

**Mitigating Risks of Child Labour from Canadian Supply Chains: A Multi-Stakeholder  
Approach Encouraged Through Due Diligence Legislation**

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Submitted to  
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In Completion of  
Policy Analysis Capstone  
(GOV E-599)

Harvard University Extension School  
May 16, 2020

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## Executive Summary

Canada has long been viewed as a champion for human rights at the international stage. Yet, many of the products that Canadians use in their day to day are either produced, or at risk of being produced, through the use of child labour. While the prevalence of child labour within the supply chains of businesses that operate in Canada has been acknowledged by UN oversight bodies, as well as civil society members, the Canadian government has done little to ensure its mitigation. Prior to the recent introduction of supply chain legislation that calls on the government to mandate public reporting on business commitments towards eliminating child labour, self-regulatory measures served as the primary means through which businesses attempted to address the issue. However, given the lack of incentives for businesses to devote resources and prioritize the cause, these measures have failed to produce the kind of corporate change that would translate words into action when it comes to tackling child labour. The current supply chain legislation that the government is considering only functions to further enhance self-regulatory measures that have demonstrated a very low likelihood of success. Little evidence from literature, as well as legislative analysis of countries that have implemented similar legislation, exists to demonstrate that market forces alone, without government regulations, are able to drive the kind of corporate change that would be required for businesses to take the issue seriously, and take tangible action to effectively mitigate risks of child labour within their production lines.

In a global economy that is rapidly evolving towards more ethical and sustainable business models, the success of Canadian corporations depends on the government's ability to create a business ethos that encourages innovation and advances Canadian leadership in sustainable business practices. The support of Canadian corporations, and the general public, as well as learnings from countries that have implemented supply chain legislation, presents an opportune time for Canada to adopt a regulatory framework for businesses that is both practical and effective. Acknowledging that the elimination of child labour from supply chains is only one step towards Canada's greater resolve to meet the global Sustainable Development Goal (SDG) goal of ending the practice by 2025, this paper recommends that the government adopt due diligence legislation that encourages a multi-stakeholder approach that feeds two birds with one stone; it meets the more imminent goal of mitigating risks of child labour from Canadian supply chains through strong regulatory provisions and enforcement mechanisms, but also supports Canada's longer-term development goals by encouraging a public-private partnership to more effectively address the underlying causes of child labour. To ensure maximum impact, the recommended policy balances ethical values with corporate interests to ensure high stakeholder support for effective implementation, efficacy, and economic returns for Canada by:

- Cutting administrative and resource strains on Canadian businesses through the creation of an online data-base that allows the sharing of supplier information for more focused company audits that effectively identify where child labour may be occurring, or is likely to occur, within a supply chain. This portal would create a system for businesses to share resources and data on child labour with Foreign Affairs, Development and Trade Canada (DFATD) which would allow them to identify trends and partner with business to provide programming and initiatives that protect the well-being of children and keep them from turning to worst forms of child labour. This would not only cut costs for the government,

and bolster its development efforts, but also incentivize businesses to innovate sustainable business models and play an active role in Canada's development efforts.

- Facilitating the development of effective mitigation plans that are tailored to the needs of individual companies by providing comprehensive guidelines. These guidelines include performance indicators and best-practices for effectively rooting out child labour and mitigating its risks.
- Ensuring compliance through the creation of an oversight body that assesses companies on performance indicators and builds the capacity of businesses to meet compliance targets; giving them an opportunity to rectify violations or compliance failures before imposing harsh penalties.

### Policy Problem

Despite the wide global condemnation of child labour, over a hundred million children, roughly eight percent of the world's child population, continues to be exploited for work.<sup>1</sup> More than half of these children are exposed to hazardous working conditions which deprives them, their families and entire nations the opportunity to develop and thrive.<sup>2</sup> While Canada has ratified key international treaties, such as the United Nations Convention on the Rights of the Child (CRC) and the International Labour Organization Conventions, which create a positive responsibility on the government to ensure the protection of children's rights in all of its affairs, it has fallen short on protecting children from being exploited for producing goods that Canadians consume on a daily basis. A recent report by World Vision found that over 1,000 Canadian businesses of all sizes import goods that are at high risk of being produced through child labor.<sup>3</sup> In 2016, the total value of these goods amounted to thirty-four billion dollars of imports. While studies show that Canadian employers are keen on embedding social purpose into their work culture and operations, more than half (52%) of the companies assessed by World Vision did not provide sufficient public reporting on their plans to eliminate child labor from their supply-chains.<sup>4</sup> This points to a discrepancy between what businesses are saying about their commitment to address child labour, and the tangible actions they are taking to meaningfully eliminate the practice from their supply chains.

At present, efforts to address the issue seek to enhance self-regulatory measures through the adoption of legislation that would mandate public reporting of companies' efforts to mitigate risks to child labour. While this may increase more general reporting from companies, there is

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<sup>1</sup> "World Day Against Child Labour 2019: Children shouldn't work in fields, but on dreams!" International Labour Organization, June 2019. <https://www.ilo.org/ipecc/Campaignandadvocacy/wdacl/lang--en/index.htm>

<sup>2</sup> "Child labour robs children of childhood, impedes development," United Nations Children's Fund (UNICEF), 2006 <[https://www.unicef.org/media/media\\_34504.html](https://www.unicef.org/media/media_34504.html)>

<sup>3</sup> "Supply Chain Risk Report: Child and Forced Labor in Canadian Consumer Products," World Vision, 2016. <[https://www.worldvision.ca/getattachment/No-Child-For-Sale/Resources/Supply-Chain-Risk/Risk-report-Child-and-forced-labour-report\\_jun-08.pdf.aspx?lang=en-CA](https://www.worldvision.ca/getattachment/No-Child-For-Sale/Resources/Supply-Chain-Risk/Risk-report-Child-and-forced-labour-report_jun-08.pdf.aspx?lang=en-CA)>

<sup>4</sup> ibid

little evidence to support its capability to change corporate behaviour to the extent that child labour is effectively eliminated from their supply chains. An analysis of the UK Modern Slavery Act by Know the Chain; a non-profit organization, found a low overall compliance rate, with only 18% of the statements meeting the three minimum requirements of the act and many companies failing to implement their stated commitments on eliminated forced and child labour.<sup>5</sup> In order to protect its human rights reputation, and enhance its economy, Canada need to adopt due diligence legislation that goes beyond reporting obligations and encourages a proactive approach to tackling the issue through a multifaceted approach that demands the identification of child labour within supply chains, the development of a robust mitigation plan, and the assessment of progress in order to meet policy goals.

## Definitions

### Child Labour

According to the International Labour Organization (ILO), Child labour is “work that deprives children of their childhood, their potential and their dignity, and that is harmful to physical and mental development.” It includes work that is “mentally, physically, socially or morally dangerous and harmful to children; and/or interferes with their schooling by: depriving them of the opportunity to attend school; obliging them to leave school prematurely; or requiring them to attempt to combine school attendance with excessively long and heavy work.”<sup>6</sup>

### Worst forms of child labour

Article 3 of ILO Convention No.182 defines the worst forms of child labour as (a) all forms of slavery or similar practices including the sale and trafficking of children, forced or compulsory labour, and recruitment of children for use in armed conflict, (b) the use of children for prostitution and pornography, (c) the use of children for illicit activities, i.e. for the production and trafficking of drugs, and (d) work which is likely to harm the health, safety or morals of children.<sup>7</sup>

### Risky items

For the purpose of this paper, and in line with World Vision’s Supply Chain Risk Report, “risky items” or “risky goods” refer to any goods that are produced, or at risk of being produced, through child labour.<sup>8</sup>

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<sup>5</sup> “Eradicating Forced Labor in Electronics: What do company statement under the UK Modern Slavery Act tell us?” KnowTheChain, 2018 < [https://knowthechain.org/wp-content/uploads/KTC-ICT-MSA-Report\\_Final\\_Web.pdf](https://knowthechain.org/wp-content/uploads/KTC-ICT-MSA-Report_Final_Web.pdf)>

<sup>6</sup> “What is Child Labour,” International Labour Organization, <<https://www.ilo.org/ipecc/facts/lang--en/index.htm>>

<sup>7</sup> *International Labour Organization Convention on the Worst Forms of Child Labour*, No.182; Article 3, [https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_ILO\\_CODE:C182](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C182)>

<sup>8</sup> “Supply Chain Risk Report: Child and Forced Labor in Canadian Consumer Products,” World Vision, 2016. <[https://www.worldvision.ca/getattachment/No-Child-For-Sale/Resources/Supply-Chain-Risk/Risk-report-Child-and-forced-labour-report\\_jun-08.pdf.aspx?lang=en-CA](https://www.worldvision.ca/getattachment/No-Child-For-Sale/Resources/Supply-Chain-Risk/Risk-report-Child-and-forced-labour-report_jun-08.pdf.aspx?lang=en-CA)>

## Corporate Social Responsibility (CSR)

While the definition of CSR varies depending on business priorities, it more generally refers to the practices and commitments of businesses to advance social causes for the benefit of society.<sup>9</sup>

## Background of Problem

### Trends and Global Prevalence

The exploitation of children for labour has deep historical roots that persist to this day. Prior to the 18<sup>th</sup> century, it was not uncommon for the children of working class families to assist with farming or textile production at home. However, the issue of children working under strenuous conditions for long hours and low wages became particularly pronounced with the advent of the Industrial Revolution.<sup>10</sup> Since then, an increase in education, economy, and the emergency of labour standards has created global awareness around the issue and resulted in an influx of international and national efforts to prevent children from exploitation in the labour market. Collaborate efforts by civil societies, nation states, private corporations and the international community led to a dramatic decline of child labour by the 21<sup>st</sup> century.<sup>11</sup> Between 2000 and 2016, the practice plunged by one-third.<sup>12</sup> The past four years, however, have witnessed a considerable regression of this decline. According to the International Labour Organization (ILO), approximately 152 million children around the world continue to be exploited for work. This number represents one in ten children globally.<sup>13</sup> Nearly half of these children are working in hazardous conditions that compromise their health, safety, and development.<sup>14</sup> The practice is most prevalent in Africa, Asia, and the Pacific region which altogether hosts nine out of every ten children in child labour.<sup>15</sup> Globally, the agricultural sector makes up seventy one percent of all those in child labour.<sup>16</sup> These trends show that while progress has been made, there are still ways to go to meet the global target (SDG 8.7) of zero by 2025.

### Determinants and Effects of Child Labour

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<sup>9</sup> Dr. Jagbir Singh Kadyan, "United Nations Global Compact and Corporate Social Responsibility," *International Journal of Science and Research (IJSR)*, 2013, < <https://www.ijsr.net/archive/v5i10/ART20161979.pdf>>

<sup>10</sup> Jane Humphries, "Childhood and child labour in the British industrial revolution," *The Economic History Review* 66, no.2 (2013): 402, <<https://doi.org/10.1017/CBO9780511780455>>

<sup>11</sup> "Understanding Trends in Child Labour," International Labour Organization (ILO), United Nations Children's Emergency Fund(UNICEF), The World Bank, November 2017 <<https://cocoainitiative.org/wp-content/uploads/2019/04/Understanding-Child-Labour-Trends-2017.pdf>>

<sup>12</sup> "Global Estimates of Child Labour: Results and Trends, 2012-2016," International Labour Office (ILO), 2017<[https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms\\_575499.pdf](https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms_575499.pdf)>

<sup>13</sup> *ibid*, 4

<sup>14</sup> *ibid*, 4

<sup>15</sup> *ibid*, 12.

