



ADS Business Ethics Network (BEN)

Corruption and Human Rights Challenges

SC21 Conference

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BEN - Foundations and purpose

- ADS Special Interest Group (SIG)
- Formed 2006 by Rolls-Royce, BAE Systems, Thales and others
- Aim ***“To promote the highest possible standards in business ethics and responsible conduct in the international aerospace, defence and security markets”***
- BEN Committee comprises compliance director level professionals from: –
Airbus, BAE Systems, Babcock Intl, Cobham, Interchange, Lockheed Martin, Meggitt, Martin Baker, Reid Smith, Rolls-Royce, Serco, Thales
- Interacts through ADS with ASD, HMG, IBE, IFBEC, professional firms, Transparency International and others
- BEN compiles and publishes the ADS Business Ethics Toolkit
- Provides business ethics seminars and support

BEN - Areas of discussion and interest

4 Main Objectives:

- 1) ADS collective voice on ethics;
- 2) *Interfaces with other SIGs on ethics topics e.g. UK Bribery Act & Modern Slavery Act;***
- 3) Provide ADS ethics briefs for external engagements e.g. Government & NGOs;
- 4) Provide advice to ADS Members on recent ethics developments, particularly SMEs

Our focus is on 2 key ethics topics which impact Supply Chains and what you can do:

○ **Anti-Bribery and Corruption (abc)**

UK Bribery Act
US Foreign and Corrupt Practices Act
UK Criminal Finances Bill
Anti-money laundering regulations
Effects of other national abc legislation and conventions

○ **Human Rights (Slavery & Trafficking)**

UK Modern Slavery Act (2015)
UN Convention on Human Rights
Conflict Minerals

BEN - Areas of concern

- Changing abc and human rights climate worldwide
- Higher risk markets - especially post Brexit
- A&D perceived externally as high risk of corruption sector
- Primes/sub primes supply chains and their sustainability
- Due diligence and KYC – increasing demands of banks
- Veracity and implementation of company ethics programmes
- Introduction of abc standards – ISO 37001

