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Shifting Gears: Accelerating Human Rights in the Auto Sector
Background Memo: Human Rights Risks in Raw Materials Sourcing

I. Introduction

There is a lack of transparency around human rights in the automotive supply chain due to the fact that up to ten tiers of suppliers and sub-suppliers may separate raw material inputs from the final vehicle.¹ Automakers source raw materials from suppliers across the world based on the availability of natural resources and in seeking the lowest costs, which may include low-wage labor. The ability to follow a raw material from its source through final production, or traceability, may prove difficult for such complex supply chains,² but this is where the most serious human rights violations are likely to occur, as many resource-rich countries may be at higher risk for human rights violations due to relatively weak institutions and regulatory frameworks.³ As a matter of human rights due diligence, automakers and their Tier 1 and 2 suppliers have a responsibility to ensure that human rights standards are cascaded throughout their supply chains.

Raw materials such as iron, mica, and rubber are essential inputs in the production of automobile parts. The production and processing of these raw materials poses risks to workers and communities, and there is currently inadequate accountability at each stage - from the commodity level up to the final production of an automobile. This memo explores the human rights risks associated with the production and processing of raw materials through country-specific case studies to inform investor conversations with relevant companies. Future memos will address how companies should use this information to improve behavior and undertake a proactive approach to assessing and addressing human rights in the automotive supply chain.

¹ Simchi-Levi, David, William Schmidt, Yehua Wei, Peter Yun Zhang, Keith Combs, Yao Ge, Oleg Gusikhin, Michael Sanders, and Don Zhang. "Identifying Risks and Mitigating Disruptions in the Automotive Supply Chain." *Interfaces* 45, no. 5 (October 2015): 375–390.

² A Guide to Traceability, BSR.

https://www.bsr.org/reports/BSR_UNGC_Guide_to_Traceability.pdf. Traceability is: The ability to identify and trace the history, distribution, location and application of products, parts and materials, to ensure the reliability of sustainability claims, in the areas of human rights, labour (including health and safety), the environment and anti-corruption.

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https://www.hrw.org/sites/default/files/report_pdf/human_rights_in_supply_chains_brochure_low_res_final.pdf; *The Resource Curse: The Political and Economic Challenges of Natural Resource Wealth*, National Resource Governance Institute, March 2015

II. Structural Challenges to Workers' Rights in Sub-Tiers of the Automotive Supply Chain

Workers involved in the production and processing of raw materials used in the automotive supply chain are exposed to systemic, pervasive human rights abuses. Automakers have a responsibility to promote respect for human rights throughout their supply chains to prevent such abuses from occurring and to address some of the systemic issues that are at the root of these risks. This section provides an overview of some of the human rights violations individuals may face, such as child labor and forced labor, low wages, and barriers to exercising rights to freedom of association and collective bargaining. While there are many factors that may vary for different parts of the supply chain based on the commodity and the country from which it is sourced, many of these issues are relevant regardless of the individual commodity.

Lack of Transparency and Accountability in the Automotive Supply Chain

It is essential for the end users of the raw materials to be able to assure their stakeholders that human rights violations are not linked to their products and operations. This requires knowing the origin location of each of the component parts and understanding the conditions under which it was produced. Individual auto parts carry the name of the automaker, also known as the original equipment manufacturer (OEM), when part of the final vehicle, therefore accountability for human rights performance does not end with the supplier. Due to the complexity of the automotive supply chain, traceability is very challenging, which means that many companies are either unaware such serious human rights violations are occurring in their supply chains or they deflect the responsibility to address the issues to government agencies. Once an investigation links a specific human rights issue to a particular site or region, traceability from a lower tier back to the automaker appears to be achievable. This occurred when abuses were identified in mica mining in India that were then traced to car paint suppliers and finally automakers.⁴ The mica case study is an example of a reactive rather than proactive response, which would require parent companies to identify potential human rights risks within their own supply chains. Beyond some automakers' policy documents on human rights,⁵ there is generally little public disclosure about human rights in the automotive supply chain. While sector wide initiatives such as Automotive Industry Action Group (AIAG) and CSR Europe's DRIVE Sustainability are working to develop tools and platforms to improve coordination between OEMs and suppliers,⁶ there is currently neither company specific reporting on full supply chain implementation nor industry-wide reports or benchmarks that specifically address this issue for the auto sector. Investigative reports into human rights

⁴ [Vauxhall and BMW among car firms linked to child labour over glittery mica paint](#), Guardian, July 2016

⁵ Some examples include [Ford](#), [GM](#), [Groupe PSA](#), [Fiat Chrysler](#), and [Nissan](#).

⁶ <http://www.aiag.org/>; <https://www.csreurope.org/10-biggest-world-automakers-partner-launch-%E2%80%98drive-sustainability%E2%80%99-0#.WYyUuIWGPIU>

violations associated with specific commodities in high risk regions do however shed light on the injustices faced by workers in the automotive supply chain that highlight some of the areas of material risk that should be prioritized by the OEMs.

