

## High Level Event

### *The role of Responsible Business Conduct in building resilience*

21 January 2021, 08:00 - 10:00 CET / 16:00 - 18:00 JST

## Background Note

This Background Note provides information on the role of RBC instruments in COVID-19 recovery measures and building resilience, government and private sector measures related to COVID-19 responses, and the trade and sustainable development provisions of the EU-Japan Economic Partnership Agreement (EPA).

### COVID-19 recovery measures and building resilience

The COVID-19 crisis has exerted a substantial toll on economies and societies,<sup>1</sup> with global trade declining by over 15% in the first half of 2020.<sup>2</sup> The crisis has created challenges for businesses worldwide. For example, private consumption in Japan, which makes up approximately 60% of total GDP, declined by approximately 20% in April 2020 when compared to April 2019 levels<sup>3</sup>, and whilst exports have bounced back, imports have been slower to recover.<sup>4</sup>

Internationally, weaker demand for imported goods and services, increased risk aversion in financial markets, and decreased business confidence has significantly affected large multinational enterprises and their supply chains.<sup>5</sup> There have also been impacts on SMEs. Evidence from recent OECD surveys of SME companies suggest major hindrances, including supply chain interruptions, cash flow problems, and the inability to meet delivery dates.<sup>6</sup>

Unsurprisingly, the impacts in the world of work are of a similar scale. ILO estimates for the third quarter of 2020 revealed a decline in working hours of around 12.1 per cent relative to the last quarter of 2019, which is equivalent to 345 million full-time jobs globally.<sup>7</sup> In addition to the threat to public health, the economic and social disruption threatens the long-term livelihoods and wellbeing of millions of workers, in particular vulnerable workers such as informal workers, migrants, women workers as well as those who lack access to social protection and workers in micro, small and medium enterprises.<sup>8</sup> Although the collapse in employment has partially been reversed since early 2020, large numbers of people remain underemployed.<sup>9</sup>

The social and economic case for a sustainable, resilient recovery is clear. A more resilient economy depends on a shift to sustainable business practices. International labour standards and RBC guidance offers a framework for interventions at each step of the recovery process. RBC tools and partnerships are key to ensuring COVID-19 recovery efforts lead to long-term resilience, and enable businesses, supply chains, societies and communities to bounce back from future shocks.

### The role of RBC in COVID recovery measures and building resilience

Taking an RBC approach, based on the [OECD Guidelines for Multinational Enterprises](#), and using risk-based due diligence to identify and address adverse impacts, as described in the [OECD Due Diligence Guidance](#)

<sup>1</sup> OECD (2020), *OECD Economic Outlook*, OECD, Paris, <https://doi.org/10.1787/34ffc900-en>. See also OECD (2020), [COVID-19 and responsible business conduct](#);

<sup>2</sup> OECD (2020), *OECD Economic Outlook*, OECD, Paris, <https://doi.org/10.1787/34ffc900-en>

<sup>3</sup> Consumption Activity Index, Bank of Japan. Jan 2021. [https://www.boj.or.jp/en/research/research\\_data/cai/index.htm/](https://www.boj.or.jp/en/research/research_data/cai/index.htm/)

<sup>4</sup> OECD Economic Outlook, Volume 2020 Issue 2. Dec 2020. <https://doi.org/10.1787/39a88ab1-en>

<sup>5</sup> OECD (2020), *OECD Economic Outlook*, <https://doi.org/10.1787/7969896b-en>

<sup>6</sup> OECD (2020), *COVID-19: SME Policy Responses*. OECD, Paris. July 2020.

<sup>7</sup> *ILO Monitor: COVID-19 and the world of work, Sixth edition*. September 2020

<sup>8</sup> ILO 2020, "The effects of COVID-19 on Trade and Global Supply Chains", [Research Brief](#).