<sup>16</sup> *ibid*, 23

Scholarship on the perpetuation of child labor identify a supply and demand side of the phenomena. Supply side theorists such as Basu and Van point to household poverty, a lack of educational opportunities, and unemployment as chief determinants of childrens' participation in the labor market.<sup>17</sup> There is wide recognition that child labour is by and large 'insulated' from the fluctuation of the economy in the short to medium run. Recognizing the role of parents, and the institution of a family at large, as pivotal catalysts to childrens' entry into the labour market, the majority of contemporary scholars have focused on household factors that influence levels of child labour. The traditional "Luxury Axiom" theory, which holds that families will send this children to school only when adult wage rate is less than the critical level, has largely been refuted by modern research. Increasing evidence of variations in the levels of child labour across low-income countries and within poor households suggests that the perception of families on the trade-offs between children's education and work is the key determinant of better outcomes for children.<sup>18</sup> That is, families are less likely to make informed decision on their children's future when they don't recognize the benefits of schooling, or the health and developmental costs of child labour. Other supply side factors that have shown to influence children's involvement in the labour market is the level of parental education and schooling quality<sup>19</sup>, income shocks borne out of unemployment, natural disasters, war etc.<sup>20</sup>, poor access to well-functioning credit markets for loans<sup>21</sup>, and the altruism of parents.<sup>22</sup>

Given that the supply of child labour is chiefly determined by the way families consider trade-offs between school and work, the labour market's role in the decision making is consequential. If the chances of securing decent work after graduation are low or the transition from school to work is difficult and lengthy, it is more likely that children, especially from poor households, will leave school early and begin to work. If the labour markets demand higher skills, then the perceived returns from education are higher than work.<sup>23</sup> This in turn creates incentives for families to encourage their children to stay in school and out of work for longer.<sup>24</sup> Numerous studies have shown that demand for child labour rises when forms of production that require only low skill levels gain in importance. Societies that favour higher skill forms of

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<sup>17</sup> Kaushik Basu and Pham Hoang, "The Economics of Child Labor," *The American Economic Review* 88, No.3 (June 1998) < <https://www.jstor.org/stable/116842>>

<sup>18</sup> "Understanding Trends in Child Labour," International Labour Organization (ILO), United Nations Children's Emergency Fund(UNICEF), The World Bank, November 2017<<https://cocoainitiative.org/wp-content/uploads/2019/04/Understanding-Child-Labour-Trends-2017.pdf>>

<sup>19</sup> Michel Bonnet, "Child Labour in Africa," *International Labour Review*, 132, no.3 (1993) < <https://heinonline.org/HOL/LandingPage?handle=hein.journals/intlr132&div=42&id=&page=>>

<sup>20</sup> Suzanne Duryea and Mary Paula Arends-Kuenning, "School Attendance, Child Labor and Local Labor Market Fluctuations in Urban Brazil," *Elsevier*, 31, no.7: 1165-1178 (July 2003) < [https://www.researchgate.net/publication/242070822\\_School\\_Attendance\\_Child\\_Labor\\_and\\_Local\\_Labor\\_Markets\\_in\\_Urban\\_Brazil](https://www.researchgate.net/publication/242070822_School_Attendance_Child_Labor_and_Local_Labor_Markets_in_Urban_Brazil)>

<sup>21</sup> Priya Ranjan, "Credit constraints and the phenomenon of child labour," *Journal of Development Economics*, 64, no.1, 2001 < <https://ideas.repec.org/a/eee/deveco/v64y2001i1p81-102.html>>

<sup>22</sup> Sonia Bhalotra, "Parent Altruism, Cash Transfers and Child Poverty," (Discussion Paper, University of Bristol, 2004) 1-34< [http://www.bristol.ac.uk/efm/media/workingpapers/working\\_papers/pdf/efm04562.pdf](http://www.bristol.ac.uk/efm/media/workingpapers/working_papers/pdf/efm04562.pdf)>

<sup>23</sup> "Global Estimates of Child Labour: Results and Trends, 2012-2016," International Labour Office (ILO), 2017<[https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms\\_575499.pdf](https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms_575499.pdf)>

<sup>24</sup> Alexander Krauss, "Understanding child labour beyond the standard economic assumption of monetary poverty," *Cambridge Journal of Economics* 41, no. 2, 2017 < <https://academic.oup.com/cje/article-abstract/41/2/545/2625389>>



production have exhibited lower levels of child labour.<sup>25</sup> Furthermore, research on the structure of the labour market has shown that child labour is most prevalent in the lower tiers of global supply chains where raw materials are farmed, mined, fished and processed by workers often viewed as invisible and expandable.<sup>26</sup> Many formal enterprises have a tendency to deformalize production methods by breaking their enterprise into smaller units or subcontracting work to informal households to minimize production costs.<sup>27</sup> Lead firms that supply consumers with the goods are usually unaware of the multitude of subcontractors within their supply chains.<sup>28</sup> First-line subcontractors with which they have business relations with very rarely reveal the information on suppliers below them.<sup>29</sup> Thus, private audits of companies that assess only the official subcontractors are unable to capture human rights abuses that occur further down their supply chains.<sup>30</sup>

Regardless of the cause of child labour, the effects are detrimental to the well-being and development of children. Amnesty International's report on children working in the Dominican Republic of Congo (DRC) to mine cobalt that powers the batteries of the cell phones, and other electronic devices, that Canadians use highlights the long hours and harmful working conditions that represent a reality for many child labourers. This includes working more than ten hours sometimes without breaks, physical beatings by security guards for minor mistakes on the job, and working while sick without access to clean food.<sup>31</sup> A fifteen-year-old cobalt miner in the DRC describes his work conditions as: "*There is lots of dust, it is very easy to catch colds, and we hurt all over.*"<sup>32</sup> Children in other industries share similar stories of long working hours and working conditions that compromise their well-being and deprive them of their childhood. In addition to the human costs, child labour also produces economic and social costs. The practice perpetuates poverty and inequality which results in losses in competitiveness, productivity, and income.<sup>33</sup>

### Canada's Connection to the Problem

Canada's progressive labour laws and a welfare based socio-economic system has created social safety nets and policies that protect children from exploitive work and ensure their

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<sup>25</sup> "Global Estimates of Child Labour: Results and Trends, 2012-2016," International Labour Office (ILO), 2017 <[https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms\\_575499.pdf](https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms_575499.pdf)>

<sup>26</sup> Kam Phung, Delaney Greig, and Simon Lewchuk, "Canadian Business Insights on Modern Slavery in Supply Chains," 2019 <[https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains\\_final2.pdf](https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains_final2.pdf)>

<sup>27</sup> Cain M and Mozumder Abmka, "Labour Market Structure, Child Employment, and Reproductive Behaviour in Rural South Asia," *Working Paper* No. 89 (June 1980) <[https://www.ilo.org/public/libdoc/ilo/1980/80B09\\_336\\_engl.pdf](https://www.ilo.org/public/libdoc/ilo/1980/80B09_336_engl.pdf)>

<sup>28</sup> Annavaiah J C B, "Labour Abuse in Buyer and Producer-Driven Supply Chains," *Economic and Political Weekly Vol. 48, No.16* (April 2013): p. 48 <<https://www.jstor-org.ezp-prod1.hul.harvard.edu/stable/23527260>>

<sup>29</sup> *ibid*

<sup>30</sup> *ibid*

<sup>32</sup> "Is my phone powered by child labour?" Amnesty International, <<https://www.amnesty.org/en/latest/campaigns/2016/06/drc-cobalt-child-labour/>>

<sup>33</sup> Pinki Yadav, Rajesh Kumar, "Situation of child labour its causes and effects: A case study," *Asian Journal of Research in Social Sciences and Humanities*, 3(9) (2013) <[https://hollis.harvard.edu/primo-explore/fulldisplay?docid=TN\\_indianjournals\\_sajrssh\\_3\\_9\\_001\\_1\\_8&context=PC&vid=HVD2&search\\_scope=everything&tab=everything&lang=en\\_US](https://hollis.harvard.edu/primo-explore/fulldisplay?docid=TN_indianjournals_sajrssh_3_9_001_1_8&context=PC&vid=HVD2&search_scope=everything&tab=everything&lang=en_US)>



participation in school for better outcomes. Yet, on a daily basis, Canadians buy and use goods that are produced through child labour; from the clothes that they wear, to the food that they eat, and the electronics that they use. A recent World Vision report found that the supply chains of 1,264 companies operating in Canada import goods that are at high risk for being produced through child labour. In total, the fifty goods that were assessed by World Vision represented \$34.3 billion of imported goods – the total GDP of Newfoundland and Labrador. Since the report only assessed fifty commonly used items, some with limited access to information of the importers, the extent to which Canadian companies are inadvertently complacent in child labour is underemphasized by World Vision’s report alone. Canadian companies that import risky goods range from large multinational corporations to small – and medium sized businesses.<sup>34</sup> These companies operate in every sector from grocery and food production to retail and fashion. A large majority, 81.4 percent are privately listed companies and two-thirds are headquartered in Canada. Food manufacturers and retailers, as well as textile and apparel industries import more risky goods than other industries.<sup>35</sup>

More than half of Canadian companies assessed by World Vision do not provide any public reporting on their efforts to reduce the risk of child or forced labour within their supply chains.<sup>36</sup> Companies that publicly declared a commitment to mitigating human rights risks within their supply chains provided little to no evidence of due diligence practices that would ensure the implementation of those commitments.<sup>37</sup> Seventy-five percent of companies that were assessed had no public evidence of training and support to suppliers on mitigating the risks of child labour in supply chains, fifty-five percent did not audit their suppliers, and seventy-one percent lacked proper grievance and remedy mechanisms.<sup>38</sup> Mid-size and private companies are major importers of risky goods, yet, they are far less transparent than large, attention grabbing and publicly traded companies. Out of all sectors, Canadian food retailers, wholesalers, and producers are the least transparent on their efforts to mitigate risks of child labour within their supply chains. Only one of the ten companies assessed within the food wholesaler and producer category provided sufficient reporting on the issue.<sup>39</sup> These findings suggest that Canadian companies are doing little to comprehensively assess, report, and mitigate risks of child labour within their supply chains.

## International Legislation

Since the inception of the International Labor Congress (ILO) in 1919 the elimination of child labor has been a top priority for the international community.<sup>40</sup> The ILO defines child labor as “work that deprives children of their childhood, their potential and their dignity, and that is

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<sup>34</sup> “Supply Chain Risk Report: Child and Forced Labor in Canadian Consumer Products,” World Vision, June 2016. <[https://www.worldvision.ca/getattachment/No-Child-For-Sale/Resources/Supply-Chain-Risk/Risk-report-Child-and-forced-labour-report\\_jun-08.pdf.aspx?lang=en-CA](https://www.worldvision.ca/getattachment/No-Child-For-Sale/Resources/Supply-Chain-Risk/Risk-report-Child-and-forced-labour-report_jun-08.pdf.aspx?lang=en-CA)>

<sup>35</sup> *ibid*, 7

<sup>36</sup> *ibid*, 7

<sup>37</sup> *ibid*, 7

<sup>38</sup> *ibid*, 8

<sup>39</sup> *ibid*, 8

<sup>40</sup> “Tackling child labour: 100 years of action,” International Labour Organization, Fundamental Principles and Rights at Work Branch (FUNDAMENTALS), 2019.

