer steps than other companies in this research universe that were similarly implicated in human rights violations in the cobalt supply chain.

GPC reports almost nothing pertaining to human rights issues. Its sole relevant public disclosure is that it uses SA8000 audits, but the details are scant. GPC has a supplier code of conduct that prohibits child and forced labor and includes several additional provisions related to human rights, but the company does not publish this document. It is ostensibly available to anyone who completes a web form requesting it, but the process did not work when Si2 used it.

Goodyear makes a strong and specific traceability commitment, but the commitment is incomplete, omitting half of its raw material inputs. The company's recently introduced natural rubber sourcing policy is a significant step, but it lacks provisions for monitoring implementation, supplier transparency, penalties for non-compliance and details on labor rights protections.

Groupe PSA's policies are more robust than most of the companies in this research universe, with in-line references to relevant International Labour Organization (ILO) conventions. PSA outperforms most of its peers on labor rights, having developed its human rights policy in partnership with international trade unions. The company provides comparatively strong disclosure related to supplier audits and remedial action, though its reporting still lacks detail on specific issues. PSA is further along in engaging the full value chain than most of its peers, though not yet at an optimum. The company is weak on traceability, requiring suppliers to "be transparent" without going further in its public disclosures. Furthermore, like the entire sector, PSA provides limited evidence of the implementation of its human rights policies and procedures.

Honda's human rights approach lags significantly behind its peers. The company discloses almost no policies or practices to address human rights issues, and what disclosure it does offer is presented only in the most general terms. Its entire human rights approach is aspirational, lacking any substance. Importantly, Honda does not actually prohibit its suppliers from using child labor, requiring only that they comply with applicable laws.

Lear discloses very little activity around human rights issues and makes vague statements that are almost entirely aspirational. The company has no child labor prohibition beyond legal compliance. It offers a more detailed smelter disclosure in its conflict minerals reporting than most, although that disclosure only covers data, not remedies. Lear publishes its purchase order terms and conditions, where many of its peers do not. The company claims supply chain management among its core strengths in its business proposition, yet it highlights supply chain complexity in its non-committal language around conflict minerals.

Nissan's human rights disclosure is sparse and entirely aspirational. The company provides no evidence whatsoever of implementation. Further, it requires suppliers to self-report human rights violations, with no apparent penalty for failure to do so. Nissan collaborates with Renault on sustainable purchasing but provides no evidence of implementation.

Nucor has a useful, targeted policy and disclosure around Brazilian pig iron. The company recently published a human rights policy that covers a number of key issues. Evidence of implementation remains non-existent.

PPG has no human rights policy. Its Supplier Code of Conduct covers most top-line issues, but the company provides no evidence of implementation. Apart from a few "assessments" and "evaluations" of key suppliers, PPG requires suppliers to self-report violations. PPG discloses some efforts to deal with human rights challenges in its mica supply chain, although the company is behind on its own commitments. While there are indications of some movement to improve policies and practices around forced labor, disclosures are largely aspirational.

Renault conducted a full cobalt supply chain mapping and published EV battery suppliers and cobalt countries of origin, which is more than many of its peers have done. This indicates a strengthening approach to cobalt and 3TGs, although the company still provides limited evidence of implementation. Renault discloses very little in the way of broader human rights due diligence.

Tesla discloses little information related to human rights. The company makes no baseline human rights commitment, its policies are largely focused on compliance and thinly articulated, and it provides almost no evidence of implementation. Tesla has some notable initiatives around cobalt, both in reducing its dependence thereon and in auditing well down the supply chain, though details remain in short supply. The company's "grievance mechanism" for human rights concerns is especially anemic.

Toyota provides rather perfunctory reporting on conflict minerals, especially given its size. Its overall human rights reporting appears entirely geared toward Dodd-Frank compliance and is presented in vague and general terms with zero evidence of implementation. The company fails to report at all on other areas of risk, such as lithium and graphite, even though it has recently been publicly implicated in human rights violations in those supply chains.

