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# **Executive summary**

Going into 2025, more than half of supply chain sourcing regions assessed by EiQ, LRQA's supply chain intelligence software, are at high or extreme risk for overall Environmental, Social and Governance (ESG) violations. This stark reality, combined with a clear gap in preparedness from businesses and their Human Rights and Environmental Due Diligence (HREDD), indicates there is an urgent need for companies to transform their risk management approaches.

One of the biggest challenges for businesses is a lack of visibility. Due to the complexity of global supply chains and data challenges, critical issues such as forced labour, child labour, poor health and safety conditions for workers, as well as the impacts of climate change, often go undetected throughout the operations of the world's most impactful brands and retailers. Workers' lives are at risk, and no region is immune to the ESG violations that plague global supply chains and threaten ethical sourcing. In the era of Assurance 4.0, the new era of risk management, businesses must scrutinise their current approaches.

This 2025 Supply Chain ESG Risk Outlook report aims to provide in-depth insights and highlight key risk trends data from EiQ, to offer foresight for businesses navigating these evolving issues. EiQ provides comprehensive risk ratings for countries/regions, products and individual suppliers, presenting unique insights into the level of risk exposure associated with each. These scores are derived from onsite audit data (from more than 25,000 assessments per year) and supplemented with trusted public domain information, ensuring a robust assessment of present and potential risks.

This report will reflect on the risks and trends from the past year and highlight patterns and themes to support businesses in anticipating future incidents and expanding their supply chain visibility. This includes highlighting the emerging risks in markets that have traditionally been deemed 'trustworthy.' A selection of key findings include:

- Globally, risk of child labour issues and health and safety violations is increasing
- Among the five ESG risk pillars, environmental violations (relating to environmental management and policies) have seen the most significant increase in risk, with nearly 60% of sourcing regions classified as having high or extreme risk for these issues
- Key sourcing markets such as the United Kingdom, Turkey and Australia show increasing risk for foreign migrant workers

No region is immune to the ESG violations that plague global supply chains and threaten ethical sourcing.

The need for improved supply chain due diligence is two-fold. In part, there is a developing obligation to comply with evolving regulations and to adhere to increasing reporting requirements. There is also a moral responsibility to limit the adverse impacts from supply chain operations in order to safeguard human rights, limit adverse environmental impacts and ensure business integrity is maintained. While knowing the risks among suppliers and various supply chain partners is crucial, businesses must go a step further and understand how to ensure these risks do not become commonplace among their supply chain operations.



Content in this report was sourced from LRQA's supply chain intelligence software EiQ using data from onsite work in more than 100 countries. Click here to learn more about EiQ or speak to an analyst. ->













# Methodology

EiQ's geographic ESG risk ratings present a comprehensive overview of the highest-risk regions against more than 38 critical ESG metrics. These metrics are categorised under five overarching 'pillars' categories: labour, health and safety, environment, business ethics and management systems.

Each country or region receives an overall supply chain risk rating, ratings for each of LRQA's five supply chain pillars and 31 ratings for the subcategories beneath these five pillars (detailed below). These ratings indicate the inherent sourcing risk at a national or regional level and provincial level, when applicable. The ratings measure inherent ESG risk, or the risk associated with the sourcing activity specific to a region.

The scores help organisations understand the worst-case scenario, or maximum exposure to risk, that an entity has if no activity or process is yet undertaken to control that risk. The most common application of inherent risk analysis is for answering questions of prioritisation: which areas of the supply chain, or regions of operation, are most exposed to forms of supply chain ESG risk?



### Five pillars of geography ESG risk ratings

오오 Labour	+ Health and safety	<b>♀</b> Environment	<b>Business ethics</b>	( Management systems
Child labour (20%)  Domestic migrant workers (5%)  Forced labour (10%)  Freedom of association (10%)  Humane treatment (5%)  Migrant workers (10%)  Wages (20%)	Building safety (15%) Chemical related (10%) Emergency evacuation (5%) Fire safety (5%) Hygiene and sanitation (20%) Injuries (15%) Machine safety (15%)	Air emissions (20%) Environment management (20%) Environment permits (20%) Waste management (20%) Wastewater violations (20%)	Business integrity (60%) Policy index (20%) Transparency index (20%)	Code awareness (10%)  H&S policy (10%)  Other documentation (10%)  Unauthorised subcontracting (25%)  Wage documentation (20%)  Worker contracts (10%)  Working hours documentation (15%)
Working hours (20%)  30%  Pillar index contribution to supply chain risk value	Occupational safety (15%)  20%  Pillar index contribution to supply chain risk value	20%  Pillar index contribution to supply chain risk value	15%  Pillar index contribution to supply chain risk value	15%  Pillar index contribution to supply chain risk value

Percentages in grey indicate sub-index contribution to pillar index.









# Global risk landscape

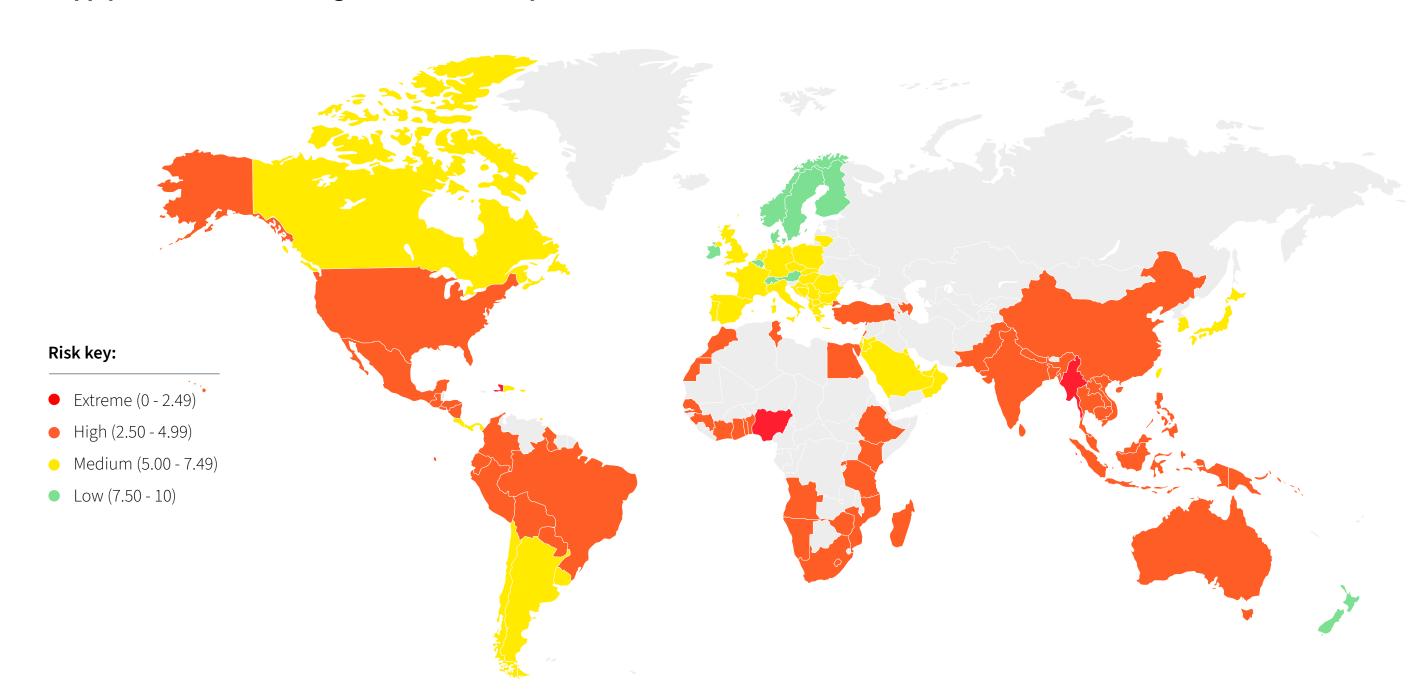
EiQ data indicates that, globally, risk is rising for many critical supply chain ESG issues and violations. Child labour is showing increasingly problematic trends in key countries and global averages for health and safety violations, labour issues, business ethics (encompassing issues related to business integrity and transparency), as well as management systems (relating to documentation and managerial practices), all showed higher risk from the previous year.

EiQ's environmental index, which assesses sites based on their environmental management and policies, such as whether the site tracks greenhouse gas emissions in accordance with applicable standards, showed worsening trends worldwide.

Going into 2025, 60% of sourcing markets show high or extreme risk for environmental-related violations. This indicates a gap in how sites manage critical environmental issues, including wastewater treatment, hazardous waste disposal, and the establishment and enforcement of emissions targets.

 $^1$  United Nations General Assembly, The Pact for the Future, 2024. n2425289.pdf. ightharpoonup

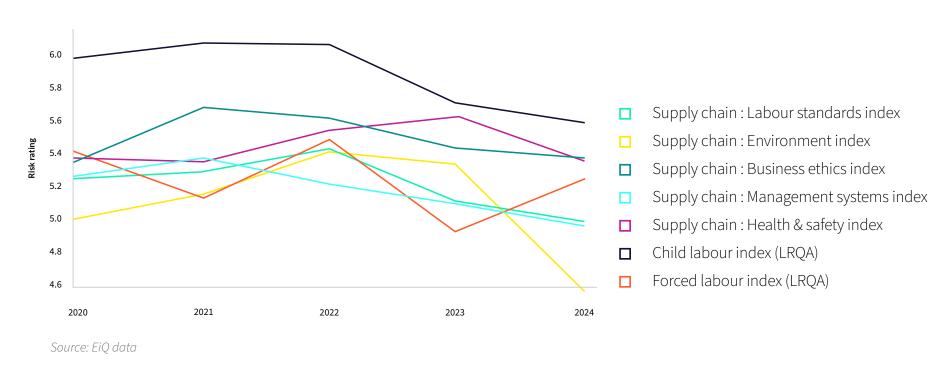
### Supply chain: overall, 2024 global risk heat map, EiQ



Overall supply chain risk aggregates risk scores from each of the five ESG pillar indices. Findings from 2024's overall supply chain risk index include: .

