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## **A new era of supply chain transparency**

The Fighting Against Forced Labour and Child Labour in Supply Chains Act (formerly Bill S-211)

## Introduction

Starting this year, Canadian organizations will be actively helping to alleviate the suffering of millions of people by taking steps to prevent forced labour along their supply chains. Doing right by the world's most vulnerable people—by complying fully with legislation that came into effect January 1—should offset the extra work. But if that's not motivation enough, the potential price of failing to comply includes financial, legal, and reputational consequences.

About 50 million people worldwide are considered victims of modern slavery.<sup>1</sup> A severe crime, modern slavery is the exploitation of its victims' inability to escape their situation due to the threats, violence, and abuse of power by those coercing them. It encompasses a range of abusive activities, including child labour, forced labour, forced marriage, and domestic servitude. These practices can go unnoticed, concealed within the operations of legitimate businesses and private homes.

Each day, according to the International Organization of Migration, approximately 28 million people are coerced into working. This form of slavery is inadvertently supported by many consumers and businesses. The consumers may be unaware of the labour practices behind their purchases, while the businesses might be failing to scrutinize their supply chains and overlooking the many risks of exploitative practices.

Sectors rife with worker exploitation include agriculture, garment and technology manufacturing, construction, mining, and extraction. These industries take advantage of vulnerable groups, such as migrants and those living in poverty, in many

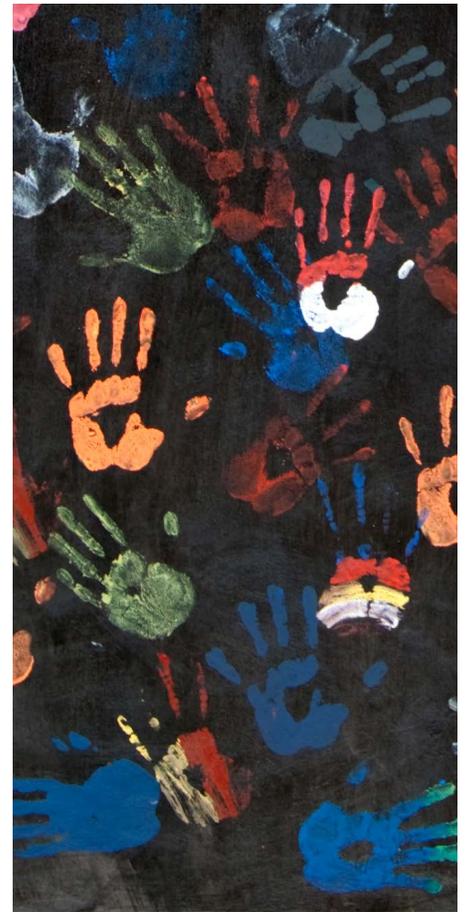
ways, including providing harsh working conditions and low wages.

To confront modern slavery and combat human suffering, the Parliament of Canada passed Bill S-211, the Fighting Against Forced Labour and Child Labour in Supply Chains Act.<sup>2</sup> It compels business and government organizations alike to reveal the measures they take to ensure forced and child labour are not present in their operations and supply chains.

Non-compliance can bring reputational and legal consequences as well as hefty fines. But there are rewards, too. While the Act brings reporting requirements for organizations, it allows for greater transparency and resilience in supply chains and operations. By following the act, organizations can promote human rights, support sustainability, and generate wide-ranging benefits for the businesses in their supply chains and the communities that power them. And it can help them move closer to their own more responsible, resilient, and prosperous future, through:

1. Reducing reputational and legal risks
2. Enhancing supply chain transparency for compliance and resiliency
3. Uniting internal teams and driving environmental, social, and governance (ESG) advancement
4. Building social influence and goodwill with interest holders

This article examines one approach businesses can take to adhere to the act and to realize the advantages.



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## Tackling modern slavery and advancing organizational priorities

Organizations can speed up their compliance and advance their wider ESG and organizational goals by identifying, reporting, and addressing slavery risks.

1

### Reducing reputational and legal risks

By gaining insight into their suppliers' backgrounds and fostering transparent communication, organizations can both tackle modern slavery and reduce their risks.

