SESSION NOTES

13-14 February 2019

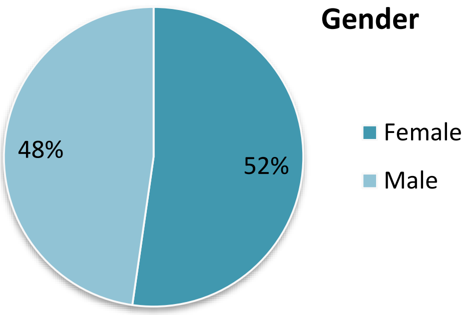
Forum on

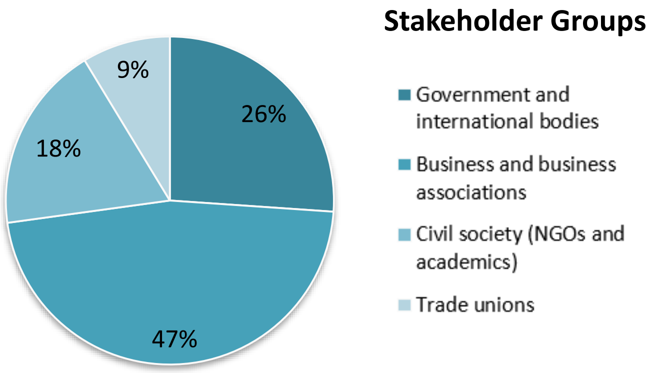
Due diligence in the garment and footwear sector

OECD

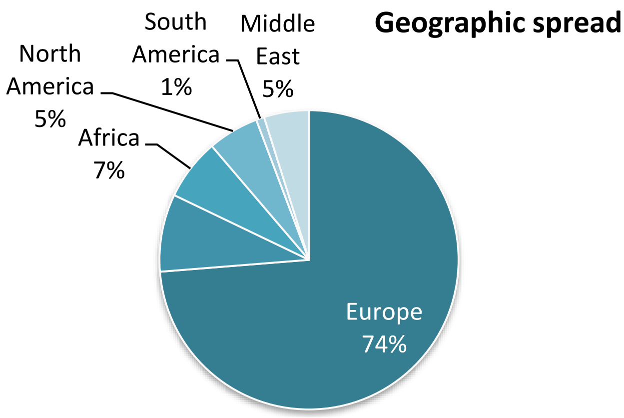
OECD Garment Forum in numbers

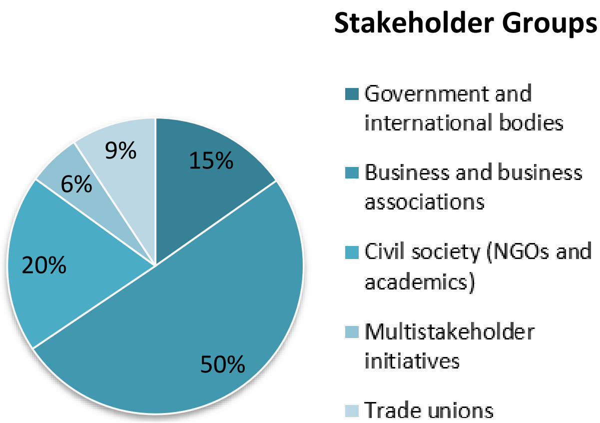
98 Speakers





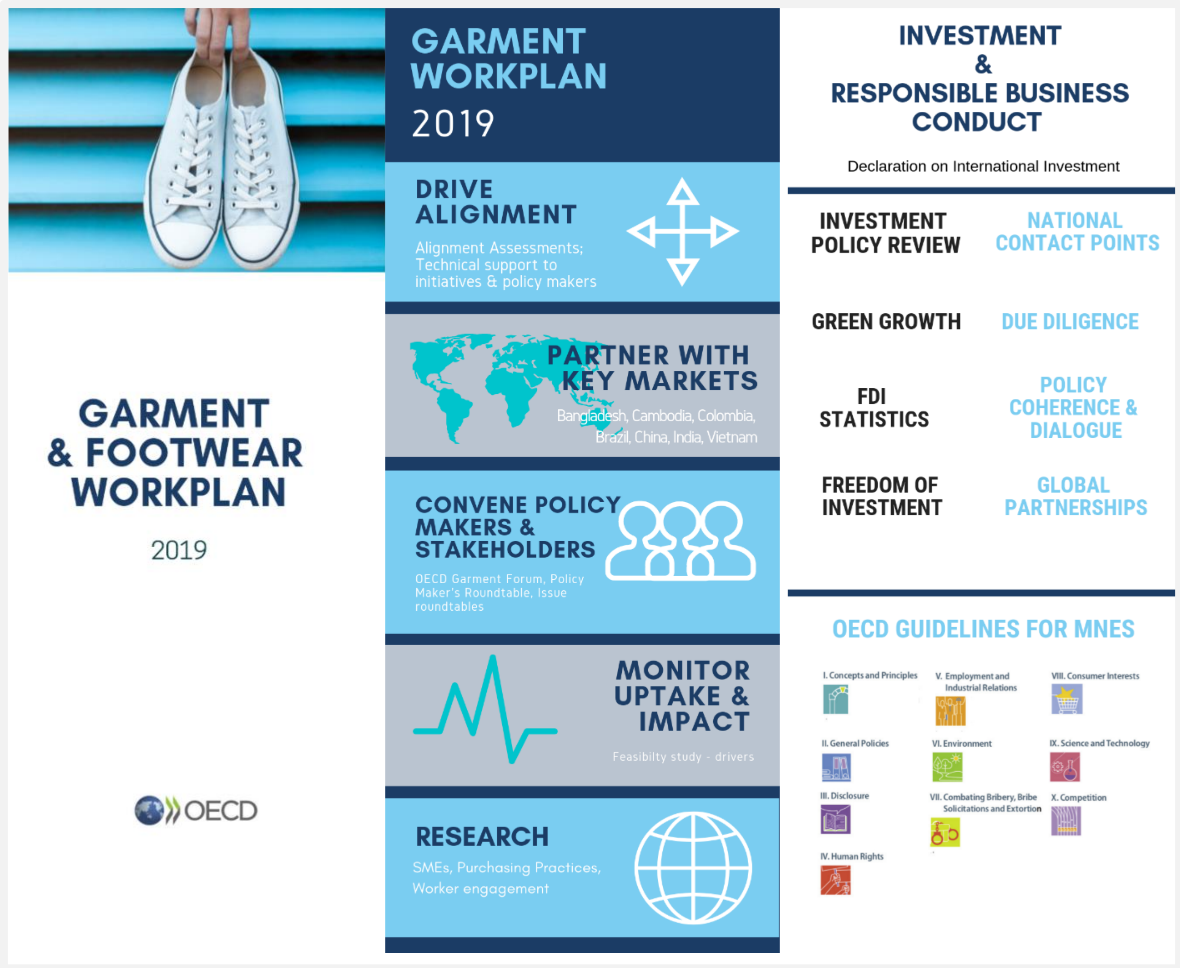
500+ Registrants





OECD draft Workplan for implementing the Garment Guidance

13 February 2019, 15:30-16:00



Findings from the OECD Alignment Assessment Pilot

13 February 2019, 17:00-16:00

Objective of the session

This session will launch the pilot Alignment Assessment report and look at the findings and learnings from the pilot as well as explore the next steps of the OECD Alignment Assessment process.

Background

Industry-led and multi-stakeholder initiatives that incorporate due diligence expectations can represent a strong inducement for companies to carry out due diligence and provide valuable opportunities for shared learning. However, a proliferation of expectations at a domestic level or across initiatives can create challenges for businesses operating globally who may be subject to various expectations. The OECD Garment Guidance is the negotiated and government-backed benchmark for due diligence by industry, multi-stakeholder and government backed initiatives. In order to support a common understanding of due diligence while also enabling cross-recognition between programmes, the OECD carries out evaluations to assess the alignment of multi-stakeholder and industry initiatives with the OECD Garment Guidance. This process, called the OECD Alignment Assessment process is voluntary and was piloted with the Sustainable Apparel Coalition in 2018.

The OECD Pilot Alignment Assessment of the SAC Higg Brand & Retail Module

The Sustainable Apparel Coalition (SAC) is a membership-based organisation that comprises of over 200 brands, retailers, manufacturers, academic institutions, governments and non-governmental organisations. SAC corporate members represent over $500 billion annual revenues combined in the apparel and footwear sector.[1] The SAC Higg Brand & Retail Module (Higg BRM) is a self-assessment tool that seeks to assess the environmental and social performance of SAC brand and retail members. In 2018, the OECD carried out a Pilot Alignment Assessment of the SAC Higg BRM (Beta version) and corresponding guidance, the "How to Higg". The following provides a brief overview of the scope of the assessment and its findings.

Scope of the assessment

For the purposes of this pilot, the OECD focused its evaluation on the sections of the Higg BRM that relate to the due diligence of brands and retailers on their supply chains and not on their due diligence of their own operations and the downstream effects of their products. [2]

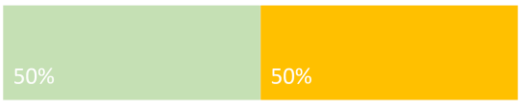
[1] SAC Website, https://apparelcoalition.org/members/

[2] While the pilot included a narrow scope of the Higg BRM for the evaluation to test the OECD methodology, the OECD Garment Guidance calls on companies to carry out due diligence on their own operations as well as on their supply chains. In practice, this means that brands and retailers should identify and address risks and impacts linked to their retail, procurement,

Snapshot

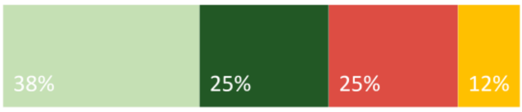
This snapshot shows the alignment of the Higg Brand and Retail Module (Higg BRM) with the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector.

Due diligence characteristics

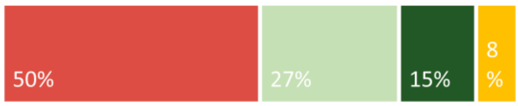


Overall alignment with the 6 steps of the OECD due diligence process

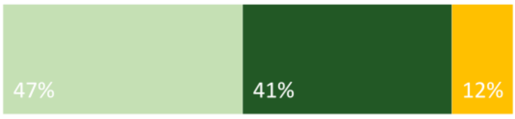
1. Policy and management systems



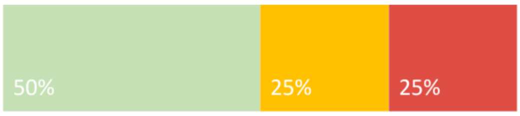
2. Identification of risks & impacts



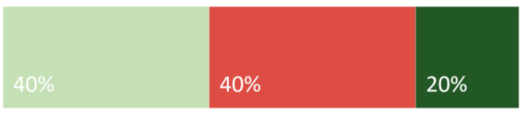
3. Prevent & mitigate



4. Track



5. Communicate



6. Remedy

Collaboration

employment, warehouses, the transportation of their products, and the use and end of life of their products in addition to risks and impacts that may be linked to the production of their products.

