BEYOND COMPLIANCE IN THE GARMENT INDUSTRY:

Assessing UK and Australian Modern Slavery Act statements produced by the garment industry and its investors

WALK FREE

WikiRate

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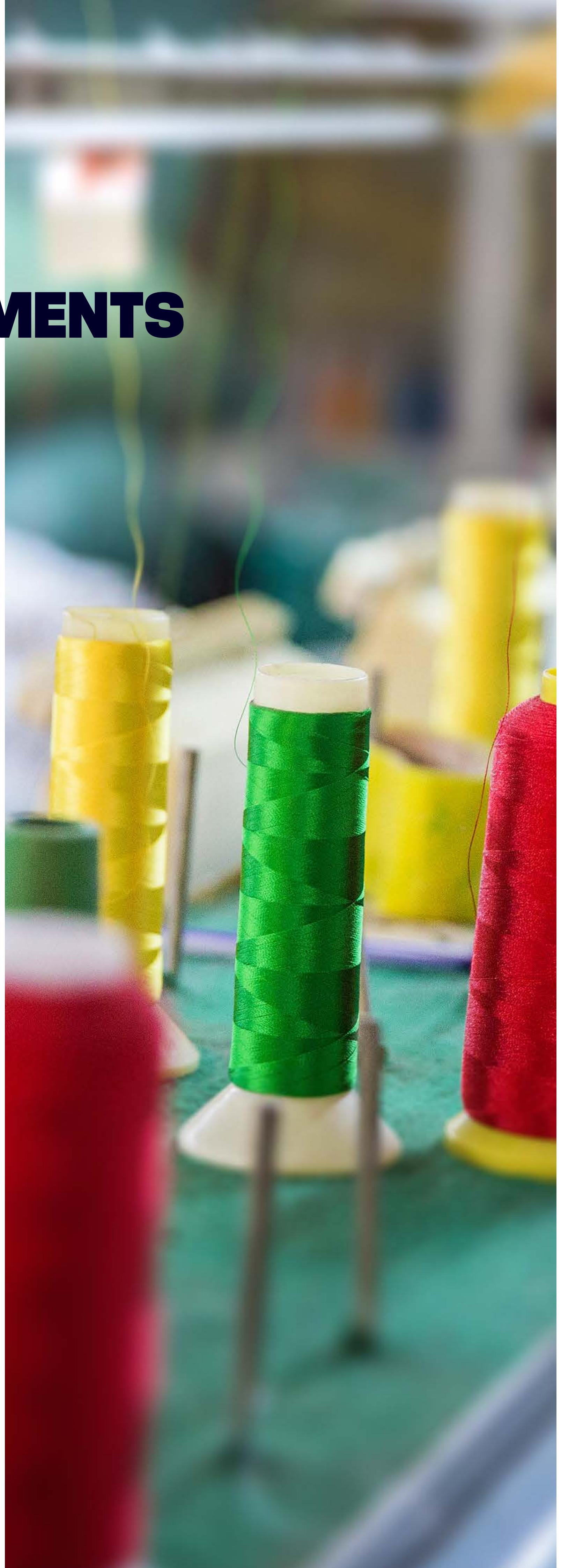
(Cover) India, Rajasthan, Sari Factory. Long bands of textiles are dried in the open air, before being folded by workers. Labour exploitation, including forced labour, is widespread in the garment and apparel industry. Photo credit: Tuul and Bruno Morandi via Getty Images.



Spools of cotton thread on a textile embroidery machine in Myanmar. Manufacturing, which includes the garment and footwear industry, accounts for 15 per cent of the nearly 25 million people in forced labour in 2016. Photo credit: Bloomberg Creative via Getty Images.

CONTENTS

EXECUTIVE SUMMARY

From raw materials to manufacturing, labour exploitation and modern slavery is rife in global garment supply chains. Workers in the industry are often vulnerable to forced labour, wage theft, hazardous conditions, illegal overtime, and more. With garment supply chains often operating in locations where laws protecting human rights do not exist, are weak, or are not enforced, companies' action to eradicate modern slavery from their supply chains becomes even more integral.

Legislation such as Modern Slavery Acts (MSAs), place obligations on companies in all sectors to report on how they are addressing the risks of modern slavery in their direct operations and supply chains. To gain an understanding of how the garment industry is complying with these obligations, Walk Free and WikiRate have assessed the statements of the largest garment companies reporting under the UK and Australian MSAs. This report provides a snapshot of their level of disclosure of modern slavery risks, identifies good practice, and highlights gaps in reporting quality. In addition to assessing garment companies' disclosure on their efforts to address risks in their operations and supply chains, we also looked at how investors in the sector are performing under the same legislation.

Cotton harvest. Few companies trace their supply chains to the lower tiers. Such a lack of transparency effectively renders workers at this level invisible to protections which reduce their vulnerability to exploitation. The harvesting of raw materials, detailing, embroidery, dyeing, washing, and labelling are all on the lower tier of garment production, and workers in these industries are at risk of forced labour and hazardous working conditions. Photo credit: Richard Hamilton Smith via Getty Images.

KEY FINDINGS

33% *of UK and Australian statements did not meet minimum requirements*

Fashion brands are failing to take modern slavery legislation seriously. While an initial evaluation shows that reporting rates of assessed companies are high in respect of both the UK and Australian MSAs, further analysis reveals a shallow response.

Only 31 per cent of the Australian statements produced by the garment industry meet requirements for approval and mandatory criteria. **Not a single UK statement complied with minimum requirements** and suggested categories from the accompanying UK Home Office guidance.

35% *did not identify any modern slavery risks*

The ways that companies are assessing and addressing risk and incidents suggest that some see responding to modern slavery as a box ticking exercise.

Companies in the garment industry are operating in a high-risk environment, yet only 65 per cent of companies assessed are disclosing that they have identified modern slavery risks and only 25 per cent detected incident(s). Unfortunately, we know the number of incidents is likely to be far higher, suggesting that either risk assessment and identification processes are inadequate, or companies are not being transparent.

61% *of luxury companies disclose addressing sector-specific risk*

Luxury garment companies perform worse than non-luxury brands across several metrics.

61 per cent of luxury companies disclose that they are taking steps to address modern slavery risks specific to the garment industry, such as paying a living wage or banning sourcing from high-risk countries. This compares to 85 per cent of non-luxury companies.

Fewer luxury companies are being transparent about their supply chains, compared with non-luxury brands.

>25% *provided no supply chain disclosure*

Ineffective disclosures by companies renders millions of supply chain workers invisible. By only applying modern slavery policies to direct suppliers, and not disclosing details of their supply chains, companies are failing to recognise or protect numerous workers. This is especially concerning given the complex and fragmented nature of garment supply chains.

43% *did not disclose providing support to supply chain workers affected by the pandemic*

Not all companies are disclosing how they have responded to COVID-19 and the accompanying increased risk of modern slavery.

The pandemic has had a crippling effect on the garment industry, exposing and amplifying inequalities and instabilities across global supply chains. We would expect more companies to have disclosed their action to address this sector-specific risk.

24% *of investor statements disclose assessing investees for modern slavery risks*

Investors are not leveraging the crucial role they can play in driving better practices in the garment industry. Overall, they do not have sufficient oversight of their investees, and are not actively engaging with these garment companies to minimise their own exposure to modern slavery risks.

A worker uses a sewing machine to stitch a shirt in Myanmar. Companies are more likely to disclose information about their manufacturers than raw materials suppliers. However, this does not mean that modern slavery risks are absent at this level. In addition to forced labour, conditions for manufacturing workers can be extremely poor, and price competition can cause a race to the bottom among domestic garment firms – placing profit over safety and human rights. Photo credit: Bloomberg Creative via Getty Images.

If the garment industry is to address the numerous modern slavery risks associated with the sector and contribute to sustainable development globally, then legislation designed to improve standards and encourage companies to respond must be taken more seriously. To support a thriving industry, companies and investors must demonstrate socially responsible conduct by respecting human rights, providing decent work, and acting ethically. Companies should enact meaningful modern slavery policies such as thorough due diligence and risk assessment processes, living wages, incident remediation for workers and their families, and support for equitable growth. At the same time, respecting legislation and managing social impacts enables long-term value creation for companies. We want to see the garment industry dispel the culture of impunity and the veil of secrecy which has infringed upon the rights of workers in their supply chains and impacted lives in myriad ways.

The time for action and accountability is now.

India, Rajasthan. Workers collect materials ready to be manufactured into apparel. Supply chains span continents and are complicated by a mixed use of materials sourced from multiple locations. Factory ownership and management can be difficult to ascertain, particularly when subcontracted. Against this backdrop, it is difficult to determine who is legally responsible for workers' rights and safety and this lack of clarity contributes to greater vulnerability to modern slavery. Photo credit: Tuul and Bruno Morandi via Getty Images.

RECOMMENDATIONS

Full recommendations can be found on page 28.

