



ADS Business Ethics Network (BEN)

Corruption and Human Rights Challenges

BEN - Foundations and purpose

- ADS Special Interest Group (SIG) formed in 2006
- 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 to all members

BEN - Areas of discussion and interest



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

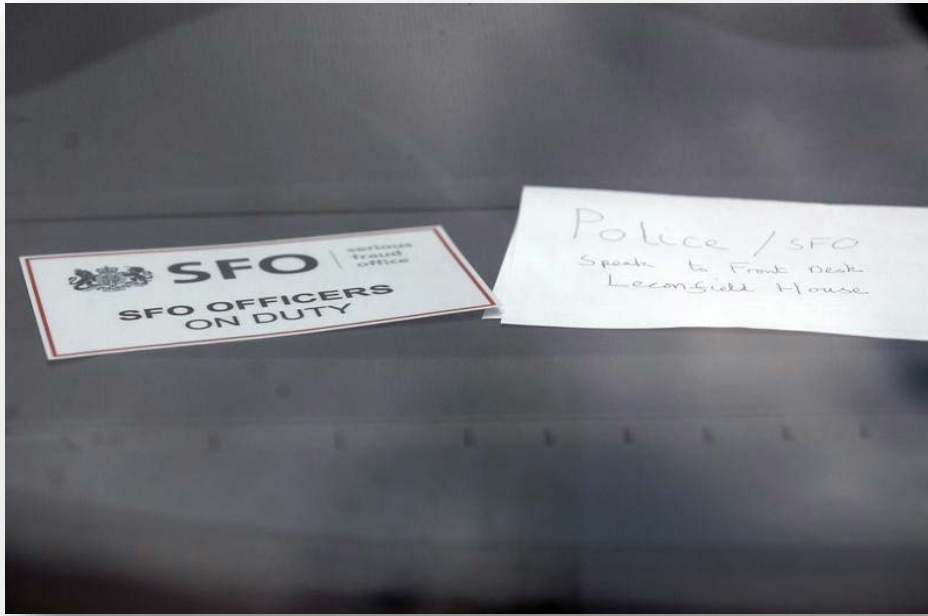
Conflict Minerals



BEN - Areas of concern

- Changing anti-corruption 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 stakeholders & banks
- How effectively ethics programmes are implemented
- Introduction of abc standards – ISO 37001 - going global
- Corporate and sector reputation at stake





Lets talk bribery

News › Business › Business News

Chemring: Serious Fraud Office opens bribery and corruption investigation into ammunition maker

Investigation to include officers, employees, agents and persons associated with the company

Josie Cox Business Editor | @JosieCox_London | Thursday 18 January 2018 10:34 GMT | 0 comments