- At least 63 regions worsened in overall supply chain risk since EiQ's previous update in 2024
- Australia, South Africa, and the United States all rose from medium risk to high-risk standings for overall supply chain risk
- More than 50% of the regions assessed are at high or extreme risk for overall supply chain violations going into 2024

### Global aggregate of select indices by year





# Risk by ESG pillar







#### Labour risk

Reflects the aggregated risk related to labour issues including child labour, forced labour, harassment and discrimination, wages and working hours.

**52%** of regions show high or extreme risk

### **Environmental risk**

Reflects the aggregated risk of environmental-related violations in the workplace, including issues related to air emissions, environment management, permit, waste management and wastewater.

60% of regions show high or extreme risk

### Health and safety risk

Reflects the aggregated risk related to safety in the workplace, including issues like building safety, fire safety, injury, machine safety, and hygiene and sanitation at the workplace and in the dormitory/ canteen. The index also integrates the risk of infectious diseases and virus outbreaks in the workplace.

49% of regions show high or extreme risk

### Business ethics risk

Reflects the aggregated risk related to business integrity and transparency. Common violations include falsification of documents, coaching workers for what to say during an audit, and bribery attempts.

48% of regions show high or extreme risk

### Management systems risk

Reflects the aggregated risk related to insufficient managerial capacity and practices, including instances of non-compliance related to wage and hours documentation practices, subcontracting orders without buyer's authorisation, and availability of permits and contracts.

**52%** of regions show high or extreme risk

# What does this ultimately mean for businesses?

The need for improved risk management solutions is not only justified by a rise in regulatory requirements for businesses. Increased awareness and visibility of supply chain risks mean that inaction will no longer be acceptable. Inaccurate ESG disclosures and 'turning a blind eye' to risks that require further investigation also carry reputational and financial risks. As companies assess materiality in areas like carbon emissions, supply chain impacts and employee wellbeing, ensuring accurate data and reporting will be key to mitigating risks associated with non-compliance.











## Australia





### Overall supply chain risk

• High (4.63)

Australia transitioned to high risk for overall supply chain ESG issues in 2024. The country showed worsening scores in many indices in the past year. While it is unclear whether worsening trends in Australia stem from increased detection or higher inherent risk, a consistent issue in the country has been its high risk exposure for foreign migrant workers.

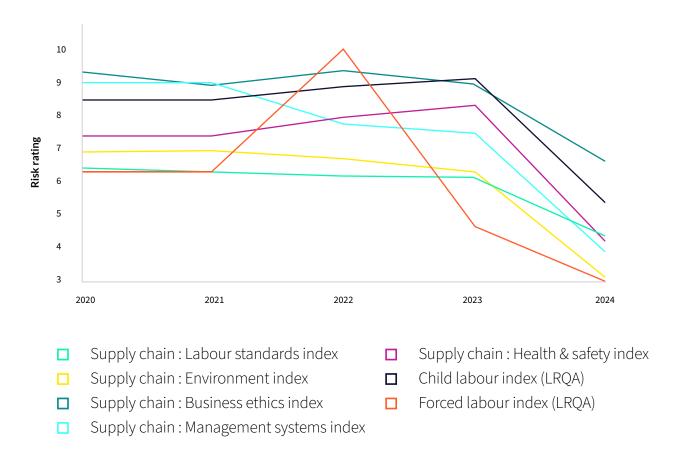
Australia is a key global supplier of minerals, energy, food and agricultural products, supplying to countries like China, Japan, India, and the United States.<sup>1</sup> The country is the second largest exporter of energy and resources globally, a top exporter of coal, as well as beef, wheat, sugar, barley and other foods.<sup>2</sup>

### **Top exports**

Rank	Commodity
1	Iron ore and concentrates
2	Coal
3	Natural gas
4	Education-related travel services (c)
5	Gold
6	Crude minerals, nes
7	Personal travel (excl. education-related)
8	Wheat
9	Crude petroleum
10	Beef, f.c.f.

Source: Australian government, Department of Foreign Affairs and Trade, 2023.

### **Selected indices by year (Australia)**



Risk drivers	EiQ risk score	YoY change
Foreign migrant worker risk	• 2.11	▼ 26.40%
Forced labour	• 2.94	▼ 35.61%
Freedom of association	• 3.47	▼ 7.08%

•	Foreign migrant worker risk continues to be a main risk driver

 Forced labour, supplier transparency, and freedom of association issues show worsening trends

Key trends



<sup>&</sup>lt;sup>1</sup>Australian Government, Department of Foreign Affairs and Trade, 2023.

<sup>&</sup>lt;sup>2</sup> Australian Trade and Investment Commission (Austrade), 2024.







## **Australia**



EiQ shows foreign migrant worker risk in Australia has remained high throughout the past five years and rose to extreme risk in 2024. Migrant workers make up a growing portion of Australia's workforce, while human rights issues for migrant workers are increasingly being exposed in the country. In 2021, nearly 40% of jobs in Australia were held by temporary visa holders,<sup>3</sup> and data shows there may be up to 100,000 undocumented workers in Australia. The majority of foreign migrants in Australia come from countries like India, China, the Philippines, and the United Kingdom.<sup>5</sup>

Foreign migrant workers are often the most susceptible to human rights violations due to language barriers, fear of retribution, and lack of knowledge surrounding contractual terms and company policies. Reports show migrant workers in Australia are facing low wages, inhumane treatment, overtime hours, and instances of sexual harassment and assault.6

While government regulations and policies can serve as the catalyst for improving workers' rights and mandating improved risk management, businesses still hold a responsibility to ensure risks for workers directly related to their own operations are identified, monitored and managed. This can include deploying mitigation strategies and capacity building measures where the risk for foreign migrant workers is highest. Implementing grievance mechanisms to ensure workers have a safe channel to voice issues is an effective solution to improve risks for foreign migrant workers, as well as engaging supplier management to align sites on expectations and standards for labour rights and human rights protections.

Access a free eLearning course, used to train suppliers on critical ESG issues.

Training - Helping businesses push forward ->

One in six migrant workers are 'exploited', but many Australians are also paid below the national minimum wage

**Business, Economics and Finance** 

Find out more

"These people started working a factory in Australia, starting work at four in the morning until eight o'clock at night," Mr Maytom said.

"I was told that their very first experience in Australia was working [those hours] 35 days straight."

Find out more

NSW inquiry to probe modern slavery risk for regional migrant workers

By Emily Doak and Romy Stephens

ABC Rural Agricultural Workers

Find out more

'Sexual precarity': Insecure work raises migrant risk of sexual harassment, assault, trafficking

29 October 2024

Find out more



<sup>&</sup>lt;sup>3</sup> Australia's Bureau of Statistics, 2020-2021.

<sup>&</sup>lt;sup>4</sup>Coates, B., Wiltshire, T., and Reysenbach, T. (2023). Short-changed: How to stop the exploitation of migrant workers in Australia. Grattan Institute.

<sup>&</sup>lt;sup>5</sup> Australia's Bureau of Statistics, 2022-2023.

<sup>&</sup>lt;sup>6</sup>One in six migrant workers are 'exploited', but many Australians are also paid below the national minimum wage

<sup>-</sup> ABC News, NSW inquiry to probe modern slavery risk for regional migrant workers - ABC News →







# Bangladesh



Overall supply chain risk

• High (2.72)

Bangladesh has historically shown high risk throughout most ESG categories and is a leading world exporter of textiles and apparel. The deadly Rana Plaza disaster in 2013 highlighted the health and safety issues throughout factories and the urgent need to improve working conditions. However, more recent civil unrest in Bangladesh and worker protests continue to bring to light the issues of low wages and workers' rights in the country.<sup>1</sup>

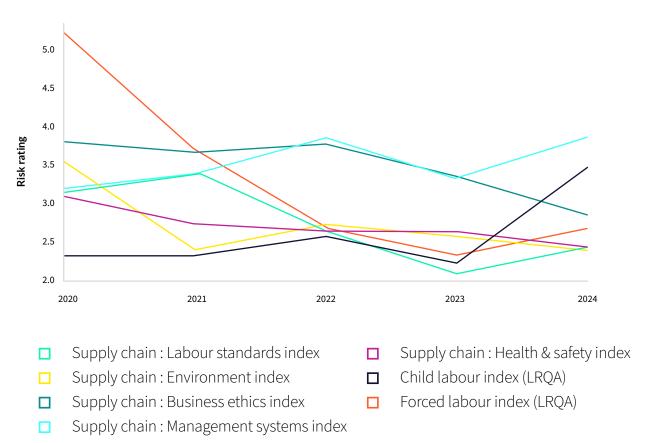
The South Asian nation relies heavily on its Ready-Made Garment industry, producing clothing for major international brands and retailers, exporting to countries like the US, Spain, Germany and the United Kingdom.<sup>2</sup> Bangladesh is also known for its low-cost labour, which has attracted global apparel brands looking to optimise production costs while maintaining quality, but has also brought into question its labour practices. At greatest exposure to its ESG risks are top exports from the country, which include clothing, footwear, and seafood.

### **Top exports**

Rank	Commodity
1. 2. 3. 4. 5. 6. 7. 8. 9.	Knit or crochet clothing, accessories Clothing, accessories (not knit or crochet) Footwear Miscellaneous textiles, worn clothing Headgear Paper yarn, woven fabric Leather/animal gut articles Fish Feathers, artificial flowers, hair Aircraft, spacecraft

Source: World's Top Exports, 2023.

### Selected indices by year (Bangladesh)



Risk drivers	EiQ Risk score	YoY change
Working hours	• 1.36	<b>1</b> 72%
Freedom of association	• 1.32	<b>▼</b> 0.15%
Humane treatment	• 2.00	<b>▼</b> 22.98%
Health and safety	• 2.47	<b>▼</b> 6.03%
Waste management	• 1.41	<b>▼</b> 46.19%

•	Critical/extreme risk levels throughout most labour, health and
	safety, and environmental indices

Key trends

• Workplace injuries, building safety among the country's most significant worsening scores in the past year

• Domestic migrant workers and inhumane treatment also showed worsening trends by a large margin



 $<sup>^1</sup>$ Why the garment workers of Bangladesh are feeling poorer than ever : Goats and Soda : NPR ightharpoonup

<sup>&</sup>lt;sup>2</sup> World's Top Exports, 2023.