Garment companies should:

Comply with the legislation and strengthen reporting by:

- Meeting the minimum requirements
- Improving transparency on their supply chains and ownership structures
- Providing more detailed disclosure on due diligence processes to address modern slavery risks.

Increase efforts to tackle modern slavery risks in direct operations and supply chains by:

- Conducting due diligence with a focus on risks associated with the sector, including impact of COVID-19
- Strengthening dialogue with workers across supply chains
- Establishing due diligence processes that demonstrate duty of care for vulnerable workers, including providing remediation

Engage with industry and non-industry initiatives, including Better Cotton Initiative and Sustainable Apparel Coalition.

The UK and Australian governments should:

Implement financial penalties for non-compliance with the MSAs

Strengthen MSA legislation to go beyond mandatory reporting to include mandatory due diligence

Provide avenues for redress for exploited workers, including civil liability for companies that fail to conduct due diligence.

INTRODUCTION

The fashion industry is big business. The global garment manufacturing industry is estimated to be valued at US$1.5 trillion[1] and has grown an average of 1.3 per cent per year between 2016 and 2021.[2] But this growth comes with a human cost. Labour exploitation, including forced labour, is widespread in the garment industry.[3] For example, manufacturing, which includes the garment and footwear industry, accounted for 15 per cent of the nearly 25 million people in forced labour in 2016.[4]

The garment industry is estimated to employ more than 75 million people worldwide,[5] with the majority working within the informal economy,[6] where workers lack basic protections. Moreover, most garment production is carried out in countries where social protections, including sick pay and parental leave, are weak.[7] In the face of this increased vulnerability, companies in the garment industry must take concrete action to uphold the human rights of all workers in their supply chains.

Overwhelmingly, companies have done little to protect workers. Major global fashion retailers have profited for decades from paying poverty wages, while the industry has been marred by human tragedy. In 2013, the collapse of the Rana Plaza garment factory in Bangladesh resulted in the death of more than one thousand workers and awoke the world to poor labour conditions faced by those in the industry. In 2020, the bargain fashion retailer Boohoo faced a modern slavery investigation, following a report that workers in their UK supply chain were receiving wages below the legal minimum, and faced unacceptable and dangerous working conditions.[8] A recent report found that the garment sector has the highest number of public allegations across the board, accounting for half of the allegations assessed by the study (which also included the healthcare, horticulture, and seafood sectors).[9]

One consequence of the growing realisation that human exploitation is feeding industry profits, has been the increased scrutiny of the garment sector. It also provides an opportunity to tackle this exploitation. The United Nations Guiding Principles on Business and Human Rights (UNGPs), endorsed in 2011, provide the framework for all companies to address human rights abuses, including modern slavery, in their direct operations and supply chains. The garment industry in particular has seen a rise in multi-stakeholder initiatives to track and improve business' responses to these risks, such as the Better Cotton Initiative, and the Sustainable Apparel Coalition.

New regulation, such as the UK and Australian Modern Slavery Acts and the proposed EU wide Mandatory Human Rights and Environmental Due Diligence (MHREDD) legislation, as well as growing calls from global investors for transparent and robust Environmental, Social and Governance (ESG) reporting, provides an opportunity to raise standards.

The ever-growing scale of the garment industry, combined with its exposure to modern slavery risks, highlight the pressing need for concerted business action, as well as effective government legislation, to ensure that brands are not prioritising profit over human rights.

Using the statements produced by companies under the UK and Australian Modern Slavery Acts between 2018 and 2021, this report sets out to:

- assess whether the statements meet the Acts' minimum requirements
- assess whether companies and their investors are going "beyond compliance" with effective responses to modern slavery risks
- highlight good practice in addressing modern slavery in the global garment industry
- provide recommendations for industry, investors, and policy makers.

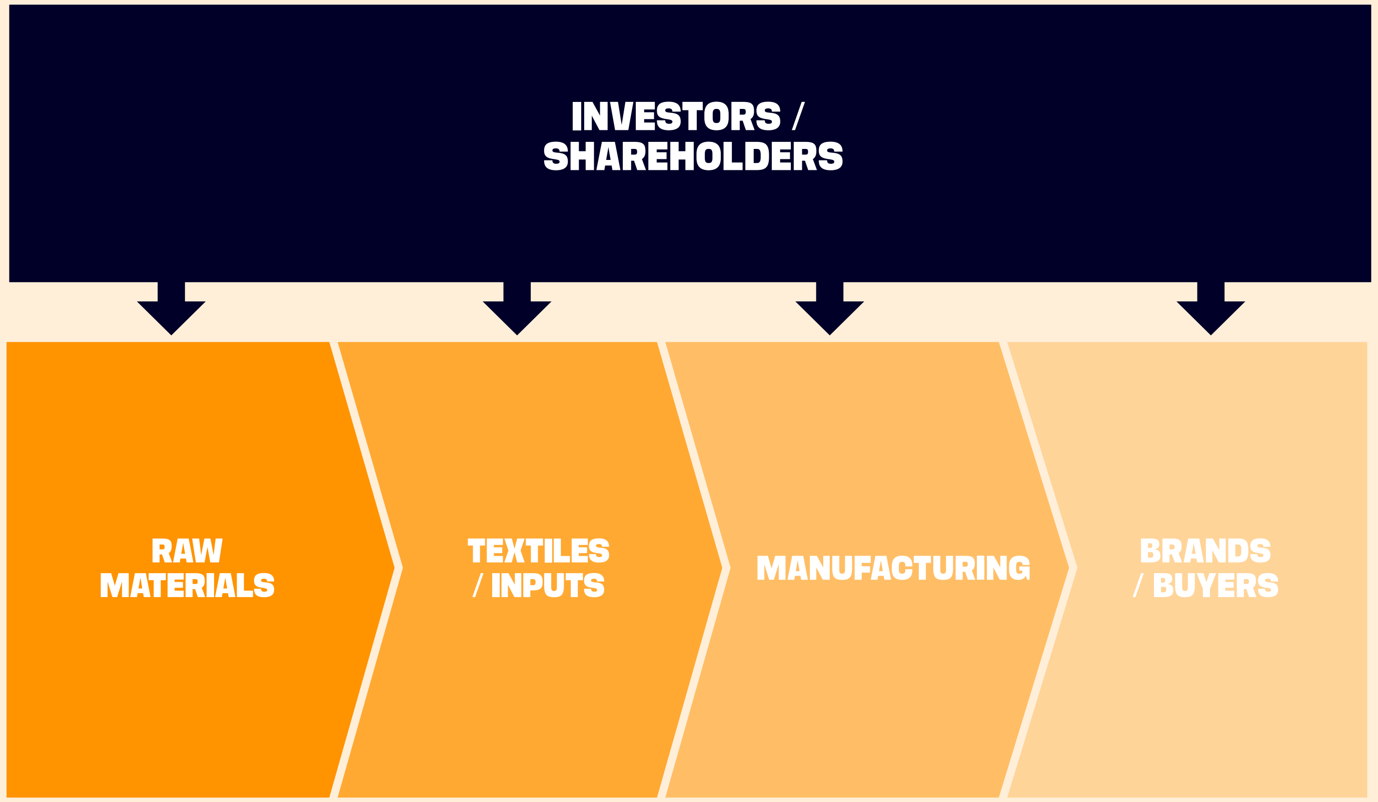
Definitions	
Modern slavery	• Modern slavery covers a set of specific legal concepts including forced labour, debt bondage, forced marriage, slavery and slavery-like practices, and human trafficking. Although modern slavery is not defined in law, it is used as an umbrella term that focuses attention on commonalities across these legal concepts. • Essentially, it refers to situations of exploitation that a person cannot refuse or leave because of threats, violence, coercion, deception, and/or abuse of power.[10]
Garment industry	• The manufacture of textiles, leather and allied products for the purpose of assembling garments and footwear, by any means, for sale or exportation to garment companies and brands, and the subsequent sale of garments and footwear by these companies and brands to consumers. • This report uses the word "brand" to describe apparel and footwear companies that own brands / labels, and retailers. The terms "buyer" and "companies" are used interchangeably with "brand".

High angle view of workers in garment factory in Asia. Major global fashion retailers have profited for decades from paying poverty wages to workers, while the industry has been marred by human tragedy. In 2013, the collapse of the Rana Plaza garment factory in Bangladesh resulted in the death of more than one thousand workers and awoke the world to poor labour conditions faced by workers in the industry. Photo credit: Roberto Westbrook via Getty Images.

RISKS OF MODERN SLAVERY IN THE GARMENT INDUSTRY

Providing transparency across all tiers of garment supply chains is complex. Supply chains span continents and are complicated by a mixed use of materials sourced from multiple locations. Factory ownership and management can be difficult to ascertain, particularly when subcontracted. Against this backdrop, it is difficult to determine who is legally responsible for workers' rights and safety and this lack of clarity contributes to greater vulnerability to modern slavery.