<sup>9</sup> OECD Economic Outlook, Volume 2020, Issue 2. <https://doi.org/10.1787/39a88ab1-en>

[for Responsible Business Conduct](#), can help businesses identify, prevent and mitigate adverse impacts affecting workers, society and the environment stemming from the pandemic. International labour standards provide a fair and equitable framework to facilitate value chain resilience and to respond to concrete challenges in the world of work. They are fundamental to long-lasting and sustainable responses to crises such as COVID-19. Strengthened respect for social dialogue processes creates a strong basis for building resilience and underlines the commitment of employers and workers to focus on practical policy measures.<sup>10</sup>

**For governments**, an RBC approach means ensuring that health and economic measures do not exacerbate the adverse socio-economic impacts of the crisis, but rather incentivise companies to identify and mitigate any potential harms, and maximise the positive impacts of their response. Government support for taking an RBC approach can help to ensure policy coherence between policies in response to the crisis, and the expectation that business observe RBC standards and contribute to sustainable development.<sup>11</sup> Such an approach will help more companies to integrate RBC considerations in their operations and supply chains. This will in turn contribute to a faster and stronger recovery while making the economy more resilient to future shocks such as those posed by climate change and biodiversity loss.<sup>12</sup>

Recent examples of policy initiatives that have integrated RBC standards and that look to ensure adverse impacts on people, society and the environment are taken into account by business, - including as part of their COVID-19 response measures - include:

- The Japan National Action Plan on Business and Human Rights (NAP), launched in October 2020, and which includes a commitment to implement the OECD Guidelines and to promote due diligence practices in line with OECD Due Diligence Guidance. Strengthening the role of the Japan National Contact Point is also referenced in the NAP as a key initiative related to supporting access to remedy.
- The EU Commission has signalled a commitment to introduce stronger incentives, including regulation requiring companies to carry out mandatory environmental and human rights due diligence.<sup>13</sup> The proposal was announced by the EU Justice Commissioner in April 2020, is being closely linked to the European Green Deal<sup>14</sup> and is based on the OECD Guidelines and recommendations of OECD due diligence guidance.

With respect to labour related impacts of the pandemic, the ILO has laid out a framework to respond to the job crisis resulting from the pandemic. The ILO has suggested four key pillars in tackling the COVID-19 crisis on the basis of international labour standards: 1) stimulating the economy and employment; 2) supporting enterprises, jobs and incomes; 3) Protecting workers in the workplace; and 4) Relying on social dialogue for solutions.<sup>15</sup>

**For companies**, an RBC approach, including stakeholder engagement and applying risk-based due diligence throughout supply chains, helps ensure that strategies to respond to the crisis identify and address

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<sup>10</sup> ILO 2020. ILO Standards and COVID-19, Key provisions of international labour standards relevant to the evolving COVID19 outbreak, May 2020.

<sup>11</sup> COVID-19 and Responsible Business Conduct. OECD. 2020 [https://read.oecd-ilibrary.org/view/?ref=129\\_129619-6upr496iui&title=COVID-19-and-Responsible-Business-Conduct](https://read.oecd-ilibrary.org/view/?ref=129_129619-6upr496iui&title=COVID-19-and-Responsible-Business-Conduct)

<sup>12</sup> COVID-19 and Responsible Business Conduct. OECD. 2020 [https://read.oecd-ilibrary.org/view/?ref=129\\_129619-6upr496iui&title=COVID-19-and-Responsible-Business-Conduct](https://read.oecd-ilibrary.org/view/?ref=129_129619-6upr496iui&title=COVID-19-and-Responsible-Business-Conduct)

<sup>13</sup> Speech by Commissioner Reynders; <https://responsiblebusinessconduct.eu/wp/2020/04/30/speech-by-commissioner-reynders-in-rbc-webinar-on-due-diligence>

<sup>14</sup> A number of the objectives under the European Green Deal and the OECD instruments and standards on RBC are mutually reinforcing. Both encompass strategies that hinge on private sector and policy action across a number of public policy portfolios and areas of business risk and responsibility. In addition, RBC instruments are already integrated into a number of EU Directives, as well as legislation and initiatives of EU member states. <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1588580774040&uri=CELEX:52019DC0640>

<sup>15</sup> ILO (2020), ILO Monitor: COVID-19 and the world of work. (Fourth edition), ILO, Geneva, [https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/WCMS\\_745963/lang-en/index.htm](https://www.ilo.org/global/topics/coronavirus/impacts-and-responses/WCMS_745963/lang-en/index.htm)

potential adverse impacts on people, the planet and society at large.<sup>16</sup> RBC tools can enhance resilience in global value chains by strengthening firm risk management and due diligence strategies; emphasising awareness, transparency, accountability and agility.