Bribery and corruption due diligence in the apparel supply chain

13 February 2019, 17:00-16:00

Partner

Transparency International Germany

Objective of the session

This session will look at how companies can prevent corruption in the apparel supply chain and will explore the link between a company's human rights and environmental due diligence efforts. The OECD and Transparency International Germany will explore this topic through an open dialogue focussed on five "Frequently Asked Questions".

Background

Corruption in global supply chains remains an endemic issue, with bribery and kickbacks representing one of the most common forms of integrity risks. For example, 75%-85% of the integrity incidents identified by Omega Compliance related to bribery and kickbacks.[3] Business to business bribery may include requests for payments for favourable findings by auditors or merchandisers demanding commissions from suppliers in order to do business. Bribery of foreign officials is likewise present in the supply chain including in relation to the bribery of inspectors or in the process of securing licenses to operate. Extortion – for example, threatening an auditor to report him or her unless a manufacturer passes an inspection or associates requesting loans—have also been identified as growing issues. Finally, employees holding conflicting business interests, for example whereby an employee in a sourcing hub holds an interest in a supplier, is likewise a risk in the sector.[4] The prevalence and normalcy of bribery and corruption in many operating contexts make it particularly challenging to address.

Despite the complexity, addressing bribery and corruption in the supply chain is particularly important in light of its strong links with human rights and labour impacts. In the apparel sector, this relationship is often indirect, for example when an inspector is bribed to allow an unsafe building to pass inspections which results in the injury or death of workers. In recognition of these linkages, companies should not address anti-corruption compliance and human rights due diligence in silos. Due to potential criminal and civil penalties associated with bribery, companies tend to focus on this issue in isolation, only considering legal compliance to avoid sanctions on the enterprise. Educating compliance officers and company

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[3] Omega Compliance (June 2017), Supply Chain Corruption: The Elephant in the Room, https://www.omegacompliance.com/supply-chain-corruption-webinar/

[4] Ibid.

leadership on the connectedness of these two issues could lead to stronger dialogue and collaboration between the distinct parts of the firm that handle these issues.

Table. Evaluating scale, scope and irremediable character of bribery in the context of due diligence

Examples of scale	Examples of scope	Examples of the irremediable character
• Monetary amount of the bribe • Loss of life caused by the bribery • Criminal nature of the bribe • Size of the profit gained from the bribery	• Frequency at which bribes are paid • Geographic spread of bribery • Number and/or level of officials, employees or agents engaged in bribery • Extent of activities linked with bribery • Number of identifiable groups impacted by decisions based on bribery	• Extent of damage to society due to loss of public funds • Extent to which activities undertaken and enabled by bribery will lead to irremediable adverse impacts

The establishment of clear policies backed by control measures, training for staff on how to handle situations in which bribery is observed or demanded, and strong whistle blower protections are cornerstones of anti-bribery and corruption due diligence, including within the supply chain. Establishing pro-active approaches to anti-bribery and corruption due diligence may be even more important within the supply chain context. For example, companies relying on third-party auditors should seek to understand how those auditors are combatting bribery and corruption in their own operations. Pro-active approaches may also be particularly relevant in the apparel supply chain as some producing economies have very strong worker protection laws, which require a very high burden of proof, thus making it particularly difficult to implement zero-tolerance policies.

Discussion questions

Five high-level questions that will be addressed by the speakers during the session:

1. For which processes/transactions are bribery and corruption risks most prevalent in the garment and footwear sector and its supply chain?
2. What are the challenges to addressing bribery and corruption risks in the sector?
3. What needs to be done to help overcome those challenges?
4. What are leading practices in carrying out bribery and corruption due diligence in the sector supply chain?
5. What role can governments and stakeholders play in helping to encourage due diligence on this?

For more information

- Preventing Corruption in the Supply Chain: How companies can address challenges, Alliance for integrity, Partnership for sustainable Textiles, Global Compact Network Germany
- Omega Compliance (June 2017), Supply Chain Corruption: The Elephant in the Room,
- (2016) Linking human rights and anti-corruption compliance, Global Compact.

Responsible Recruitment: Collaborative remediation in Garment and Footwear Supply Chains

13 February 2019, 17:00 – 18:00

Partner

Fair Labor Association (FLA)

Objective of the session

Addressing and remediating forced labour in supply chains can be difficult for individual brands to accomplish working with their suppliers, especially when the risk is associated with complex off-site processes such as the payment of recruitment fees to intermediaries, a widely recognised indicator of forced labour. This session will explore how industry actors can collaborate to provide remedy in cases of forced labour in their supply chains.

Background

Migrants play an intrinsic role in garment and footwear manufacturing globally. A significant proportion of workers in the sector are domestic migrants, meaning that they have moved within their own country, often from rural to urban locations. For example, in China there were approximately 287 million rural-urban migrants in 2017, accounting for more than one third of China's total workforce.[5]

Foreign-born migrants also contribute to the sector workforce in many OECD and non-OECD countries. For example, the sector in Jordan employs approximately 40,000 foreign migrant workers comprising 75 percent of the country's workforce in the sector.[6] There are approximately 160,000 foreign-born workers in the European textile industry. Foreign-born migrants may migrate for many different reasons and may intend to pursue employment in the sector for a short period, perhaps bound by fixed term working visa schemes, or to stay and settle in the country. Within this context, the textile, garment and footwear sector can act as an important first port of entry into the formal workforce, particularly for long-term migrants and refugees.

Human rights and labour risks

The circumstances of recruitment, employment and the level of protection afforded foreign migrants are highly variable and greatly affected by policies in both sending and host countries. However, across sourcing contexts, low-income migrant workers and refugees are often marginalised economically, socially

[5] China Labour Bulletin

[6] ILO, Unified contract for migrant garment workers in Jordan unveiled at buyers' forum and IO-IFC Better Work Jordan

and geographically and therefore particularly vulnerable to exploitation. Some characteristics of the garment and footwear sector, notably at manufacturing, may increase this risk of exploitation.

- Low-wages: Migrant workers may be provided different wage rates than domestic workers and may be paid rates well below wages necessary to meet their basic needs.[7] Migrant workers are likewise vulnerable to delayed payments and illegal deductions.
- Precarious work: Workers without the legal right to work cannot enter into a legally binding employment relationship. The lack of a legal employment contract puts works at high risk for abuse and exploitation due to a lack of resource if their rights are violated. Furthermore, workers without legally binding contracts often lack access to related benefits such as social security and healthcare.[8]
- Child labour: Children of migrant workers may face unique obstacles to accessing education and in many cases may end-up in child labour. In some cases children and minors are unaccompanied.
- Sexual harassment and sexual and gender-based violence: Women account for a majority of the labour force across many of the stages of the garment and footwear supply chain. Women who are low-income workers, migrant workers, and/or are employed informally are particularly exposed to risks of sexual harassment and sexual and gender-based violence in the workplace.[9] Migrant workers that are reliant upon their employer to renew their work visas, or where they cannot change their employer under the terms of their work visa, are particularly vulnerable to threats and reprisals. They likewise often lack information on where to turn in instances of harassment or violence.
- Forced labour: International migrant workers are more exposed to certain forms of forced labour, particularly those with an irregular status, whose vulnerability can be exploited through coercion. For example, migrant workers may be vulnerable to coercion through the withholding of documents, such as passports, work permits, identification cards, etc. Domestic and international migrant workers may also be vulnerable to debt-induced forced labour due to recruitment fees owed to private recruitment and employment agencies.[10]
- Violations of the right to freedom of association: Migrant workers who often hold short-term contracts often face a wide range of discriminatory policies against their right to freedom of association.

Forced labour risk in recruitment practices

[7] The OECD Guidelines for Multinational Enterprises call on companies to "provide the best possible wages, benefits and conditions of work, within the framework of government policies. These should be related to the economic position of the enterprise, but should be at least adequate to satisfy the basic needs of the workers and their families."(OECD Guidelines, V, 4b).

[8] Fair Wear Foundation (2015) "Guidance for Affiliates, Risks related to Turkish garment factories employing Syrian refugees"

[9] ILO, Gender-based violence in the world of work: Overview and selected annotated bibliography, (2011).

[10] Debt-induced forced labour is also commonly referred to as debt bondage.

The conditions in which migrant workers are recruited and hired can heighten the above risks. Third party labour recruitment agencies and contractors often facilitate the recruitment and hiring of domestic and foreign migrant workers. Such labour brokers often operate in the informal economy without legally enforceable contracts or agreements regarding wages, benefits, provisions of work and without oversight. Migrant workers may also be vulnerable to exploitive debt schemes.

The use of illegal subcontracting can likewise heighten human rights and labour risks. In some cases undocumented workers and refugees are employed in small undocumented suppliers that act as sub-contractors to first tier garment manufacturers. Due to the lack of visibility, illegal subcontracting can increase almost all human rights and labour risks including child labour, unsafe working conditions, forced labour, harassment and violence, etc.

Forced labour risk in the spotlight of supply chain legislation

In recent years a number of national due diligence disclosure laws have come into being, requiring multinational companies to trace their supply chains and be transparent about the effect of their business practices on human rights, and particularly forced labour and trafficking risk, for example, the UK and Californian Acts[11]. An update in 2016 to the US Tariff Act of 1930[12], essentially prohibits the importation into the US of any goods mined, produced or manufactured with the use of convict labour or "forced labour." It gives US Customs and Border Protection the authority to exclude or seize products of forced labour at point of entry, and to pursue criminal charges against the importers. Under these laws companies should demonstrate they have an understanding of where the forced labour hotspots are in their operations and supply chains, and regular reporting on the actions they have taken to identify, prevent and mitigate risks, and remediate any actual instances of forced labour.

Targeted due diligence policies

Forced labour is a prevalent risk in garment and footwear supply chains, particularly where there is use of private recruitment and employment agencies, prison labour, migrant workers, and subcontracting, among other factors. Companies can address this risk by taking a due diligence approach, starting with the adoption of appropriate policies and supply chain practices relevant to the nature of the risk: for example, a policy on the use of private recruitment agencies and subcontracting. These policies should include appropriate identification, assessment and monitoring procedures that take into consideration the vulnerability and invisibility of workers at risk of forced labour in the supply chain.