<[https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---ipec/documents/publication/wcms\\_709665.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipec/documents/publication/wcms_709665.pdf)>

harmful to physical and mental development.”<sup>41</sup> Conventions No.138 and 182 set the minimum age for admission to general work at fifteen years old<sup>42</sup>, and hazardous work at eighteen years old with some leeway depending on the nature of the work.<sup>43</sup> ILO Convention 182; The Worst Forms of Child Labour Convention (WFCLC) enforces the need to adopt policies for the probation and elimination of the worst forms of child labour to complement minimum age legislation. The “worst forms of child labour” includes (a) all forms of slavery or practices similar to it, such as the sale and trafficking of children and forced labor (including forced recruitment for armed conflict); (b) the use, procuring, or offering of a child for prostitution or for pornography or pornographic performances; (c) the use, procuring, or offering of a child for illicit activities such as drug trafficking; and (d) work that is likely to harm children’s health, safety, or morals.<sup>44</sup> Both these conventions, as well as the overarching United Nations Convention on the Rights of the Child (CRC), requires member states to take all necessary measures to ensure the prevention of child labor by applying stringent labor standards, to provide direct assistance to remove children from child labour, to ensure their rehabilitation and social integration, and to ensure free basic education where possible and vocational training for all children removed from the worst forms of child labour. Article 10(3) of the International Covenant on Economic, Social and Cultural Rights (ICESCR) stipulates that special measures of protection should be taken on behalf of all children and young persons; and that they “should be protected from economic and social exploitation; that employing them in morally or medically harmful or dangerous work or in work likely to hamper their normal development should be punishable by law; and that age limits should be set below which the paid employment of child labor is prohibited and punishable by law.”<sup>45</sup> To ensure the effective application of international labour standards, Article 5 of the ILO Convention No. 182 requires states to “establish or designate appropriate mechanisms to monitor the implementation of the [legislation].”<sup>46</sup> Furthermore, Article 2(e) of the ILO Protocol on Forced Labor requires member states to take measures “supporting due diligence by both the public and private sectors to prevent and respond to risks of forced or compulsory labor.”<sup>47</sup>

In addition to these conventions, the United Nations Guiding Principles on Business and Human Rights provides a framework for addressing and remedying human rights abuses in business operations and calls on States to “set out clearly the expectation that all business enterprises domiciled in their territory and/or jurisdiction respect human rights throughout their

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<sup>41</sup> “What is Child Labour,” International Labour Organization, <<https://www.ilo.org/ipec/facts/lang--en/index.htm>>

<sup>42</sup> C138 - *Minimum Age Convention*, 1973 (No. 138) and C182 - *Worst Forms of Child Labour Convention*, 1999 (No. 182), International Labour Organization, <

[https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100::NO:12100:P12100\\_ILO\\_CODE:C182:NO](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100::NO:12100:P12100_ILO_CODE:C182:NO)>

<sup>43</sup> *Convention on the Rights of the Child*; Article 38, United Nations Human Rights Office of the High Commissioner, <<https://www.ohchr.org/en/professionalinterest/pages/crc.aspx>>

<sup>44</sup> C182-*Worst Forms of Child Labour Convention*, 1999 (No.182), Article 3 <[https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_ILO\\_CODE:C182](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C182)>

<sup>45</sup> *OHCHR International Covenant on Economic, Social and Cultural Rights*, Article 10(3), <<https://www.ohchr.org/en/professionalinterest/pages/cescr.aspx>>

<sup>46</sup> C182-*Worst Forms of Child Labour Convention*, 1999 (No.182), Article 5 <[https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_ILO\\_CODE:C182](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C182)>

<sup>47</sup> P029 – *Protocol of 2014 to the Forced Labour Convention*, 1930, Article 2(e) <[https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_ILO\\_CODE:P029](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:P029)>

operations.”<sup>48</sup> Similarly, the OECD Guidelines for Multinational Enterprises lays out non-binding principles and standards for ethical business conduct and expects states to implement measures that would ensure corporate compliance.<sup>49</sup> More imminently, target 8.7 of the United Nations Sustainable Development Goals (SDGs) calls for all countries to ensure policies and practices that would eliminate child labour in all its forms by 2025.<sup>50</sup> The guiding principles and other international frameworks for business and human rights are considered to be “soft law.”<sup>51</sup> This means that they do not create a positive legal obligation on companies that results in penalties upon violation, but they incur a normative responsibility on states who have accepted the standards.<sup>52</sup> Failure of states to abide by international provisions and labour standards may come with high costs, including a tarnished reputation, lengthy judicial proceedings, paralyzing social movements, lack of international funding for projects, the withdrawal of funds from stakeholders, or a decrease in stock valuation of a company.<sup>53</sup>

## National Initiatives

Under the Convention on the Rights of the Child (OHCHR) and ILO Conventions No. 182 ratified states have a responsibility to take action against child labour. Article 32 of the OHCHR, which Canada ratified in 1991, places a positive responsibility on ratified states to prevent children from being exploited for work from all actors within a state’s jurisdiction, including businesses.<sup>54</sup> Similarly, ILO Convention NO. 182, ratified by Canada in 2000, places an obligation on the government to prohibit and take immediate action to eliminate the worst forms of child labour.<sup>55</sup> As a country that holds a dualist relationship with international law, Canada is, in theory, required to adopt separate national legislation to enforce the provisions of international treaties it has ratified. In practice however, the government has yet to adopt national legislation that would fulfil its international obligations to eliminate child labour from Canadian supply chains. At present, political conversations, albeit meager, and legislation addressing child labor are confined to Canada’s foreign assistance and development efforts. To address the root causes of child labour, Canada funds foreign aid projects in less developed and developing countries that aim to alleviate poverty, increase educational opportunities and strengthen public institutions for better oversight and monitoring of human rights issues. Focusing largely on

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<sup>48</sup> “Guiding Principles on Business and Human Rights,” United Nations Human Rights Office of the High Commissioner, 2011 < [https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf) > p.8

<sup>49</sup> “Guidelines for Multinational Enterprises,” Organization for Economic Cooperation and Development (OECD), 2011 < [https://www.oecd-ilibrary.org/governance/oecd-guidelines-for-multinational-enterprises\\_9789264115415-en](https://www.oecd-ilibrary.org/governance/oecd-guidelines-for-multinational-enterprises_9789264115415-en) >

<sup>50</sup> “SDG Indicators: Metadata repository,” United Nations Department of Economic and Social Affairs, Last modified March 2020 < <https://unstats.un.org/sdgs/metadata/?Text=&Goal=8&Target=8.7> >

<sup>51</sup> Stephane Brabant and Elsa Savourey, “A Contextualised Approach,” *Dossier Thematique*, 2017 <[http://www.bhrinlaw.org/frenchcorporatedutylaw\\_articles.pdf](http://www.bhrinlaw.org/frenchcorporatedutylaw_articles.pdf)>

<sup>52</sup> *ibid*

<sup>53</sup> Stephane Brabant and Elsa Savourey, *A Contextualised Approach*, 2017

<sup>54</sup> *Convention on the Rights of the Child*; Article 32, <<https://www.ohchr.org/en/professionalinterest/pages/crc.aspx>>

<sup>55</sup> C182-*Worst Forms of Child Labour Convention*, 1999 (No.182), Article 6 < [https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100\\_ILO\\_CODE:C182](https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C182) >

development aid to address child labour has made it a foreign issue, diverting attention away from Canada's connection to the problem via its supply chains.

Tangible efforts to address child labour in Canadian supply chains began in 2017 when a parliamentary Subcommittee on International Human Rights consulted with international organizations and Canadian civil society to study the phenomena. A report published by the committee in 2018 recommended legislative action as a way to encourage businesses to monitor their supply chains for risks of child labour.<sup>56</sup> In response, a proposed Modern Slavery Bill was tabled in the House of Commons by John McKay, a Liberal Member of Parliament. This bill would compel businesses to report on their efforts to reduce child labour in their supply chains and give the Canadian Border Services Agency the power to ban imports and impose fines of up to \$250,000.<sup>57</sup> Proponents of the bill claim that reporting requirements will provide consumers and investors the information required to make informed decisions on where they spend their money. This will encourage behavioural change within corporations to conform to human rights standards and address human rights risks within their supply chains. They also point to the effectiveness of import controls as a means to regulate goods and compel companies to be deliberate about their purchasing decisions.<sup>58</sup> Opponents of the bill have criticized it as a band-aid solution to holistically and effectively addressing the complex issue of child labour within Canadian supply chains. Non-governmental organizations (NGOs) such as the Canadian Network on Corporate Accountability (CNCA) have voiced that the bill would do little to drive behavioral change that would require the assessment, prevention, and effective mitigation of labour abuse.<sup>59</sup> A coalition of NGO's within the CNCA oppose the bill on the basis that there is no evidence to support that a reporting requirement alone will result in lower risks of child labour within supply chains. The bill is also criticized for failing to include measures that would compel companies to perform due diligence on their suppliers, and hold companies accountable for violations.<sup>60</sup>

Other notable measures by the government include the development of an enhanced national strategy on corporate responsibility which was created in 2014 following reports of Canadian extractive companies' involvement in human rights violations overseas. As a result of the strategy, a Canadian Ombudsperson for Responsible Enterprise (CORE) was established. The office is only mandated to address reports of alleged human rights violations by Canadian companies operating abroad and not within Canada. Moreover, the current strategy on corporate social responsibility focuses solely on the conduct of Canada's extractive corporations that are operating abroad. The only mention of mitigating risks of modern slavery and child labour within this strategy pertains to the mining of minerals.<sup>61</sup> While these are welcome steps to

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<sup>56</sup> Michael Levitt and Anita Vandenbeld, "A Call to Action: Ending the use of All Forms of Child Labour in Supply Chains," *Report of the Standing Committee on Foreign Affairs and International Development*, 2018 <<https://www.ourcommons.ca/Content/Committee/421/FAAE/Reports/RP10078750/faaerp19/faaerp19-e.pdf>>

<sup>57</sup> Federal Register of Legislation, "Modern Slavery Act 2018: No.153," 2018 <<https://www.legislation.gov.au/Details/C2018A00153>>

<sup>58</sup> Emily Dwyer, "Modern slavery bill misses the mark," iPolitics, 2020 <<https://ipolitics.ca/2020/02/25/modern-slavery-bill-misses-the-mark/>>

<sup>59</sup> *ibid*

<sup>60</sup> *ibid*

<sup>61</sup> Global Affairs Canada, "Doing Business the Canadian Way: A Strategy to Advance Corporate Social Responsibility in Canada's Extractive Sector Abroad," 2014 <<https://www.international.gc.ca/trade-agreements-accords-commerciaux/topics-domaines/other-autre/csr-strat-rse.aspx?lang=eng>>

addressing human rights violations that happen abroad, they have little effect on child labour that occurs within the supply chains of companies operating in Canada. They also lack any enforcement power that would compel companies to take their responsibilities seriously. Given a lack of comprehensive legislation that encourages companies to mitigate risks of child labour by performing rigorous due diligence into their supply chains and reporting on them publicly, some companies are voluntarily implementing measures to mitigate human rights risks in their operations as part of a greater commitment to Corporate Social Responsibility (CSR). Due to a lack of support from the government, and a push from legislation, these efforts are piecemeal, incoherent, and hardly effective at driving meaningful, company-wide, change that would mitigate child labour risks within supply chains.

### Business Landscape and Market Demand for Ethical Consumption

Canada currently hosts over 1.18 million employer businesses.<sup>62</sup> It's economy is increasingly globalizing and small, medium, and large businesses in Canada depend on imports from around the world for cheap labour and large profits.<sup>63</sup> These businesses often have a complex chain of production networks. A pair of jeans purchased at a Canadian retailer may have its cotton produced in Uzbekistan, its buckle manufactured in Bangladesh, and its zipper imported from China. A significant number of companies operating in Canada have 1,000 or more suppliers, and some have more than 5,000.<sup>64</sup> These suppliers operate in multiple tiers of the supply chain and in multiple jurisdictions, sometimes invisible to first-tier suppliers and lead firms. The number and diversity of suppliers within a supply chain makes it difficult for companies to trace and assess every level of their production networks.

