

Forum on due diligence in the
garment and footwear sector

**ROUNDTABLE FOR POLICY
MAKERS**

2 FEBRUARY 2021
VIRTUAL EVENT



■ About the Roundtable for Policy Makers

Held in lead-up to the OECD Forum on Due Diligence in the Garment and Footwear Sector, this third annual Roundtable will convene policy makers from across key economies engaged in the garment and footwear sector and its supply chain – in virtual format – to discuss policy options for enabling and promoting vibrant and responsible supply chains in the garment and footwear sector. This year, in light of the seismic impacts in the sector from the COVID-19 pandemic, it will explore how policy making priorities have changed, with perspectives from governments across the value chain, and identify opportunities for ongoing sharing of information and best practices in policy making.

■ Participant information

The Roundtable for Policy Makers is only for government officials from OECD member and Adhering governments and governments from key economies in the garment and footwear sector along with representatives from intergovernmental organisations.

The Roundtable is by invitation only.

■ Date, time and venue

Tuesday, 2 February 2021 11:00-16:30, Paris time

■ Chatham House Rule

The Roundtable is held under the Chatham House Rule: Participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

■ Languages

English-French interpretation is available during this Roundtable

■ Contact

Dorothy LOVELL | Policy Advisor
Centre for Responsible Business Conduct
OECD Directorate for Financial and Enterprise Affairs
Tel. +33 1 45 24 91 24 | Dorothy.Lovell@oecd.org

Ariane ROTA | Assistant
Centre for Responsible Business Conduct
OECD Directorate for Financial and Enterprise Affairs
Tel. +33 1 45 24 78 38 | Ariane.Rota@oecd.org

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Forum on due diligence in the garment and footwear sector

ROUNDTABLE FOR POLICY MAKERS

AGENDA

Tuesday 2 February 2021

The Roundtable will be chaired by **Ms. Christine Kaufmann**, Chair of the OECD Working Party on Responsible Business Conduct.

11:00 – 11:30 1. Opening of the Roundtable

Ms. Mathilde Mesnard, Deputy Director, Directorate for Enterprise and Financial Affairs, OECD

Ms. Madelaine Tuininga, Head of Unit, DG Trade, European Commission

H.E. Mr. Antonio Malouf, Minister, Ministry of Economy, Guatemala

11:30 – 13:00 2. RBC policy updates and specific COVID-19 policy support

This session will give the opportunity to participants to share relevant government policy updates to promote responsible supply chains in the garment and footwear sector. Particularly to comment on:

- How have governments' RBC priorities for the garment and footwear sector changed since the COVID-19 pandemic outbreak?
- What specific actions have been taken in the garment and footwear sector since last year?
- More broadly, what recovery and stimulus packages have governments adopted to address the impacts of the pandemic, to cover some or all of the following points:
 - To what extent stimulus packages were targeted to the sector, and by which means / policies were they delivered?
 - What linkages have governments made with RBC?
 - What impacts have these packages had, if known?

Followed by:

Chair-led discussion to unpack key trends and learnings from what has been shared

13:00 – 13:30 Break

13:30 – 16:00 3. Deep dive session: Rethinking the business model for greater resilience focusing on responsible purchasing practices and complementary policy issues

This session will give policy makers the opportunity to share perspectives on pre-COVID/Post-COVID priorities for greater resilience for the sector and make the link to business models, responsible purchasing practices and public policies in countries along

the entirety of garment supply chains. Participants will share knowledge and experience on tools and resources to incentivise businesses to adopt better purchasing practices, monitor those practices, and discuss opportunities for collaboration to enhance the policy landscape for more responsible purchasing practices as part of due diligence. These include a range of 'smart-mix' measures and other 'ecosystem' issues to build greater resilience and relieve pressure on the buyer-supplier dynamic allowing manufacturers to provide decent work and meet their social and environmental obligations, and in turn support their suppliers in times of crisis.