Prevalence of Child Labor and Forced Labor in Raw Materials Production and Processing

Several raw materials used in the automotive supply chain are included in the United States Department of Labor (DOL) List of Goods Produced by Child Labor or Forced Labor, with risk heightened when the item originates in certain countries, such as electronics (China, Malaysia), leather (Vietnam, Bangladesh, India, Pakistan), and rubber (Vietnam, Burma, Cambodia, Indonesia, Liberia, Philippines).⁷ There are additional commodities used in automobile manufacturing that are reportedly produced with child labor but do not appear on the DOL list, such as mica mined in India or cobalt in the Democratic Republic of Congo, that present human rights risks to companies along the supply chain.⁸ Given the likelihood that child or forced labor is present somewhere in an automaker's supply chain, top automakers have a responsibility to ensure that they do not source from suppliers that rely on these practices.

A combination of economic, social, and political factors influences the use of child and forced labor in the mining and raw materials sectors. Extremely low wages and high quotas mean that children may be working long hours alongside their parent(s) in order to help cover the family's basic needs, even when under the legal working age.⁹ Looking at forced labor, migrant workers who find employment through labor brokers are particularly at risk; Recruitment fees, withholding of identity documents, misrepresentation of working conditions, and other exploitative recruitment practices may create a situation of debt bondage, exposing workers to poor conditions and making it difficult to freely leave a job due to financial obligations.¹⁰ Weak enforcement of labor laws is a problem that impacts the prevalence of child labor and forced labor. Under the UN Guiding Principles on Business and Human Rights Framework, while it is primarily government's role to protect human rights, when government agencies fail to fulfill these obligations and protect workers, it is the role of corporations to advocate for and uphold strong human rights and labor rights standards. Several automakers have made policy commitments prohibiting the use of forced and child labor in their

⁷ <https://www.dol.gov/ilab/reports/child-labor/list-of-goods/>

⁸ Blood Mica: Deaths of child workers in India's mica 'ghost' mines covered up to keep industry alive, Reuters, August 2016; <https://www.amnesty.org/en/documents/afr62/3183/2016/en/>

⁹ Commodity Atlas – Rubber, Verité, 2017

¹⁰

http://www.iccr.org/sites/default/files/iccrsbestpracticeguidanceethicalrecruitment05.09.17_final.pdf

operations and/or supply chains.¹¹ After productive engagements with shareholders, Ford and GM adopted ethical recruitment policies, which is considered best practice and a first step for automakers in preventing forced labor in their supply chains.¹² However, these commitments are difficult to enforce throughout the supply chain in practice and most companies only recently began working on the implementation phase of human rights policies.

Low Wages and Barriers to Freedom of Association and Collective Bargaining

Wages paid to workers in the natural materials production and processing sectors are often too low to be considered a “living wage”.¹³ Although the concept of a living wage is not clearly defined and would vary based on cost of living factors, it is generally understood that a living wage would be the amount which would support everyday cost of living in that specific location. Wages are likely too low if children are working alongside parents to earn enough money to cover a family’s basic needs. For example, a mother and child mining mica in India reported together earning the equivalent of only \$4 USD a day for a full day’s work.¹⁴ One proposed model for calculating a living wage for a specific locale is the Asian Floor Wage model, which is calculated by multiplying the average cost of food containing 3,000 calories by two (since food cost is factored as half of worker income) times the number of family members.¹⁵ This model has its flaws, as the number of calories used in the calculation and percentage of income allocated to food may seem high, but it is a first step towards defining reasonable wages in the supply chain. Automakers are able to increase profit margins when the cost of labor is lower, but this may contribute to the underpayment of workers unless actions are taken to ensure reasonable wages are paid to workers throughout the automotive supply chain and contracts with suppliers are negotiated to consider these costs.

Laborers in these industries may lack a forum to negotiate fair wages and better working conditions when denied their rights to freedom of association and collective bargaining. In particular, workers in the iron mining, natural rubber, and electronics sectors have been identified as facing barriers to union membership or exercising union rights.¹⁶ The electronics sector is an example of an industry with a high level of

¹¹ Ford, GM, Groupe PSA, Honda, Fiat Chrysler, and Nissan

¹² <http://www.iccr.org/shareholder-campaign-eradicate-forced-labor-yields-multiple-corporate-commitments>

¹³ Workers’ Rights in the Global Electronics Sector: Report of the May 2012 makeITfair and GoodElectronics Roundtable

¹⁴ Blood Mica: Deaths of child workers in India’s mica ‘ghost’ mines covered up to keep industry alive, Reuters, August 2016 Cite

¹⁵ Workers’ Rights in the Global Electronics Sector: Report of the May 2012 makeITfair and GoodElectronics Roundtable

¹⁶ Whose Development? Human Rights Abuses in Sierra Leone’s Mining Boom, Human Rights Watch, 2014; Burnt Rubber: Firestone Rubber Plantation Cuts Back in Liberia, Front Page Africa

temporary workers that are not eligible for union membership and therefore do not have a forum through which to advocate for improved working conditions and wages.¹⁷

Negative Community Impacts from Raw Materials Production and Processing

In addition to protecting workers in the supply chain, automakers should be aware of the impacts that raw material production and processing have on communities living near mines or plantations. Negative public health outcomes from polluted air and water are a primary concern.¹⁸ Mining companies, in Sierra Leone for example, have been found in violation of Free Prior and Informed Consent (FPIC)¹⁹ by beginning operations without undergoing a transparent consultative process that includes obtaining proper consent from communities.²⁰ There is an economic power imbalance between companies and communities that complicates the dynamic and efforts toward accountability. Because a single corporation may be the principal employer in a given area, the same individuals being harmed by business activities may in fact advocate for the company's continued presence in their community.

