



Alignment between initiatives at the European level: Potential for scaling up due diligence implementation in the garment sector

This note was prepared by the Partnership for Sustainable Textiles, the Dutch Agreement on Sustainable Garments and Textile and the Sustainable Apparel Coalition and does not necessarily reflect the views of the OECD.

Objectives of the session

- Debate the potential for a harmonized European assessment and reporting framework for due diligence implementation in the garment and footwear sector from the perspective of relevant stakeholders
- Consult stakeholders on what a harmonized European assessment and reporting framework should entail and how it could fit into a smart mix of measures
- Discuss with stakeholders what role the three initiatives organizing the partner session and other relevant actors can play in advancing it

Background

What is the context?

Ten years following the update of the OECD Guidelines for Multinational Enterprises and the launch of the UN Guiding Principles on Business and Human Rights, **there is growing consensus across governments, intergovernmental organisations and other stakeholders that due diligence is at the core of responsible business conduct especially with regard to supply chain responsibility.** The concept of due diligence draws from the recognition that the challenges of modern and complex garment and footwear supply chains require a comprehensive and integrated approach to manage sector risks that clearly defines the roles and responsibilities of brands, retailers, producers, governments, NGOs and trade unions in this regard.

The OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (hereafter: OECD Guidance) provides the framework for this comprehensive and integrated approach in the apparel sector. Since 2010, there has been a wide range of responses by industry and multi-stakeholder initiatives, governments, civil society and investors to build capacity around, evaluate and monitor company due diligence implementation (non-comprehensive summary):

- **Initiatives:** Some sustainability initiatives have started to systematically incorporate expectations on due diligence into their membership requirements and have developed supporting tools, most

notably for brands and retailers. In Europe, this currently applies to the government-backed multi-stakeholder initiatives in the Netherlands and Germany (the Dutch Agreement on Sustainable Garments and Textile, AGT; and the Partnership for Sustainable Textiles, PST) as well as to the Sustainable Apparel Coalition (SAC), each of which have developed assessment and reporting frameworks based on the OECD Guidance.

- **Governments:** Governments are increasingly focused on the role of companies in addressing human rights, labour and environmental risks in their supply chains. This has resulted in a rise of disclosure and due diligence legislation in OECD countries including in California, France, the United Kingdom, the Netherlands, and Australia. Some governments have likewise developed sustainability labels – with the Green Button being amongst the first in the garment and footwear sector to incorporate due diligence indicators.
- **Civil society:** 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. In addition, civil society organisations (CSOs) have been advocating for the adoption of mandatory due diligence legislation.
- **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. This has been accompanied by a flourishing of ESG products and benchmarks directly targeting investors. While traditionally ESG assessments leaned strongly towards environmental performance, more recently social – in relation to labour and human rights – indicators have come under much greater scrutiny.

What are the various perspectives?

Businesses

Brands, retailers and EU-based producers

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 as well as investors. Accordingly, representatives of companies operating across a number of EU member states have requested stronger alignment and cross-recognition between sector initiatives (such as AGT, PST, SAC) and the various reporting frameworks. They refer to the administrative burden of using different tools for the assessment of and reporting on due diligence implementation, and to the diversion of capacities away from the implementation of concrete measures, especially measures aimed at impact.

Some companies have likewise pointed to an uneven playing field. The actions taken by stakeholders to evaluate, benchmark and monitor company due diligence performance – in many cases – primarily target larger brands and retailers as well as companies already involved in sustainability initiatives. This has potentially created a silo effect by which larger companies and businesses (of all sizes) that are voluntarily and actively engaged in sustainability initiatives are potentially being monitored and evaluated by a number of different actors, whereas those outside of this group may be overlooked.

Producers in non-EU countries

Producers have pointed to the discordance in auditing standards and certification for years. Some producers have noted that while setting due diligence requirements for companies through industry and multi-stakeholder initiatives can be a step in the direction of broader harmonisation, there remain numerous

and significant differences between the individual expectations of companies towards their suppliers across initiatives and even within initiatives. For example, initiatives will often recognise or 'give credit' to companies as long as they can demonstrate that they are conducting audits on a particular subject, but not on whether those audits are duplicative of existing assessments.

Civil society

CSOs have pointed to the challenge that not all due diligence indicators are created equal and that – in some cases – efforts to monitor due diligence could be leading to a check the box approach. CSOs have stressed the need for ambitious measures by all brands and retailers operating in the European apparel sector to prevent, mitigate and account for adverse impacts in production countries. In order to ensure that all companies in the garment and footwear sector implement supply chain due diligence, CSOs in different EU member states have been advocating for the adoption of mandatory due diligence legislation at the EU level.