## Bangladesh

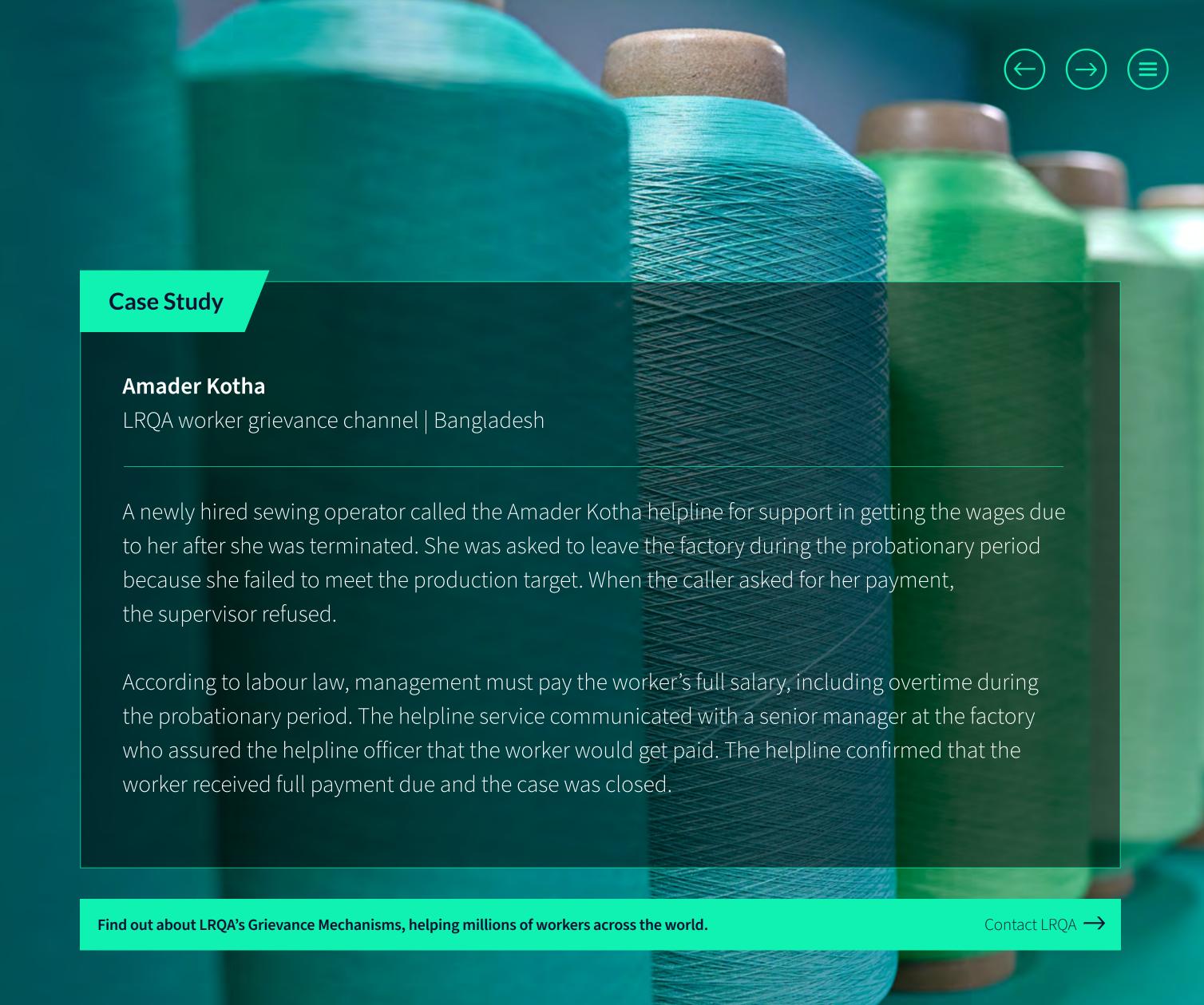


## Issue to watch Wage issues, Health and safety

Bangladesh has seen ongoing worker protests in the past year that have shut down factories and impacted operations. Workers have continually demonstrated against low wages for factory workers, and EiQ data shows wage issues continually pose high risk. LRQA's worker grievance channel in Bangladesh shows that 25% of grievances reported in the last year were related to wage issues/grievances.

Despite the 2013 deadly Rana Plaza disaster, health and safety violations in Bangladesh persist. Bangladesh's health and safety risk in EiQ rose from high risk to extreme risk in the last year, and issues such as workplace injuries, machine safety and building safety all showed worsening trends. Ensuring safe working environments demonstrates a company's commitment to ethical practices and compliance with international labour standards, thereby enhancing its reputation and fostering trust among stakeholders, including consumers, investors, and governing bodies. Health and safety violations can disrupt production and supply chain continuity, leading to delays, increased costs, and potential loss of business.

Addressing these vulnerabilities requires comprehensive strategies, including robust legal protections, targeted health and safety training, and accessible reporting mechanisms. By prioritising the health and safety of workers, companies can mitigate ESG risks, enhance workforce stability, and promote ethical supply chain practices.



LRQ/





Mexico plays a key role in global trade due to its proximity to the US and other Central American countries, as well as its low labour costs. The Latin American country plays a significant role in manufacturing and agricultural sectors, exporting to top markets including the United States, China, Germany, Japan, and South Korea.<sup>1</sup>

Mexico has maintained high risk levels across most of its ESG indices over the past five years, but in 2024, the country showed critical risk levels in issues like freedom of association, humane treatment, and forced labour. The country is also associated with food products that have been flagged for issues of forced labour and child labour.<sup>2</sup>



Freedom of association risk reflects the risk associated with violations related to worker committees, unions, collective bargaining, and internal communication channels for workers to voice concerns. Mexico worsened from high risk to extreme risk in this index in 2024, and recent reports have shown the Mexican government has been asked to review violations of freedom of association at various factories.3

The United States Department of Labor Bureau of International Affairs (ILAB) also reported tomatoes and chili peppers sourced from Mexico had forced labour flags in 2023.4 Other products such as green beans, cattle, coffee, cucumbers, eggplants, garments and leather goods were also flagged for ties to child labour violations associated with production.



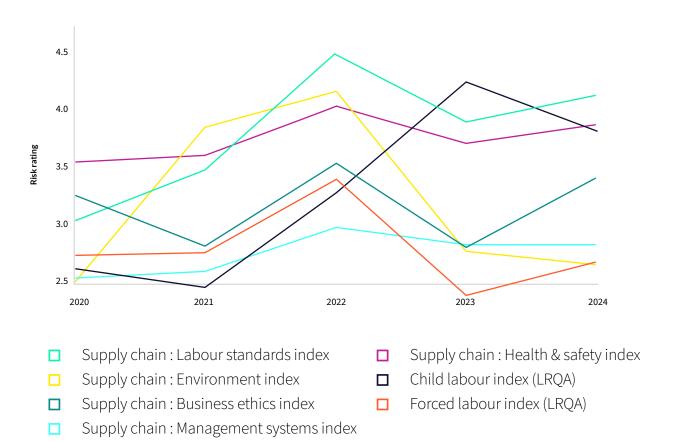


### Top exports

Rank	Commodity
1. 2. 3. 4. 5. 6. 7. 8. 9.	Vehicles Electrical machinery, equipment Machinery including computers Mineral fuels including oil Optical, technical, medical apparatus Furniture, bedding, lighting, signs, prefabricated buildings Beverages, spirits, vinegar Plastics, plastic articles Vegetables Articles of iron or steel

Source: Mexico - Trade, Exports, Imports | Britannica.

### Global aggregate of select indices by year



Risk drivers	EiQ Risk score	YoY change
Freedom of association	• 1.94	▼ 39.02%
Humane treatment	• 2.47	<b>2</b> 3.69%
Forced labour	• 2.66	<b>▲</b> 11.99%
Environmental risk	• 2.64	<b>▼</b> 4.36%

Environment risk is showing worsening trends, primarily attributed
to waste management violations and air emissions violations
$\overline{\mathcal{C}}$

Management systems risks, which relate to managerial issues such as documentation practices and subcontracting, remain problematic and shows gradual declining trends



¹Mexico - Trade, Exports, Imports | Britannica →

 $<sup>^2</sup>$ TVPRA; 2024 List of Goods Produced by Child Labor or Forced Labor. ightarrow

<sup>&</sup>lt;sup>3</sup>United States Seeks Mexico's Review of Alleged Freedom of Association Violations at Mexican Automotive Parts Factory | United States

Trade Representative, US asks Mexico to review labor rights at Caterpillar subsidiary -USTR  $\mid$  Reuters.  $\rightarrow$ 

 $<sup>^4</sup>$ TVPRA; 2024 List of Goods Produced by Child Labor or Forced Labor.  $\rightarrow$ 

## **United States**



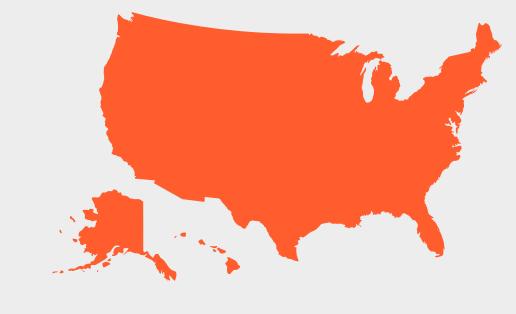






# Overall supply chain risk

• High (4.78)



In 2024, the United States worsened from an overall medium risk country to high risk, due to worsening trends across most of its labour, health and safety, and environmental indices. We have previously highlighted the US as an example of the importance of leveraging risk indicators to understand emerging risks or underlying critical issues. While the United States has previously been assumed to be a 'safer' market, suppliers in the country continue to be exposed for violations that indicate further scrutiny and risk monitoring is crucial in otherwise lower-risk regions.