**Reputational:** The Canadian Ombudsperson for Responsible Enterprise (CORE), an independent federal body, investigates possible human rights abuses in the supply chains of Canadian companies.<sup>3</sup> While the CORE cannot enforce its recommendations, a negative finding can, for example, lead to the government refusing to give trade or financial support to a company.<sup>4</sup> Concerns about violations can also damage a company's reputation.<sup>5</sup> They can lead to loss of revenue, lower market value, and reduced public support, which may then affect contracts, staff retention, and hiring. Organizations can reduce these risks by sharing their strategies and being honest about their efforts to ensure they aren't inadvertently supporting modern slavery practices.

**Legal:** Canada already has institutions that regulate human rights abuse with national, provincial, and territorial laws and enforcement mechanisms.<sup>6</sup> But for organizations that operate in different countries, compliance is more complex because the act extends the responsibility beyond their own operations. Any red flags raised may delay imports. Company directors

can also be held personally accountable for the disclosure of pertinent information in annual reports, and may face fines and legal consequences for failure to report.

2

### Enhancing supply chain transparency for compliance and resiliency

The effective management of supply chains is integral to tackling modern slavery and complying with the act, as it requires visibility into supplier activities and relationships. Companies can build stronger relationships with their suppliers by working with them to identify and manage risks, including possible disruptions. Understanding and transparency lead to better decision-making and increase trust among all involved parties.

Organizations must also recognize and address other select risks, including the financial health of suppliers, environmental concerns, cybersecurity threats, and more. By proactively assessing and monitoring such risks, companies can make their supply chains more resilient.

Being on the lookout for potential ethical risks, such as child labour in the factories of suppliers, is equally essential. Addressing these protects ethical standards and safeguards against operational disruptions, thereby maintaining reputation and supply continuity.

3

### Uniting internal teams and driving ESG advancement

Cooperating across different functions—legal, finance, procurement, and

sustainability, for example—is crucial for complying with the act and advantageous for advancing other ESG initiatives. For instance, while legal teams may handle the disclosure reports for forced labour, they must also coordinate with operational teams for follow-up actions and remediation. Similarly, sustainability teams might suggest contracting with suppliers that have better ESG ratings, but they should also work with procurement to balance cost and sustainability considerations. In short, the shared responsibility of tackling modern slavery may also spark innovative ideas and advance ESG initiatives.

4

### Building social influence and goodwill with interest holders

Environmental issues have often been the principal topic in ESG discussions, but the social impact of businesses is getting more attention these days. A formal act to fight against modern slavery should motivate employees, regulators, and investors to concentrate on reducing any negative social impact they may be having. By integrating its positive moral values into its supply chain, an organization can enhance its social influence and meet its ESG goals.

Organizations that are seen to be working against modern slavery and leading social change can enhance their brand reputation and build trust with various interest holders, which can lead to increased market share and the ability to attract and keep top talent.

## Practical steps to achieving compliance and advancing organizational objectives

To meet the minimum due diligence and reporting requirements under the act, organizations must submit reports annually to the federal government. Government entities that produce, purchase, or distribute goods must have their reports approved by their governing body. The first is due by May 31, 2024.

These reports must include full disclosures about the company's:

- Structure, operations, and supply chains
- Policies and due diligence processes in relation to forced and child labour
- Risks of modern slavery in its operations and supply chains
- Actions to eliminate modern slavery
- Compensation made for loss of income to the most vulnerable families as a result of actions to eliminate exploitative practices
- Training provided to employees
- Assessment of the effectiveness of its actions

The organizations that can see the opportunities that lie in these compliance activities could establish themselves as agents of change in shaping a more ethical, resilient, and thriving future—for people as well as businesses.

### Where to start

Organizations must have a thorough knowledge of their operations and supplier network to identify which entities are most susceptible to modern slavery risks before they can assess their compliance and rectify any shortcomings. A course of action might look like this:



#### Step 1: Map the supply chain to understand supplier portfolios

Ensure a good grasp of suppliers and suppliers' suppliers (and beyond) by gathering detailed information about from whom and where the organization purchases the goods and services required for its operations.