30secs – Corruption, not just brown envelopes

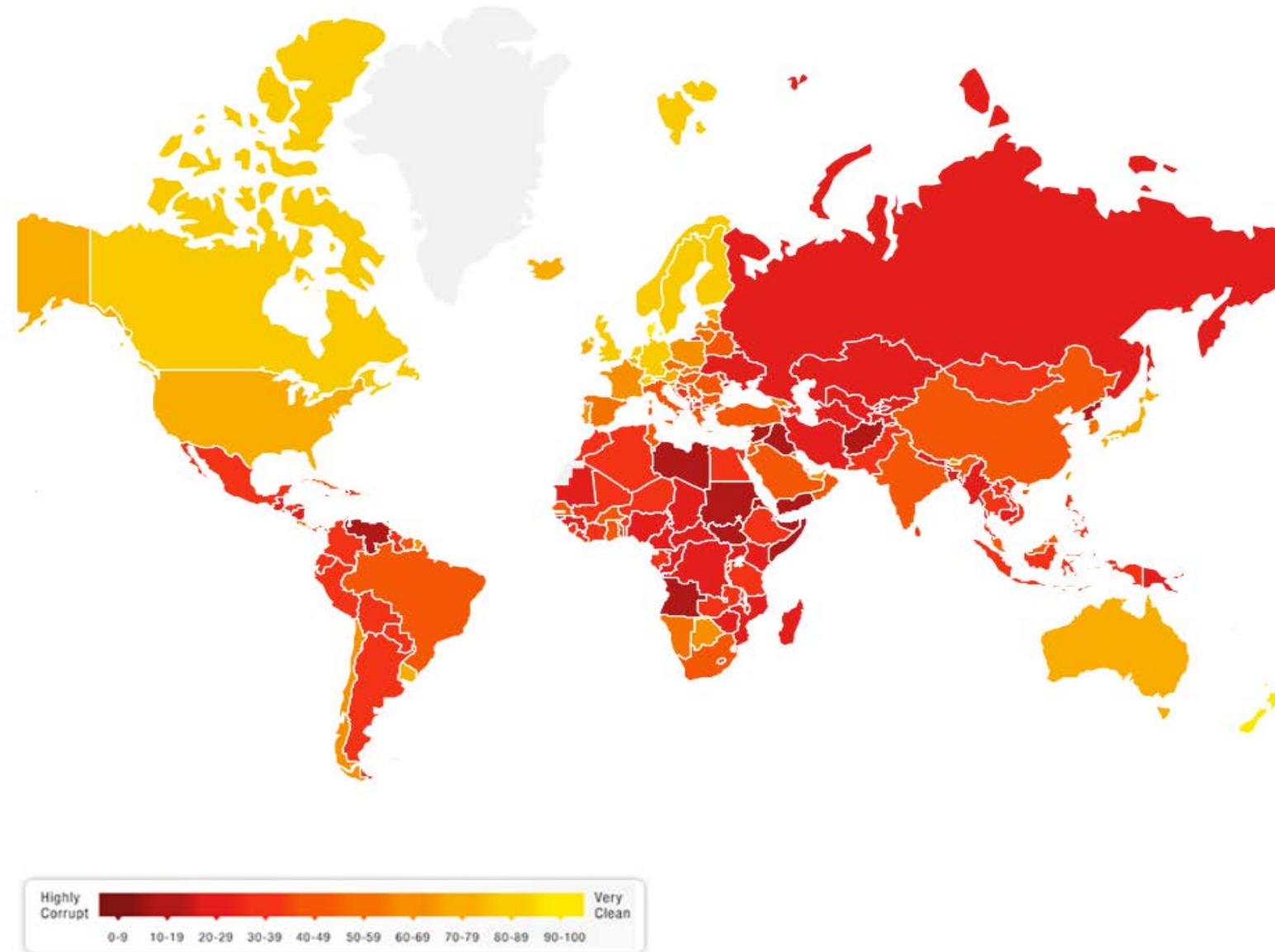


Often using internet and likely to involve money laundering

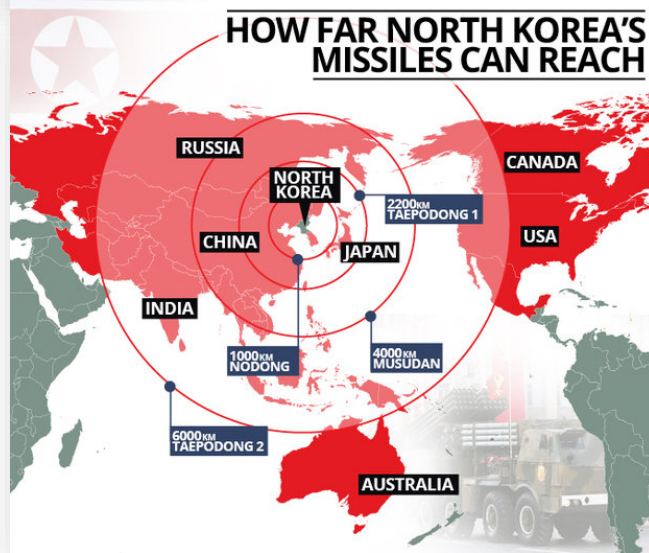


30 secs – Market risk

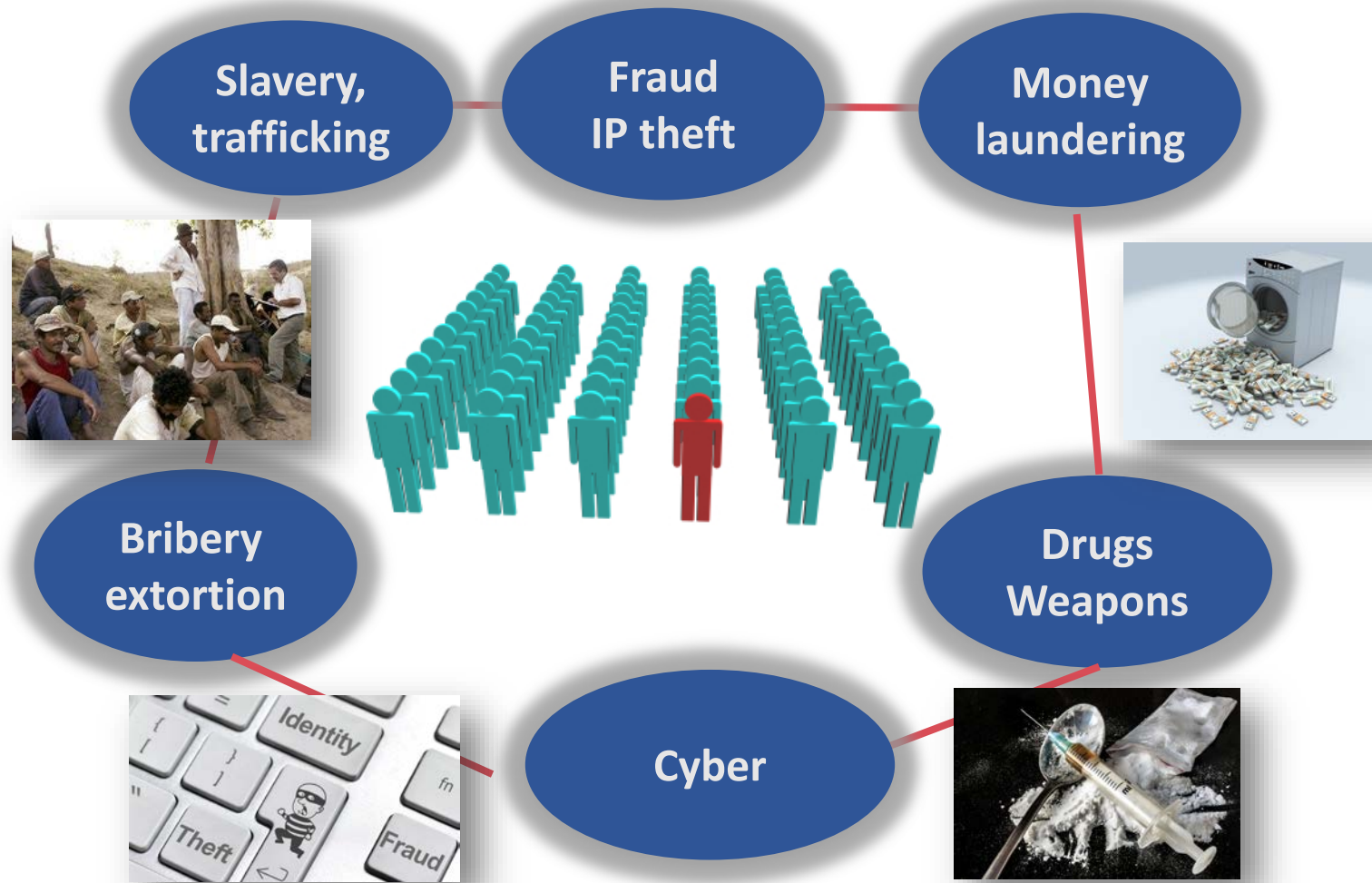