VW has one of the most robust supplier codes of conduct in this research universe. It goes into significant detail and includes relatively strong cascading requirements. The company discloses relatively solid overall due diligence and risk management systems for sustainability issues, although it still offers limited detail as to how those play out specifically in the realm of human rights. Importantly, it offers limited evidence of implementation. For a company that recently weathered a major scandal over widespread false reporting of vehicle emissions, a higher evidentiary standard attaches.

AUTO INDUSTRY HAS HIGH IMPACT & LEVERAGE ON HUMAN RIGHTS

Cobalt, used in lithium-ion batteries, may be sourced from mines in the DRC where child labor is prevalent.

Electronics manufacturing is linked to forced labor in China and Malaysia and child labor in China.

Charcoal and **iron ore**, components of pig iron used to make steel, are associated with risks of forced and child labor.

Rubber, which may be produced with forced and child labor in Southeast Asia and Liberia, is used to produce tires.

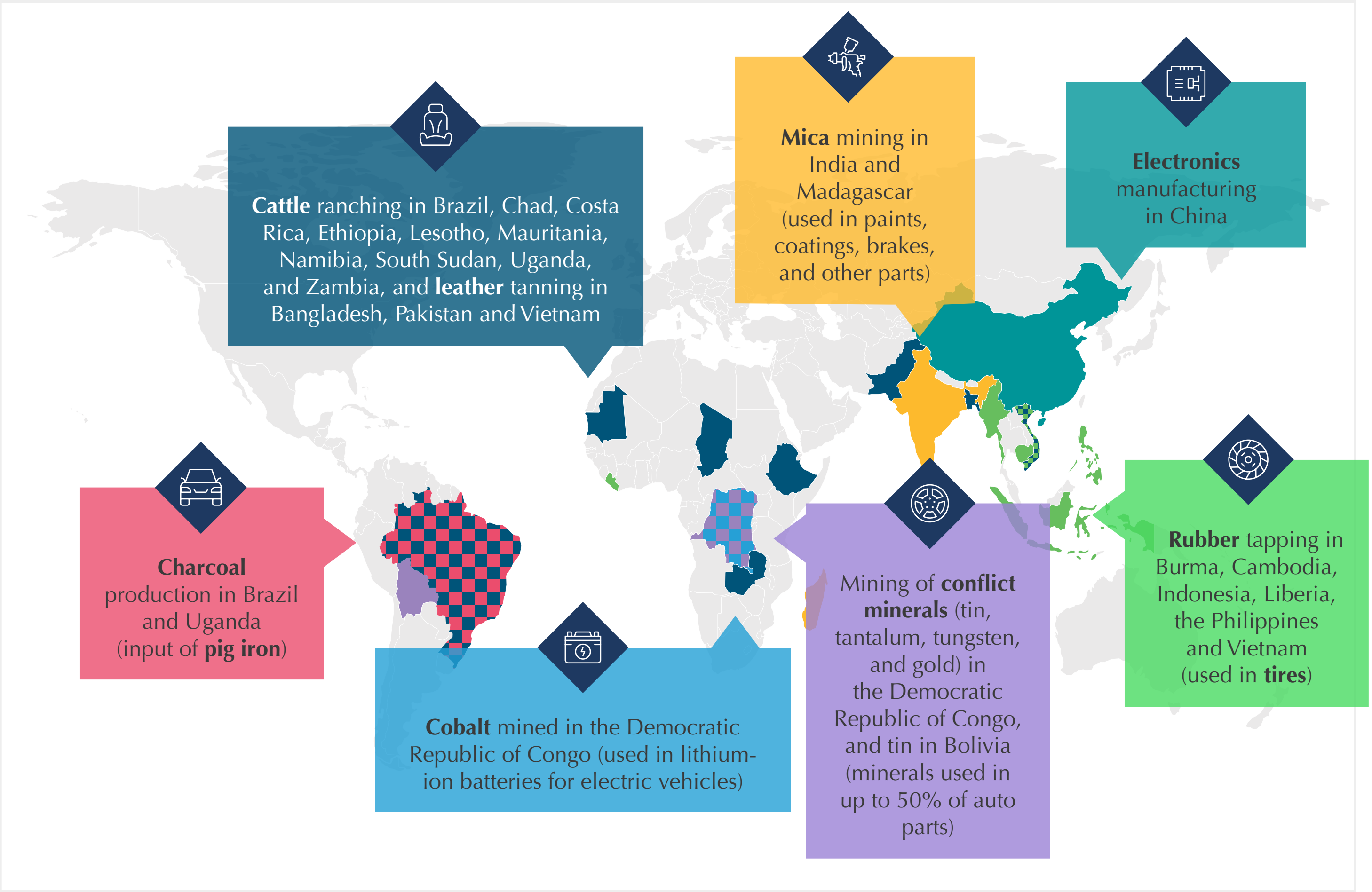
Cattle raising is associated with risks of forced and child labor, and **leather** tanning also relies on child labor.

