

# PRI RESPONSE

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## INQUIRY: FORCED LABOUR IN UK SUPPLY CHAINS

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# ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the Joint Committee on Human Rights inquiry into forced labour in UK supply chains.

## ABOUT THIS CONSULTATION

The UK Parliament Joint Committee on Human Rights is holding an [inquiry](#) into forced labour in UK supply chains. The goal of the inquiry is to examine the UK's legal and voluntary frameworks underpinning the UK's response to forced labour in international supply chains. It will also consider if change is needed to improve the effectiveness of the UK's response to this form of exploitation.

Forced labour creates significant costs for society at large: law enforcement costs, healthcare costs and foregone economic inputs. Investors have a responsibility under international standards to respect human rights, and any connection to forced labour represents a key reputational and compliance risk.

The PRI has previously participated in the [Finance Against Slavery & Human Trafficking](#) project under the Lichtenstein Initiative, supporting the publication of the [Blueprint for Mobilizing Finance Against Slavery and Trafficking](#). The Blueprint includes a set of goals, providing a framework for the whole financial sector and professional service providers to demonstrate their commitment to accelerating action to end modern slavery and human trafficking.

The PRI's response highlights the role of investors in supporting efforts to tackle forced labour, as well as emerging international legislation and best practices that could be appropriate for consideration in the UK.

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# KEY RECOMMENDATIONS

Ten years after the publication of the UK Modern Slavery Act, forced labour remains a widespread phenomenon in the UK and across the world. According to a recent report from the International Labor Organization, forced labour in the private economy generates US\$236 billion in illegal profits per year, up 37% since 2014. It is estimated that in the UK, between 2019 and 2024, 46% of all the referrals to the Home Office's National Referral Mechanism (NRM) for people thought to be victims of modern slavery were connected to labour exploitation.<sup>1</sup>

In a context of increased focus on the transition to a sustainable financial system, forced labour and human rights are prominent concerns: as an example the minerals necessary for the transition (such as cobalt, gold, tungsten, and rare earth materials) are often sourced from countries with weak regulatory environments in terms of decent work and anti-modern slavery provisions. This represents a key risk for investors, who – in addition to their own internal processes – rely on regulation to ensure that their investment value chains are free of forced labour.

The PRI's key recommendations are:

- **Adopt proportionate and practicable Human Rights and Environmental Due Diligence legislation aligned with international standards.**<sup>2</sup> Research shows that disclosure-based legislation alone cannot ensure the protection of victims of forced labour. Financial and non-financial companies of a specified size (subject to an impact assessment), should be required, through proportionate and well-designed legislation, to use a risk-based approach<sup>3</sup> to continuously identify, prevent, and mitigate the most severe human rights impacts (such as those caused by forced labour) across their value chains in line with international standards. To provide reassurance and legal certainty to the companies in scope, any obligation imposed should be one of means, and not results. Mandatory human rights and environmental due diligence [supports](#) investors' risk and impact analysis and enables better informed investee engagement. A UK due diligence law would also improve coherency and compatibility with other regulatory requirements within the UK and overseas. It may also be appropriate to amend the existing UK Modern Slavery Act as detailed in the PRI's [response](#) to the 2024 House of Lords Select Committee on the Modern Slavery Act 2015 call for evidence.
- **Improve data accessibility on corporate human rights risks for investors.** Initially, this can take the form of adopting the first two IFRS Sustainability Disclosure Standards into UK law. IFRS S1 would require companies to report on any sustainability-linked topic deemed material, including forced labour risks. Beyond this, the UK government should support the work of initiatives such as the International Sustainability Standards Board and the Taskforce on Inequality and Social Related Financial Disclosures.

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<sup>1</sup> Centre for Social Justice (2024), [At what cost? Exploring the impact of forced labour in the UK](#).

<sup>2</sup> The international standards on due diligence are the UN Guiding Principles on Business and Human Rights ([UNGPs](#)) and OECD Guidelines for Multinational Enterprises on Responsible Business Conduct ([OECD Guidelines](#)).