Industry collaboration

Recognising the high risks associated with recruitment, in 2018, the Fair Labor Association and the American Apparel & Footwear Association launched the "Industry Commitment to Responsible Recruitment," with 125 signatories to date. The Commitment is an industry effort to address potential

[11] Section 54 of the UK Modern Slavery Act (2015); California Transparency in Supply Chains Act of 2010 (SB 657)

[12] Section 307 of the Tariff Act of 1930 (19 U.S.C. § 1307)

forced labour risks for migrant workers in the global apparel, footwear, and travel goods supply chain. Targeted interventions aim to create conditions so that:

- No workers pay for their job
- Workers retain control of their travel documents and have full freedom of movement; and
- All workers are informed of the basic terms of their employment before leaving home.

The signatory companies also agree to take meaningful actions to implement these practices into their operations, to incorporate the Commitment into their social compliance standards, and to periodically report on their actions through sustainability and/or modern slavery legal disclosures.

The International Organization of Migration's IRIS Principles, and Migration in Asia's Recruitment Reform campaign provide codes of conduct for responsible recruitment, targeted at recruitment agencies and companies that use recruiters.

This session will follow the progress in adoption and implementation of such voluntary codes of conduct by recruiters, and what further action is needed by apparel and footwear companies and policy makers to bring an end to unethical recruitment practices in apparel supply chains, and provide remediation to those that are adversely impacted by such practices.

Discussion questions

- What are the key steps that companies should take to build capacity for prevention of forced labour risks associated with recruitment practices in their own operations and supply chains?
- How can companies address these risks when the recruitment in question is perhaps several steps removed from their own operations and first tier suppliers?
- Why is collaboration at the supplier level important to enable effective remediation for workers subject to unethical recruitment practices? What kind of collaboration with suppliers has been effective (give examples)? What changes can buyers make to their operating procedures to promote effective remediation?
- How can companies more effectively understand and communicate with workers as well as stakeholders when remediating recruitment fees and related issues? What are examples of good practice here? What is the role of government stakeholders?

For more information

- AAFA/FLA Apparel and Footwear Industry Commitment to Responsible Recruitment, October 2018
- Fair Labor Association, Addressing Risks of Forced Labor in Supply Chains, 2017
- Recruitment Reform campaign, run by Migrant Forum in Asia project
- IOM IRIS Standard
- OECD, Perspectives on Global Development 2017, International Migration in a Shifting World,

Child rights and due diligence

13 February 2019, 17.00 - 18.00

Partner

UNICEF

Objective of the session

Going beyond child labour, the session will discuss the importance of integrating child rights into human rights due diligence. The session will raise awareness on the wide range of impacts on children in the supply chain, and discuss practical barriers, opportunities and company examples to identify and prevent harm to children through risk-based due diligence. It will also discuss the role of investors and the importance of better metrics to measure how due diligence efforts can translate into improved outcomes for workers, families and communities.

Background

Source: https://www.unicef.org/csr/files/Impact_Areas_in_Global_Supply_Chains.pdf

Governments play a critical role in promoting responsible business conduct that ensures decent work and contributes to improved living standards. Yet, decent work deficits remain widespread in the garment and footwear supply chain, which affect both workers and their families. From agricultural production to textile processing and garment manufacturing, children are impacted along the supply chain in many different ways – as workers, as children of working parents and as members of a community affected by adverse impacts along the garment and textile value chain. Child labour and conditions for young workers, including hazardous work, remain persistent challenges. Beyond child labour, the lives of children are impacted by inadequate living standards and poor working conditions for parents, including low wages, long hours and discriminatory practices against women.

While the industry employs tens of millions of women, maternity protections in line with international standards are often absent. Exploratory UNICEF research in Bangladesh and Vietnam shows that garment factories frequently fail to comply with laws and regulations on maternity leave and pay, childcare and breastfeeding support.[13] This can have significant implications for child well-being as sufficiently paid maternity leave is critical for mothers to recover from childbirth and provide the necessary care for their infants. Women are also at risk of losing employment during pregnancy or after child birth, which means they may lose vital income to provide for themselves and their infants.

Impact on children in the garment and footwear supply chain is not restricted to the workplace. Workplace and community impacts are often interlinked. Higher wages, for example, can positively affect the health status and education opportunities of worker's children. Likewise, access to better nutrition and improved WASH standards in the community can improve worker health and well-being, contribute to higher productivity and reduce absenteeism and worker turnover. Effective due diligence approaches, therefore, should build on the nexus between workplace and community conditions.

Integrating child rights into due diligence

Despite children being a particularly vulnerable stakeholder group, due diligence approaches in the garment and footwear sector rarely address children's rights specifically. Integrating child rights into due diligence requires approaches that enable companies to identify, prevent, address and monitor the direct and indirect impact they may cause or contribute to on children – in the workplace and beyond. A review of 25 leading international apparel and footwear brands demonstrated that few companies had supply chain policies and systems in place to identify and address negative impact on children's rights, beyond child labour.[14] The review also showed that prevailing responsible sourcing efforts were heavily focussed on compliance, with supplier codes of conduct and social auditing as the basis for supplier performance assessment. Moreover, companies tend to focus on where they have most control, rather than where the risk of negative consequences for vulnerable stakeholders is highest (e.g. focus on tier-one rather than deeper tiers of the supply chain). While in more recent years the compliance model has been complemented by a growing number of 'beyond compliance' approaches aimed at tackling systemic root causes, more approaches are needed that increase worker voice, improve supplier capacity and encourage multi-stakeholder collaboration.

Discussion questions

- What are the diverse ways in which children are affected in the garment & footwear supply chain?
- What are the shortcomings in current industry practices? What are specific examples of company practices to integrate child rights into due diligence?
- How can we measure effectiveness of due diligence efforts and the positive impact on workers, their families and the communities in which they live? What role can investors play?
- What is the role of governments and public policy to drive positive change in company practices?

[13] See, for example, UNICEF (2015): The Ready-Made Garment Sector and Children in Bangladesh.

[14] Review undertaken by Article One as part of the *Network on Children's Rights in the Garment and Footwear Sector* led by UNICEF and Norges Bank Investment Management (NBIM)

Moving towards meaningful and harmonised due diligence disclosure

13 February 2019, 9:00-11:00

Objective of the session

This session will explore how the industry can move towards meaningful and accessible public communication on due diligence by companies. It will also include a discussion with investors on harmonising human rights and environmental disclosure requirements for businesses in the sector. This session will draw on findings from the OECD and ISS-ESG consultation with 20+ investors on human rights and environmental disclosure requirements of companies in the apparel sector. (See Box below for summary findings of the consultation).

Background

The context facing apparel companies

Companies in the garment and footwear sector have been reporting on their efforts to identify and address labour, human rights, and environment risks in their activities and supply chains for years – even decades in some cases. Such reporting, which is primarily accomplished through annual sustainability or CSR reports, but also increasingly through blogs and company websites, has become fairly ubiquitous in the sector.

At the same time, the industry has likewise seen a rise in mandatory and voluntary disclosure requirements concerning labour and environmental supply chain due diligence. While investors play an important role in driving disclosure, they are not the only influencers; government regulations, multi-stakeholder and industry reporting requirements and third-party benchmarks likewise play a significant role in driving disclosure.

- Government regulation: Governments are increasingly focused on the role of companies in addressing human rights, labour and environmental risks in company supply chains. This has resulted in a rise of disclosure legislation in OECD countries including in California, France, the United Kingdom, the Netherlands, and Australia.

- Multi-stakeholder and industry initiatives: Partially in response to the OECD Guidelines and UN Guiding Principles and in an effort to hold member companies more accountable to commitments, multi-stakeholder and industry-led initiatives are increasingly requiring companies to report on how they are carrying out due diligence in their supply chains. In some cases, members are then evaluated on this reporting. In the majority of cases, reporting to multi-stakeholder and industry-led initiatives is not public.

- Civil society benchmarks: The past five years has seen an increase in third-party sustainability and due diligence indexes and benchmarks which seek to measure company performance vis-à-vis their supply chains. While indexes have traditionally been CSR focused, in recent years there has been a shift towards due diligence benchmarks, such as Know the Chain, Fashion Revolution, and the Corporate Human Rights Benchmark. Businesses in the apparel sector raise concerns regarding the increasing frequency of disclosure requests and a lack of alignment on disclosure requirements across stakeholders including governments, multi-stakeholder and industry-led initiatives and investors. For example, in a review of methodologies by Stern School, the researchers found no consistent set of standards underpinning "S" among ESG frameworks. [15]

The context facing investors

Investors are increasingly assuming their role to seek to mitigate environmental, labour, and human rights risks in their underlying companies while recognizing the financial materiality that such risks may bring.[16] Within this context, investors are moving beyond only considering the environment, social and governance (ESG) performance of potential investees in relation to exclusion or divestment policies and increasingly integrating ESG performance into traditional financial analysis and impact investing. This is partially evidenced by statements from leading investment companies[17], but also by investor decisions to divest due to environmental or human rights concerns in underlying companies.

- **Broader understanding of fiduciary duty**: A broader understanding of fiduciary duty is increasingly being recognized in the context of institutional investors. Of 50 countries analysed by PRI, almost half have or are developing rules regarding pension funds and ESG criteria.[18] Furthermore, a core recommendation of the EU High-Level Expert Group[19] on sustainable finance recognises that incorporating information related to ESG factors into investment decisions is part of an investor's fiduciary duty.[20]

- **Due diligence expectations**: Recommendations of due diligence under the OECD Guidelines for Multinational Enterprises apply across all sectors, including the financial sector and commercial investment enterprises.[21]

This increased attention of the financial sector on ESG performance of investees has been accompanied by a flourishing of ESG products and benchmarks directly targeting investors. While traditionally ESG products have leaned towards environmental performance there is slowly a growing focus on social – in relation to labour and human rights – indicators. In addition to annual ratings and benchmarks, investors are also turning directly to companies to request information on specific issues or processes on a more ad-hoc basis.

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15 Casey O'Connor and Sarah Labowitz, Putting the "S" in ESG: Measuring Human Rights Performance for Investors,

16 For example, Harvard Kennedy School, Shift and the University of Queensland found that the 'greatest cost of conflict is lost opportunities for future projects, expansions, or sales."