During this session, speakers may share examples from across a smart mix of policy tools, from industrial strategy, labour policy, training, legislation, public procurement etc. Speakers may also identify areas where it would be helpful to share expertise and experience on an ongoing basis between governments in the sector on this issue and the broader question of building more resilient value chains.

Part 1: Introduction – scene setting (13:30-13:50)

Mr. Tyler Gillard, Head of Due Diligence, Centre for Responsible Business Conduct, OECD

Ms. Dorothy Lovell, Garment & Footwear Lead, Centre for Responsible Business Conduct, OECD

- State of play: COVID-19 impacts on the garment sector and the role of business models and financing pressures
- Responsible Purchasing Practices refresher
- The role of governments in enabling responsible business models - reflections from the OECD Guidance

Part 2: Responsible Purchasing Practices – the role of government (13:50-14:50)

i) Perspectives from governments across the value chain

Speakers

H.E. Mr. Som Chamnan, Under-Secretary of State, Ministry of Labour and Vocational Training, Kingdom of Cambodia

Ms. Dilara Begum, Commercial Counsellor, Embassy of the People's Republic of Bangladesh

Mr. Ahmet Onur Öztürk, Head of Department, Ministry of Trade, Turkey

Ms. Anosha Wahidi, Director, Sustainable Supply Chain Unit, German Federal Ministry for Economic Cooperation and Development

- How do you see the role of governments in promoting or enabling responsible purchasing practices?
- What are you doing already to support and monitor responsible purchasing practices?
- What would you identify as the key barriers to developing policy to incentivise and monitor responsible purchasing practices?
- What expectations do you have of your trading partner governments?

Reactions or additional perspectives from the room

ii) Moderated discussion with all participants

Guiding questions:

- What is the role of governments in promoting or enabling responsible purchasing practices? For example, in relation to providing guidance, data, enforcing agreements, monitoring enterprise conduct, etc.

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- What kind of collaboration is needed on this issue, and between which actors?
 - How can collaboration support monitoring of this issue?
 - What data is needed, and how can this be collected and shared?
 - What examples exist of successful industry and industry-government collaboration, which could provide suitable models for collaboration on this issue, what are common fora?

14:50-15:00 Short Break

Part 3: The broader policy landscape for resilient and responsible value chains in the garment sector (15:00-16:00)

Speakers

Mr. Joost Lina, Policy Officer Sustainable Production and Trade, Netherlands

Ms. Nadia Rhaouti, Textile and leather Director, Moroccan Investment and Export Development Agency, Kingdom of Morocco

Mr. Márcio Lima, National Contact Point Coordinator, Brazil

Mr. Dan Rees, Head of Better Work Programme, International Labour Organization

- What other policy tools are governments drawing on to support greater resilience, and reduce the financing gap and the pressure on business models for ensuring decent work and environmentally responsible production?
- How are governments supporting coherence and ensuring coordination across ministries and government agencies whose policies, regulations and activities are relevant for the promotion of responsible business practices in the sector?

Example measures could include: trade support (export credits, economic diplomacy), public procurement, financial incentives (through tax benefits, access to finance, support for SMEs, etc.), industry strategy and capacity building, among others.

Reactions or additional perspectives from the room

Summary and reflections, led by Chair

16:00– 16:30

4. Looking forward

This final session will give an opportunity to roundtable participants to **share their reflections on the roundtable** and to **define priority topics** to explore in future policy maker roundtables.

Background reading

Policy-making to address the financing and business model deficiencies for a more resilient post-COVID-19 future.

The COVID-19 pandemic exposed the vulnerability of businesses in the garment value chain to supply and demand shocks which are ongoing, and the greater vulnerability of garment workers and their communities. Governments face many challenges to provide the necessary support to businesses and workers as a safety net, but also to ensure greater resilience against future shocks. To do this, there may be a need for *new* policy making, but most likely a greater emphasis on joining the dots for greater coherence across the existing suite of policy tools at governments' disposal, so as to enable businesses to build the sector back better in line with fundamental good business ethics, based on due diligence practice, equitability and transparency.