III. Case Studies Demonstrate Supply Chain Risks in the Automotive Sector

Several case studies that demonstrate the extent and nature of the human rights risks of raw materials processing and production follow. The large majority of the highlighted commodities would be present in every car, while some like leather and cobalt would only be included in certain models. Companies should therefore have an understanding of where they are sourcing each of these commodities and whether the risks highlighted below are present within their business relationships.

Child Labor Risks in India's Mica Mines

Natural mica is a key component of many of the metallic paints used in the automotive industry.²¹ Recent reporting of child labor in India's mica mining industry pose a risk for OEMs and suppliers who find mica sourced from India in their supply chains.²² A Reuters investigation found that children as young as five years old may be working up to five

Online, January 2017; Workers' Rights in the Global Electronics Sector: Report of the May 2012 makeITfair and GoodElectronics Roundtable

¹⁷ Workers' Rights in the Global Electronics Sector: Report of the May 2012 makeITfair and GoodElectronics Roundtable

¹⁸ Out of Control: Mining, Regulatory Failure, and Human Rights in India (HRW, 2012)

¹⁹ <https://www.hrw.org/news/2014/02/19/sierra-leone-mining-boom-brings-rights-abuses>

²⁰ Whose Development? Human Rights Abuses in Sierra Leone's Mining Boom, Human Rights Watch, 2014

²¹ [Vauxhall and BMW among car firms linked to child labour over glittery mica paint](#), Guardian, July 2016

²² [Blood Mica: Deaths of child workers in India's mica 'ghost' mines covered up to keep industry alive](#), Reuters, August 2016

hours a day cutting mica with a hammer and chisel.²³ Incredibly low wages fueled child labor in mica mining, as a mother and child together earned the equivalent of \$4 a day for a full day's work.²⁴ A Dutch NGO, The Centre for Research on Multinational Corporations (SOMO), estimated that 20,000 children were involved in mica mining in just two districts (Jharkhand and Bihar).²⁵ The investigation also found that child deaths related to mica mining were being covered up when children were working in illegal mines. An estimated 70% of Indian mica production is illegal because it takes place in abandoned mines or contributes to deforestation.²⁶ Data on the scope of production is far from transparent due to the high proportion of illegal mining activity, with a large discrepancy between reported production data (19,000 tons of mica in 2013/2014) and exports data (128,000 tons).²⁷

Now that the child labor risks of mica mining in India have been uncovered, government authorities as well as corporations are beginning to respond. Government activities focused on legalizing mica mining²⁸ in order to better regulate the industry as well as launching a public awareness campaign to stop child labor. Companies in the cosmetics (L'Oreal, Estee Lauder), pharmaceutical (Merck), and the auto industry (PPG, Axalta, Fiat-Chrysler, BASF) have also begun working on sustainable sourcing and collaboration with the Responsible Mica Initiative.²⁹

As of July 2016, Vauxhall (recently acquired by Groupe PSA), BMW, and VW independently launched investigations into their mica supply chains in response to the reports of child labor in Indian mica mines.³⁰ Automotive paint suppliers PPG and Axalta buy mica pigment from a Chinese company called Fujian Kuncai that has been identified as at risk of purchasing raw mica from India that may be produced by child labor.³¹ OEMs that may be purchasing from Fujian Kuncai have supplier codes that forbid child labor, but BMW did find direct links to the Kuncai pigment company. This indicates that while policies are important, robust implementation throughout the supply chain is necessary to truly address these risks. BMW and VW did suspend some supplier contracts after the investigation, with BMW stopping purchases of India mica until suppliers could guarantee their mica was completely free of child labor. Fujian Kuncai, PPG, and Axalta have each joined the Responsible Mica Initiative, which

²³ Ibid

²⁴ Ibid

²⁵ Ibid

²⁶ Ibid

²⁷ Ibid

²⁸ [India begins legalizing mica mining after child worker deaths expose](#), Reuters, May 2017

²⁹ <http://www.responsible-mica-initiative.com/members-and-governance.html>

³⁰ [Major car paint suppliers join initiative against child labour in mica mines](#), Guardian, February 2017

³¹ [Vauxhall and BMW among car firms linked to child labour over glittery mica paint](#), Guardian, July 2016

pledges to eliminate child labor from mica production by 2022.³² Aside from Fiat-Chrysler, no other OEMs have joined the initiative, but the fact that the two paint suppliers have joined offer some protection to those automakers that source from them.³³

Risks Associated with Iron Ore

Iron and steel make up the primary input in vehicle production and iron ore mining is one of the first steps in this supply chain.³⁴ 98% of all iron ore is used in steel making and the automobile manufacturing is one of the most steel-intensive industries, so attention from automakers to the sourcing of iron is essential.³⁵ A primary risk automakers face related to iron ore mining is possibility of a supplier relationship that can be traced to a mine operating without true consent to operate or on illegally-acquired land.

