

**Canada**

# **Fighting Against Forced Labour and Child Labour in Supply Chains Act**

**IKEA Supply AG and IKEA Food Supply AG**

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## Table of Contents

1. Our structure, operations and supply chain .....	2
1.1 Structure .....	2
Legal Structure (i.e. corporation, trust, partnership, unincorporated organization).....	2
Organizational structure (i.e. departmentation, chain of command, etc.).....	2
Organizational mandate or role .....	2
Partner organizations.....	2
Control of other entities.....	2
1.2 Activities.....	3
Production of goods .....	3
Goods .....	3
Importing .....	3
1.3 Supply chain.....	3
Suppliers of goods and services .....	3
2. Our policies and due diligence processes in relation to forced labour and child labour .....	3
2.1 IWAY.....	3
2.2 Inter IKEA Group Policy on Human Rights.....	4
2.3 Inter IKEA group policy on child safeguarding .....	5
3. Due Diligence processes.....	5
3.1 IWAY system.....	5
3.2 Grievance mechanism .....	6
3.3 Identification and assessing of adverse impacts. ....	7
3.4 Ceasing, preventing or mitigating adverse impacts .....	7
3.5 Remediation measures .....	8
3.6 Assessing and tracking effectiveness, implementation and results .....	9
4. Training and Competence Development.....	10

# 1. Our structure, operations and supply chain

## 1.1 Structure

### Legal Structure (i.e. corporation, trust, partnership, unincorporated organization)

IKEA Supply AG ("ISAG") and its subsidiary IKEA Food Supply AG (IFSAG) are corporations incorporated in Switzerland, under Swiss laws. Both companies are fully owned subsidiaries within the Inter IKEA Group of companies with the ultimate parent company Inter IKEA Holding B.V., a corporation incorporated in the Netherlands. ISAG is a sister company to Inter IKEA Systems B.V., the worldwide franchisor of the IKEA franchise system.

### Organizational structure (i.e. departmentation, chain of command, etc.)

ISAG sources and distributes the IKEA products according to the IKEA Concept Framework, leading the purchase development process as well as Supply Chain Operations through categories as well as being responsible for balancing Sales and Supply for the value chain. This means that ISAG is responsible for sourcing and supplying the global IKEA range of Home Furnishing Products, all the way from supplier to Franchisee. IFSAG has the same responsibilities for food and beverage products whereas its subsidiary IKEA Food Supply (Canada), Inc is responsible for import and wholesaling of food products in Canada. Through the franchise agreement with Inter IKEA Systems B.V. the Ingka Group currently operates IKEA warehouses, global digital solutions, and online stores in Canada.

### Organizational mandate or role

ISAG and IFSAG sources and distributes the IKEA products according to the IKEA Concept Framework<sup>1</sup>, leading the purchase development process as well as Supply Chain Operations through categories as well as being responsible for balancing Sales and Supply for the value chain. This means that ISAG and IFSAG are responsible for sourcing and supplying the global IKEA range, all the way from supplier to franchisee.

### Partner organizations

ISAG and IFSAG are working with over 1,500 direct suppliers and service providers in the areas of transport, logistics and distribution services, components, and food to minimise the environmental footprint of the total IKEA supply 'chain and beyond, while improving working conditions. There are millions of workers who – through our suppliers and service providers.

The IKEA business partners and collaborates with many external organizations that are committed to tackling large and complex global sustainability challenges that both impact and are impacted by the IKEA business. Our partners and collaborators include businesses, governments, universities, and NGOs.

### Control of other entities

ISAG has about 30 subsidiaries located throughout the world, acting as trade solicitation- and wholesale entities, including IFSAG. ISAG and IFSAG's subsidiary IKEA Food Supply (Canada), Inc are deemed to have a reporting obligation under BILL S-211, "Act to enact the Fighting Against Forced Labour and Child Labour in Supply Chains Act and to amend the Customs Tariff" in Canada.

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<sup>1</sup> The IKEA Concept consists of the following three main components: the IKEA product range, the IKEA retail system to present and communicate the range, and the IKEA trade dress, trademarks and other distinctive features.

## 1.2 Activities

### Production of goods

ISAG and IFSAG have more than 1,500 direct suppliers in more than 50 markets, including home furnishings, food and beverage products, transport service providers and suppliers of components for home furnishing products.

### Goods

IKEA of Sweden AB, a sister company to ISAG, develops, improves and maintains the range, as well as the IKEA product offer, according to the IKEA Concept Framework. ISAG and IFSAG source and distribute the IKEA products according to the IKEA Concept Framework as described above.