US suppliers continue to be exposed for violations that indicate further scrutiny and risk monitoring is crucial in otherwise lower-risk regions. Recent reports show the United States is increasingly looking domestically for manufacturing, a trend known as 'reshoring.' "After decades of production activity being sent abroad, domestic manufacturing is starting to come back to the US," Morgan Stanley said, adding the US is "uniquely positioned to leverage technology to revitalize its manufacturing base."<sup>2</sup>

The United States is the second largest goods exporter in the world, behind China, and has trade relations with more than 200 countries and regions. Its top receiving countries include Canada, Mexico, China, Japan and the UK, as well as countries in the European Union.

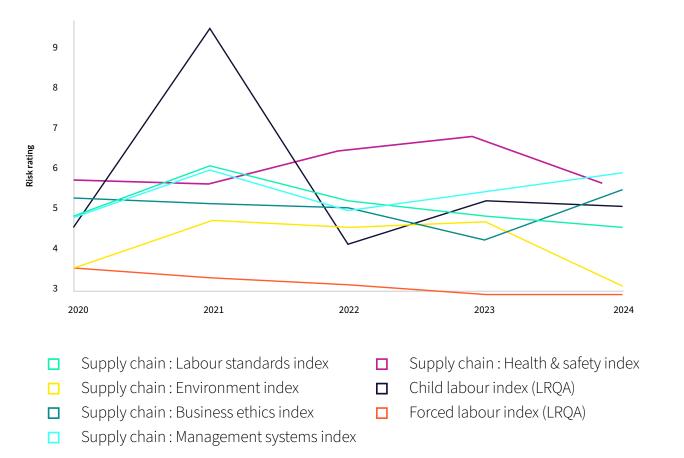
However, companies operating in the US should continue to monitor risks from their domestic partners. EiQ's state-level data shows that key manufacturing states like California and Wisconsin show high risk for ESG violations, particularly in areas like inhumane treatment and forced labour violations.

### **Top exports**

Rank	Commodity
1.	Mineral fuels, including oil
2.	Machinery including computers
3.	Electrical machinery, equipment
4.	Vehicles
5.	Aircraft, spacecraft
6.	Optical, technical, medical apparatus
7.	Gems, precious metals
8.	Pharmaceuticals
9.	Plastics, plastic articles
10.	Organic chemicals

Source: www.worldstopexports.com

### Global aggregate of select indices by year



Risk drivers	EiQ Risk score	YoY change
Freedom of association	• 1.99	<b>▼</b> 0.46%
Forced labour	• 2.81	<b>▼</b> 2.96%
Child labour	• 5.02	<b>▼</b> 2.86%
Environmental	• 3.05	▼ 34.44%

Key trends			

- Most significant worsening trends in indices such as wages and environmental violations
- Forced labour and child labour remain critical issues, and are continually exposed in media investigations
- States showing the highest overall risk include New York, California, Pennsylvania and Florida



 $<sup>^{1}</sup>$ Countries & Regions | United States Trade Representative. ightarrow

 $<sup>^2</sup>$ Bringing manufacturing back to the US is a \$10 trillion opportunity for the economy, Morgan Stanley says  $\, o \,$ 

## **United States**



The United States' child labour risk worsened in 2024, maintaining medium risk but approaching the high risk margin. The US Department of Labor reported that in 2024, more than 730 child labour violations were uncovered, a decrease from the previous year, but also detected more than 4,000 children employed in violation of the law, a more than 30% increase from 2023.<sup>3</sup>

Of these investigations, the Department of Labor found children as young as 14 employed in hazardous jobs in a meat processing facility in California, as well as 24 children illegally employed, some as young as 13, at a meat processing facility in Iowa. Remediation efforts required included implementing child labour awareness training as well as reporting hotlines.

Businesses must improve visibility over these critical risks from their suppliers. While managing current risks, successful organisations also work to identify the potential risks and prioritise emerging issues, not losing sight of the areas in their supply chains that are assumed to be low risk. Our US child labour risk evaluation for the United States has signaled potential child labour escalations since 2020. EiQ data showed the United States' child labour score transitioned from low risk to high risk in 2020, saw an improvement in 2021, and worsened again in 2022, falling back under the high-risk indicator. In the past few years, media headlines continue to spotlight this issue.

<sup>3</sup>Impact in Fiscal Year 2024 | U.S. Department of Labor. →







Sourcing regions

11

### Product watch

## Labour issues in cocoa production



**ILAB Child labour** 

Sanctions

**ILAB** Forced labour

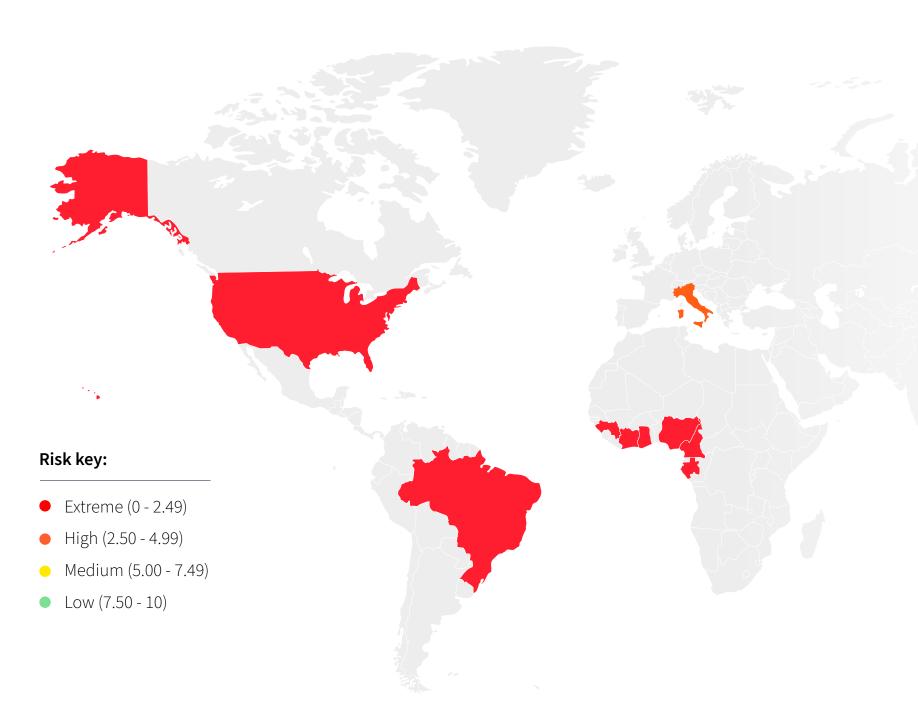
Key issues in cocoa production	EiQ risk level
Biodiversity loss	<ul><li>Extreme</li></ul>
Business ethics	<ul><li>Extreme</li></ul>
Child labour and young workers	• Extreme
Deforestation	• Extreme
Forced labour	<ul><li>Extreme</li></ul>







### Cocoa sourcing regions, 2024 global risk heat map, EiQ



These findings highlight the risk of tainted cocoa products entering U.S. markets and underscore the need for increased vigilance and due diligence by businesses,"

ILAB | 2024 TVPRA report.

Chocolate companies will generate billions in revenue this holiday season, yet consumers are likely unaware of the salient social and environmental risks associated with its production. EiQ, which also generates risk ratings for more than 500 products and commodities, shows cocoa is at critical risk levels for both human rights and environmental impacts, most notably for ESG violations related to biodiversity loss, child labour, forced labour, and deforestation. This risk is most prominent in West African countries, where around 60 percent of cocoa is sourced from.<sup>1</sup>

EiQ integrates data from the United States Department of Labor's Bureau of

International Affairs (ILAB), which flags cocoa sourced from countries like Ghana and Côte d'Ivoire as regions where cocoa was likely produced using forced labour or child labour.

ILAB reports that multiple cocoa and chocolate products from Côte d'Ivoire and Ghana are flagged as possibly containing cocoa beans produced with child labour and/or forced labour, adding that around 1.5 million children are engaged in child labour in cocoa production Côte d'Ivoire and Ghana, with 43 percent engaging in hazardous work.<sup>2</sup>