30secs – Corruption, not just brown envelopes

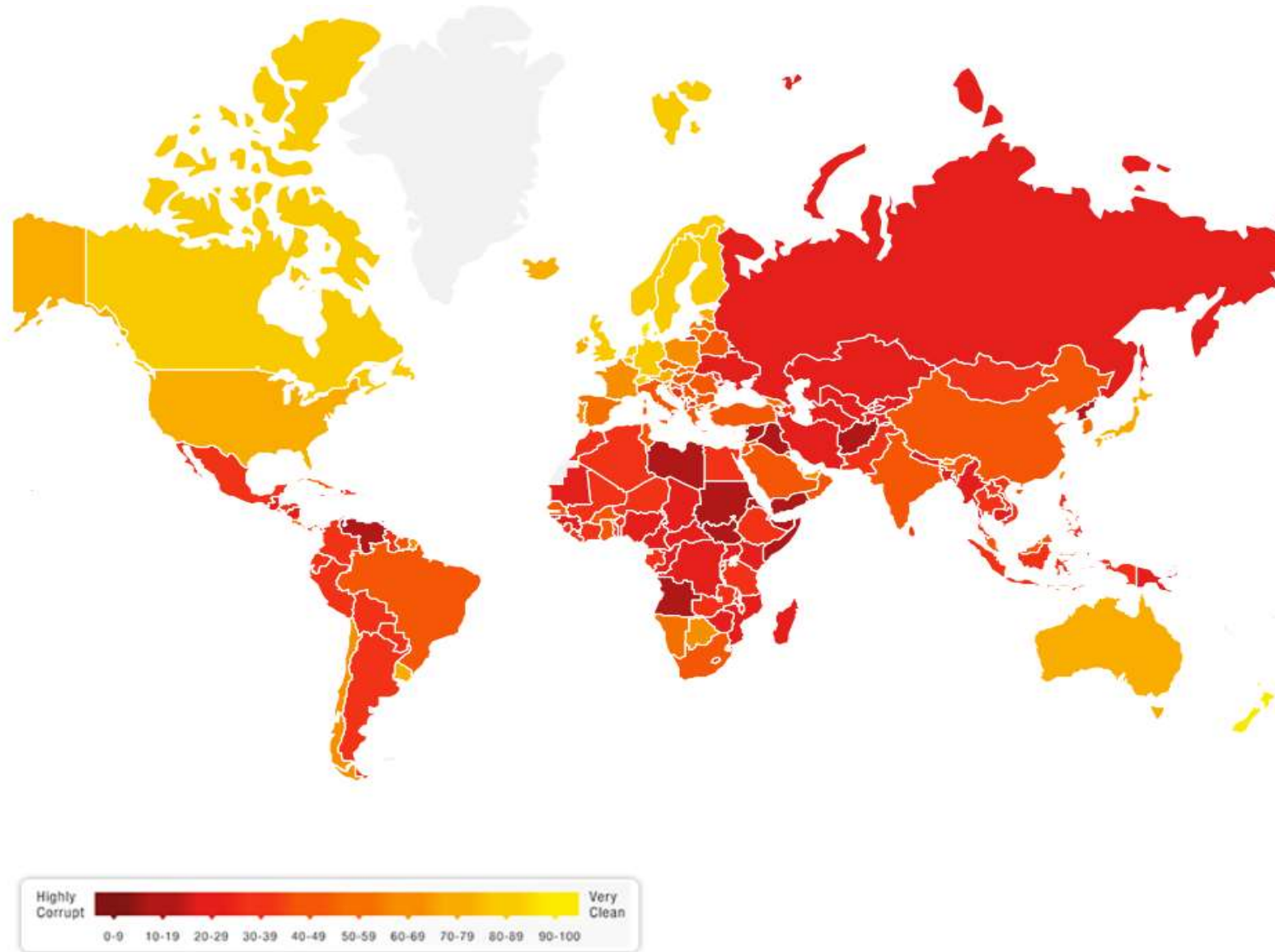


Often using internet and likely to involve money laundering



30 secs – Market risk

TI CPI 2016



30 secs - Political & regional risk



30 secs - Criminal and insider risk



How the scheme worked

→ Equipment trail → Money trail

Contract no. 2
(in USD)

Contract no. 1
(in Swedish Krona)

London, Great Britain

**MULTISERV
OVERSEAS**
Shell company
with ties to
Russian
businessmen

Stockholm, Sweden

BOMBARDIER SWEDEN

\$19 million

\$104.8 million

Railway signaling equipment

RUSSIA

Baku, Azerbaijan

**BOMBARDIER
AZERBAIJAN**

Johan Hallnäs/TT Nyhetsbyrån



Relevant law and regulation

Enforced Labour and Human
Trafficking -

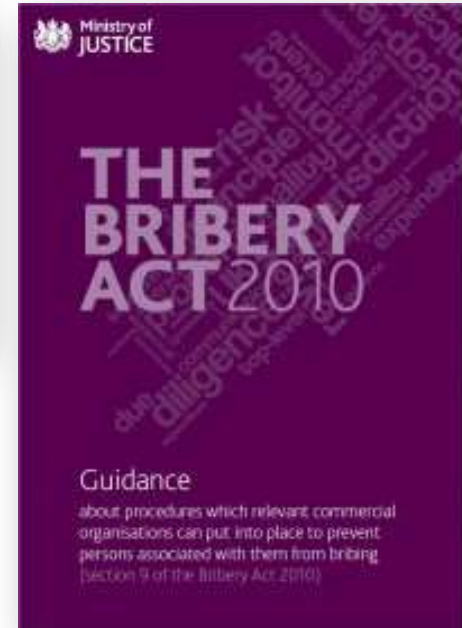
Modern Slavery Act 2015



EXPORT CONTROL



The four most commonly mined **conflict minerals** (known as 3TGs, from their initials) are cassiterite (for tin), wolframite (for tungsten), coltan (for tantalum), and gold ore, which are extracted from the eastern Congo, and passed through a variety of intermediaries before being purchased by multinational electronics ...



So what's changed in 2017?