Nonetheless, consumer demands for ethical propels businesses to be more transparent about their efforts to mitigate human rights risks within their supply chains. In a survey by Deloitte, three out of five participants claimed that they would be willing to pay a five percent premium or more on products that are guaranteed to be ethically sourced.<sup>65</sup> In the same survey, approximately six in ten Canadians consider themselves to be ethical consumers.<sup>66</sup> Furthermore, an Ipsos-Reid poll conducted a year after the Rana Plaza disaster<sup>67</sup> eighty-two percent of consumers were more willing to buy from Canadian retailers that had signed the Bangladesh Accord; a legally binding agreement that ensures safety standards between global brands,

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<sup>62</sup> Global Affairs Canada, "Canada's State of Trade 2019," 2019 <[https://www.international.gc.ca/gac-amc/publications/economist-economiste/state\\_of\\_trade-commerce\\_international-2019.aspx?lang=eng](https://www.international.gc.ca/gac-amc/publications/economist-economiste/state_of_trade-commerce_international-2019.aspx?lang=eng)>

<sup>63</sup> *ibid*

<sup>64</sup> Kam Phung, Delaney Greig, and Simon Lewchuk, *Canadian Business Insights on Modern Slavery in Supply Chains*, 21 <[https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains\\_final2.pdf](https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains_final2.pdf)>

<sup>65</sup> Abacus Data. Ethical Consumerism and Canadians (Corporate and Community Social Responsibility Research Series – Part II) (2011): 5 <<http://abacusdata.ca/wp-content/uploads/2011/01/CCSR-Ethical-Consumerism-Final.pdf>>

<sup>66</sup> *ibid*

<sup>67</sup> An incident in Dhaka, Bangladesh where negligence on safety measures led to the collapse of a building that housed garment factories. This incident took the lives of over 1,000 workers. See: [https://www.ilo.org/global/topics/geip/WCMS\\_614394/lang--en/index.htm](https://www.ilo.org/global/topics/geip/WCMS_614394/lang--en/index.htm)

retailers, and trade unions than from those that hadn't.<sup>68</sup> These results suggest that poor management of labour and human rights risks in global supply chains have financial impacts on sales in Canada, and pose reputational, operational, and legal risks for companies who fail to preform proper supply chain management to mitigate child labour.

## Corporate Human Rights Initiatives

In response to the growing consumer demand for ethical business practices, Canadian corporations by and large have developed comprehensive guidelines on their social corporate responsibilities. Some companies have even stated that advancing social well-being is their very reason for existence.<sup>69</sup> Moreover, a large majority of the companies, around eighty-six percent, surveyed by the Centre of Excellence in Responsible Business (COERB) at York University, the Shareholder Association for Research and Education (SHARE) and World Vision Canada acknowledged that modern slavery in supply chains is a moderately or highly relevant issue.<sup>70</sup> Eighty-percent of companies surveyed by COERB, have now started to incorporate language related to modern slavery, including child labour, into their supplier codes of conduct which they use to assess new and existing suppliers.<sup>71</sup> There have been instances where companies have rejected business relations with companies who failed to meet codes of conduct for ethical production.<sup>72</sup> Sixty-eight percent of companies claimed to give child labour within supply chains moderate to significant attention, whereas seventy-nine percent prioritized human rights more generally.<sup>73</sup> While a significant majority of companies have given moderate to significant attention to the issue of child labor in their supply chains, a sizeable minority are not bothered.<sup>74</sup> For example, a Director of a transportation company admitted that, while their company takes modern slavery seriously and is addressing it in its supply chain, modern slavery is “not in the top 10 priority CSR issues.”<sup>75</sup> Still, for the most part, companies view ethical sourcing and mitigating child labour from supply chains as critical for better business outcomes.

## Challenges to Supply-Chain Management

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<sup>68</sup> Ipsos-Reid, “Nine in Ten Indicate Willingness to Pay More for Products Guaranteed to be Free of Child Labour; Average Canadian Willing to Spend 23% More,” 2013 < <https://www.ipsos.com/sites/default/files/publication/2013-06/6142.pdf>>

<sup>69</sup> Coro Strandberg, “Corporate Social Responsibility in Canada: Trends, Barriers and Opportunities,” Strandberg Consulting, 2019 < <https://corostrandberg.com/wp-content/uploads/2019/02/csr-in-canada-trends-barriers-opportunities-report.pdf>>

<sup>70</sup> Elise Dueck, Delaney Greig, Kevin Thomas, “The Rise of Supply Chain Transparency Legislation: What is at stake for Canadian investors?,” Shareholder Association for Research and Education (Share), 2017<[https://share.ca/documents/investor\\_briefs/Social/2017/Supply\\_Chain\\_Transparency\\_Legislation.pdf](https://share.ca/documents/investor_briefs/Social/2017/Supply_Chain_Transparency_Legislation.pdf)>

<sup>71</sup> Kam Phung, Delaney Greig, and Simon Lewchuk, “*Canadian Business Insights on Modern Slavery in Supply Chains*, 21< [https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains\\_final2.pdf](https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains_final2.pdf)>

<sup>72</sup> *ibid*

<sup>73</sup> *ibid*

<sup>74</sup> Kam Phung, Delaney Greig, and Simon Lewchuk, “*Canadian Business Insights on Modern Slavery in Supply Chains*, 21< [https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains\\_final2.pdf](https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains_final2.pdf)>

<sup>75</sup> *ibid* p. 16

Despite the wide recognition and zeal for social causes, more than half of the companies assessed by World Vision did not provide sufficient public reporting on their efforts to eliminate child labor from supply chains.<sup>76</sup> The discrepancy between the purported commitments of corporations on social issues and concrete actions to follow through on those commitments stem from several internal and external barriers. A major hindrance to allocating company resources to assess supply chains for risks of child labour is a lack of buy-in from key internal stakeholder. Eighty-nine percent of Canadian companies find it challenging to get buy-in from internal stakeholders on the business and social returns of human rights risk assessments. Twenty-two percent of companies have faced active resistance within their own companies to manage supply chains for human rights risks.<sup>77</sup> The main resistance comes from staff within supply chain management and/or procurement areas.<sup>78</sup> Irrespective of the size of a company's team responsible for supply chain management and human rights or the location of staff, other members such as buyers, vendors and merchant managers who have regular and direct contact with suppliers sometimes push back on a company's efforts to mitigate human rights risks.<sup>79</sup> Conflicting priorities for buyers, a lack of perceived value on human rights risk management, and perceptions that efforts represent only the interest of the CSR team and not upper management, and a reluctance to talk openly about issues like modern slavery represent other challenges for companies to implement CSR measures.<sup>80</sup> A Director of a retail company explains the struggle to gain internal buy-ins by stating: *"Anytime there's resistance, most times the buyers say, 'Look, I need these goods to ship. I agree in principle. Of course, we should have no child labour, no forced labour. What can we do so that the goods ship here on time?' And then pushback from the vendors is along the same vein. Plus, they argue, 'Well, I've had a relationship with this factory so many years. I don't understand why this audit failed.'"*<sup>81</sup> Along with these internal factors, employees have a general fear of discussing topics such as child labour which they deem "taboo," "toxic," or "just not allowed."<sup>82</sup> Assumptions that employees hold of child labour being a foreign issue, or the idea that child labour is irrelevant in a particular industry also pose a hindrance to mitigating its risk.

### Problem of Traceability and Due Diligence

Even where companies are successful at gaining internal buy-in, the problem of traceability remains. Evidence has shown that child labour is most likely to occur in the lower tier of the supply chain, yet only twenty-nine percent of companies actively look beyond their

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<sup>76</sup> "Supply Chain Risk Report: Child and Forced Labor in Canadian Consumer Products," World Vision, June 2016 <[https://www.worldvision.ca/getattachment/No-Child-For-Sale/Resources/Supply-Chain-Risk/Risk-report-Child-and-forced-labour-report\\_jun-08.pdf.aspx?lang=en-CA](https://www.worldvision.ca/getattachment/No-Child-For-Sale/Resources/Supply-Chain-Risk/Risk-report-Child-and-forced-labour-report_jun-08.pdf.aspx?lang=en-CA)>

<sup>77</sup> Kam Phung, Delaney Greig, and Simon Lewchuk, "Canadian Business Insights on Modern Slavery in Supply Chains" <[https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains\\_final2.pdf](https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains_final2.pdf)>

<sup>78</sup> *ibid*

<sup>79</sup> *ibid*

<sup>80</sup> *ibid*

<sup>81</sup> *ibid*, 24

<sup>82</sup> Kam Phung, Delaney Greig, and Simon Lewchuk, "Canadian Business Insights on Modern Slavery in Supply Chains" <[https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains\\_final2.pdf](https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains_final2.pdf)> 24



first tier of suppliers.<sup>83</sup> Most Canadian companies have little to no access to the second-line subcontractors as first-line subcontractors do not reveal the information of those below them. Private audits of companies that assess only the official subcontractors, with little knowledge of their labor standards, would not capture the exploitation of children that is known to occur at the lowest tiers of the supply chain. At present, most companies perform risk assessments using “Supply Quality Management Guides” that include a list of questions for companies to ask their suppliers prior to making purchase agreements with them.<sup>84</sup> The same team responsible for this assessment is also tasked with conducting a “due diligence” of their supplier networks that sometimes leads to the payment of “special fees” and other bribes to government officials in countries with weak governments and rampant corruption.<sup>85</sup> This form of “due diligence” does little to ensure compliance with human rights, and more to serve business purposes. Even when the majority of companies have explicit language in their supplier codes of conduct that prohibits the use of child labour, a lack of resources and inadequate auditing process makes it difficult for companies to sufficiently map out their supply chains, and perform due diligence processes on their suppliers.<sup>86</sup> Eighty-eight percent of companies surveyed by COERB employee ten or fewer people who are specifically dedicated to working on issues of modern slavery within supply chains.<sup>87</sup> This number is significantly low considering that many companies staff over 10,000 or more employees.<sup>88</sup>

While opinions among senior official levels vary in terms of the internal processes required to better monitor and mitigate the risk of child labour from supply chain, there is almost unanimous agreement among senior level officials of companies operating in Canada that the government can play a lead role to accelerate and scale corporate social responsibility in Canada, including ways to ensure responsible and ethical supply chains.<sup>89</sup> Seventy-six percent of businesses surveyed by COERB believe supply chain legislation could help them by driving action to address modern slavery, whereas ninety-four percent felt positive or neutral about the Government of Canada’s announcement to initiate consultation on possible supply chain legislation; only six percent felt negative about it.<sup>90</sup> These numbers suggest that legislation is not

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<sup>83</sup> Kam Phung, Delaney Greig, and Simon Lewchuk, “*Canadian Business Insights on Modern Slavery in Supply Chains*” <[https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains\\_final2.pdf](https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains_final2.pdf)>

<sup>84</sup> “In the Dark: Bringing Transparency to Canadian Supply Chains,” International Justice and Human Rights Clinic, (Peter A. Allard School of Law, 2017) <<http://www.allard.ubc.ca/sites/www.allard.ubc.ca/files/uploads/IJHR/In%20the%20Dark%20-%20IJHR%20TSC%20Report.pdf>>

<sup>85</sup> *ibid*, 4

<sup>86</sup> Kam Phung, Delaney Greig, and Simon Lewchuk, “*Canadian Business Insights on Modern Slavery in Supply Chains*” <[https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains\\_final2.pdf](https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains_final2.pdf)> p.26

<sup>87</sup> *ibid*

<sup>88</sup> *ibid*

<sup>89</sup> “Canada’s Labour Provisions in Trade Agreements: Presentation before the Standing Senate Committee on Foreign Affairs and International Trade,” Employment and Social Development Canada, 2016 <[https://sencanada.ca/content/sen/committee/421/AEFA/Briefs/2016-05-11-BriefESDCCanada%E2%80%99sLabourProvisionsinTradeAgreements\\_e.pdf](https://sencanada.ca/content/sen/committee/421/AEFA/Briefs/2016-05-11-BriefESDCCanada%E2%80%99sLabourProvisionsinTradeAgreements_e.pdf)>

<sup>90</sup> Kam Phung, Delaney Greig, and Simon Lewchuk, “*Canadian Business Insights on Modern Slavery in Supply Chains*” <[https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains\\_final2.pdf](https://share.ca/wp-content/uploads/2019/05/Cdn-Business-Insights-on-Modern-Slavery-in-supply-chains_final2.pdf)>

only welcomed by businesses, but also seen as critical to the advancement and materialization of their commitments to ethical and responsible sourcing.