While these challenges are not limited to the garment and footwear sector, the sector is particularly important as a sector that has contributed tremendously to growth in many countries and that continues to provide a first port of entry into the formal economy for women in producing economies. However, with nearly half of all garment supply chain jobs dependent on domestic or foreign consumer demand from countries with highly stringent lockdown measures during the pandemic, and with current business models already putting immense pressure on suppliers to maintain liquidity for meeting the monthly wage bill and investing in safe and responsible business practices, it is no wonder the sector has been heavily hit by the pandemic. The crisis has also focused attention on the nexus between business activity and declining biodiversity, degradation of natural resources (e.g. water) and contribution to climate change, the consequences of which threaten the future of the global supply chain. Without timely policy intervention, the sector's emissions could go higher than before the breakout, especially where factories may need to resort to using more polluting fuels because of supply disruption.

RBC policy updates and specific COVID-19 policy support

Governments have taken extraordinary steps amid the COVID-19 crisis to address the massive economic impacts related to containment policies that put about half of the world's population under some form of confinement and economic activity to a halt for several months. These measures include aid, bailout, nationalisation and stimulus programmes which are among the most ambitious in history. The aim of these programmes is to finance crucial needs such as direct access to cash for companies, partial unemployment benefits for workers hit by activity drops, but also mid-and long term economic recovery.

RBC approach to COVID-19 government policy response

A responsible business conduct (RBC) approach to the COVID-19 crisis response can help ensure that the environmental, social and other governance issues set down in internationally-recognised RBC standards are central in the design and implementation of both government and business responses. These standards, in particular the wide-ranging OECD Guidelines for Multinational Enterprises and related OECD due diligence guidance, lay out the expectation that businesses contribute to sustainable development, while preventing and addressing adverse impacts of their activities, including throughout their supply chains. Mainstreaming these RBC standards and tools into measures to address the COVID-19 crisis can help governments in making decisions and addressing the environmental, social and governance issues related to the crisis, but also in ensuring that such responses do not create further risks to people, planet and society.

Governments are expected to ensure support and incentives for taking an RBC approach to ensure policy coherence in response to the crisis and the expectation that businesses observe RBC standards and contribute to sustainable development. Governments are also expected to ensure that measures designed and implemented to respond to the crisis do not exacerbate the adverse socio-economic impacts of the crisis, but rather incentivise companies to mitigate any potential harms and maximise the positive impacts of such measures. Various OECD instruments recognise the important role of the government in promoting and enabling RBC and can be used to orient policy responses to the COVID-19 crisis.

Some examples of RBC policy considerations in government response to the crisis

The following RBC policy considerations are emerging as particularly relevant for managing the long-term response to and recovery from the crisis:

1. Conditionality in emergency or relief funds:

Around the world, governments adopted aid and stimulus packages that provided a number of benefits to companies and workers. Debates are also emerging as to how to ensure that the benefits of these plans will be fairly distributed among all those that have suffered from the crisis, including workers. In order to navigate numerous legal, ethical and political hazards associated with relief funds, governments can use RBC standards to condition support. Including commitments to internationally recognised RBC standards, such as the OECD Guidelines for Multinational Enterprises and the OECD Due Diligence Guidance for Responsible Business Conduct, can help ensure that benefits of fiscal support measures are shared equitably, and that businesses receiving fiscal support environmental, social or governance risks. Specific conditions on RBC issues emerging from government fiscal support packages to date include prohibitions on laying off workers, guarantees to pay all or a portion of wages, commitments to invest in worker skills and training, as well as commitments to invest in disaster preparedness and supply chain security.