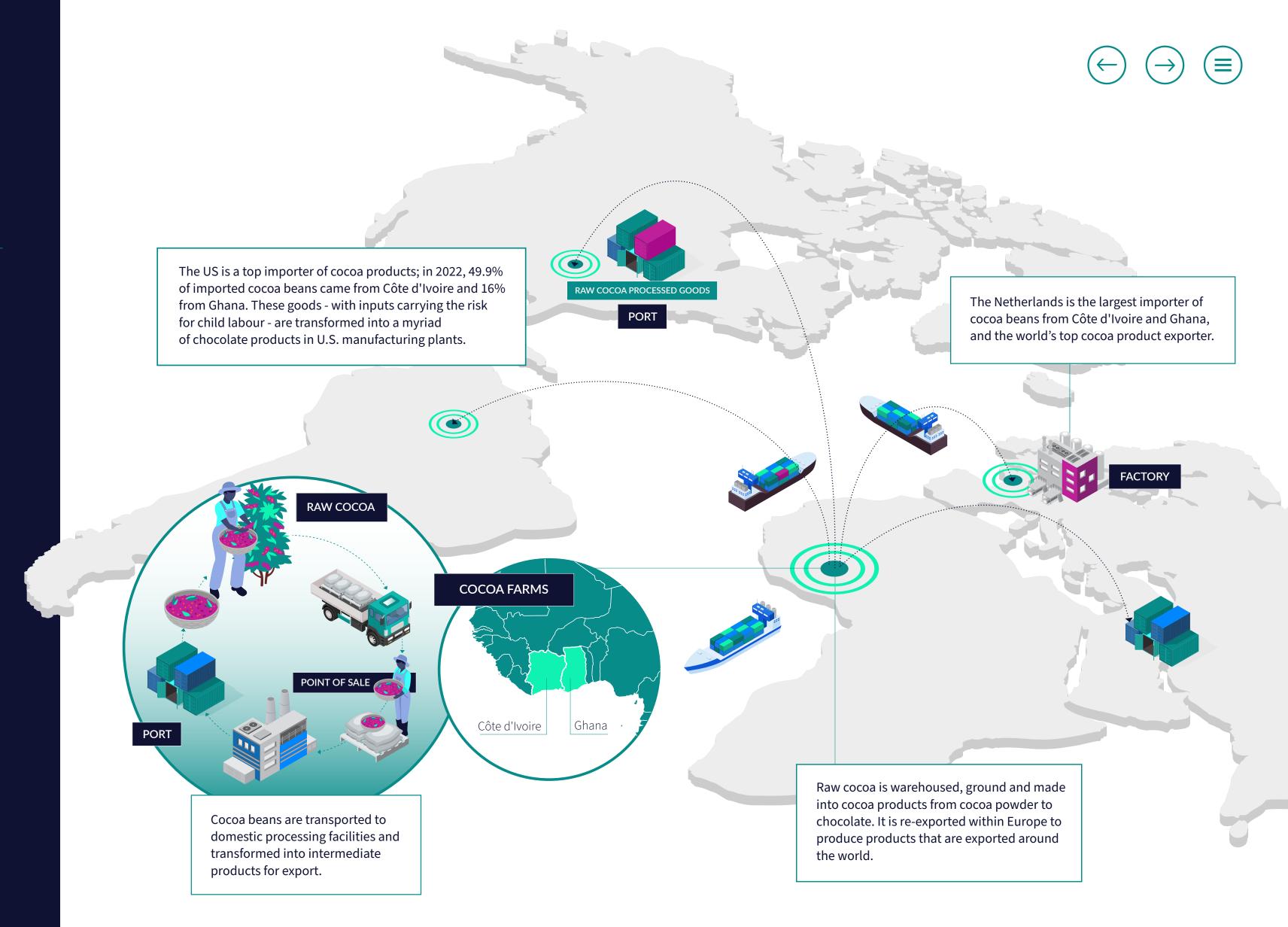


## Labour issues in cocoa production

Businesses often hear the term 'know your supplier,' yet improving traceability means also understanding your sourcing, down to the raw materials. These are often where risks are hidden, and it comes at the cost of being exposed for connections to critical violations. This recognition of cocoa risks serves as a crucial reminder for businesses to prioritise improved visibility over suppliers beyond Tier 1 – this is imperative to avoid reputational damage and improve consumer and stakeholder trust.

The risk of child labour within the entire cocoa supply chain is high, impacting global cocoa companies who import large quantities of cocoa and cocoa products from these countries.

The cocoa supply chain exposes numerous global businesses and millions of shoppers to cocoa products that may contain an input produced with child labour.





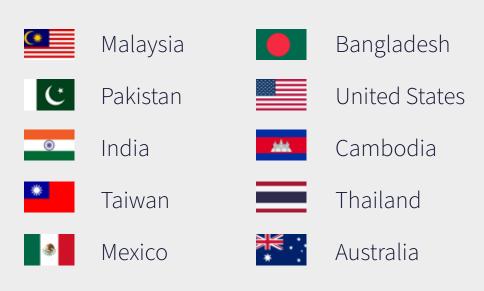




## Forced labour risk

Forced labour is still highly prevalent among global supply chains. EiQ shows at least 60 countries/regions, more than 55% of geographies assessed, are still at high or extreme risk of forced labour instances in 2024. ILO's latest estimates show at least 28 million people are living in forced labour situations, and EiQ data indicates more than 20 regions showed rising risk in this index since 2023.

### Regions at highest risk for forced labour going into 2025



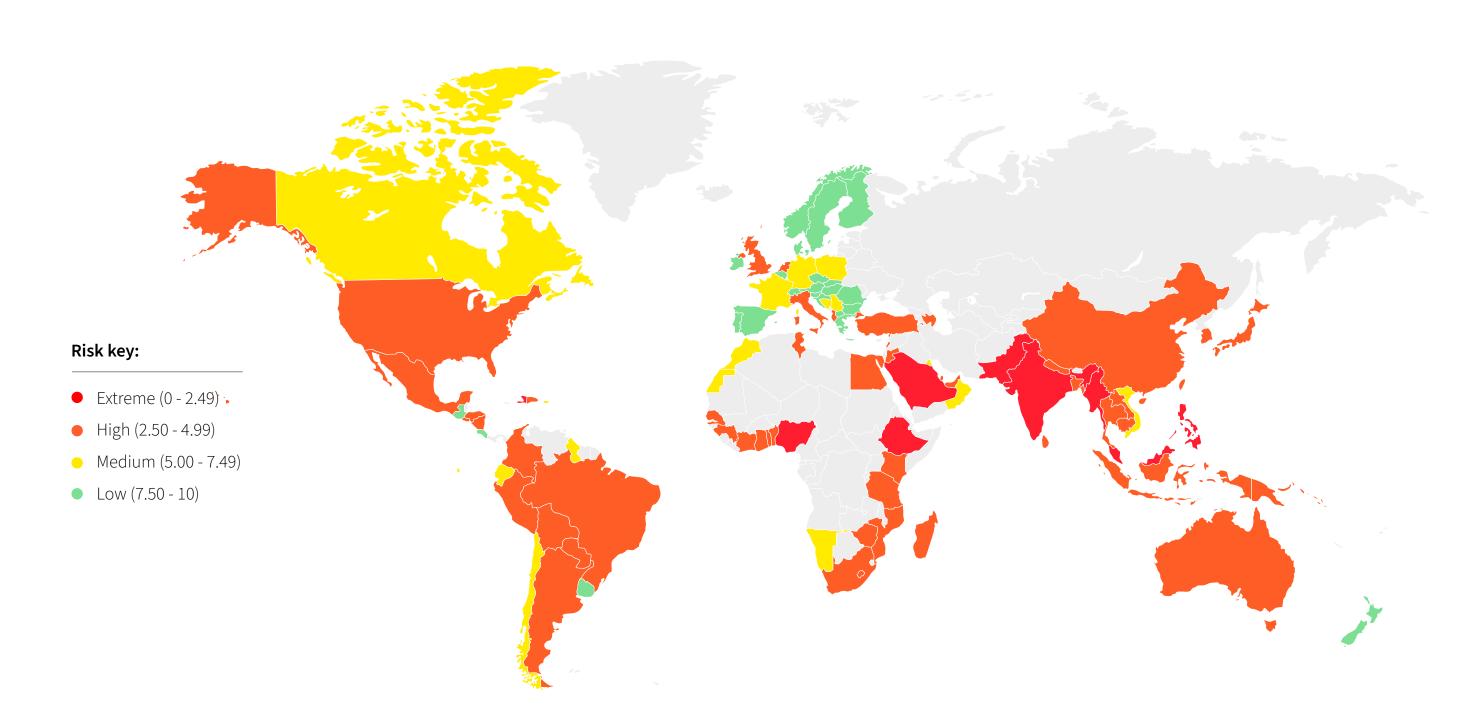
**Note:** Regions listed may be limited to those with higher data volumes.







### Forced labour index, 2024 global risk heat map, EiQ





### Common audit findings related to forced labout violations can include

Employees were unable to terminate their employment freely without being penalised financially or otherwise.

Employees were isolated in remote locations without available transportation, access to their mobile phones or other means of communication.

Site did not properly train employees for their rights on the topic of prohibition of forced labor.

Employees' access to basic rights was restricted.





Businesses must take responsibility and ownership for forced labour violations occurring on their sites and in their factories.

This means gaining better visibility of every link in their production line and the risks associated with each. With a more targeted and data-driven approach, businesses can audit more effectively based on higher-risk areas and implement remediation efforts in a more intentional way.

A reactive approach and once-a-year audits may leave businesses vulnerable to the reputational, operational, and financial disruptions that come with exposure to forced labour ties. Media investigations are increasingly highlighting this malpractice among global suppliers. To enhance overall risk management, aligning supply chain partners on expectations and targets, along with boosting training to detect forced labour issues, is essential.

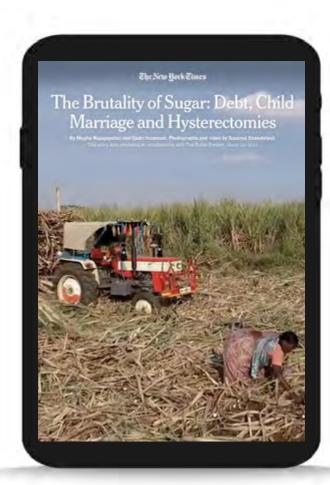
With a more targeted and data-driven approach, businesses can audit more effectively.











Luxury perfumes linked to child labour, BBC finds.

BBC May 2024 "I came here with so many dreams" Labour rights abuses and the need for change in mauritius' apparel factories.

> The Associated Press December 2023

Prisoners in the US are part of a hidden workforce linked to hundreds of poular food brands.

The Associated Press January 2024



# Foreign migrant worker risk

The United Nations reports that migrant workers are more than three times as likely to be in forced labour situations than non-migrant workers.¹ Migrant workers can face higher exploitation due to issues such as language barriers, lack of awareness of their rights, and lack of access to resources, making it difficult for them to seek help or report abuses. This risk is particularly pronounced in countries with weaker labour protections, high levels of corruption, and unregulated markets with less oversight.

The landscape for foreign migrant workers in global supply chains is increasingly precarious, particularly against the backdrop of global conflicts and economic decoupling trends. Migrant workers are often in vulnerable situations due to desperation for work and these factors exacerbate existing vulnerabilities, leading to heightened risks of exploitation, unsafe working conditions, and limited access to legal protections. EiQ 2024 data shows migrant workers in countries like Australia, Italy, and the United Kingdom are at higher risk for potential issues.