## Best Practices on Modern Slavery and Due Diligence Legislation

In recent years, a growing number of states have adopted either modern slavery reporting legislation or mandatory human rights due diligence legislation. The earliest example of reporting legislation is the *California Transparency in Supply Chains Act 2010* (“California Act”). Other examples include United Kingdom’s Modern Slavery Act (2015), and more recently, Australia’s Modern Slavery Act (2018). Reporting legislation requires companies that conduct business over a certain financial threshold to publicly report on their efforts to address modern slavery issues, including child labour, in their supply chains. The impetus for reporting legislation is that increased transparency and reporting will lead to greater accountability and ultimately greater action by businesses to follow through on their CSR commitments. While the purpose for the reporting legislation is shared across enacting states, the definition of modern slavery, reporting requirements and frequency of reporting varies for each state. By contrast, mandatory human rights due diligence legislation such as France’s 2017 Corporate Duty of Vigilance Law, in addition to requiring public reporting, creates an obligation for very large companies domiciled in the jurisdiction to proactively conduct due diligence on the full range of human rights issues in their operations and supply chains. The law also provides for potential civil liability, if it can be demonstrated that a company’s failure to adequately comply with the law caused harm to a third party. Below is an analysis of the strengths and weaknesses of reporting and due diligence legislation.

### The California Act (2015)

The California Act requires companies to report the extent to which they verify, assess, and mitigate risks of modern slavery within their supply chains.<sup>91</sup> Companies are free to state they do not engage in any manner of verification. In addition to this, companies must disclose to who and to what extent audits are performed on suppliers to ensure compliance with company standards on modern slavery in supply chains. The California Act also requires the disclosure of internal accountability measures if employees or contractors fail to abide by company labour standards, alongside reporting of the extent to which employees and managers that have direct responsibility with supply chain management are trained on mitigating risks within supply chains.<sup>92</sup>

The California Act is limited in its application in that it only requires companies that have an annual worldwide gross receipt of more than \$100 million USD in order to avoid a disclosure burden on companies that may not be at high risk of using forced labour in their supply chains.<sup>93</sup> The Act has been criticized for its limited scope by civil society groups that point to the

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<sup>91</sup> *The California Transparency in Supply Chains Act*, State of California Department of Justice, 2015 <<https://oag.ca.gov/SB657>>

<sup>92</sup> Elise Dueck, Delaney Greig, and Kevin Thomas, “The Rise of Supply Chain Transparency Legislation,” *Shareholder Association for Research and Education (SHARE)*, <[http://share.ca/documents/investor\\_briefs/Social/2017/Supply\\_Chain\\_Transparency\\_Legislation.pdf](http://share.ca/documents/investor_briefs/Social/2017/Supply_Chain_Transparency_Legislation.pdf)> 9

<sup>93</sup> *ibid*

companies that have similar risks in their supply chains but are exempt from accountability solely based on their tax classification.<sup>94</sup> Due to the lack of guidance provided to companies that includes a coherent auditing methodology, companies report spending the first few years interpreting the law, rather than implementing it by developing processes that would allow for greater transparency in their supply chains.<sup>95</sup> In its review of five hundred companies, KnowTheChain, a non-profit, found that only thirty-one percent of the companies assessed over a five year period had a disclosure statement available that was in compliance with all the requirements of the legislation.<sup>96</sup> The law has also been criticized for failing to adequately propel companies to mitigate risks of child labour due to the one time reporting requirement which relieves companies of a long-term commitment to mitigating human rights risks in their business operations.<sup>97</sup> Given that the list of companies that fall under the legislation are not reported publicly, the Act does little to empower consumers with the ability to make informed decisions on their purchases.<sup>98</sup>

### UK Modern Slavery Act (2015)

The UK's Modern Slavery Act addresses trafficking and forced-labour through initiatives that include new criminal offences, an anti-slavery commissioner, and victim support. Section 54 of the Act establishes a system for companies in the UK to report on their supply chain activities.<sup>99</sup> Unlike the California Act, The UK Modern Slavery Act ensures that reporting requirements put the least administrative burden on companies, and provides companies with more freedom in the way that they choose to report. Under the Act, all companies of a certain size that operate in the UK are expected to make annual disclosure statements that reveal the steps they have taken to mitigate the risks of modern slavery and human trafficking in any part of its supply chain.<sup>100</sup> In the initial drafting of the Act, businesses indicated that having to meet specific reporting requirements in the operation of their supply chains; which is required in the California Act, would take away resources required to address substantial issues of human rights risks within supply chains and instead divert attention to unclear reporting requirements in order to fulfil legal obligations.<sup>101</sup> Unlike the California Act, the UK Act demands annual disclosures from companies to ensure that transparency goals are sustained in the long-run.<sup>102</sup> Given that the

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<sup>94</sup> Elise Dueck, Delaney Greig, and Kevin Thomas, "The Rise of Supply Chain Transparency Legislation," *Shareholder Association for Research and Education (SHARE)*, <  
[http://share.ca/documents/investor\\_briefs/Social/2017/Supply\\_Chain\\_Transparency\\_Legislation.pdf](http://share.ca/documents/investor_briefs/Social/2017/Supply_Chain_Transparency_Legislation.pdf)>

<sup>95</sup> *ibid*

<sup>96</sup> "Five Years of the California Transparency in Supply Chains Act," KnowTheChain, 2015 <  
[https://knowthechain.org/wp-content/uploads/2015/10/KnowTheChain\\_InsightsBrief\\_093015.pdf](https://knowthechain.org/wp-content/uploads/2015/10/KnowTheChain_InsightsBrief_093015.pdf)>

<sup>97</sup> Elise Dueck, Delaney Greig, and Kevin Thomas, *The Rise of Supply Chain Transparency Legislation* <  
[http://share.ca/documents/investor\\_briefs/Social/2017/Supply\\_Chain\\_Transparency\\_Legislation.pdf](http://share.ca/documents/investor_briefs/Social/2017/Supply_Chain_Transparency_Legislation.pdf)>

<sup>98</sup> *ibid*

<sup>99</sup> *Modern Slavery Act 2015*, UK Public General Acts, <  
<http://www.legislation.gov.uk/ukpga/2015/30/section/54/enacted>>

<sup>100</sup> Elise Dueck, Delaney Greig, and Kevin Thomas, *The Rise of Supply Chain Transparency Legislation* <  
[http://share.ca/documents/investor\\_briefs/Social/2017/Supply\\_Chain\\_Transparency\\_Legislation.pdf](http://share.ca/documents/investor_briefs/Social/2017/Supply_Chain_Transparency_Legislation.pdf)>

<sup>101</sup> *ibid*

<sup>102</sup> *Modern Slavery Act 2015*, UK Public General Acts, <  
<http://www.legislation.gov.uk/ukpga/2015/30/section/54/enacted>>

UK is Canada's third largest exporter, Canadian firms may also be a part of the supply chain of British companies. This would require them to report on due diligence of their products, and potentially assess their suppliers to abide by legal requirements of other jurisdictions with which they have trade relations.<sup>103</sup>

To ensure that human rights obligations are understood and fully integrated at all levels of the company, not just corporate responsibility or public relations Departments, the UK Act requires that the statement is approved by the company's board of directors, partnership, or a governing body and signed by a director or partner.<sup>104</sup> While human rights due diligence may enable more effective reporting, it is not a requirement of transparency obligations under the Act. A 2018 study of more than 100 statements from companies in the UK subject to the Act found that less than eighteen percent of companies complied with all the requirements of the Act.<sup>105</sup> The Business and Human Rights Resource Centre's Modern Slavery Registry captures more than 5,000 statements from businesses only found a 20 percent compliance rate.<sup>106</sup> A study on due diligence legislation by the European Commission found that reporting requirements produce only "minor positive social impact."<sup>107</sup>

### French Duty of Vigilance Law (2017)

In 2016, France passed the bill "Devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre" (Due diligence requirements for parent and contracting companies bill) for companies operating in France that have more than 5,000 employees in the country, or more than 10,000 within the country and abroad.<sup>108</sup> If passed into law, the bill would require companies that operate in France with more than 5,000 employees in the country, or more than 10,000 employees in France and abroad to make a due diligence plan that would include a/ a risk assessment that would identify, analysis and priorities risks of modern slavery, b/a process for regular assessment of subcontractors, suppliers, and subsidiaries, c/a tailored outline of actions required to mitigate risks, d/an alert mechanism which enables reporting and complaints about human rights risks, and lastly, a system to monitor implementation measures and evaluate their effectiveness.<sup>109</sup> A company can be fined up to 30 million euros for failing to provide a due diligence plan to mitigate human rights risks within its supply chain.<sup>110</sup>

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<sup>103</sup> Elise Dueck, Delaney Greig, and Kevin Thomas, *The Rise of Supply Chain Transparency Legislation* <[http://share.ca/documents/investor\\_briefs/Social/2017/Supply\\_Chain\\_Transparency\\_Legislation.pdf](http://share.ca/documents/investor_briefs/Social/2017/Supply_Chain_Transparency_Legislation.pdf)>

<sup>104</sup> *Modern Slavery Act 2015*, UK Public General Acts, <<http://www.legislation.gov.uk/ukpga/2015/30/section/54/enacted>>

<sup>105</sup> "Eradicating Forced Labour in Electronics: What Do Company Statements under the UK Modern Slavery Act Tell Us?" Know the Chain, March 2018, <[https://knowthechain.org/wp-content/uploads/KTC-ICT-MSAReport\\_Final\\_Web.pdf](https://knowthechain.org/wp-content/uploads/KTC-ICT-MSAReport_Final_Web.pdf)> 4.

<sup>106</sup> Know the Chain, *Eradicating Forced Labour*, 9.