- Public attitudes to ethics worldwide - communication is global
- Impact of media – e.g. Panama Papers - corruption no longer secret – not if but when! *“it's too late when the allegation hits the media!”*
- New abc laws with corporate liability offences combined with greater international enforcement cooperation
- Companies really need to know with whom they are doing business – (so do your bankers!) – proper due diligence
- Higher demands for evidence of anti-bribery “adequate procedures to prevent” - new ISO 37001 standard – Singapore, Peru, Walmart, Microsoft and others
- Cost of compliance - fraction of cost of loss of IP, data or a bribery allegation
- Underpins supply chain sustainability



Human Rights – where is the risk?

- **Is this applicable to Aerospace, Defence & Security or just high risk sectors?**
 - YES: Slavery/trafficking can be present in any organisation & its supply chain
 - often at Tier 2 or below where interactions less clear and harder to monitor
 - A constant drive to cut prices can increase the risk of slavery issues in supply chains
 - BEN Sub-Group formed in 2016 focused on Salient Human Rights issues for ADS
- **UK Modern Slavery Act 2015**
 - Businesses to demonstrate efforts to combat slavery in their organisations & supply chains
 - **Transparency and employee/public awareness is the key**
 - **Annual Company Statement Required** (If doing Business in UK & T/O >£36M)
 - prominent place on company website
 - Includes anti-slavery policies, due diligence, supply chains, risk assessment and management and employee training measures.

Statement may not be enough: often generic, non-compliant and insufficient enforcement

Human Rights – where does it happen?



ILO Estimate 21M+ victims globally (\$150Bn); 90% in Private Business, 13,000 in UK

Human Rights – Conflict minerals reporting

(3TG: Tin, Tungsten, Tantalum and Gold)

- **US Dodd-Frank Act (2010)** must disclose use of 3TG in supply chains and whether from Democratic Republic of Congo (DRC) or covered countries annually to US Securities and Exchange Commission (SEC)
- **EU Conflict Minerals Regulation** use of 3TG in all conflict areas (not just DRC) by raw materials and component providers/importers
 - However reports using OECD Due Diligence are only voluntary and not clear who they go to “EU Member States”.



Red Flags relating to supplier workforce

Key if suppliers or customers are in high risk countries

- **Restricted movement:** victims kept against their will & unable to escape
- **Overtime:** little/no breaks just to make minimum wage
- **Recruitment fees/loans:** charged to work; high living costs deducted from wages
- **Documents:** withheld by employers so workers cannot leave
- **Payment:** in cash vs a documented system showing rates, hours worked, taxes etc
- **Workers Subcontracted:** throughout supply chain, increased risk of exploitation
- **No complaints procedure:** workers unable to raise grievances/protect their rights
- **Living conditions:** living together on site or in poor employer accommodation
- **Slave behaviour:** fearful of retaliation, prevented from speaking, limited possessions

Don't rely on audits; suppliers can hide evidence of slavery

What should you do?

Ensure awareness & training in your organisation & supply chain on Human Rights issues

Conduct a risk assessment: ask questions about your organisation, suppliers & clients:

- Where do we procure our office supplies and equipment?
- How extensive is our supply chain - for everything we purchase?
- Where do our suppliers source their products?
- Where are the products manufactured and with what raw materials?
- In what types of industries do our clients do business and where?
- How do we employ and recruit local suppliers like cleaning staff. If through an agency, how are they recruited and treated?

The less information a supplier divulges about itself, the greater the risk of slavery

Conclusion and Human Rights resources

A human rights risk assessment will help you understand which high risk countries, products, and raw materials are part of your supply chain and take measures to address any issues

- **Know the Chain** – a resource for businesses and investors to understand and address forced labour risks within their supply chains
<https://knowthechain.org/>
- **UK Modern Slavery Act Company Reports Registry** <http://www.modernslaveryregistry.org/>
- **Global Slavery Index:** Find out the risk level and actions governments are taking in specific countries
<https://www.globalslaveryindex.org/country-studies/>
- **Anti-Slavery International, Ethical Trading Initiative**



Business Ethics Network