<sup>3</sup> The 'risk-based approach' is explained in the [OECD Guidelines](#) (pg. 18 paragraph 20): "where enterprises have large numbers of suppliers and other business relationships, they are encouraged to identify general areas where the risk of adverse impacts is most significant and, based on this risk assessment, prioritise [parts of their value chain] for due diligence".

# DETAILED RESPONSE TO SELECT RELEVANT QUESTIONS

## LEGISLATIVE FRAMEWORK

- **Are the obligations created by the Modern Slavery Act 2015 effective in preventing goods with international supply chains linked to forced labour being sold on the UK market? If not, what changes are needed to prevent goods linked to forced labour from being sold in the UK market?**
- **How effective is other UK domestic legislation in preventing goods with international supply chains linked to forced labour entering the UK market? Are there any gaps? If so, what legislative improvements could be made?**

As the first national regulation of its kind, the UK Modern Slavery Act represented a meaningful first step to tackle forced labour in supply chains and has been replicated in various jurisdictions. However, studies show that the effectiveness of this type of regulation, with a focus on disclosure over action, has been limited, due to a reliance on public pressure on companies in place of monitoring and enforcement mechanisms.<sup>4</sup>

For example, an [analysis](#) of 102 company statements published in the first reporting cycle of the Australian Modern Slavery Act, focused on the highest-impact sectors (i.e., garment, healthcare, horticulture, and seafood), shows that on average only 59% of the mandatory criteria were complied with. According to the study “less than one in four companies (23%) fully address the mandated reporting requirements, with areas such as risk assessment, remediation, measuring effectiveness, and consultation particularly poorly handled”.

To prevent goods linked to forced labour from being sold in the UK market, the UK government should implement proportionate and practicable human rights and environmental due diligence legislation, in line with international standards,<sup>5</sup> following the ‘risk-based approach’ defined below. Such legislation has the potential to be a more effective tool because it requires ongoing risk assessment and mitigation. This would reduce the risk of compliance being treated as a tick-box exercise, and lead to better human rights outcomes than an approach focused on disclosure alone. It also [supports](#) investors’ risk and impact analysis and enables better informed investee engagement.

- **What international legal obligations does the UK have in relation to forced labour in supply chains? Is the UK’s current domestic approach compliant with those obligations?**
- **What, if any, obligations does international law place on corporations when it comes to forced labour in their supply chains? Are these obligations effective?**

The [United Nations Guiding Principles](#) place a responsibility on States, corporations and investors to respect human rights.

Guiding Principle 11 enshrines this responsibility, stating that businesses “should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved.” While the use of the term “responsibility” in the UNGPs reflects the fact that international law does not pose a direct obligation on corporates to avoid infringing human rights, and to address adverse impacts that might occur, this responsibility is at the core of national-level regulations that are

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<sup>4</sup> [Business and Human Rights Resource Centre](#) (2021), Modern Slavery Act: Five Years of Reporting. With regards to jurisdictions beyond the UK, please see the report from the Australian Human Rights Institute and University of New South Wales [Testing the effectiveness of Australia’s Modern Slavery Act](#).

<sup>5</sup> The international standards on due diligence are the UN Guiding Principles on Business and Human Rights ([UNGPs](#)) and OECD Guidelines for Multinational Enterprises on Responsible Business Conduct ([OECD Guidelines](#)).

currently being adopted and implemented, such as in the European Union (with the Corporate Sustainability Due Diligence Directive), in France (Loi Devoir de Vigilance), Germany (German Supply Chain Due Diligence Act), Norway (Norwegian Transparency Act), as well as other countries (see our response to the final question below for more details).

The EU Corporate Sustainability Due Diligence Directive ([CSDDD](#)) will place requirements on UK companies of a certain size operating in the European Union. Specifically, a UK company would fall in scope of the CSDDD requirements if:

- It has net turnover >€450m in the Union; or
- It is the ultimate parent company of a group which has a collective net turnover >€450m in the Union; or
- It entered into or is the ultimate parent company of a group that entered into franchising or licensing agreements in the Union where the royalties amount to >€22.5m in the Union, provided it generated, or is the ultimate parent company of a group that generated, a net turnover of >€80m in the Union.