Rachel Davis & Daniel Franks, Costs of Company- Community Conflict in the Extractive

Sector, Corporate Social Responsibility Initiative Report No. 66 (2014),

17 Reference Larry Fink, Ask Barbara for other references.

18 Principles for Responsible Investment (PRI) (2016), 'Global Guide to Responsible Investment Regulation',

19 The 2017 interim report of the Expert Group likewise highlights that "[t]he responsibility of directors and investors to manage long-term sustainability risks should be enshrined in their relevant duties, whether it is through fiduciary duty in common law or its equivalent in other legal systems. Updates should make clear that managing ESG risks is integral to fulfilling these duties." Financing a Sustainable European Economy: Interim Report, July 2017 By the High-Level Expert Group on Sustainable Finance Secretariat provided by the European Commission.

20 OECD (2018), *Annual Report on the OECD Guidelines for Multinational Enterprises 2017*

21 In 2017, the OECD launched a paper, *Responsible Business Conduct for Institutional Investors: Key Considerations for Due Diligence under the OECD Guidelines for Multinational Enterprises*, helps institutional investors implement the due diligence recommendations of the OECD Guidelines for Multinational Enterprises in order to prevent or address adverse impacts related to human and labour rights, the environment, and corruption in their investment portfolios.

SUMMARY FINDINGS

OECD – ISS ESG consultation with investors on human rights and environmental disclosure *Prepared by ISS-ESG

There is a range of approaches to ESG analysis among investors. Many have dedicated ESG teams but also use data from external ESG data and analysis providers. Some investors have a more proactive approach on particular focus areaswhile others take more of a quantitative approach. The variety of approaches informs some of the different motivations for and extent of disclosure requests to companies.

Key findings

Many investors shared that the key driver for their information needs and requests is to be able to assess companies' risk exposure and management. In order to do this, investors review key metrics presented in benchmarks/indexes as well as by ESG data and analysis providers, at the very least as an initial screen of companies. Several investors noted that this data often needs to be complemented by more qualitative, forward-looking data (on strategy, collaborations, measures taken to roll out positive outcomes more broadly within the organisation, etc.) to provide a more nuanced picture of the company's risk management. Moreover, investors noted that there are some key areas, notably transparency on suppliers and the extent to which supply chain due diligence is supported by senior management, where there is a lack of adequate disclosure among many companies in the sector.

Several investors highlighted constraints to accessing quality and current data. Specifically, due to reporting and data collection cycles – the information available is sometimes dated. While there was a general agreement that there is still value to this type of data, as well as more historical data, as it can give an indication of trends, investors also noted that there may be a need for follow-up direct disclosure requests.

Investors noted scenarios in which there is a need for direct outreach to companies, regardless of the data in the initial screen. One such example is where investors proactively seek to engage with companies on focus themes of particular priority or concern to the investor. In addition, many investors (or their service providers) reach out to companies in response to specific incidents or controversies which point to a failure in the company's due diligence systems. There was a general agreement that some of the latter type of direct outreach could be reduced if companies communicated proactively on incidents.

There was a recognition among investors that they could possibly contribute to the relevance and quality of companies' disclosure by providing more context on the motivations for particular requests. For example, many investors shared that their motivation to request that companies publish lists of their suppliers is that they see this as a proxy for how confident the company is in its supply chain management systems. Similarly, investors highlighted that they look at the extent to which senior management is involved in the supply chain due diligence, as a measure of its robustness. Investors with a particular focus on living wages highlighted that the motivations for this are linked to their view of wages as a nexus within broader labour rights challenges in the supply chain, and that implementing living wages would also resolve many other concerns.

Discussion questions

- Where do gaps in public communication on human rights and labour due diligence exist in the sector? Are gaps primarily related to content or accessibility of the information?
- What practical steps are necessary to move the sector towards more meaningful and accessible communication on human rights and environmental due diligence?
- What challenges do investors face in relation to information deficits, including quality of information? What are potential solutions?
- How can information be provided to investors in a way that is reliable and accessible? What is your wish list?

For more information

- Casey O'Connor and Sarah Labowitz, Putting the "S" in ESG: Measuring Human Rights Performance for Investors
- Principles for Responsible Investment (PRI) (2016), 'Global Guide to Responsible Investment Regulation'

A due diligence approach to communicating responsibly with consumers on the sustainability performance of products

14 February 2019, 11:30-12:45

Partners

UN Environment, Consumers International

Objective of the session

The session will explore how companies can communicate their due diligence efforts – including in relation to environmental impacts – on a product level throughout the supply chain to consumers in a way that enables consumers to make meaningful and fully informed purchasing decisions. The session will also discuss the main challenges that need to be addressed for organisations to best communicate their production processes and products' sustainability performance in the garment and footwear sector, and how due diligence tools can help address these and drive the sector forward.

Background

According to a report released last year, the global apparel and footwear industries account for an estimated 8% of the world's greenhouse gas emissions[22]. Based on largely linear supply chains, the sector is resource intensive, as well as at high risk for pollution impacts, especially from wet processing and other upstream production processes. Changing consumption patterns favouring cheaper, lower quality goods in certain markets, as well as growing urbanised middle classes in emerging economies, will only cause these impacts to increase[23], exacerbating the environmental and social risks that workers and communities along the supply chain are facing, as well as the risks to consumers themselves. Actions to ensure a more sustainable garment and footwear industry are vital and companies are rising to the challenge.

On the one hand, companies in the sector are increasingly recognising a responsibility to follow due diligence in their supply chain: ensuring that consumers, local communities, workers and the natural environment are not disadvantaged in any way through the manufacture and commercialisation of certain fashion products. The challenge is how to communicate the impacts of this to consumers to help them make meaningful decisions on product purchase, use and disposal. On the other hand, companies have the opportunity to take another step and use their influence and marketing power to go beyond merely informing consumers, to encouraging behaviour change towards sustainability in the long term, for instance, countering fast

[22] Quantis, Measuring Fashion: Insights from the Environmental Impact of the Global Apparel and Footwear Industries study, 2018

[23] KPMG, Textile Exchange, Threading the Needle, 2018

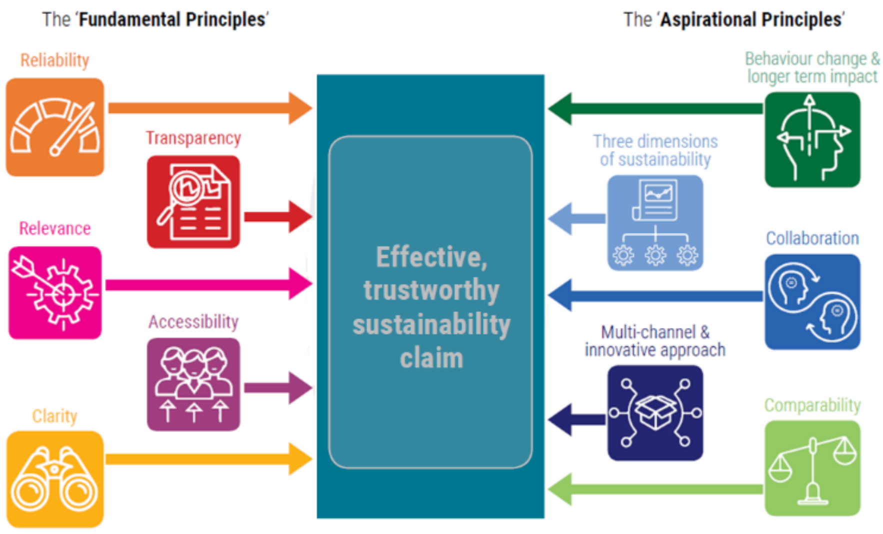
Picture 1: source – front cover image of *Guidelines for Providing Product Sustainability Information* (2017) fashion trends. Both approaches are crucial to the achievement of Goal 12 of the Sustainable Development Goals: Responsible Consumption and Production.

Consumer information tools, such as labels, voluntary certifications, and marketing claims, as well as audits and assessments are helpful tools for both companies and consumers. They can:

1. Guide consumers in making informed choices – which products they purchase, how they use/ re-use them and how they eventually discard them;
2. Help companies manage due diligence processes by ensuring information systematically passes through their supply chains and by communicating their efforts.

In this context, collaborative sector initiatives can help define common criteria for joint action along the supply chain.

At a time when many consumers feel confused and no longer trust or know how to act upon the information they receive, it becomes ever more important to ensure that messages favouring a sustainability approach are reliable, trustworthy and substantiated.



Picture 2: from the *Guidelines for Providing Product Sustainability Information* (2017)

To guide companies on how to best communicate with consumers, UN Environment and the International Trade Centre developed **Guidelines for Providing Product Sustainability Information**[24]. The Guidelines aim to benefit both the consumer and the producer by outlining how companies can provide quality information to empower sustainable consumption decisions, and by serving as a reference for governments, standard setting bodies and NGOs.

In 2018, 28 organisations from around the globe and more than ten industry sectors - including garments and textile manufacturing and retail - applied and tested these Guidelines. These companies ("road testers") acknowledged they gained practical insights on how they could improvde their claims, especially new ideas on further engagement of relevant stakeholders and the importance of backing up information with reliable data analysis. The road testing also confirmed that reliable communication starts with a robust evidence

[24] UN Environment, International Trade Centre (ITC) Guidelines for Providing Product Sustainability Information, 2017,

base on products' priority environmental and other sustainability risks, guided by due diligence tools. For instance, 87% of road testers affirmed that their claims comply with the Guidelines' principle 1 on reliability, meaning that they are based on robust methodologies, data or standards. 97% of road testers affirmed their claims meet principle 2 on relevance, meaning that their claims provide information on relevant aspects, which contribute significantly to the sustainability profile of their products.

However, small and medium-sized enterprises still require support in this area; they often do not have the resources to access supply chain data, to get certified against standards or to identify priority intervention issues. Approaches such as 'hotspots analysis' can help but are not yet well known. Furthermore, conveying a holistic lifecycle approach in one single product-based communication claim, poses a challenge - not only informing purchasing decisions but also behaviour in the use and disposal phase of the product's life, which have been identified as environmental hotspots in the garment and footwear sector. The complexity of sustainability information, together with limited space on packaging and the lack of harmonized approaches and definitions - due to diversity of standards, for instance - seem to be the main challenges for organisations when communicating about their products' sustainability performance[25].

In the session we will discuss these and other learnings from this project, how a due diligence approach might help companies in applying the Guidelines, and the role for collaborative initiatives and policymakers in supporting companies communicate better with consumers.

Discussion questions

- How does due diligence help drive meaningful communication to consumers on the impacts of products?
- Which are the main challenges the sector faces when developing and providing product sustainability information?
- How can collaborative initiatives and certification schemes help?
- How do we see the role of companies in driving sustainable consumption behaviour, and which other measures are needed?