From metallic paints to brakes, car parts may contain **mica** mined by children in India and Madagascar.

Conflict Minerals: Up to 50% of car parts contain tin, tantalum, tungsten, and/or gold (3TG), which may finance and fuel conflict if sourced from certain regions of the DRC.

Sources: https://iasj.org/shifting-gears-infographic-sources

MAPPING CHILD LABOR RISKS IN THE GLOBAL AUTOMOTIVE INDUSTRY



Sources: https://iasj.org/shifting-gears-infographic-sources

Under the UNGPs and the OECD Guidelines for Multinational Enterprises, all business actors, including institutional investors, have a responsibility to respect human rights. Investors may be exposed to a wide range of human rights risks by being widely invested across a large number of companies and sectors. As such, they are expected to undertake efforts to prevent, mitigate, and where appropriate address real and potential adverse human rights impacts involved with their investment portfolios. These efforts should take place throughout the investment life-cycle and across asset classes.

In most cases, minority shareholders in public companies will be directly linked to adverse human rights impacts that are caused or contributed to by portfolio companies. In these cases, investors are expected to use their leverage with portfolio companies to enable the prevention, mitigation, and remediation of adverse risks and impacts. Investor leverage may be exercised in diverse ways, including by publicly committing to respect human rights throughout an investor's investment activities and communicating an expectation that all businesses respect human rights to its financial advisors, portfolio companies, and other business relationships. Investors are also expected to consider human rights standards at the point of investment decision-making (including when deciding on broader business relationships), when assessing risks in investment portfolios, and when prioritizing engagements with companies, either alone or in coordination with groups such as IASJ.

When a company fails to disclose its human rights performance in line with the UNGPS or is unresponsive to engagement around human rights, investor efforts to conduct their own human rights due diligence are undermined. Information on whether a company is effectively managing its salient human rights risks and impacts is critical for responsible investors, and, in cases where a company is consistently and continuously unresponsive, institutions may determine that divestment is appropriate.

Regulatory expectations are also emerging for responsible investment, especially in Europe. For example, in December 2019, a new set of rules requiring European investors to disclose the steps they have taken to identify and address the impacts of their investment decisions on people and the planet came into force. European investors will be required to start reporting in line with these new rules in March 2021. This has significant implications for companies, as investor human rights due diligence efforts will increase the need for companies to meaningfully disclose how they manage risks to people. On April 29, 2020, the European Commissioner for Justice announced a commitment to introduce rules for mandatory corporate environmental and human rights due diligence within the next year. This comes weeks after investors with $5 trillion in assets under management released a statement in support of this growing momentum, calling on governments to put in place regulatory measures to require mandatory human rights due diligence. Companies should seek to align their public policy and lobbying activities to support these regulatory efforts to create an enabling environment for meeting human rights commitments.