As explained above human rights due diligence is an effective way to prevent forced labour in supply chains. The EU CSDDD is [substantially aligned](#) to international standards on human rights so it will play an important role. However, given the limited scope of UK companies covered under the EU CSDDD, it would be insufficient to prevent all goods with international supply chains linked to forced labour being sold on the UK market.

- **Where should the responsibility lie for preventing products linked to forced labour from entering the British market? E.g. government, regulation, business, consumers, others?**

Under the international standards on due diligence, all States have a responsibility to protect human rights and all business enterprises, both transnational and others, regardless of their size, sector, location, ownership and structure, have a responsibility to respect human rights.

Therefore, the responsibility to prevent products linked to forced labour from entering the British market is both for the government (through legislative and non-legislative actions) and business. It is important to note that government and business have different tools and constraints to meet this responsibility. The ability of business enterprises to play their role is greatly enhanced within an enabling policy environment which includes extensive capacity building, among other elements.

While consumers have a role to play in shaping market practice through demand, the international standards don't set out a responsibility for them. Section VIII of the [OECD guidelines](#) set out expectations for enterprises with regard to consumer interests.

As shown in the PRI paper [Why and how investors should act on human rights](#), just as for all businesses, institutional investors have a responsibility to respect human rights. This extends to engaging with investee companies on issues related to forced labour. Leading investors recognise that meeting international standards – and preventing and mitigating actual and potential negative outcomes for people – also leads to better financial risk management, and helps to align their activities with the evolving demands of beneficiaries, clients and regulators. As evidenced by the case studies included in this response, several investors have taken steps to integrate forced labour and modern slavery considerations into their investment decisions.

## **ENFORCEMENT AND CORPORATE ACTIVITY**

- **Are any sectors serving the UK market at particular risk of forced labour in their international supply chains?**

According to the [International Labor Organisation](#), the five sectors accounting for the majority of total adult forced labour (87 per cent) are services (excluding domestic work), manufacturing, construction, agriculture (excluding fishing), and domestic work.

Beyond these, the financial sector has a major role to play in helping tackle forced labour in supply chains. Financial institutions may be connected to modern slavery and human trafficking through their own operations, or through their business relationships. The financial sector has unparalleled influence over global business and can invest in and foster business practices that help end modern slavery and human trafficking. In 2019, the Finance Against Slavery and Trafficking initiative published a [blueprint](#) identifying five goals which financial sector actors can work towards, through individual and collective action:

- Goal 1: Compliance with laws against modern slavery and human trafficking.
- Goal 2: Knowing and showing modern slavery and human trafficking risks.
- Goal 3: Using leverage creatively to mitigate and address modern slavery and human trafficking risks.
- Goal 4: Providing and enabling effective remedy for modern slavery and human trafficking harms.
- Goal 5: Investment in innovation for prevention.

This blueprint is accompanied by an [implementation toolkit](#).

- **Should companies of all sizes be required to manage the risk of forced labour in their supply chains? How could such an obligation be delivered in a manner which is proportionate to a company's exposure to forced labour risks, number of employees, and annual turnover?**

Under UNGP 14, all companies, regardless of size, have a responsibility to respect human rights (including to use due diligence to prevent forced labour in their supply chains).

This responsibility to conduct human rights due diligence should be a legal requirement for all financial and non-financial companies of a specified size (to be defined via an impact assessment) and follow the 'risk-based approach' of the international standards to ensure proportionate and practicable requirements.