Illegal Operations in Iron Mining - Goa, India

Iron ore mining in Goa, India gained attention from Human Rights Watch in recent years due to the large percentage of mines operating illegally and the negligence of government agencies.³⁶ In 2010, there were 90 working mines in Goa yielding 45 million tons of iron ore, accounting for 20% of iron ore production in India.³⁷ At the time of the 2012 HRW report, an estimated 40% of Goa mines were operating without true consent to operate, with up to 5% operating on illegally-acquired land.³⁸ The Pollution Control Board, responsible for monitoring compliance with air and water quality laws, was characterized as largely ineffective and having little meaningful oversight of mining operations. The Mines Department did not have the capacity to verify production data submitted by the mining companies, which meant they could underreport on production to avoid taxes.³⁹

Unregulated mining activity has had detrimental impacts on surrounding communities. Beginning with the environmental impacts, irresponsible waste disposal in natural springs used for irrigation limits contaminated the water source and limited the available water for agricultural activities.⁴⁰ Iron ore dust from passing trucks can also settle on crops. Water scarcity becomes a risk in areas where both groundwater and surface water

³² [Major car paint suppliers join initiative against child labour in mica mines](#), Guardian, February 2017

³³ <http://www.responsible-mica-initiative.com/members-and-governance.html>

³⁴ https://www.globalpolicy.org/images/pdfs/GPFEurope/From_the_ore_to_the_car_-_Summary.pdf

³⁵ https://minerals.usgs.gov/minerals/pubs/commodity/iron_ore/

³⁶ [Out of Control: Mining, Regulatory Failure, and Human Rights in India](#) (HRW, 2012)

³⁷ Ibid

³⁸ Ibid

³⁹ Ibid

⁴⁰ Ibid

were polluted. Looking at the health impacts, exposure to iron ore dust, which contains silica, may contribute to lung disease and cancer.⁴¹

After a government turnover in 2012, efforts were made to regulate the mining industry in Goa. Adequate funds were allocated to the understaffed Pollution Control Board and environmental impact reports were assessed by the Environment Minister working with NGOs.⁴² The government also required all iron ore traders to reapply for licenses. In this case, the scope of the problem was so large that it was ultimately new government leadership that spearheaded the reform of the industry.

Freedom of Association Risks in Iron Mining - Sierra Leone

Sierra Leone has also been identified as a country where iron ore mining is associated with human rights violations, and traceability efforts are required by automakers in order to determine whether iron is sourced from a high risk region. A company called African Minerals Limited (AML) has operated in Sierra Leone's Tonkolili district since 1996, a region with one of the largest magnetite deposits in Africa.⁴³ Magnetite is one of the primary iron ores. Iron ore is the raw material from which pig iron is made, and pig iron is the primary component of steel. AML is the country's largest private employer with 6,850 employees (80% nationals) as of 2013 and profits from the company's operations were expected to surpass the country's GDP at the time of a 2014 Human Rights Watch report.⁴⁴ The company made headlines when mining workers in the city of Bumbuna went on strike after facing discrimination, mistreatment, and the inability to form a union.⁴⁵ Police opened fire at the protestors, resulting in one death, 8 injured persons, and 29 arrested (who were later released without charge but may have been beaten during the arrest).⁴⁶

AML operates in one of the three most food-insecure districts in the Sierra Leone, with 74% of residents considered food insecure.⁴⁷ AML's presence has not contributed positively to economic development of the region. As with iron ore mining in Goa, India, the large land area used for mining activity limits the available land to grow crops and operations impact water and air quality. Forced displacement further contributes to a negative quality of life due to mining activities. The government has largely failed to properly oversee community consultation, relocation, or response to complaints.⁴⁸

⁴¹ Ibid

⁴² Ibid

⁴³ [Whose Development? Human Rights Abuses in Sierra Leone's Mining Boom](#), Human Rights Watch, 2014

⁴⁴ Whose Development? Human Rights Abuses in Sierra Leone's Mining Boom, Human Rights Watch, 2014

⁴⁵ Ibid

⁴⁶ Ibid

⁴⁷ Ibid

⁴⁸ Ibid

Government reforms are clearly necessary to transform Sierra Leone's mining sector, but companies such as AML have a responsibility to mitigate the human rights risks impacting workers and communities. It was difficult to determine which companies purchase from AML, but given the prevalence of their production, it is possible that some of the large OEMs use their raw materials.