#### Step 2: Understand the risk exposure across the supply chain

Recognizing the distinct risk factors of modern slavery, which exist in all countries and industries, can inform the degree of due diligence or supervision required for external partners. Some of these key risk factors include:

- **Country:** Does the supplier operate in a country with a high Walk Free Global Slavery Index (GSI) score?<sup>7</sup>
- **Sector:** Is the industry of the goods or services being purchased susceptible to forced or child labour? These often

correspond to the nature of the business, the materials or products involved, and the geographical, political, and economic environment in which the sector operates; for example, a reliance on manual labour in regions with weak labour laws.

- **Business model:** Is the business model of the goods or services provider susceptible to forced or child labour? One that relies on employing a high percentage of temporary workers can be a tell-tale sign.
- **Track record:** Has the supplier been sanctioned or had concerns raised about possible violations?

When assessing individual suppliers, it's essential to understand the preventative controls the company is taking to mitigate modern slavery risks, including in its:

- Policy and governance
- Resource and talent practices
- Risk management
- Workforce management and training



#### Step 3: Assess suppliers' compliance with the act and remediate deficiencies

Keeping in mind that supply chain visibility and supplier due diligence are critical, organizations should create a plan that details how they'll achieve compliance in

the short, medium, and long term. Any plan should focus on essential tasks for the first report and highlight opportunities for improving the efficiency of ongoing efforts, as well as support advancing broader ESG and organizational objectives.

Developing processes for collecting the data required for the reporting is crucial. Further efforts should enhance capabilities for thorough risk assessment and supplier due diligence, including categorizing suppliers to help inform risk exposures, enhancing supplier assessment methodologies and related risk-appetite statements, implementing remote due-diligence and monitoring systems, and potentially performing on-site evaluations.



#### **Step 4: Exceed compliance to advance broader ESG and organizational goals**

Entities that want to seize the opportunity to be catalysts of change should explore the various strategies that could help them do so, such as:

- Adding extra compliance terms related to modern slavery and human rights into contracts
- Identifying synergies and opportunities to strengthen and optimize overall supply chain operations, such as finding suppliers that have strong financial and ESG performance, and sharpening the strategy to better engage target suppliers
- Honing complaint processes and resolution methods, with the involvement of core interest holders
- Examining other leading practices related to modern slavery and human rights in general to enhance business practices and champion human rights management
- Creating an action plan centred on human rights that includes essential activities, goals, and performance indicators, which could serve as a launchpad for managing other organizational risks and compliance initiatives



## **Conclusion**

Canada's Fighting Against Forced Labour and Child Labour in Supply Chains Act marks a significant stride toward eradicating human slavery around the world. Through their compliance activities, Canadian organizations can help uphold human rights and improve their operations and reputation at the same time.

The activities required to comply with the act—enhancing supply chain transparency, fostering collaboration between internal teams and with external suppliers, and learning to identify where and what human rights abuses exist today to determine the risks tomorrow—can help all organizations develop a more socially responsible and conscious business model, advance their ESG goals, and benefit the global community.

Through their compliance activities, Canadian organizations can help uphold human rights and improve their operations and reputation at the same time.

## Endnotes

1. International Organization for Migration (IOM), "[50 Million People Worldwide in Modern Slavery](#)," news release, September 12, 2022.
2. Government of Canada, [Fighting Against Forced Labour and Child Labour in Supply Chains Act](#), November 27, 2023.
3. The [Canadian Ombudsperson for Responsible Enterprise](#) (CORE) was established in 2019 to review complaints about possible human rights abuses by Canadian companies that work outside Canada in the garment, mining, and oil and gas sectors.
4. Canadian Ombudsperson for Responsible Enterprise, "[What does the CORE do if it finds there was human rights abuse?](#)" Government of Canada, November 13, 2021.
5. Canadian Ombudsperson for Responsible Enterprise, "[The CORE launches investigation into Zara Canada Inc.](#)," Government of Canada, November 6, 2023; Canadian Ombudsperson for Responsible Enterprise, "[The CORE launches investigations into two Canadian companies](#)," Government of Canada, July 11, 2023.
6. Canadian institutions established to regulate human rights abuse include the Canadian Human Rights Commission and the Office of the Canadian Ombudsperson for Responsible Enterprise (CORE).
7. The [Walk Free Global Slavery Index](#) (GSI) estimates the number of people in modern slavery and analyzes government responses. Although the GSI provides important global insights, its results are approximations, so require cautious interpretation within their broader context and limitations.

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