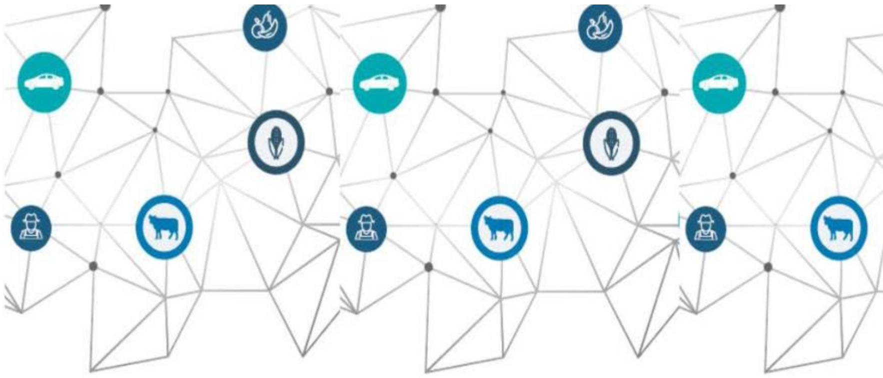
RESPONSIBLE SUPPLY CHAINS IN ASIA

PROMOTING DECENT WORK
AND RESPONSIBLE BUSINESS CONDUCT
IN GLOBAL SUPPLY CHAINS



OECD BETTER POLICIES FOR BETTER LIVES

EUROPEAN UNION

ILO 100 1919-2019 SOCIAL JUSTICE DECENT WORK

Fostering industry cooperation to address supply chain risks using the OECD standards

Session note: OECD Roundtable on applying the OECD Due Diligence approach to address supply chain risks

19 November 2019, 9:30-11:00

Companies with supply chains spanning the Asia region face a number of supply chain risks and opportunities with respect to implementing international Responsible Business Conduct (RBC) expectations. Supply chain risks are linked to sourcing of raw materials and the downstream manufacturing process, particularly in the electronics and vehicle parts sectors.

Individual companies have made significant progress in efforts to source responsibly, particularly with regards to 3TGs (tin, tantalum, tungsten and gold, the so-called ‘conflict minerals’), but more can be done by the industry as a whole to meet international expectations, which goes far beyond human rights abuses in Central Africa and includes other raw materials and other supply chain risks. As is demonstrated from the last decade of implementation of the OECD due diligence guidance, a collective approach to due diligence can be beneficial to all involved, allowing for more leverage on suppliers, more efficient allocation of resources, and easier sharing of due diligence information.

As is demonstrated from the last decade of implementation of OECD due diligence guidance by business globally, a collective approach to due diligence is essential to implementing international expectations on RBC and addressing complex supply chain risks and impacts. The due diligence approach itself fosters collaboration among business; allowing for more leverage on suppliers, more efficient allocation of resources, and easier sharing of due diligence information.

The OECD due diligence approach can be applied to all sectors of the economy. This is reflected in the 2018 *OECD Due Diligence Guidance for Responsible Business Conduct* (now translated into Japanese) which provides answers to practical questions on due diligence to help companies understand how to conduct risk identification, risk prioritisation, and meaningful stakeholder engagement in all sectors of the economy and for all supply chain risks. The 2018 Guidance builds on existing OECD sector-specific guidance in minerals, garment & footwear, agriculture, and finance.

Objective

The objective of this session is to discuss, real-world examples of how the OECD due diligence approach can support both business and policy makers in advancing collaborative action on supply chains risks and the implementation of RBC expectations.

Focusing on risks associated with responsible sourcing as a key example, participants will discuss how they can collectively work to identify and address responsible sourcing challenges; canvasing concrete actions both business and policy makers can take to facilitate collaboration.

The roundtable session will cover four main topics:

Part 1: Understanding international due diligence expectations

Part 2: Working together to identify risks in your supply chain

Part 3: Sharing important risk information and best practices

Part 4: Concrete opportunities for collaboration

The session will take the form of a roundtable discussion led by an active moderator with no panel. The moderator will walk participants through the session and call on key discussants to address specific topics as they come up. This would allow for more direct interaction and feedback from the audience, who would also be sitting around the table. Key discussants in the discussion include:

- Representatives from EU governments to share recent policy expectations in their countries on RBC and how governments are working with the private sector create an enabling environment for responsible sourcing;
- A representative from an investor group to share investor expectations on responsible business conduct;
- Representatives of industry associations to share experiences with collaborative approaches to collectively identify and address risk.