<sup>107</sup> "Study on due diligence requirements through the supply chain: final report," Publications Office of the European Union, 2020 <<http://op.europa.eu/en/publication-detail/-/publication/8ba0a8fd-4c83-11ea-b8b7-01aa75ed71a1/language-en>>

<sup>108</sup> Stephane Brabant and Elsa Savourey, "A Contextualised Approach," *Dossier Thematique*, 2017 <[http://www.bhrinlaw.org/frenchcorporatedutyaw\\_articles.pdf](http://www.bhrinlaw.org/frenchcorporatedutyaw_articles.pdf)>

<sup>109</sup> *ibid*, 27

<sup>110</sup> Assemblée nationale, "Proposition de loi relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre", 2016-2017 <<http://www.assemblee-nationale.fr/14/ta/ta0843.asp>>

France's Duty of Vigilance expects companies to go beyond merely reporting on their efforts to mitigate risks, and instead encourages them to develop concrete plans to assess and mitigate risks.<sup>111</sup> Under the Act, companies would be required to create a "vigilance plan" that is drafted in consultation with a broad range of stakeholders and multi-stakeholder initiatives and made accessible to the public.<sup>112</sup> Though the law is still in its early stages to assess for effectiveness, many of the plans published in 2018 and 2019 are brief, and barely mention that the company has complied with five measures required by the law. Moreover, the due diligence requirement extends only to sub-contractors and suppliers that have commercial relationships with the lead firm. This presents a gap in the ability of businesses to capture and mitigate risks that are more commonly known to occur in the lower tiers of a company's supply chain that do not usually have a formal relationship with lead firms. Nonetheless, this type of due diligence legislation encourages companies to go beyond merely reporting on their efforts to taking concrete steps to implement vigilance plans and mitigate risks through proper audits.<sup>113</sup>

### Model for Effective Supply Chain Management

While there is a lack of consistency in corporate public reporting on human rights issues, a small niche of Canadian companies have made efforts to address labour rights abuses, including child labour, within their supply chains. As Canada's oldest corporation which spans more than 370 years, the Hudson's Bay Company is an industry leader at implementing CSR principles within its business operations.<sup>114</sup> The HBC takes a unique collective industry approach to addressing labour rights violations within its supply chain. To mitigate human rights risks, the company coordinates its CSR efforts with a wide range of industry partners in order to gain leverage over suppliers and ensure compliance. Through its Ethical Sourcing Program, HBC provides education and training to its buyers, vendors, and manufacturers to ensure that they fully understand the company's codes of conduct and verification processes.<sup>115</sup> In 2005, the HBC provided an online course which educated over 400 associates on the company's policies and procedures to ensure that business partners and employees are aligned with their codes of conduct.<sup>116</sup>

The second part of its program ensures that suppliers comply with the codes of conduct. With over 580 suppliers, however, effectively monitoring and assessing every supplier presents a challenge. As such, the company has a prioritization system which categorizes suppliers based

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<sup>111</sup> Sandra Cossart, "What lessons does France's Duty of Vigilance law have for other national initiatives?" *Business and Human Rights Resource Centre*, 2019 < <https://www.business-humanrights.org/en/what-lessons-does-frances-duty-of-vigilance-law-have-for-other-national-initiatives> >

<sup>112</sup> *ibid*

<sup>113</sup> Stephane Brabant and Elsa Savourey, "A Contextualised Approach," *Dossier Thematique*, 2017 < [http://www.bhrinlaw.org/frenchcorporatedutylaw\\_articles.pdf](http://www.bhrinlaw.org/frenchcorporatedutylaw_articles.pdf) > p. 7

<sup>114</sup> Elise Dueck, Delaney Greig, and Kevin Thomas, *The Rise of Supply Chain Transparency Legislation* < [http://share.ca/documents/investor\\_briefs/Social/2017/Supply\\_Chain\\_Transparency\\_Legislation.pdf](http://share.ca/documents/investor_briefs/Social/2017/Supply_Chain_Transparency_Legislation.pdf) >

<sup>115</sup> APEC Human Resources Development Working Group Capacity Building Network, "Corporate Social Responsibility in the Global Supply Chain," *Asian-Pacific Economic Cooperation*, 2007 < <https://www.apec.org/Publications/2008/03/Corporate-Social-Responsibility-in-the-Global-Supply-Chain-An-APEC-Casebook-December-2007-Published> >

<sup>116</sup> *ibid*

on the degree of trading activity undertaken with them.<sup>117</sup> **Priority A** suppliers are given high priority for audits based on volume of sales, perceived risk and factory location. These suppliers are audited most frequently.<sup>118</sup> **Priority B** suppliers are those that are new without an established track record. These suppliers are carefully evaluated on the compliance criteria and monitored regularly.<sup>119</sup> **Priority C** suppliers are those that have long term existing relationships with the company and do not require frequent auditing.<sup>120</sup> This system ensures that all suppliers are verified according to their track record and history with the company in order to avoid cumbersome processes that strain company resources and leave gaps in the verification with a one size fits all approach to auditing.

Furthermore, to overcome the issue of traceability and ensure that audits capture the full breadth of suppliers in all levels of the supply chain, first-tier suppliers are required to submit the names and addresses of their factories and subcontractors as a condition for doing business with HBC.<sup>121</sup> In addition to this, factories are required to submit third-party audit reports from accredited organizations to verify that employees are paid fair wages, abide by labour standards, and respect the environment and surrounding communities in their production processes.<sup>122</sup> The auditing methodology used by the company is designed by a leading supply chain management system, known as the Business Social Compliance Initiative (BSCI).<sup>123</sup> This method rates factories on a scale from A to E. A is assigned to companies that fully comply with labour standards, whereas E represents companies that fall short of international labour standards and company codes of conduct. Based on this criterion, HBC makes decisions as to whether a factory should be approved for producing their products.<sup>124</sup> In the case that a company fails at compliance, the company partners with the suppliers, auditors, and factory managers to ensure that a plan is created to help the company comply with labour standards rather than completely discarding a potential business relation. Following the corrective action, these companies are re-evaluated annually or bi-annually to ensure that improvement are sustained. In its 2018 audits, sixty-seven percent of companies were approved for production on the condition that improvement are made to their labour standards. HBC suppliers are also encouraged to use the

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<sup>117</sup> APEC Human Resources Development Working Group Capacity Building Network, "Corporate Social Responsibility in the Global Supply Chain," *Asian-Pacific Economic Cooperation*, 2007 < <https://www.apec.org/Publications/2008/03/Corporate-Social-Responsibility-in-the-Global-Supply-Chain-An-APEC-Casebook-December-2007-Published>>

<sup>118</sup> Pierre Vanasse, "CSR and the Supply Chain: The Case of the Global Retail Supply Chains Managed by the Hudson's Bay Company (HBC)," 2007 < <http://publications.apec.org/-/media/APEC/Publications/2008/3/Corporate-Social-Responsibility-in-the-Global-Supply-Chain-An-APEC-Casebook-December-2007-Published/TOC/Canada-CSR-and-the-Supply-Chain-The-Case-of-the-Global-Retail-Supply-Chains-Managed-by-The-Hudsons-B.pdf>>

<sup>119</sup> *ibid*

<sup>120</sup> Pierre Vanasse, "CSR and the Supply Chain: The Case of the Global Retail Supply Chains Managed by the Hudson's Bay Company (HBC)," 2007 < <http://publications.apec.org/-/media/APEC/Publications/2008/3/Corporate-Social-Responsibility-in-the-Global-Supply-Chain-An-APEC-Casebook-December-2007-Published/TOC/Canada-CSR-and-the-Supply-Chain-The-Case-of-the-Global-Retail-Supply-Chains-Managed-by-The-Hudsons-B.pdf>>

<sup>121</sup> *ibid*

<sup>122</sup> *ibid*

<sup>123</sup> "Hudson's Bay Company Sustainability Report," Hudson's Bay Company, 2018 < <https://www3.hbc.com/hbc/socialresponsibility/csr-reporting/>>

<sup>124</sup> *ibid*

Amfori BSCI methodology for their auditing.<sup>125</sup> Partnering with the Amfori BSCI is beneficial as the program offers free online and in-person capacity-building courses and workshops for companies that rate D (insufficient) or lower in their audits.<sup>126</sup> In its report, the company has noted positive changes in factories that have undergone its compliance audits.

Further to its proactive education initiatives, and comprehensive auditing processes, HBC is exemplary in its commitment to transparency. To ensure that investors and customers have access to information required to make informed decisions on purchases, the company publicly discloses the names and addresses of its suppliers on its website.<sup>127</sup> Effectively mitigating risks of child labour within global supply chains that include hundreds of subcontractors is not an easy endeavor, still, it is not unachievable. Canadian Companies such as the HBC have proven that a strong commitment to CSR principles that are followed up with a coherent education, auditing, and verification strategy can lead to favourable outcomes. A key tenant of HBC's successful CSR strategy is its multi-stakeholder approach to addressing human rights issues. Along with fulfilling administrative requirements, the HBC team has built lasting partnerships with local groups, such as the Asia Monitor Resource Center, researchers from the East China University, and the Hong Kong Christian Industrial Committee, that discuss regional challenges with compliance on human rights issues. By actively working with regional actors, Canadian companies are well positioned to build the capacity of their suppliers to mitigate child labour risks without cutting business relations which has proven to have adverse effects that lead to children turning to more dangerous industries, such as sex-trade and human-trafficking, in order to make a living.

## Methodology

Canadian businesses are vital to the economic growth and prosperity of the country. Yet, their inability to adequately mitigate risks of child labour within their supply chains jeopardizes Canada's reputation as an international human rights leader and impedes Canada's economic growth prospects in a global economy that is increasingly demanding more ethical and sustainable practices. In order to strengthen the Canadian economy and protect Canada's human rights reputation, policy alternatives will be tests for their ability to balance ethical considerations with business interests and economic realities of competitiveness and institutional pressures. A successful policy will ensure the effective mitigation of child labour in supply chains without burdening businesses with high costs that could drive away businesses and hurt Canada's economy in the long run. This policy paper deploys primary sources; such as domestic and foreign legislation and government reports, as well as secondary sources; including commentaries, articles, surveys, case studies and legal research by experts and academics to evaluate each policy option for political feasibility, economic efficiency, efficacy, and stakeholder support. The measure for each criterion is described below:

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<sup>125</sup> "Hudson's Bay Company Sustainability Report," Hudson's Bay Company, 2018 < <https://www3.hbc.com/hbc/socialresponsibility/csr-reporting/>>

<sup>126</sup> *ibid*

<sup>127</sup> Hudson's Bay Company, "HBC Manufacturing List," < <https://www3.hbc.com/hbc/socialresponsibility/hbc-manufacturing-list/>>



**Political Feasibility** – This criterion ranks policy on its likelihood of adoption at the federal level based on the level of support from legislators established through self-interests in the issue and constituent demands, as well as administrative costs in implementing the policy.

**Economic Efficiency** - Implementing measures that restrict or dictate what businesses can and can't do risks the chance of overburdening businesses. This in turn can lead to negative outcomes for the domestic economy such as loss of jobs or the shutdown of a business altogether. These risks could be mitigated by reducing costs for businesses and providing enough incentives to not only keep them businesses in Canada, but also to encourage innovation and sustainable growth that would increase access to the international market for Canadian businesses and provide them with a competitive edge.

**Efficacy** – This criteria tests policy for its effectiveness at meeting policy objectives based on a/a policies ability to encourage businesses to *identify* risks of child labour within their supply chains b/to effectively address those risks through concrete *action* and c/to *assess* the effectiveness of a company's efforts to mitigate risks of child labour within supply chains and d/the likelihood of businesses to comply with legal obligations.

**Stakeholder Support** – The effectiveness of a policy depends on buy-in from businesses that are primarily responsible for its implementation. Support will be measured based on financial, administrative and resource costs for companies as a result of implementing a policy, as well as the level of incentives that each policy has to offer.

The likelihood of success for each policy will be gauged based on how it fares on the policy criteria highlighted above. Each evaluative criterion for the policy being assessed will be categorized as “high,” “medium,” or “low” based on its chances of meeting each evaluative criterion. For example, a policy might be ranked “high” for the criteria of “stakeholder support” if it offers promising incentives and cuts costs for businesses; indicating that it has a high likelihood of garnering stakeholder support. A successful policy will ensure that companies are incentivized to thoroughly identify, mitigate and report on their efforts to address child labour within their supply chains without overburdening companies with administrative and financial costs in order to provide a supportive domestic ecosystem for businesses that would ensure global competitiveness and high economic returns for Canada.