### Importing

ISAG and IKEA Food Supply (Canada), Inc. are responsible for importing IKEA products to Canada, including sourcing and transporting from suppliers located in the countries specified above.

## 1.3 Supply chain

### Suppliers of goods and services

ISAG and IFSAG have more than 1,500 direct suppliers in more than 50 markets, including home furnishings, food and beverages, transport service providers and suppliers of components for home furnishing products.

## 2. Our policies and due diligence processes in relation to forced labour and child labour.

The Inter IKEA Group due diligence system is based on the guidelines provided by the Organisation for Economic Co-operation and Development (herein OECD), and on United Nations Guiding Principles on Business and Human Rights (UNGPs). By 2030, Inter IKEA Group aims to play a full part in contributing to a fair and equal society, by respecting and promoting human rights across the IKEA value chain and contributing to resilient societies. Inter IKEA Group is establishing strategic goals for our Fair & Equal (see <https://www.ikea.com/global/en/our-business/people-planet/fair-and-equal/>) section of the sustainability strategy and will further develop the framework to measure progress.

The Inter IKEA Group conducted a human rights baseline assessment in FY23. This aimed to identify any gaps in our internal policies and processes and to make sure we're fully aligned to the UN Guiding Principles on Business and Human Rights as well as current and upcoming human rights legislation.

The Inter IKEA Group has policies and steering documents in place to ensure that human rights and specifically children's rights are respected. As we will explain in the next section, these documents are: (2.1) IWAY, (2.2) Inter IKEA Group Policy on Human Rights and (2.3) Inter IKEA group policy on child safeguarding. Each of these documents guides the Inter IKEA Group to conduct actions, identify adverse and potential human rights impacts and conduct proper due diligence.

### 2.1 IWAY

The IWAY System is an important part of the IKEA sustainability due diligence process. IWAY: the IKEA way of responsibly procuring products, services, materials, and components. IWAY is for the suppliers and all other

IKEA organisations working with suppliers. IWAY sets requirements and ways of working on environmental, social, and working conditions, as well as animal welfare, for all IKEA suppliers and service providers.

With its roots in the IKEA culture and values, and the United Nations Sustainable Development Goals, IWAY principles and requirements are founded on internationally recognized standards and principles (such as the United Nations Guiding Principles on Business and Human Rights, the Ten Principles of the United Nations Global Compact, the International Labour Organisation Centenary Declaration for the Future of Work and the International Labour organization Labour Standards), as well as regional and national laws and regulations. You can read the IWAY Standard [here](#).

IWAY is built around 10 environmental and social principles, including principles on children rights and labour rights in principle 3 and 5;

**IWAY Principle 3: Children are protected and opportunities for learning and family life are promoted.**

The IWAY Must requirement states that *"there is no child labour and any potential or confirmed case of child labour is immediately reported to IKEA"*.

**IWAY Principle 5: Fundamental Labor Rights are respected.**

The IWAY Must requirement states *"There is no forced, bonded or prison labour. Any potential or confirmed case of forced, bonded or prison labour is immediately reported to IKEA"*.

Currently all directly contracted business relationships, and in some cases subsequent tiers or the entire supply chain, are in the scope of IWAY. To remediate potential negative impacts occurring through our suppliers, we set requirements in IWAY. Compliance to IWAY is mandatory for all suppliers and service providers that work with IKEA. Compliance with IWAY requirements at the IKEA suppliers is verified through regular IWAY audits which are performed by approved IKEA auditors or third-party independent auditors. We recognize the need to strengthen our approach to provide remedy to affected stakeholders beyond our direct business partners in alignment with the UNGPs.

## 2.2 Inter IKEA Group Policy on Human Rights

At Inter IKEA Group, we are committed in both our sustainability strategy and people strategy to ensuring we respect human rights throughout our business operations and across the value chain. We will achieve this by securing that our operations, products, strategic and day-to-day decision making, and our business relationships do not harm individuals or communities. This is the biggest positive impact we can have on people.

We are committed to:

- Respecting international human rights standards wherever we operate.
- Embedding respect for human rights across our business operations throughout our value chain.
- Continuously and proactively identifying how our business activities and decisions may negatively impact human rights.
- Addressing our negative human rights impacts in a way that is effective and meaningful to affected rights holders.
- Being transparent about how we work with human rights and the actions we take.
- Being outspoken about our point of view and using our influence to create positive change and promote human rights.