Human Rights Violations in Charcoal and Pig Iron

Pig iron is a form of iron ore smelted with charcoal that is commonly processed into the steel used in automobiles, and many tiers of this supply chain are exposed to risks of human rights violations.⁴⁹ Beginning with charcoal, the U.S. Department of State Trafficking in Persons Report states that it may be produced with child and forced labor in Brazil and with child labor in Uganda.⁵⁰ Whole families may find themselves in forced labor situations after being recruited by brokers, as workers are paid low wages, forced to buy goods from company stores, and then have to continue working until debts are paid.⁵¹ In Brazil, approximately 12% of companies on a list compiled by the government for using forced labor are associated with charcoal production, revealing how widespread the labor issues are in this sector.⁵² According to the U.S. Department of Labor, the Brazilian government is implementing policies and targeted actions in industries such as charcoal production to eliminate forced and child labor.⁵³ Also in Brazil, a multi-stakeholder initiative called the Citizen's Charcoal Institute (ICC) was created in 2004, which requires members to follow its own code of conduct and participate in an auditing process.⁵⁴ Individual companies have also responded: Ford ended its relationship with supplier National Mineral Trading after finding potential links to charcoal produced by child labor, while Nucor Steel now requires suppliers to join ICC.⁵⁵ Traceability efforts are required to determine if automakers source from locations with human rights abuses, such as Goa, India, Sierra Leone, or other high risk regions, but these types of labor rights issues may pose risks for the automotive supply chain.

History of Forced Labor and Child Labor in Natural Rubber Production

⁴⁹ Strengthening Protections Against Trafficking in Persons in Federal and Corporate Supply Chains, Verite, 2017

⁵⁰ <https://www.state.gov/j/tip/rls/tiprpt/>

⁵¹ Strengthening Protections Against Trafficking in Persons in Federal and Corporate Supply Chains, Verite, 2017

⁵² http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---declaration/documents/publication/wcms_111297.pdf

⁵³ Strengthening Protections Against Trafficking in Persons in Federal and Corporate Supply Chains, Verite, 2017

⁵⁴ http://hrbdf.org/case_studies/forced-labour/forced_labour/combating_slave_labour_in_the_brazilian_charcoal_and_steel_sector.html#.WZdF0FWGPIU

⁵⁵ Strengthening Protections Against Trafficking in Persons in Federal and Corporate Supply Chains, Verite, 2017

Nearly half of all natural rubber output is used for tire production, of which 60% goes to the auto market. Automakers therefore have a responsibility to ensure they are sourcing rubber from responsible suppliers in order to prevent human rights risks in their supply chains.⁵⁶ Rubber production in Liberia accounts for 64% of quantity and 72% of value for American rubber imports, however 90% of global rubber production takes place in Asia.⁵⁷ According to the U.S. Department of State Trafficking in Persons (TIP) Report, natural rubber may be produced with forced labor in Burma, Cote d'Ivoire, and Liberia and with child labor in Burma, Cambodia, Indonesia, Liberia, the Philippines, and Vietnam.⁵⁸ Rubber tappers receive low wages for their labor-intensive work, and when coupled with high quotas, many workers require help from their children in order to meet quotas and earn enough to cover the family's most basic needs. Required tasks consist of tapping trees, cutting grass, spraying pesticides, planting seeds, clearing brush, and carrying buckets, which may constitute dangerous or hazardous working conditions linked to the Worst Forms of Child Labor in violation of ILO Convention No. 182.⁵⁹ Children often complete the same tasks and work the same hours as their parents.⁶⁰ Exposure to pesticides, long hours, potential injury from sharp tools, and an isolated work environment amount to working conditions that are not appropriate for children.⁶¹

A Verité study from 2012 profiles the human rights violations associated with rubber production in Liberia.⁶² The end of a 14-year civil war in 2003 left the country without strong public institutions or infrastructure and a highly politicized environment, which led to understaffed agencies, widespread corruption, and weak enforcement of labor laws.⁶³ Rubber plantations are still the number one employer in Liberia, and at the time of the report more than 20,000 workers were employed by commercial farms and 60,000 smallholder households growing rubber trees.⁶⁴ Large-scale rubber producing companies in the country include Firestone, Liberia Agriculture Company (LAC), Guthrie, Liberia Company (LIBCO), Salala Rubber Corporation, Cavalla, and Sinoe Rubber Corporation (SRC).⁶⁵ Any automotive company sourcing tires from one of these producers would need to take steps to ensure that forced and child labor are not occurring within their supply chain.

⁵⁶ [Rubber Production in Liberia: An Exploratory Assessment of Living and Working Conditions, with Special Attention to Forced Labor](#), Verité, 2012

⁵⁷ Ibid

⁵⁸ Trafficking in Persons (TIP) Report - Department of State, 2017

⁵⁹ [Commodity Atlas](#) – Rubber, Verité, 2017;

<http://www.ilo.org/ipec/facts/WorstFormsofChildLabour/lang--en/index.htm>

⁶⁰ Ibid

⁶¹ Ibid

⁶² Rubber Production in Liberia: An Exploratory Assessment of Living and Working Conditions, with Special Attention to Forced Labor, Verité, 2012

⁶³ Ibid

⁶⁴ Ibid

⁶⁵ Ibid

Firestone, a subsidiary of Bridgestone is Liberia's largest employer with over 6,100 employees. Unfortunately the company's success in the country is rooted in a forced labor practice that lasted for decades.⁶⁶ When the first Firestone rubber plantation was established in 1926, the government drafted workers through a forced recruiting system which ultimately lasted through the 1960s. While this is no longer practice, this history cannot be ignored. The company has since made significant investments in social services provided to plantation workers, but in 2017 the company made headlines for laying off 7% of its workforce in an act that violated a collective bargaining agreement of the Firestone Agricultural Workers Union of Liberia (FAWUL).⁶⁷ This history of labor rights violations and the size of the workforce that may be at risk of future violations demonstrate that there are human rights risks associated with sourcing from Firestone/Bridgestone.