2. Investing in value creation:

Recovery plans place governments in a particularly strategic position to steer the economy towards specific goals and priorities. There has been growing calls to ensure that fiscal support create value not only for company shareholders, but also for company stakeholders and the public more broadly. In that sense, governments can put in place safeguards to ensure that companies who benefit from fiscal support reinvest future profits in long term value creation (such as inclusive growth, reduced greenhouse gas emissions, worker wellbeing, skills and benefits and emergency preparedness) rather than share buybacks and dividend payments. Specific strategies may also be necessary to support companies (and their workers) who are unable to benefit from loan guarantees or other relief packages.

3. Enabling dispute resolution and access to remedy to ensure accountability:

Considering that aid and recovery programmes are meant to benefit companies, but also workers and stakeholders impacted by the crisis, accountability mechanisms should be in place to help monitor conditionality and address any actual or potential failures by companies or government agencies in evenly distributing the benefits of these programmes. Governments could designate an adequate dispute resolution and remedy mechanisms to that effect. The criteria applicable to the National Contact Points for RBC can help guide the functioning of such mechanisms.

4. Promoting supply chain resilience and security of supply:

Beyond relief measures to businesses based in their countries, many governments sought to manage disruptions in strategic supply chains or industries in other countries (e.g. for strategic raw materials, health equipment) and to preserve access by their own domestic industries. RBC standards can help governments in such efforts by providing a cross-cutting framework for identifying the environmental, social and governance risks and vulnerabilities in the supply chains of strategic industries. Existing industry and multi-stakeholder initiatives on responsible supply chain management may also be useful partners for channelling financial support in order to manage disruptions and support the recovery.

5. Leveraging public procurement:

Some countries are already integrating a risk-based due diligence approach into public purchasing in order to procure goods and services from companies that meet RBC criteria. Maintaining due diligence in their procurement efforts can help governments identify COVID-19 related supplier vulnerabilities, while ensuring that their purchasing practices do not create undue adverse social and environmental impacts. The OECD RBC standards and instruments can be central in substantiating the RBC dimension of government responses, in particular as the breadth of their coverage enables them to encompass virtually the whole range of impacts related to the COVID-19 crisis.

What is a “smart mix” approach to policymaking?

Governments have an important role to play in supporting the effective implementation of RBC standards, including by creating an enabling policy environment to drive, support and promote responsible business practices (through mandatory, incentive-based or voluntary measures) as well as following such RBC standards in their role as economic actors (e.g. as buyers of goods, works and services; and as owners of enterprises). Using a range of different policy measures in a smart and coherent way can create important incentives and reduce barriers for businesses in implementing meaningful due diligence in their operations and supply chains.

Rethinking the business model for greater resilience – focusing on responsible purchasing practices and complementary policy issues

Responsible Purchasing Practices

The link between poor purchasing practices and adverse labour outcomes has been demonstrated through the research of organisations such as the ILO, Better Buying and the Ethical Trading Initiative (ETI), and the OECD Garment Guidance explains how companies should prevent contribution to harm through adopting responsible purchasing practices, and this topic has been addressed at the OECD Garment Forum, for example in 2019: [Monitoring purchasing practices](#)

The term purchasing practices refers to the full range of activities associated with a company’s process of buying goods. In the apparel sector this may include: planning and forecasting, design and development, cost and cost negotiation, sourcing and order placement, payment and terms, and management of the purchasing process.¹

An ILO study in 2017¹ found that inaccurate technical specifications from buyers were associated with 22% lower wages at the supplier level. Conversely, buyers that offer prices covering at least production costs were associated with nearly 10% higher wages at the supplier level. A Human Rights Watch report from 2019² based on trade data and interviews drew links between price pressures and labour abuses, including inability of factories to invest in making fire and building safety improvements, or outsourcing to subcontractors where workers are employed outside of normal employment contracts, on piece-rate wages and without legal benefits.