## Regions at highest risk for foreign migrant workers going into 2025



Australia



Malaysia



Iordan



United Kingdom

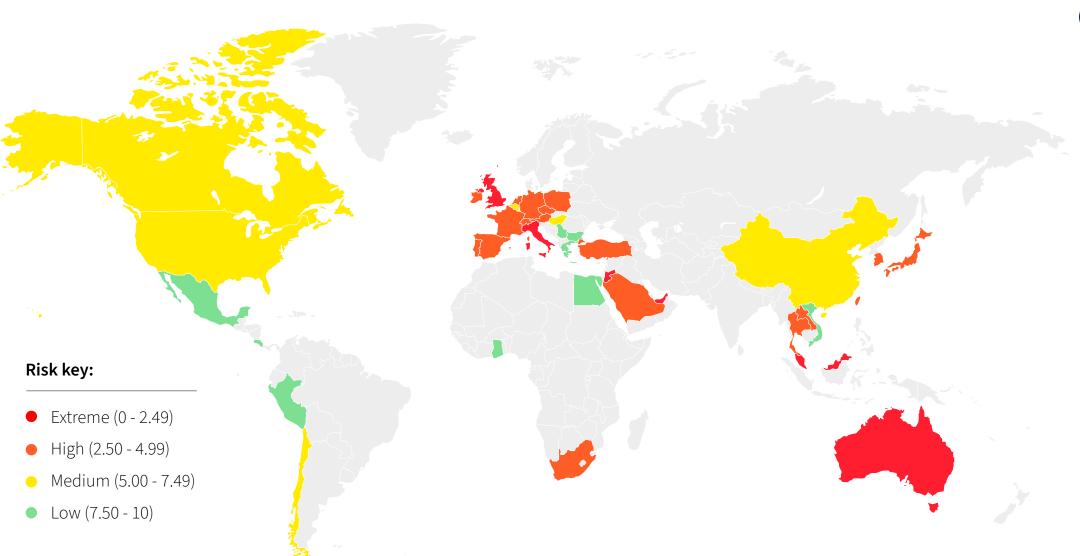
**Note:** Regions listed may be limited to those with higher data volumes.











## Common audit findings related to forced labout violations can include

Terms and conditions were not communicated to employees in the language they understand before signing contract.

Site retained employee's identity document or other legal certificates.

Foreign migrant workers that resigned or were terminated were punished for returning to home country. Or site did not pay legally required travel cost of returning.

Withholding of wages

Unlawful recruitment fees

### Rising risks for foreign migrant workers in the UK

A recent report from Focus on Labour Exploitation (FLEX) also found that foreign migrant workers in the UK's horticulture and poultry production industries were at risk of debt incurred from unethical labour fees and low wages.<sup>3</sup> The FLEX report interviewed workers in the UK who came from countries including Indonesia, Kazakhstan, Kyrgyzstan, Uzbekistan, among others, and many interviewed said they paid job-finding fees or charges from agencies to application systems that should have been free. Many workers interviewed also said they were misled over their wages, receiving less pay than expected and many received contracts in languages they did not understand.

## New US administrations expected to further impact the risk landscape for migrant workers

Upcoming changes in the US administration and proposed tighter border controls<sup>4</sup> may expose migrant workers to heightened human rights violations. Research indicates that stricter immigration policies often push vulnerable workers into informal employment, increasing their risk of exploitation and reducing protections.<sup>5</sup> The previous Trump administration's increased border enforcement resulted in significant labour shortages in agriculture and construction,<sup>6</sup> leading to higher consumer prices and greater pressure on existing workers, which can exacerbate labour exploitation. While EiQ data shows an improvement in migrant worker risk in the US over the past year, new policies could reverse this progress.



<sup>&</sup>lt;sup>1</sup>50 million people in modern slavery: No justification for 'fundamental' human rights abuse | UN News  $\rightarrow$  <sup>2</sup>Ukrainian migration to the UK - Migration Observatory - The Migration Observatory  $\rightarrow$ 

 $<sup>^3</sup>$  https://labourexploitation.org/app/uploads/2024/04/Flex-Report-Final.pdf  $\rightarrow$ 

 $<sup>^4</sup>$  How Trump's Immigration Plans Could Affect the Economy - The New York Times  $\; o$ 

<sup>&</sup>lt;sup>5</sup>Immigration Status and Farmwork: Understanding the Wage and Income Gap Across U.S. Policy and Economic Eras, 1989–2016 | Population Research and Policy Review

 $<sup>^6</sup>$  Immigration Under the Trump Administration: Five Things to Expect in the First 90 Days | Baker Donelson - JDSupra  $\rightarrow$ 

## Child labour risk

# "Progress in corporate responsibility and governmental efforts to combat child labor remains slow,"

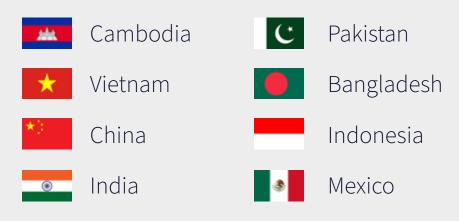
ILAB said in its 2024 report assessing global child labour.<sup>1</sup>

EiQ shows at least 49 countries are at high or extreme risk of child labour violations in 2024. Enforcement gaps and policy issues are among the key contributors, according to ILAB's assessment, and businesses and their supply chains are repeatedly called out to improve due diligence efforts.

Latest estimates from UNICEF show 160 million children are in child labour situations worldwide.<sup>2</sup> To address these issues, "companies need to monitor their entire supply chains, increase transparency, collaborate with stakeholders and enforce accountability," ILAB said.

This type of supply chain monitoring requires a more data-driven approach from responsible sourcing executives, and even from investors, to implement technologies to improve their risk analysis and risk management.

### Regions at highest risk for child labour going into 2025



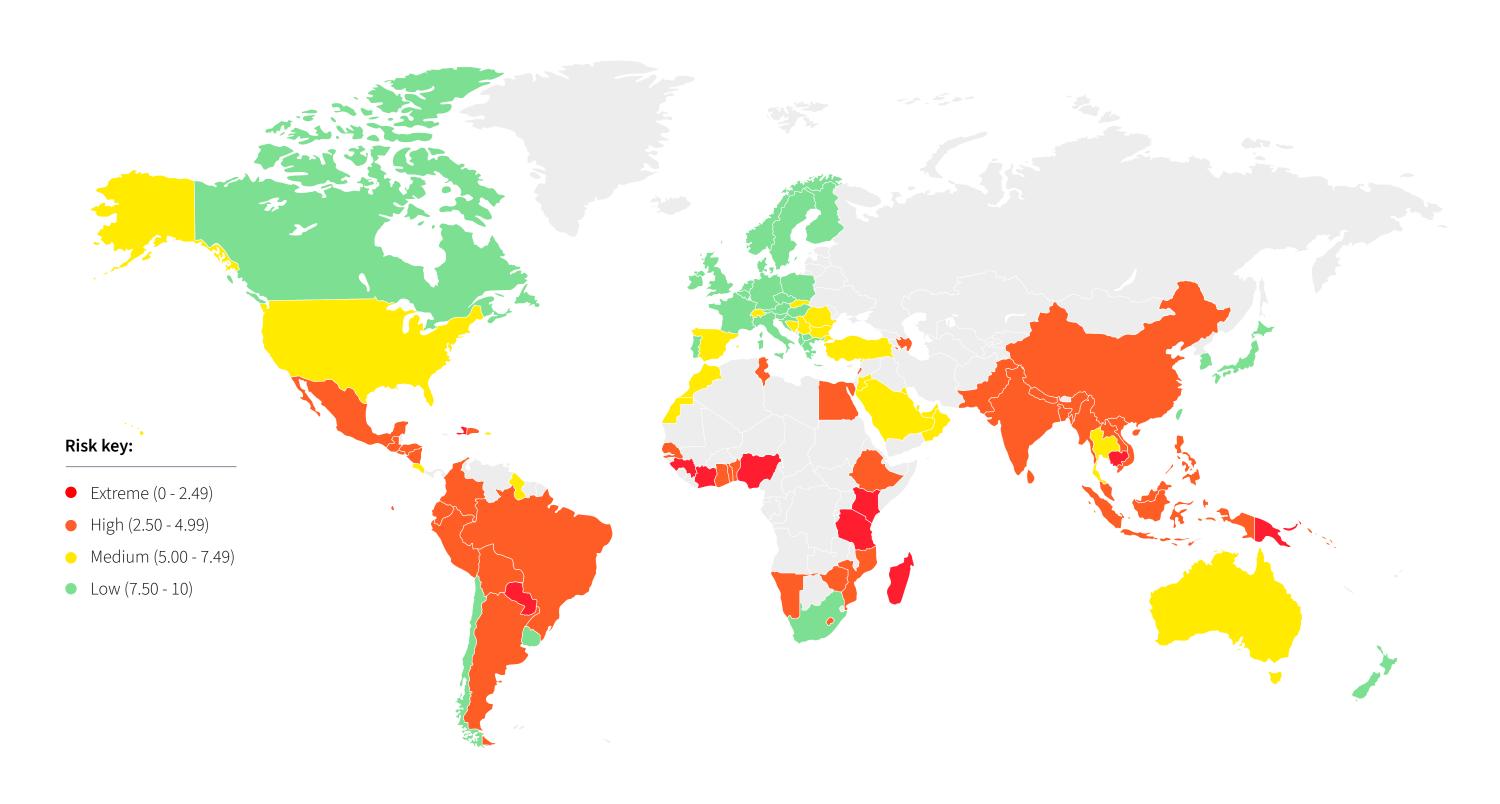
**Note:** Regions listed may be limited to those with higher data volumes.







### Child labour index, 2024 global risk heat map, EiQ



Companies need to monitor their entire supply chains, increase transparency, collaborate with stakeholders and enforce accountability.

ILAE



 $^2$ Child Labor Enforcement: Keeping Young Workers Safe  $\mid$  U.S. Department of Labor ightarrow



# Working hours risk

Working hours risk is a supply chain risk that is often overlooked. While forced labour and child labour remain at the forefront of salient issues threatening supply chain integrity and responsible sourcing, excessive working hours is another all-too common violation that is equally harmful to a supply chain's health.

It is common to see overtime violations in factories – with extreme cases being 60 to 80 hours a week, as peak production seasons are high.