For more information

- UN Environment, International Trade Centre, Guidelines for Providing Production Sustainability Information, 2017
- Consumers International, Case study: Aditya Birla Fashion & Retail Limited (ABFRL), 2018
- Quantis, Measuring Fashion: Insights from the Environmental Impact of the Global Apparel and Footwear Industries study, 2018
- French National Contact Point, On Implementation of the OECD Guidelines in the Textile and Clothing Sector, I-IV-Role of Consumers, 2013
  - OECD Environmental labelling and information schemes, Policy Perspectives, May 2016

[25] Ready to Drive the Market. Experiences from Road Testing the Guidelines For Providing Product Sustainability Information. *forthcoming*

Addressing Climate Change in the Fashion Sector: A collaborative approach

14 February 2019, 11.30-12.30

Partner

UN Climate Change

Objective of the session

This session will examine the role of the fashion sector in responding to the urgent need for scaled climate action in order to realise the goals of the Paris Agreement. It will address opportunities for the fashion industry to respond to sector-wide climate impacts, and innovative climate solutions to be implemented across the full supply chain. In particular, the session will discuss the recently launched Fashion Industry Charter for Climate Action (Charter) as an example of sector-led collaborative measures on climate change, and highlight concrete actions signatories to the Charter are taking in quantifying, tracking and reporting on greenhouse gas (GHG) emissions and emission reductions.

Background

The apparel and footwear industry accounts for an estimated 8% of the world's GHG emissions[26]. Based on largely linear supply chains, the sector is relatively resource intensive. Within the apparel sector in particular, the dyeing and finishing stages are the biggest contributors to climate impacts; housing energy intensive processes in countries that largely rely on hard coal and natural gas for electricity and heat production. [27] In addition, the conversion of natural grasslands and rainforest for rubber and bamboo plantations, and cattle farms (from which leather is derived), are just some examples of how the fashion sector also contributes to increased emissions through land use, land-use change, deforestation, and livestock supply chain emissions. The considerable waste generated in the disposal of used garments, or surplus of garments never used, is also contributing to the climate footprint of the sector.

The growing demand for cheaper and lower quality goods, together with an increasing trend in the use of more synthetic materials and less natural fibres has meant that the fashion sector's impacts on climate change are on the rise. Over the period of 2005 to 2016, the climate impact of the production stages of the apparel sector were found to have increased by 35% and are projected to continue to increase under a business-as-usual scenario.[28]

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[26] Quantis, Measuring Fashion: Insights from the Environmental Impact of the Global Apparel and Footwear Industries study, 2018.

[27] Specifically, China, India and Bangladesh comprise the sector's largest manufacturers but also rely heavily on fossil fuels, Quantis 2018,

[28] Quantis 2018

In December 2015 representatives from the 197 parties to the United Nations Framework Convention on Climate Change (UNFCCC) negotiated and signed the Paris Agreement; committing to limit the global average temperature increase to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. At the heart of the Paris Agreement are the Nationally Determined Contributions (NDCs) or commitments from national governments on emission reductions and climate adaptation efforts. NDCs capture each country's planned efforts on climate change, and will collectively determine whether the long-term goals of the Paris Agreement will be realised. The Paris Agreement also calls for the mobilisation of finance flows towards low GHG and climate resilient development and importantly recognises the integral role played by non-state actors, including the private sector, in responding to climate change.

However, recent reports indicate that even if Parties to the Paris Agreement maintain their NDC commitments, the global average temperature rise is already projected to reach or exceed 1.5°C by 2030 - prompting requests for urgent and more ambitious action. The latest report of the Intergovernmental Panel on Climate Change (IPCC) [29] found that limiting temperature rises to 1.5°C with no or minimal overshoot will require extensive transitions across energy, land, urban, infrastructure, and industrial systems. These transitions need to be unprecedented, not only in terms of the speed of implementation, but also in terms of scale and the level of emissions reductions required across all sectors. This necessitates the adoption of a varied portfolio of mitigation options and the significant upscaling of investment.

In this context, there is a growing expectation on the critical role to be played by non-state actors, including business and industry, in raising ambition, filling the emissions reductions gap and meeting the goals of the Paris Agreement. Civil society, consumers and investor stakeholders are increasingly looking to companies in demanding more on climate action and in particular, the tracking, reporting and disclosure of GHG emission reductions.

In 2018, world leaders met in Katowice, Poland for the 24th session of the Conference of the Parties to the UNFCCC (COP24). The focus of COP24 was the finalisation of the Paris Agreement Rulebook (aka the "Paris Agreement Work programme"), a detailed operating manual for the implementation of key commitments and mechanisms under the Agreement. The Rulebook covers a range of technical topics including reporting on GHG emissions by countries, climate finance for developing countries, and the operation of the cooperative market and non-market mechanisms.

With the finalisation of the Rulebook underway, and governments preparing for the implementation of their NDCs, business and industry have a clear global framework from which to spur sector-wide approaches in responding to the need for more ambitious action on climate. It is widely recognised that implementation of the Paris Agreement will not only require ambitious actions by governments, but also extensive cooperation across all sectors of society, involving business and civil society alike.

[29] IPCC (2018), Special Report: Global Warming of 1.5OC: https://www.ipcc.ch/sr15/chapter/summary-for-policy-makers/#article-citation

Fashion Industry Charter for Climate Action

Following some initial discussions with a group of fashion sector experts at COP22 in Marrakech in 2016, the Climate Change Secretariat decided to explore with a wider group of stakeholders if UN Climate Change could catalyse and facilitate a more focussed approach to climate action in the fashion sector. Over the course of 2018, under the auspices of UN Climate Change, stakeholders in the fashion sector have worked to identify ways in which the broader textile, apparel and fashion industry can work collaboratively to address its contribution to global GHG emissions and climate impacts.

These efforts culminated in the creation of the Fashion Industry Charter for Climate Action; recognising that the fashion industry needs to "embrace deeper and systemic change" in order to deliver on the current climate agenda, and committing signatories to sector specific action aligned with meeting the goals of the Paris Agreement.

The Fashion Industry Charter for Climate Action lays out a pathway for all companies within the fashion and apparel value chain, from raw material production through to retail and distribution, goes beyond previous industry-wide commitments, and is aligned with the goals of the Paris Agreement. It sets the vision to achieve net-zero emissions by 2050, including a midway target of 30 per cent GHG emission reductions by 2030 and a commitment to set a decarbonisation pathway for the fashion industry drawing on methodologies from the Science-Based Targets Initiative[30]. The Charter was launched by 43 companies and supporting organisations at COP24, with these signatories representing key players along the full supply chain. Since COP24 an additional 11 companies and organizations have joined the Charter, with several more having signalled intent to join.

A due diligence approach to addressing climate change impacts

Adopted in 2017, the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (Guidance) provides recommendations for companies on how to implement due diligence according to the OECD Guidelines in their own operations and in their supply chains. The recommendations in the Guidance are relevant for any third party, such as sector-wide and multi-stakeholder initiatives, that facilitates collaboration on some or all steps of the due diligence process. Under the Guidance companies are encouraged to adopt a risk-based approach to due diligence, based on the likelihood and severity of its adverse impacts. Climate change is recognised in the Guidance as both an over-arching challenge concerning society as a whole, and as a particular and prevalent due diligence challenge of the industry itself, associated with severe adverse impacts from the production and supply chain of the company, as well as the impacts from the use phase and end of life of the product. All companies, no matter their size and position in the supply chain, have a responsibility to conduct due diligence on these impacts and collaboration is encouraged to enable all companies to measure, reduce, monitor and report their GHG emissions.

[30] https://sciencebasedtargets.org

Representatives from business, civil society and the United nations at the launch of the Fashion Industry Charter for Climate Action at COP24 in Katowice, December 2018.

Discussion questions

- What were the driving factors that enabled the Fashion Industry Charter for Climate Action to come into being in 2018 and how was a consensus reached?
- Why is decisive and collaborative climate action essential to the fashion sector staying in business?
- This forum is about measuring impact – what are some of the initiatives businesses in the fashion sector have taken to track and mitigate GHG emissions along supply chains and how can governments support these efforts? Are these efforts ambitious enough, what more is needed?
- What role was transparency given by the Charter, and why is this essential to ensure the commitments are upheld?

For more information

- UN Climate Press Release, *Milestone Industry Charter for Climate Action Launched,* 10 December 2018.
- UN Climate, Fashion Industry Charter for Climate Action.
- Quantis, Measuring Fashion: Insights from the Environmental Impact of the Global Apparel and Footwear Industries study, 2018.

Workshop: How can companies take a better risk-based approach to due diligence?

14 February 2019, 13.00-15.30

Partners

Dutch agreement on Sustainable Garments and textiles (AGT) and Solidaridad Europe with support from the Norwegian Fashion Hub and SAC.

Objectives of the session

This session will:

- Explore the practical considerations for prioritising risks for action based on scale, scope and irremediable character;
- Identify ways in which stakeholders can support companies in taking a risk-based approach to due diligence;
- Give industry and stakeholders an opportunity to exchange experiences and perspectives, and increase stakeholders' understanding of the due diligence standards expected of companies and the challenges involved.

Background

Due diligence is risk-based meaning that companies should respond to the most severe risks and impacts in their supply chains first. This hands-on workshop will deep dive on the topic of prioritisation by examining a company risk assessment and examine how actions can be prioritised based on the scale, scope and irremediable character of the risks.

Workshop agenda

Time	Activity
13:00 – 13:30	Presentation of a real example of children's fashion brand Tumble 'N Dry's risk analysis and prioritization
13:30 – 14:45	Small group moderated discussion on the case study and key discussion questions (see below)
14:45 -15:30	Findings shared amongst all participants.

For discussion

During the small group discussions, participants will refer to an example of a risk analysis presented by children's fashion brand Tumble 'N Dry. Participants are asked to keep in mind the following:

The main sourcing countries and regions are;	The main materials are:	The main product groups are:
• China (Guang Dong & Zhejiang) • India (Tamil Nadu) • Pakistan (Sindh) • Indonesia (Jawa Barat)	• Cotton (73%) • Polyester (15%) • Polyamide (Nylon) (6%) • Elastane (spandex) (2%) • Viscose/Rayon (2%) • Other	• Long sleeve • Pants • Sweater • Jeans • Jacket /blazer

Instructions

- Participants will be divided randomly into groups to walk through the case study.
- Representatives from AGT/Solidaridad/ Norwegian Fashion Hub/SAC will facilitate the discussion and share expectations on what effective risk-based due diligence looks like according to OECD recommendations.
- Session wrap up to discuss key lessons learned and questions raised between the different groups.
- Organisers will be available to answer questions and help direct discussions.

Discussion questions

The following questions will be addressed during the session.