A number of initiatives have developed tools and analysis to support companies and other stakeholders to understand the impact of brands’ purchasing practices, and collecting data regularly to monitor purchasing practices over time:

- Better Buying released a report in July 2020 that shared examples of both orders that were priced for compliant production, as well as examples of high-pressure cost negotiation strategies and their impact on suppliers’ profitability.³ It found that high-pressure cost negotiation strategies - such as demanding level prices year to year, and demanding price cuts from previous years or orders, and take it or leave it orders - were the most commonly used

¹ Vaughan-Whitehead, Daniel and Luis Pinedo Caro, (2017) INWORK Issue Brief No.10: Purchasing practices and working conditions in global supply chains: Global Survey results, ILO, Geneva. https://www.ilo.org/travail/info/fs/WCMS_556336/lang--en/index.htm

² Aruna Kashyup, Human Rights Watch, 2019, “Paying for a bus ticket and expecting to fly” – How Apparel Brand Purchasing Practices Drive Labor Abuses: <https://www.hrw.org/report/2019/04/24/paying-bus-ticket-and-expecting-fly/how-apparel-brand-purchasing-practices-drive>

³ Better Buying Institute, July 30, 2020, Special Report, Cost and Cost Negotiation and the Need for New Practices, <https://betterbuying.org/wp-content/uploads/2020/07/Better-Buying-Special-Report-Cost-Cost-Negotiation-the-Need-of-New-Practices.pdf>

strategies. Further, during COVID-19, suppliers reported buying behaviours that included decreases in orders and lower target prices, noting the prevailing strategy of offloading financial pressures onto buyers. However, suppliers also reported increased dialogue with their buyers about pricing and costs. Better Buying produces an annual Index report measuring trends in uptake and performance of a number of buyers over time⁴.

- ACT is an agreement between global brands and trade unions to achieve living wages for workers through collective bargaining at industry level, freedom of association and purchasing practices. The ACT Accountability and Monitoring framework provides ACT members with an agreed set of indicators and monitoring instruments to implement their purchasing practices commitments. Key to that is the commitment that their purchasing practices facilitate the payment of a living wage.
- A growing number of multi-stakeholder initiatives in the garment & footwear sector have also established key expectations of their members on responsible purchasing practices, including the Dutch Agreement on Sustainable Textile & Garment, the German Partnership for Sustainable Textiles, Fair Wear Foundation and Amfori, among others.

However, oversight and monitoring of purchasing practices is inconsistent, and limited to those companies that have made voluntary commitments. There remains a power imbalance between buyers and suppliers that means that suppliers have been reluctant to take unilateral action on purchasing practices, and initiatives that collect information from suppliers preserve their anonymity to protect suppliers from reprisals.

While there isn't a common accepted practice currently among governments to monitor company purchasing practices, 49 governments have committed to promoting and disseminating the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear sector, which includes the expectation that companies take action on their purchasing practices as part of their due diligence.

Recent growth in due diligence legislation opens the door to governments to address purchasing practices as part of business due diligence obligations, such as its inclusion in reporting. Risk assessments should identify potential exploitative buying practices in the supply chain and address them throughout the procurement cycle, ensure RBC considerations are taken into account by purchasing units and allow suppliers and workers to seek effective remedy. Increased focus on responsible purchasing practices implementation by companies can contribute to a level playing field that will counter the existent power imbalance that leads to asymmetric terms and conditions, demanding suppliers to provide goods at very low cost, with frequent order changes and/or with very short lead times, poor payment terms and without long-term purchasing commitments.

This can help build a framework and clarify expectations of business action on this issue, which has hitherto been largely seen as a private agreement between buyer and supplier. Given the importance of this issue as part of due diligence practice in the sector and the potential of widespread uptake to transform the sector, it is high time that governments consider their role in facilitating wider uptake and monitoring, and never more important than when we are considering what should be the cornerstones of a responsible and resilient sector post COVID-19.

⁴ Better Buying Index Report, 2020, <https://betterbuying.org/wp-content/uploads/2020/10/2020-Better-Buying-Index-Report.pdf>