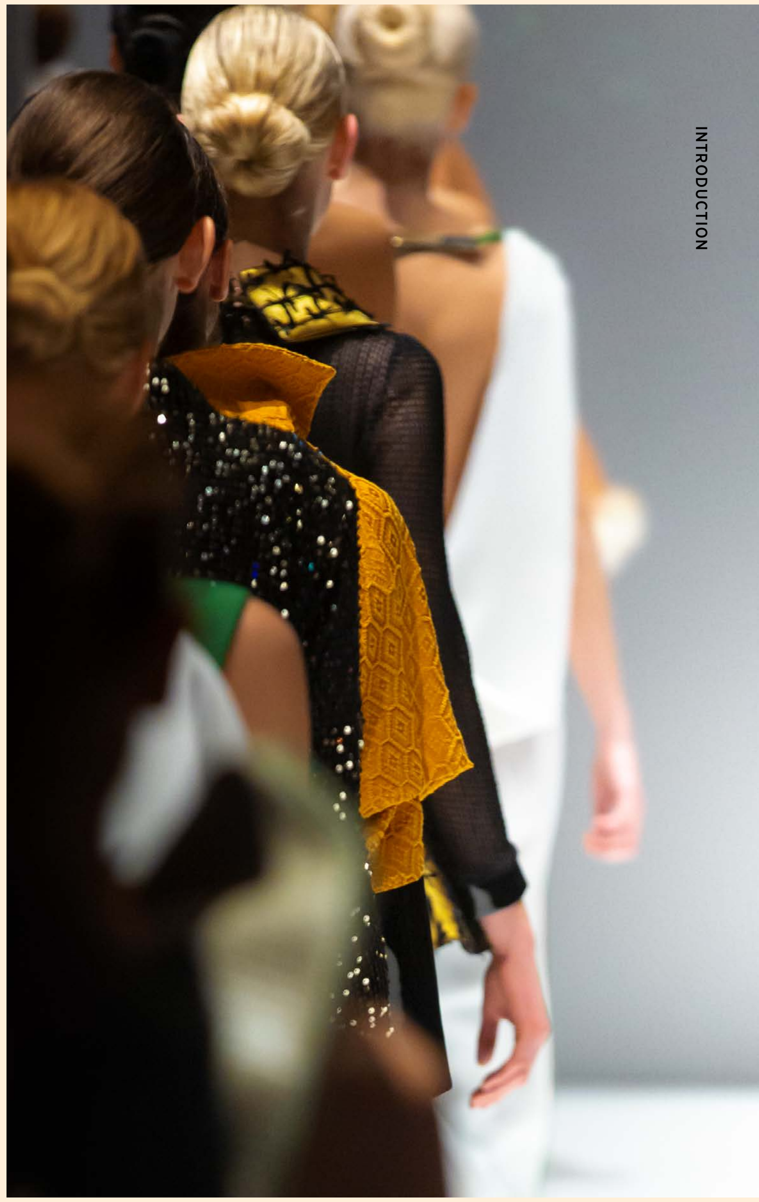
Modern slavery occurs across all levels of the garment industry — from the collection of raw materials such as cotton, to the manufacturing of goods and subsequent shipping and delivery to consumers. Investors in the garment industry also face exposure to modern slavery risks through their business relationships. The infographic below highlights the different levels and actors within the industry, with a description of how they are each exposed to modern slavery risks.



Raw materials and textiles/input Brands/buyers. Few companies trace their supply chains to the lower tiers. Such a lack of transparency effectively renders workers at this level invisible to protections which could minimise their modern slavery risks. Raw material collection, detailing, embroidery, dyeing, washing, and labelling are all on the lower tier of garment production, and workers in these industries are at risk of forced labour and hazardous working conditions.

1. **Manufacturing.** Companies are more likely to disclose information about their manufacturers. However, this does not mean that modern slavery risks are absent at this level. In addition to forced labour, conditions for manufacturing workers can be extremely poor, and price competition can cause a race to the bottom among garment firms — placing profit over safety and human rights.
2. **Brands/buyers.** Brands and buyers can place additional pressure on workers in the production process, which increases modern slavery risks. Research reveals that common purchasing practices — including aggressive price negotiation, inaccurate forecasting of orders, late orders, short lead times, and last-minute changes or cancellations to orders — put manufacturers under intense pressure.[11] These practices can lead to excessive overtime, (illegal) subcontracting and/or workers not being paid for work they have completed.
3. **Investors.** Investors can be connected to, or potentially contribute to, modern slavery practices through their investment portfolios. We cannot eradicate modern slavery without the active engagement of investors, considering their leverage over global business.

Cost-cutting measures to ensure market competition serve to enhance modern slavery risks at all levels of the garment industry. Sourcing the cheapest materials without considering how and where they were made, delaying payment of workers, not investing in repair and maintenance of factories and equipment, and failing to provide adequate training to workers, all serve to increase the risk of labour exploitation and unsafe working conditions.[12]



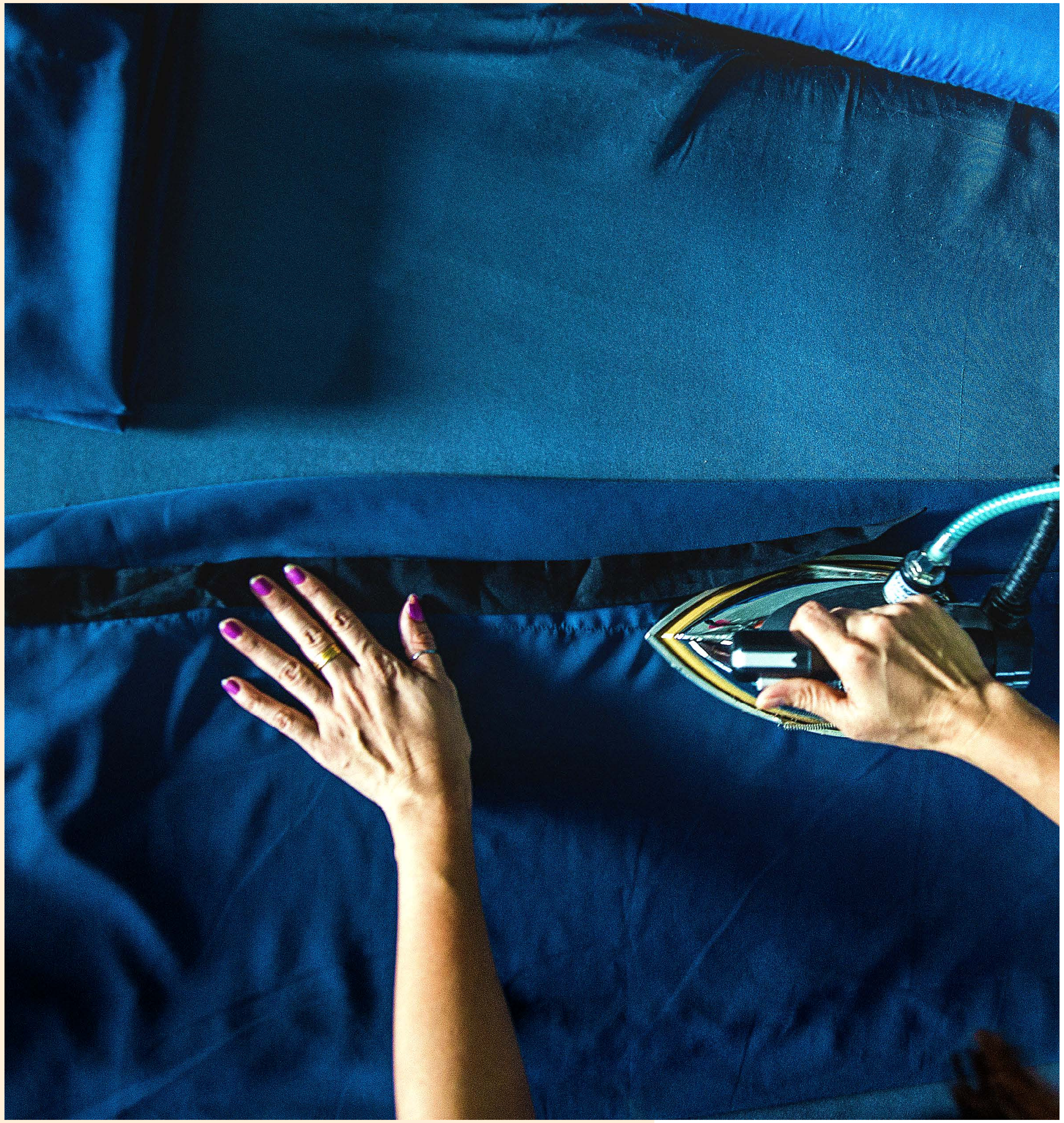
New York Fashion Week, United States. High-price luxury fashion does not translate to better conditions for workers. The non-luxury sector outperforms the luxury sector on a number of metrics in this report. Of the assessed companies, 35 per cent of luxury brands failed to disclose supply chain information, compared with 23 per cent of non-luxury companies. Photo credit: Marcin Kilarski / EyeEm via Getty Images.