### 2.3 Inter IKEA group policy on child safeguarding

At Inter IKEA Group we have made a commitment to respect children's rights throughout all our business operations (see *People & Planet strategy*<sup>2</sup>). Our child rights agenda is, of course, part of our broader human rights approach, which is also reflected in our *People Strategy*. Children are a key stakeholder in the IKEA business. We interact with them in a variety of ways every day. All children have the right to participate in society and have their voice heard in matters that concern them (see *UN Convention on the Rights of the Child*, article 12). As a business we also want to be part of promoting that right and to actively engage children as a stakeholder in our business through leading by example in our entire value chain.

We are committed to having a consistent approach to child safeguarding and will apply these standards equally across all areas of Inter IKEA Group legal entities irrespective of their location. Reporting and acting on concerns are an important part of safeguarding children.

What we stand for

- We are committed to respecting children's rights in all IKEA operations, and we recognise our responsibility to ensure children are not harmed as a result of any direct or indirect contact with Inter IKEA Group operations.
- We act in the best interests of children in all our business decisions.
- We have zero tolerance for any form of child abuse.

## 3. Due Diligence processes

The Inter IKEA Group is committed to the responsibility to conduct sustainability due diligence to ensure that our operations, products, strategic and day-to-day decision making, and our business relationships respect the environment and the human rights of both individuals and communities, i.e. do no harm. Inter IKEA Group due diligence system is designed to identify and address actual and potential negative impacts on people, society, and the environment in the supply chain. However, it is also acknowledged that Inter IKEA Group needs to work together with other external stakeholders to influence meaningful change and contribute to systemic improvements. Additionally, Inter IKEA Group needs to prioritize which impacts to focus on for mitigation, prevention, and remediation.

For IKEA Supply AG and its subsidiaries, our recruitment processes adhere to the required employment laws and regulations in our different locations, and we have policies and practices in place to mitigate human rights risks.

Currently the base of Inter IKEA Group Sustainability Due-Diligence (SDD) in the supply chain is IWAY<sup>3</sup>. IWAY: the IKEA way of responsibly procuring products, services, materials, and components, IWAY is for all suppliers working with IKEA. IWAY sets requirements and ways of working on environmental, social, and working conditions, respect children's rights as well as animal welfare, for all IKEA suppliers and service providers.

### 3.1 IWAY system

Inter IKEA Group has robust processes in place to implement and verify compliance with IWAY requirements in its value chain. IWAY is an end-to-end process that commences when a potential new

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<sup>2</sup> <https://www.ikea.com/global/en/our-business/people-planet/>

<sup>3</sup> <https://www.ikea.com/global/en/our-business/how-we-work/iway-our-supplier-code-of-conduct/>

supplier is evaluated and ends when the supplier relationship is discontinued.

While the IWAY process itself serves as a measure to identify, prevent, mitigate, and assess risks to human rights and the environment in IKEA's operations and supply chain, it also involves actions which ensure the consistent assessment of the effectiveness of those measures. This enables IKEA to adapt and strengthen its actions to continually improve its response to modern slavery.

The following measures are taken to diligently and regularly assess the effectiveness of the risk mitigation activities which both Inter IKEA Group and our suppliers undertake:

### **Initial risk assessments**

Before the start of a new business partnership, risk assessments are conducted to evaluate whether a potential new supplier is capable of, and willing to, meet the IWAY requirements.

A risk assessment of each existing supplier is performed annually and builds on the assessment of six parameters. Some of the parameters include:

- country and industry risk indices, provided by independent external risk data analysis providers connected to human rights, including child labour, forced labour, women's and girls' rights, as well as other topics such as corruption, environmental regulatory framework, freedom of association, wages, water quality, biodiversity, and other matters.
- general industry characteristics; and
- results from previous verification activities at the supplier, when applicable.

A risk assessment is undertaken to identify IWAY activities which each supplier is expected to implement, allocate the necessary resources, and determine the relevant frequency and focus of IWAY compliance verification activities.

### **IWAY audits**

Verification activities are used including internal and external third-party audits to complement the implementation of IWAY by suppliers and as a tool to continuously develop the business. Audits are a critical tool to understand whether the supplier achieves the positive impacts that are intended by working with IWAY.

### **3.2 Grievance mechanism**

Besides the grievance mechanisms that IKEA suppliers are required to have in place, Inter IKEA Group has its own options for Inter IKEA Group co-workers and others to raise a concern. The Inter IKEA Group "Raise a Concern" platform is available for anyone to raise concerns regarding breaches or misconduct related to the Inter IKEA Group code of conduct or breaches of laws or regulations. Training about receiving and managing such a complaint is included in the Anti-Bribery and Corruption e-learning as well as our Code of Conduct Training.

We use these grievance mechanisms to determine whether our actions are effective at minimising instances of Forced Labour and Child Labour practices, or if no such instances are identified, whether we have effectively created a culture where our co-workers feel empowered to speak up about Forced Labour and Child Labour.