TI CPI 2016



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

RUSSIA

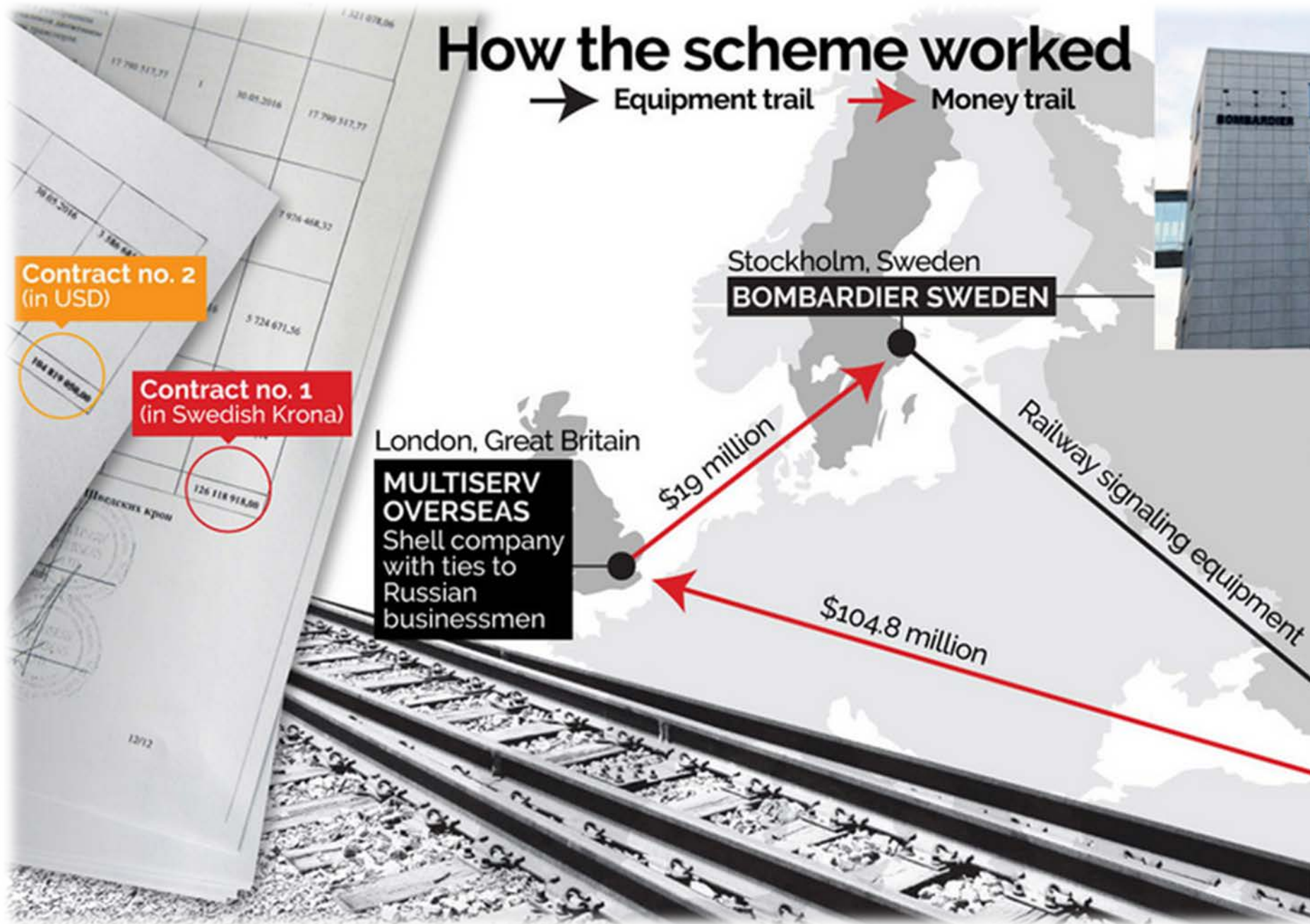
Baku, Azerbaijan

**BOMBARDIER
AZERBAIJAN**

\$19 million

\$104.8 million

Railway signaling equipment





<https://www.youtube.com/watch?v=OfU0a-b6lqs>

Relevant law and regulation

Enforced Labour and Human Trafficking -

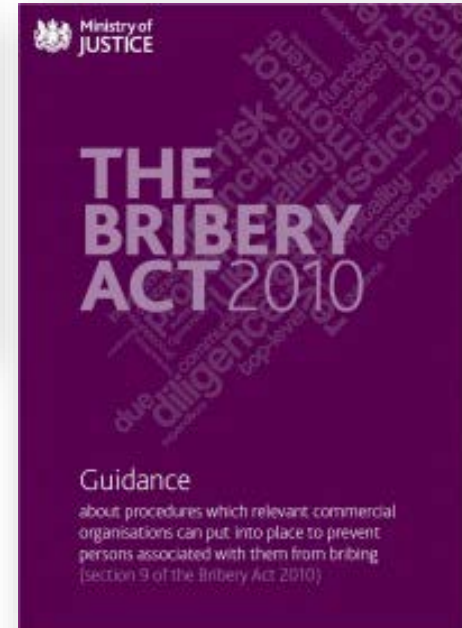
Modern Slavery Act 2015



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 ...