Governments

Against the background of various cross-sectoral legislation and policies at the national level to promote due diligence implementation, several EU member state governments see a need to promote a level playing field with regard to supply chain responsibility at the European level. With view to the German EU Council presidency in the second half of 2020, discussions between EU member states and the European Union on advancing this agenda have started. In addition, the Dutch and German governments have been supporting the efforts undertaken by the AGT, PST and SAC to stronger align their tools based on the OECD Guidance (see below).

The perspective of the AGT, PST and SAC: The need for a harmonised European approach to due diligence

In light of the above context, in the past two years the AGT, PST and SAC have been cooperating in order to move towards a harmonised assessment framework for company due diligence that is aligned with the OECD Guidance. In 2018/2019, the three initiatives participated in the OECD Alignment Assessment which aims at contributing to a common understanding of due diligence in the garment and footwear sector and enabling cross-recognition between initiatives. The results and recommendations of the OECD Alignment Assessments provide the basis for further alignment between the three initiatives. In addition, AGT, PST and SAC have been exploring the potential for an European initiative aimed at developing a harmonized assessment and reporting framework for due diligence implementation in the garment and footwear sector¹.

Given the above context and especially the European or even global reach of many companies in the industry, a level playing field and a common understanding that extends beyond the AGT, PST and SAC – at the European level – is needed. Through mutual exchange between the three initiatives and other interested stakeholders, a harmonised European approach to due diligence assessment and reporting could:

- Clarify expectations of companies vis-à-vis due diligence, contribute to a level playing field across all companies and a reduction of the reporting burden on companies;

¹ In June 2018, the three initiatives jointly organised an event in Brussels to present their tools and kick-off the debate about the need and potential for stronger cooperation at European level.

- Provide consistent information for policy makers and civil society in order to review, benchmark and monitor company performance;
- Free resources within all stakeholders (businesses, civil societies, labour unions, investors and governments) that can be redirected towards actual impact-oriented actions

Further consideration on what an European approach on due diligence assessment and reporting could look like in detail requires further dialogue and consideration of the following:

- The scope of an European approach (e.g. assessment, verification, reporting etc.), including the possibility of incorporating collective engagement to address sector risks in production countries
- The various perspectives of all stakeholders
- The link between a harmonized European due diligence approach and smart-mix deliberations being pursued by EU member states and the EU, including mandatory due diligence
- The possibility and challenges of recognition of existing initiatives and approaches
- The roles of various organisations, including which organisation(s) should play a leading role in advancing an aligned European approach. For example, the discussion about stronger alignment has so far been conducted mainly between AGT, PST and SAC. There is the need to include more sector initiatives in this discussion in order to take their perspectives into account.

Discussion questions

- Why do you see a need for an aligned European approach to due diligence implementation in the garment and footwear sector? What do you expect from it?
- What should an aligned European approach look like? What key elements should it include? What is, in your view, the added value? How will it contribute to or increase impact 'on the ground'?
- Which organisation(s) should play a leading role in the development of an aligned European approach? Which key stakeholders should be included and what role should they play?
- Which concrete steps should be taken in the near future to move towards an aligned European approach?
- How does this approach align with a smart mix of national and international, voluntary and mandatory measures? What would be the implications of mandatory due diligence at EU level on multi-stakeholder initiatives and what role could these initiatives play in a smart mix of measures?

About the partners

Partnership for Sustainable Textiles

The Partnership for Sustainable Textiles (PST) was initiated in October 2014 by the German Federal Ministry for Economic Cooperation and Development. The multi-stakeholder initiative brings together members from business (companies, associations), non-governmental organisations (NGOs), trade unions, standard-setting organisations and the German Federal Government. The PST aims to improve social and environmental conditions across the entire garment supply chain.

Dutch Agreement on Sustainable Garments and Textile

The Dutch Agreement on Sustainable Garments and Textile (AGT) was signed on July 4, 2016 by a broad range of parties, including labour unions, NGOs, industry associations and the Dutch Government. In addition, companies signed a declaration to the AGT declaring they would start applying due diligence as the basis for their responsible business conduct. The AGT aims to improve social and environmental conditions across the entire garment supply chain, as well as animal welfare.

Sustainable Apparel Coalition

The Sustainable Apparel Coalition (SAC) is an industry-wide group of more than 250 leading apparel, footwear and textile brands, retailers, suppliers, service providers, trade associations, NGOs and academic institutions working to reduce the environmental impacts and improve social impacts of products around the world. The SAC seeks to lead the industry toward a shared vision of sustainability built upon a common approach for measuring and evaluating apparel, footwear and textile product sustainability performance.

For more information

- Partnership for Sustainable Textiles, www.textilbuendnis.com
- Dutch Agreement on Sustainable Garments and Textile, www.imvoconvenanten.nl/en/garments-textile
- Sustainable Apparel Coalition: www.apparelcoalition.org
- Pilot Alignment Assessment of the SAC Higg Brand and Retail Module (Beta Version) including SAC's response: www.mneguidelines.oecd.org/alignment-assessment-garment-footwear-sac.htm