Background

Now more than ever, companies are facing more scrutiny, not just from regulators, but increasingly aware consumers, investors, and other stakeholders on their due diligence efforts. These expectations go beyond just the 'conflict minerals' issue[1], and extend to other raw materials such as cobalt, lithium, copper, mica, natural rubber, and other supply chain risks including child labour, downstream manufacturing risks, environmental degradation, and financial crime. It can be argued that access to downstream brands can drive significant change further upstream, especially when downstream industry is acting cooperatively on this issue. How they engage with their suppliers on responsible sourcing directly impacts the extent to which sourcing requirements and due diligence activities flow through the supply chain. This is because a key characteristic of due diligence is to cascade the responsibility to conduct due diligence to a company's suppliers and for that supplier to do the same with its suppliers. For example, a number industry associations like the Responsible Minerals Initiative, which is composed of some of the largest electronics and automotive brands, leads to stronger uptake of due diligence practice further up the supply chain by imposing an audit requirement based off OECD standards on refiners who wish to be in the supply chains of those downstream brands. Similarly, through public-private partnerships, such as the European Partnership for Responsible Minerals, governments are working with companies from across the supply chain to help support training and awareness raising on responsible business conduct issues.

The OECD provides tools and expertise to support company implementation of responsible sourcing expectations as well as country efforts to create an enabling environment for responsible business conduct. These tools are outlined below.

[1] The term 'conflict minerals' generally refers to 3TG (tin, tantalum, tungsten, and gold) linked to human rights abuses and conflict finance in Central Africa.

OECD Standards and Tools to Support Supply Chain Due Diligence

The OECD has developed a number of tools and reference points outlining international government expectations on business and ways to identify address risks of contributing to harm.

The OECD Guidelines for Multinational Enterprises (MNE Guidelines)

The MNE Guidelines are far-reaching recommendations addressed by governments to business. They provide voluntary principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. The Guidelines specifically recommend that companies carry out supply chain due diligence as a crucial way for them to ensure they are doing business responsibly. Based on the due diligence recommendation of the Guidelines, the OECD has developed sector specific guidance for carrying out supply chain due diligence (such as the Due Diligence Guidance for Responsible Mineral Supply Chains, and the Due Diligence Guidance for Responsible Agriculture Supply Chains) and recently the non-sector specific Due Diligence Guidance for Responsible Business Conduct.

Tools and Standards for Supply Chain Due Diligence

The Due Diligence Guidance for RBC, *available in Japanese*, draws from the same step-by-step approach as previous OECD guidance, but applies to all sectors of the economy and can be used to supplement the due diligence recommendations of other sector specific guidance. The Guidance for RBC also includes helpful explanations of difficult due diligence topics such as stakeholder engagement, sharing due diligence information, and collective action to identify and address risks.

The *Due Diligence Guidance for Responsible Mineral Supply Chains* (Minerals Guidance) was developed to help all companies in the minerals and metals supply chain identify and address risks of contributing human rights impacts, financial crime, and conflict finance, in order to harness the positive potential of the mining sector for development.

The Minerals Guidance is the leading international standard for businesses on responsibly sourcing metals for electronics and automotive manufacturing, having been incorporated in numerous UN Security Council Resolutions as well as regulations in the US (Dodd Frank Act Section 1502) and EU (Regulation 2017/821). International market makers such as the London Bullion Market Association, the London Metals Exchange, and COMEX have all also committed to requiring implementation of the OECD Guidance as a condition to trade on their exchanges. Although government and industry-led regulatory efforts have primarily been focused on 3TG, it is important to note that the Minerals Guidance is applicable to all minerals and global in scope.