In May 2017, General Motors announced a responsible rubber sourcing initiative, a first for the industry.⁶⁸ They will be working with suppliers such as Bridgestone, Continental, Goodyear, and Michelin on improving traceability in the rubber supply chain to address human rights and deforestation risks.⁶⁹ This initiative was well-received by investors and offers a strong example of how automakers can work with suppliers and focus on one commodity at a time in order to address human rights in their broader supply chains.

Child and Forced Labor in the Leather Industry

Leather interiors continue to be a popular choice for consumers looking for a more luxury vehicle, with 30% of all leather produced going into car interiors, which is projected to grow.⁷⁰ Automakers may be exposed to regulatory and legal risks of sourcing leather for car interiors from regions where it is produced using child or forced labor. The leather supply chain is complex, with steps including livestock raising, slaughtering, cleaning and trimming of hides, tanning, and final manufacturing.⁷¹

The U.S. Department of Labor List of Products Produced by Child Labor or Forced Labor indicates cattle sourced from Brazil, Chad, Costa Rica, Ethiopia, Lesotho, Mauritania, and Namibia may be produced by child labor, or by forced labor in Bolivia, Brazil,

⁶⁶ Ibid

⁶⁷ [Burnt Rubber: Firestone Rubber Plantation Cuts Back in Liberia](#), Front Page Africa Online, January 2017

⁶⁸ <http://www.gm.com/mol/m-2017-may-0515-tires.html>

⁶⁹ Ibid.

⁷⁰ <http://www.leathermag.com/features/featureglobal-trends-and-demand-for-auto-leather/>; <http://www.businessinsider.com/theres-a-leather-seat-crisis-in-the-worlds-auto-industry-2014-11>; <http://www.prnewswire.com/news-releases/automotive-interior-leather-market-future-vehicle-interior-designs-will-continue-to-incorporate-leather-global-industry-analysis-and-opportunity-assessment-2016-2026-300425219.html>

⁷¹ Strengthening Protections Against Trafficking in Persons in Federal and Corporate Supply Chains, Verite, 2017

Niger, and Paraguay.⁷² Children are most likely to participate in cattle herding, but may also be involved in “animal husbandry, slaughter, milk processing, meat processing and leather preparation.”⁷³ Working with cattle also exposes children and adults to many health risks, such as contracting animal-related diseases and injuries from working with livestock and tools.⁷⁴ In addition to unethical labor practices, cattle ranching contributes to deforestation in countries like Brazil, leading to negative environmental and community impacts.⁷⁵ Companies including Walmart and McDonald’s have responded to these risks by adopting zero deforestation policies⁷⁶ or joining multistakeholder initiatives like the Global Roundtable for Sustainable Beef⁷⁷ and the Leather Working Group⁷⁸ to work on sustainable sourcing strategies.

Moving up the supply chain to leather production, there are risks of child labor being used in Bangladesh, Pakistan, and Vietnam.⁷⁹ Children are largely involved in the tanning phase of leather production, which involves the use of sharp tools and exposure to dangerous chemicals.⁸⁰ Extensive reporting by Transparentem on child labor in Bangladesh’s leather tanneries has uncovered the risks to the apparel and accessories industries, resulting in companies like Coach, Kate Spade, and Michael Kors working with suppliers on responsible sourcing, but the automotive industry may also be exposed to similar risks.⁸¹

The Centre for Research on Multinational Corporations (SOMO) produced a report in December 2016 profiling the labor issues associated with leather production in Pakistan, where the industry employs about 500,000 workers. The extent to which auto supply companies source from Pakistan is not easy to determine, however the labor practices used in Pakistan may also apply to workers in other countries from which leather is sourced for automotive seating.⁸² Tannery workers exposed to the chemical chromium are at risk of irreparable skin damage and respiratory disease.⁸³ Pakistani law requires that companies must provide protective equipment to workers handling chromium, yet many workers reported that basic safety gear was not provided.⁸⁴ Workers also face risk

⁷² <https://www.dol.gov/ilab/reports/child-labor/list-of-goods/>

⁷³ <https://www.verite.org/project/cattle/>

⁷⁴ Ibid.

⁷⁵ <http://www.forestjustice.org/our-issues/deforestation/cattle/>

⁷⁶ <http://www.ucsusa.org/global-warming/stop-deforestation/beef-deforestation-scorecard#.WZc2b1WGPIU>

⁷⁷ <http://grsbeef.org/>

⁷⁸ <https://www.leatherworkinggroup.com/>

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ <https://www.apnews.com/57003bedd3ae4e3e9d1633cf50effc31/Report-examines-grim-Bangladesh-leather-trade,-links-to-West>

⁸² <https://www.somo.nl/wp-content/uploads/2016/12/Hell-bent-for-leather-web.pdf>

⁸³ Ibid.