- How can a company determine the severity of highly diverse risks (e.g. environment vs. labour risks) in practice?
    - How can a company prioritize action when several severe risks have been identified?
    - How can a company respond to severe risks that have no clear solutions?
- How can companies involve relevant stakeholders to prioritize? What can be the role of stakeholders to support companies in prioritizing and mitigating severe risks?
- How can companies find a balance between internal goals and addressing risks in their supply chain?

Monitoring purchasing practices

14 February 2019, 14:00 – 15:30

Objectives of the session

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). Despite the evidence, benchmarks indicate little movement to meaningfully adopt responsible purchasing practices in the sector. This session will seek to understand what actions governments, business associations, multi-stakeholder initiatives, and other stakeholders can take to drive, facilitate and enable the uptake of responsible purchasing practices. The session will likewise include a technical deep dive on how companies can integrate changes in national wages into pricing models.

Background

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.[31]

The link between purchasing practices, wages and working conditions

The link between purchasing practices, wages and working conditions is increasingly being demonstrated by research. In a comprehensive study conducted by the ILO, five major business practices by buyers towards their suppliers were identified to influence wages and working conditions. These included contract clauses, technical specifications, order placement and lead times, prices and market power and requests for social standards.

The study, which included a sample size of just under 1,500 companies across 87 countries, found a significant link between purchasing practices and wages. 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 buyer's market power, or proportion of sales, likewise played a significant negative role in wage outcomes, with suppliers with one buyer accounting for almost half of its production being

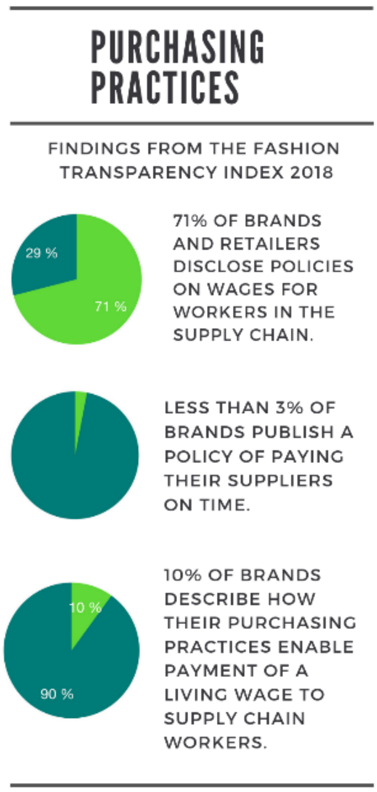
[31] Adapted from Better Buying, https://betterbuying.org/

associated with almost 20% lower hourly wages. This finding has implications on due diligence as market-power is often used as an example of leverage that a company can use positively with a supplier; however, the link between market power and lower wages indicates a possible abuse of leverage.

Beyond wages, purchasing practices were also demonstrated to be linked to overtime, subcontracting and temporary contracts. For example, insufficient lead times generated an increase of nearly 3% in the number of hours worked. Thirty-four percent of suppliers pointed to changes in order levels as one of the main reasons for using temporary workers. [32]

Findings on the uptake of responsible purchasing practices

The 2018 edition of the Fashion Transparency Index - which analyses 150 of the largest global fashion companies – found that 71 percent of brands and retailers disclose policies on wages for workers in their supply chain. While this marks a positive development, research indicates that it is not being met with similar commitments on purchasing practices. For example, the Fashion Transparency Index also found that less than 3 percent of brands publish a policy of paying their suppliers on time and only 10 percent describe how their purchasing practices enable the payment of a living wage to supply chain workers. While disclosure is only a proxy for responsible behaviour, the findings do potentially point to a lack of buy-in from the top on reforming purchasing practices.



The Better Buying Purchasing Practices Index uses anonymously submitted data by suppliers to measure the performance of brands and retailers against seven categories of purchasing practices. The Fall 2018 report included an analysis of company pricing negotiations and payment of orders. The report found that 55.4% of suppliers reported being affected by high-pressure cost negotiation strategies such as: asking for price commitments based on a larger volume than actual quantity ordered (18.7 % of respondents), take it or leave it in which a supplier must meet the target cost or is unable to win the order (31.6% of respondents), and demanding level prices be maintained from year to year without consideration for inflation (26.2% of respondents).

Due diligence on purchasing practices

The OECD Garment Guidance incorporates the expectation that companies address their purchasing practices as part of their due diligence. Specifically, companies should:

[32] 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.

- Engage with their suppliers to understand if and how their purchasing practices may be contributing to harm.
- Track relevant indicators of practices, such as % of orders placed late, % of orders changed after order is placed; # of days between the last change and shipment.
- Develop pricing models that account for the cost of wages, benefits and investments in decent work.
- Implement control measures to reduce the likelihood of contributing to poor labour outcomes such as: setting final order placement dates with the supplier; communicating the deadlines to everyone in the purchasing teams; improving forecasting alignment, amongst others.
- Develop procedures for purchasing teams to follow in instances in which practices could contribute to harm. For example, in instances in which orders are changed after order placement or orders are placed late.

Discussion questions

- How can companies integrate changes in national wage limits into pricing?
- What drives action on responsible purchasing practices?
- How can stakeholders, including governments, trade unions, investors, suppliers and multi-stakeholder initiatives monitor and hold companies accountable on responsible purchasing practices?
- How can governments monitor responsible purchasing practices of companies operating within or from their jurisdictions?
- How can we demonstrate that purchasing practices are leading to impacts in the supply chain? What indicators should be monitored and by whom?

For more information

- 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. http://www.ilo.org/travail/info/fs/WCMS_556336/lang--en/index.htm
- Better Buying Purchasing Practices Index Reports. The 2018 Fall Report can be found online, https://betterbuying.org/wp-content/uploads/2018/10/Better-Buying-Benchmark-Report_fall-2018.pdf
- Fashion Revolution, Fashion Transparency Index, https://www.fashionrevolution.org/about/transparency/

Due diligence and responsible investment in emerging markets – perspectives from Ethiopia and China

14 February 2019, 14:00 – 15:30

Partner

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Objective of the session

Drawing from the examples of Ethiopia and China, this session will explore the challenges and opportunities for emerging garment producing countries in developing a vibrant and growing textile and garment sector which can provide decent work and responsible environmental stewardship, while being able to meet the expectations of global buyers and investors on quality, price, transparency and responsible business conduct.

Background

Responsible Business Conduct (RBC) has emerged as an important aspect of sustainable production, trade and investment. A number of Sustainable Development Goals (SDGs) refer to responsible production patterns, inclusive and sustainable economic growth, employment and decent work for all. RBC expectations are also increasingly found in international trade and investment agreements and national development strategies, laws, and regulations. In the United Kingdom, for example, the Modern Slavery Act now requires certain companies to prepare a yearly slavery and human trafficking statement, indicating the steps taken to ensure that modern slavery is not occurring in the companies' supply chain or business operations. In June 2015, G7 leaders pledged to lead by example in the promotion of international labour, social and environmental standards in global supply chains, notably through due diligence. Specific encouragement was given to international efforts and promulgating industry-wide due diligence standards in the textile and ready-made garment sector. One of the largest consumer goods sectors in the world, the garment and footwear sector is often an important driver of growth and an essential source of livelihoods for poor and vulnerable people. It is also one of the most globally integrated, and exposed to a number of RBC risks. In line with global trends, governments in emerging markets are making efforts to meet international and local expectations to promote RBC, and notably the implementation of due diligence standards, in their growing textile industries.

China

The textile and garment manufacturing sector played an important role in China's transition from a predominantly agricultural economy to an industrial economy in the 1980s and 1990s, with the sector a driving force for exports and major source of foreign exchange for the country. This led to a significant rise in living standards, which in turn increased local demand for high quality garments and textiles to supplement the demand for exports. Today China dominates world trade in textiles and garments[33], with the sector contributing an important share of Chinese GDP. The experience of China can provide insights for other countries interested in developing their textile industry. In addition, many Chinese manufacturing companies today have grown to have their own global supply chains, investing in established garment manufacturing countries such as Viet Nam and Cambodia, as well as new emerging markets for garments, for example in Africa. As investors, these companies are also expected to implement RBC principles and standards, including ensuring they are not causing, contributing to or linked to potential adverse impacts in countries where they source or invest. In January 2018, the China National Textile and Apparel Council (CNTAC) and the OECD signed a Memorandum of Understanding setting out their commitment to intensify co-operation to promote RBC in global textile and apparel supply chains.

Ethiopia

At present, 85 per cent of Ethiopia's population depends on farming for their livelihoods. The Ethiopian government has selected the textile and clothing industry to promote light manufacturing, job creation and diversify the national economy while promoting exports. Their plan is to create 300,000 new jobs in the textiles and apparel sector by 2025. In recent years, the industry has grown at an average rate of 51 per cent with more than 65 international textile investment projects registered in the country. Special incentives like zero-duty imports, establishing industrial parks across the country and investments in providing power have led to a 46 per cent increase in foreign direct investments in the past few years. Ethiopia has signed 16 out of 21 relevant international conventions on labour law and environmental protection. The Ethiopian government has an opportunity to support businesses in enhancing their practices in that regard in order to establish a sustainable garment and textile industry.

The link to due diligence

One of the key times when effective due diligence is necessary for companies is when entering into new markets, both as buyers and as investors. This applies to the upfront risk assessment and to ongoing engagement with suppliers. Governments can facilitate a smooth process in this regard, with the opportunity to embed due diligence practices from the early stages of the sector's industrial development.

Discussion questions

- What are the lessons learned from China's development of the textile sector? How applicable are these issues to the context of Ethiopia?
- It is the responsibility of every company to conduct due diligence on their own operations and supply chains. What are the particular challenges and opportunities for emerging industrial sectors to embed responsible business practices from the beginning?
- What are the challenges and opportunities from a global buyer or investor perspective? If emerging market production poses a higher risk to more established production countries, how do you as a brand prioritise and mitigate that risk through due diligence activity (for example

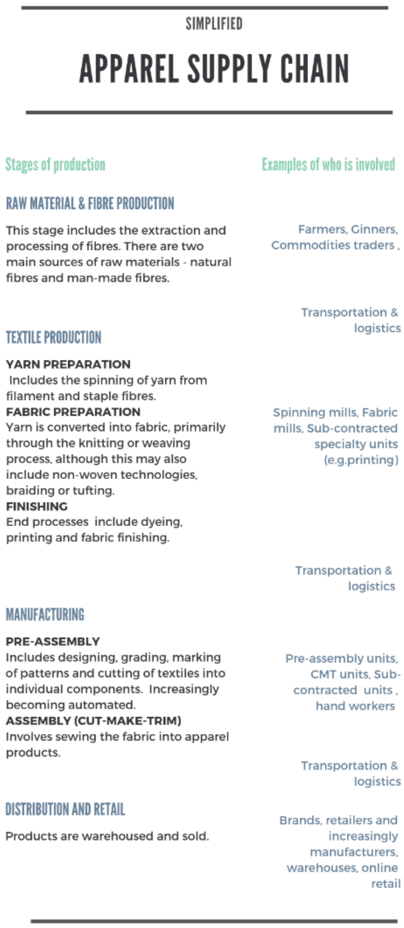
[33] WTO, World Trade Statistical Review, 2016

additional training, capacity building, auditing?)