The supply chain sites assessed here from one western retailer and its suppliers showed at least 25 different factories where employees worked more than 90, even more than 100 hours in one week.







Factory	Highest work hours per week	Average work hours per week
Factory 1	129.5	71
Factory 2	116.1	78.8
Factory 3	108.5	80
Factory 4	108	89.7
Factory 5	101.5	86.05
Factory 6	101.5	71.07
Factory 7	101.5	62.05
Factory 8	100.38	62.4
Factory 9	100	74
Factory 10	99.5	67.91
Factory 11	99	71.23
Factory 12	99	64
Factory 13	98	69
Factory 14	97	62.42
Factory 15	96.5	75
Factory 16	96.5	72
Factory 17	96	78.6
Factory 18	96	69.75
Factory 20	95	75
Factory 21	95	67
Factory 22	94.5	75
Factory 23	94.5	74.71
Factory 24	94.2	77
Factory 25	93.5	77



# Working hours risk

In 2024, 53 (more than half) of our sourcing countries/regions assessed indicated high or extreme risk for working hour violations. What is this data telling us? Risk mitigation strategies are still falling short. Risk remediation efforts should not only be applied to forced labour instances, but should also apply to all transgressions which violate workers' basic rights. Excessive working hours are also linked to health and safety issues among workers, and in 2016, the International Labour Organisation (ILO) estimated that nearly 40% of 1.9 million work-related deaths could be attributed to long working hours.<sup>1</sup>

### Regions at highest risk for working hour violations going into 2025

Australia

Malaysia

Bangladesh

United States

India

Taiwan

Bangladesh

United States

Cambodia

Thailand

Most improved United Kingdom

Mexico

It is the responsibility of organisations to conduct further due diligence on their upstream activities and understand where violations may be occurring at every link of their supply chain. Broadening the focus on all critical labour issues and ensuring these violations are being prioritised and mitigated are essential to maintain regulatory compliance and protect workers' rights connected to their operations.

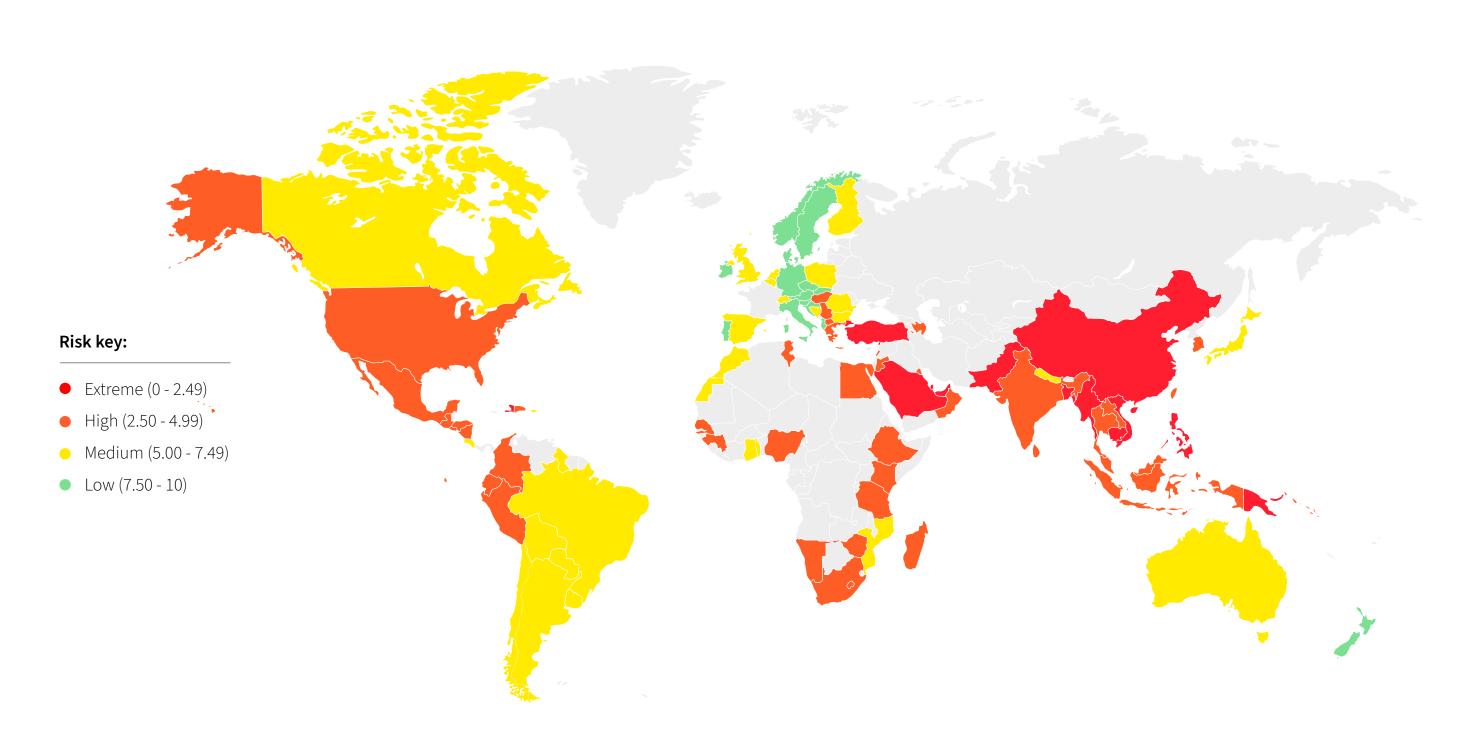
 $^{ ext{ iny 1}}$ Environment, Climate Change and Health  $\,
ightarrow$ 







### Working hours index, 2024 global risk heat map, EiQ



### Q

### Common audit findings related to working hours index

Site did not have any working hours tracking and recording system at all.



Employee worked more than 84 hours per week.



Employee worked for more than 42 consecutive days without a full day off (24 hours).





# Transparency risk

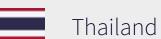
Audit transparency - defined as the ability of auditors to access information during risk assessment processes - is crucial to ensure a site's risk is accurately assessed. Access to information is still a concern across most production markets in 2024. At least 48 regions at high or extreme risk for low supplier transparency.

A key contributor to declining levels of transparency has been audit deception, where suppliers intentionally withhold information or provide falsified data to auditors. This may include coaching employees for interviews or other attempts at concealing malpractices.

### Regions at highest risk for low transparency going into 2025



Malaysia



Pakistan

## **Most improved**

Portugal

South Korea

Bangladesh

Sri Lanka

Australia

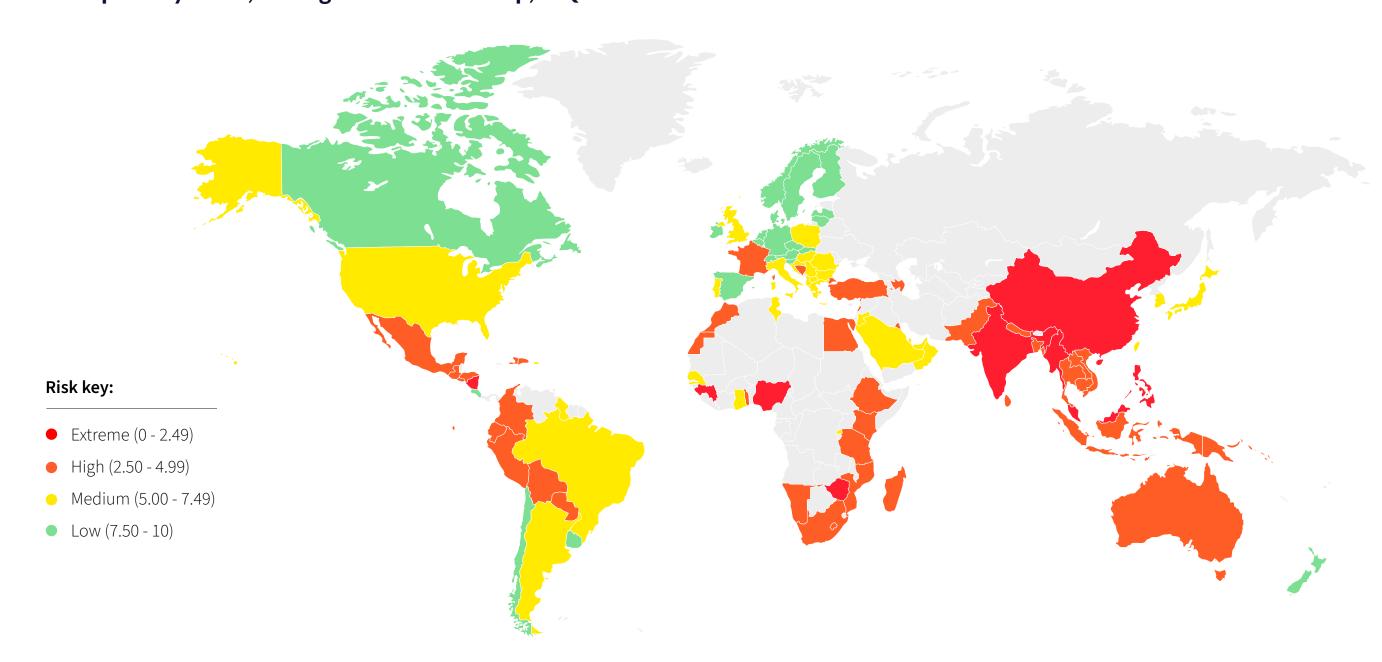
**Note:** Regions listed may be limited to those with higher data volumes.







### Transparency index, 2024 global risk heat map, EiQ



Transparency at the supplier level is critical to the assessment process to understand risk and operational impacts to both workers and the environment. Suppliers are identified as non-transparent when they misrepresent or withhold information (typically about wages and working hours) from auditors during assessments. Without transparency, it is impossible to accurately report and mitigate ESG risks and properly deploy corrective action plans. During site assessments, our auditors categorise transparency in three ways:

### **Transparent**

### Level of transparency on wage and working hours is high.

This conclusion indicates a high level of transparency on the wage and working hour records provided. This indicates the factory is open and transparent.