The 'risk-based approach' is explained in the OECD Guidelines: "where enterprises have large numbers of suppliers and other business relationships, they are encouraged to identify general areas where the risk of adverse impacts is most significant and, based on this risk assessment, prioritise [parts of their value chain] for due diligence". In short: first, understand the scope of issues you may be causing, contributing or directly linked to (looking at factors such as country, sector, company); second, prioritise and respond to them as appropriate based on the [severity](#) of the risk and (in the rare cases where two or more impacts are judged to have a similar level of severity) the likelihood.<sup>6</sup>

According to the OECD "the risk-based approach provides companies with flexibility by asking them to adapt and tailor their due diligence according to a range of factors—their size, sector and position in the value chain as well as the nature and level of risk they face in practice. Proportionate, risk-based approaches are particularly important for smaller midstream and upstream actors to ensure that due diligence expectations are practicable".<sup>7</sup>

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<sup>6</sup> UN OHCHR (2011), [Guiding Principles on Business and Human Rights](#) – see Guiding Principle 24.

<sup>7</sup> OECD (2022) [Translating a risk-based due diligence approach into law: Background note](#).



Such a legislation should also clearly identify the different levels of responsibility for adverse impacts, informed by the international standards<sup>8</sup> concepts of ‘cause’, ‘contribute’ and directly linked.<sup>9</sup> In the case of investors, while there are instances where they can cause or contribute to an adverse impact<sup>10</sup>, in most cases they are instead ‘linked’<sup>11</sup> to such impacts.<sup>12</sup> In these cases, the OECD clarifies that the expectations placed on enterprises directly linked to adverse impacts should not shift responsibility from the entity causing them.<sup>13</sup>

Finally, any regulatory requirement should be accompanied by detailed implementation guidance. This should support small and medium enterprises, companies in high-risk sectors, and, for the financial sector, clarify what an “acceptable level” of due diligence is for different investor types, asset classes and strategies (including mutual funds, hedge funds, exchange traded funds, passive funds, smart index funds, pooled funds, quant-based funds). Institutional investors have different tools at their disposal to carry out due diligence and exercise leverage compared to non-financial companies. Sectoral guidance on how to implement the UNGPs and OECD Guidelines is given in the OECD 2017 report, “[Responsible business conduct for institutional investors](#)”, the UN Working Group on Business and Human Rights’ reports “[Taking stock of investor implementation of the Guiding Principles on Business and Human Rights](#)” and “[Investors, ESG and Human Rights](#)”, and PRI’s report “[Why and How Investors should act on Human Rights](#)”.

■ **What could be done to improve corporations’ ability to identify forced labour risks in supply chains, and select suppliers that meet government’s expectations?**

As detailed in PRI’s guidance on [identifying human rights risks](#), it can be helpful to look at country-, sector-, and company-level data. There is a wealth of data sources available for country-level data, but less so for sector- and company-level.

Access to reliable and comparable data on human rights risks can help investors make better informed investment decisions, and support engagement with companies when risks are identified. The PRI’s paper on [What data do investors need to manage human rights risks?](#) identifies four categories of information currently lacking:

- companies’ inherent human rights risks;
- how the board and leadership help embed commitments into company culture and practice;
- the quality of companies’ human rights due diligence; and
- quantitative information about positive human rights outcomes to which companies have contributed.

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<sup>8</sup> UN OHCHR (2011), [Guiding Principles on Business and Human Rights](#) – see in particular GPs 13, 17, 19 and 22.

<sup>9</sup> UN OHCHR (2011), [Guiding Principles on Business and Human Rights](#) – see Guiding Principle 13. And OECD (2023) [OECD Guidelines for Multinational Enterprises](#) – see section IV Human Rights, paragraphs 1-6 on pg. 25.

<sup>10</sup> John G. Ruggie (2017) [Comments on Thun Group of Banks Discussion Paper on the Implications of UN Guiding Principles 13 & 17 In a Corporate and Investment Banking Context](#); UN Working Group on Business and Human Rights (2021), [Taking stock of investor implementation of the UN Guiding Principles on Business and Human Rights](#) (pg. 5-8); OECD (2017), [Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises](#) (Box 4 pg. 15).

<sup>11</sup> The OECD [states](#) (pg. 35) “a minority shareholder relationship, particularly in listed equities, is unlikely to lead to a substantial contribution to an adverse impact under the OECD Guidelines. Thus, in the vast majority of cases, institutional investors holding a minority shareholding will not be in a position to “contribute” to an adverse impact at an investee company”. Instead, in most instances the investor will be “directly linked” to the adverse impact and should employ its leverage to try and end or minimise it. See also UN OHCHR (2012), [The Corporate Responsibility to Respect Human Rights, An Interpretive Guide](#) pg. 16.

