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## **Shareholder Advocacy through the Lens of Catholic Social Teaching** Tri-State Coalition for Responsible Investment's *Shifting Gears* Campaign

### **Experience:**

As faith-based institutional investors, members of the Tri-State Coalition for Responsible Investment (Tri-CRI) recognize the business activities of corporations in our investment portfolios may negatively impact society, workers, and the environment, and that as investors we have a responsibility to understand these impacts, as well as a role to play as engaged shareholders to encourage companies to monitor and mitigate the risks of their business on society.

Due to the impacts of globalization on the economy, multi-national companies procure the majority of their raw material inputs and products through global sourcing, increasingly from countries with a lower cost of labor and weaker protections for workers. This helps companies to operate efficiently, to keep product costs low, and production times fast. However, these complex global supply chains lack transparency, perpetuating a business model that exploits workers and the most vulnerable in society. While companies have a responsibility to respect human rights under the UN Guiding Principles on Business and Human Rights (UNGPs), in practice they are not able to confidently assure investors, consumers, and stakeholders that they are fulfilling this responsibility and that the components of their products are not being produced under conditions of modern slavery, such as forced labor or child labor, presenting legal, reputational, and financial risks.

While many sectors are exposed to human rights risks in their global supply chains, the automotive industry is one with a particularly high impact. Automakers source raw materials from thousands of suppliers based in hundreds of different countries, exposing them to risks of sourcing commodities produced in countries under conditions that violate human rights. Examples include the mining of cobalt for electric vehicle batteries by children in the Democratic Republic of Congo, mica used in glittery automotive paints that can be mined by children in India, and leather sourced from cattle ranches in Brazil where child labor and forced labor are present. Companies lack effective systems to monitor human rights risks deep into the supply chain across commodities and end these abuses.

### **Case Study: Cobalt**

Fact-finding conducted by Amnesty International in 2016 found that companies in the automotive and electronics sector may be sourcing cobalt from the DRC, where an estimated 40,000 children are engaged in cobalt mining.

Younger children sort cobalt ore on the surface of the mines while older children work alongside adults in dangerous hand-dug artisanal mines to extract the ore.

Children working in the mines are deprived of educational opportunities, in part to earn income to supplement inadequate salaries of their family members.

Companies in the automotive sector were unable to verify the source of their cobalt, demonstrating an inability to ensure respect for human rights in their supply chains.

**Reflect:**

We ground our approach to shareholder advocacy in the Guiding Principles of Catholic social teaching, which stress the sacredness and dignity of the human person. We are all created in the image of God and possess a dignity that comes directly from our creation and not from any action of our own. Each of us has basic human rights and responsibilities regardless of any social or political structure. Pope Francis has said, "Each Person is precious; persons are more important than things, and the worth of an institution is measured by the way it treats the life and dignity of human beings."

Catholic teachings highlight the moral imperative to invest responsibly, and call us to undertake this engagement.

U.S. Catholic Bishops wrote in 1986,

"Individual Christians who are shareholders and those responsible within the church institutions that own stocks in U.S. corporations must see to it that the invested funds are used responsibly . . . As part owners, they must cooperate in shaping the policies of these companies through dialogue with management, through votes at corporate meetings, through the introduction of resolutions, and through participation in investment decisions." *Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the US Economy*

Pope Francis to Investors, 2014

"It is important that ethics once again play its due part in the world of finance and that markets serve the interests of peoples and the common good."

Pope Benedict XVI wrote in 2009,

"John Paul II taught that investment always has moral, as well as economic significance."

Benedict XVI - Caritas in Veritate

"... there is a growing conviction that business management cannot concern itself only with the interests of the proprietors, but must also assume responsibility for all the other stakeholders who contribute to the life of the business: workers, the clients, the suppliers of various elements of production, the local community."

**Act:**

Business entities, including corporations and the investors who own shares in them, must act to align the global economy with the rights and dignity to which each person is entitled, and to ensure that profit does not supersede these rights.

Companies in the automotive sector must see to it that the 30,000 parts that go into each car and originate from a different source are responsibly produced and procured. This will address the risks to workers throughout company-owned operations and supply chains.

## About the UN Guiding Principles on Business and Human Rights (UNGPs)

The “Protect, Respect, Remedy” framework was introduced under the UNGPs to define the responsibilities of governments versus business in contributing to the realization of human rights.

Governments have a duty to protect human rights; corporations have a responsibility to respect human rights; and both actors play a role in ensuring access to remedy.

The corporate responsibility to respect includes three components:

1. Human rights policy commitment
2. Human rights due diligence procedure
3. Remediation process to address negative impacts

We reinforce the responsibility to ensure robust implementation of human rights policies and procedures in alignment with the UNGPs in our dialogues.

We seek to raise investor and consumer awareness of the human rights risks associated with global supply chains in the automotive industry.

Members of the Tri-State Coalition for Responsible Investment (Tri-CRI) are committed to advocating with companies in our portfolios to reduce the social and environmental impacts of their business operations and supply chains. In January 2017, Tri-CRI launched *Shifting Gears*, a campaign to engage the automotive companies in our investment portfolios on their responsibility under the UNGPs to ensure respect for human rights in their raw material supply chains, with special attention to addressing child labor, forced labor, and dangerous working conditions.

*Shifting Gears* is responding to these concerns by way of dialogues with company executives to encourage companies to conduct robust human rights due diligence in order to eliminate the use of forced labor, child labor, and hazardous working conditions in their operations and supply chains and to disclose these efforts to investors and consumers. Our engagements take inspiration from Catholic social teaching and are aligned to the expectations of the UNGPs.

### Collaborate

Recognizing the importance of worker driven solutions, partnerships, and collaboration in addressing these complex challenges, Tri-CRI has engaged numerous partners in the process of developing our engagement approach for the *Shifting Gears* campaign. During the research phase, we reached out to advocacy organizations, grassroots activists, religious groups, and industry initiatives to gain a better understanding of the conditions workers face and the effectiveness of efforts to improve conditions.

We recognize that with global ministries, many Tri-CRI members may have a presence in countries such as India, Brazil, and the Democratic Republic of Congo, where global automotive companies source their products and where there may be risks of child labor or forced labor linked to automotive supply chains. We invite opportunities to collaborate and partner with individuals and institutions to help us understand the experience of workers and impacted communities to inform our strategy.