For example, recent research from Harvard Business School suggests that corporate investments in stakeholder relations, a key component of RBC due diligence, served as a strategic resource for many companies during the COVID-19 pandemic. Strong relationships were found to be tangible assets and generated significant value, resulting in a *crisis return premium* through improved returns.<sup>17</sup>

Furthermore, businesses in Japan are also acting in this regard. A recent survey by Keidanren found that 62% of Keidanren member companies are reviewing or revisiting their efforts to build sustainable and resilient supply chains due to challenges stemming from COVID-19. Businesses surveyed are focusing on business continuity as well as sustainability issues in supply chains, demonstrating the importance of this agenda.<sup>18</sup>

The ways that companies respond now to the range of RBC issues related to the crisis will have lasting repercussions for their balance sheets and productivity during the recovery period. Companies taking proactive steps to address the risks in a way that mitigates adverse impacts- including on workers and supply chains- are likely to build more long-term value and resilience, improving their viability in the short term and their prospects for recovery in the medium to long term.

The ILO and its constituents have also emphasised the need for social dialogue between employers' and workers' representatives in responding to the current crisis and to build back better. Social dialogue has proved to be an important tool to effectively manage the crisis at both macro and micro levels. At the macro level, social dialogue helps governments to adopt important stimulus packages in consultation with social partners, helping to protect workers' income, promoting the sustainability of enterprises and accelerating the recovery process. Social dialogue can also help to tailor specific responses to particular conditions faced by specific sectors, as has been the case recently in the garment sector<sup>19</sup>.

At the micro level, social dialogue allows employers and workers and their respective organizations to negotiate innovative solutions tailored to specific contexts and challenges in addition of facilitating acceptance of and support for sometimes painful enterprise restructuring measures. The current crisis provides an opportunity to embrace social dialogue to jointly design and implement policies and strategies to address the labour issues that the current crisis has exposed.

### **Important role of RBC for trade and investment – example of the EU - Japan Economic Partnership Agreement**

Maintaining the flow of trade and investment in times of crisis is meaningful for several reasons, including for example in the context of maintaining the supply of essential goods. A sound understanding of the strengths and vulnerabilities of key supply chains, through the resilience lens, can be fundamental in times of crisis.<sup>20</sup>

For example, information from supply chain due diligence (e.g. on the origin of raw materials, and other traceability data) when overlaid with risks related to COVID-19 (such as infection rates, government restrictions and associated disruptions in production or distribution channels) can be used to understand short and medium term vulnerabilities in the supply chain, and support continuity planning to manage

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<sup>16</sup> COVID-19 and Responsible Business Conduct. OECD. 2020 [https://read.oecd-ilibrary.org/view/?ref=129\\_129619-6upr496iui&title=COVID-19-and-Responsible-Business-Conduct](https://read.oecd-ilibrary.org/view/?ref=129_129619-6upr496iui&title=COVID-19-and-Responsible-Business-Conduct)

<sup>17</sup> Corporate Resilience and Response During COVID-19. Cheema-Fox, Alex, Bridget LaPerla, George Serafeim, and Hui (Stacie) Wang. Harvard Business School Working Paper, No. 20-108, April 2020. (Revised September 2020)

<sup>18</sup> Key Findings of Questionnaire Survey on the Implementation of Keidanren's Charter of Corporate Behavior in the COVID-19 Era (October 2020). [https://www.keidanren.or.jp/en/policy/2020/098\\_summary.pdf](https://www.keidanren.or.jp/en/policy/2020/098_summary.pdf)

<sup>19</sup> [COVID19: Action in the Global Garment Industry, ILO 2020.](#)

<sup>20</sup> COVID 19 and international trade: Issues and actions. OECD. 2020 <https://www.oecd.org/coronavirus/policy-responses/covid-19-and-international-trade-issues-and-actions-494da2fa/>

disruptions. Notably, it can also contribute to disaster preparedness and resilience overall. This is particularly critical having regard to the impacts of environment-related threats such as those posed by the climate crisis and global biodiversity loss.