THE IMPACT OF COVID-19

The COVID-19 pandemic has had a crippling effect on the garment industry, exposing and amplifying inequalities and instabilities across global supply chains. The human impact of this has been catastrophic, with research revealing sharp declines in living and working conditions for workers, as well as mass unemployment.[13] As shocks rippled through the industry, workers have struggled to make ends meet and modern slavery risks have spiked.[14]

Global lockdowns have disrupted supply chain production and falling demand has resulted in huge financial losses for companies. There have been significant rises in shipment cancellations, cancellations of manufacturing orders, and closure of factories due to the impact of the pandemic and related restrictions.[15] Companies transferred these losses onto workers in their supply chains, with millions of garment workers having had their wages cut or contracts cancelled altogether. Extrapolating country and region-specific findings to the global garment industry, one study estimates that wages lost by garment workers worldwide would amount to up to US$5.79 billion.[16] Additionally, there have been instances of garment factory workers being forced to return to work despite government isolation measures, leading to increased risk of exploitation and cluster outbreaks of COVID-19.[17]

While the pandemic has not discriminated in its spread across the globe, the effects of it have — as with many disasters before it — fallen disproportionately on the shoulders of the world's most vulnerable. With the global economy still facing high levels of uncertainty, continued employment losses and concerns of an uneven global recovery,[18] there is an urgent need for more effective legislation in this area, as well as for companies to take their existing responsibilities more seriously.



REPORT METHODOLOGY

Under Section 54 of the 2015 MSA, the UK government requires all companies with a turnover of over GB£36 million per annum to release an annual statement on the actions they are taking to tackle modern slavery in their direct operations and supply chains.[19] The 2018 Australian MSA[20] establishes a national Modern Slavery Reporting Requirement, which applies to businesses and other entities in the Australian market with an annual consolidated revenue of at least AU$100 million. These entities are required to identify and address their modern slavery risks and maintain responsible and transparent supply chains.[21]

Throughout 2021, Walk Free and WikiRate assessed the statements produced by companies in the garment sector which are required to report under the UK and Australian MSAs. This report focused on the top 50 garment companies in the UK and Australia falling within scope of either the UK or Australian (or both)[22] MSAs. See Appendix 1 for the core metrics used in this study and its mapping to the UK and Australian legislation.

The purpose of the assessment was to understand the extent to which companies in the garment industry are meeting their basic requirements under the two laws, and where they are going beyond compliance. In addition, we wanted to explore how sector specific risk is being addressed, identify good practice, and to highlight gaps in reporting. By conducting this assessment, we aim to support the garment industry to improve transparency and drive better practice. All data are current as of 1st November 2021.

A woman using a steam iron on blue material in Myanmar. Cost-cutting measures to ensure market competition serve to enhance modern slavery risks at all levels of the garment industry. Sourcing the cheapest materials without considering how and where they were made, delaying payment of workers, not investing in repair and maintenance of factories and equipment, and failing to provide adequate training to workers, all serve to increase the risk of labour exploitation and unsafe working conditions. Photo credit: Bloomberg Creative via Getty Images.

KEY FINDINGS

India, Rajasthan, Sari Factory. Long bands of textiles are dried in the open air, before being folded by workers. Labour exploitation, including forced labour, is widespread in the garment industry. Photo credit: Tuul and Bruno Morandi via Getty Images.

MINIMUM REQUIREMENTS

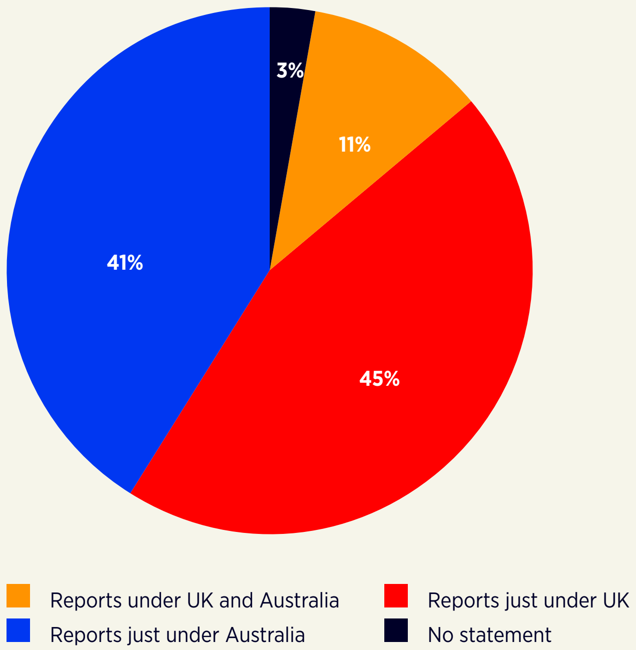
Perception: high compliance

There is a high rate of modern slavery reporting among companies in the garment industry. Of the 100 companies identified as within scope, **97 per cent** released a modern slavery statement(s) between the years 2018 and 2021.[23]

When compared to other industries, the rate of response in the garment sector is encouraging. Previous reports in the Beyond Compliance series have found that:

- Only **50 per cent** of hotel companies identified as within scope of the UK MSA had produced multiple statements from the years 2016 - 2019.
- Only **88 per cent** of asset managers identified as within scope of the UK MSA had a modern slavery statement in 2020.

FIGURE 1: Assessed garment companies reporting by jurisdiction



Reality: Not meeting requirements

Both the UK and Australian Modern Slavery Acts require companies earning over a certain threshold per annum to report each financial year on their actions to respond to modern slavery in their direct operations and supply chains. Those falling under the scope of the UK legislation are required to:

- place their statement on the homepage of their company website,
- obtain sign off from the relevant authority within the company (Director or CEO),
- obtain explicit board approval.[24]

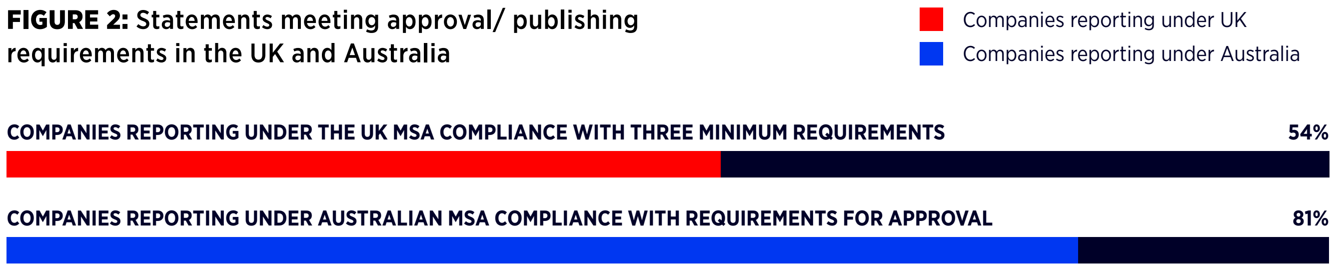
The content of the statement is not prescribed, beyond sections described in the accompanying guidance.[25] Compani es may remain compliant with the legislation by releasing a statement that reports they have done nothing to investigate their supply chains as long as they meet the three publication requirements.

Arguably, the Australian legislation is stronger — as well as "requirements for approval" that include sign off and approval as per the UK legislation, companies are required to send their statement to Australian Border Force to be published in a centralised registry.[26]

When looking at compliance with these approval or publication requirements, those reporting under the Australian legislation had higher levels of compliance (see figure 2).

When looking at the content of the statements, those reporting under the Australian legislation tended to provide more detail. This is due to the structure of the legislation, which includes seven mandatory criteria, while the UK legislation and guidance only provides suggested categories. 31 per cent of Australian statements assessed met the Australian approval requirements and six of the mandatory criteria (excluding the seventh category "other information"). Zero UK statements met the UK minimum requirements and 11 metrics derived from the accompanying guidance. This is all the more shocking given that it is seven years since the UK legislation was first enacted.

FIGURE 2: Statements meeting approval/ publishing requirements in the UK and Australia



Ludhiana, India, September 2017. An Indian man works at a garment factory in Ludhiana. Suppliers may be operating in locations where laws protecting human rights do not exist, are weak or are not enforced by local authorities. Given that many companies in the garment sector engage in a "race to the bottom" to cut costs, supplier locations are more likely to be selected with concern to labour costs as opposed to robust laws. Photo credit: Money Sharma/AFP via Getty Images.

BEYOND COMPLIANCE

Perception: going the extra mile

Most garment company statements reviewed (97 per cent) included some mention of a policy related to tackling modern slavery in their business operations and supply chains. This is one indicator that a company is going beyond compliance with the MSA legislation, especially as the Australian legislation does not require companies to disclose their modern slavery policies.

Reality: A shallow response?

However, these policies have several shortcomings which suggest a shallow response from the majority of companies in our assessment. If modern slavery policies are not translated into meaningful action, they risk becoming a "tick-box" activity — an achievable way for companies to appear to be upholding strong standards with regard to human rights, without eradicating the underlying risk and exploitation.