## Policy Options

### Option 1: Enact Bill S-211

In 2018 Bill C-423, a private member's Bill that demanded greater transparency from businesses on efforts to mitigate child labour risks within their supply chains, gained unanimous support in Parliament. While the Bill died on the order paper with the dissolution of the government in 2019, political will on the issue remained. In February 2020 a virtually identical bill, Bill S-211, was proposed in the Senate. This bill is currently going through its second reading. Like the UK Act, Bill S-211 is vague in its reporting obligations. Section 7(1) requires companies to provide the Minister of Public Safety an annual modern slavery report

which would entail steps the business took to prevent and reduce the risk of forced or child labour within its supply chain. This broad provision does not require companies to perform due diligence inquiries into their suppliers that would determine *if* and *where* child labour occurs within their supply chains. At present, the auditing practices of companies are not only insufficient at determining risks of child labour in terms of design, but also do not adequately assess sub-contractors and lower-tier suppliers where child labour is most likely to occur. The vague reporting provisions within the current bill assumes compliance even where companies report that no action was taken to mitigate risks of child labour within their supply chains, let alone actively investigate and propose a meaningful plan to mitigate risks. The impetus behind the current legislation is to empower investors and consumers to make informed purchasing decisions with increased access to information in order to change market behavior without stringent government regulations. This goal is shared by the UK Modern Slavery and California Act.

An analysis on the impact of both those legislation has demonstrated poor prospects for success. In 2018, only 18% of statements published by companies subject to the UK Act met the three minimum reporting requirements of the legislation.<sup>128</sup> An even lower number, about 5% percent of companies reported the location of their supply chains and composition of their suppliers and workforce. Even in parts of the electronic industry where risks were well-documented, companies failed to publish statements that explicitly addressed these risks.<sup>129</sup> The overall impact of the legislation has been an increase in reported commitments to address the issue, but a failure to actually act on those commitments. Like other transparency legislation, Bill S-211 relies on investors and consumers to make more ethical purchasing decisions based on increased transparency from businesses on their efforts to ensure ethical sourcing of their products. A policy that hopes for corporate change through market forces rests on an idealistic premise that is based on the assumption that consumer preferences are constant and predictable. Evidence shows that market forces, on their own, are inadequate at driving corporate change because a/consumer stated preferences for ethical sourcing do not always translate into purchasing decisions, that is, consumers don't always do as they say, and b/without clear and in-depth information about how a company identifies and mitigates risks, the surface-level reporting produced through transparency legislation does not allow investors and consumers to properly compare companies on their performance and make informed purchasing decisions as a result.

The distinguishing feature of Bill S-211 from its counterparts is its stringent enforcement measures. Under Section 10 and 11 of the Act, designated person(s) are given broad powers to verify compliance with the act. Article 11(1) goes as far as allowing designated person(s) to enter private residences without the occupant's consent provided that the person(s) possess a warrant. Furthermore, failure to comply with the provisions of the Act would constitute an offence punishable under the Criminal code as a summary conviction, and could result in fines of up to \$250,000. Given that the reporting provisions within the Act are vague without provisions to demand thorough investigation into supply chains and tailored due diligence plans, the administrative costs to comply with the provisions are low. This increases the

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<sup>128</sup> "Eradicating Forced Labor in Electronics: What do company statement under the UK Modern Slavery Act tell us?" KnowtheChain, March 2018 < [https://knowthechain.org/wp-content/uploads/KTC-ICT-MSA-Report\\_Final\\_Web.pdf](https://knowthechain.org/wp-content/uploads/KTC-ICT-MSA-Report_Final_Web.pdf)>

<sup>129</sup> *ibid*, 4

likelihood of companies to refrain from devoting resources that would be required to take meaningful action, and instead practice tick-box compliance merely to protect themselves from liability. Furthermore, the additional provision in the Bill to amend the Customs Tariff Act to allow for a prohibition on the importation of goods manufactured or produced through child labour would pose high costs on the government to implement. Fulfilment of this provision requires Canadian customs agencies to build an investigative and reporting infrastructure that is able to effectively identify risky goods. While Bill S-211 poses minimal, if any, financial and administrative burdens on businesses, it does not provide strong incentives for businesses to take concrete action towards identifying and mitigating risks to child labour beyond paying lip-service to CSR strategies. As such, enacting the Bill as is would do little to create the kind of corporate change that would allow companies to adequately identify and mitigate child labour risks. This policy would also present a missed opportunity for Canada to encourage businesses to shift towards more ethical and sustainable business models; limiting their access to global markets and partnerships with global stakeholders that are increasingly demanding higher human rights standards from prospective partners.

## Summary

### *Policy Option 1*

Evaluative Criteria	Likelihood of Success	Reason
<b>Political Feasibility</b>	High	Bill S-211 shares the same characteristics as Bill C-423 which received unanimous, cross-party, support in Parliament. Political will to pass transparency legislation is also signaled by the quick reinstatement of the bill in the Senate shortly after Parliament resumed following the 2019 federal elections. Given the heightened public awareness and demand to act on the issue, MPs will be incentivized to pass such a bill to appease their constituencies.
<b>Stakeholder Support</b>	Medium	Most businesses already have CSR strategies and policies in place. Producing an annual report, without specified requirements to include in-depth information on their suppliers and risk mitigation plans that would demand altered and additional processes, businesses face very low, if any, administrative costs. The stringent enforcement provisions are reconciled with the minimal fixed costs that businesses face to implement key provisions and avoid reputational costs. In the long-run, the policy does little to support businesses that have a desire to fulfil CSR commitments, but a lack of guidance on how to achieve supply chains free of human rights violations.

<b>Economic Efficiency</b>	Medium	The global economy is increasingly shifting to more clean and ethical sourcing. Without a regulatory framework to encourage Canadian businesses to think outside the box and innovate in order to ensure human rights in their operations, businesses lose out on the opportunity to gain a competitive edge in global markets. The lack of ability and capacity of companies to adequately trace their supply chains and identify child labour risks also makes companies more susceptible to reputational and legal risks. In the long-run, this may harm the productivity of Canadian businesses, as well as Canada's GDP and human rights reputation.
<b>Efficacy</b>	Low	Evidence from similar legislation implemented in the UK and other countries shows that transparency legislation alone does little to change corporate behavior. Eliminating child labour from supply chains requires radical changes to a company's culture and processes. The requirements of the current legislation do not encourage companies to modify their practices to meaningfully identify and mitigate risks of child labour within their supply chains. Data on Canadian companies shows that, left to their free will, companies are least likely to invest in resources that prioritize social responsibility. The legislation has very low chances of creating company-wide, large scale, change that is required to meet policy goals.

## Option 2: Adopt a National Strategy on Eliminating Child Labour from Canadian Supply Chains

Most businesses that operate in Canada have, at the very least, a formal CSR strategy with goals, targets, and various metrics.<sup>130</sup> Many of these strategies are informed by international United Nations and OECD guidelines on business and human rights. Nonetheless, Canadian corporations are rarely reporting on how they assess their supply chains for risks of child labour, let alone implementing meaningful measures to combat those risks. This is owing to a lack of internal buy-in from senior management and executive leadership on the business case and returns from putting in resources for social causes. Without incentives or imminent risks of reputational damage to the brand, there is little willingness on part of businesses to voluntarily invest time and resources to thoroughly investigate their supply chains and implement a plan that would remedy human rights violations related to child labour.<sup>131</sup> Businesses that intend to perform due diligence into their supply chains are hindered by the inability to adequately trace and effectively audit multiple, sometimes hundreds of, suppliers within their production lines. The reluctance to perform thorough investigations is also compounded by a lack of clarity within

<sup>130</sup> Coro Stranberg, *Corporate Social Responsibility in Canada: Trends, Barriers and Opportunities*, March 2019 <<https://corostranberg.com/wp-content/uploads/2019/02/csr-in-canada-trends-barriers-opportunities-report.pdf>>

the business community on what effective measures to mitigate child labour risks would entail, and the metrics by which those measures can be assessed for impact.

At present, the only strategy on business and human rights that exists pertains to Canada's extractive sector operating abroad.<sup>132</sup> Within this strategy, a small subsection is dedicated to how companies might reduce risks of child labour in the specific context of mining minerals. Businesses currently have no coherent guidelines on how to adequately and cost-effectively address child labour within their supply chains. As a result, tangible efforts to mitigate its risks are fragmented, at best, and non-existent at worst. Without a framework that provides companies with a blue-print for mitigating human rights risk based on best-practices and consensus-based impact assessments, the efforts of companies to address child labour within their supply chains have a low probability of progressing beyond strategies and mere statements on paper. Canadian companies are not only willing, but actively demanding better guidance on fulfilling CSR commitments. However, the inability of the current National Strategy to produce favourable human rights outcomes serves as a reminder that strategies that rely on businesses to self-regulate, without any enforcement powers, are insufficient at producing corporate change that would ensure clean and ethical supply chain management.

Research on self-regulations reveals that even for companies with the noblest of intentions, unwritten rules of the free market are unable to reconcile the costs of social responsibility with the need for companies to make profit.<sup>133</sup> A 2003 Harvard study on industry self-regulation found that without a mechanism for screening members, programs that provide incentives for companies that commit to human rights in business conduct may be subject to adverse selection. That is, industry self-regulatory programs may attract more poor performers, that benefit from the incentives provided by the program without putting in any real effort, than those that are taking more meaningful action.<sup>134</sup> The American Chemistry Council's (ACC) Responsible Care program; an initiative that improves the reputation of the chemical industry by supporting individual chemical firms, attracted more firms whose emissions of toxic chemicals were greater than those of other firms of similar size and type.<sup>135</sup> Thus, self-regulatory measures, even when they are encouraged through incentives, may serve counter-intuitive to the policy goal as companies that fail to put in meaningful efforts to mitigate child labour risks within their supply chains may report alternatively in order to reap benefits.

Producing a national strategy based on the committee's findings would save the government administrative and resource costs as the groundwork for such a strategy exists through the extensive 2018 study that Canada's Parliamentary Committee on Foreign Affairs and International Development conducted by engaging various resources in business and human rights, as well as widely consulting with stakeholders. Creating the strategy would simply require a reconvening of the committee in order to deliberate on its content and push it out. However,

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<sup>132</sup> Global Affairs Canada, *Canada's Enhanced Corporate Social Responsibility Strategy to Strengthen Canada's Extractive Sector Abroad*, 2014 < <https://www.international.gc.ca/trade-agreements-accords-commerciaux/topics-domaines/other-autre/csr-strat-rse.aspx?lang=eng> >

<sup>133</sup> Kathryn, Manza, "Making Chocolate Sweeter: How to Encourage Hershey Company to Clean up its Supply Chain and Eliminate Child Labor," *Boston College International Comparative Law Review* Vol. 37, no.2 (2014)

<sup>134</sup> Michael J. Lenox, and Jennifer Nash, "Industry Self-Regulation and Adverse Selection: A Comparison Across Four Trade Association Programs," *Business Strategy and the Environment* Vol. 12, no. 6: 343-356 (2003) <<https://onlinelibrary-wiley-com.ezp-prod1.hul.harvard.edu/doi/pdfdirect/10.1002/bse.380>>

<sup>135</sup> *ibid*, 346

given the low likelihood of success for the strategy to meet policy goals, the costs of producing the strategy would still outweigh the return to the Canadian government by failing to make progress at enhancing its economy and rectifying its tarnished reputation in business and human rights.