⁸⁴ Ibid.

of injury when working with heavy machinery used in leather production, and reports indicate that lack of safety training has contributed to serious injuries such as the loss of limbs.⁸⁵ Unfortunately 83% of surveyed workers said that their employer did not provide medical coverage or access to health facilities.⁸⁶ In addition to these physical hazards, Pakistani tannery may experience low wages, forced unpaid overtime, barriers to joining a union, and the absence of formal labor contracts.⁸⁷ Workers reported going into debt to cover expenses because their wages were so low, and several said that they needed their children to work to help support the family's expenses.⁸⁸

Traceability mapping is required for automakers to determine if leather in their supply chains is sourced from one of the high risk countries in order to proceed with responsible sourcing initiatives. There are automotive leather suppliers working on human rights. Lear Corp's "Supplier Sustainability Policy" includes prohibitions against forced and child labor in the company's global operations, a best practice among leather suppliers.⁸⁹ The company's "Environmental, Health, and Safety Policy" includes a commitment to "Developing and utilizing environmentally acceptable, safe, sustainable and efficient production methods and processes."⁹⁰ Automakers benefit from working with suppliers with strong public commitments to human rights, but it is essential to understand how these policies are being implemented and the extent to which there is monitoring.

Challenges for Temporary Workers in the Electronics Industry

As the electric vehicles and connected cars trend continues to shape the automotive industry, electronics components will make up a larger proportion of the final vehicle, from EV batteries to navigation and entertainment systems. Automakers therefore have a greater responsibility to ensure that their electronics suppliers comply with the human rights standards. Agency or temporary workers on short-term contracts are common in this sector, and these workers face ethical recruitment violations, job insecurity, lower wages, fewer benefits, less training, fewer career opportunities, and are often excluded from union membership.⁹¹ Issues faced by temporary workers are inadequately addressed in corporate codes of conduct, leaving workers without a framework through which they can hold companies accountable.

⁸⁵ Ibid.

⁸⁶ Ibid.

⁸⁷ Ibid.

⁸⁸ Ibid.

⁸⁹ <http://www.lear.com/Site/Suppliers/Supplier-Sustainability.aspx>

⁹⁰ http://www.lear.com/user_area/content_media/raw/EnvironmentalHealthSafetyPolicy.pdf

⁹¹ [Workers' Rights in the Global Electronics Sector: Report of the May 2012 makeITfair and GoodElectronics Roundtable](#), SOMO, May 2012

The low minimum wage for workers in the electronics sector means that many workers often take on excessive overtime in order to earn enough to cover their basic needs.⁹² Little progress has been made to address wages as companies argue that there is no universal way to define a living wage and that wages should be negotiated through collective bargaining. However, workers in this industry are categorically denied the rights to freedom of association and collective bargaining, especially the temporary workers who are not eligible to join unions. This makes communication with management difficult and prevents workers from advocating for improved working conditions.

Automotive companies have a responsibility to ensure that the electronics sector workers in their supply chains are treated as rights holders. A large percentage of temporary contractors in the electronics industry are migrant workers who face higher risks of unethical recruitment, forced labor and human trafficking. The Department of Labor identifies electronics sourced from China as at risk of being produced with child labor and/or forced labor and those from Malaysia at risk of being produced with forced labor as well. Looking at Malaysia, a 2014 Verité report⁹³ found that 28% of electronics workers in the study sample were found to be in a situation of forced labor, with the percentage rising to 32% among foreign workers alone. Automakers may have a zero tolerance policy for human trafficking written into their supplier codes, but companies face significant challenges at the implementation phase.

The Electronics Industry Citizenship Coalition (EICC) was founded in 2004 by eight companies with the common goal of developing an industry standard to address social and environmental issues in the electronics supply chain.⁹⁴ There are now over 110 members, with representation from companies in the automotive sector including Ford and Tesla,⁹⁵ and the EICC Code of Conduct sets an industry standard for addressing human rights risks in the electronics supply chain.

Child Labor in DRC Cobalt Mines

As automakers prepare for the low-carbon transition by ramping up production of electric vehicles, it is important that they consider the potential human rights risks associated with the commodities required to produce electric vehicle batteries. Cobalt is a required input in the manufacturing of lithium-ion batteries that power electric vehicles and is reportedly mined using child labor in the Democratic Republic of Congo

⁹² Ibid.