The most commonly identified policy was the requirement that suppliers comply with relevant international and local laws, with **one third** of companies disclosing this. Overall, these policies are weak as suppliers may be operating in locations where laws protecting human rights do not exist, are weak or are not enforced by local authorities. Given that many companies in the garment sector engage in a "race to the bottom" to cut costs,[27] supplier locations are more likely to be selected with concern to labour costs as opposed to robust laws.

Over half of the assessed companies disclosed that they prohibit the use of forced labour by suppliers. However, questions remain as to how effective this is in practice. For example, without sufficient monitoring processes and action plans to address violations, the policy becomes meaningless.

Of the assessed companies that disclosed that they prohibit forced labour, the majority also had due diligence mechanisms in place. However, a small number do not, meaning they have no remediation or risk management mechanisms to enforce the policy.

These findings are akin to a recent investigation by academics and civil society organisations, which found that many company statements under the Australian MSA remained "paper promises," with little evidence of effective action in the areas most likely to improve conditions for workers.[28]

Reality: Hidden tiers, hidden workers

Concerningly, given the complexity of garment supply chains, of the assessed statements that did disclose modern slavery policies, only **35 per cent (n=34)** stated that these applied to beyond tier one suppliers. This means that workers below tier one in the majority of companies are left unprotected.

Limited disclosure beyond direct or tier one suppliers was common across the statements. Both pieces of legislation include the requirement (Australia) or guidance (UK) that companies disclose which entities the statement applies to and provide a description of their supply chains. Despite this, disclosure of supply chains remains opaque.

Over **one quarter (26 per cent)** of companies assessed provided no supply chain disclosure at all. This is a significant omission that effectively renders the majority of supply chain workers invisible.

This finding becomes even more illuminating when broken down by luxury or non-luxury companies. **Over a third (35 per cent, n=8)** of assessed luxury companies failed to disclose any supply chain information. While still disappointing, the non-luxury sector performed better, with **23 per cent** (**n=17**) providing no supply chain disclosure.

FIGURE 3: Statement disclosure of supplier information

Reality: A tick-box exercise?

A disappointing **26 per cent (n=25)** of companies in the garment industry did not describe using any risk assessment tool in relation to modern slavery. Undertaking a risk assessment is the first step to identify risks and then prioritise steps to address these.

Overall, the ways that companies are assessing, reporting, and responding to risk and incidents suggest that some see this as a box ticking exercise.

An aerial view of shipping containers stacked up in a port. Research reveals that common purchasing practices — including aggressive price negotiation, inaccurate forecasting of orders, late orders, short lead times, and last-minute changes to orders — put global supply chains under intense pressure. Photo credit: Karl Hendon via Getty Images.

74% had a risk assessment tool → **65%** identified risk → **25%** identified incident(s)

This cascading rate does not reflect the actual level of risk or number of incidents in garment supply chains. Most garment companies in scope of the legislation will have been exposed to modern slavery in their direct operations or supply chains. By not disclosing this information, companies are either conducting inadequate assessment and identification processes, or are potentially not being transparent about reports that have been made about potential cases of exploitation. In either case, this points to poor implementation of the essence of MSA legislation.

While **56 per cent** of statements described conducting a risk assessment which resulted in the identification of risk, **65 per cent** of statements identified risk — meaning **9 companies** identified risk without disclosing how. While identification is important, it is equally important for companies to disclose exactly how they are conducting their risk assessment. Without this, there is a chance that companies are describing general risks of modern slavery, without meaningful engagement with how these are impacting their specific company.

Of the **25 per cent (n= 24)** of companies that identified incident(s), all disclosed having remediation policies in place — although it is unlikely that a company would report on an identified incident without such policies.

Incident remediation includes the following:

- **Corrective action plan(s)**
- **Involvement of senior management**
- **Worker remediation**
- **Cancelling contracts**

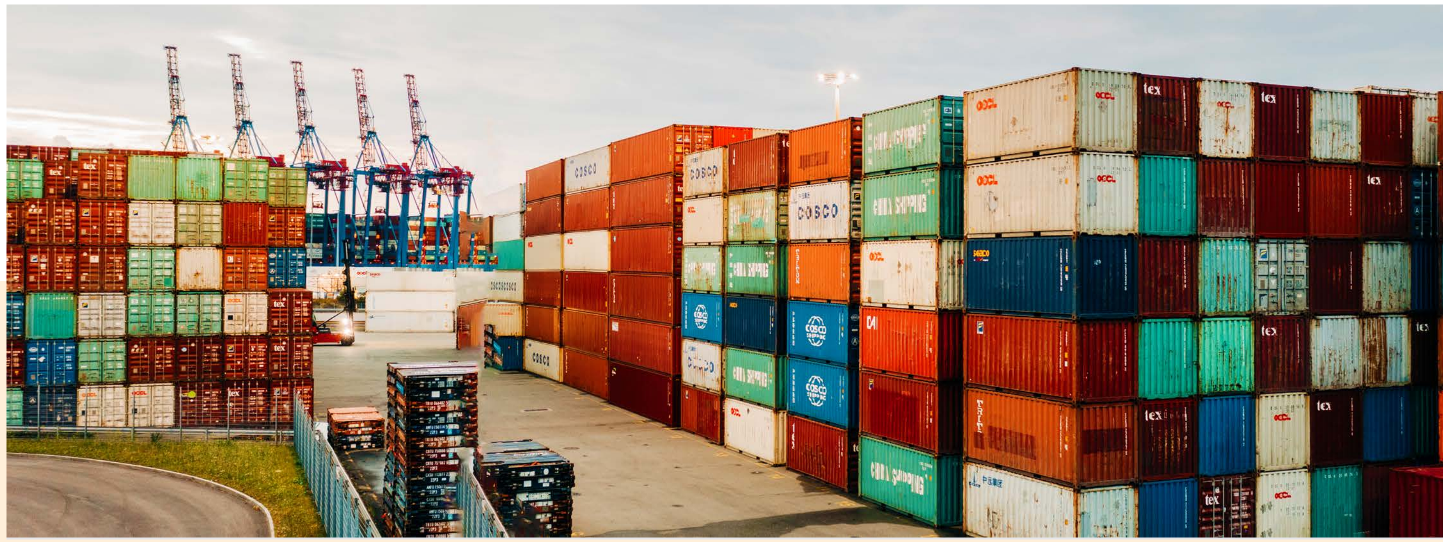
Across all assessed statements, the most common form of remediation was a corrective action plan **(70 per cent, n=68)**. This is encouraging and would be considered good practice if executed effectively through continuous engagement with suppliers. However, another common form of remediation was the cancelling of contracts **(52 per cent, n=50)**. Cancelling contracts when a risk or incident is identified should be a last resort — simply cutting ties with a factory or supplier could increase the risk that workers are exposed to forced labour or other forms of exploitation. Having worker remediation in place would show that a company is placing individual workers' wellbeing as central to the remediation process. Disappointingly, only **20 per cent (n=19)** disclosed this form.

Of the assessed companies, **66 per cent (n=64)** disclosed having a whistleblowing mechanism of some kind. Concerningly, **11 per cent (n=11)** of companies disclosed neither a whistleblowing mechanism nor a risk assessment tool, seriously impeding the ability to identify modern slavery in their supply chains.

Of the **64 companies** with a whistleblowing mechanism, **only 20 per cent (n=19)** reported an incident(s). Once again, this cannot be taken at face value. It is highly likely that workers are unaware or reluctant to utilise the policy, or companies' reporting is impeded by the fear of subsequent liability.

Encouragingly, **three quarters of assessed companies (n=74)** disclosed providing training for their staff on modern slavery.[29] Training is more successful if it is tailored to a specific group. Of those that disclosed providing training, over **50 per cent (n=39)** described it in general terms, without disclosing the recipient.

Companies should be measuring the effectiveness of their actions to respond to modern slavery: **44 per cent of assessed statements (n=43)** did disclose the actions they were taking to track progress. Beyond measuring effectiveness, businesses should also review their business key performance indicators (KPIs) to ensure that these are not inadvertently increasing the risk of modern slavery. For example, requiring procurement teams to source at the cheapest price, or requiring quick turnaround times can reduce profit margins of suppliers or increase outsourcing to unknown suppliers. Similar to previous reports and sectors, only **seven per cent of garment companies (n=7)** reported reviewing business KPIs to ensure that these were not increasing the risk of modern slavery.



Case Study: Woolworths Group Limited

Effective remediation and grievance processes are critical to a robust human rights due diligence program. Woolworths Group Limited, reporting under the Australian Act, demonstrated a particularly strong approach in these areas.

> *"Considering the breadth of our sourcing countries and the diverse nature of risk profiles, we are continually striving to improve opportunities for workers to raise issues either through Woolworths Group channels or onsite grievance mechanisms."*[30]

Woolworths Group Limited showcased good practice in the establishment of independent and confidential platforms for workers in their domestic and global supply chains to raise issues and concerns. These were described to be accessible in all key sourcing country languages and promoted via posters across worker cohorts. Our analysis furthermore confirms that Woolworths Group modern slavery policies do apply to beyond tier one suppliers.