<sup>12</sup> “Direct linkage” is defined by the Commentary to UNGP 22, as a situation where “Where adverse impacts have occurred that the business enterprise has not caused or contributed to, but which are directly linked to its operations, products, or services by a business relationship.” Note that under the OECD Guidelines, a relationship between an investor and investee company including a minority shareholding can be considered a “business relationship”

<sup>13</sup> OECD (2017), [Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises](#), pg. 35.

The UK government can improve this data availability by following the Sustainability TAC's [recommendation](#) to adopt the first two IFRS Sustainability Disclosure Standards into UK law. IFRS S1 would require companies to report on any sustainability-linked topic deemed material, including forced labour risks. The International Sustainability Standards Board (ISSB) is also developing a standard on human capital management, which the UK government should consider adopting, following its launch.

Beyond the work of the ISSB, another initiative focused on disclosures related to social issues (including forced labour) is the [Taskforce on Inequality and Social-related Financial Disclosures](#). Supported by the PRI, the Taskforce aims to “develop a global framework for companies and financial institutions to include within their public reports more effective disclosures about impacts, dependencies, risks, and opportunities related to social issues, including inequality.”<sup>14</sup>

Specifically for investors, it is also important to maintain effective stewardship legislation to enable meaningful engagement with investee companies about potential human rights risks (including on forced labour) throughout the supply chain. PRI is responding separately to the UK Stewardship Code review consultation. You will be able to find our response [here](#).

■ **Where forced labour is a risk, what level of investigation/due diligence is it reasonable to expect from companies and public sector buyers before deciding whether to contract with suppliers?**

If a company or public sector buyer is considering whether to contract with a supplier, under UNGP 18 they are expected to:

- Identify who may be affected by the supplier's activities;
- Catalogue the relevant human rights standards and issues (including forced labour); and
- Project how the proposed supplier's activity and associated business relationships could have adverse human rights impacts (including forced labour) on those identified.

In this process, the company or public sector buyer should pay special attention to any particular human rights impacts on individuals from groups or populations that may be at heightened risk of vulnerability or marginalization, and bear in mind the different risks that may be faced by women and men. They should also seek to understand the concerns of potentially affected stakeholders by consulting them directly in a manner that takes into account language and other potential barriers to effective engagement. In situations where such consultation is not possible, the company or public sector buyer should consider reasonable alternatives such as consulting credible, independent expert resources, including human rights defenders and others from civil society.

If after this process the company or public sector buyer decides the contract with the supplier is still appropriate, they may enter into a contract, but they should be expected to conduct ongoing due diligence and act accordingly if any potential or actual human rights risks (including forced labour) appear in line with international standards (UNGPs 17-24, and 29).

■ **How can a level playing field be achieved, where companies who operate supply chains free from forced labour are not at financial disadvantage?**

This can be achieved by addressing forced labour risks through due diligence legislation. Mandatory due diligence requirements, aligned with international standards, are proportionate not only in terms of the size of the company, but also its likely exposure. Following a risk-based approach (defined above), companies who operate in supply chains free from forced labour would have a less resource-intensive due diligence process to go through.

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<sup>14</sup> UNDP (2024) [Launch of the Taskforce on Inequality and Social-related Financial Disclosures \(TISFD\)](#).



- **How effective are the UN Guiding Principles at encouraging corporations' consideration of the human rights impacts of business decisions? Please provide examples or evidence.**

The PRI 2024 reporting data shows asset owners and investment managers are paying increased attention to human rights and social factors, including through use of the UNGPs.