## Summary

### *Policy Option 2*

Evaluative Criteria	Likelihood of Success	Reason
<b>Political Feasibility</b>	High	Given that the ground-work for such a policy exists via the work that Canada's Standing Committee on Foreign Affairs and International Development has done on this end, adopting this policy would pose minimal resource and administrative costs for the government.
<b>Stakeholder Support</b>	High	A large majority of Canadian businesses have voiced the need to have better guidance and direction on implementing their CSR strategies. A national framework would support that call without posing any legal constraints on businesses.
<b>Economic Efficiency</b>	Low	A national strategy without any legal force would be a "band-aid" solution to address Canada's problem of child labour in its supply chains. Failing to alter business behavior, it would present a missed opportunity for Canada to promote innovation in the globally budding market of clean and sustainable business. Given the low likelihood for the policy to be effective in its intended goal of eliminating child labour from supply chains, the policy may further hurt Canada's human rights reputation; limiting Canada's market access in regions that require businesses to operate with human rights considerations.
<b>Efficacy</b>	Low	Without any real enforcement power through legal means, this policy has a very low likelihood of altering business behavior to meet policy outcomes. Self-regulation and voluntary efforts by businesses that already exist have been ineffective at meeting policy objectives. Without incentives, fear of reputational risks, and liability, businesses are unlikely to voluntarily deploy resources and take meaningful and tangible steps to mitigate risks of child labour within their supply chains. A plethora



		of research within Canada and abroad exists to support this claim.
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### Policy Recommendation: Pass Due Diligence Legislation

In a global economy that is increasingly shifting towards ethical and sustainable business models, it is critical for the Canadian government to play a stronger role at preparing businesses for future demand that would increase market access, maintain competitiveness, and allow Canada to emerge as a leader in business and human rights. The first step at achieving this goal would require an honest, holistic, and introspective approach to addressing the issue of child labour within Canadian supply chains. Current efforts to achieve this goal, whether voluntary or legislative, hold a poor likelihood of success. This is precisely because voluntary measures, and Bill S-211, which only emboldens those measures, does not provide enough incentives for businesses to take the issue of child labour in supply chains seriously enough to devote the kind of time and resources required to effectively mitigate risks. As such, the government should pass due diligence legislation that obligates companies to thoroughly identify risks, successfully mitigate those risks, and effectively assess the impact of mitigation strategies.

The current auditing processes of most Canadian companies do not investigate risks beyond their first level of suppliers. This in effect, leaves gaps in their ability to fully understand the extent of child labour within their supply chains considering that the practice is most likely to take place in the lowest-tiers of the chain. However, assessing every single supplier using conventional auditing methodologies would require companies to hire additional staff, provide training to employees, and spend time and resources on administering paper work for suppliers that sometimes range in the hundreds if not thousands for many companies. In order to curb the high costs and administrative fatigue associated with auditing multiple suppliers, the government should establish an online portal that allows companies, governments and relevant non-governmental organizations to share information on suppliers that they have had business relations with or audited in the past. These suppliers should be ranked based on a risk assessment methodology that takes into consideration their prior history, business partnerships and commitment to human rights principles. Having access to a common database of suppliers would allow businesses to pre-screen suppliers and make decisions that would avoid redundant and unnecessary audits in order to save administrative costs and resources that can be better deployed on new suppliers. Developing the portal would not require the government to innovate a system from scratch as similar monitoring and data sharing tools have been developed by private and public actors. Sedex, a not-for-profit organization that promotes responsible business practices in global supply chains, produced the world's largest collaborative platform for buyers, suppliers, and auditors to store, share and report on supply chain information. In its 2017 review, the company reported increased reporting and action from companies that engaged with its platform.<sup>136</sup> The government could follow this model to develop a similar tool that would facilitate and streamline auditing processes for Canadian companies to assess suppliers and cut

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<sup>136</sup> Sedex, "Sedex Annual Review: 2017," <<https://www.sedex.com/wp-content/uploads/2018/09/Sedex-Annual-Review-high-res.pdf>>



costs. This tool would serve two purposes: a/it would allow for a multi-stakeholder approach to eliminating child labour within supply chains and b/it would allow Foreign Affairs, Trade and Development Canada (DFATD) to study trends in child labour across the globe and make informed decisions about the allocation, amount, and priorities for aid that would address the underlying causes of child labour. This would also create opportunities for DFATD to partner with businesses to fund or deliver development projects that would address income loss through rehabilitation programs and other initiatives that mitigate the risk of children turning to worst forms of child labour. This would save the government costs by outsourcing development projects that are data-driven and evidence-based to businesses for implementation. With minimized costs, as well as government funding, businesses would have incentive to partner with local NGOs and other organizations that are embedded in the local institutional context, to provide holistic solutions that would enable children to go to school, and support families for loss of income to mitigate negative externalities that may arise from loss of work.

To ensure that businesses are not only identifying, but also taking tangible action to redress child labour where identified, and mitigate risks for future occurrences, the due diligence legislation should obligate businesses to submit mitigation plans to the Minister of Public Safety. Obligating businesses to identify risks of child labour would not only make the issue “real” for companies, thereby, gaining internal buy-in to act on the issue, but it would also allow companies to develop more effective responses to mitigate the risks through a tailored and targeted approach. To support businesses in preparing for compliance, and ensure that they are spending less time interpreting, and more time implementing the law, the government should provide businesses with guidelines on developing effective mitigation plans that include specific performance indicators and assessment criteria. The government would not need to recreate the wheel to develop guidelines as numerous international and domestic models exist that the government can emulate. A good example is the Model Principles established by the Canadian Bar Associations (CBA). In line with the UN Guiding Principles, these guidelines provide a framework for companies to develop mitigation plans that are relevant to their particular circumstances; given their size, location, products, sources and risks. Mandating the submission of mitigation plans, along with providing businesses comprehensive guidelines on preparing for those plans, will provide Canadian businesses with enough support to encourage innovation in solutions for ethical sourcing, without being overly prescriptive about how they choose to implement those plans. To create a compliance culture within businesses, the plans should be endorsed by the highest level of the company, and communicated to all employees. This will also ensure that the responsibility to ensure supply chains that are ethical and free from child labour is not siloed to one particular department.

Finally, the legislation should include enforcement mechanisms that would ensure *effective* and *adequate* compliance of the law. An analysis of France’s Due Diligence Act reveals that without any monitoring of how companies are implementing the law, French companies published brief plans that barely mentioned how the companies complied with the five measures required by law.<sup>137</sup> The Canadian government should learn from France’s example and ensure effective implementation by establishing an oversight body that would assess companies on how

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<sup>137</sup> Sandra Cossart, “What lessons does France’s Duty of Vigilance law have for other national initiatives?,” Business and Human Rights Resource Centre, 2019. <<https://www.business-humanrights.org/en/what-lessons-does-frances-duty-of-vigilance-law-have-for-other-national-initiatives>>

they meet certain performance criteria. Rather than punish companies subject to the law, this oversight body would work with, and advise companies on how they could effectively fulfil their obligations. The current penalties for non-compliance under Bill S-211 are highly stringent and leave no room for redemption. Applying the same mechanisms to due diligence legislation would create a highly restrictive environment for Canadian businesses which would risk the loss of these businesses to regions with more leeway for their business operations. To mitigate this risk, compliance mechanisms under the new legislation should aim to build the capacity of businesses to shift to new, sustainable business models. In line with the goal to enhance business capacity for ethical practices, the oversight body should monitor compliance against key performance indicators not with the goal to impose harsh penalties on businesses, but rather, to identify areas of weakness and allow businesses to reprimand their shortcomings to achieve compliance. Along with the three key features of identification, mitigation, and assessment of progress, the legislation should also issue clear set of reporting guidelines for businesses. This will create a level playing field for Canadian businesses and ensure that companies that continue to use illicit labour sources do not enjoy a competitive advantage.

The recommended legislation to mitigate risks of child labour in Canadian supply hold many advantages for Canadian businesses including, increased access to funding for international projects, the support of investors, loyalty from consumers who increasingly demand ethical sourcing of the goods they buy, a talented and committed workforce, and more business opportunities with businesses that require their partners to respect human rights. Moreover, Canadian companies subject to the law would also enjoy competitive advantage over other companies that do not apply high ethical standards in their business operations, namely in jurisdictions where these standards are demanded. Along with providing Canadian companies with a competitive edge in the international market, an effective due diligence law would also send a powerful message to global leaders and corporations that Canada takes human rights in the workforce seriously.

## Summary

### *Key Recommendation*

Evaluative Criteria	Likelihood of Success	Reason
<b>Political Feasibility</b>	High	The government is already deliberating on legislation that shares the same purpose, albeit a different means to achieving it. The benefits of adopting due diligence legislation would outweigh the costs to the government which would not be significantly more than if they were to enact Bill S-211. Legislators are also motivated by the strong constituent support on the issue, and many have also voiced the need for stronger, more effective legislation.

<b>Stakeholder Support</b>	High	The legislation would not burden businesses with high administrative and resource costs. It provides adequate supports for businesses to ensure effective compliance through clear standards and guidelines, as well as incentives that encourage a multi-stakeholder approach to tackling the issue. A large majority of businesses support supply chain legislation, and many have indicated that new mandatory due diligence legislation would likely have social impact.
<b>Economic Efficiency</b>	High	The policy would ensure improved market access for Canadian businesses in regions that demand high levels of human rights considerations in business operations and partnerships. Businesses will be encouraged to innovate in order to become more sustainable, and play a positive role in development. Clean and ethical growth would create jobs, make businesses more competitive, and open up new emerging markets for Canadian businesses.
<b>Efficacy</b>	High	The proposed legislation is clear and practical for businesses to implement. It ensures efficacy by obligating business to actively root out child labour through a three-step process of identification, mitigation, and assessment. The legislation creates a clear set of guidelines and performance indicators to facilitate compliance for companies. It holistically tackles the issue of child labour, and addresses negative externalities from the elimination of the practice, by encouraging collaboration between the government, businesses, and NGOs for maximum impact. Compliance is ensured through an oversight body which assesses progress and creates a pathway to compliance for companies that fail to meet performance indicators.

## Conclusion

As Canada prepares to seek a seat at the United Nations Security Council, its ability to uphold human rights both at home and abroad will come under increased scrutiny. While the global economy is increasingly moving towards sustainable business models, Canada has fallen behind on implementing its international obligations to ensure human rights within its business operations by failing to eliminate child labour from its supply chains. To restore its global leadership on human rights, and enhance its economy through innovation and increased access to global markets, the government should support the positive role that businesses can play in development, as well as respond to private and public interest in more ethical consumption by passing due diligence legislation as recommended by this report. The recommended legislation tackles the issue of child labour holistically by encouraging collaboration between the public and private sector to share resources and knowledge in order to build the capacity of Canadian businesses to efficiently and effectively identify the occurrence of child labour within their supply chains and create targeted plans that would eliminate the practice and mitigate future risks of its occurrence. This legislation would be effective at meeting policy goals as it ensures compliance by supporting, rather than imposing harsh penalties, on businesses through a series of mechanisms, including an oversight body mandated to work with businesses to assist with compliance. The legislation is far-sighted as it enables collaboration between Foreign Affairs, Trade and Development Canada (DFATD) to create incentives for businesses that would allow them to address the negative externalities of eliminating child labour through economic and educational initiatives that prevent children from turning to worst forms of child labour due to a loss of income. Given that Canada has already conducted studies and public consultation on the issue, the next step on the political agenda is to implement legislation. The question is not whether legislation should be implemented, but rather what kind of legislation should be implemented to ensure efficacy and high economic returns. The proposed policy meets both these criteria, and has a high likelihood of successful implementation based on strong stakeholder support garnered by the reputational, financial and administrative incentives provided by the policy. To restore its human rights reputation, and enhance its economic prospects, Canada should consider passing due diligence legislation as proposed by this policy paper.

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