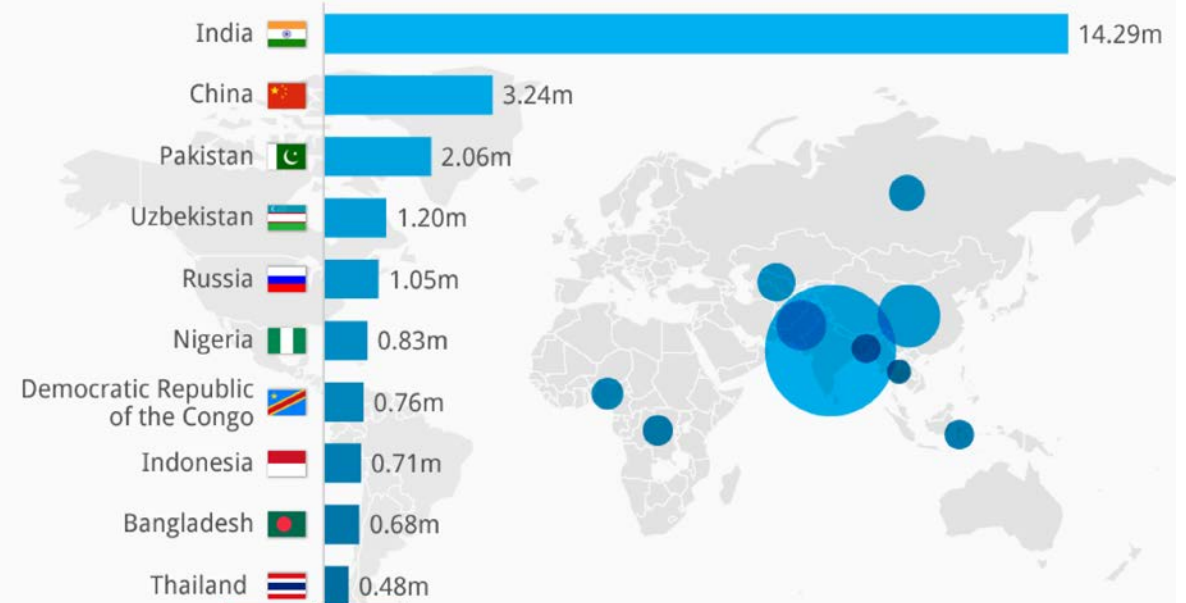


Lets talk human rights abuse – where does it happen?



Modern Slavery: Global Distribution and Scale

Countries with the largest estimated number of people living in modern slavery (2014)



Mashable statista

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

Human rights – enforced labour

- **Applicable to Aerospace, Defence & Security**

- 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)
- Constant drive to cut prices can increase risk of slavery in supply chains
- BEN Sub-Group formed in 2016 focused on Salient Human Rights issues for ADS

- **The Law - UK Modern Slavery Act 2015**

- Businesses required to demonstrate efforts to combat slavery in their organisations & supply chains
- 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 – conflict minerals

(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



Human rights - red flags

If key 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 enforced labour/slavery

What must 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

So what's changed in 2018?

- 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 laws with corporate liability offences combined with greater international enforcement cooperation
- Companies really need to know with whom and how they are doing business – (so do your bankers!) – proper due diligence
- Higher demands for evidence of anti-bribery in particular “adequate procedures to prevent” - new ISO 37001 standard – Singapore, Peru, Walmart, Microsoft, Alstom and others
- Cost of abc and human rights compliance - fraction of cost of loss of IP, data or a criminal allegation
- Good anti-bribery and human rights compliance your company’s sustainability





Business Ethics Network