### 3.3 Identification and assessing of adverse impacts.

In FY23, Inter IKEA Group identified – via external monitoring and credible external sources – the following risks of potential adverse impacts associated with our business operations and in relation to people or the environment and implemented the associated mitigation measures.

#### **Forced labour risks and recruitment risks within supply chains**

**Context:** In FY23, Inter IKEA Group identified forced labour risks and recruitment risks for vulnerable groups of workers within its supply chains. This includes new complex corridors of migration arising (such as from Asian countries to Eastern European countries. They are increasing in the phase of recruitment and in the phase of employment against the fundamental labour rights as defined by the International Labour Organisation).

**Risk Prevention:** Inter IKEA Group placed more emphasis on strengthening the dialogue with our suppliers on topics such as working hours, fundamental labour rights and the responsible recruitment of migrant workers and workers from other vulnerable groups during the reporting period. In addition, co-workers were trained to increase internal awareness about forced labour and strengthen the competence to identify and handle cases of forced labour.

#### **Human rights risks within the seafaring industry**

**Context:** Inter IKEA Group has identified human rights risks within the seafaring industry related to recruitment fees, the wellbeing of seafarers on-board, access to shore leave and working hours. It has been identified they remain linked to the modern slavery risks associated with the seafaring industry.

**Risk prevention:** Inter IKEA Group is enhancing internal awareness and competence, gaining a deeper understanding of the complexities within the industry, including identifying the extent of these issues in our supply chains and evaluating the necessary steps for improvement.

### 3.4 Ceasing, preventing or mitigating adverse impacts

Inter IKEA Group carries out sustainability due diligence to avoid and address potential negative impacts in its value chain, to identify risks and work towards preventing, mitigating, and remediating them. IKEA franchisees, as well as the IKEA suppliers, are requested to have their own due diligence system to ensure that the whole value chain is covered.

IKEA works to reduce the sustainability risk in the supply chain in many ways. Sourcing decisions is one way to avoid markets and materials with the highest sustainability risks and therefore a list of e.g. 'approved purchasing markets or supplier selection is upheld. Besides, suppliers and supply chain partners are required to be compliant with IKEA's sustainability requirements. Currently the base of Inter IKEA Group Sustainability Due Diligence (SDD) in the supply chain is IWAY. The IWAY Standard, which is the IKEA supplier code of conduct, includes requirements for suppliers and is built around 10 environmental and social principles including children's rights, business ethics, and fundamental labour rights.

Verification against the IWAY Standard aims, not only, to identify adverse impacts but also to define actions to ensure that the identified actual negative impacts are corrected, that the root cause is addressed and that it prevents repetition of the negative impact. The supplier is responsible for preparing and implementing a Corrective Action Plan for actual negative impacts. The plan shall be prepared by the supplier and approved by IKEA within maximum fourteen (14) calendar days after the supplier has received the report. The supplier implements the planned actions and presents evidence of these actions. The supplier is asked to close the



action plan within 90 days of the investigation. The nature and cause of the actual negative impact, and the specific circumstances of the impacted people and environment, will determine what actions need to be taken to remediate the situation.

### 3.5 Remediation measures

To live up to IKEA commitment to respect human rights and secure decent work, it is crucial that any case of forced labour or child labour in the IKEA value chain is handled and remediated in an effective and respectful way. Our goal is to secure that any suspected or confirmed case of forced labour or child labour in the value chain is handled effectively, always ensuring the safety and wellbeing of impacted workers, until the case is fully and sustainably remediated. All actions to handle and remediate a case of forced labour or child labour are guided by the IWAY principle of what is in the best interest of the worker and the child.

The remediation consists of clear actions, timelines, and follow-up activities, including a detailed plan for reimbursement and support of affected people. The remediation is reviewed and approved by the regional Sustainability Manager and the IWAY Committee (local governance body) is informed about the plan and progress.

The remediation plan is not closed until the situation is fully remediated. This includes confirming with impacted workers that the remediation has been fully provided, including any reimbursements or payments, and without causing any negative consequences for them. If a supplier fails to remediate a situation, the Business Responsible is accountable to ensure that IKEA takes over the responsibility to complete the remediation, including any type of costs.

IKEA has implemented processes for remediation of Forced labour and Child labour situations, which follows the below principles of remediation.

#### General principles

- a. The safety and wellbeing of the child/worker are prioritised and ensured at all times.
- b. All actions and support are adequate, appropriate, and in the best interest of the child and worker.
- c. Actions are gender appropriate.
- d. The privacy and protection of data of the child/worker are always ensured.
- e. The rights of the child to education are promoted.