In addition to regulatory requirements, human rights (including human capital) risks are material for the automotive sector. They present legal, financial, reputational, and business continuity risks, as discussed above. For example, failure to respect workers' rights around health and safety or non-discrimination may result in lawsuits, labor disputes, supply chain disruption, negative financial impacts, reputational harm, an inability to attract and retain top talent poised to lead business innovation, and other material impacts.

IASJ recognizes this context and has mobilized its investor Affiliates to join the Shifting Gears initiative to advocate for industry-wide adoption of human rights due diligence practices. While there have been discrete engagement initiatives, such as the Principles for Responsible Investment cobalt engagement, it is time for more investors to join this call. The industry will be influenced by a clear and consistent voice from a broad range of investors about the expectations for human rights practices and disclosure. To that end, investors are encouraged to support engagements and shareholder proposals in the sector. At the 2020 annual shareholder meetings at Lear, General Motors, and Tesla, shareholder proposals will be considered on human rights impact assessment and disclosure on the effectiveness of policy implementation. A strong vote on these advisory proposals would reinforce this signal.

RECOMMENDATIONS FOR AUTOMOTIVE SECTOR COMPANIES ON HUMAN RIGHTS DUE DILIGENCE

1

Strengthen human rights commitments to better align with the International Bill of Human Rights, the ILO's Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Business and Human Rights. Adopt a Supplier Code of Conduct that requires suppliers to respect human rights by conducting human rights due diligence in their own operations and communicating expectations to their business relationships.

2

Create accountable frameworks for governance of human rights. Ensure board-level oversight of the implementation of human rights commitments, including by having at least one board member with human rights expertise and addressing human rights impacts of company's activities at board meetings. Commit to increase the level of human rights expertise among those in leadership positions. Foster a corporate culture of respect for human rights.

3

Identify and assess salient human rights impacts in operations and the supply chain. Undertake human rights impact assessments and analyze findings of the risk assessment to inform human rights risk management strategies. Increase supply chain mapping, visibility, and traceability to facilitate the identification and assessment of human rights risks in the supply chain.

4

Establish effective systems to integrate human rights due diligence. Adopt and implement systems to assess and monitor business partners on human rights. Integrate findings from this human rights assessment into procurement and other business decisions, providing favorable terms or incentives for strong human rights due diligence. Leverage company's participation in multi-stakeholder initiatives to transform company practices to further respect for human rights, as well as to contribute to industry-wide solutions. Follow the OECD Due Diligence Guidance for Responsible Business Conduct.

5

Monitor and Track. Measure progress and track the effectiveness of actions and due diligence systems. Assess supplier compliance with human rights expectations using qualitative and quantitative data, including data on grievances reported, to reduce negative human rights impacts of business and improve outcomes for rights-holders.

Investors have a responsibility to establish expectations for portfolio companies on Human Rights Due Diligence and assess company systems to identify, assess, mitigate, manage, and report on human rights risks. In this assessment, they should encourage companies to follow these recommendations.

6

Provide access to Grievance Mechanism and Remedy. Ensure access to effective remedy for workers in operations and the supply chain and other rights-holders adversely impacted by business activities. Provide access to a grievance mechanism that is legitimate, accessible, predictable, equitable, transparent, rights-compatible, and a source of continuous learning, in line with UNGP 31. Operational grievance mechanisms should extend beyond a corporate-level hotline.

7

Improve Disclosure on Human Rights. Disclose evidence of implementation of human rights due diligence to demonstrate effective implementation of the human rights policy and supplier code of conduct, with indicators used to measure progress and assess effectiveness. Align with expectations of the UN Guiding Principles Reporting Framework, the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). Disclose findings of human rights impact assessments and relevant supply chain information, such as supplier lists and countries of origin for high risk raw materials.

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