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Shifting Gears: Accelerating Human Rights in the Auto Sector

Investor Briefing

Introduction

Shareholders in corporations in the automotive industry have an opportunity to leverage our collective shareholder influence to bring greater scrutiny to companies' management of human rights issues in their supply chains and encourage companies to reduce the risks of child labor and human rights violations linked to the final products they sell to consumers. Due to the complex nature of automotive supply chains, companies may not fully understand the scope of these risks, preventing effective implementation of human rights due diligence. The purpose of this investor engagement is to mobilize investor scrutiny of these risks in the sector and encourage companies to develop strong management systems, strengthen corporate governance of supply chain risks, identify and assess risks, conduct due diligence throughout their supply chains, and disclose these actions.

Overview of Human Rights Risks

Workers involved in mining, harvesting, and processing the different raw material inputs for cars are exposed to serious human rights and labor rights violations. Known risks include:

- **Child labor** is known to be used to produce several commodities, such as mica mined in India that may end up in metallic car paints, or cobalt mined in the Democratic Republic of Congo used for lithium-ion electric vehicle batteries. The prevalence of child labor can be attributed to multiple factors, from low wages preventing workers from earning enough to provide for their families to weak regulatory frameworks.
- **Forced labor** is another risk for workers in the automotive supply chain. For example, the production of charcoal for pig iron and cattle used for leather are both linked to forced labor in Brazil. As with child labor, forced labor often occurs due to weak government oversight. Unethical recruitment practices also put workers at risk.
- **Dangerous Working Conditions.** Workers in production and manufacturing within the various tiers of the automotive supply chain are often engaged in hazardous, labor-intensive work for long hours, facing serious health and safety risks without adequate training or protective gear. Barriers to unionization and collective bargaining may also prevent workers from advocating for improved conditions and a living wage.

Lack of Corporate Accountability

The UN Guiding Principles on Business and Human Rights state that companies have a responsibility to respect human rights and to use their leverage and business relationships to address human rights risks. This means an automaker should cascade expectations for human rights performance down to suppliers, and eventually through the multiple tiers to the

commodity level. Most automakers and tier one suppliers have a human rights policy forbidding child labor and forced labor, but that does not mean that their supply chains are slavery-free due challenges with visibility that prevent effective implementation in the supply chain. Companies rarely factor human rights performance into procurement decisions. Corporate disclosure related to human rights performance is generally weak in the automotive sector, and there is currently no benchmark to compare performance across peers. Expectations of traceability and management of human rights risks are increasing, in addition to the legal, reputational, and financial risks associated with poor human rights performance in the supply chain.

Investor Questions for Portfolio Companies on Management of Human Rights

Understanding the Supply Chain

1. What does the supply chain look like? How many tiers are there?
2. How does the company approach supply chain management?
3. What is your level of visibility into your supply chain?

Human Rights Due Diligence

4. How does the company identify the greatest areas of human rights risk and how does this inform your due diligence strategy?
5. Does the company conduct supplier audits that include human rights criteria?

Supplier Relationships

6. How do you cascade expectations down the supply chain? How do you handle non-compliance?
7. Are social criteria factored into procurement decisions?

Governance

8. What is the Board's role in overseeing human rights and supply chain risks?
9. Is human rights performance factored into compensation metrics?

Initial Recommendations to Companies

Effective systems to identify, assess, mitigate, manage, and report on human rights risks are essential to prevent human rights abuses from occurring in the supply chain. The components of an effective system should include:

- 1.) Adopt and implement a robust Human Rights Policy.
- 2.) Adopt and implement a Supplier Code of Conduct with human rights standards.
- 3.) Conduct a Human Rights Risk Assessment to identify salient human rights risks.
- 4.) Identify high-risk commodities and set goals to increase visibility in the supply chain.
- 5.) Incorporate human rights risks into procurement decisions and incentivize good performance.
- 6.) Participate in relevant multi-stakeholder initiatives to work on responsible sourcing.
- 7.) Support worker-led initiatives to improve human rights in the supply chain.
- 8.) Create a credible, accessible grievance mechanism.
- 9.) Incorporate human rights risk management and due diligence into governance.