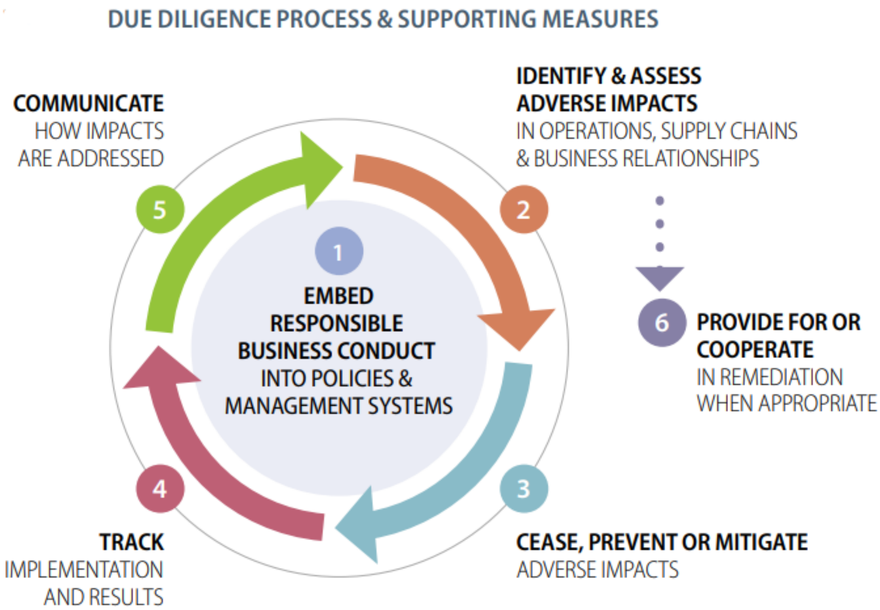
The above guidance standards all work to complement each other and are fully aligned with other international instruments, including the UN Guiding Principles on Business and Human Rights and the ILO Declarations. Companies are encouraged first refer to the Sector Specific Guidance most relevant to their supply chain and complement the process using the newer Due Diligence Guidance for RBC. For electronics and vehicle parts supply chains, the most relevant tools are the Minerals Guidance (for addressing risks related to most raw materials) and the Guidance for RBC (for covering a broader set of risks, specifically those associated with the downstream manufacturing process).

The OECD has also developed Practical actions for companies to identify and address the worst forms of child labour in mineral supply chains to help companies focus on risks of child labour in their mineral supply chains, following reports about the worst forms of child labour in mineral supply chains and increased calls to action on this issue in particular. Likewise, the OECD also produced a focused booklet on frequently asked questions when sourcing from artisanal and small scale mining.

An additional resource for companies are the so-called OECD baseline assessments, which provide detailed analysis of supply chains in particular geographies, exploring the circumstances surrounding the trade and production of minerals from those producing sites. To date, the OECD has produced baseline assessments of the Democratic Republic of Congo, Colombia, and West Africa and will soon be releasing one on cobalt supply chains from the DRC.

Fostering Collaboration

Enterprises, in particular SMEs, may not have the market power to influence their business relationships by themselves. Every step of the OECD Due Diligence Process (pictured below) includes opportunities for collaboration between business across the supply chain and between different groups of stakeholders such as civil society organisations, governments, and international organisations.



Steps 1 & 5: Part of embedding RBC into internal policies includes communicating internal expectations on RBC with suppliers. Where possible, this could include providing resources and training to suppliers and other business relationships for them to understand and apply the relevant RBC policies and implement due diligence.

Step 2: In order to identify risks in the supply chain businesses need to establish strong relationships with suppliers several tiers deep in the supply chain as well as other stakeholders. This includes affected communities, civil society groups, and governments, who can share important risk information and contribute to fostering stronger business relationships. Collaborative industry initiatives play a critical role in making these connections.

Steps 3, 4, 5 & 6: Companies are urged to work collaboratively to address potential issues. Collaboration can be beneficial in pooling knowledge on solutions, increasing leverage with shared business relationships, and making due diligence more efficient for all, for example through recognition of existing assessments of business relationships, common reporting frameworks for business relationships, and for collaborative remediation when necessary. Cost sharing and savings is often a benefit to sector collaboration.

Key references

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