In addition to the principles, depending on the context, costs and compensations and any needed support for assistance to those impacted are taken into account when addressing the situation with and through the suppliers.

The identified cases of forced labour are around debt bondage further down in the supply chain. A dialogue has been started with the direct supplier(s) and a plan is in place to eliminate the debts incurred by the workers in a progressive manner. Also, in the sectors where this has been identified, an engagement in industry initiatives is ongoing. If cases of child labour are identified, the actions implemented follow the principles above.

#### 3.5.1. Remediation of loss of income

There were no measures taken to remediate any loss of income to the most vulnerable families in the reporting year as there was no non-conformities to any IWAY Must requirements related to forced labour or child labour in our supply chains.

### 3.6 Assessing and tracking effectiveness, implementation and results

All actions and processes to cease, prevent, mitigate, and remediate potential and negative impacts are followed-up on a regular basis, both internally and towards the suppliers and supply chains.

#### Internal reviews

Based on a comprehensive internal review conducted in FY21, Inter IKEA Group continues to strengthen the systematic approach to identifying, prioritizing, and mitigating our salient human rights risks at an Inter IKEA Group level in alignment with the UNGPs and OECD guidelines. Inter IKEA Group recognizes the gaps and is working with human rights due diligence experts to strengthen the methodology and approach.

Self-assessments are performed by coworkers that own/operate the process. The sustainability managers located in regional offices conduct self-assessments to assess compliance with IKEA policies and external legislation on a yearly basis. This includes ways of working with IWAY and other Sustainability topics. The self-assessment is reported and followed-up by the Supply Area Management.

By developing and performing different compliance verification activities IKEA Risk Management & Compliance organisation support the business in their responsibility to comply with relevant laws, regulations, policies, internal requirements, and procedures. Such activities also create a platform for the business to reflect, share good examples and challenges, get inspired and find new ways. IKEA operates with a 3-Lines (of Defence) Model for compliance verification - self assessments, peer reviews and internal/external audits.

#### 3.5.1 Peer and compliance reviews

Peer reviews are performed by internal subject experts with support of the Risk Management & Compliance function. IKEA has two methodologies of peer reviews to ensure that the ways of working related to Sustainability due diligence is followed.

- **Compliance reviews** - Compliance Review is a cross functional process and management tool that supports co-workers responsible for the business relationship with suppliers in the purchasing categories to be compliant with mandatory requirements stipulated in steering documents such as Working Methods. It is conducted through a learning and development approach that involves senior professionals from the organisation itself and risk and compliance. Several reviews occur every year but the focus of the review and the purchasing categories under review vary from year to year.
- **Oversight and evaluation** – Within IWAY there is a built-in global oversight and evaluation of the IWAY System to ensure that it is applied consistently across IKEA. This is done by performing reviews on the system itself as well as the different organisations and verification parties, with the aim of ensuring that the IWAY is delivering what it should, support improvement of the system, as well as to ensure that the organisations and verification parties are working in aligned ways. The assessment is conducted yearly, and the focus of the assessment is decided by Responsible Sourcing Council, the IWAY governance body. This includes all components of the IWAY System, IWAY Standard and ways of working internally and with suppliers and how all actors in the IWAY System, including IKEA organisations and verification parties (internal or third-party) operate. The oversight and evaluation assignment is performed independently from all IKEA organisations implementing IWAY, as well as from the development of the IWAY System itself.

### 3.6 Internal Audit

As a third line (of defence), internal audit provides independent assurance on the effectiveness of governance, risk management, internal controls, and compliance.

Internal audit teams perform audits as requested by management on a business need and risk. The audits are scheduled on a yearly basis with room for ad hoc projects and business requests.

## 4. Training and Competence Development

The IKEA learning offer, accessible via their platform, blends physical and digital learning solutions. Sustainability training is mandatory in many countries.

### 4.1 Inter IKEA Group co-workers

Co-workers are guided by the vision of creating a better everyday life and making a positive impact on people and the environment. Training on sustainability includes IKEA's commitments, climate footprint, animal welfare, circularity, renewable electricity, human rights, and responsible sourcing. The IWAY training, starting with an introduction and progressing through specific requirements, ensures all co-workers understand their roles. Regular refreshers and updates are provided, along with courses on business and human rights, and child safeguarding.

### 4.2 Suppliers and business partners

Initial and ongoing training on IKEA's sustainability agenda ensures suppliers understand and comply with requirements. The first year includes several trainings to support implementation and share best practices. Training is tailored to meet specific needs and addresses new goals or regulations, with opportunities for reflection and questions.