- What are the priority due diligence considerations with respect to working conditions in Ethiopia?
- What role can governments play to promote responsible business practices and protect workers' rights in a new industrial sector? To support this, how can a government help attract responsible overseas investment?
- What role should consumer market governments play in supporting responsible investment in emerging market economies?

For more information

- GIZ Sustainable Textile Programme
- OECD-CNTAC MoU: http://www.oecd.org/daf/inv/mne/CNTAC-OECD-Memorandum-of-Understanding-EN.pdf



Due diligence on upstream production

14 February 2019, 14:00 – 15:30

Partners

Know the Chain, Fair Labor Association (FLA), Nest, Yarn Ethically and Sustainably Sourced (YESS)

Objective

In recognition of the challenges to addressing risks beyond a company's immediate suppliers, this session will seek to identify practical approaches to carrying out due diligence along the supply chain with a specific focus on tier 2, sub-contracting to handworkers and cotton production. It will consider how the actions of companies along the supply chain can be mutually reinforcing.

Background

Structure of the garment and footwear supply chain and the actors involved

The garment and footwear supply chain is generally divided into stages (also referred to as tiers) which include: raw material and fibre production, textile production, manufacturing, distribution and retail. Differentiation in the supply chain is often fluid and a single tier may consist of one or many enterprises. For example, vertical integration, whereby a single enterprise owns and controls numerous processes within a single stage or across stages of the supply chain, is increasingly common in the apparel supply chain. The sector also includes a wide range of intermediaries operating at all stages of the supply chain, including buying agents, transporters, merchandisers and traders. Sub-contractors in the supply chain include both those with specialty skills, such as printers or hand workers or more standardised processes, such as assembly, in a response to fluctuations in orders. The variety of actors along the supply chain is diverse in terms of size and function. For example, an assembly manufacturer may be as small as 100 people or as large as 5,000+. Similarly cotton traders and merchandisers include both informal traders and large multinational merchandisers.

Supply chain due diligence beyond tier-one under the OECD Garment Guidance

Companies are recommended to carry out due diligence across their supply chain to identify and address labour, human rights and environmental impacts. See Box 1 for recommendations under the OECD Garment Guidance. In recognition of the complexity of the supply chain, a number of key principles guide due diligence:

- **Due diligence is risk based**. Companies prioritise the issues to address along the supply chain based on their severity in terms of scale, scope and irremediable character and on the likelihood of the potential impact. Furthermore, the measures that they take are commensurate to the likelihood and severity of the risk, meaning efforts to address severe issues should be more robust.

- **Due diligence is the responsibility of all actors in the supply chain.** All companies along the supply chain have a responsibility to carry out due diligence on their suppliers. In this way, due diligence is mutually reinforcing. For example, manufacturers may carry out due diligence on their suppliers and subcontractors or partner with their customers in doing so. Similarly, cotton merchandisers may

- **Due diligence can be carried out in collaboration.** Companies are encouraged to collaborate with peers and supply chain partners, for example, through industry initiatives or multi-stakeholder initiatives, to support full-supply chain solutions.

Even within the above context, full supply chain due diligence presents numerous challenges and is not yet common practice in the sector. This session will explore the role that brands and retailers, manufacturers, spinners and merchandisers can play in carrying out due diligence which is mutually reinforcing. It will likewise look at subcontracting to homeworkers which presents unique challenges and opportunities due its decentralised and often informal structure.

Box . Mechanisms to assess and address risks of harm beyond tier 2

**Excerpt from the OECD Garment Guidance*

Establishing traceability and/or assessing 'choke points' are two example mechanisms that may be used to evaluate whether risks linked to harms upstream in an enterprise's supply chain are being identified, prevented or mitigated. This is an area where collaborative approaches may be appropriate and are increasingly being used.

Traceability

Traceability is the process by which enterprises track materials and products and the conditions under which they were produced (in relation to matters covered by the OECD Guidelines) through the supply chain. It's important to note that traceability as a tool may help an enterprise gain information on upstream actors, however, an enterprise cannot stop at traceability. The following subsequent steps in this Guidance—notably preventing and mitigating harm—are critical.

Engagement with 'choke points'

'Choke points' may be identified using a number of considerations, such as:

- Key points of transformation in the supply chain
- Stages in the supply chain that generally include relatively few actors that process a majority of the commodity
- Stages in the supply chain with visibility and control over the circumstances of production and trade upstream

By definition, an enterprise shares some of the same upstream suppliers as the enterprise operating at a choke point in its supply chain. However, the enterprise operating at the choke point likely holds greater visibility or leverage over those upstream suppliers. If an enterprise can reasonably determine that enterprises operating at choke points in its supply chain are conducting due diligence on their upstream suppliers, then the enterprise can likewise reasonably determine that risks of adverse impact linked to its own upstream suppliers have been identified, prevented and mitigated.

The enterprise may:

- identify suppliers operating at choke points in its supply chain for products that are linked to severe impacts upstream (i.e. beyond where the enterprise has visibility); and
- verify that enterprises operating at choke points are identifying, preventing and mitigating harms linked to their suppliers.

Example choke points in the garment and footwear supply chain may include:

- Global commodities merchandisers (e.g. for cotton and rubber)
- Exporters, processors, wholesalers (e.g. for fragmented supply chains)
- Chemical plants (e.g. for synthetic fibres)
- Smelter and refiners (e.g. for metals)

Cost sharing

Implementing traceability and engagement with choke points requires financial resources. The OECD Garment Guidance recommends that enterprises build into supplier contracts an obligation to support supply chain due diligence of risks linked to upstream production where appropriate (e.g. obligation to direct sourcing towards choke points that have demonstrated effective due diligence mechanisms). However, this Guidance does not recommend that enterprises mandate that suppliers engage in specific initiatives unless the enterprise is willing to support the cost of the supplier's participation and any associated premiums. Rather, enterprises should recognise a range of collaborative due diligence initiatives, tools, etc. that conform with this Guidance.

Collaboration

Enterprises are encouraged to collaborate, for example, through industry initiatives or multi-stakeholder initiatives, to implement the above. This is particularly important for the engagement of SMEs. The following are example steps that an enterprise or initiative may take to assess enterprises operating at choke points in the supply chain.

- Identification of actual or likely choke points in the supply chain
- Traceability to enterprises operating at choke points
- Verification (e.g. through management audits and random site-checks) that enterprises operating at choke points are applying due diligence on their upstream suppliers in accordance with the recommendations in this Guidance.
- Directed sourcing towards enterprises operating at choke points in the supply chain that are applying due diligence in accordance with this Guidance

Discussion questions

Tier 2

- What steps have buyers and first-tier suppliers undertaken to cascade labour standards (e.g. to manufacturers of fabrics / garments and subcontractors)?
- What is the role of buyers and first-tier suppliers in ensuring meaningful due diligence and capacity building on labour rights to second-tier suppliers?
- What are the challenges in implementing due diligence at second-tier suppliers?
- What are the key strategies that could work at a tier 2 level for both data collection (on workforce demographics, working conditions, etc.) and remediation?

Subcontracting to handwork

- What are the biggest differences and challenges to ensure responsible sourcing from handworkers in the informal sector (subcontracted, small workshops, and homes) as opposed to factories and how can these be addressed?
- How can vendors be supported in facilitating these responsible practices with their subcontracted producer partners? What incentives exist for subcontractors to participate in the improvement of responsible sourcing practices?

Cotton production

- What does the supply chain for cotton look like? Who are the primary actors involved and what are their operating circumstances (e.g. Size, geographic location, market power, etc.)?
- Who are the choke-points in the cotton supply chain and how can choke-points be leveraged to support due diligence upstream? What incentives or relationships are necessary in order to engage with choke-points on due diligence upstream?

Integrating a gender lens into human rights and labour due diligence

14 February 2019, 16:00 – 17:30

Partners

OECD Watch, Human Rights Watch (HRW), amfori, BSR

Objectives of the session

This session will seek to provide a deep dive on the context in which women are working, the existing barriers to addressing risks which disproportionately affect women, and why applying a gender lens is critical to an effective due diligence approach. Within this context, the session will provide a specific focus on the context surrounding harassment and violence in the sector.

Background

Integrating a gender lens into due diligence

Women account for a majority of the labour force in the garment and footwear supply chain. Risks of harm often differ for men and women. For example, women are more likely to be paid lower wages than men; women are more often linked to precarious, informal or irregular employment; and low-income women workers are particularly vulnerable to harassment in the workplace.[1]

Applying a gender perspective to due diligence means thinking through how real or potential adverse impacts may differ for or may be specific to women. For example, it is important to be aware of gender issues and women's human rights in situations where women may be disproportionately impacted. Additionally it involves adjusting, as appropriate, the actions that enterprises take to identify, prevent, mitigate and address those impacts to ensure these are effective and appropriate.[2]

Due diligence on harassment and violence

Source: OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector

Gender-based violence, which includes sexual harassment and the threat of violence, is amongst the most prevalent human rights violations in the world.3 The scale and scope of harassment and violence in the apparel sector supply chain is increasingly being unearthed. Governments have a duty to protect human rights, including the right to be free from discrimination and violence. However, in many countries, legislation on sexual harassment and violence at work either do not exist or are not effectively implemented. For example, while India, Pakistan and select other countries have specific laws governing sexual harassment at work, 59 countries do not have any specific legal remedies for violence and harassment at work.4 Therefore, while company due diligence efforts should not replace the critical role of governments, companies operating in higher-risk contexts have a responsibility to seek to identify and address harassment and violence within their own operations and their supply chains.

Two of the pressing challenges to addressing harassment and violence in the sector include a lack of awareness amongst workers on their rights and options and a lack of action from employers and buyers to comprehensively identify and address harassment and violence in the workplace. For example, baseline assessments conducted by BSR's HERproject in India found that 34 percent of respondents – including a high proportion of women - agreed that there are times when a woman deserves to be beaten.5 These results point to deep cultural norms built on inequality. Addressing violence and harassment in the workplace, therefore, requires culturally sensitive approaches which seek to increase awareness amongst workers and management. Underpinning this is a gap in available and accurate data on both the nature and extent of harassment and violence in the sector.