- **82%** of signatories reporting in 2024 said their policies include guidelines on social factors (up from 69% in 2021 and 78% in [2023](#))<sup>15</sup>. Of these:
  - **1,836 signatories** have public guidelines on social factors and **1,221 signatories** have public guidelines on human rights.
  - The percentage of signatories using the UN Guiding Principles and / or the OECD Guidelines to identify impacts has also increased from:
    - **18% in 2021**, to **30% in 2023**, to **32% in 2024** for investment managers;
    - **27% in 2021**, to **36% in 2023 and 2024** for asset owners.
  - **42% of European signatories** reporting in 2024 use the UN Guiding Principles and / or the OECD Guidelines to identify impacts (this is a slight increase from 41% in 2023).

The PRI has also collected several [case studies](#) of investors engaging on issues related to human rights and the UNGPs. A number have a specific focus on forced labour and modern slavery. Below are some examples of different approaches, divided by asset class.

- Investment managers : [ILX Management B.V.](#); [AllianceBernstein](#); [Rathbones Group](#); [PAI Partners](#); [Stepstone](#), [Polaris](#); [Abris](#), [Union Investment](#); [FSN Capital](#)
- Asset owners: [VCMF](#), [AP2](#)

## INTERNATIONAL APPROACHES

- **Are there particular elements of the [Uyghur Forced Labor Prevention Act](#) of 2021 in the USA that would be appropriate for consideration within a British Act? Please explain why you think such measures would be beneficial.**
- **Are there any weaknesses or flaws in the US approach?**

Import bans can be useful instruments to combat forced labour, as part of a holistic approach to tackling forced labour globally.

However, the efficacy of these instruments in eliminating the causes of negative human rights impacts is limited by the fact that they do not require companies to take steps to remediate any adverse human rights impacts, like a due diligence requirement would. Simply relying on the incentive to maintain access to the market, which [some analyses](#) have identified as an incentive to provide remedy, may not be sufficient to ensure that corporates address the impacts that have been identified. The fact that, up to this point, bans have generally been targeted at specific geographical areas, not only encourages trade diversion from these regions, but it means that adverse impacts taking place in other areas may remain unaddressed.

[Studies](#) on the existing forced bans, such as the US Uyghur Forced Labor Prevention Act, found limited evidence of the effectiveness of these instruments. While this may in part be due to the limited amount of research conducted on this topic to date, evidence of long-term impact is unclear, and more analysis should be conducted before widely adopting this type of instrument.

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<sup>15</sup> Though the indicators in 2021, 2023 and 2024 remained roughly the same, the respondent profiles are slightly different because 2024 was a voluntary year of reporting for majority of signatories. In 2023, 3774 signatories responded to the module with questions referred to in this consultation response. This number reduced to 3048 in 2024.

For these reasons, import bans should be incorporated into a holistic approach to tackling forced labour globally, as part of a suite of regulatory interventions that include:

- Mandatory due diligence regulation;
  - Modern slavery disclosures on a comply or explain basis; and
  - Forced labour import bans.
- **EU Member States have agreed two instruments to prevent the sale of goods linked to forced labour in the EU. Firstly the [Regulation prohibiting products made with forced labour on the Union market](#) and secondly [the Corporate Sustainability Due Diligence Directive \(CSDDD\)](#). Are there elements of either the regulation or the directive that would be appropriate for consideration in the UK? Please explain why you think such measures would be beneficial.**

### **Regulation on prohibiting products made with forced labour on the Union market**

Please refer to the response above about the similar US instrument.

### **Corporate Sustainability Due Diligence Directive (CSDDD)**

The CSDDD requires large financial and non-financial undertakings to conduct human rights and environmental due diligence across their value chains. There are many elements within the CSDDD which ensure the requirements are proportionate, practicable and effective. Focusing on the aim to prevent goods with international supply chains linked to forced labour being sold on the UK market, we would encourage the UK government to consider the following elements:

- A risk-based approach in-line with international standards and grounded in the concepts of 'severity' and 'leverage'.

This approach is defined above. It allows undertakings to carry out proportionate due diligence, prioritised and targeted to where the impacts are most severe – leading to more successful impact.