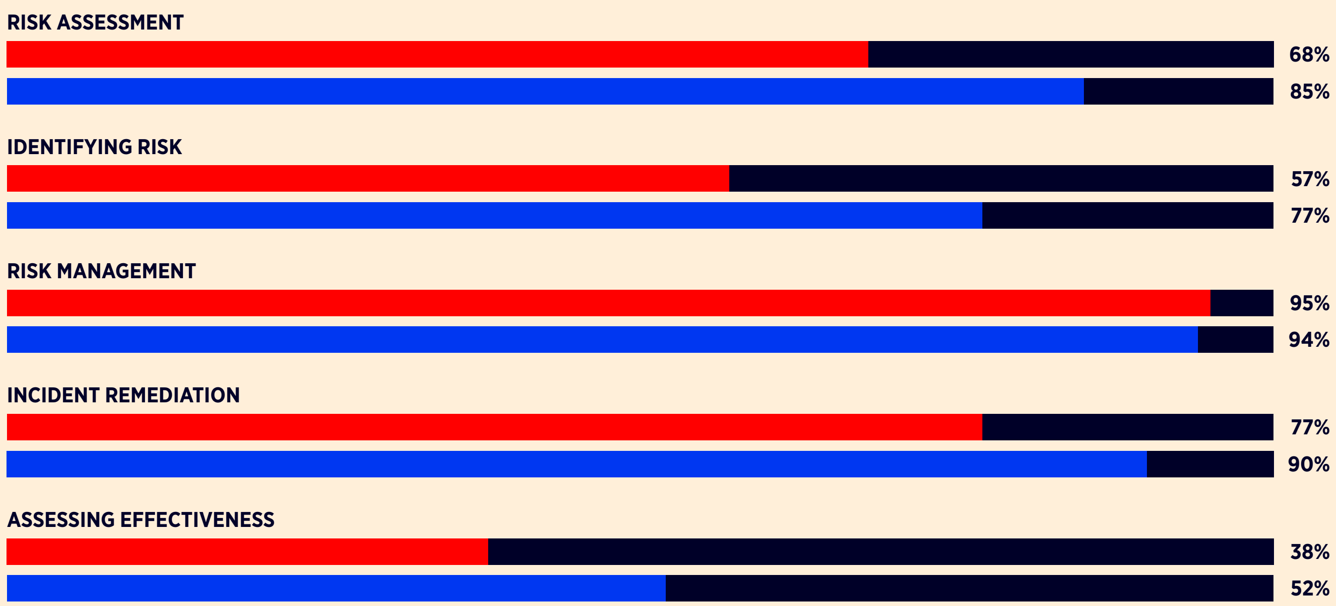
The company's statement also describes the importance of partnering with contractors to remedy identified incidents and that providing an outcome for affected workers before cancelling contracts would be considered as a course of action. Further, some investigations resulted in collaborative action plans with suppliers, with a focus on identifying and addressing root cause issues.

SPOTLIGHT: COMPARISON BETWEEN AUSTRALIAN AND UK STATEMENTS ON GOING BEYOND COMPLIANCE

In many areas of disclosing due diligence, companies reporting under the Australian Modern Slavery Act tended to have stronger statements than those reporting in the UK. This is particularly noteworthy given that this is the first round of reports for companies under the Australian legislation, whereas the UK legislation has been in place since 2015.

This seems to suggest that providing mandatory criteria and ensuring that companies are publishing their statements in a central registry, as per the Australian legislation, has led to better quality statements. A more detailed analysis of the differences between the UK and Australian reporting will follow in a separate paper, to be released by Walk Free and WikiRate in the coming months.

FIGURE 4: Companies reporting under Australian versus UK MSAs disclosing certain elements of due diligence



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Catwalk model in a gown posing in front of photographers during a fashion show. To support a thriving industry, companies and investors must demonstrate socially responsible conduct by respecting human rights, providing decent work, and acting ethically. Photo credit: Thomas Barwick via Getty Images.

SECTOR SPECIFIC RISK

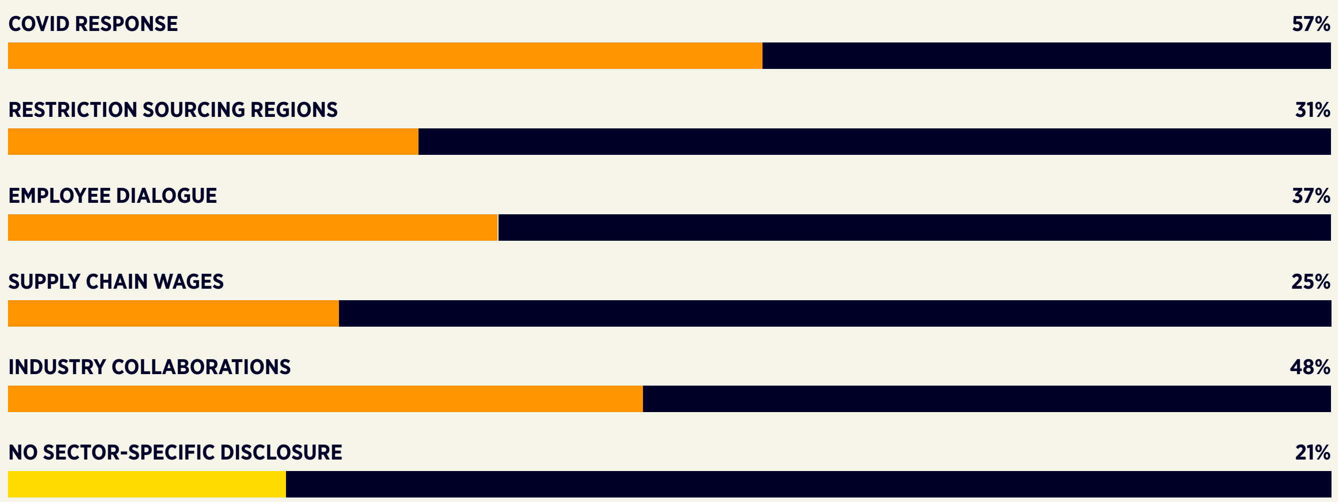
Based on a literature review of known risks in the garment industry, a set of sector-specific metrics were developed for the purpose of this study. The following metrics were applied to the assessed company statements in order to ascertain the extent to which these risks were being addressed:

1. Does the company mention that it provides any type of support to suppliers and/or supply chain workers as the result of the COVID-19 pandemic?
2. Does the company mention membership in or partnership with industry specific multi-stakeholder initiatives that address modern slavery issues at one or more levels of the supply chain (raw materials, textiles, manufacturing)?
3. Does the company explicitly state not sourcing, restricting, or avoiding the sourcing of raw materials, the production of textiles, or manufacturing of garments from regions where the state is involved in the exploitation of workers?
4. Does the company mention engaging in dialogue with suppliers' workers at one or more levels of the supply chain (raw materials, textiles, manufacturing) as part of their due diligence?
5. Does the company disclose that they provide living wage to workers in their supply chain?

79%

79 per cent of the total number of assessed companies in the study described addressing sector specific risk by meeting one or more of these metrics.

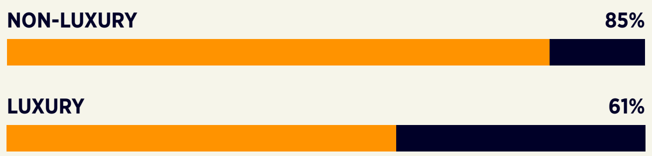
FIGURE 5: Statements addressing sector-specific risk



Only **25 per cent** of assessed company statements disclosed commitments or actions to provide living wages to their supply chain workers. This finding is supported by factory-level data collected by Clean Clothes Campaign on the WikiRate platform, which reveals that in 59 factories — where 66 of the garment companies in this assessment source from — the living wage gap is on average **40 per cent**. This was taken from interviews and an assessment of payslips from 1,390 workers. A living wage means that the wage a worker earns in a standard working week (never exceeding 48 hours) is enough to provide for them and their family's basic needs, including housing, education, and healthcare as well as some discretionary income for when the unexpected happens.[31] This means that on average workers in the 59 factories need to earn almost **40 per cent** more to meet their basic needs. When broken down by luxury or non-luxury brands, we find a **15 per cent** difference in the average living wage gap. Workers linked to assessed luxury brands needed to earn an average of **53 per cent** more to reach a living wage. For non-luxury brands, the payment rise would need to be **38 per cent**.

Luxury garment companies performed poorly in comparison to non-luxury companies when addressing sector specific risks.

FIGURE 6: Addressing sector specific risk by luxury and non-luxury companies



Over one third of garment sector companies **(37 per cent)** disclosed that they have engaged in dialogue directly with supply chain workers or with groups representing these workers. This is an important step in closing the gap in supply chain governance and providing avenues for the inclusion of workers' voices and representation.