### **Inconsistent**

### Level of transparency on wage and working hours is low.

This conclusion indicates the reliability of the provided wage and working evidence during the audit.

#### Inconclusive

#### Level of transparency on wage and working hours is of concern

This conclusion indicates potential concerns on transparency are noted, mainly subjective information from the assessor. However, little or no objective and/or strong evidence is found on-site to prove there was a formal violation of transparency.

To address misrepresentation during audits, companies and auditors need to take a more proactive and comprehensive approach to assessments. This may involve conducting more frequent and rigorous audits, increasing focus on high-risk suppliers, engaging in semi- or unannounced visits, or incorporating worker surveys and grievance mechanisms to gain greater visibility over workers' viewpoints.



# Health and safety risk

Businesses have an ethical obligation to ensure that their operations do not harm employees and to ensure they are complying with international standards and, often, regulatory requirements. When deadly tragedies such as the 2013 Rana Plaza disaster and the South Korean factory fire in 2024 that killed at least 22 workers occur<sup>1</sup>, the grim reality of poor working conditions across the world are brought to light.

EiQ shows in 2024 at least 53 countries/regions assessed are at high or extreme risk of health and safety violations, encompassing issues like building safety, machine safety, fire safety and workplace injuries. The ILO latest estimates show that nearly three million workers die every year due to work-related accidents and diseases, 330,000 of which are attributed to workplace accidents.<sup>2</sup>

### Regions at highest risk for health and safety violations going into 2025

Pakistan

Bangladesh



South Africa

Sri Lanka

Thailand



Cambodia

Indonesia

Philippines

### **Most improved**









South Korea Philippines

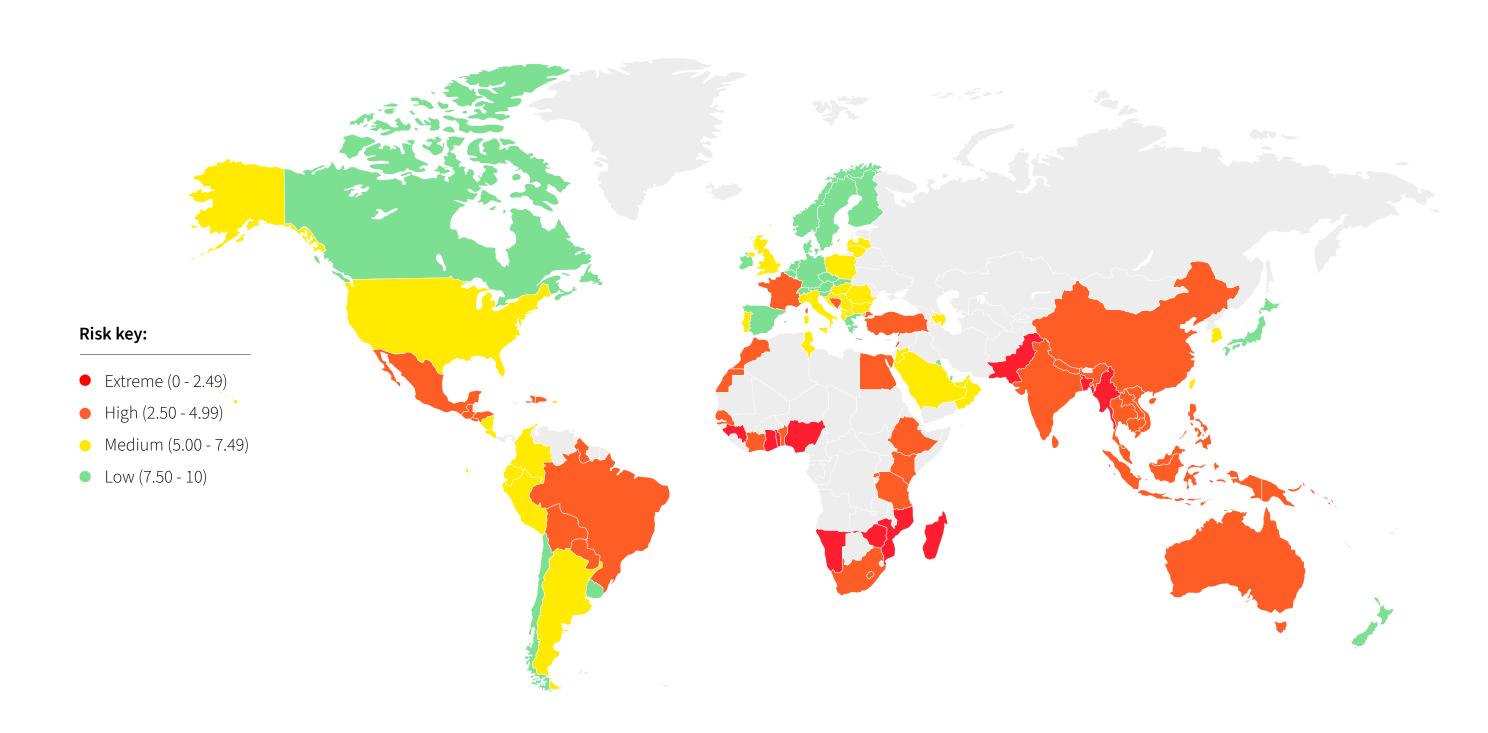
**Note:** Regions listed may be limited to those with higher data volumes.







### Health and safety index, 2024 global risk heat map, EiQ



Unsafe working conditions may often go undetected as sporadic audits may not provide a true reflection of a site's conditions. Addressing these vulnerabilities requires comprehensive strategies, including robust legal protections, targeted health and safety training, accessible reporting mechanisms, and efforts to integrate migrant workers into local communities. By prioritising the health and safety of migrant workers, companies can mitigate ESG risks, enhance workforce stability, and promote ethical supply chain practices.

By prioritising the health and safety of migrant workers, companies can mitigate ESG risks.



¹ Blaze at South Korea lithium battery plant kills 22 workers | Reuters →

<sup>&</sup>lt;sup>2</sup>Nearly 3 million people die of work-related accidents and diseases | International Labour Organization  $\rightarrow$ 







## Defying the due diligence gap ahead of 2025

Recent benchmark data shows at least 80% of businesses are failing at human rights due diligence.<sup>1</sup>



These reported disparities from companies with a global reach mean millions of workers are at risk of human rights violations and communities at risk of adverse impacts. As due diligence requirements expand worldwide and the focus on ESG malpractices is greater than ever, it prompts the question: why is there this due diligence gap?

### Importance of robust risk indicators

The risks outlined throughout this report indicate the importance of prioritising quality data in responsible sourcing approaches. Supply chain risk indicators are used to help businesses identify, track, and predict the unique risks in their supply chains. Trends help serve as an early warning system, allowing for risk identification prior to escalation. The quality of business' datasets and risk indicators can shape the accuracy of a company's risk view and how it perceives the risk landscape. Underestimating the need for this increased breadth of data can alter decision-making and impact responsible sourcing programmes.

An increasing number of regions are evolving their legislative approaches to prioritise further due diligence, enhanced supply chain visibility, and the mitigation of adverse human rights and environmental impacts. This heightened stringency is evident through laws such as the European Union's Corporate Sustainability Due Diligence Directive (CSDDD), forced labour bans in regions such as the EU, United States, Mexico and Canada, and proposed amendments to strengthen modern slavery laws in countries including the United Kingdom.

Given the evolving complexity of ESG issues, and the new era of risk management defined as Assurance 4.0, it is critical to continually assess monitoring tools and protocols to ensure they remain fit-for-purpose and capable of facilitating effective oversight. It is clear now that supplier audits are only snapshots in time and perhaps not enough to replace deeper dives into issues like fair wages, grievance mechanisms, or remediation. Companies must balance different data sources to assess risk and innovate within a broader framework of supply chain management. This means leveraging honest technology solutions, which utilises quality data and promotes higher transparency. With labour issues remaining prevalent in most sourcing regions and environmental risks heightening, it is important businesses take these insights and ask: What can be taken from this data and how can it be used to inform risk management strategies?

<sup>1</sup>80% of companies fail on human rights due diligence – regulations, guidance and pressure are needed to accelerate change | World Benchmarking Alliance →

Manage the Suppliers That Could Harm Your Brand\_Harvard Business Review 2024.docx →









# EiQ overview

EiQ is the world's first end-to-end supply chain ESG due diligence and assurance platform. It defies the "one size fits all" paradigm for responsible sourcing by enabling a tailored, risk-based programme that is aligned with the unique supply chains of each individual business.

EiQ is a data-driven ecosystem used by brands and retailers to enhance ESG due diligence and assurance. The ecosystem is a single seamless workflow that provides comprehensive ESG solutions to transform your responsible sourcing approach and to facilitate sustainable trade.

To view the risk landscapes across dozens more indices, receive a free demo of EiQ.



### **Audit data**

25,000+ audits per year 300+ data points per audit 10+ years of audit history

# 75,000,000+ audit data points

### **Worker viewpoints**

Grievance mechanism 6,000+ per month 3,000+ worker surveys per year

### **eLearning data**

1 million+ course completions

# **500,000+** index values

### **Analytics data**

50+ supply chain indices | 200+ regions 20+ key sectors | 500+ products and services 300,000+ entities scanned for adverse media

# **250,000+** entities

### **Corporate scorecards**

500+ multi-nationals

### **Vendor scorecards**

15,000+ vendor profiles

### **Site scorecards**

50,000+ unique factories and farms









### About LRQA:

The leading global assurance partner, bringing together decades of unrivalled expertise in assessment, advisory, inspection and cybersecurity services – underpinned by data-driven insights – to help its clients navigate a new era of risk.

Operating in more than 160 countries with a team of more than 6,000 people, LRQA's award-winning compliance, supply chain, cybersecurity and ESG specialists help more than 61,000 clients across almost every sector to anticipate, mitigate and manage risk wherever they operate.

In everything we do, we are committed to shaping a better future for our people, our clients, our communities and our planet.

### **Get in touch**

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