- An obligation of means

The CSDDD will not require companies to guarantee that adverse impacts will never occur or that they will be brought to an end. Instead, it is an 'obligations of means' i.e. the company should take appropriate measures which are capable of effectively addressing adverse impacts, in a manner commensurate to the severity and likelihood of the impact. This provides reassurance and legal certainty.

- Divestment as a last resort

The CSDDD does not require immediate termination of contract / divestment if a negative impact is found. Instead, it sets out steps the undertaking should follow to bring the adverse impact to an end or minimise the extent of the impact. This is in line with international standards and is beneficial as divestment is not always appropriate or possible. Specifically for financial undertakings, where an investor can continue to exert some leverage, it could be important to remain as an "engaged investor", voicing the need for a company to change its practices. Divestment can also be counterproductive, leading to further negative consequences for those already affected.

- Meaningful stakeholder engagement

The CSDDD requires undertakings to carry out effective engagement with stakeholders, providing relevant and comprehensive information. This informs all other steps of the due diligence process to ensure better prioritisation and mitigation of impacts.

- Guidance

Under the [Article 19](#) of the directive, the European Commission is required to publish accompanying guidance. This will support compliance and the aim of the legislation to reduce adverse environmental and social impacts while minimising burden on in-scope undertakings. Guidance on how to conduct due diligence in line with the CSDDD obligations and the assessment of risk factors is due to be published 6 months before the largest companies in scope are required to comply. Some have argued that guidance is needed sooner to support companies' preparation.

- A clear civil liability regime

Under the CSDDD an undertaking can be held liable for causing or contributing to (intentionally or negligently) damage to a natural or legal person by failing to prevent potential adverse impacts or bring actual adverse impacts to an end. There is no liability for being 'directly linked' to the damage (i.e. if it was caused only by its business partners). This approach of 'cause', 'contribute' or 'directly linked' is aligned with international standards<sup>16</sup> and should provide clarity to in-scope undertakings.

Generally, it is important a due diligence law has an appropriate accountability and enforcement mechanism to ensure compliance (companies' compliance with international standards vary considerably, and overall remains low<sup>17</sup>).

- Support for SMEs

SMEs are not within the personal scope of the CSDDD. However, given the directive requires very large companies to conduct due diligence throughout their 'chain of activities' (defined below), SMEs will be inadvertently affected. The Commission has put in place a number of measures to minimise any undue burden this causes. For example, under Article 10(2e) and Article 11 (3f) of [the text](#), in-scope companies are expected to provide targeted and proportionate support to business partner SMEs where necessary in light of the resources, knowledge and constraints of the SME. Similarly, under Articles 10(5) and 11(6), where measures to verify compliance are carried out in relation to SMEs, in-scope companies are required to bear the cost of the independent third-party verification. The Commission is also due to publish a report looking at the impact on SMEs in 2030.

In any possible UK legislation on forced labour or human rights due diligence, similar considerations should be made for SMEs.

- **Are there any weaknesses or flaws in the EU approach?**

### **Corporate Sustainability Due Diligence Directive (CSDDD)**

- Definition of "chain of activities" and "business partners"

Instead of using the term "[value chain](#)" in line with international standards, the CSDDD uses "chain of activities" (defined in [Article 3\(g\)](#)) which limits the scope of impacts to be considered. For example, "chain of activities" does not include the provision of services downstream. There is a risk that the most severe impacts, which may take place outside the "chain of activities", will not be acted on.

Furthermore, due diligence requirements regarding investors' financial services are limited to actual or potential impacts only from their upstream business partners. No due diligence duties exist in relation to their customers. This is a weakness because the definition of upstream and downstream for investors is not clear<sup>18</sup>, and therefore it could lead to confusion and / or investors spending resources conducting due diligence in areas where the risk of adverse impacts is relatively low. A clear definition

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<sup>16</sup> UN OHCHR (2011), [Guiding Principles on Business and Human Rights](#) – see Guiding Principle 13. And OECD (2023) [OECD Guidelines for Multinational Enterprises](#) – see section IV Human Rights, paragraphs 1-6 on pg. 25.

