

## **Domini and Slavery in Brazil**

Dr Robert Howell, Chair Council for Socially Responsible Investment

### **Amy Domini**

In 1980, when Amy Domini was working as a stockbroker in the USA, she began to notice that some of her clients were unhappy about investing in certain companies. One of Amy's clients, an avid birdwatcher, sought her advice on what to do with a large paper company that endangered the birds she loved by using a highly toxic defoliant in the process of manufacturing paper. Another investor refused to hold the stocks of large defense contractors. Others wanted to avoid tobacco companies. This led Amy to become a passionate proponent of socially responsible investing, and she has since written extensively on the subject.

She founded Domini Social Investments in 1990. She is one of the founders of KLD Research & Analytics (with Peter Kinder and Steve Lydenberg) and helped create the Domini 400 Social Index, a stock market index selected according to a set of social and environmental standards. In 2005, *Time* magazine named Amy Domini to the Time 100 list of the world's most influential people. Later that year, President Bill Clinton honored her at the inaugural meeting of the Clinton Global Initiative for helping protect children and the environment through the Domini Global Giving Fund. She has served on the board of the Church Pension Fund of the Episcopal Church in America. She and Domini Social Investments work closely with the Interfaith Center for Corporate Responsibility (ICCR) a coalition of 275 faith-based institutional investors. Founded in 1973, the organisation advocates for corporate social responsibility and files shareholder resolutions and engages in dialogue with corporate management on issues such as global warming, human rights, corporate governance, and other social and environmental concerns. Secular organisations work with the ICCR as Associate Members.

### **Brazil, Domini and Nucor**

In 2006, Bloomberg Markets Magazine ran a story on slavery, focusing on the production of pig iron in Brazil. Every year, thousands of workers are taken deep into the Amazon under false pretenses where they are forced to illegally harvest timber and produce charcoal under extreme and degrading conditions. The charcoal produced at these camps is used to make pig iron, which is ultimately sold to international buyers including Nucor, the largest steel producer in the United States. The Brazilian pig-iron industry is responsible for about 10 percent of the cases of slavery reported to the Catholic Church's Pastoral Land Commission. Illegal deforestation also exacerbates the global threat of climate change and threatens one of the world's most critical and unique ecosystems.

Domini took the lead to send a letter in 2007 to Nucor for a consortium of ten funds, including the New Zealand Superannuation Fund. Nucor were reluctant and slow to respond. Domini then, on behalf of 11 USA based Funds, submitted three shareholder proposals to Nucor in 2008, 2009 and 2010, seeking a board review assessing the company's efforts to ensure the protection of fundamental human rights in its global operations and supply chain, and a public report to shareholders. The first proposal was withdrawn in exchange for a written

agreement from Nucor that produced a formal policy prohibiting forced labor in its supply chain. The investors, however, were dissatisfied with Nucor's compliance with the remaining terms of the withdrawal agreement and pressed the company for a more comprehensive and transparent system.

The second shareholder proposal led to Nucor's first public response to the issue, which came in the form of the Board's 'statement in opposition' in its corporate proxy statement, providing details on its response to slavery in Brazil, and explaining why shareholders should vote against the proposal. Nevertheless, the proposal was endorsed by RiskMetrics Group, the influential proxy advisory firm, and received the support of 27 percent of the shares cast, a significant vote for a first-year human rights proposal, particularly for a company with no exposure to consumers. The shareholder proposal provided Domini with the opportunity to make a statement at Nucor's annual meeting. Domini commended Nucor for the steps it had thus far taken to address slavery, but also raised a number of questions about the adequacy of its response.

In 2010, Domini and Nucor entered into a written agreement in exchange for the withdrawal of the third shareholder proposal. The agreement takes advantage of two important Brazilian anti-slavery initiatives, the National Pact for the Eradication of Slave Labor and the Citizens Charcoal Institute. Throughout the dialogue, the investors encouraged Nucor to sign and adhere to the National Pact for the Eradication of Slave Labor, a multi-stakeholder effort that since 2005 has successfully engaged companies representing approximately 20 percent of Brazil's gross domestic product in the fight against slavery. The Pact is monitored by Reporter Brasil, the Ethos Institute of Business Ethics and Social Responsibility, the Social Monitoring Institute and the International Labor Organization. Among a series of key commitments, Pact signatories must agree not to purchase from suppliers on the government's "dirty list," and to allow independent monitoring of that commitment. A number of major corporations have signed the Pact, including Cargill Agrícola S.A., Coca-Cola Brasil, Carrefour Indústria e Comércio Ltda, and Wal Mart Brasil. In 2010, Nucor informed Domini that it had entered into discussions with the Citizens Charcoal Institute (ICC), an association of Brazilian iron and steel companies formed in 2004 to combat slavery in their supply chains. As a condition of membership, each ICC member agrees to subject its entire supply chain to monitoring to ensure legal and humane working conditions.

After discussions with Domini, Nucor agreed to require all of its top-tier Brazilian pig-iron suppliers to either join the ICC or endorse and commit to the National Pact. As an additional check, Nucor agreed that it would receive audit reports from the ICC and monitor compliance by its suppliers on the basis of these reports. Nucor also agreed to become a financial patron of ICC, helping to finance its monitoring work. As part of its agreement with the investors, Nucor agreed to publish annual progress reports on its implementation of these policies. It published its first sustainability report in September of 2010, which contains a description of these new policies. The coalition will monitor these annual reports and provide the company with feedback when appropriate.

### **What can you do?**

The story about Domini and Nucor is a good example of using investment to bring

positive change. How do you know if your investment fund or pension is involved in supporting slavery? Here are some suggestions on how to use this story for your investments.

The first thing to do is to have clear criteria that describe the type of behaviour that you find unacceptable, and that should include slavery and other human rights abuse.

Second, you need to decide whether you want to exclude all companies that directly or indirectly support slavery or human rights abuse. You could exclude companies like Nucor, or you could still own shares but support efforts by funds like Domini to change behaviour. Ensure that your advisor or fund knows your standards and requirements about exclusion and engagement.

Third, make sure that standards or codes, preferably international and independent ones, that reflect these criteria. This is not as easy as it sounds, because there are many standards that are established by industries to protect themselves. Make sure these standards include the supply and distribution chain.

Fourth, check that there are independent evaluative and reporting processes that enable you to assess whether your investor or fund is monitoring progress to the required changes. Again this is not straightforward as there are many company social and environmental reports that do not tell the full or accurate story. Consider choosing a reputable SRI fund and bank for your money.

### **Acknowledgement**

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