⁹³ [The impact of procurement practices in the electronics sector on labor rights and temporary and other forms of employment](#), ILO, 2016

⁹⁴ <http://www.eiccoalition.org/about/history/>

⁹⁵ <http://www.eiccoalition.org/about/members/>

(DRC).⁹⁶ The Securities and Exchange Commission (SEC) Conflict Minerals Rule does not apply to cobalt mining, which means that oversight of this mineral is less rigorous.⁹⁷ The automotive supply chain may be impacted according to a report released by Amnesty International in 2016.⁹⁸

More than half of the world's cobalt is mined in the DRC, and of this 20% of cobalt is mined by hand by "artisanal" miners, which means workers use hand tools to dig underground tunnels.⁹⁹ These tunnels present dangerous working conditions because they often lack support structures and ventilation systems, creating risks of fatal collapses. Exposure to dust from cobalt mining also contributes to lung disease and other respiratory conditions, which may also prove fatal.¹⁰⁰ Children and adult workers often work without protective equipment since applicable guidelines were not set in the DRC Mining Code and Regulations (2012, 2013), revealing a lack of safety precautions and monitoring in an already hazardous work environment.¹⁰¹

There are about 40,000 child mining workers in the DRC, and many of these children are working in cobalt mines.¹⁰² Amnesty International found children as young as seven working up to 12 hours in DRC cobalt mines for as little as one dollar a day.¹⁰³ While free compulsory education is ensured by the DRC Child Protection Code (2009), lack of state funding means that parents are required to cover a portion of the cost, and many parents simply cannot afford to keep their children in school.¹⁰⁴ Even children who regularly attend school work during off-hours, weekends, and holidays.¹⁰⁵ In addition to hazardous working conditions, children may be exploited by being underpaid for the

⁹⁶ [Democratic Republic of Congo: "This is What We Die For": Human Rights Abuses in the Democratic Republic of the Congo Power the Global Trade in Cobalt](#), Amnesty International, January 2016

⁹⁷ <https://www.sec.gov/rules/final/2012/34-67716.pdf>

⁹⁸ [Democratic Republic of Congo: "This is What We Die For": Human Rights Abuses in the Democratic Republic of the Congo Power the Global Trade in Cobalt](#), Amnesty International, January 2016

⁹⁹ <https://www.amnesty.org/en/latest/news/2016/09/electric-cars-running-on-child-labour/> September 2016

¹⁰⁰ [Democratic Republic of Congo: "This is What We Die For": Human Rights Abuses in the Democratic Republic of the Congo Power the Global Trade in Cobalt](#), Amnesty International, January 2016

¹⁰¹ Ibid.

¹⁰² Ibid.

¹⁰³ <https://www.amnesty.org/en/latest/news/2016/09/electric-cars-running-on-child-labour/> September 2016

¹⁰⁴ [Democratic Republic of Congo: "This is What We Die For": Human Rights Abuses in the Democratic Republic of the Congo Power the Global Trade in Cobalt](#), Amnesty International, January 2016

¹⁰⁵ Ibid.

amount of cobalt they collect. There are also reports of children being beaten by guards of industrial mines for trespassing.¹⁰⁶

Amnesty International completed a traceability study that suggests automakers are at risk of sourcing cobalt mined by children in the DRC for electric vehicle battery production.¹⁰⁷ Cobalt mined in the DRC is bought by Congo Dongfang Mining (CDM), a wholly-owned subsidiary of the Chinese company Huayou Cobalt.¹⁰⁸ L&F Material is a battery component manufacturer that purchases cobalt from Huayou Cobalt/CDM and sells to battery manufacturers LG Chem and Samsung SDI.¹⁰⁹ LG Chem supplies to GM, Renault/Nissan, and Tesla. All three of these companies did not reply to Amnesty International about verifying where their cobalt came from.¹¹⁰ L&F Material also sells to Samsung SDI, who supplies to BMW and Fiat Chrysler, but Samsung SDI claims the cobalt they purchase from L&F Material is not sourced from DRC, which could not be verified since L&F Material did not communicate with Amnesty.¹¹¹ Both automakers denied that Huayou cobalt was in their supply chain.¹¹² The report also suggested VW and Daimler may be at risk of sourcing cobalt from DRC for their electric batteries, but Daimler and VW both deny a connection.¹¹³

It is important for automakers to be more transparent about cobalt in their supply chains. While some OEMs claimed that their supply chains were not impacted, adequate disclosure to verify these statements is crucial, such as a list of smelters/refiners to prove that cobalt is not being sourced from mines that use child labor in the DRC. The three automakers that failed to reply to Amnesty at all, including GM, Renault, and Tesla, particularly face reputational risks and need to share what they are doing to prevent cobalt produced with child labor from entering their supply chains.

IV Conclusion

These case studies demonstrate that there are significant and pervasive human rights risks associated with sourcing of raw materials within the automotive sector and supply chain. Investors have an opportunity to use this information to present specific questions to companies in their portfolios to better understand their awareness and management of these risks. Corporations have a responsibility to respect human rights

¹⁰⁶ Ibid.

¹⁰⁷ <https://www.amnesty.org/en/latest/news/2016/09/electric-cars-running-on-child-labour/>
September 2016

¹⁰⁸ <https://www.amnesty.org/en/latest/news/2016/09/electric-cars-running-on-child-labour/>
September 2016

¹⁰⁹ Ibid.

¹¹⁰ Ibid.

¹¹¹ Ibid.

¹¹² Ibid.

¹¹³ Ibid.

in their operations and in their business relationships. It is essential that they assess and are accountable for reducing these risks throughout their operations, particularly within the identified high risk regions and commodities.