<sup>17</sup> This is well documented. See for example, World Benchmarking Alliance (2024), [2024 Social Benchmark](#) – "80% of companies fail on human rights due diligence"

<sup>18</sup> Litwin, Daniel and Savourey, Elsa (2024), [Human Rights in EU Sustainable Finance](#) - forthcoming in the Journal of Financial Regulation

for value chain, in line with international standards, and guidance on how to interpret and implement this across different sectors, is a crucial element of any due diligence law.

- Limited personal scope

The CSDDD only applies to very large undertakings. This risks limiting the effectiveness of the law as large companies out of scope will not be required to address adverse impacts in their chain of activities. The Commission is due to publish a report looking at the thresholds for in-scope companies (amongst other topics) in 2030. The personal scope of any due diligence law should be informed by an impact assessment.

- **Are there any other nations with effective legislative frameworks to address goods linked to forced labour which may be useful for the Committee to consider?**

The adoption of the 2015 UK Modern Slavery Act has sparked the development of similar policies in other jurisdictions, such as [Australia](#), [Canada](#), and the US state of [California](#). [New Zealand](#) initiated a process to develop its own Act of this kind. However, this is currently on hold.

- The Australian Modern Slavery Act is currently under review. In 2022 the Australian Government ran a [consultation](#) (to which the PRI [responded](#)), which led to the publication of a [report](#) in May 2023. The report highlighted 30 recommendations for the government, including requiring reporting entities to have a due diligence system (recommendation 11).
- Canada has adopted a similar approach to the Australian and UK one, by introducing a bill ([the Fighting Against Forced Labour and Child Labour in Supply Chains Act](#)), requiring certain entities to report on their efforts to prevent forced and child labour in their supply chains. This came into effect on 1 January 2024. [Guidance](#) is also provided for companies in scope, to support their reporting. The Act requires a department of the Canadian government (Public Safety Canada) to report to Parliament annually on the state of implementation of the legislation. The [report](#) was published in October 2024.
- The [California Transparency in Supply Chains Act](#) requires large retail sellers and manufacturers doing business in the state to disclose annually on human trafficking and slavery within their supply chains.
- The [Dutch Child Labour Due Diligence Act](#) applies to companies established in the Netherlands or those selling or supplying goods or services to Dutch end-users. They are required to exercise due care and investigate whether there is a reasonable suspicion that the goods or services to be supplied have been produced using child labour and, in the event of a reasonable suspicion, draw up and implement a plan of action.
- The [French Loi de Vigilance](#) requires large French companies and very large non-French companies operating in France to conduct human rights and environmental due diligence. This includes identifying and ranking risks in their supply chains and taking appropriate action to mitigate such risks or prevent serious violations.
- The [German Supply Chain Act](#) requires companies with a presence in Germany over a certain threshold to conduct due diligence on a number of human rights-related issues, and to prepare and make publicly available on its website an annual report on the fulfilment of its due diligence obligations. No civil liability is imposed, while the enforcing agency Federal Ministry for Economy and Export Control (BAFA) has the power to impose fines where necessary.
- Japan's [Guidelines on Respecting Human Rights in Responsible Supply Chains](#) are non-binding and set out the Government's expectations in relations to business and human rights. They are aligned with international standards, and cover all internationally recognised human rights, while highlighting that businesses should be especially aware of risks to human rights in several areas, including forced labour and child labour.

- The [Norwegian Transparency Act](#) applies to large enterprises resident in Norway, or large foreign enterprises offering goods or services in Norway. It requires enterprises to conduct due diligence assessments, in compliance with relevant international standards. In addition to other similar instruments, it includes a right to information and duty to disclose i.e. enterprises are required to publish an annual account of their due diligence assessment, and the public can submit a written information request to an enterprise, without having to provide a reason. Barring some limited exceptions, the request for information must be answered within three weeks. The Act entered into force in 2022.

*The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the Joint Committee on Human Rights further to eliminate forced labour in UK supply chains.*

*Please send any questions or comments to [policy@unpri.org](mailto:policy@unpri.org).*

*More information on [www.unpri.org](http://www.unpri.org)*