Given the catastrophic impact of the COVID-19 pandemic on workers in the garment industry, it is concerning to note that only **57 per cent** of assessed statements disclose responses to the associated modern slavery risks. Good practice examples of addressing this form of risk include providing personal protective equipment to workers, and adjusted payment terms. The non-luxury sector performed better under this metric, with half of assessed companies disclosing COVID-19 responses, compared to under a third of luxury companies **(49 per cent c/f 27 per cent).**

Lastly, it is surprising to see that no more than **31 per cent** of assessed companies explicitly disclosed that they do not source or restrict their supply chains from regions where the state is involved in the exploitation of workers (see figure 5, restriction sourcing regions). Other recent research into compliance under the Australian MSA reflects a similar omission by companies, with three in four garment companies sourcing from China failing to mention risks of Uyghur forced labour in their supply chains.[32] This issue has received heightened attention in recent years, with calls for all companies to restrict sourcing from the Xinjiang region in China, where the state is allegedly involved in perpetuating human rights abuses against the Uyghur population, including forced labour in factories.[33] In the absence of such restrictions, there are grave risks that companies will be benefiting from human rights violations.

FIGURE 7: Investor statements addressing sector-specific risk

SPOTLIGHT: INVESTORS

Investors can play a crucial role in driving better practices in the garment industry. Financial actors have the leverage, and increasingly the responsibility, to push for better human and labour rights practices by companies within their investment portfolios. Not only is this ethically integral, but investors can also face reputational, operational, legal, and regulatory risks related to maximising short-term profits over longer term sustainability.[34]

When reporting on their own operations and supply chains, a disappointing **74 per cent (n=34)** of investor company statements provided no details on their supply chains, and none disclosed facility or supplier information. Additionally, although risk management strategies are integral to any business conduct, **28 per cent** of investor statements did not disclose a risk assessment mechanism, and less than half included disclosure of identified risks **(46 per cent, n=21)**.

Given the leverage that investors can have over their investees, including the garment industry, we also assessed the investors against a separate list of sector-specific metrics:

1. Does the investor disclose it has a human rights investment policy covering any portfolios under management?
2. Does the investor disclose it requires investee companies to meet their reporting obligations under the UK and/or Australian Modern Slavery Act?
3. Does the investor disclose it assesses investee companies prior to investment to identify potential modern slavery risk areas?
4. Does the investor disclose active engagement, either directly or through intermediaries, with investee companies on their (investee companies') modern slavery/ labour exploitation/ human trafficking risks in value chains and business relationships? This can be done through social audits, self-assessment reviews, filing or supporting shareholder resolutions, onsite visits, civil society monitoring, training, engagement policy/ leverage policy, or other.
5. Does the investor disclose it collaborates with industry and non-industry stakeholders to learn from experts and peers on and/or lift the industry standard for preventing, identifying, and mitigating modern slavery, labour exploitation and human trafficking risks, and enabling effective remedy for harms caused or contributed to?

Overall, our analysis suggests that investors do not have sufficient oversight of their investees, and are not actively engaging with these garment companies to minimise their own exposure to modern slavery risks. For example, **less than a quarter (24 per cent, n=11)** described that they conduct assessments of investee companies prior to investment to identify modern slavery risks. Further, disclosure of engaging with portfolios was poor, with **41 per cent (n=19)** having no such disclosure at all. Given this analysis, it is perhaps unsurprising that only one investor statement identified incident(s) of exploitation. As it stands, it would seem the investors in this assessment could be investing in companies with high modern slavery risks. This will likely continue without sufficient capacity applied to pre-investment risk assessment and continuous engagement to improve practices.

Investors in the garment sector should:

- **Improve their reporting under MSA legislation,** both to ensure minimum requirements are met and to provide more detailed disclosure on modern slavery risks. In particular, they should map their investment portfolios fully, and assess modern slavery risk comprehensively in them.
- **Implement strong risk assessment processes** for all companies prior to making investment decisions to avoid investing in high-risk companies. Apply more stringent and targeted risk assessment to garment companies, given the well-known modern slavery risks in this sector.
- **Conduct continuous engagement with investee companies** to improve their modern slavery risk management.
- **Engage and share good practice with industry initiatives and collaborations**, such as the Modern Slavery Investor Working Group, the Global Investment Committee, and Investors against Slavery and Trafficking (IAST-APAC).

Case Study: First Sentier Investors

Australian investment company First Sentier Investors identified the increased risk of modern slavery during the COVID-19 pandemic, particularly for healthcare supplies companies, in their Australian statement.[35] The investment team engaged with several companies and identified one particularly high exposure holding in a rubber glove manufacturer. Given surging demand for its rubber gloves, the manufacturer relied on extensive use of foreign workers and labour-intensive manufacturing processes. The objectives of the engagement were to raise awareness of the heightened risks, identify exposure, encourage the company to take action, and share examples of good practice.

First Sentier Investors had engaged with this investee company previously to improve working conditions and address modern slavery risks, following allegations of modern slavery against the company made in the British press.

Applying the guidelines set out in First Sentier Investors "Modern Slavery Toolkit", the healthcare supply company was subject to continuous engagement on risk reduction, extensive and unannounced auditing, and remediation for affected workers. Investors also shared good practice examples of similar companies who had effectively responded to modern slavery risks and notably improved practices. Further, First Sentier reported on progress to a number of sector specific initiatives designed to monitor the effectiveness of approaches in this area.

First Sentier Investors describe that over the coming year, they will continue to work to improve data collection, re-assess risk exposure where necessary and continue to engage with companies in their portfolios and broader stakeholders. This case study provides a good example of the attention that an investor can pay to improving a company's performance when it comes to addressing modern slavery risks.

Hawassa, Ethiopia, October 2019. Workers operating sewing machines in a garment factory at the Industrial Park in southern Ethiopia. They work eight-hour shifts, six days a week with low pay (US$35 a month). Ethiopia's vision of constructing a national network of industrial parks to attract foreign investment, foster a robust manufacturing sector, and provide badly needed jobs for its young workforce is under threat. While the parks have created tens of thousands of jobs, reports of poor conditions have drawn criticism at home and abroad, and thousands of employees have walked out. Photo credit: Eyerusalem Jiregna/ AFP via Getty Images.

RECOMMENDATIONS

Companies in the garment sector should:

- **Improve reporting under MSA legislation**, both to ensure minimum requirements are met and to provide more detailed disclosure on modern slavery risks. Steps to achieve this include:
  - Review the Home Office guidance and requirements of the Act (UK) and Border Force minimum reporting standards (Australia) to ensure compliance with modern slavery legislation.
  - Facilitate analysis of their statement by clearly stating which legal entities it applies to, including the financial year it refers to, and provide historic records of their statements to facilitate year-on-year review.
  - Provide their statement in a machine-readable format, either html or digital PDF.
- **Improve supply chain transparency.** Companies in the garment industry can achieve this by taking the following steps:
  - Map their supply chains to gain better visibility of their lower tiers in order to identify risks and disclose these in MSA statements.
  - Disclose specific incidents of modern slavery and steps to remedy these.
- **Implement due diligence with a focus on sector specific risk.** The garment industry would benefit from addressing the specific risks associated with:
  - **COVID-19.** Increased modern slavery risks resulting from the COVID-19 pandemic and associated restrictions. Companies should ensure their own business practices do not increase the risk of exploitation as a result of COVID-19, including by reviewing tight turnaround times and KPIs related to cheapest price.
  - **Inadequate national labour laws.** Many countries do not enshrine international standards set out in ILO Conventions, including the 1929 ILO Forced Labour Convention and the 2014 ILO Forced Labour Protocol as well as the UN Guiding Principles on Business and Human Rights. In the absence of these, companies should uphold labour rights and human rights in their supply chains.
  - **State-imposed forced labour.** Supply chains that operate in regions where the state is involved in the exploitation of workers. In these circumstances, companies should not source, or should restrict, or avoid supply chain operations within these regions and disclose this in their statements.
  - **Migrant workers.** Including discrimination, barriers to justice, inability to form or join unions, recruitment fees and withholding passports. Companies should review all policies with regard to increased risk for migrant workers, including prohibiting the use of recruitment fees in their supply chains.
  - **Supply chain wages.** Low and underpayment of wages are an indicator of forced labour. Due to fast turnaround times, and low costs of clothing, low wages can be common in the garment industry. Companies should audit the wages of all workers in their supply chains to ensure living wage is applied.
- **Strengthen employee dialogue across supply chains.** Beyond providing avenues for raising grievances, for example through a whistleblowing mechanism, garment brands should be providing avenues for worker voice and worker representation throughout its supply chain, such as through worker interviews, mobile surveys and engaging with worker unions.
- **Establish due diligence processes** that demonstrate duty of care for vulnerable workers to:
  - Vet suppliers before entering into contractual relationships,
  - Drive continuous improvement with suppliers,
  - Implement and monitor corrective action plans to address and remedy non-compliance, and
  - Engage directly with workers and trade unions, to empower workers, and learn from their insights on modern slavery in the supply chain.
- **Engage with Industry and non-industry initiatives** such as the Better Cotton Initiative, The Coalition to End Forced Labour in the Uyghur Region, or Sustainable Apparel Coalition. These represent valuable opportunities for garment companies to learn from experts and peers. It also helps to lift the industry standard for preventing, identifying, and mitigating modern slavery, labour exploitation, and human trafficking risks, and facilitates effective remediation.

