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IFU'S APPROACH TO MANAGE RISKS OF FORCED LABOUR IN THE SUPPLY CHAIN OF SOLAR PANELS OF IFU'S INVESTMENTS

MEMO

This memo presents IFU's approach to and leverage in managing the risks of forced labour used in the solar panel supply chain in IFU's investments.

Background

Solar panels are imperative for installing renewable energy and supporting the green transition globally as well as in the developing countries. But concerns have been raised that many solar panels contain raw materials that have been made available through the use of forced labour.

On 8 January 2021, the New York Times published an article¹ based on a report from the US company Horizon Advisory, which stated that quartz and metallurgical grade silicon (MG-Si) produced in China in the Xinjiang region, are extracted with the aid of forced labour. The key issue is that Uyghurs and indigenous groups, as well as religious minorities in the Xinjiang region, are subject to compulsory labour programmes associated with detention camps, re-education, and other human rights abuses.²

Today the global solar sector is largely dependent on China. Nearly all solar cells produced are either produced in China or contain raw material sourced from China.

Furthermore, the supply chain for solar panels is complex and includes at least seven stages from the mining of quartz over the production of polysilicon to the final solar panels. It is primarily in the early stages of the supply chain that forced labour is supposedly used, and this makes it difficult for solar panel purchasers to obtain proper look-through and document the origin of the different raw materials and components that together make up solar panels. Moreover, the solar panel purchasers have no direct contractual ability to conduct audits at mining and processing sites, or review all supply chain actors, as the solar panel purchases are several steps from the contracting parties. However, what the solar purchasers can do is to assess the risks of forced labour in their supply chain and act upon these risks in terms of avoiding, minimizing or mitigating them, and implement follow-up actions.

To date, allegations of forced labour have primarily affected the solar industry. However, it is likely that other industries will also come under increased scrutiny as they also depend on quartz, metallurgical grade silicon and polysilicon, which could originate from the Xinjiang region.

¹ <https://www.nytimes.com/2021/01/08/business/economy/china-solar-companies-forced-labor-xinjiang.html>

² <https://www.bloomberg.com/graphics/2021-xinjiang-solar/>



IFU's increased efforts on risks of forced labour

IFU invests in solar power plants to support the green transition, which is one of IFU's two overarching impact priority areas. The IFU backed solar power plants purchase solar panels from producers, either directly or via a contractor. As stated above it is possible that forced labour is used in the early steps in the supply chain of the solar panels (at mining and processing sites). This puts IFU and its investee companies at risk of being 'directly linked' to the use of forced labour in solar panel supply chains and therefore required under UNGP 13/19 to take action to avoid and address these risks, and seek to use and increase leverage. As part of this requirement, IFU is further expected to track the effectiveness of its approach and make adjustments accordingly.

According to IFU's exclusion list, IFU "will not finance any activities, production, use, distribution, business or trade involving forced labour or child labour".³

For all new investments where risks of impact on environment and/or people exist within the company's supply chain, IFU requires the companies to have a responsible supply chain management system.

For existing investments, IFU will use its leverage to encourage companies to have a responsible supply chain management system in place.

To establish a proper supply chain management system the companies must:

- Develop a policy commitment where the company states that it will comply with international labour rights, including a commitment to exclude suppliers involved in child or forced labour, and requires its suppliers to have a commitment to exclude their suppliers involved in child or forced labour.
- Assess the potential risk of forced labour throughout the supply chain of the solar panels, and put actions in place to avoid, minimise or mitigate these risks.
- Include a supply chain management system at supplier level as a selection criterion for the purchase of solar panels.
- Include a clause in the purchase agreement, which clearly states that the supplier must comply with international labour rights, including a commitment to exclude suppliers involved in child or forced labour and to align with UNGPs – including implementation of responsible supply chain management and establishing a grievance mechanism.
- Follow-up, collect data and conduct regular audits of the solar panel producers, and request documentation of follow-up actions from their suppliers.

Although monitoring and audits may be difficult and even impossible for the companies purchasing solar panels, IFU will still encourage and train its investee company to continue to follow-up and request information and getting access to the suppliers, to monitor and conduct audits.

Furthermore, when IFU is an equity investor and is represented on the board of the company, IFU will follow up on the company's performance and maintain the attention of the company's executive management and board members on the risk of forced labour in their supply chain.

Looking ahead

The issue of risks of use of forced labour in the solar panel supply chain can be considered as a systemic issue and will call for a systemic solution. Therefore, IFU as a single investor will not be able to solve this systemic issue on its own.

³ <https://www.ifu.dk/wp-content/uploads/2022/06/Exclusion-list-2022.pdf>



IFU works closely together with the other European Development Finance Institutions (EDFIs) to find the best approach to the issue of forced labour in supply chains. This includes awareness-raising among the companies in which EDFIs invest, through training and support provided to the companies. Special attention will be on the companies' monitoring of and follow-up on their suppliers. This collaboration and development of common solutions will further develop over time. Furthermore, IFU has joined the International Solar Alliance in India and will in general support and join multi-stakeholder initiatives, where different kinds of stakeholders are represented.

An important step towards reducing the risk of forced labour in the production of solar panels came in effect in June 2022. The US now requires documentation for all imported solar panels that they do not contain materials produced in Xinjiang. Furthermore, the EU proposed on 14 September 2022 to ban products made with forced labour on the EU market.

IFU will continue to participate in dialogue and discussions in relevant national and international forums. Moreover, IFU will take stock of the development based on the new American requirements and the expected EU ban.