Therefore, explicit references to RBC in trade and investment frameworks and agreements can be a powerful signal for businesses and can provide clarity in global markets. The example of the EU-Japan Economic Partnership Agreement (EPA) is relevant in this regard. The EPA entered into force on 1 February 2019. In the first ten months following implementation of the agreement, EU exports to Japan went up by 6.6% compared to the same period the year before. This outperforms the growth in the past three years, which averaged 4.7%; Japanese exports to Europe grew by 6.3% in the same period.<sup>21</sup>

The Trade and Sustainable Development (TSD) chapter of the EPA recognises the importance of international trade in contributing to sustainable development. Article 16 sets out that: “Parties recognise the importance of enhancing the contribution of trade and investment to the goal of sustainable development in its economic, social and environmental dimensions”.<sup>22</sup> The Parties also recognise the importance of the OECD Guidelines and the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy adopted by the Governing Body of the International Labour Office in November 1977.<sup>23</sup> Under the EPA, the Parties shall encourage corporate social responsibility and exchange views and information on this matter through the Committee on Trade and Sustainable Development, and as appropriate, through other fora.<sup>24</sup> Discussions regarding implementation of these specific provisions are underway.<sup>25</sup>

#### **Promoting responsible supply chains in Asia**

*This high-level event is supported by the Responsible Supply Chains in Asia (RSCA) programme<sup>26</sup> which is implemented by the International Labour Organization (ILO) and the Organisation for Economic Co-operation and Development (OECD) with funding from the European Union. The RSCA programme aims to promote respect for human rights, including labour rights, and responsible business standards in global supply chains.*

*This programme is carried out in partnership with Japan (an OECD member) and five partner economies, namely China, Thailand, Viet Nam, Philippines, and Myanmar.*



<sup>21</sup> EU-Japan Economic Partnership Agreement. News archive. European Commission. Jan 2020. <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2107>

<sup>22</sup> Trade and Sustainable Development (TSD) chapter of the EU-Japan Economic Partnership Agreement. Article 16.5. See: [http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc\\_157228.pdf#page=440](http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157228.pdf#page=440)

<sup>23</sup> Trade and Sustainable Development (TSD) chapter of the EU-Japan Economic Partnership Agreement. Article 16.5

<sup>24</sup> Idem

<sup>25</sup> Summary of the 1st Joint Dialogue with Civil Society under Chapter 16 (Trade and Sustainable Development) of the Agreement between the European Union and Japan for an Economic Partnership. 31 January 2020: [https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc\\_158782.pdf](https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc_158782.pdf)

<sup>26</sup> The Responsible Supply Chains in Asia programme. OECD. <http://mneguidelines.oecd.org/globalpartnerships/responsible-supply-chains-asia>

## **Annex A: ILO-OECD Roundtable on Advancing International Collaboration on Responsible Supply Chains in Asia, Tokyo, November 2019.**

In November 2019, OECD and ILO organised and co-hosted a joint event on “Advancing international collaboration on responsible business conduct for sustainable supply chains in Asia”. The event, held in Tokyo, brought together multiple stakeholders, including the EU Commission, European governments, the Japanese Government, as well as businesses, research institutions and business associations active across Asia. Participants discussed the implementation of international Responsible Business Conduct expectations across supply chains. The event included high-level representation and opening remarks from the Government of Japan, the EU, ILO, and the OECD, and encompassed two technical and highly interactive roundtable sessions.<sup>27</sup>

The OECD/ILO-led roundtable included substantive interventions by over 10 key discussants, spanning a range of stakeholders and interlocutors under the Action. This included government representatives from Germany and the Netherlands, investors representing the sustainable finance sector, Japanese businesses, Japan Business Council in Europe (JBCE), Institute of Developing Economies and Japan External Trade Organization (IDE-JETRO), and the Human Rights Lawyers Network of Japan. The event was also the first time that some of the interlinkages between trade, RBC and the opportunities afforded by the RSCA were discussed by invited stakeholders. In addition, this was an opportunity to highlight how socially responsible labour practices help businesses operating in Asia to become more competitive and productive so that they can access new markets; as well as on the steps businesses are taking to collaboratively work with local governments, international organizations, suppliers and other stakeholders along their supply chains to advance decent work and responsible business practices.

The event on 21 January 2021 will build off these discussions, including key outcomes and recommendations raised by stakeholders - whereby participants recognised the key role of government in providing incentives and setting expectations for business. Further detail on the outcomes of the event can be found online.<sup>28</sup>

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<sup>27</sup> <https://mneguidelines.oecd.org/Summary-Roundtable-on-Advancing-International-Collaboration-on-RBC-for-sustainable-chains-in-Asia.pdf>

<sup>28</sup> [idem](#)