The UK and Australian Governments should:

Implement financial penalties for non-compliance with the MSAs. For MSA legislation to have the greatest possible impact, there should be consequences for non-compliance, including approval and publication requirements and mandatory criteria. In the UK, the government should establish financial penalties for non-compliance in line with announcements made in 2021.

Strengthen MSA legislation to go beyond mandatory reporting to include mandatory due diligence. Going beyond the duty to report, the UK and Australian MSAs should include a duty to undertake due diligence, including identifying supply chain risks and taking appropriate steps to address and mitigate them.

Provide avenues for redress for exploited workers. Where companies have failed to undertake adequate due diligence and prevent modern slavery in their supply chains, MSA legislation should provide avenues for redress for affected workers, including civil, administrative or criminal liability.

The UK Government should:

- Enact reforms to the MSA announced in 2020, including establishing mandatory reporting criteria and a single reporting deadline, extending the legislation to apply to the public sector, and making submission to the UK government registry compulsory.
- Publish a list of companies required to report under the MSA and create or nominate a body to monitor compliance.

The Australian Government should:

- Enforce compliance measures under 16A of the MSA, including publishing a list of non-compliant companies.
- Strengthen monitoring compliance with the legislation including review of statements against the mandatory criteria.
- Issue additional guidance to companies operating in high-risk areas or sectors.

CONCLUSION

In order for companies and investors in the garment sector to support a thriving industry and prioritise human rights, they must take their obligations under modern slavery legislation more seriously. The Australian and UK MSAs provide the opportunity to investigate the prevalence of modern slavery risks in their direct operations and supply chains, and if responded to effectively, can drive tangible action to improve practices across a high-risk industry. Promoting respect for human rights and labour standards is critically important to build a more sustainable and resilient global economy, which is particularly urgent as the world reacts to current crises, including the COVID-19 pandemic.

The concept of companies taking responsibility for the human rights of workers in their supply chains is not new. Coupled with the scrutiny that the garment industry has faced following numerous tragedies and investigations, we would expect to see statements that not only demonstrate business' awareness of modern slavery, but go beyond compliance, with meaningful efforts to tackle the risks endemic to this sector. Yet, significant gaps remain.

Too often, companies in the garment industry are not complying with the essence of the MSAs. The majority are falling at the first hurdle; submitting statements that do not meet the minimum criteria and guidance on reporting. The extent to which legislation can truly hold companies to account and make strides towards eradicating modern slavery in global supply chains is limited while reporting standards remain as they are. Equally, this raises the question as to the effectiveness of mandatory human rights disclosure that has no consequence for inadequate reporting standards.

Our assessment highlights the extent to which companies are unwilling or unable to reveal the true extent of their global supply chains. How can the intention of modern slavery legislation be achieved, if so many workers remain invisible to the mechanisms designed to protect them?

Promisingly, garment company statements are broadly enaging with some risk indicators that are specific to industry operations. This perhaps reflects the fact that modern slavery risks in the garment sector are well-documented, and industry collaborations designed to improve transparency and practices are well-established. However, this in itself is not sufficient unless all companies take active steps to identify, manage, and remediate risks of modern slavery.

For the estimated 75 million people working in the garment industry worldwide, the time for meaningful action and renewed responsibility is now.

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India, Rajasthan, Sari Factory. The garment industry is estimated to employ more than 75 million people worldwide, with the majority working within the informal economy, where workers lack basic protections. Moreover, most garment production is carried out in countries where social protections, including sick pay and parental leave, are weak. Photo credit: Tuul and Bruno Morandi via Getty Images.

APPENDIX

Mandatory in legislation
Suggested criteria
Not in the legislation

Walk Free & WikiRate Metrics		UK MSA Requirements & Guidance[36]	Australia MSA Requirements[37]
Metrics	**Description**	**Requirements & Guidance**	**Requirements & Criterion**
Modern Slavery Act statement	Did the company produce a statement in relation to any Modern Slavery Act or legislation?	Update your modern slavery statement every year (web)	Do I need to report? (p .17)
MSA Statement Publication	Does the company either publish their statement on their homepage (UK) or provide the statement to the registry (Australia)?	Publish your modern slavery statement on your UK website (web)	How do I approve and publish a statement? (pp. 64-65)
MSA Statement Approval	Was the company's Modern Slavery Act statement explicitly approved by the board of directors (or equivalent management body)?	Get approval from the board of directors (or equivalent management body) (web)	How do I approve and publish a statement? Requirement 1: approved by principal governing body (p. 62)
MSA Statement Signed	Was the company's Modern Slavery Act statement signed by an appropriate person?	Get sign off from a director (or equivalent) or designated member (for LLPs) (web)	How do I approve and publish a statement? Requirement 2: signed by a responsible member (p.62)
MSA Organizational structure and operations	Does the company disclose the ownership structure(s) and/or business model(s) of each of its brands, subsidiaries, and other businesses covered by their Modern Slavery statement?	Organisation structure and supply chains (p. 27)	Mandatory Criteria One and Two: Identify the reporting entity and describe its structure, operations and supply chains (p. 32)
MSA Supply Chain Disclosure	Does the company's statement identify the suppliers in their supply chain and/or the geographic regions where their supply chain operates?		
MSA Policy (Revised)	Does the company's statement detail specific, organisational policies or actions to combat slavery in their direct (tier one) and/or in-direct (beyond tier one) supply chain?	Policies in relation to slavery and human trafficking / Organisational policies (p. 29)	Mandatory Criterion Four: Describe the actions taken by the reporting entity and any entities that the reporting entity owns or controls to assess and address these risks, including due diligence and remediation processes (p. 52)
MSA Risk assessment	How does the company assess the risks of modern slavery and trafficking in their supply chain?	Due diligence processes (p. 33)	Mandatory Criterion Four: Describe the actions taken by the reporting entity and any entities that the reporting entity owns or controls to assess and address these risks, including due diligence and remediation processes (p. 46)
MSA Risk management	Does the company continuously monitor suppliers to ensure that they comply with the company's policies and local laws?		
MSA Incidents Remediation (revised)	Did the company explain the corrective steps it has taken (or would take) in response to modern slavery incidents in their own operations and/or supply chain?		
MSA Whistleblowing Mechanism (revised)	Does the company have a grievance mechanism in place to facilitate whistle-blowing or the reporting of suspected incidents of slavery or trafficking?		

Walk Free & WikiRate Metrics		UK MSA Requirements & Guidance[36]	Australia MSA Requirements[37]
Metrics	**Description**	**Requirements & Guidance**	**Requirements & Criterion**
MSA Identification of Risks	Does the company's statement identify specific geographic regions, industries, resources or types of workforce where the risk of modern slavery is the greatest?	Risk assessment and management (p. 34)	Mandatory Criterion Three: Describe the risks of modern slavery practices in the operations and supply chains of the reporting entity and any entities the reporting entity owns or controls (p. 40)
MSA Incidents Identified	Did the company identify any specific incidents related to modern slavery that require(d) remediation?		Mandatory Criterion Three: Describe the risks of modern slavery practices in the operations and supply chains of the reporting entity and any entities the reporting entity owns or controls (p. 41)
MSA Performance Indicators	Does the company define performance indicators that measure the effectiveness of their actions to combat slavery and trafficking?	Key performance indicators to measure effectiveness of steps being taken (p. 36)	Mandatory Criterion Five: Describe how the reporting entity assesses the effectiveness of actions being taken to assess and address modern slavery risks (p. 54)
MSA Business Performance Indicators	Has the company reviewed business KPIs to ensure they are not increasing risk of modern slavery?		
MSA Training (revised)	Does the statement describe training for staff that is specifically geared towards detecting signs of slavery or trafficking?	Training on modern slavery and trafficking (p. 37)	Mandatory Criterion Four: Describe the actions taken by the reporting entity and any entities that the reporting entity owns or controls to assess and address these risks, including due diligence and remediation processes (p. 52)
MSA Consultation	Has the company described how it consulted on its statement with any entities it owns or controls?		Mandatory Criterion Six: Describe the process of consultation with any entities the reporting entity owns or controls (p. 57)
MSA Impact on Company Behaviour	Does the company's statement describe a change in their policy that occurred as a direct result of the Australian Modern Slavery Act?		Mandatory Criterion Seven: Any other relevant information (p. 58)
MSA Historic Record	Does the company provide a historic record of their modern slavery statements (either on their website or in their current statement)?		

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