Key points related to due diligence on harassment and violence

- Sexual harassment and gender-based violence can be particularly difficult to identify due to a dearth of country-level and sector-level data.
- In the context of sexual harassment, enterprises should make the assumption that if sexual harassment is a high-risk a particular geographic location, it is a high-risk within the workplace. This is true even if specific instances of sexual harassment have not been reported on-site.
- Workers should be provided avenues outside of their employer for filing a complaint so they do not have to complain to the harasser or to someone with whom they do not feel comfortable.

The human rights due diligence gaps

Collecting quality data on harassment and violence is an important step in closing due diligence gaps. Collecting better data can help companies prioritise actions where they are most needed and inform the design of programs which are impactful. Tracking data over time and monitoring trends can likewise enable those implementing programs to better evaluate the effectiveness of their interventions and consequently strengthen them.[6] However, quality data is lacking on the prevalence of gender-based discrimination and violence in the workplace globally. Harassment and violence is largely under-reported due to a number of compounding factoring including: the lack of available channels to report that are accessible and safe; the lack of awareness amongst victims on what constitutes violence and abuse and when legal action can be taken; and the potential shame and stigma that survivors may feel.[7]

With better data in hand, companies must then create mechanisms that actually prevent and respond to gender-based violence and harassment at work. Companies should seek active participation of women workers, unions, and civil society in developing solutions to these challenges that are effective. Companies should be cautious not to depend on social audits and assessments in light of the known challenges related to self-reporting and audit methodologies that do not lend themselves to accurately capturing and responding to these issues. In the context of sexual harassment, enterprises should make the assumption that if sexual harassment is a high-risk in a particular geographic location, it is a high-risk within the workplace. Within this context, companies should take measures to prevent sexual harassment and violence even if specific instances of sexual harassment have not been reported on-site.

Discussion questions

- What are the main issues facing women and girls in apparel supply chains? What is known about the scale and scope of harassment and violence in the sector supply chain?
- What are the main challenges to meaningfully addressing harassment and violence in apparel supply chains?
- What are key learnings for developing trainings that are effective for workers and management? How can and should these be tailored to the local context? What role can trade unions play in this process?
- How can companies collect data that is meaningful on gender outcomes broadly, and on violence and harassment more specifically? What indicators should companies use? What steps do companies need to take to ensure that workers are protected in this process?

For more information

- OECD, Module 2 on Sexual Harassment and Violence, *OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector.*
- UNOHCHR, Gender Discussion Group: Sexual violence and harassment against women, *7th UN Forum on Business and Human Rights ,*
- BSR, *Guidance: Gender Equality in Codes of Conduct*
- BSR , Guidance: Gender Equality in Social Auditing
- BSR, How Business Can Make a Difference on Violence against Women and Girls: https://herproject.org/files/curriculum/herrespect-program-summary-nov2018.pdf
- Women's empowerment Investing in women. Advancing opportunities, Amfori

A due diligence approach to responsible chemicals management

14 February 2019, 16:00 – 17:30

Partners

ZDHC, OECD Environment, Health and Safety

Objective of the session

This session will explore how a due diligence approach to hazardous chemicals and substitutions may enhance risk mitigation, risk prevention and innovation in textile, apparel, leather and footwear supply chains. The discussions will elaborate and showcase due diligence practices for responsible chemical management through the lens of different sector stakeholders.

Background

Many different steps are usually involved in creating a fashion item, from commodity sourcing, to material creation, dyeing, tanning, finishing, to assembly and finishing of the garment or piece of footwear. Each of these process steps is associated with an external impact on the environment and by extension on society. Typically, the earlier processing steps are linked with the greatest combined environmental impacts through water use, energy, waste, and pollution. The use of hazardous chemicals in textile and leather supply chains plays an important role in this regard, especially in wet processing. Hundreds of different chemicals are being used in dyeing, tanning and printing with many of them bearing hazardous properties.

The sector is increasingly recognising and addressing this challenge by engaging in a pro-active management of the supply chain that goes, in some cases, even beyond regulatory requirements. In recent years the sector has assembled around one common Manufacturing Restricted Substances List (MRSL) to control the chemical inputs right from the beginning in a scientific and internationally accepted way. A comprehensive management of chemical inputs can also minimise output related risks and impacts, related to water quality, waste generation, air pollution and product compliance. A holistic view on responsible chemical management is essential to create the system change required to transform the industry to a higher standard of sustainability.

While the identification and mitigation of chemical related risks in the supply chain is a starting point, the potential lies with a shift to phasing out and substituting hazardous chemicals with safer chemical alternatives. In this regard it is imperative that substitutions are identified which are non-regrettable and viable in terms of their hazardous profiles but also their functional performance. An industry-wide Research List can guide the substitution journey for the supply chain and point to substances for which innovation and scaling of safer alternatives is required before including them on restricted lists.

Communication of chemical related risks and building knowledge on best practices on how to implement mitigation are additional important elements for responsible chemical management. Central access to hazard profiles for chemicals and reliable substitution information are key to inform and decide on different due diligence scenarios. Besides the communication within the supply chain – from chemical companies to manufacturers, brands/ retailers and end consumers – the wider stakeholder community also plays an essential role, e.g. to create awareness, set enabling frameworks and spur innovation towards safer chemical alternatives.

Discussion questions

- How can chemical related risks along the supply chain be best identified? What are the main challenges in identifying these hot spots?
- How do different stakeholders address and mitigate the chemical related risks identified? Which approaches are taken and what are key success factors? *From different stakeholders' perspective: such as chemical company, brand/retailer, industry collaboration, non-governmental organisation, policy / multilateral agency*
- Which due diligence practices are used to communicate risks associated to chemicals to both communities and workers? How can this chemical risk information be best translated to end consumers?
- How does chemical substitution play a role in risk mitigation along the supply chain? How can it be ensured that substitutions are non-regrettable? What would it take to make safer chemical assessment and related substitution mainstream in the supply chain?

For more information

- OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (OECD 2017) ; OECD Substitution and Alternatives Assessment Toolbox
- OECD Portal on Per and Poly-fluorinated Chemicals
- OECD website on chemical safety
- Synthesis Report: Workshop on Approaches to Support Substitution and Alternatives Assessment, (OECD 2019)
- Cross Country Analysis of Approaches to Support Alternatives Assessment and Substitution of Chemicals of Concern (OECD, 2019)
- Database of Per- and Polyfluoroalkyl Substances (PFASs), Summary report on the new comprehensive global database of Per- and Polyfluoroalkyl Substances (PFASs) (OECD, 2018)
- Economic Features of Chemical Leasing (OECD, 2017)
- Working Towards a Global Emission Inventory of PFASs: Focus on PFCAs - Status Quo and the Way Forward (OECD, 2015)
- ZDHC Manufacturing Restricted Substance List (ZDHC MRSL version 1.1.)
- ZDHC Waste Water Guidelines (ZDHC 2016)
- ZDHC Waste Water Treatment Technologies Document (ZDHC 2018)
- ZDHC Gateway (Chemical Module and Waste Water Module)
- The business case for removing hazardous chemicals with ZDHC (report 2019)

Preparing now for the future of work in the garment and footwear sector

14 February 2019, 16:00 - 17:30

Partners

International Labour Organization (ILO) and the Fung Group

Objective of the session

The session will explore how technology is rapidly changing the organisation of production and work in the garment and footwear sector, followed by a discussion about the implications for inclusive growth, decent work and sustainability in global supply chains, and what all this implies for companies' due diligence efforts.

Background

Technological advances, globalisation, and demographic changes pose both challenges and opportunities for the garment and footwear sector. These megatrends are expected to have wide-ranging implications for inclusive growth, sustainability and decent work. For example, ILO (2016) estimated that a significant share of jobs in the sector in ASEAN countries are likely to become automated, from 64 per cent in Indonesia, to 86 per cent in Viet Nam and 88 per cent in Cambodia. At the same time, new jobs will be created with the increased demand for higher skilled technicians to serve niche producers.

Addressing these challenges and taking advantage of the opportunities that the changes may bring are a significant, complex and multifaceted undertaking, not least because the garment and footwear industry spans large parts of the developing world where poverty persists, and where governance systems, education, and other public services are still rudimentary. In one scenario, automation technologies could disrupt local industry and cause mass unemployment that could be politically destabilising and derail social and economic development. In another scenario, employers, workers and governments could come together to formulate and implement sustainable industrial strategies that can shape a future that works for all in the garment and footwear sector. Social dialogue will be needed more than ever as industry and stakeholders confront such changes.

Additionally, for companies that are implementing the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, what does preparing now for the future mean in practice in terms of their own due diligence efforts? While digitalisation of the supply chain itself is an important consideration, considering the labour-intensive nature of the production process in the sector, which elements are important to consider in order to prevent and mitigate adverse impacts?

This interactive session will provide an opportunity to share views on the rapid changes that technological advances and other megatrends will bring about in the sector. The session will bring together representatives of governments, industry and workers and allow discussion of which policies and actions are needed to shape a future that works for all in the garment and footwear sector. New research - by the ILO on the future of work and by the Fung Group on the impact of automation and digitalisation in its supply chains – will be presented as a basis for discussion.

Discussion questions

- How will automation, digitalisation and other technological advances shape the garment and footwear industries in the future?
- What will be the impact on inclusive growth, sustainability and decent work (e.g., employment, social protection, rights at work and social dialogue)?
- What actions should governments, companies, workers and other stakeholders consider in order to ensure that positive impacts are maximised and potential negative impacts addressed (e.g., developing adequate skills and providing social protection mechanisms to compensate for potential job losses)?
- What are the ways of strengthening and promoting social dialogue and ensure meaningful stakeholder engagement?
- How can companies integrate these developments in their due diligence efforts?

For more information

- ILO: *The future of work in textiles, clothing, leather and footwear,* Working Paper No. 326, ILO Sectorial Policies Department (Geneva, 2019)
- Kucera, D. *Robotics and Reshoring*. The Apparel and Footwear Industry (Geneva, ILO, forthcoming).
- Global Commission on the Future of Work. *Work for a brighter future* (Geneva, ILO, 2019):
- Chang, J-H., Huynh, P., Rynhart, G. *ASEAN in transformation. Textiles, clothing and footwear: refashioning the future*, International Labour Office Bureau for Employers' Activities (ACT/EMP), ILO Regional Office for Asia and the Pacific, Working Paper no 14 (Geneva, ILO, 2016):
- OECD, *OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector* (OECD 2017)

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